

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

**INVESTMENT COMMITTEE MEETING
September 19, 2017**

MINUTES

Attendance was as follows:

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

Also Present: Suzanne Jenike, Assistant Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Shanta Chary, Director of Investment Operations; David Beeson, 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; Colleen Smiley, and Holly Heiserman-Biertuempfel, CFA
Pension Consulting Alliance: Allan Emkin

The Chair called the meeting to order at 9:04 a.m. Mr. Baldwin led the Pledge of Allegiance.

CONSENT AGENDA

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

A **motion** was made by Mr. Packard and **seconded** by Mr. Baldwin 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

August 23, 2017
September 7, 2017

Recommendation: Authorize meetings and approve minutes.

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

INDIVIDUAL ITEMS AGENDA

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

I-2 CIO COMMENTS

Presentation by Molly Murphy, CFA, CIO, OCERS

Ms. Murphy provided an update on the real estate portfolio due to the recent hurricane activity.

Ms. Freidenrich and Ms. Murphy discussed the insurance coverage of OCERS' real estate managers.

Ms. Murphy discussed OCP Asia.

I-6 RISK MITIGATING STRATEGIES REVIEW

Presentation by Allan Emkin, PCA

Mr. Emkin discussed PCA's recommended first step in the implementation of Risk Mitigating Strategies (RMS): 50% Long U.S. Treasury Bonds/50% Bridgewater and D.E. Shaw.

Mr. Emkin discussed the Bridgewater structure and how Bridgewater could provide the long U.S. Treasury Bonds exposure.

Mr. Eley and Mr. Emkin discussed the costs and benefits of this Bridgewater structure, both to OCERS and Bridgewater.

Mr. Ball and Mr. Emkin discussed the rationale for using Bridgewater and D.E. Shaw as part of the RMS implementation.

Mr. Ball asked for Bridgewater's and D.E. Shaw's risk respective characteristics, relative to OCERS' other managers.

Mr. Dewane, Mr. Emkin, and Ms. Murphy discussed OCERS' optimal portfolio allocations to RMS.

Ms. Murphy also remarked upon the various levers that OCERS has at its disposal to increase/decrease portfolio volatility targets.

A **motion** was made by Mr. Hilton and **seconded** by Mr. Ball to approve the proposed Risk Mitigating Strategies recommendations: 50% Long U.S. Treasury Bonds/50% Bridgewater & D.E. Shaw structure. The **motion carried unanimously.**

I-3 PORTFOLIO ACTIVITY REPORT

Presentation by Molly Murphy, CFA, CIO & David Beeson, IO, OCERS

Mr. Beeson presented the portfolio activity report, including the total fund overview, subscriptions and redemptions, as well as the asset allocation for August 2017.

Mr. Beeson described large cashflows that occurred within the absolute return, equities, and credit portfolios.

Mr. Eley remarked upon 2007, where a number of historically uncorrelated assets moved in unison, which ultimately precipitated into overall market complacency and the ensuing 2008 Global Financial Crisis.

Mr. Eley and Ms. Murphy compared today's market environment to 2007.

Ms. Murphy remarked upon her concern of the current market's continued discounting of geopolitical risk and increased focus on global central bank intervention.

Mr. Baldwin, Ms. Murphy, and Mr. Beeson discussed OCERS' overall allocation to equities and the breakdown of public versus private equity.

Mr. Prevatt and Ms. Murphy discussed OCERS' portfolio behavior should the markets decline, including how OCERS' cash and liquidity, as well as increased allocation to long treasury bonds, could protect the portfolio.

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

I-4 ILLIQUID INVESTMENTS ADVISORY SERVICES RFP
Presentation by Molly Murphy, CFA, CIO, OCERS

Ms. Murphy discussed the rationale for the Illiquid Investments Advisory Services RFP. She noted that the selected Illiquid Investment Advisor would serve as an extension of OCERS' staff and provide OCERS with access to top quartile managers.

Ms. Murphy noted that the RFP timeline is intentionally compressed to compensate for the time away out of the market, and to maintain OCERS' portfolio time diversification.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Ball to approve the RFP process for Illiquid Investment Advisory Services providers.

Ms. Freidenrich, Mr. Ball, and Ms. Murphy discussed the potential impact of this RFP upon OCERS' incumbent consultants, their respective scope of services and pricing structures.

Mr. Ball, Mr. Baldwin, and Ms. Murphy discussed the potential number of advisors that could apply and the potential number of advisors that OCERS could hire.

Mr. Ball and Ms. Murphy discussed OCERS' real estate program, including the liquidity profile of closed-ended versus open-ended funds.

Ms. Freidenrich and Ms. Murphy discussed Meketa's current scope of services for OCERS' real estate program.

Ms. Wirick and Ms. Murphy discussed the difference in due diligence required for liquid assets relative to illiquid assets.

Mr. Hilton expressed concern regarding Illiquid Investments Advisor, given OCERS' recent absolute return experience, where OCERS invested in direct hedge funds and exited the space.

Ms. Murphy discussed OCERS' timing in constructing the absolute return portfolio, specifically during markets that lacked volatility.

Ms. Murphy discussed the expected scope of services for an Illiquid Investments Advisor, the possible benefits of such an Advisor, and the illiquidity return premium received over the long term. However, she also cautioned that there would likely be market cycles where public equities materially outpace the private markets (and other asset classes).

Mr. Prevatt stated that this RFP differs from prior RFPs as it will be internally driven by OCERS internal investment staff expertise and recommendations. Should any Trustees wish to participate in the process, Mr. Prevatt stated that they may attend the semi-finalist interviews as an observer only. This will help OCERS stay to the timeline presented with limited scheduling conflicts. Mr. Prevatt stated that he would limit Trustee involvement to a maximum of three Trustees. He stated that OCERS staff would be making a definitive recommendation at the February 2018 Investment Committee meeting and would not be bringing in multiple advisors for final presentations before the Committee for their selection.

Mr. Ball and Ms. Murphy discussed Meketa's and PCA's potential involvement in the RFP process.

Ms. Murphy noted that Meketa's and PCA's involvement would be contingent upon whether or not they would bid on the RFP.

After further discussion, the Committee voted on the **motion** made by Mr. Dewane and **seconded** by Mr. Ball to approve the RFP process for Illiquid Investment Advisory Services providers. The **motion carried unanimously.**

The Committee recessed at 10:02 a.m.

The Committee reconvened at 10:20 a.m.

I-5 CREDIT ASSET ALLOCATION REVIEW

Presentation by Laura Wirick, CFA, Colleen Smiley, & Holly Heiserman-Biertuempfel, CFA, Meketa

Ms. Wirick presented Meketa's Credit Asset Allocation Review, which included a discussion of the sub-asset classes, target ranges, and underlying managers.

Mr. Eley and Ms. Murphy discussed PIMCO's DiSCO II, including an update on DiSCO II's current and prospective opportunity set.

Ms. Heiserman-Biertuempfel described Meketa's recommended manager-specific transactions.

Ms. Freidenrich and Ms. Murphy discussed DiSCO II's return objectives relative to other credit managers, and the overall need to re-underwrite each credit manager.

Mr. Baldwin and Ms. Wirick discussed OCERS' Opportunistic allocation at the strategy-level and sub-asset class level.

Mr. Ball and Ms. Wirick each expressed concern regarding unique credit managers benchmarked to similar indices; both expressed the need for Meketa and staff to determine the most appropriate benchmarks.

Mr. Ball and Ms. Wirick discussed the fees paid to OCERS' credit managers.

Mr. Ball suggested that Meketa present a fee slide that more distinctly classifies the breakdown of performance fees (including a breakdown of alpha versus beta), and management fees.

Mr. Eley and Ms. Wirick discussed the high yield opportunity set.

Mr. Stephen Weintroski, member of the public, addressed the Committee about PIMCO DiSCO II.

Ms. Freidenrich and Ms. Wirick discussed the different opportunity set and consequent return targets between PIMCO's DiSCO II and GCOF.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Eley to approve the proposed Credit recommendations:

1. Adopt the Credit sub-asset class allocation targets and ranges
2. Consolidate Loomis Sayles Strategic Alpha and Loomis Sayles High Yield strategies, modifying guidelines to be more high yield-focused
3. Reclassify assets from riskier direct lending strategies to private equity
4. Terminate PIMCO DiSCO II
5. Reclassify BlackRock Orange DisloCredit into Real Assets
6. Trim assets from Pictet and BlueBay (Emerging Market Debt) to move towards target allocation

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/CEO/CIO/STAFF/CONSULTANT COMMENTS

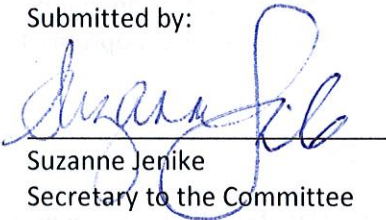
Ms. Murphy noted that the upcoming October Investment Committee meeting would include an asset class review of OCERS' Real Assets portfolio, an energy education session, and a proposed investment in EnCap Investments, an energy manager focused on the upstream and midstream space.

COUNSEL COMMENTS

None

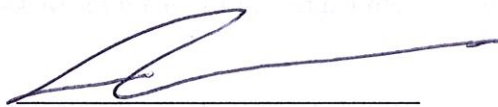
ADJOURNMENT: The Chair adjourned the meeting at 10:55 a.m.

Submitted by:



Suzanne Jenike
Secretary to the Committee

Approved by:



Chris Prevatt
Chair