

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CALIFORNIA**

**INVESTMENT COMMITTEE MEETING  
February 22, 2017**

**MINUTES**

Attendance was as follows:

Present: Chris Prevatt, Chair; Eric Gilbert; Charles Packard; Russell Baldwin; Thomas Flanigan; Roger Hilton; David Ball; Frank Eley; and Shari Freidenrich

Absent: Wayne Lindholm, Vice Chair

Also Present: Steve Delaney, Chief Executive Officer; Shanta Chary, Director of Investment Operations; David Beeson, Investment Officer; Adam Cheng, CFA, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Julius Cuaresma, Recording Secretary

Meketa Investment Group: Laura Wirick, CFA; Steven Hartt; and Holly Heiserman  
Pension Consulting Alliance: John Linder, CFA

The Chair called the meeting to order at 9:02 a.m. Mr. Baldwin led the Pledge of Allegiance.

**CONSENT AGENDA**

All matters on the Consent Agenda to be approved by one action unless a Committee Member or a member of the public requests separate action on a specific item.

Mr. Prevatt observed that this Investment Committee Meeting is Mr. Flanigan's last as an OCERS Trustee and thanked him for his numerous years of service.

A **motion** was made by Mr. Hilton and **seconded** by Mr. Packard to approve the Consent Agenda. The **motion carried unanimously**.

**C-1 COMMITTEE MEETING:**

**Approval of Meeting and Minutes**

Investment Committee Meeting  
Manager Monitoring Subcommittee Meeting

January 25, 2017  
February 2, 2017

**Recommendation:** Authorize meetings and approve minutes.

**C-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES**

**Recommendation:** Receive and file.

**C-3 INVESTMENT REPORTS**

**Recommendation:** Receive and file.

**C-4 CONTRA COSTA COUNTY EMPLOYEES RETIREMENT ASSOCIATION REPORT**

**Recommendation:** Receive and file.

**C-5 MANAGER WATCH LIST & PORTFOLIO SURVEILLANCE LIST**

**Recommendation:** Receive and file.

**\*\*\*\*\* END OF CONSENT AGENDA \*\*\*\*\***

**INDIVIDUAL ITEMS AGENDA**

**I-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

**I-2 CEO & STAFF COMMENTS**

***Presentation by Steve Delaney, CEO & Shanta Chary, DIO, OCERS***

Mr. Delaney provided an update on OCERS' CIO search.

Mr. Packard and Mr. Delaney discussed the professional experience (i.e., public versus private sector experience) of the CIO candidate application pool.

Mr. Ball and Mr. Delaney discussed the potential use of a third-party firm.

***Ms. Freidenrich arrived at 9:07 a.m.***

Mr. Delaney, Mr. Ball, and Mr. Eley discussed the Contra Costa County Employees Retirement Association (CCCERA) report.

**I-3 PORTFOLIO ACTIVITY REPORT**

***Presentation by Shanta Chary, DIO, OCERS & Laura Wirick, CFA, Meketa***

Ms. Chary presented the total fund overview, the preliminary performance, and asset allocation for January 2017. Ms. Chary also presented index returns as of February 17, 2017.

Ms. Chary also provided an update on the rebalancing of the employer prepayments and indicated that recent rebalancing trades are in-line with the approved asset allocation policy.

Mr. Ball opined the importance of an opportunistic sleeve in OCERS' asset allocation mix.

***Mr. Gilbert arrived at 9:26 a.m.***

Ms. Chary, Ms. Wirick, Ms. Freidenrich, Mr. Ball, and Mr. Prevatt discussed the Asset Allocation approval timetable.

Ms. Freidenrich expressed her concern that the newly adopted asset allocation policy had yet to be reflected in the Portfolio Activity Report.

Mr. Delaney provided a summary of the asset allocation timetable, and observed that the Committee will discuss and approve the asset allocation target ranges at the next Investment Committee meeting.

Ms. Chary addressed Ms. Freidenrich's concern and indicated that staff will include a footer on the Asset Allocation policy page in the Portfolio Activity Report.

Mr. Flanigan discussed some market observations, including the elevated risk in the markets because of various asset classes trading at or above their all-time highs.

A **motion** was made by Mr. Hilton and **seconded** by Mr. Packard to receive and file I-3. The **motion carried unanimously.**

**I-4 ASSET ALLOCATION - TARGET RANGES & IMPLEMENTATION**  
***Presentation by Laura Wirick, CFA & Holly Heiserman, Meketa***

Ms. Wirick presented Meketa's recommended target ranges for OCERS' asset allocation.

Mr. Prevatt stated the importance of flexible target asset allocation ranges. However, he also expressed concern with Meketa's suggested ranges, citing that the ranges are excessively wide and therefore could unintentionally negate the Committee's intended targets.

Mr. Ball expressed his agreement with Meketa's flexible target asset allocation ranges, opining the Committee's need to maneuver in various market regimes.

In response to Mr. Baldwin's question, Ms. Wirick remarked on the rationale behind each asset class having dissimilar ranges between upper and lower bounds.

Ms. Wirick and Mr. Packard discussed Meketa's recommended asset allocation sub-strategy changes and the approximate dollar amounts. Ms. Wirick and Mr. Linder discussed the rationale behind those recommended changes, including likely fee savings for OCERS.

Mr. Flanigan, Ms. Wirick, and Mr. Linder commented on OCERS' equity and bond allocation, particularly in the context of the current and forward interest rate market.

Mr. Eley recalled similar historical Investment Committee discussions about manager selection, specifically in the context of a rising rate market environment.

Mr. Hilton and Ms. Wirick remarked on OCERS' current and prospective hedge fund allocation.

A **motion** was made by Mr. Ball and **seconded** by Mr. Hilton to receive and file I-4. The **motion carried unanimously.**

***The Committee recessed at 10:15 a.m.***

***The Committee reconvened at 10:30 a.m.***

**I-5 4<sup>th</sup> QUARTER 2016 PORTFOLIO EVALUATION REPORT**  
***Presentation by Laura Wirick, CFA & Holly Heiserman, Meketa***

Ms. Wirick and Ms. Heiserman presented OCERS' 4<sup>th</sup> Quarter 2016 Portfolio Evaluation Report.

Mr. Ball, Ms. Heiserman, and Ms. Chary discussed the cash overlay program.

Mr. Ball and Ms. Wirick discussed some of the portfolio's underperforming strategies, recommended strategy reclassifications, and possible changes in manager composition.

Mr. Ball, Mr. Prevatt, and Ms. Wirick remarked on a graphical presentation that summarizes OCERS' current and prospective portfolio, ideally with two pie charts. Mr. Prevatt suggested that this presentation would summarize recommended strategy reclassifications and changes in manager composition.

Ms. Wirick remarked on OCERS' manager composition with respect to the approved risk mitigation strategies.

Ms. Chary discussed the Board reports and described possible improvements. She opined that monthly performance reporting may be less meaningful than quarterly reporting due to lagged reporting by alternative asset managers.

Mr. Eley expressed agreement, noting the distraction caused in looking at monthly data points relative to the importance in taking a longer-term view of OCERS' portfolio.

Ms. Freidenrich described her use and application of the Preliminary Performance Report.

Mr. Ball observed the difference in the Committee's role in strategic asset allocation versus analyzing monthly data. He opined that semi-annual reporting is sufficient, but would be amenable to quarterly reporting.

Messrs. Hilton, Flanigan, Baldwin, Packard, and Gilbert stated their preference for a simpler report.

Mr. Prevatt observed that the Committee was generally in consensus regarding the report and accordingly directed staff to create a simpler version.

A **motion** was made by Mr. Ball and **seconded** by Mr. Eley to receive and file I-5. The **motion carried unanimously.**

#### **I-6 PORTFOLIO GROWTH VERSUS ACTUARIAL RETURN**

***Presentation by Laura Wirick, CFA & Holly Heiserman, Meketa***

Ms. Heiserman provided a brief summary of Meketa's analysis and conclusions.

Mr. Ball observed that OCERS' Unfunded Actuarial Accrued Liability (UAAL) is not a direct consequence of investment returns, but rather is a confluence of factors, including rising costs for benefits.

A **motion** was made by Mr. Ball and **seconded** by Mr. Packard to receive and file I-6. The **motion carried unanimously.**

#### **I-7 PRIVATE EQUITY PACING STUDY & PROGRAM UPDATE**

***Presentation by Laura Wirick, CFA & Steven Hartt, Meketa***

Ms. Wirick introduced Mr. Hartt, a Meketa principal who covers private equity for the firm.

Mr. Hartt provided a summary of OCERS' private equity program, including a performance and pacing plan update.

Mr. Ball and Mr. Hartt discussed the fees and j-curve associated with a private equity Fund-of-Fund (FoF) program versus a direct private equity program.

Mr. Ball asked for Meketa's thoughts on OCERS' private equity program and possible recommendations that could improve the program.

Mr. Hartt responded that, at OCERS' size and pacing plan, Meketa would recommend a direct private equity program. He explained that such a program would be relatively cheaper than the fees incurred from indirectly investing through FoFs.

Mr. Hilton and Mr. Eley observed that access to top quartile managers may be difficult in a direct private equity program.

Mr. Prevatt asked that Meketa and staff research the costs and benefits from a direct private equity program.

Mr. Delaney reported that such private equity discussions and research were underway last year prior to the departure of OCERS' former CIO. He indicated that staff would resume this research.

Ms. Freidenrich suggested that it might be helpful if Meketa and staff look at comparable pension plans' private equity programs for perspective and possible guidance.

Mr. Prevatt noted that any decision and action that may arise from this research would not occur until after OCERS' new CIO is in place.

A **motion** was made by Mr. Ball and **seconded** by Mr. Packard to receive and file I-7. The **motion carried unanimously.**

***The Committee recessed for lunch at 11:56 a.m.***

***The Committee reconvened at 1:00 p.m.***

**I-8 4<sup>th</sup> QUARTER 2016 PORTFOLIO RISK DISCUSSION**  
***Presentation by John Linder, CFA, PCA***

Mr. Linder provided PCA's 4<sup>th</sup> quarter 2016 report for OCERS' portfolio.

Messrs. Flanigan, Ball, Eley, Prevatt, and Linder compared and contrasted the current market environment to 2008.

Mr. Ball requested further research on possible actionable steps OCERS could do in anticipation of markets similar to 2008, and the costs associated with those steps.

A **motion** was made by Mr. Ball and **seconded** by Mr. Baldwin to receive and file I-8. The **motion carried unanimously.**

***The Committee recessed at 1:54 p.m.***

***The Committee reconvened at 2:01 p.m.***

**I-9 REAL ESTATE CONSULTING SERVICES**  
***Presentation by Shanta Chary, DIO, OCERS***

Ms. Chary briefly summarized the real estate consultant contract with OCERS.

Mr. Eley, Ms. Chary and Mr. Delaney discussed Alignium, LLC, the real estate consulting team that spun-off from RVK, as a potential real estate consultant.

Ms. Chary and Mr. Delaney discussed that staff recognized that Alignium, LLC, as a start-up firm, may not be a good fit at this point in time.

Ms. Chary and Mr. Delaney informed the Committee that staff asked for bids on real estate monitoring services only from OCERS' two consultants, Meketa and PCA.

Ms. Chary recommended that OCERS hire Meketa.

Mr. Hilton and Mr. Beeson discussed OCERS' separate real estate managed account.

A **motion** was made by Mr. Ball and **seconded** by Ms. Freidenrich to hire Meketa Investment Group for real estate monitoring. The **motion carried unanimously**.

**\*\*\*\*\*END OF INDIVIDUAL ITEMS AGENDA\*\*\*\*\***

**PUBLIC COMMENTS:** At this time members of the public may address the Committee of Retirement regarding any items within the subject matter jurisdiction of the Committee, provided that no action may be taken on non-agendized items unless authorized by law.

Mr. Stephen Weintrobki, Mission Viejo, addressed the Committee and thanked Mr. Flanigan for his service to OCERS.

**COMMITTEE MEMBER COMMENTS**

Mr. Prevatt expressed his thanks to Mr. Flanigan for his numerous years of service to OCERS.

**CHIEF EXECUTIVE OFFICER/STAFF/CONSULTANT COMMENTS**

None

**COUNSEL COMMENTS**

None

**ADJOURNMENT:** The Chair adjourned the meeting at 2:24 p.m.

Submitted by:

Approved by:



Steve Delaney  
Secretary to the Committee



Chris Prevatt  
Chair