

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

**INVESTMENT COMMITTEE MEETING
May 24, 2017**

MINUTES

Attendance was as follows:

Present: Chris Prevatt, Chair; Wayne Lindholm, Vice Chair; Eric Gilbert; Charles Packard; Russell Baldwin; Shawn Dewane; Roger Hilton; David Ball; and Shari Freidenrich

Absent: Frank Eley

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; Javier Lara, Visual Technician; and Julius Cuaresma, Recording Secretary

Meketa Investment Group: Jim Meketa; Stephen McCourt, CFA; Steven Hartt; and Holly Heiserman

Pension Consulting Alliance: Allan Emkin; and John Linder, CFA

The Chair called the meeting to order at 9:02 a.m. Mr. Hilton 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. Ball pulled items C-3 and C-4.

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

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting
Investment Manager Monitoring Subcommittee Meeting

April 24, 2017
May 4, 2017

Recommendation: Authorize meetings and approve minutes.

C-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES

Recommendation: Receive and file.

C-3 INVESTMENT MANAGER FEE STRUCTURE UPDATES

Recommendation: Receive and file.

C-4 INVESTMENT REPORTS

Recommendation: Receive and file.

C-5 ECONOMIC DASHBOARDS

Recommendation: Receive and file.

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

INDIVIDUAL ITEMS AGENDA

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

Mr. Ball pulled item C-3 and asked about OCERS' recent investment in BlackRock's infrastructure fund, Global Renewable Power Fund II (GRPF), specifically as it relates to its two different share classes.

Mr. Lindholm arrived at 9:03 a.m.

Mr. Gilbert arrived at 9:04 a.m.

Ms. Chary provided a brief summary of the rationale behind OCERS' alternative income RFP infrastructure investment in GRPF. She described the investment terms, guidelines, and fees of GRPF's main vehicle, Class A, and their co-investment vehicle, Class B.

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

Mr. Ball pulled item C-4 and asked for more details regarding OCERS' uncommitted capital.

Ms. Chary responded that staff frequently updates an internal cash projection sheet to reflect actual and projected transactions.

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

I-2 CEO & STAFF COMMENTS

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

Mr. Delaney provided an update on the CIO search, notably the hiring of Molly Murphy, CFA, as OCERS' new CIO.

Ms. Chary provided an update on staff's day-to-day tasks within the month.

Ms. Freidenrich and Ms. Chary discussed the manager recategorization efforts as result of the adopted asset allocation policy and the consequent operational tasks required of staff and State Street.

I-3 GOVERNANCE - A DISCUSSION

Presentation by Steve Delaney, CEO, OCERS & Allan Emkin, PCA

Mr. Delaney discussed possible Board practices, including individual manager due diligence. He also remarked upon the "prudent person rule" and stated that today's discussion would be a sounding board for potential ideas, topics, and policies for OCERS' September Strategic Planning meeting.

Mr. Delaney presented governance practices learned from Hewitt Ennis Knupp, NEPC, and Cortex.

Mr. Emkin discussed the importance and relevance of Board governance. He highlighted that PCA, as OCERS' risk consultant, believes that governance is one of the most important Board responsibilities.

Mr. Emkin discussed key takeaways from his prior experience as general consultant for CalPERS, including their evolution from micro-managing the investment process to where they are today, i.e., Policy Board.

Mr. Emkin presented macro (i.e., asset allocation changes, active versus passive investments) and micro Board policies, including recommended responsibilities delegated for consultants and staff.

Mr. Dewane observed that, given his experience on other Boards, OCERS' Investment Committee is possibly too involved in responsibilities more suited for the consultants and staff.

Ms. Freidenrich suggested a formalized Board governance document that has distinct and delineated directions and responsibilities for the Board, consultants, and staff.

Mr. Ball opined on OCERS' manager selection process, recommending that staff and consultants be entrusted to have that responsibility. He also opined on key differences between, and the value derived from, manager presentations and education forums.

Mr. Ball, Mr. Emkin, and Mr. Prevatt discussed accountability and possible next steps for PCA, Meketa, and the new CIO in addressing accountability as it relates to investment managers and portfolio performance.

Mr. Hilton opined that the quality of the time spent at Board meetings should be the ultimate determinant of good (bad) Board governance, and not the length of time.

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

The Committee recessed at 10:15 a.m.

The Committee reconvened at 10:32 a.m.

I-4 PRIVATE EQUITY BEST PRACTICES

Presentation by Jim Meketa, Stephen McCourt, CFA, & Steve Hartt, Meketa

Mr. Meketa, along with Mr. McCourt and Mr. Hartt, presented Meketa's Private Equity Best Practices.

Mr. Meketa presented the costs and benefits of private equity investing directly and indirectly. He also remarked upon the importance of staying committed to approved pacing plans, rather than trying to time the private equity markets.

Ms. Freidenrich and Mr. McCourt discussed performance track records of pension systems.

Mr. McCourt stated that Meketa will bring back track records and other relevant pension system private equity data.

Mr. Hilton and Mr. McCourt discussed the importance of returns relative to fees incurred from fund-of-funds.

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

I-5 IMPLEMENTATION & REDEPLOYMENT PLAN - GLOBAL EQUITY

Presentation by Stephen McCourt, CFA & Holly Heiserman, Meketa

Mr. McCourt presented Meketa's and staff's revised recommended implementation and redeployment plan for OCERS' global equity assets, with the revised recommendation including assets being reallocated to emerging markets equity managers.

A **motion** was made by Mr. Packard and **seconded** by Mr. Ball to approve the revised redeployment plan. The **motion carried unanimously.**

I-6 1ST QUARTER 2017 PORTFOLIO RISK DISCUSSION

Presentation by Allan Emkin & John Linder, CFA, PCA

Mr. Linder presented OCERS' 1ST Quarter 2017 Portfolio Risk Discussion.

Mr. Linder and Mr. Emkin observed that growth risk (credit) is now 80% of fixed income risk, up from 40% three years ago.

Mr. Ball, Mr. Emkin, and Mr. McCourt discussed the issue of fixed income growth risk and the likely miscategorization of this risk as fixed income rather than equity.

Mr. McCourt remarked upon specific managers that fall under this miscategorization issue. He noted that Meketa will continue to address the issue with the new CIO during the upcoming asset class reviews.

Mr. Prevatt discussed the importance of appropriately classifying all asset classes (besides fixed income) and their associated growth risks.

Mr. Ball, Mr. Emkin, and Mr. Linder discussed the need for presentations to 1. provide background and history of what the Committee has already adopted; and 2. identify where OCERS' portfolio is today relative to those adopted actions.

Mr. Ball suggested that PCA's presentation specifically recommend actionable items for the Board, as well as slides that indicate: 1. whether or not the portfolio is within Board-approved risk budget guidelines; 2. themes emerging within the portfolio; 3. any notable inflection points that transpired quarter over quarter.

Mr. Linder discussed PCA's Risk Mitigation Strategy (RMS) and recommended possible tactical asset allocation adjustments to OCERS' portfolio ahead of a market similar to 2008's global financial crisis.

Mr. Dewane discussed definitions for tactical, strategic, and opportunistic allocation.

Mr. Dewane suggested that: 1. consultants and staff combine their respective reports (portfolio activity, portfolio evaluation, risk discussion, real estate, etc.) and move them to the consent agenda, and; 2. the general consultant construct an executive summary from those reports, and extract themes, outliers, and exceptions that are timely, relevant, and actionable for the Committee.

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

The Committee recessed for lunch at 12:09 p.m.

Mr. Dewane left at 12:09 p.m.

The Committee reconvened at 1:09 p.m.

I-7 PORTFOLIO ACTIVITY REPORT

Presentation by Shanta Chary, DIO, OCERS & Stephen McCourt, CFA, Meketa

Ms. Chary presented the portfolio activity report, including the total fund overview, subscriptions and redemptions, as well as the asset allocation for April 2017.

Ms. Chary provided an update on where staff and consultants have invested the proceeds received from the employer prepayments.

Ms. Freidenrich and Ms. Chary discussed the performance of the cash overlay program.

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

I-8 1ST QUARTER 2017 PORTFOLIO EVALUATION REPORT

Presentation by Stephen McCourt, CFA & Holly Heiserman, Meketa

Mr. McCourt presented OCERS' 1ST Quarter 2017 Portfolio Evaluation Report.

Mr. McCourt remarked upon OCERS' outlier performance drivers, including the narrowing of credit spreads, timely energy investments, as well as emerging markets (EM) and international developed markets equities. He also reported that active investment managers generally outperformed passive managers in the recent quarter.

Mr. McCourt discussed performance attribution, noting that manager selection (primarily driven by active investment managers) was a positive outlier for the quarter.

Mr. Ball asked for an update on the fees saved due to Meketa's recent recommended transactions.

Mr. McCourt responded that in the short-term there will be some noise that would dilute the value of such a report, but stated that Meketa will provide an update during the next quarterly Portfolio Evaluation Report.

Ms. Freidenrich and Mr. McCourt discussed the performance attribution of manager selection over the prior three years versus the most recent quarter.

Mr. McCourt observed that, as a whole, manager selection within the pension industry, has underperformed the benchmark.

Ms. Heiserman reported manager specific performance outliers.

Mr. Ball and Ms. Heiserman discussed the increased growth risk (credit) in the core fixed income portfolio.

Mr. Ball, Ms. Heiserman, and Mr. McCourt remarked upon the costs and benefits in foreign exchange hedging within EM asset classes. They also discussed recent EM performance outliers (i.e., Mexico and Russia) and their associated risks.

Mr. Ball, Ms. Freidenrich, Mr. McCourt, and Ms. Chary discussed the tradeoffs of time-weighted returns versus internal rate of return for various asset classes, particularly private equity.

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

I-9 4TH QUARTER 2016 REAL ESTATE PERFORMANCE REPORT

Presentation by Stephen McCourt, CFA & Steve Hartt, Meketa

Mr. McCourt presented OCERS' 4TH Quarter 2016 Real Estate Performance Report. He stated that this is the first quarterly performance report under the monitoring of Meketa. He observed that the portfolio has performed well over both the short-term and long-term, remarking that the portfolio is well constructed with no manager specific issues. He remarked that the actionable task going forward is confirming (disaffirming) the real estate policy direction, particularly as it relates to the portfolio's investment strategy composition i.e., split between core vs. non-core real estate.

Mr. McCourt observed that most of OCERS' real estate investments are in closed-end funds, which operates similarly to OCERS' private equity assets. Therefore, Mr. McCourt and Mr. Hartt noted that, at the moment, their data is both lagged and limited; once Meketa receives more data, specifically, underlying property data, due to fiscal year-end reporting, Meketa will provide a more in-depth analysis of this portfolio.

Mr. Ball and Mr. McCourt discussed Meketa's capital market assumptions, particularly as it relates to real estate.

A **motion** was made by Mr. Packard and **seconded** by Mr. Hilton to receive and file I-9. 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.

COMMITTEE MEMBER COMMENTS

None

CHIEF EXECUTIVE OFFICER/STAFF/CONSULTANT COMMENTS

Mr. McCourt observed that Meketa and staff will work together in the onboarding of OCERS' new CIO.

COUNSEL COMMENTS

None

ADJOURNMENT: The Chair adjourned the meeting at 2:15 p.m.

Submitted by:



Steve Delaney
Secretary to the Committee

Approved by:



Chris Prevatt
Chair