

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, October 22, 2018 9:30 AM

Board of Supervisors Chambers
County Government Center
San Luis Obispo, CA 93408

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

PUBLIC COMMENT

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

ORGANIZATIONAL

None

CONSENT

2. a.) Minutes of the Regular Meeting of September 24, 2018 (Approve Without Correction).
b.) Minutes of the Strategic Planning Meeting of
September 24, 2018 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of September 2018 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of September 2018 (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through October 5, 2018 (Receive, Approve and File).

- 6. Resolution Modifying and Affirming Investment and Banking authority – Resolution 2018-02 (Recommend Approval).
- 7. Pension Administration System – Oversight Project Management – Extension of LRWL, Inc. Contract (Recommend Approval).

APPLICATIONS FOR DISABILITY RETIREMENT

None

OLD BUSINESS

None

NEW BUSINESS

- 8. Financial Auditor – Selection – Audit Committee Recommendation (Recommend Approval).

INVESTMENTS

- 9. Indemnification – Authorization pursuant to Section 16.02(j) of the Retirement Plan (Recommend approval).
- 10. Monthly Investment Report for September 2018 (Receive and File).
- 11. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

OPERATIONS

- 12. Staff Reports
- 13. General Counsel Reports
- 14. Committee Reports:
 - a. Audit Committee Report
 - b. Personnel Committee No Report
 - c. PAS Replacement Committee No Report

15. Upcoming Board Topics (subject to change):

- a. November 26, 2018
 - i. Disability cases(s) - TBD
 - ii. PEPPRA Compensation Limit – policy approval
 - iii. Interest Crediting Rate – Normal Contributions
 - iv. Interest Crediting Rate – Additional Contributions
 - v. 3Q18 Quarterly Report
 - vi. Emerging Market Bonds – Strategy Modification
 - vii. Private Credit – Added Fund and Commitment
 - viii. Liquidity Study – illiquid investments
 - ix. Investment Rebalancing

- b. December 17, 2018
 - i. Resolution honoring Jim Erb for service as a Trustee
 - ii. Actuarial Assumptions – Peer Comparisons
 - iii. Elected Trustee Vacancy – Appointment
 - iv. Disability Medical Evaluation Service

- c. January 29, 2019
 - i. Elected Trustee Replacement Appointee
 - ii. Election of Officers
 - iii. Organizational Planning
 - iv. Member Portal Preview and Discussion

16. Trustee Comments

REFERRED ITEMS

None

ADDED ITEMS

None

CLOSED SESSION

None

ADJOURNMENT

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Board of Trustees

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SEPTEMBER 24, 2018 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES

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

BOARD MEMBERS ABSENT: Guy Savage, Jim Erb

STAFF: Carl Nelson
Amy Burke

COUNSEL: Chris Waddell

OTHERS: Larry Batchelder, SLOCREA
Michael Hobbs, SLO County HR
Jennifer Alderete, Pension Trust
Dan Andoetoe, retiree
Susie Lake, active member

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

AGENDA ITEM NO. 1: PUBLIC COMMENT.

None.

ORGANIZATIONAL:

None.

CONSENT:

AGENDA ITEM NO. 2 - 5: CONSENT.

Public comment: None

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

- ITEM 2:** The Minutes of the Regular Meeting of August 27, 2018 were approved without correction.
- ITEM 3:** The Report of Deposits and Contributions for the Month of August 2018, was received and filed.
- ITEM 4:** The Report of Service Retirements, Disability and DROP Retirements for the month of August 2018, was received, approved and filed.
- ITEM 5:** The Report of Applications for participation in the Deferred Retirement Option Program received through September 7, 2018 was received, approved and filed.

APPLICATIONS FOR DISABILITY RETIREMENT:

None.

OLD BUSINESS:

None.

NEW BUSINESS:

None.

INVESTMENTS:

AGENDA ITEM NO. 6: MONTHLY INVESTMENT REPORT FOR AUGUST 2018.

Public comment: None

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

AGENDA ITEM NO. 7: ASSET ALLOCATION.

Staff reported the completion of the rebalancing transactions related to the County prefunding the employer paid contributions for Fiscal Year 2018/2019. This is a no action item regarding investment asset allocations except to apprise the Board of rebalancing activity.

OPERATIONS:

AGENDA ITEM NO. 8: STAFF ORAL REPORTS.

- A)** Staff reported that a recruitment for an Administrative Assistant was underway as a result of the resignation of the incumbent to take a higher-paying job outside the Pension Trust and County organizations.
- B)** Staff reported on the correction of two contribution rate under-collection cases and four contribution rate over-collection cases. These had been previously discussed with the Board and Staff reported on the implementation of the necessary corrections.
- C)** The Executive Secretary reported on a request from the National Counsel of Public Employee Retirement Systems (NCPERS) to advocate with the SLOCPT's Federal Congress Members and Senators in opposition to the proposed PEPTA legislation dealing with modified pension liability disclosure. As directed by the Board at a prior meeting, the Executive Secretary established that the SACRS organization was not taking a position on PEPTA per their general policy. Senators Feinstein and Harris and Representative Carbujal are not on record regarding their positions on PEPTA. There was no consensus from the Board in favor of taking an active advocacy position on Federal legislation such as PEPTA.

- D)** The Executive Secretary reported that he had provided pension specific input to the SLO County Human Resources Department in their preparation of FAQ materials on layoffs.
- e)** Staff reported that the Audit Committee of the Board of Trustees is scheduled to meet on October 10, 2018 to discuss a proposal from Brown Armstrong Accountancy to renew their financial audit engagement.
- f)** The Executive Secretary reported that the Pension Trust is planning a series of retirement education courses in conjunction with SLO County HR. The first such class is scheduled for December 5, 2018. Ms. Susie Lake, a Court employee in attendance, requested that Court employees be allowed to attend these classes. Mr. Nelson noted that Court employees would be included in the invitations to the classes.

AGENDA ITEM NO. 9: GENERAL COUNSEL ORAL REPORTS.

General Counsel reported on a recent California Supreme Court case involving the San Diego City Employees Retirement System.

AGENDA ITEM NO. 10: COMMITTEE REPORTS – AS NEEDED.

- A)** AUDIT COMMITTEE: Nothing to report.
- B)** PERSONNEL COMMITTEE: Reported that they had met to draft the annual performance evaluation for the Executive Secretary.
- C)** PENSION ADMINISTRATION SYSTEM ADMINISTRATION (PASR) COMMITTEE: Reported that they had met to discuss the extension of the Oversight Project Management contract with LRWL, Inc. that will be placed on the October Board agenda.

AGENDA ITEM NO. 11: UPCOMING BOARD TOPICS.

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

AGENDA ITEM NO. 12: TRUSTEE COMMENTS.

None.

REFERRED ITEMS:

None.

ADDED ITEMS:

None.

CLOSED SESSION:

AGENDA ITEM NO. 13: EXECUTIVE SECRETARY EVALUATION

10:20 AM – Entered Closed Session

The Board convened in closed session pursuant to Gov. Code section 54957(b)(1) to conduct the annual employee evaluation of the Executive Secretary.

10:42 AM – End of Closed Session

President Janssen reported that the Board of Trustees had completed the annual performance evaluation for the Executive Secretary and that he would be discussing it with Mr. Nelson.

ADJOURNMENT.

There being no further business, the meeting was adjourned at 10:48 AM. The next Regular Meeting was set for October 22, 2018, at 9:30 AM, in the Board of Supervisors Chambers, New County Government Center, San Luis Obispo, California 93408.

Respectfully submitted,

**Carl Nelson
Executive Secretary**

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Board of Trustees

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SEPTEMBER 24, 2018 MINUTES OF THE STRATEGIC PLANNING MEETING OF THE PENSION TRUST BOARD OF TRUSTEES

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

BOARD MEMBERS ABSENT: Guy Savage, Jim Erb

STAFF: Carl Nelson
Amy Burke

COUNSEL: Chris Waddell

OTHERS: Michael Hobbs, SLO County HR
Jennifer Alderete, Pension Trust
Dan Andoetoe, retiree

The meeting was called to order by President Janssen at 11:05 AM, who presided over same.

AGENDA ITEM NO. 1: PUBLIC COMMENT.

None.

ANNUAL STRATEGIC PLANNING MEETING:

AGENDA ITEM NO. 2: FUNDING POLICY – PRESENTATION BY LESLIE THOMPSON, ACTUARY – GABRIEL ROEDER SMITH

Leslie Thompson, Actuary with Gabriel Roeder Smith presented updated actuarial projections under varying discount rate and rates of investment return assumptions. A thorough discussion of funding policy and risk to the Pension Trust took place. No action necessary.

Ms. Thompson also discussed her recommended change for the 2019 Actuarial Valuation to the amortization of the Unfunded Accrued Liability (UAL) into the Annually Determined Contribution (ADC). The SLOCPT currently amortizes the existing UAL and each year's actuarial gains and losses over a 30 year closed period (22 years remaining) ending in 2040. Ms. Thompson recommends starting with the 2019 Actuarial Valuation to: a) complete the amortization of the 2018 UAL over the remainder of the closed 30 year amortization period; and b) commence amortizing each year's actuarial gains and losses on a 20 year layered amortization schedule. The effects of such a UAL amortization on ADC volatility were discussed at length. No action necessary until the adoption of actuarial assumptions for the 2019 Actuarial Valuation.

11:38 AM – President Janssen called for a short break

11:50 AM – Meeting resumed

Ms. Thompson resumed her presentation and addressed the effect of how pension contribution rates actually charged tend to decrease through the course of a year relative to the ADC that was the basis for such contribution rates in a blended contribution rate structure as a cost-sharing plan. This erosion in the charged rate relative to the ADC is due to generational turnover as Tier 1 members retire and are replaced with lower contribution rate Tier 3 members. Alternatives for adjusting in advance for this erosion in the actually charged pension contribution rate were discussed. The consensus of the Board was that the current system of an annual "true up" of netting the actual charged pension contribution rate for the prior year to the calculated ADC from each actuarial valuation was adequate and avoided additional sources of estimate error. No action necessary.

AGENDA ITEM NO. 3: CYBERSECURITY - PRESENTATION BY ANDY MARTIN, LRS; SHAWN FARRIS, LRS; TROY BIVENS, SLO COUNTY IT

Messr.s Bivens, Farris and Martin presented the current and planned cybersecurity measures of the new PensionGold Version 3 Pension Administration System currently being implemented. Of particular note was that the SLOCPT is on-track with the PensionGold Version 3 cloud-hosted system to have the best commercially available cybersecurity measures when the system goes live in July 2019. No action necessary.

AGENDA ITEM NO. 4: BUSINESS CONTINUITY PLANNING

SLOCPT Staff discussed the current Business Continuity / Disaster Recovery plans for the Pension Trust. The implementation of the PensionGold Version 3 cloud-hosted pension administration system in 2019 will significantly enhance the business continuity capability of the Pension Trust. A new Business Continuity Plan will be prepared in early 2019 related to the new system. No action necessary.

AGENDA ITEM NO. 5: BOARD OF TRUSTEES RECRUITMENT

The Board of Trustees discussed the need to recruit and encourage new and more diverse Trustees for the future. It was noted that an Elected Trustee position will be vacant in January 2019 and Trustees Janssen and Clemens will be interviewing candidates and appointing a new Trustee to fill out the remainder of the vacant term through June 2020. No action necessary.

AGENDA ITEM NO. 5: MEMBER BENEFIT OVER-PAYMENT OR CONTRIBUTION UNDER-COLLECTION ERROR CORRECTIONS – PRACTICE AND LIMITS

In response to a Trustee inquiry, Staff and General Counsel discussed the legal requirement of a Trust for a tax-qualified retirement plan to collect over-payments or under-collections from Members. General Counsel noted that there were differences of opinion among tax legal counsel on this topic. General Counsel reported that the opinion of he and the Pension Trusts' tax counsel was that over-payments or under-collections must be corrected with only limited Board discretion in relation to accrued interest on such errors. No action necessary.

ADJOURNMENT.

There being no further business, the meeting was adjourned at 1:55 PM.

Respectfully submitted,

**Carl Nelson
Executive Secretary**

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

PP 19 9/14/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
					Employee Contributions	Employee Rate					
By Employer and Tier:											
County Tier 1	3,785,240.69	885,970.64	23.41%	433,518.70	322,405.20	19.97%	43.38%	1,287.50	504.83		1,643,686.87
County Tier 2	959,317.00	230,492.45	24.03%	47,858.09	80,896.18	13.42%	37.45%	68.99	709.70		360,025.41
County Tier 3	2,471,976.15	553,979.43	22.41%	290,264.07	-	11.72%	34.13%	-	1,183.01		845,426.51
Superior Court Tier 1	267,304.75	66,924.34	25.04%	43,421.82	-	16.24%	41.28%	-	-		110,346.16
Superior Court Tier 3	76,933.83	17,997.19	23.39%	8,367.60	-	10.87%	34.26%	-	114.54		26,479.33
APCD Tier 1	62,190.76	13,723.61	22.07%	7,818.09	4,243.07	19.39%	41.46%	-	-		25,784.77
APCD Tier 3	10,036.01	2,167.86	21.60%	1,301.10	-	12.96%	34.57%	-	-		3,468.96
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-		3,186.42
Pension Trust Staff Tier 2	9,995.20	2,296.90	22.98%	241.27	928.55	11.70%	34.68%	-	-		3,466.72
Pension Trust Staff Tier 3	9,240.71	2,078.24	22.49%	1,185.35	-	12.83%	35.32%	-	-		3,263.59
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-		5,828.61
	7,672,631.56	1,781,160.78	23.21%	835,566.16	410,367.84	16.24%	39.45%	1,356.49	2,512.08		\$ 3,030,963.35
PP 20 9/28/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for		Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
By Employer and Tier:					Employee Contributions	Employee Rate					
County Tier 1	3,773,584.48	883,491.62	23.41%	431,773.59	321,468.79	19.97%	43.38%	1,287.50	562.58		1,638,584.08
County Tier 2	957,789.59	230,464.73	24.06%	47,753.19	80,564.14	13.40%	37.46%	76.49	709.70		359,568.25
County Tier 3	2,480,115.37	556,575.43	22.44%	291,969.48	-	11.75%	34.19%	-	1,217.94		849,762.85
Superior Court Tier 1	265,485.69	65,341.18	24.61%	42,425.84	-	15.98%	40.59%	-	-		107,767.02
Superior Court Tier 3	76,704.12	18,374.75	23.96%	8,515.40	-	11.10%	35.06%	-	114.54		27,004.69
APCD Tier 1	62,190.76	13,723.61	22.07%	7,818.09	4,243.07	19.39%	41.46%	-	-		25,784.77
APCD Tier 3	10,036.01	2,167.86	21.60%	1,301.10	-	12.96%	34.57%	-	-		3,468.96
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-		3,186.42
Pension Trust Staff Tier 2	9,953.64	2,287.35	22.98%	240.76	924.69	11.71%	34.69%	-	-		3,452.80
Pension Trust Staff Tier 3	9,084.04	2,043.01	22.49%	1,168.32	-	12.86%	35.35%	-	-		3,211.33
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-		5,828.61
	7,665,340.16	1,779,999.66	23.22%	834,555.84	409,095.53	16.22%	39.45%	1,363.99	2,604.76		\$ 3,027,619.78
TOTAL FOR THE MONTH	15,337,971.72	3,561,160.44	23.22%	1,670,122.00	819,463.37	16.23%	39.45%	2,720.48	5,116.84		\$ 6,058,583.13
TOTAL YEAR TO DATE	153,227,831.57	35,432,205.96	23.12%	16,547,845.68	8,428,383.24	16.30%	39.42%	31,048.41	136,964.45		60,576,447.74

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

SEPTEMBER 2018

RETIREE NAME	DEPARTMENT	DATE	MONTHLY ALLOWANCE
CLARKE, WILLIAM (DROP)	BEHAVIORAL HEALTH	09-01-2018	5250.20
COHEN, VERNANNE	DISTRICT ATTORNEY	09-08-2018	2161.85
CRUTHIRDS, HELEN	SUPERIOR COURT	09-15-2018	3668.06 35.69*
DeCARLI, RONALD	PLANNING & BUILDING / RECIPROCAL	09-08-2018	Awaiting calcs
EILAND, GORDON	AUDITOR CONTRLR TREAS TAX COLL	09-08-2018	3134.28
HETRICK, VENEE	PROBATION	09-08-2018	1371.97
KOVAL, ANDREW B	FACILITIES MANAGEMENT	09-29-2018	Awaiting calcs
LANGO, MICHAEL	GENERAL SERVICES / RECIPROCAL	09-08-2018	Awaiting calcs
LOVETT-ADAIR, MELISSA B	PUBLIC HEALTH	09-27-2018	2668.86
PLATT, DAVID (DROP)	SOCIAL SERVICES	09-01-2018	4394.95
PRELESNIK, MONA (DROP)	SHERIFF-CORONER	09-01-2018	3145.45 1713.00**
READE, SUSAN	AUDITOR CONTRLR TREAS TAX COLL	09-08-2018	722.25
RUBIO, OSCAR	SOCIAL SERVICES	09-22-2018	2153.42
SOUZA, MARK (Disability)	SHERIFF-CORONER	09-02-2018	4106.44
TOMLINSON, TIMOTHY	PUBLIC WORKS ISF	09-22-2018	5902.71 20.14*
ZANARTU, STRAITH	PUBLIC WORKS ISF	09-08-2018	5342.69
ADDENDUM:			
MINSK, JANNA	PLANNING & BUILDING / RECIPROCAL	06-13-2018	Option selection
JORDAN, JOAN	ASSESSOR / RESERVE	08-11-2018	1146.26 79.44*

* 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)

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Board of Trustees

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Date: October 22, 2018
To: Board of Trustees
From: Carl Nelson – Executive Secretary

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

Recommendation:

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:

NOVEMBER 1, 2018
NOVEMBER 1, 2018
NOVEMBER 1, 2018

Chris Bergeron, Sheriff-Coroner
Richard Kopecky, Public Works
Debbi J. Pascua, District Attorney

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Date: October 22, 2018

To: Board of Trustees

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

Agenda Item 6: Investment and Banking Authority

Recommendation:

Staff recommends that the Board approve and adopt the attached Resolution 2018-02 and accompanying Incumbency Certificate designating authorized signers for various investment and banking relationships.

Discussion:

SLOCPT updates the designated authorized signers for various investment and banking relationships every six months so that recent documentation of such authorizations by the Board of Trustees is available if needed to execute documents of various sorts. These designations are necessary to the everyday operations of the SLOCPT. The Board last approved and adopted such documents at the regular meeting of April 23, 2018.

Resolution 2018-02 and its referenced Incumbency Certificate are attached. The approval of a resolution of this type is anticipated to be a routine item before the Board of Trustees biannually or whenever authorized signers are changed.

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**SAN LUIS OBISPO COUNTY
PENSION TRUST**

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

ABSENT:

RESOLUTION NO. 2018-02

A Resolution Affirming Investment and Banking Authority

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

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

The attached San Luis Obispo County Pension Trust Investment and Banking Authority Incumbency Certificate dated October 22, 2018, is hereby approved.

Adopted: October 22, 2018

Approved as to Form and Legal Effect

Chris Waddell
General Counsel

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

ATTEST: _____
Carl Nelson, Executive Secretary

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Board of Trustees

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Investment and Banking Authority Incumbency Certificate

Effective Date: October 22, 2018
Date of Certification: October 22, 2018

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

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

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

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

James Erb
Jeff Hamm
Gere Sibbach

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

Date: _____

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Date: October 22, 2018

To: Board of Trustees

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

Agenda Item 7: Pension Administration System – Oversight Project Management – Extension of LRWL, Inc. Contract

Recommendation:

Staff recommends that the Board approve the attached Amendment # 2 to the Contract for the Provision of Consulting Services with LRWL, Inc.

Discussion:

This item relates to the Pension Administration System (PAS) currently in the development and implementation phase. LRWL, Inc. has been the consultant on the procurement RFP process for the PAS and the selection of the PensionGold Version 3 starting in 2015. The contract with LRWL was amended in 2016 to add Oversight Project Management for the expected duration of the PAS project. Initially the PAS implementation was expected to wrap up at the end of 2018. However, the process of contract development for the PAS project took longer than expected so the start date was pushed back. The PAS project is within 2 weeks of original budget and is expected to be operational by July 2019.

The contract with LRWL for Oversight Project Management needs to be extended to continue to provide these services through project completion. The services of LRWL are expected to be particularly useful in the final implementation phases involving the Member portal to the PAS. Staff has worked with LRWL to reduce the level of effort needed in January-February before resuming to the normal 0.50 FTE level of effort later in the project.

The \$80,000 cost of this extension is well within the budgeted contingency for the PAS project.

PAS Replacement Committee (Steering Committee):

The PAS Replacement Committee met on September 24th to discuss LRWL's contract amendment. While a quorum of the PASRC was not available, those in attendance indicated their agreement with the LRWL contract extension. In any case, contract amendments to Board of Trustees approved contracts need to return to the full Board for approval.

Respectfully Submitted,

AMENDMENT # 2
To the CONTRACT FOR THE PROVISION OF CONSULTING SERVICES
LRWL, Inc.

Entered into by and between the San Luis Obispo County Pension Trust, (“SLOCPT”) and LRWL, Inc., (“Contractor”).

WHEREAS, on February 27, 2015, SLOCPT and Contractor entered into a contract (the “Contract”) for consulting services in the areas of project management and oversight project management; and

WHEREAS, said agreement was amended by Amendment # 1 to the Contract for Provision of Consulting Services on March 3, 2016; and

WHEREAS, SLOCPT is in need of further oversight project management consulting services of the kind that Contractor is uniquely qualified to provide;

The Contract is hereby amended as follows:

1. Notwithstanding any other provision in the Contract or the exhibits thereto, the term of the Contract is extended so that it expires on June 28, 2019.
2. Exhibit A – Statement of Work, LRWL Responsibilities, Significant Tasks is amended reflect the agreed-upon FTE allocations as charted here for the remainder of project.

Month	LRWL Resource	LRWL Proposed Total Hours (per Month)	Hourly Rate (includes all travel)	Total PM/OPM Pricing
January	Eddie Meyers Chris Fikes	(covered under original contract)	(covered under original contract)	(covered under original contract)
February	Eddie Meyers Chris Fikes	40 2	\$235 \$240	\$10,000.00
March	Eddie Meyers Chris Fikes	40 2	\$235 \$240	\$10,000.00
April	Eddie Meyers Chris Fikes	82 3	\$235 \$240	\$20,000.00
May	Eddie Meyers Chris Fikes	82 3	\$235 \$240	\$20,000.00
June	Eddie Meyers Chris Fikes	82 3	\$235 \$240	\$20,000.00
			TOTAL COMPENSATION	\$80,000.00

3. In any instance in which a provision of this Amendment No. 2 contradicts or is inconsistent with provisions of the Contract, the provision of this Amendment shall prevail and govern the contradicted or inconsistent provision shall be amended accordingly. All other terms and conditions of the Contract and any amendments shall remain in full force and effect.
4. The effective date of this Amendment No. 2 shall be the date on which it is approved by the Board of Trustees.

IN WITNESS WHEREOF, County and Contractor have executed this Amendment # 2 to the Contract for Provision of Consulting Services on the day and year hereinabove set forth.

LRWL, Inc.

By: _____
Name, Title

Date: _____

SLOCPT

By: _____
Executive Secretary

Date: _____

Board of Trustees

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



Date: October 22, 2018

To: Board of Trustees

From: The Audit Committee of the Board of Trustees
Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary
Jennifer Alderete – Financial Accountant

Agenda Item 8: Financial Auditor – Selection – Audit Committee Recommendation

Recommendation:

The Audit Committee and Staff recommend to the Board of Trustees approval of a renewal five-year audit engagement with Brown Armstrong Accountancy for the 2018 to 2022 financial statement audits subject to General Counsel review of the five-year contract and that the contract include annual exit clauses consistent with industry practice.

Discussion:

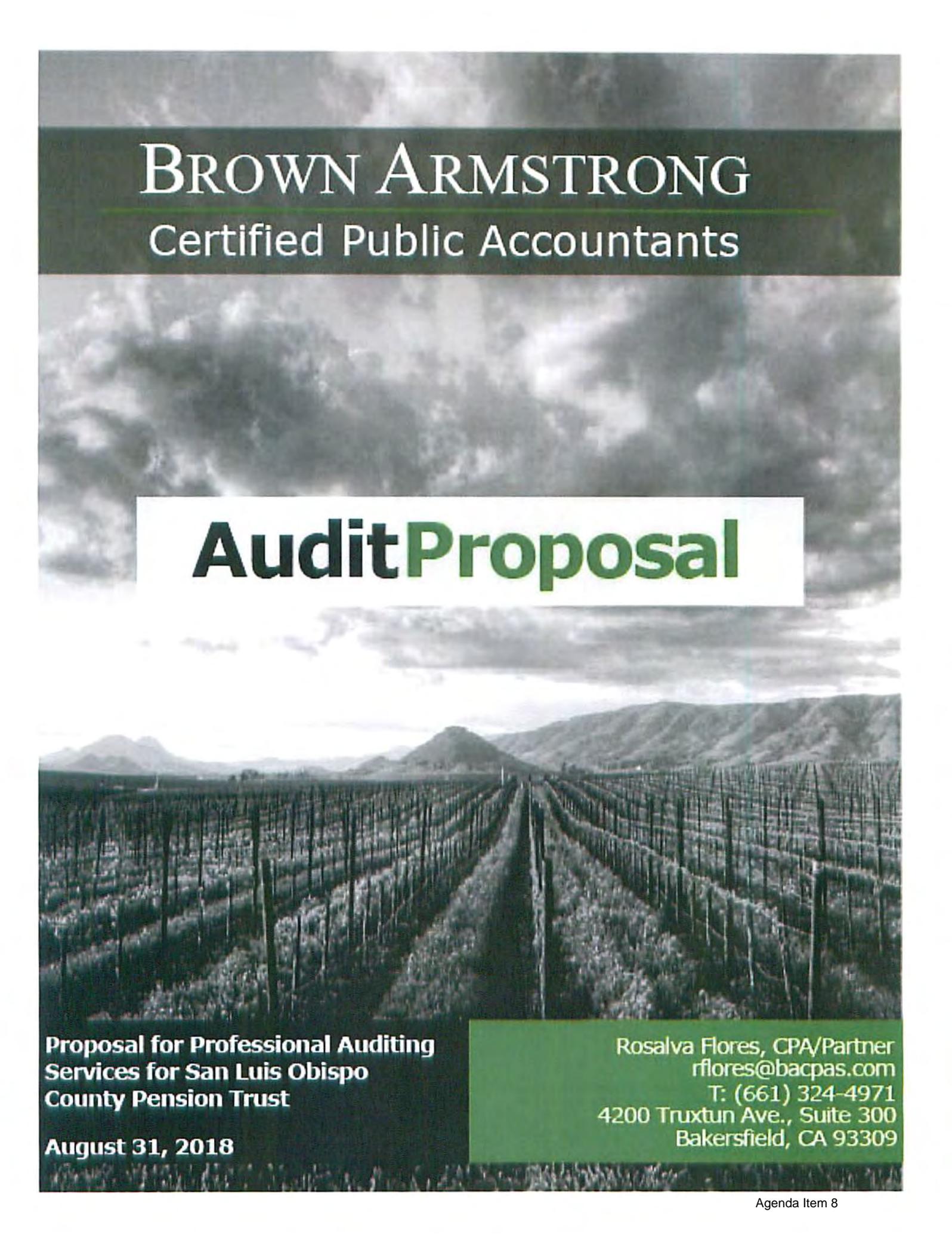
Brown Armstrong (BA) has served as the financial statement audit firm for the San Luis Obispo County Pension Trust (SLOCPT) including the most recent five-year engagement that concluded with the 2017 audit. The BA partners in charge of the SLOCPT audit have rotated periodically. Most recently, Rosalva Flores, CPA, has been the BA partner assigned to the SLOCPT audits for the 2015-2017 audits.

At the July 23, 2018 regular meeting of the Board of Trustees, the selection process for an audit firm for the 2018-2022 audits was discussed. The Board's direction to staff was to solicit a proposal from BA for the next two-to-five-year engagement cycle including consideration of partner rotation. BA's proposal is attached to this memo. BA's proposal can be summarized as follows:

- Financial Audit and GASB 68 procedures for 2018-2019 with an option to extend the engagement to a full five-year cycle for 2018-2022

- Partner Rotation –
 - Rosalva Flores, CPA, as engagement partner for the 2018-2020 Audits. This period will bring Ms. Flores’s term as engagement partner to six years. As noted in the BA proposal, California AB1345 (2012) requires auditors of local agencies to limit any one lead auditor to a maximum of six years prior to rotating to a different lead auditor (the same firm can serve longer than six years; it is the lead partner that is limited to six years at a time).
 - Andy Paulden, CPA, as engagement partner for the 2021 and 2022 audits
- Audit Team – The current audit engagement manager, Alaina Sanchez, CPA, is included in the proposal to continue in this role. Ms. Sanchez has been engagement manager on the SLOCPT audit for 2016 and 2017 and has performed in an exemplary manner.
- Extended Information Technology audit procedures for the 2019 audit year when the new Pension Administration System (PensionGold Version 3) is operational.
- Fees –
 - All-inclusive maximum fee of \$50,800 for all five years of the proposal – 2018-2022. This compares to the 2017 Audit fee of \$53,682.
 - Fees for GASB 68 procedures and out-of-pocket costs are in addition to the audit fees and are included in the BA proposal at \$9,000 for each of the 5 years for a total all-inclusive fee of \$59,800/year. The actual total fees for 2017 were \$59,310.

Respectfully submitted,



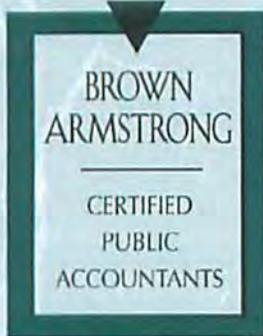
BROWN ARMSTRONG
Certified Public Accountants

Audit Proposal

**Proposal for Professional Auditing
Services for San Luis Obispo
County Pension Trust**

August 31, 2018

Rosalva Flores, CPA/Partner
rflores@bacpas.com
T: (661) 324-4971
4200 Truxtun Ave., Suite 300
Bakersfield, CA 93309



BROWN ARMSTRONG

Certified Public Accountants

August 31, 2018

Carl Nelson, CFA, Executive Secretary & Chief Investment Officer
San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, California 93408

Dear Mr. Nelson:

Brown Armstrong Accountancy Corporation wants to continue to be your auditors! This proposal will demonstrate to you that our firm is uniquely qualified to continue to serve as your auditors. We are proposing at your request a two, three, and five-year proposal. San Luis Obispo County Pension Trust has been a valued client of ours and we hope to continue that relationship.

Brown Armstrong hopes to remain as your auditors because of our excellent service, our retirement system experience, our competitive price, and most importantly our people. This proposal will demonstrate to you all of these items and more.

I will continue to be the engagement partner and primary liaison responsible for all services to San Luis Obispo County Pension Trust, and I am authorized to contractually bind the Firm. I can be contacted at: 4200 Truxtun Avenue, Suite 300, Bakersfield, California 93309, Tel (661) 324-4971, Fax (661) 324-4997 or e-mail: rflores@bacpas.com. This is a valid offer for 120 days beginning August 31, 2018.

All services will be provided from our Bakersfield and Laguna Hills, California offices. Pertinent information for those offices are: (a): 4200 Truxtun Ave., Suite 300, Bakersfield, CA 93309; (b) telephone number: (661) 324-4971; (949) 652-1040 (c) facsimile number: (661) 324-4997.

Please call me if I can clarify or expand on any item contained in this proposal. We appreciate the opportunity to continue providing you with the outstanding service you expect.

Sincerely,

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Rosalva Flores, CPA
Firm Principal

**BAKERSFIELD OFFICE
(MAIN OFFICE)**

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE

23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

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1. SUMMARY OF SERVICES

Brown Armstrong will perform an audit of the San Luis Obispo County Pension Trust basic financial statements and Governmental Accounting Standards Board (GASB) Statement No. 68 procedures for the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer for the calendar years 2018 and 2019, with the option to renew for years 2020, 2021 and 2022. We will present final reports to the Board of Trustees and Audit Committee.

Brown Armstrong will perform extended Information Technology (IT) procedures to test the upcoming replacement of the current Pension Administration System when Pension Gold V3 goes live in 2019. As part of our procedures, we will start by developing a risk assessment and identifying risks related to the role of IT and determining the risk of material misstatement associated with financial transactions and financial reporting. The Scope of the IT audit will be dependent on our understanding of the areas impacted by the new Pension Gold V3 as well as our risk assessment. Our scope will include testing the accuracy of the data transferred to verify accuracy and completeness.

The audit will be performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

California Assembly Bill 1345 Section 12410.6(b) (AB-1345) was passed in 2012 that now requires commencing with fiscal year 2014 that a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or audit partner responsible for reviewing the audit, has performed services for that local agency for six consecutive years. Our firm has developed an in-house tracking matrix to ensure our government engagements that are subject to the 6-year lead partner rotation, are being tracked and rotated accordingly. In addition to the matrix, we also developed a policy to assist our clients in making the transition as seamless as possible. Our tracking matrix identifies and designates the new "proposed lead partner." In accordance with our tracking matrix, the lead audit partner for your Trust would be required to be rotated in year 2021 as Rosalva Flores will have served for six consecutive years through the 2020 audit, at your request, we are providing a two, three, and five-year proposal and to comply with AB-1345, we are proposing Andrew J. Paulden, CPA to serve as the engagement lead partner effective for year 2021. Please see Mr. Paulden's resume in Attachment C. While AB-1345 does not require the engagement manager to be rotated, if the Trust desires, we can also rotate the manager.

SPECIFIC AUDIT APPROACH

This section sets forth our understanding of the audit engagement requirements, and a work plan, including an explanation of the methodology to be followed to perform the engagement.

WORK PLAN	
Time Period	Audit Tasks
January	<p>Planning Procedures</p> <p><u>Planning and Administration</u></p> <ul style="list-style-type: none"> • Discuss with Management our audit approach, timing, assistance, and other issues. • Prepare audit programs, audit budget and staffing schedule. • Provide information request and critical data schedules to Trust management. • Review minutes of Board meetings and other key committees. • Coordinate with Trust staff in the preparation of all appropriate confirmation requests including: <ul style="list-style-type: none"> • Custodian • Investments • Contributions • Consultant • Cash • Active and retired participants (Random, non-statistical sample. Minimum sample size is 40 for each classification.) • Actuary • Legal • Others, as required
April	<p>Field Work Procedures</p> <p><u>Internal Control Structure Understanding and Testing</u></p> <ul style="list-style-type: none"> • Obtain and document understanding of the following key internal control systems through walk-throughs, interviews of staff, and review of supporting documentation: <ul style="list-style-type: none"> ○ Investing ○ Benefits ○ Participant Data ○ Contributions ○ Benefit Obligations ○ Financial Close and Reporting ○ Government Code Compliance ○ Data Processing ○ Other key internal control systems, as necessary • Test and evaluate effectiveness of the internal control system. Random samples of transactions in key operating systems. Non-statistical sampling. Minimum sample size is forty. Samples selected will be reviewed for adequacy of support and approvals, and degree of adherence to and compliance with Trust policies. • Review and perform additional procedures on active and retired participant's confirmations, and evaluate adequacy of responses.

WORK PLAN	
Time Period	Audit Tasks
May	<p><u>Information Technology (IT)</u></p> <ul style="list-style-type: none"> • Obtain completed IT survey to determine significant changes during the year. • Perform risk assessment to determine the scope of the IT audit. • Perform a walkthrough and test general controls. <p><u>Laws and Regulations</u></p> <ul style="list-style-type: none"> • Review and evaluate Trust procedures for maintaining compliance with applicable Government Code Sections. • Test a sample of transactions and/or information to determine Trust's compliance with applicable Government Code Sections. <p><u>Substantiating Audit Procedures</u></p> <ul style="list-style-type: none"> • Entrance conference with Audit Committee and Trust management. • Receive and input trial balance for analysis. • Review and evaluate Trust accounting and financial reporting. • Reconcile custodian and manager confirmations to Trust general ledger. • Review actuarial study and actuary confirmation for accuracy. • Perform analytical testing on revenues and expenditures and evaluate material variances. • Perform a search for unrecorded liabilities by reviewing disbursements subsequent to December 31, testing terms of contractual obligations, and interviewing staff. • Provide proposed adjustments and financial statement revisions to Trust. • Other procedures as necessary. • Prepare an overall memo of recommendations, potential issues, and suggestions for improvements. • Hold exit conference with Trust staff. <p>Wrap Up Procedures</p> <p><u>CAFR Review</u></p> <ul style="list-style-type: none"> • Receive and review draft financials. • Perform review of subsequent events through discussions with management and review of all minutes of the Board and key committees. • Review the GFOA comments and ensure corrections have been implemented and all comments addressed. <p><u>Draft Reports</u></p> <ul style="list-style-type: none"> • Issue drafts of all required reports. • Issue draft management letter, if applicable. • Present and discuss above reports with Trust management.
June	<p><u>Final Reports</u></p> <ul style="list-style-type: none"> • Issue final reports. • Present all reports to Audit Committee. • Present all reports to the Board of Trustees.

2. FIRM'S EXPERIENCE

Our firm is the best qualified because of our pension plan audit experience, our involvement in the California Association of Public Retirement Systems (CALAPRS), State Association of County Retirement Systems (SACRS) and, and our people. We are the current auditors of numerous County pension plans as set forth in Attachment D (page 20) - Summary of Recent Governmental Experience. The Trust will benefit from audit firm continuity by eliminating training as we have already documented a good understanding of your systems and processes and our firm's experience has allowed us to have a good understanding of the industry, including risks, and we are able to perform efficient and quality audits.

We also have experience as GFOA reviewers. several of our partners are reviewers. Most of our clients continue to receive the GFOA Certificate of Achievement Award. We will use our award experience to assist you in applying for this award.

We are also members of the SEC Practice Section of the AICPA. Membership requires that we undergo a peer review of our system of quality controls every three years. We have undergone several peer reviews, under the AICPA's guidance. Mr. Paulden heads our participation as a sponsoring member in CALAPRS and an associate member in SACRS. Participation in these organizations allows us to remain current on all administrative, legal, and accounting issues impacting retirement systems. Our personnel assigned to your engagement are experienced, professional, and take a "team" approach with client personnel in the conduct of the audit. Attachment B includes resumes of the team members included in this proposal.

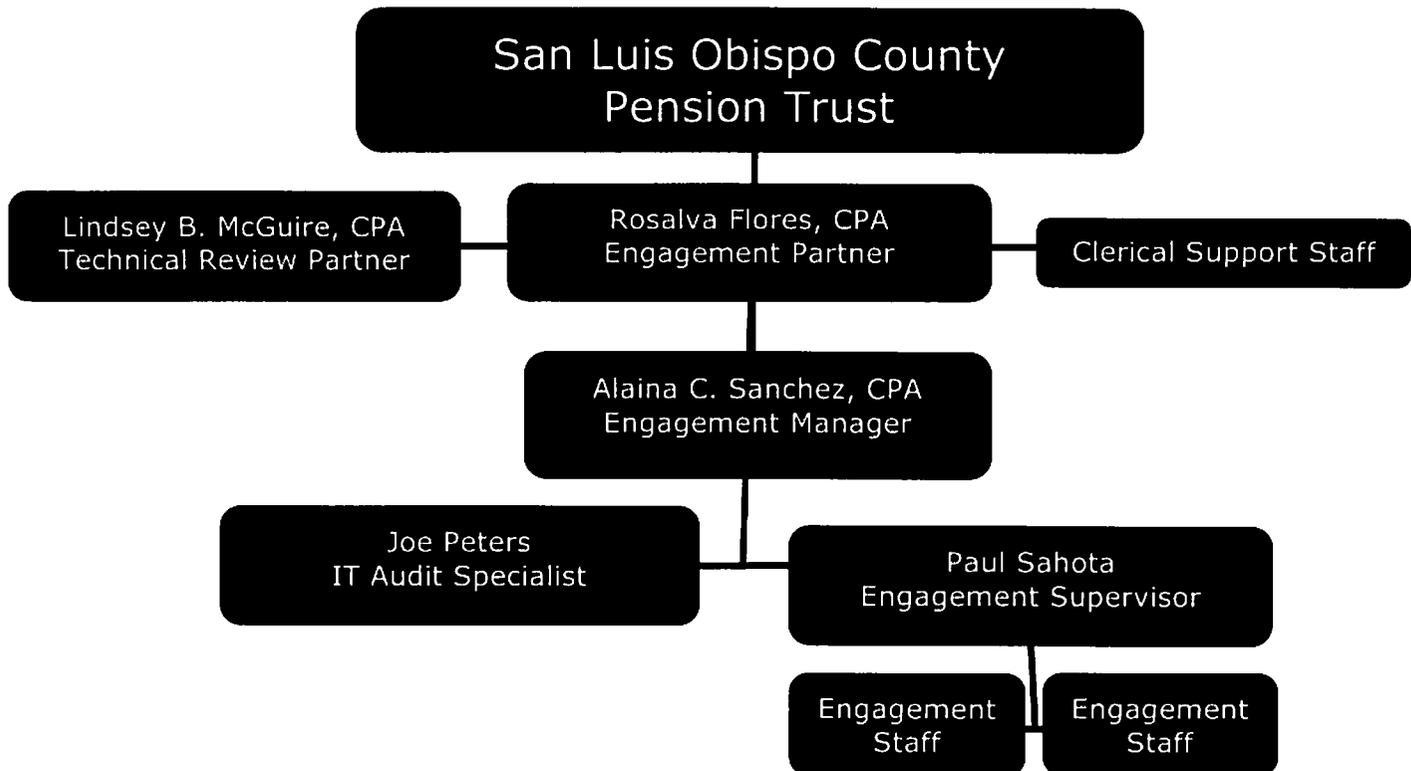
Mr. Paulden is a member of the AICPA Employee Benefit Plan Audit Quality Center. Membership aids its members in achieving the highest standards in performing quality EE benefit plan audits.

We put audit quality control as one our top priority. All of our audit partners take audit quality very seriously. We continue to improve our audit quality each year. Not only do we have a vigorous annual in house inspection program but we also have an audit quality committee comprised of audit partners and managers to address audit quality, address new GASB pronouncements and develop procedures that will guide our clients to implementing GASBs in a timely manner as well as ensuring our staff is trained on the latest audit requirements. Ms. Flores is our audit quality committee chair and has the experience necessary to assist you in implementing upcoming GASB statements that govern reporting for public pension systems.

This proposal will demonstrate to you that we are the best-qualified firm to be your auditors.

4. AUDIT TEAM MEMBERS

Our firm currently employs seventy-three people, forty-four of which are professionals providing audit and accounting services to governmental entities. All services to you will be provided from our offices located at 4200 Truxtun Avenue, Suite 300, Bakersfield, California 93309 (661-324-4971) and 23272 Mill Creek Drive, Suite 255, Laguna Hills, CA 92653 (949-652-5422). All staff assigned to your engagement will be employed on a full-time basis. The professional staff that will be assigned to your engagement are as follows:



All identified personnel have participated in audits of retirement systems and large and small governmental units. All members attend governmental and non-governmental continuing professional education.

Exhibit B of this proposal contains detailed resumes of each staff member that identifies each person’s experience, specialized expertise, continuing professional education and membership in professional organizations relevant to the performance of your audit.

Our firm policy is to maintain staffing continuity for all audits. Any staffing replacements during the term of the agreement will be of equal or greater qualifications and experience of the staff that they replace.

5. MAXIMUM FEE**Total All-Inclusive Maximum Price:**

Service Description	2018	2019	Option Year 1 2020	Option Year 2 2021	Option Year 3 2022
Audit of the Basic Financial Statements	\$50,800	\$50,800	\$50,800	\$50,800	\$50,800
GASB Statement No. 68 procedures	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>
Out of Pocket Fees	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Total Maximum Fee	<u>\$59,800</u>	<u>\$59,800</u>	<u>\$59,800</u>	<u>\$59,800</u>	<u>\$59,800</u>

This fee is valid for 120 days from the deadline for submission of proposals.

If it should become necessary for you to request us to render any additional services or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work will be performed only if set forth in an addendum to the contract between Management and our firm.

6. ADDITIONAL DATA AND ATTACHMENTS

a. Peer Review Report

As part of our commitment to quality control, our firm is a member of the Center for Public Firms Auditors Section (Center) of the American Institute of Certified Public Accountants (AICPA). We have completed several External Quality Control reviews under the AICPA's guidance, all of which included one or more governmental audits. A copy of our most recent peer review report is included as Attachment A. As indicated in that report, our Firm received a peer review rating of a "pass," which is the highest rating available.

b. Audit Team Resumes

As discussed in Section 2, Attachment B of this proposal contains detailed resumes of each staff member. The resumes identify each person's experience, specialized expertise, continuing professional education and membership in professional organizations relevant to the performance of your audit. We believe we are providing a well-qualified audit team.

ATTACHMENTS

A. EXTERNAL QUALITY CONTROL REVIEW REPORT



System Review Report

To the Shareholders of
Brown Armstrong Accountancy Corporation
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended October 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based upon our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended October 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Brown Armstrong Accountancy Corporation has received a peer review rating of *pass*.

Weaver and Tidwell, LLP
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 29, 2016

AN INDEPENDENT MEMBER OF
BAKER TILLY INTERNATIONAL

WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

12221 MERTH DRIVE, SUITE 1400 DALLAS, TX 75251
P: 972.450.1970 F: 972.702.8321

B. RESUMES OF AUDIT TEAM MEMBERS

Rosalva Flores, CPA

Lindsey B. McGuire, CPA

Alaina C. Sanchez, CPA

Paul Sahota

Joe Peters

Rosalva Flores, CPA
Engagement Partner



Rosalva Flores is a principal with over 19 years of experience in governmental accounting. Rosalva has grown within the firm serving a diverse client base. Her expertise ranges from retirement systems and special district entities to municipal governments and nonprofit organizations. She enjoys working "hands-on" with her clients and will never be too far away from the audit procedures.

Rosalva has always ensured that we have the highest level of audit and consulting services for all of her clients. She is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, and the California Municipal Finance Officers Association.

Education

California State University,
 Bakersfield, 1998

Bachelor of Science Degree in
 Business Administration,
 Concentration in Accounting

**Roles and Responsibilities
 on the Engagement**

- Overall responsibility for the audit and delivery of client service.
- Approves the overall audit risk assessment and audit procedures.
- Communicates with executive management, and members of SLOCPT, regarding audit planning, fieldwork and reporting.
- Available throughout the year to ensure proactive issue identification and service delivery.

Clients Served

*Only selected clients are listed

Retirement Systems

- Contra Costa County Employees' Retirement Association
- City of Fresno Retirement Systems
- Kern County Employees' Retirement Association
- Kern Schools Federal Credit Union Pension Plan
- Los Angeles City Employees' Retirement System
- San Joaquin County Employees' Retirement Association
- San Luis Obispo County Pension Trust
- Sonoma County Employees' Retirement Association
- Stanislaus County Employees' Retirement Association
- Tulare County Employees' Retirement Association
- Ventura County Employees' Retirement Association
- Santa Barbara County Employees' Retirement System

Special Districts

- Belridge Water Storage District
- Casitas Municipal Water District
- Kern Tulare Water District
- Minter Field Airport District
- Mojave Public Utility District

Lindsey B. McGuire, CPA
Technical Review Partner



Lindsey is the technical review partner of the project. She has more than 9 years of governmental auditing experience and 12 years of auditing experience. She has been with the firm since August of 2012, joining the firm after 6 years at KPMG Orange County. Her primary business focus is governmental entities audit and accounting. Her audit specialties include counties, cities, special districts, and non-profits. She has presented classes at SACA and CALAPRS.

Not only does she have experience in the audit process, but she will be an integral member of the team when it comes to keeping standards up to date. She is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, and the California Municipal Finance Officers Association.

Education

Azusa Pacific University, 2006

Bachelors of Science Degree in Accounting

Roles and Responsibilities on the Engagement

- Responsible for assisting the Engagement Partner in performing the audit risk assessment and design audit procedures.
- Assists in audit documentation review in significant areas.
- Reviews financial statements to ensure they are in conformance with GAAP.
- Advises the audit team regarding technical matters and provides concurring approval of financial statements and audit reports.

Clients Served

*Only chosen clients are listed

Special Districts

- Napa County Recreational Parks and Open Space District
- Napa Sanitation District
- Napa County Housing Authority
- Santa Cruz County Sanitation District
- Kern Delta Water District
- Buena Vista Water Storage District
- San Joaquin General Hospital

Retirement Systems

- San Joaquin County Employees' Retirement Association
- San Luis Obispo County Pension Trust
- Kern County Deferred Compensation Plans
- Public Employees Retirement System of Nevada Portfolio
- Southwest Contractors, Inc. Profit Sharing Plan

Counties

- County of Riverside
- County of Kern
- County of Santa Barbara
- County of Santa Cruz
- County of Napa

Alaina C. Sanchez, CPA
Engagement Manager



Alaina is the engagement manager of the project and located in our Laguna Hills office. She has more than 8 years of governmental auditing experience at Brown Armstrong. Her primary business focus is governmental entities audit and accounting. Her audit specialties include retirement systems, special districts, cities, and counties.

Alaina will be highly involved in the field work and a face to face presence for Brown Armstrong. She and the supervisor accountant will be easily accessible for SLOCPT at all times. Her ability to manage an audit has become invaluable for Brown Armstrong. She is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Roles and Responsibilities on the Engagement

- On site at SLOCPT office during the performance of all audit procedures.
- Reports to the Partners regarding audit and technical matters.
- Assists in the coordination of planning, fieldwork, and reporting matters.
- Reviews audit documentation for all significant audit areas.
- Manages all staff assigned to the SLOCPT engagement.
- Is in constant communication with executive management and members of SLOCPT regarding audit planning, fieldwork, and reporting.

Clients Served

*Only chosen clients are listed

Retirement Associations

- Santa Barbara County Employees' Retirement System
- Los Angeles County Employees' Retirement Association
- San Luis Obispo County Pension Trust
- Ventura County Employees' Retirement Association
- Los Angeles Fire and Police Pension System
- Los Angeles City Employees' Retirement System
- Contra Costa County Employees' Retirement Association
- City of Fresno Retirement Systems
- Fresno County Employees' Retirement Association
- Imperial County Employees' Retirement System
- Marin County Employees' Retirement Association
- San Francisco Bay Area Rapid Transit Deferred Compensation Plan
- San Francisco Bay Area Rapid Transit Money Purchase Plan

Education

California Polytechnic State University, San Luis Obispo, 2009

Bachelor of Science Degree in Business Administration, Concentration in Accounting

Paul Sahota
Engagement Supervisor



Education

California State University, Fresno,
California, 2007

Bachelors of Science Degree in
Business Administration,
Concentration in Accounting

Clients Served

*Only chosen clients are listed

Retirement Systems

Tulare County Employees' Retirement Association
Santa Barbara County Employees' Retirement
System
Ventura County Employees' Retirement
Association
Los Angeles City Employees' Retirement System
Fresno County Employees' Retirement
Association
San Luis Obispo County Pension Trust

Special Districts

Goleta Water District
Kern Delta Water District
San Joaquin Valley Air Pollution Control District

Counties

County of Fresno
County of Riverside
County of Napa
County of Merced
County of Tulare
County of San Luis Obispo
County of Stanislaus

Paul will be the engagement supervisor and has 3 years of governmental auditing experience. He has shown excellent performance in leading fieldwork, compiling and preparing financial statements, performing tests and analytical reviews, as well as creating strong working relationships with clients. He has executed audits in the past with little issues and is great at maximizing efficiency while performing audit work. He is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Roles and Responsibilities

- Leading fieldwork audit team.
- Reviews, analyzes, and documents client internal controls
- Completes complex audit procedures.
- Researches and performs tests and analytical reviews on issues under direction of the Engagement Manager.
- Reviews financial statements and workpapers before sending the drafts to Engagement Manager and partners for further review.

Joe Peters IT Audit Specialist



Our IT Audit Specialist, Joe Peters, has worked in the IT field for 12 years. His previous experience includes 4 years of internal customer support at the Customer Support Center at the University of Southern California. He has also supported diverse network environments in the oil and gas, healthcare, legal, and non-profit fields while employed at a managed services provider in Bakersfield.

As IT Audit Specialist, Mr. Peters assists with the IT portions of Brown Armstrong's audits by performing IT General Controls testing and conducting interviews with client IT management. In addition to this role, he assists with Brown Armstrong's internal computer support needs and is a Microsoft Certified Technology Specialist in configuring Windows 7. Joe divides his time between these two functions, spending 40% and 60%, respectively, on each.

Roles and Responsibilities

- Evaluates client network environment and applications for possible IT-related risk
- Requests and reviews documentation regarding client IT policies and procedures
- Performs testing of client IT General Controls
- Conducts interviews with client IT management to assess their approach to managing IT-related risks
- Documents results of IT General Controls testing and drafts an assessment of client IT systems for Engagement Managers and Partners to review

Clients Served

*Only chosen clients are listed

Retirement Systems

Los Angeles City Employees' Retirement System
Los Angeles County Employees' Retirement Association
Los Angeles Fire and Police Retirement System
San Diego County Employees' Retirement Association
San Joaquin County Employees' Retirement Association
San Luis Obispo County Pension Trust
Santa Barbara County Employees' Retirement Association
Merced County Employees' Retirement Association
San Mateo County Employees' Retirement Association
Ventura County Employees' Retirement Association

Cities

City of Bakersfield
City of Burlingame
City of Fresno
City of Tulare

Counties

County of Kern
County of San Luis Obispo
County of Riverside
County of San Joaquin
County of Merced
County of Napa
County of San Luis Obispo

Education

University of Southern California,
Los Angeles

Bachelors of Arts Degree in
International Relations, 2010

Masters of Arts Degree in
International Relations, 2011

Continuing Professional Education

Rosalva Flores, CPA

Avoiding Problems in Conducting Single Audits, 2018
 Governmental Accounting and Auditing Update, 2018
 GASB's Invitation to Comment on Revenue and Expense Recognition Webinar, 2018
 Mandatory EBPAQC Designated Partners 2018 Audit Planning, 2018
 Accounting Industry Update, 2018
 Ethical Responsibilities for CPAs, 2018
 What Every CPA Should Know About Fraud, 2018
 Spidell's 2017/18 Federal and California Fall Tax Update Seminar, 2017
 GASB 74/75-OPEB and GASB Update, 2017
 ASU 2015-12 Practical EBP Implementation Issues, 2017
 Mandatory EBPAQC Designated Partners 2017 Audit Planning Rebroadcast, 2017
 GASB 75 OPEB Implementation: Accounting and Auditing Considerations, 2017
 GAPP Update and Fraud - Practical Approach to Prevention and Detection, 2017
 Single Audit: A Case Study Approach, 2017
 2016 GAQC Annual Update Webcast, 2016
 2016 OMB Compliance Supplement and Single Audit Update, 2016
 Introduction to School Districts Auditing Webcast, 2016
 Single Audit Update, Internal Control Challenges, and Fraud, 2016
 Employee Benefit Plans Annual Audit Conference Webcast, 2016
 Kevin Mitnick Security Awareness Training, 2016
 Designated Partner Planning Webinar, 2016
 Ethical and Legal Standards for CPAs, 2016
 Public Company Update: SEC, PCAOB, and Other Developments, 2016

Lindsey B. McGuire, CPA

Avoiding Problems in Conducting Single Audits, 2018
 Governmental Accounting and Auditing Update, 2018
 Accounting Industry Update, 2018
 Ethical Responsibilities for CPAs, 2018
 What Every CPA Should Know About Fraud, 2018
 Common Financial Statement Deficiencies, The Financial Reporting Model Project, and GASB Agenda, 2017
 GASB 74/75 - OPEB and GASB Update, 2017
 Annual Conference of the State Association of County Auditors, 2017
 GASB 75 OPEB Implementation: Accounting and Auditing Considerations, 2017
 GAAP Update and Fraud - Practical Approach to Prevention and Detection, 2017
 Single Audits: A Case Study Approach, 2017
 Ethical and Legal Standards for CPAs, 2016
 Public Company Update: SEC, PCAOB, and Other Developments, 2016

Alaina C. Sanchez, CPA

Accounting Industry Update, 2018
 What Every CPA Should Know About Fraud, 2018
 2017 OMB Compliance Supplement and Single Audit Update, 2017
 Common Financial Statement Deficiencies, The Financial Reporting Model Project, and GASB Agenda, 2017
 GASB 74/75-OPEB and GASB Update, 2017
 Auditing Employee Benefit Plans, 2017
 Not for Profit Accounting, 2017
 Achieving Success as a New Manager, 2017
 Presenting with Presence, 2017
 GAAP Update - Practical Approach to Prevention and Detection, 2017
 Single Audits: A Case Study Approach, 2017
 Audits of 401 (k) Plans Webcast, 2017
 GASB Update and Common Accounting & Financial Reporting Issues, 2016
 Single Audit Update, Internal Control Challenges, and Fraud, 2016
 Ethical and Legal Standards for CPAs, 2016
 Public Company Update: SEC, PCAOB, and Other Developments, 2016

Paul Sahota

Avoiding Problems in Conducting Single Audits, 2018
 Governmental Accounting and Auditing Update, 2018
 Accounting and Auditing Update Retirements, 2018
 Accounting and Auditing Update Single Audit, 2018
 Accounting Industry Update, 2018
 What Every CPA Should Know About Fraud, 2018
 Common Financial Statement Deficiencies, The Financial Reporting Model Project, and GASB Agenda, 2017
 GASB 74/75 OPEB and GASB Update, 2017
 GAAP Update and Fraud - Practical Approach to Prevention and Detection, 2017
 Single Audits: A Case Study Approach, 2017

C. PARTNER ROTATION-RESUME OF THE PROPOSED LEAD PARTNER (COMPLIANCE WITH AB-1345, YEARS 2021 AND 2022)

Andrew J. Paulden, CPA Engagement Partner



Andy Paulden is a principal with over 30 years of experience in governmental accounting. He has grown within the firm serving a diverse client base. His expertise ranges from special districts and retirement associations to municipal entities and nonprofit organizations. Andy enjoys working "hands-on" with his clients and will never be too far away from audit procedures.

Andy has always ensured that we have the highest level of audit, tax, and consulting services for all of his clients. He is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, and the Governmental Auditing and Accounting State Committee as a member at large.

Education

California State University,
Chico, 1985

Bachelor of Science Degree in
Business Administration with a
Concentration in Accounting

Roles and Responsibilities

- Overall responsibility for the audit and delivery of client service
- Approves the overall audit risk assessment and audit procedures
- Communicates with executive management, and members of SLOCPT, regarding audit planning, fieldwork and reporting
- Available throughout the year to ensure proactive issue identification and service delivery

Clients Served

*Only selected clients are listed

Benefit Plans

Los Angeles Fire and Police Pension System
Los Angeles City Employees' Retirement System
Los Angeles County Employees' Retirement Association
Contra Costa County Employees' Retirement Association
City of Fresno Retirement Systems
Fresno County Employees' Retirement Association
Imperial County Employees' Retirement System
Marin County Employees' Retirement Association
San Diego County Employees' Retirement Association
San Francisco Bay Area Rapid Transit Deferred Compensation Plan
San Francisco Bay Area Rapid Transit Money Purchase Plan
San Luis Obispo County Pension Trust
San Mateo County Employees' Retirement Association
Santa Barbara County Employees' Retirement System
Sonoma County Employees' Retirement Association
Tulare County Employees' Retirement Association
Ventura County Employees' Retirement Association

D. SUMMARY OF RECENT GOVERNMENTAL EXPERIENCE

CITIES	RETIREMENT PLANS	SPECIAL DISTRICTS
City of Bakersfield City of Burlingame City of Delano City of Fresno City of Lindsay City of Modesto City of Santa Barbara City of Seaside City of Tulare City of Visalia	Contra Costa County Employees' Retirement Association Fresno City Employees' Retirement System Fresno County Employees' Retirement Association Imperial County Employees' Retirement System Kern County Employees' Retirement Association Los Angeles Fire and Police Pension System Los Angeles City Employees' Retirement System Los Angeles County Employees' Retirement Association Marin County Employees' Retirement Association Merced County Employees' Retirement Association Orange County Employees' Retirement System San Diego City Employees' Retirement System San Diego County Employees' Retirement Association San Joaquin County Employees' Retirement Association San Mateo County Employees' Retirement Association Sonoma County Employees' Retirement Association Tulare County Employees' Retirement Association Ventura County Employees' Retirement Association San Francisco Bay Area Rapid Transit District Money Purchase Plan and Deferred Compensation Plan San Luis Obispo County Pension Trust Pasadena Fire & Police Retirement System Santa Barbara County Employees' Retirement System Fresno Metropolitan Flood Control District Pension Plan and Trust Sacramento County Employees' Retirement System	Bear Mountain Recreation and Park District Delano Mosquito atement District Fresno Irrigation District Fresno Metropolitan Flood Control District Kern Tulare Water District Kern Water Bank Authority Kings County Economic Development Corporation Mojave Public Utility District Mother Lode Job Training Agency Riverside County Habitat Conservation Agency Pasadena Center Operating Company Pixley Public Utility District Port Hueneme Water Agency Rosamond Community Services District Rose Bowl Operating Company San Joaquin Area Flood Control Agency San Joaquin Valley Air Pollution Control District Stanislaus County Community Services Agency
TRANSIT	SCHOOL DISTRICTS	COUNTIES
Central Contra Costa Transit Authority Golden Empire Transit District Kern Council of Governments Napa Valley Transportation Authority Riverside Transit Agency San Joaquin Council of Governments Santa Cruz Metropolitan Transit District Solano County Transit Stanislaus Council of Governments Tulare County Association of Governments	Bakersfield City School District Castaic Union School District Delano Union School District Kern County Superintendent of Schools Richgrove Elementary School District Saugus Union School District Taft Union High School District Tehachapi Unified School District Visalia Unified School District	County of Fresno County of Kern County of Kings County of Merced County of Riverside County of San Joaquin County of San Luis Obispo County of Santa Barbara County of Santa Cruz County of Stanislaus County of Tulare County of Napa
NON-PROFITS		HEALTH CARE
Bakersfield ARC Community Action Partnership of Kern Community Action Partnership of San Luis Obispo Goodwill Industries of South Central California Kern County Bar Association Kern County Library Foundation Missionary Church Western District Pasadena Chamber of Commerce Pasadena Community Access Corporation Tranquil Waters Guidance Center Valley Consortium for Medical Education Women's Center – High Desert Tranquil Waters Guidance Clinic		Kern Health Systems Kern Medical Liberty Health Advantage Heritage Provider Network Heritage California Medical Group Heritage New York Medical Group Southwest Health Care District West Side Health Care District Riverside University Health System – Medical Center San Joaquin County General Hospital Stanislaus County Health Services Agency

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Board of Trustees

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



Date: October 22, 2018

To: Board of Trustees

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

Agenda Item 9: Indemnification – Authorization pursuant to Section 16.02(j) of the Retirement Plan (revised)

Recommendation:

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

- Investment Management Agreement – HarbourVest 2018 Global Fund, L.P.

Discussion:

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

Article 16: Administrations and Operation – Section 16.02 excerpt –

...

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

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

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

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

The purpose of this recommended Board of Trustees approval is to make the necessary findings relative to and approve indemnification for the Pension Trust’s investment with the HarbourVest 2018 Global Fund, L.P. (hereinafter “HarbourVest”. This investment was previously approved by the BoT at its August 27, 2018 meeting, subject to negotiation of acceptable deal terms.

The fund documents provide for the following indemnification provisions:

- 1) The Limited Partnership Agreement for this investment requires the Fund to indemnify the General Partner, its affiliates, including the Management Company, and their respective agents, partners, members, directors, employees and shareholders, and the members of the Advisory Committee and its members and the Limited Partner that is represented by each member from all claims and damages in connection with their service to the Fund. Indemnification is not available for the General Partner and its affiliates if a court determines that such indemnitees (a) did not act in good faith and in the best interests of the fund; (b) materially violated the Limited Partnership Agreement; (c) acted with negligence, fraud or in willful violation of the law; of (d) breached its fiduciary duty. Advisory committee indemnitees will not be indemnified to the extent they have been found by a court to have engaged in fraud or willful misconduct.

There is no direct indemnification obligation from the Pension Trust in ~~this transaction~~ the Limited Partnership Agreement; however, in the event an indemnification event capital invested or to be invested in HarbourVest by the Pension Trust could be used to fulfill the

indemnification obligation. The Subscription Agreement does provide for direct indemnification by the Pension Trust of the Fund and the General Partner for any claims and losses related to any breach of representation, warranty or covenant made by the Pension Trust in said Agreement.

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

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

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

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

Respectfully Submitted,

Carl Nelson
Executive Secretary

Amy Burke
Deputy Executive Secretary

Chris Waddell
General Counsel

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Board of Trustees

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Date: October 22, 2018

To: Board of Trustees

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

Agenda Item 10: Investment Report for September 2018

	September	Year to Date 2018	2017	2016	2015	2014	2013
Total Trust Investments (\$ millions)	\$1,387		\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end	\$1,131 year end
Total Fund Return	0.7% Gross	3.1% Gross	15.5 % Gross	6.6 % Gross	-0.8% Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	0.1%	2.3%	13.4 %	7.7 %	-0.5 %	5.2 %	13.4%

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

Note – the rates of return shown above are as of the end of September. October has seen a significant market selloff. See the end of the following section for updated market comments.

The Economy and Capital Markets:

Some significant factors in the economy for September and into mid-October have been –

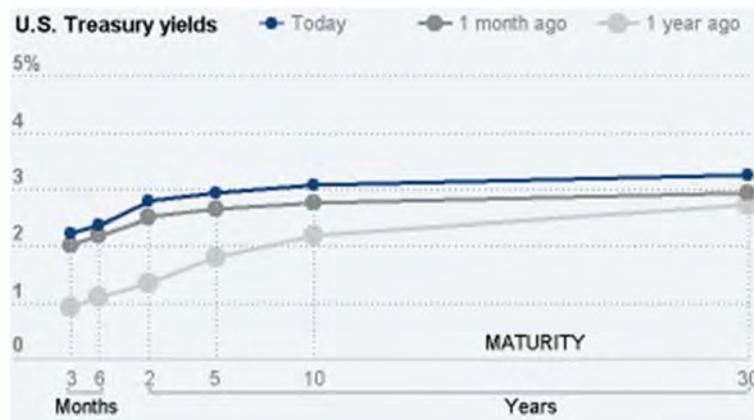
- **Fed Policy –**
 - The September Fed FOMC meeting saw the predicted additional Fed Funds rate increase of 0.25% put in place to a 2.00% to 2.25% range. As the Fed continues on its gradualist path towards rate normalization the fixed income markets continue to expect

one more tightening late in 2018 or the start of 2019, followed by 2-3 more rate increases in 2019.

- In the Fed’s comments related to the September tightening the word “accommodative” was deliberately removed from its guidance for the first time in many years. This indicated a stronger Fed intent towards rate normalization consistent with its course of action.
- With unemployment holding near full-employment levels the Fed appears to believe that the full employment half of its dual mandate is in good order. The other half of the Fed’s dual mandate – controlling inflation is also stable with core inflation running near the 2% target for the Fed. However, the Fed explicitly states that it is waiting for inflation to emerge. This reactive stance towards inflation may prove to be too conservative should money supply growth and wage-push inflation heat up and cause an unexpectedly large uptick in inflation.
- J.P. Morgan in its 4Q18 Guide to the Markets comments that main recession risk from Fed action historically comes from the Fed playing catch-up on rate tightening and increasing rates later than advisable and at a faster rate of increase. The Fed’s comments and approach to gradual rate normalization suggests that the Fed is well aware of this history and is seeking to avoid a similar pattern.

• **Interest Rates –**

- For much of 2018 investment markets have been concerned with the flattening of the Treasury yield curve. This is mostly related to the history of an inverted yield curve (short term interest rates above long term interest rates). However, since mid-September a significant increase in interest rates in general has occurred with the 10-year Treasury rising from 2.46% at January 1st, to 2.90% at the start of September to 3.16% as of October 18th.
- The yield curve as of September 21st is shown below.



- Market commentary on the increase in interest rates includes a multitude of explanations and speculations that include –
 - Inflation expected to increase – with the economy at full employment (3.7% unemployment rate) anticipation of a pick up in wage growth may drive an increase in inflation fueling investor demand for higher interest rates. However, actual inflation remains within the Fed comfort zone with September CPI increase on a year-over-year

basis coming in at a 2.3% rate. Similarly, while wage growth has picked up in recent months, it is not suggestive of imminent acceleration.

- Continued Fed rate increases at the short end of the yield curve providing an expectation of an overall increase in rates.
 - Supply and Demand in the bond market – with the Fed contracting its balance sheet as it unwinds its QE monetary accommodation (lowered demand), ballooning Treasury debt (increased supply), and flat demand from China for Treasury bonds, the natural market reaction is an increase in interest rates to entice investors to purchase bonds.
-
- **GDP Growth –**
 - Economists’ consensus is still for a slowing in GDP growth in the last half of 2018 as the U.S. economy continues its growth at a sustainable rate. However, the “just right” combination of strong corporate profits and significant corporate tax cuts may contribute to GDP growth in the 3% range for a few quarters. This is even though the longer term outlook is for a more sustainable GDP growth nearer a 2% rate.
-
- **Trade Protectionism, International Tensions, Economic Fallout –**
 - In September the Trump Administration added 10% tariffs on \$200 billion of Chinese imports with threats of increasing tariffs to 25% next year and broadening the list of tariff-subject imports. China retaliated with its own increased tariffs. Increased tariffs are expected to increase costs to U.S. consumers and hit targeted domestic industries with decreased demand (e.g., soybean farmers). Capital market consensus seems to reflect a belief that the trade war will resolve eventually with both sides backing down tariffs and claiming victory for themselves. However, tariffs also threaten U.S. corporate profits which underpin much of the market gains year to date in 2018.
 - Oil prices notched fresh multiyear highs in October as the market girded itself for the re-imposition of U.S. economic sanctions on Iran’s oil industry
-
- **Employment and Wages –**
 - The September DOL report on nonfarm employment showed -
 - New jobs up 134k in August – below expectations, but with upward revisions to prior months data. Overall, the increase in new jobs indicates a continued strong economy.
 - Unemployment fell further to 3.7% - the lowest since 1969. The broader U-6 unemployment measure that adds in workers marginally attached to the workforce (e.g., part time workers who would prefer full time) ended September up slightly at 7.5%.
 - The California unemployment rate for August was 4.2%, versus 4.7% one year ago. The SLO County unemployment rate in August was 3.0%, versus 4.0% one year ago.

- **Economy and the markets – October “Selloff”**

- Late September and into October has seen a sharp selloff in equity prices and an increase in interest rates. The chart below shows the S&P 500 index since mid-September through October 18th -



- The reasons for the October selloff are also the subject of much market commentary and speculation. Factors include –
 - Market “jitters” from high valuation levels with P/E ratios above long term averages.
 - Concern over increasing interest rates – which influence equity valuations through the discounting of future earnings at a higher rate – reflecting bonds as competing investments.
 - Fed action fears – the concern that surprises in an accelerating inflation rate could lead to the Fed quickening its pace of rate increases – historically a common trigger for recessions and resulting declines in corporate profits.
 - Market concerns over exogenous shocks to the system such as a sustained trade war, oil price shocks, political turmoil, etc.
- The attached J.P. Morgan Market Bulletin of October 12, 2018 provides an interesting commentary from Dr. David Kelly, CFA, J.P. Morgan’s Chief Global Strategist.

SLOCPT Investment Returns:

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

Respectfully submitted

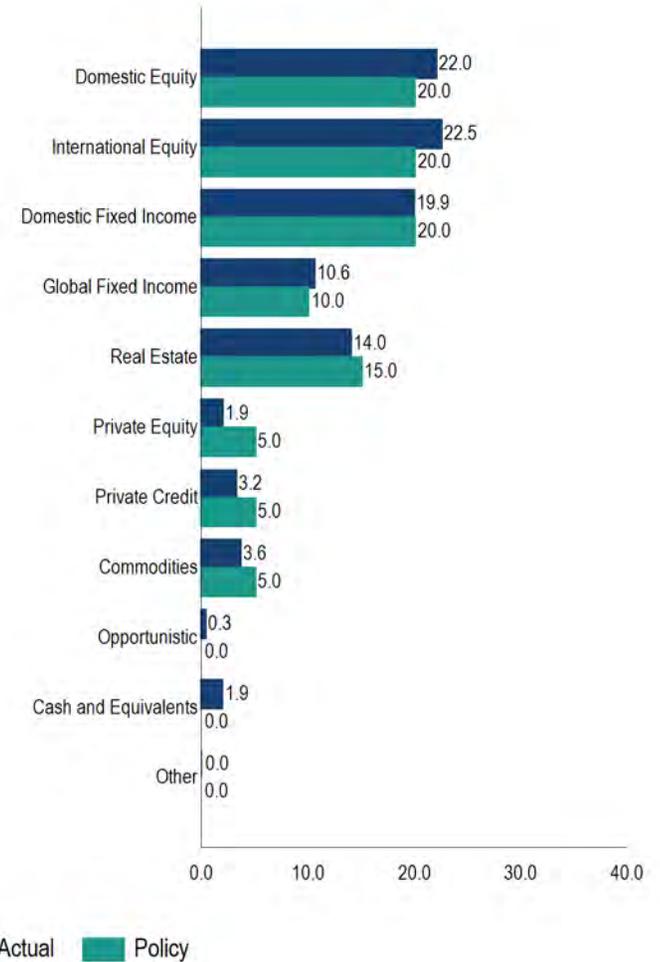
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: September 30, 2018

	Market Value	% of Portfolio	1 Mo	YTD
Total Fund	1,386,803,644	100.0	0.7	3.1
Total Fund ex Overlay	1,386,197,220	100.0	0.7	3.1
Policy Index			0.1	2.3
Total Domestic Equity	305,338,518	22.0	1.3	10.9
Russell 3000			0.2	10.6
PIMCO RAE Fundamental PLUS Instl	64,308,277	4.6	0.5	8.6
S&P 500			0.6	10.6
Loomis Sayles Large Cap Growth	87,490,198	6.3	3.5	15.3
Russell 1000 Growth			0.6	17.1
Boston Partners Large Cap Value	88,122,185	6.4	0.8	6.1
Russell 1000 Value			0.2	3.9
Atlanta Capital Mgmt	65,417,858	4.7	-0.1	13.9
Russell 2500			-1.5	10.4
Total International Equity	311,879,216	22.5	0.2	0.1
MSCI ACWI ex USA Gross			0.5	-2.7
Dodge & Cox Intl Stock	146,820,501	10.6	0.4	-5.9
MSCI EAFE Gross			0.9	-1.0
WCM International Growth	165,058,715	11.9	0.1	6.2
MSCI ACWI ex USA Gross			0.5	-2.7
Total Domestic Fixed Income	275,998,491	19.9	0.0	0.7
BBgBarc US Aggregate TR			-0.6	-1.6
BlackRock Core Bond	99,700,600	7.2	-0.5	-0.8
BBgBarc US Aggregate TR			-0.6	-1.6
Dodge & Cox Income Fund	99,634,507	7.2	-0.1	-0.3
BBgBarc US Aggregate TR			-0.6	-1.6
Pacific Asset Corporate Loan	76,663,383	5.5	0.7	4.4
S&P/LSTA Leveraged Loan Index			0.7	4.0
Total Global Fixed	146,535,338	10.6	2.0	-6.3
FTSE World Govt Bond Index			-1.0	-2.5
Brandywine Global Fixed Income	74,634,520	5.4	1.2	-2.0
FTSE WGBI ex US TR			-1.1	-3.1
Stone Harbor Local Markets Ins	71,900,818	5.2	2.9	-10.5
JPM GBI-EM Global Diversified TR USD			2.6	-8.1

Actual vs Target Allocation (%)



*Other balance represents Clifton Group.

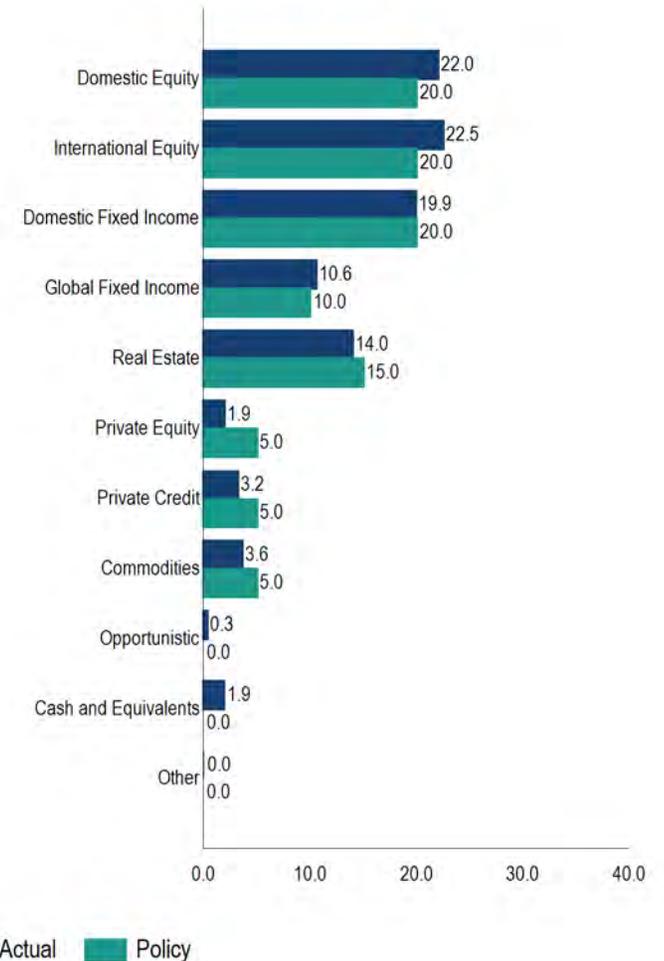
Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment 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 9/30/2018. All data is preliminary.

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

Period Ending: September 30, 2018

	Market Value	% of Portfolio	1 Mo	YTD
Total Real Estate	193,741,508	14.0	0.7	5.8
NCREIF Property Index			0.0	3.5
JP Morgan Core Real Estate	160,324,479	11.6	0.8	5.3
NCREIF-ODCE			0.0	4.3
NCREIF Property Index			0.0	3.5
ARA American Strategic Value Realty	21,645,006	1.6	0.0	7.3
NCREIF-ODCE			0.0	4.3
NCREIF Property Index			0.0	3.5
Direct Real Estate	11,772,024	0.8	0.0	9.0
NCREIF-ODCE			0.0	4.3
NCREIF Property Index			0.0	3.5
Total Commodities	50,207,126	3.6	2.9	0.9
Bloomberg Commodity Index TR USD			1.9	-2.0
Gresham MTAP Commodity Builder	50,207,126	3.6	2.9	0.9
Bloomberg Commodity Index TR USD			1.9	-2.0
Total Private Equity	27,028,773	1.9		
Harbourvest Partners IX Buyout Fund L.P.	13,891,440	1.0		
Pathway Private Equity Fund Investors 9 L.P.	13,137,333	0.9		
Total Private Credit	44,441,728	3.2		
TPG Diversified Credit Program	44,441,728	3.2		
Total Cash	26,495,391	1.9	0.0	1.0
91 Day T-Bills			0.2	1.3
Cash Account	26,495,391	1.9	0.0	1.0
91 Day T-Bills			0.2	1.3
Total Opportunistic	4,531,130	0.3		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	4,369,912	0.3		
PIMCO Distressed Credit Fund	161,218	0.0		
CPI + 5%				

Actual vs Target Allocation (%)



*Other balance represents Clifton Group.

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



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

SEPTEMBER 2018
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Non-farm payrolls added 134,000 jobs in September, missing the consensus estimate of 185,000. However, net revisions to the two months prior totaled +87,000 jobs. Hurricane Florence likely contributed to the miss, as leisure and hospitality employment fell by 17,000, the largest drop in a year.
- The U3 unemployment rate fell from 3.9% to 3.7%, the lowest rate since December, 1969. The U6 unemployment rate, including discouraged workers, marginally-attached workers, and workers who are part-time for purely economic reasons, ticked back up from 7.4% to 7.5%.
- The ISM Services PMI posted a reading of 61.6 in September, beating expectations of 58.1 and exceeding the August print of 58.5. Particularly strong outlooks for business activity and employment helped propel the indicator to its highest level since August, 1997.

U.S. EQUITIES

- The S&P 500 Index gained 0.6% in September, pushed forward by outperformance in cyclical sectors. The new Communication Services GICS sector led the advance, up 4.3% for the month.
- The CBOE VIX index, which reflects the 30-day implied volatility of the S&P 500 Index, fell slightly from 12.9 to 12.1.
- According to FactSet, the estimated year-over-year earnings growth rate for the S&P 500 in Q3 2018 is 19.2%. The equivalent revenue growth rate projection is 7.3%.

U.S. FIXED INCOME

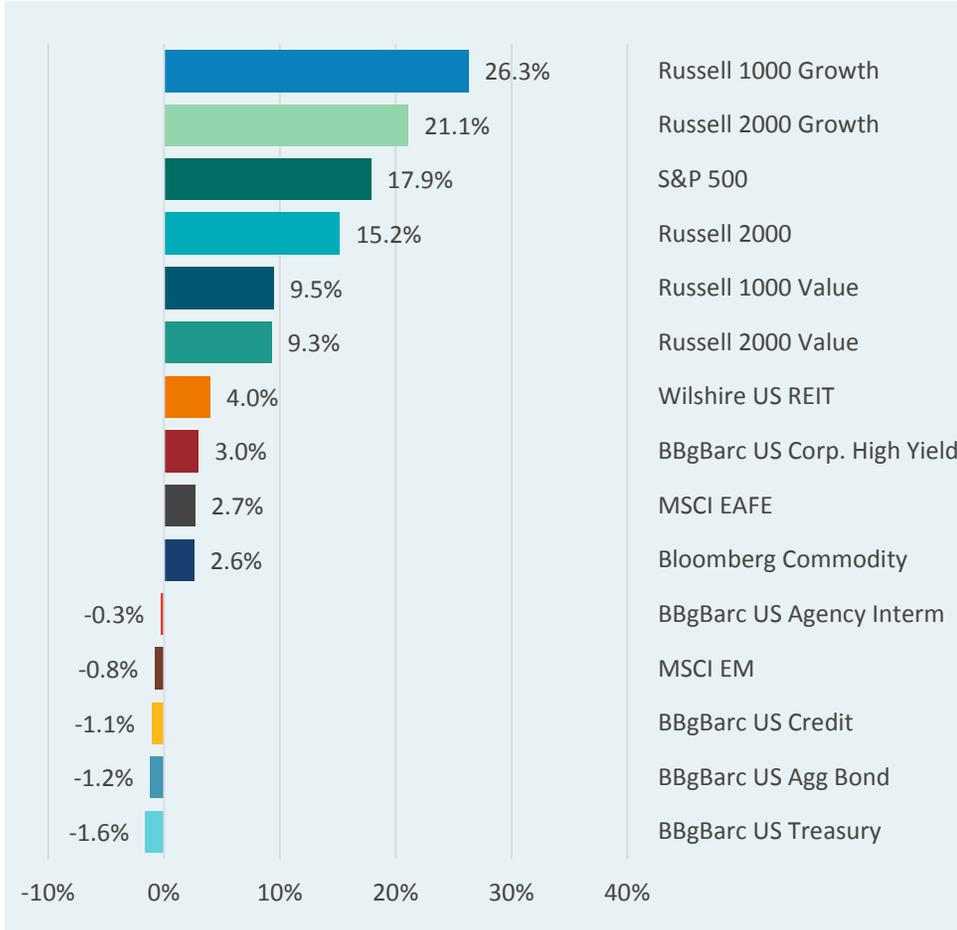
- As expected, the Federal Open Market Committee raised the target range for the fed funds rate by 0.25%, moving the new range to 2.00%-2.25%. The market implied odds for an additional December rate hike are 78% as of October 8th.
- The 10-year U.S. Treasury yield advanced 20 basis points in September, ending the month at 3.06%, just under the year-to-date high of 3.11%.
- The spread between the 10- and 2-year Treasury yields exhibited stability over the month – the 2-year yield also rose 20 basis points in September, leaving the spread unchanged at 24 basis points.

INTERNATIONAL MARKETS

- The United States, Mexico, and Canada reached an agreement on a new trade deal to replace NAFTA. The new deal, USMCA, included provisions aimed towards protecting the business interests of North American auto manufacturers as well as the wages of their laborers. In addition, the deal opened the Canadian dairy market to U.S. farmers.
- The U.S. imposed 10% tariffs on \$200 billion of Chinese goods on 9/24. The White House claimed that the tariff rate will advance from 10% to 25% at year-end if no progress is made in the meantime. China responded with retaliatory tariffs of 10% on \$60 billion of U.S. imports.
- The J.P. Morgan Emerging Markets Currency Index gained 1.6%, its largest monthly advance since January.

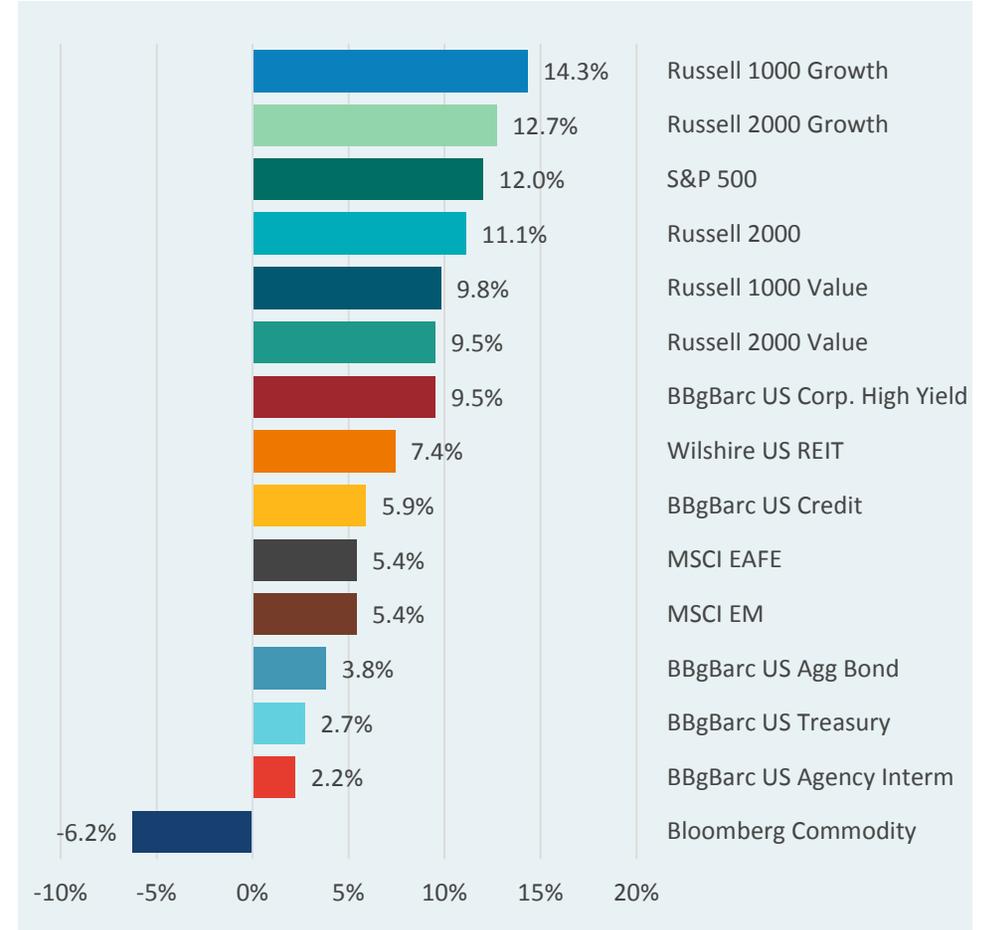
Major asset class returns

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/18

TEN YEARS ENDING SEPTEMBER



Source: Morningstar, as of 9/30/18

U.S. large cap equities

- The S&P 500 index steadily advanced in September, gaining 0.6% over the month. Communication Services (+4.3%), Health Care (+2.9%), and Energy (+2.6%) pushed the index further. Real Estate (-2.6%), Financials (-2.2%), and Materials (-2.1%) detracted from performance.
- Microsoft (+1.8%) and Exxon Mobil (+6.1%) accounted for 24% of the movement in the S&P 500 Index over the month.
- The S&P 500 closed the month 5.7% above its 200-day moving average and 1.6% above its 50-day moving average following a steady upward trend over the past several months.
- Amazon announced it will raise its minimum wage to \$15 per hour effective on November 1st. The wage raise is expected to impact 250,000 full-time employees, as well as an additional 100,000 seasonal employees.

S&P 500 PRICE INDEX



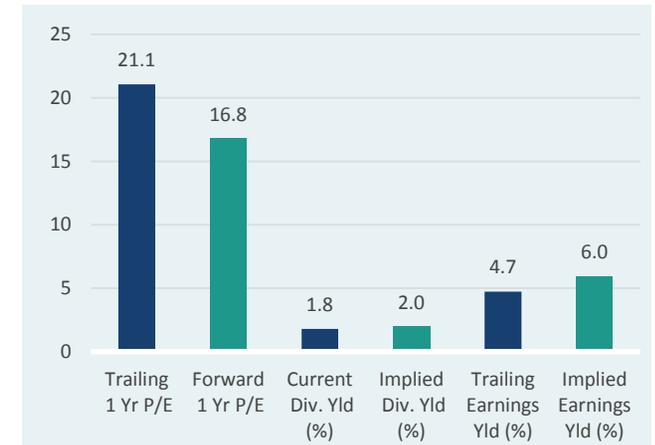
Source: Bloomberg, as of 9/30/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 9/30/18

S&P 500 VALUATION SNAPSHOT



Source: Bloomberg, as of 9/30/18

Domestic equity size and style

- Large cap stocks outperformed small cap stocks over the period. The Russell 1000 returned 0.4% in September, while the Russell 2000 lost 2.4%.
- Though growth outperformed value in both large cap and small cap, the impact of style on performance was small. The Russell 1000 Growth (+0.6%) outperformed the Russell 1000 Value (+0.2%) by 35 basis points. The Russell 2000 Growth (-2.3%) outperformed the Russell 2000 Value (-2.5%) by 14 basis points.
- The telecommunications sector produced the largest return differential between large and small cap stocks. The Russell 1000 Telecommunication Index (+2.9%) outperformed the Russell 2000 Telecommunication Index (-4.0%) by 6.9%.
- The trailing one-year annualized volatility of the Russell 3000 Growth Index ended the month at 12.7%, compared to the Russell 3000 Value Index, which finished at 10.7%. The month-end spread of 2.0% between the two readings is the largest in 15 years.

Large cap equities outperformed

VALUE VS. GROWTH RELATIVE VALUATIONS



Source: Russell, Bloomberg, as of 9/30/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 9/30/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 9/30/18

Fixed income

- As expected, the European Central Bank left its main benchmark interest rate unchanged following its September meeting. The bank also announced plans to halve bond purchases starting in October, from €30 billion per month to €15 billion per month, and to conclude bond purchases at year-end.
- The yield spread between Italian and German 10-year bonds exhibited significant volatility over the month. Starting at 3.1%, the spread narrowed to 2.3% mid-month, before widening back to 3.0% in the beginning of October.
- Sovereign yields in major developed economies trended higher over the month. Ten-year sovereign yields rose 20 bps in the U.S., 15 bps in the U.K. and Germany, and 12 bps in France.
- The JPM GBI-EM Global Diversified index advanced 2.6% in September, its largest gain in eight months, aided by currency tailwinds. The JPM EM Currency Index posted its largest advance since January, up 1.6%.

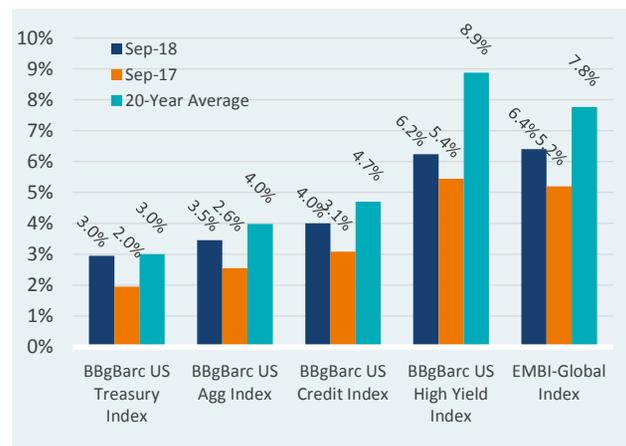
Sovereign yields rose across developed markets

U.S. TREASURY YIELD CURVE



Source: Bloomberg, as of 9/30/18

NOMINAL YIELDS



Source: Morningstar, as of 9/30/18

BREAKEVEN INFLATION RATES



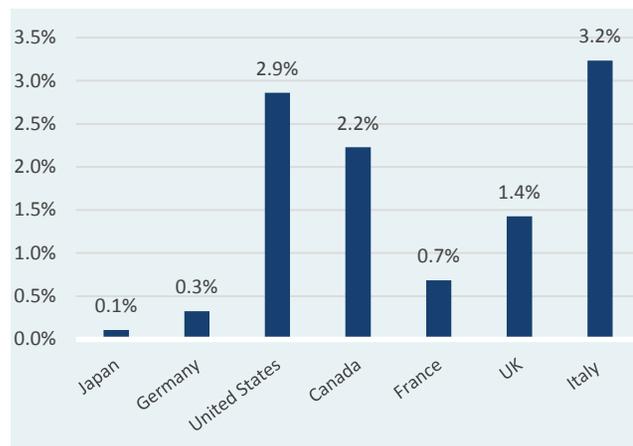
Source: Bloomberg, as of 9/30/18

Global markets

- Disagreements between the Italian coalition government and the European Commission regarding Italy's fiscal deficit dominated headlines in September. Rome proposed deficits (% of GDP) of 2.4%, 2.1% and 1.8% over the next three years, while the European Commission pushed for an Italian deficit below 2.0%.
- Uncertainty surrounding the Italian budget process impacted yields on the country's sovereign debt. Over the course of the month, 10-year yields dropped 44 basis points, and then rose 35 bps to end the month 9 bps lower at 3.14%.
- Brexit negotiations stalled as the European Union rejected Theresa May's exit proposal. UK Brexit minister Dominic Raab has expressed optimism that a deal can still be reached, but uncertainty continues to surround the potential "Brexit" timeline and its implications.
- The MSCI Japan Index gained 3.3% over the month, despite currency headwinds. In local currency, the MSCI Japan Index advanced 4.8%, its largest gain since last October.

Political uncertainty complicated the outlook for European assets

GLOBAL SOVEREIGN 10-YEAR YIELDS



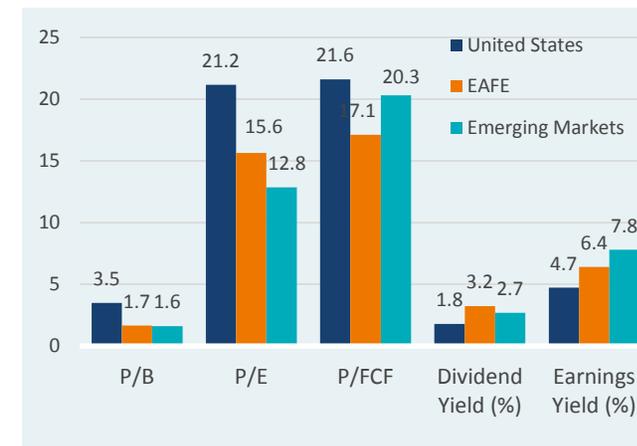
Source: Bloomberg, as of 9/30/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 9/30/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 9/30/18

Commodities

- The Bloomberg Commodity Index advanced 1.9% in September, led by livestock (+7.9%), energy (+5.2%), and petroleum (+6.1%).
- The Bloomberg Livestock sub-index jumped 7.9%, likely impacted by the peak of hurricane season on farms near the Eastern seaboard. Farmers in North Carolina have reported the deaths of about 3.4 million chickens and turkeys and 5,500 hogs due to flooding caused by Hurricane Florence.

- WTI oil prices rose 5.8% from \$69.55 to \$73.60 per barrel. Hurricane season, as well as uncertainty regarding international adoption of the U.S. sanctions on Iranian crude likely contributed to recent price movement. The U.S. imposed deadline for halting Iranian crude imports is November 4th.
- Backwardation (spot prices above forward prices) in the futures markets for WTI crude remained a story in September. Rising spot prices further backwardated the curve, providing additional roll yield for futures-based commodity investors.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	1.9	0.1	(2.0)	2.6	(0.1)	(7.2)	(6.2)
Bloomberg Agriculture	(2.1)	(7.9)	(10.9)	(12.7)	(7.5)	(10.0)	(4.5)
Bloomberg Energy	5.2	9.2	17.6	28.1	0.4	(12.7)	(16.1)
Bloomberg Grains	(3.0)	(8.9)	(6.2)	(10.7)	(10.3)	(11.6)	(6.1)
Bloomberg Industrial Metals	2.2	(2.3)	(11.8)	(2.4)	7.9	(1.4)	(2.8)
Bloomberg Livestock	7.9	7.5	(2.4)	0.8	(1.8)	(2.7)	(4.5)
Bloomberg Petroleum	6.1	9.9	24.2	44.5	7.0	(11.2)	(10.6)
Bloomberg Precious Metals	(0.3)	(3.4)	(10.7)	(8.8)	1.0	(4.2)	2.3
Bloomberg Softs	(2.0)	(7.2)	(22.8)	(18.8)	(6.1)	(10.9)	(4.3)

Source: Morningstar, as of 9/30/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/18

Appendix

Periodic table of returns

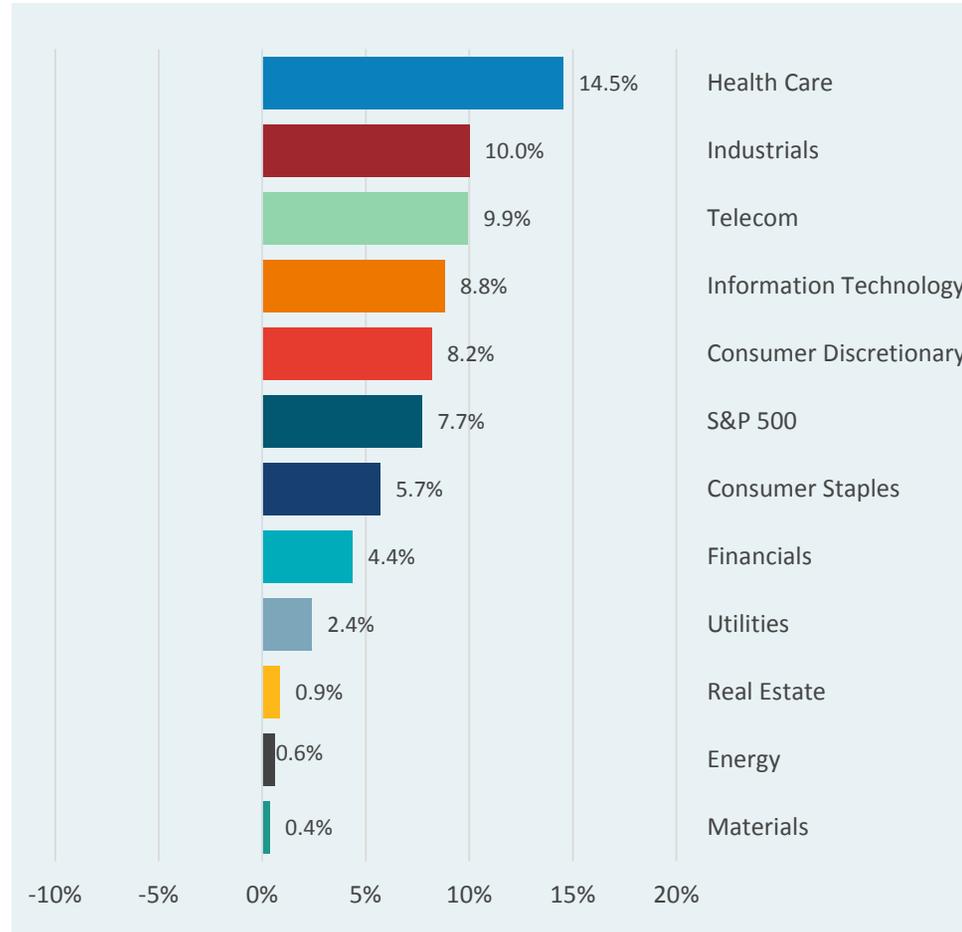
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Large Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	17.1	16.6	14.3
Small Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	22.2	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	15.8	13.7	12.7
Small 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	11.5	12.1	12.1
Large Cap Equity	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	10.5	11.1	11.1
Small Cap Value	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	7.1	10.7	9.8
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	3.9	9.9	9.5
Real Estate	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	3.5	9.2	6.3
60/40 Global Portfolio	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	1.4	5.6	6.2
Cash	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	1.3	4.4	5.4
Hedge Funds of Funds	-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	1.2	3.6	5.4
International Equity	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	-1.4	3.2	3.8
US Bonds	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-1.6	2.2	2.6
Commodities	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-2.0	0.5	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	-7.7	-7.2	-6.2

- 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 6/30/18.

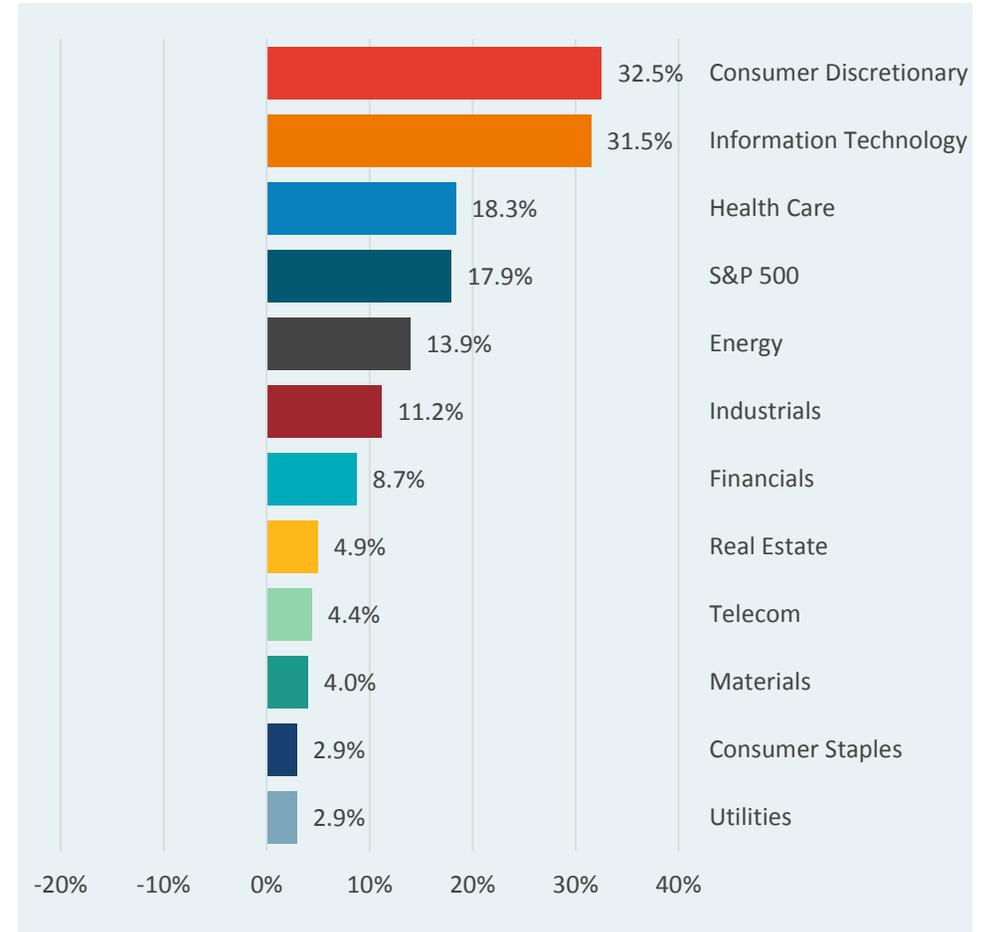
S&P 500 sector returns

THIRD QUARTER



Source: Morningstar, as of 9/30/18

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.6	7.7	10.6	17.9	17.3	13.9	12.0
S&P 500 Equal Weighted	0.1	5.4	7.3	13.9	15.4	12.5	13.1
DJ Industrial Average	2.0	9.6	8.8	20.8	20.5	14.6	12.2
Russell Top 200	0.8	8.4	11.7	19.3	18.1	14.5	12.0
Russell 1000	0.4	7.4	10.5	17.8	17.1	13.7	12.1
Russell 2000	(2.4)	3.6	11.5	15.2	17.1	11.1	11.1
Russell 3000	0.2	7.1	10.6	17.6	17.1	13.5	12.0
Russell Mid Cap	(0.6)	5.0	7.5	14.0	14.5	11.7	12.3
Style Index							
Russell 1000 Growth	0.6	9.2	17.1	26.3	20.6	16.6	14.3
Russell 1000 Value	0.2	5.7	3.9	9.5	13.6	10.7	9.8
Russell 2000 Growth	(2.3)	5.5	15.8	21.1	18.0	12.1	12.7
Russell 2000 Value	(2.5)	1.6	7.1	9.3	16.1	9.9	9.5

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	0.4	4.3	3.8	9.8	13.4	8.7	8.2
MSCI ACWI ex US	0.5	0.7	(3.1)	1.8	10.0	4.1	5.2
MSCI EAFE	0.9	1.4	(1.4)	2.7	9.2	4.4	5.4
MSCI EM	(0.5)	(1.1)	(7.7)	(0.8)	12.4	3.6	5.4
MSCI EAFE Small Cap	(0.7)	(0.9)	(2.2)	3.7	12.4	8.0	9.7
Style Index							
MSCI EAFE Growth	(0.2)	1.5	0.6	5.8	10.3	5.6	6.2
MSCI EAFE Value	2.1	1.2	(3.5)	(0.4)	8.1	3.1	4.5
Regional Index							
MSCI UK	1.8	(1.7)	(2.7)	2.9	6.2	2.2	4.9
MSCI Japan	3.0	3.7	1.6	10.2	12.1	6.8	6.0
MSCI Euro	(0.1)	(0.4)	(3.6)	(3.2)	8.5	3.9	3.4
MSCI EM Asia	(1.7)	(1.8)	(6.8)	1.0	13.5	6.7	8.2
MSCI EM Latin American	4.7	4.8	(6.9)	(9.1)	13.7	(2.3)	0.7

Source: Morningstar, HFR, as of 9/30/18

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	(1.1)	(0.8)	(0.8)	0.4	2.0	1.4	3.3
BBgBarc US Treasury Bills	0.2	0.5	1.3	1.5	0.8	0.5	0.4
BBgBarc US Agg Bond	(0.6)	0.0	(1.6)	(1.2)	1.3	2.2	3.8
Duration							
BBgBarc US Treasury 1-3 Yr	(0.1)	0.2	0.2	(0.0)	0.4	0.6	1.1
BBgBarc US Treasury Long	(3.0)	(2.9)	(5.8)	(3.6)	0.7	4.4	5.5
BBgBarc US Treasury	(0.9)	(0.6)	(1.7)	(1.6)	0.2	1.3	2.7
Issuer							
BBgBarc US MBS	(0.6)	(0.1)	(1.1)	(0.9)	1.0	2.0	3.3
BBgBarc US Corp. High Yield	0.6	2.4	2.6	3.0	8.1	5.5	9.5
BBgBarc US Agency Interm	(0.2)	0.2	0.0	(0.3)	0.6	1.1	2.2
BBgBarc US Credit	(0.3)	0.9	(2.1)	(1.1)	3.0	3.4	5.9

OTHER

Index							
Bloomberg Commodity	1.9	(2.0)	(2.0)	2.6	(0.1)	(7.2)	(6.2)
Wilshire US REIT	(2.8)	(5.4)	2.2	4.0	7.1	9.2	7.4
CS Leveraged Loans	0.7	4.4	4.4	5.6	5.4	4.4	5.8
Alerian MLP	(2.0)	7.0	5.2	3.3	3.9	(2.8)	10.0
Regional Index							
JPM EMBI Global Div	1.5	2.3	(3.0)	(1.9)	6.0	5.4	7.5
JPM GBI-EM Global Div	2.6	(1.8)	(8.1)	(7.4)	5.2	(1.7)	2.7
Hedge Funds							
HFRI Composite	(0.2)	0.6	1.5	4.1	5.4	4.1	4.6
HFRI FOF Composite	(0.0)	0.4	1.2	3.3	3.4	3.2	2.6
Currency (Spot)							
Euro	(0.2)	(0.5)	(3.3)	(1.8)	1.3	(3.0)	(1.9)
Pound	0.3	(1.2)	(3.6)	(2.8)	(4.9)	(4.2)	(3.1)
Yen	(2.4)	(2.5)	(0.8)	(0.9)	1.8	(2.9)	(0.7)

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Market Bulletin

October 12, 2018

Is the selloff a signal?

Falling stock prices and higher market volatility this week have rattled some investors. While we believe that this selloff is probably *not* the start of a much larger downturn, it does serve as a reminder that we are in “late cycle” both in the economy and in the stock market and that investors, consequently, should focus on relative valuations and maintaining appropriate balance in their portfolios. In short, it is not so much a “signal to sell” as a “reminder to rebalance”.

Our cautious optimism that this is not part of a much bigger downturn springs from analyzing the issues that many have blamed for the market volatility including worries about U.S. overheating, the impact of tariffs on profits, the risk of China slowing too quickly, the danger of the Fed tightening too aggressively and a general concern about over-valuations. We look at these issues below:

1. Concerns that the U.S. economy may be beginning to overheat

The U.S. economy is undoubtedly strong right now, but not overheating. We have yet to see a surge in inflation, as headline CPI cooled to 2.3% y/y in September. Although there are concerns that higher oil prices or tariff impacts might lead to faster inflation in the short run, they would also damage economic growth and thus ultimately have disinflationary impacts. Additionally, although the unemployment rate has reached a nearly 50-year low, we have yet to see a substantial pick-up in wage growth. Given this, and our expectation of slower real GDP growth in the second half of 2019, we believe over-heating concerns are over-blown.

2. Potential tariff impacts on corporate profits

The tariffs that have been imposed thus far are unlikely to materially impact earnings. While companies may point to these externalities as detractors to their performance, earnings expectations haven't been affected significantly so far. In fact, for Q3, 75.4% of companies are reporting negative EPS guidance, versus an average of 73.4% since 2011. While this is an increase from 53% in Q1 and 62% in Q2, those numbers appear to have been much lower due to the positive effects of the tax cuts, which have been factored in by now for the upcoming quarter. We anticipate that earnings will hold up in Q3 at roughly 26% y/y EPS growth.



Dr. David P. Kelly, CFA
Chief Global Strategist



Meera Pandit
Market Analyst

3. Worries that China may be slowing too much

China is in the midst of a slowdown. This is due to multiple internal factors - deleveraging, property controls, over-capacity controls - and external factors, such as slower global growth this year. It is coming off a very strong 2017, and indeed years of explosive growth. Yet, the Chinese authorities have been active during this slowdown to cushion its effects by lowering reserve requirements and infusing more liquidity to enable banks to lend, and they have many levers to pull for fiscal stimulus. They have also taken some measures, such as tax cuts and cheaper export financing, to mitigate effects of the trade war on the industries most impacted.

4. Worries that the Federal Reserve may be tightening too aggressively

Despite concerns that the Fed is tightening too quickly, the Fed has actually been rather patient compared to history. In the last five tightening cycles, the average yearly increase in the federal funds rate was 2.5%. This year, even if the Fed increases rates four times, the total increase will be just 1%. Some may say, if inflation hasn't picked up, then why doesn't the Fed pause its hikes? Ultimately, the biggest threat to this expansion is not inflation, but the growth of asset bubbles. The Fed needs to control potential asset bubbles and leverage in the system to maintain financial stability, which is why sticking to the rate hiking path is appropriate.

5. Nervousness about relative valuations in a late-cycle market and economy

Admittedly, valuations at the end of the third quarter were not cheap. The S&P 500 was trading at 16.8x forward operating earnings versus a 25-year average of 16.1x. While that is not unreasonable, it's important to consider what drives those valuations. Incredibly strong earnings have been driven by record profit margins and a fast-growing economy near full employment, both of which will be difficult to sustain in the future. Still, with inflation and interest rates low and likely to remain below long-term averages, P/E ratios could remain slightly above their long-term averages, providing investors with some cushion in the case of a slowdown in margins or the economy in general.

These and other issues may continue to weigh on markets, and it will be impossible to avoid volatility in the future. However, investors would be wise to use this market rout not as a signal of impending doom, but as a reminder to be vigilant about portfolio discipline and rebalancing. Towards the end of a bull market, investors tend to be overweight assets that are increasingly overpriced if they have not been systematically rebalancing. This pullback is a reminder to assess valuations and rebalance accordingly.

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Date: October 22, 2018

To: Board of Trustees

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

Agenda Item 11: Asset Allocation October 2018

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

The planned quarterly rebalancing of asset mix in October based on 9/30/18 asset values will be to: a) rebalance asset mix towards target; b) raise liquid funds for monthly benefit payments; and, c) raise liquid funds for anticipated capital calls for the Private Equity and Private Credit commitments. This routine rebalancing will be reported to the Board of Trustees after review by Verus.

No Board action is necessary at this point.

Respectfully submitted

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