

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

**INVESTMENT MANAGER MONITORING  
SUBCOMMITTEE MEETING**

**October 5, 2017  
9:00 A.M.**

**MINUTES**

The Chair called the meeting to order at 9:00 a.m. and read the opening statement into the record. Attendance was as follows:

Present: Frank Eley, Chair; Charles Packard, Vice Chair; Russell Baldwin; and Shawn Dewane

Also present: Steve Delaney, Chief Executive Officer; Shanta Chary, Director of Investment Operations; David Beeson, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Anthony Beltran, Visual Technician; and Julius Cuaresma, Recording Secretary

**A. INDIVIDUAL MANAGER PRESENTATIONS**

Mr. Beeson introduced D.E. Shaw, a multi-strategy hedge fund that is within OCERS' Risk Mitigation Strategies asset class. He stated that OCERS' current value is \$81 million in D.E. Shaw's Multi-Asset Fund and OCERS' inception date was July 2013.

***Mr. Packard arrived at 9:07 a.m.***

Mr. Beeson described D.E. Shaw's qualitative and quantitative approach to multi-strategy investing. That said, he remarked that quant models and algorithms drive the investment process. The result is a portfolio that produces consistent, low volatile, uncorrelated returns; since OCERS' initial investment, D.E. Shaw has produced a net annualized return of 5.8%, a standard deviation of 2.3%, and a correlation 0.02 to the S&P 500.

Mr. Eley, Mr. Beeson, and Ms. Chary discussed D.E. Shaw's fees.

**D.E. SHAW & CO.**

***Presentation by Letitia Yang***

**The key highlights of the presentation were:**

Firm update: As of the end of July 2017, D.E. Shaw managed approximately \$45 billion firm-wide and approximately \$1 billion in their Multi-Asset Fund.

Portfolio Strategy: D.E. Shaw seeks to construct a portfolio that is both absolute return oriented and high quality in nature. The manager remarked that high quality returns exhibit 1) little to zero correlations to equity and fixed income markets, as well as to hedge fund and multi-strategy indices; and 2) sufficient upside capture during positive market environments and little to zero downside capture during negative market environments. Multi-Asset Fund is diversified

across the following five strategies: 1) Equity Arbitrage; 2) Long/Short Equities; 3) Equity-Linked; 4) Corporate Credit-Related; and 5) Asset-Backed. Allocations are adjusted across the strategies based on the prospective risk-adjusted opportunity set. The consequent portfolio is not only uncorrelated to various markets, but the underlying strategies are uncorrelated to each other as well.

Market Overview/Outlook for 2018: Based on the Multi-Asset Fund's current portfolio strategy allocations, the manager perceives the best prospective risk-adjusted opportunities are in Equity Arbitrage Strategies and Corporate Credit-Related. The manager observed that allocation adjustments on a month-over-month basis are generally muted and gradual in nature, rather than significant sharp transformations.

Performance: Since OCERS' initial investment, Multi-Asset fund has generated positive annual returns and a net Sharpe ratio of 2.4.

Mr. Baldwin and Ms. Yang discussed the underlying portfolio strategies' correlations to each other during stressed markets, i.e., when correlations indiscriminately move to one.

Mr. Baldwin and Ms. Yang discussed the rationale behind D.E. Shaw's launch of the Multi-Asset Fund in 2009.

Ms. Yang discussed D.E. Shaw's flagship fund, Composite Fund, and explained the similarities and differences between the Composite Fund and the Multi-Asset Fund, particularly as it relates to diversification, leverage, and fees.

Mr. Eley requested back-tests/scenario analysis for Multi-Asset Fund prior to its 2009 launch, specifically an analysis of its theoretical 2008 performance.

Mr. Eley and Ms. Yang discussed Multi-Asset Fund's Other Strategies allocation, which includes insurance and re-insurance strategies.

Mr. Baldwin and Ms. Yang further discussed D.E. Shaw's re-insurance strategies particularly as it relates to rising seawater levels.

Mr. Baldwin and Ms. Yang discussed the impact of recent hurricanes upon the Multi-Asset Fund.

Ms. Yang noted that D.E. Shaw employs meteorologists to aid in their insurance and re-insurance efforts. She reported that D.E. Shaw had minimal insurance exposure going into the hurricane season.

Mr. Eley and Ms. Yang discussed Multi-Asset Fund's underlying portfolio strategies and their respective performance attribution.

***The Committee recessed at 9:58 a.m.***

***The Committee reconvened at 10:16 a.m.***

## **ACADIAN ASSET MANAGEMENT**

### ***Presentation by Kurt Livermore, CFA, Douglas Coughlin, CFA, & Alexandra Pizzi***

Mr. Beeson introduced Acadian Asset Management, a quantitative driven manager that invests in emerging market (EM) equities. OCERS has two investments with Acadian: 1) EM Equity II (large cap), where OCERS initially invested in November 2013; and 2) EM Small Cap Equity, where OCERS initially invested in June 2014. As of the end of August 2017, the net asset value (NAV) of OCERS' Equity II investment was approximately \$276 million, while the Small Cap investment's NAV was \$181 million.

Mr. Beeson observed that Acadian's quantitative process combines bottom-up research with a top-down overlay; over time, the manager believes that 80% of the portfolio's return is derived from stock selection, with 20% derived from country selection.

Mr. Beeson discussed the fees and tracking error associated with Acadian. He also discussed capacity constraints within EM, particularly with respect to Acadian's Small Cap strategy.

Mr. Eley and Ms. Chary continued the fee discussion; they also remarked upon the boom and bust market cycles that typify emerging markets.

#### **The key highlights of the presentation were:**

**Firm update:** Acadian is based in Boston, with four other offices located in London, Singapore, Sydney, and Tokyo. Acadian managed approximately \$92 billion in assets as of the end of August 2017. Acadian's large cap and small cap strategies are closed; that said, the manager would take in inflows to match outflows. The manager reported the firm's CEO change, and the succession plans in place.

**Portfolio Strategy:** As a quantitative-oriented firm, the manager processes 170 million pieces of data on a daily basis. The manager believes that fundamental oversight used systematically, from a bottoms-up and top-down basis, can more easily capture mispriced emerging market equities.

**Market Overview/Outlook for 2018:** The manager observed that momentum and growth factors could continue to be tailwinds to the outperformance of EM equities relative to developed market (DM) equities.

**Performance:** As of August 31, 2017, on a net, year-over-year basis: 1) Emerging Markets Equity II Fund has returned 29.3%, outperforming the MSCI Emerging Markets Index by 4.8%; 2) Emerging Markets Small Cap Equity has returned 32.7%, versus 16.4% for the MSCI Emerging Markets Small Cap Index.

Mr. Eley and Mr. Coughlin discussed Acadian's team approach and the significant number of employees with academic credentials, i.e. Ph.D.

Mr. Baldwin, Mr. Eley, and Mr. Livermore discussed various factors that Acadian measures, including the manager's forecasted media and foreign exchange impact upon the performance of stocks.

Mr. Eley and Mr. Livermore discussed Indonesia, particularly as it relates to political risk.

Mr. Delaney and Mr. Livermore discussed Mexico, particularly as it relates to the manager's analysis pre- and post- the 2016 U.S. presidential election.

Mr. Packard and Mr. Livermore discussed the potential impact of a failed U.S. tax reform upon both DM and EM equities.

Mr. Eley, Mr. Delaney, and Mr. Livermore discussed headwinds that affected Acadian's 2015 performance, including Acadian's value bias and underweight positioning in China.

Mr. Coughlin and Mr. Livermore discussed investor sentiment and behavior (i.e., fear versus greed) and Acadian's ability to capitalize on such short-term mispricings, as well as situations where Acadian may override systematic computer models and processes.

Mr. Packard and Mr. Livermore discussed changes that Acadian implemented in the aftermath of Acadian's 2015 underperformance.

Mr. Dewane, Mr. Livermore, and Mr. Coughlin discussed cryptocurrency.

#### **ADDITIONAL MATERIAL – CROSS OCEAN SHARPE RATIO ANALYSIS**

Mr. Eley discussed his rationale behind this request, particularly as it relates to leverage for certain strategies and managers, i.e., D.E. Shaw, where there are consistent, low volatile returns.

Ms. Chary remarked that certain strategies have inherent asset leverage, i.e., direct lending, and that leverage at this point in the market cycle may not be prudent.

Mr. Packard, Mr. Eley, Ms. Chary, and Mr. Beeson, continued the leverage discussion, particularly the intended and unintended costs and benefits of leverage.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Packard to receive and file the manager presentations. The **motion carried unanimously.**

#### **PUBLIC COMMENTS:**

None

#### **COMMITTEE MEMBER COMMENTS:**

Mr. Dewane discussed his recent attendance at a Chicago conference. He shared his initial analysis of a manager at the conference and shared the manager's materials with Mr. Delaney and staff.

#### **STAFF COMMENTS:**

None

**COUNSEL COMMENTS:**

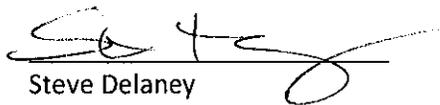
None

**ADJOURNMENT:**

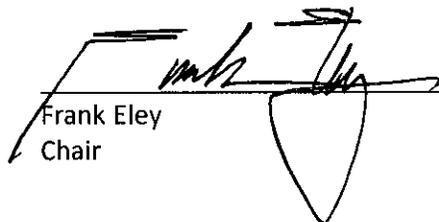
The Chair adjourned the meeting at 11:32 a.m.

Submitted by:

Approved by:



Steve Delaney  
Secretary to the Committee



Frank Eley  
Chair