



San Bernardino County Employees'
Retirement Association

Chief Executive Officer's Report

Date: May 25, 2022

From: Debby Cherney
Chief Executive Officer

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To: SBCERA Trustees
San Bernardino County Employees'
Retirement Association

Subject: CEO Report – June 2, 2022 Board Meeting

Administration (Debby Cherney)

May was a busy month as travel and education have resumed in full swing. The SACRS conference was well attended and featured an educational program which was, in my opinion, the best I've seen since I started attending SACRS in 2018. In addition, we held six multi-hour due diligence meetings with managers in London. The meetings with Alcentra, Ashmore, Cairn, Mondrian, Partners Group, and PGIM, were very productive and informative. Trustees who attended will provide their observations and thoughts as part of their reports at the June 2 Board meeting. Thomas Kim led the delegation, with Oliver Fadly from NEPC and I joining in the meetings.

Human Resources & Risk Management (Stacey Barnier)

We are pleased to report that the new Office Specialist for the Member Services team, Crystal Bocanegra is starting on June 6, 2022. We are sad to report we received Accounting Technician Miranda Silva's resignation, who like many Californians, is moving out of state. Although we will miss her and her contributions to the Fiscal Services team, we wish her well on this new journey.

Staff served as a panelist for the Inland Empire American Society for Public Administration's Annual Human Resources Forum/Luncheon alongside Human Resources executives from San Bernardino County, Loma Linda University Medical Center and the City of Beaumont. Approximately 45 local public administration students considering public sector Human Resources as their career participated in the event.

In early May, a negotiations meeting was held with our staff union with dates coordinated for our next meeting to be held on June 9, 2022.

Investments (Don Pierce)

SBCERA's income focused strategy is holding up well in this down-turn. While we are not immune from sell-offs, our long-standing 2% allocation to traditional core fixed income reflected our major concern that bonds were over-valued. What do I mean by that? A traditional plan with

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a much higher allocation to core bonds argues that in a rising rate environment stocks would be doing well, and should stocks sell-off bonds will hold their value. This idea, of course, ignored the circumstances we find ourselves in today – which is that low interest rates were used to justify higher and higher stock prices! Thus as rates rise, stock valuations come down. Relying on correlation benefits is the least compelling reason to hold an investment that does not meet the plan's cost of capital.

At the risk of repeating what was already provided to the Board, April was a bruising month for risk assets. The S&P 500 was down -8.8% in April alone; while perhaps no single issue drives the market, a number of concerns have plagued investors: Russia-Ukraine conflict, inflation, interest rates, continued labor shortages, supply chain issues, and recession concerns certainly contribute to an overall softness in the market. The US Bond Aggregate was down -3.8% as interest rates surged (thus bond prices fell). SBCERA's policy index was down -5.7%. SBCERA was not unscathed, but we feel very good about the overall resilience of the portfolio. SBCERA's portfolio was down -1.4% for April.

We are biding our time and waiting for the market to come to us. We expect there will be terrific opportunities to consider if this slump in asset prices continues to drag lower, or even if it holds steady and doesn't just rip back up from here (as it did for stocks in 2020). Holding cash in this market will allow us to pick and choose the right assets. However, we haven't yet seen the forced selling that usually accompanies these kind of sell-offs which might imply capitulation has not yet arrived. So for now, we wait.

Member Services and Communications (Colin Bishop)

We mentioned in this space last month that we were already ahead of last year's record pace for retirements, and that May is always our busiest payroll month. With May now in the books we're continuing on our pace with 607 new payees to payroll thus far for calendar year 2022, compared to 527 at this same point last year. (This measure of "total persons added to payroll" is a good overall indicator of retirement activity, and includes service retirements, disability retirements, continuance and survivor benefits initiated, and several other categories.) As expected, May turned out to be a record month with 194 new payees added to payroll, making it the busiest month since we began tracking this stat about 20 years ago. (For perspective, in May 2005 we added a modest 28 members to payroll. Back then, we had around 27-thousand members. Today, we're above 44-thousand.) Our sincere thanks again to the entire SBCERA staff for their hard work during this incredibly busy time of year.

Meanwhile, our contact center staff have done a great job staying on top of a consistently high volume of calls. For the month of May, our team maintained a 94% service level. Previously, we've shared that we've set a service level target of 80% (service level is a standard measurement commonly used in the call center industry to help monitor how quickly calls are answered.) Our 80% target service level means we expect to see 80% of all inbound calls answered within two minutes or less. Additionally, our callers are only spending an average of around 30 seconds on hold this month—a number we're very pleased with.

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Finally, our in-person member counseling rooms on the first floor are fully operational, and we've begun hosting members again for in-person counseling sessions. While late spring and early summer are generally the slowest time of year for retirement consultations, we're offering our members the option of in-person, phone or Zoom counseling session, depending on their preference.

Fiscal Services (Amy McInerny)

Work on the financial statement audit began this month. Staff have been working with Brown Armstrong on interim items. The auditors attempt to complete as much testing as possible based on our March 31 data as part of interim testing and planning. Some of this testing includes confirmations with our members and actuary, journal entry testing, and planning for investment confirmations later in the year. We are looking forward to another productive, efficient, and successful audit this year. We have used Workiva's Wdesk for other projects and expect it to be an even more useful tool this year. Again, I am so thankful to have the Board's support in procuring innovative new software solutions.

On the Alameda front, staff sent out refunds to three employer groups this month and is currently in the middle of sending out three more employer groups. The refund process is quite manual and has proven to be quite time consuming for staff. I am thankful to my amazing staff for always saying yes to my asks and consistently putting their best work forward.

Information Services (Joe Michael)

We have made additional enhancements to our streaming capabilities to provide greater flexibility in how Board and Committee meetings are presented. We anticipate as these new features are brought online presentations as well as dialog between participants will become easier to follow. As part of the enhancements we have increased the ways we may distribute streaming content to the public in the event such needs should arise in the future.

Legal & Disabilities (Barbara Hannah)

Legislation Update: [Senate Bill 1328](#) (Divestment) would prohibit a board of specified state and local public retirement systems from investing public employee retirement funds in prohibited companies domiciled in Russia or Belarus, companies that the United State government has designated as complicit in the aggressor countries war in Ukraine, or companies that supply military equipment to the aggressor countries, and to liquidate any existing investments in a company described in a manner consistent with the board's fiduciary responsibilities as described in Section 17 of Article XVI of the California Constitution

On March 15, 2022, SBCERA submitted a letter to Senators McGuire and Cortese seeking an amendment to SB 1328 to exempt retirement systems from the requirements of the bill that have already substantially complied with the divestiture requirements of the bill, such as the SBCERA Board, which on March 3, 2022, declared its intent to be divested from Russia mandates now and in the future, until the Board directs otherwise.

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Likely due to the growing opposition to the bill, specifically from CalSTRS and CalPERS, State Treasurer Fiona Ma stated in response to the opposition to SB 1328:

"SB 1328 seizes the momentum of the divestment movement and joins the United States government and other nations around the world in divesting their economies from Russia. As the fifth largest economy in the world, California can bring significant influence.

It is also important to point out that there is a clause within the language of the bill which allows the boards of CalPERS and CalSTRS to not take any action on divestment unless the board determines in good faith that the action is consistent with the board's fiduciary responsibilities established in the California Constitution."

Given the comments by State Treasurer, SB 1328 passed out of the Senate Appropriations Committee with amendments, which included the removal of the requirement to have a retirement system hire a research firm to conduct their own review of companies with business operations in Russia and Belarus. Most importantly, the amended bill includes several clauses that exempts a retirement system board from the requirements of the bill where the board has not divested from its investment in a company. Under this circumstance, a board must provide a description of when the board anticipates that it will divest from those investments or the reason why a sale or transfer of investments is inconsistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution. As of May 23, 2022, SB 1328 has been ordered to a third reading in the Senate.

Important Upcoming Dates & Training Opportunities

June 4-8, 2022	GFOA Annual Conference	Austin, TX
June 6-8, 2022	II Endowments & Foundations Roundtable	Boston, MA
June 7, 2022	P&I Alternative Investing Series	Chicago, IL
June 9, 2022	SBCERA Investment Committee	Hybrid
June 9, 2022	P&I Alternative Investing Series	New York, NY
June 16, 2022	SBCERA Administrative Committee	Hybrid
June 16, 2022	SBCERA Audit Committee	Hybrid
June 16, 2022	P&I Alternative Investing Series	Online
June 20, 2022	II Roundtable for Investors & Institutional Investors	Chicago, IL
June 20-22, 2022	II AII/III Consultants Roundtable	Chicago, IL
June 25-26, 2022	IFEBP Trustees Institute: Level II – Concepts in practice	Seattle, WA
June 27-29, 2022	IFEBP Advanced Trustee & Administrators Institute	Seattle, WA
June 27-29, 2022	IFEBP New Trustees Institute: Level I	Seattle, WA

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July 7, 2022	SBCERA Board Meeting	Hybrid
July 14, 2022	SBCERA Investment Committee	Hybrid
July 17-20, 2022	SACRS UC Berkeley Program (Modern Investment Theory and Practice)	Berkeley, CA
July 21, 2022	SBCERA Administrative Committee	Hybrid

Trustees wishing to attend any of the approved upcoming trainings should contact Christa James for travel and registration, or to make arrangements for meetings that need approval to be included with the upcoming Board agenda.