

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

**INVESTMENT COMMITTEE MEETING
June 27, 2018**

MINUTES

Attendance was as follows:

Present: Wayne Lindholm, Chair; Frank Eley; Vice Chair; Charles Packard; Chris Prevatt; Roger Hilton; David Ball; and Shawn Dewane

Absent: Russell Baldwin; Shari Freidenrich; and Eric Gilbert

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

Meketa Investment Group: Laura Wirick, CFA, CAIA, Holly Heiserman-Biertuempfel, CFA
Pension Consulting Alliance: Allan Emkin
TorreyCove: David Fann; Heidi Poon, CFA, CAIA; and Nic DiLoretta

The Chair called the meeting to order at 9:09 a.m. Mr. Hilton led the Pledge of Allegiance.

CONSENT AGENDA

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

A **motion** was made by Mr. Ball and **seconded** by Mr. Hilton 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

May 24, 2018

June 7, 2018

Recommendation: Authorize meetings and approve minutes.

CIO COMMENTS

Ms. Murphy discussed recent developments in the capital markets, including news surrounding global trade and tariffs, as well the ECB's guidance on their future rate policy.

Mr. Eley and Ms. Murphy discussed OCERS' energy allocations as it relates to recent oil price action.

Mr. Delaney and Ms. Murphy discussed the possible implications of a flattening yield curve.

Mr. Ball and Ms. Murphy discussed OCP Asia, specifically as it concerns OCP Asia's expected risk-adjusted returns as a private credit manager, relative to expected risk-adjusted returns from the private equity space.

Mr. Lindholm and Ms. Murphy discussed the global trade market for goods and services, specifically as it concerns surpluses and deficits at the sector level and at the overall country level.

Mr. Delaney, Mr. Ball, and Ms. Murphy discussed OCERS' private equity program.

Mr. Ball expressed his preference, given the extended valuations in private equity, that there could be unintended benefits if OCERS failed to meet the program's planned pacing targets. He also indicated his appreciation of the challenges in asset allocation in today's environment given that many other asset classes are trading at historically rich valuations.

Mr. Emkin provided commentary on the following: the flattening yield curve, global trade, the political gridlock at the country and the local level, the upcoming presentation from BlackRock's CEO Larry Fink, private equity and private credit asset flows, and PCA's push towards contingent funds in the current and prospective market environment.

Ms. Wirick provided commentary on the following: the flattening yield curve, global trade, and OCP Asia. She also reported that many of Meketa's clients have committed to contingent funds, primarily in the credit space.

Ms. Murphy discussed contingent funds, specifically as it relates to OCERS' governance and ability to be opportunistic.

Mr. Emkin discussed inflation, particularly real versus nominal wage growth.

Ms. Murphy discussed the U.S. debt problem, observing that mounting debt service costs as a percentage of GDP could crowd out capital needed to address America's infrastructure problems.

Mr. Lindholm and Mr. Emkin continued the earlier discussion on global trade.

Ms. Wirick suggested an expert on global trade could present at a future Investment Committee meeting.

ACTION ITEMS

NOTE: Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee's discussion of the item. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Committee prior to the Committee's discussion on the item by signing in on the Public Comment Sign-In Sheet located at the back of the room.

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

A-2 WATCH LIST - BLUEBAY ASSET MANAGEMENT & MONDRIAN INVESTMENT PARTNERS

Presentation by Molly Murphy, CFA, CIO & Tarek Turaigi, CFA, IO, OCERS

Ms. Murphy discussed the rationale for staff's and Meketa's recommendation to place BlueBay Emerging Market Select Bond Fund and Mondrian on Watch List. She also indicated that though these respective managers will be under heightened surveillance through the Watch List process, there are early signs that suggest that each manager could be readily removed from Watch List.

Mr. Hilton expressed his preference against the placement of Mondrian on Watch List. He observed that Mondrian has outperformed OCERS' assumed rate of return; he also noted that their benchmark is likely not representative of the manager's opportunity set, given Mondrian's value investment strategy.

Ms. Murphy described that the Watch List is staff's process to indicate heightened surveillance and not necessarily a process to indicate punishment. She expressed that the Watch List is also staff's intentional effort for increased communication with the Committee, given frequent manager interaction with the Committee is not as prevalent as it once was through OCERS' prior dated investment due diligence process.

Ms. Wirick reported upon Meketa's recommendation, while also noting that performance is rarely the sole criteria for placing a manager on Watch List.

Mr. Prevatt and Ms. Murphy further discussed the rationale for staff's and Meketa's recommendation to place BlueBay Emerging Market Select Bond Fund and Mondrian on Watch List.

Ms. Murphy noted that each manager is in a unique situation, given that BlueBay is experiencing a change in their organization.

Mr. Lindholm, Ms. Murphy, and Mr. Beeson discussed Mondrian's performance versus its benchmark, the MSCI World Ex-US Small Cap Index, as well as to the MSCI World Ex-US Small Cap Value Index.

Mr. Eley asked for PCA's role in the Watch List process.

Ms. Murphy responded that the Watch List process is not in the purview of PCA's responsibilities given that this process is associated with manager specific risk versus asset class risk.

A **motion** was made by Mr. Ball and **seconded** by Mr. Prevatt to place BlueBay Emerging Market Select Bond Fund and Mondrian on Watch List.

Mr. Hilton suggested that the original recommendation be split into two respective recommendations, one for BlueBay Emerging Market Select Bond Fund, and one for Mondrian.

After further discussion, a **motion** was made by Mr. Prevatt and **seconded** by Mr. Ball to place BlueBay Emerging Market Select Bond Fund on Watch List. The **motion carried 7-0** with voting as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Packard			Ms. Freidenrich
Mr. Prevatt			Mr. Baldwin
Mr. Dewane			Mr. Gilbert
Mr. Ball			
Mr. Hilton			
Vice Chair Eley			
Chair Lindholm			

After further discussion, a **motion** was made by Mr. Prevatt and **seconded** by Mr. Ball to place Mondrian on Watch List. The **motion carried 6-1** with voting as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Packard	Mr. Hilton		Ms. Freidenrich
Mr. Prevatt			Mr. Baldwin
Mr. Dewane			Mr. Gilbert
Mr. Ball			
Vice Chair Eley			
Chair Lindholm			

Mr. Ball expressed his support for this new and improved Watch List process; since staff and OCERS' consultants are managing the due diligence of OCERS' current investment pool as well as the pipeline of potential investments on a daily basis, he opined that the Committee should support staff's and the consultants' view.

The Committee recessed at 10:53 a.m.

The Committee reconvened at 11:10 a.m.

INFORMATION ITEMS

I-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES

Written report only

I-3 SECURITIES LENDING UPDATE

Written report only

Mr. Eley commented on the cyclical nature of securities lending; for example, he recalled securities lending became a hot topic after its relatively mild negative performance in the aftermath of the 2008 Global Financial Crisis.

Ms. Murphy expressed agreement and provided background information on OCERS' securities lending history. She discussed the issues faced in 2008 during the Global Financial Crisis and the improvements State Street advanced since then to mitigate such issues.

Mr. Ball and Ms. Murphy discussed the costs, discounted fees, and earnings generated, associated with securities lending.

I-4 REPORT - PORTFOLIO ACTIVITY

Presentation by Molly Murphy, CFA, CIO & Tarek Turaigi, CFA, IO, OCERS

Mr. Turaigi presented the portfolio activity report, including the total fund overview, subscriptions and redemptions, as well as the asset allocation for May 2018.

Mr. Dewane and Ms. Murphy discussed the portfolio's expected returns and standard deviation thus far in 2018.

Mr. Dewane and Ms. Murphy discussed OCERS' strategic versus tactical asset class allocations.

Ms. Murphy reviewed the portfolio's in-line, overweight, and underweight allocations, including OCERS' intentional overweight allocation to equities and underweight allocation to real assets. She observed that OCERS has benefitted from this positioning.

I-5 4th QUARTER 2017 PRIVATE EQUITY PERFORMANCE UPDATE

Presentation by David Fann, Heidi Poon, CFA, CAIA, & Nic DiLoretta, TorreyCove

Mr. Fann provided commentary on the private markets, particularly the buyout space. He discussed the frothy environment, recalling cash flow multiples paid now relative to twenty years ago.

Ms. Poon provided commentary on the venture capital space. She discussed the abundance of late stage capital, the rationale for companies staying private longer, its impact upon the public IPO market and upon private market venture capital investors.

Mr. Delaney, Mr. Fann, and Ms. Poon further discussed the impact of companies staying private longer and how LPs have currently and prospectively benefited from this market dynamic.

Ms. Poon discussed TorreyCove's and staff's investment strategy in this market environment, particularly that OCERS will focus on high conviction managers.

Mr. DiLoretta provided commentary on the real assets space, particularly the oil and gas markets, given OCERS' allocation to this space.

Mr. Ball and Mr. DiLoretta discussed recent volatility, expected returns, and the longer duration to achieve those returns.

Mr. DiLoretta observed that the recovery in oil prices has not spilled over in other sectors; he noted that the absence of a significant bounce in other sectors has been atypical relative to history.

Mr. Lindholm and Mr. DiLoretta discussed the potential timing of when the U.S. could be a net exporter in oil and gas.

Mr. DiLoretta explained the supply and demand dynamics that suggest that the U.S. should be a net exporter in gas sooner than in oil.

Mr. Dewane, Mr. Fann, and Ms. Murphy discussed vintage year allocations and expected returns, including the impact associated with the reclassification of certain credit managers to private equity.

Mr. Dewane and Mr. Fann discussed TorreyCove's current and historical expected returns.

Ms. Poon and Ms. Murphy further reviewed the impact upon expected returns associated with the reclassification of certain credit managers.

Mr. Fann discussed TorreyCove's and staff's investment strategy. He noted the goal of investing in private equity managers that enjoy sustainable competitive advantages and add value through targeted acquisitions and/or through operational improvement. He concluded that such an investment strategy lends itself to a rigorous screening process with high barriers to entry for a new manager into the portfolio.

Mr. Ball left at 12:01 p.m.

The Committee recessed at 12:04 p.m.

The Committee reconvened at 12:41 p.m.

I-6 A DISCUSSION WITH LARRY FINK, FOUNDER, CHAIRMAN, & CEO OF BLACKROCK

Presentation by Larry Fink, BlackRock

Larry Fink, Founder, Chairman, and CEO of BlackRock provided commentary on a number of topics, including Environmental, Social, and Governance (ESG) issues at the company and national level, as well as the challenges and opportunities, both perceived and actual, that developed and emerging economies face in an increasingly interconnected and interdependent world.

*** * * * *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

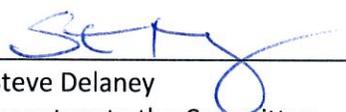
None

COUNSEL COMMENTS

None

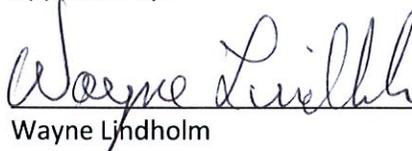
ADJOURNMENT: The Chair adjourned the meeting at 1:56 p.m.

Submitted by:



Steve Delaney
Secretary to the Committee

Approved by:



Wayne Lindholm
Chair