

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

**INVESTMENT COMMITTEE MEETING
January 23, 2019**

MINUTES

Attendance was as follows:

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

Absent:

Also Present: Steve Delaney, Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Shanta Chary, Director of Investments; Reginald D. Tucker, Managing Director; Tarek Turaigi, CFA, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Brittany Cleberg, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; Laura Wirick, CAIA, CFA; Brian Dana
Pension Consulting Alliance: Allan Emkin; Colin Bebee, CFA
The Townsend Group: Jennifer Stevens

The Chair called the meeting to order at 9:08 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 Committee Member requests separate action on a specific item.

A **motion** was made by Mr. Dewane 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

December 17, 2018

Recommendation: Authorize meeting and approve minutes.

CIO COMMENTS

Ms. Murphy provided a 2018 YTD performance estimate update for the portfolio, noting that while the public markets portfolio has year-end marks, the private markets portfolio is inherently lagged.

Ms. Murphy commented on the volatile price action in the equity markets. She remarked that the December 2018 sell-off is effectively negated due to the recent January 2019 gains. Further, she observed that the December 2018 sell-off was not a recession sell-off by definition, but rather a response to a number of factors, e.g., global politics and Fed policy. She remarked upon the absence of consistent conditional indicators of a recession. She thus explained OCERS is still in a good spot for the near-term implementation of the Risk Mitigating Strategies (RMS) portfolio.

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.

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

A-2 RISK MITIGATING STRATEGIES – SUB-ASSET CLASS REVIEW

Ms. Murphy introduced the Meketa team, while also briefly providing background commentary on the Risk Mitigating Strategies (RMS) portfolio.

Ms. Wirick discussed Meketa's and staff's recommendation to approximately (target range of plus or minus 10%) equal-weight the RMS portfolio across Long-term Treasuries, Global Macro, Systematic Trend Following, and Alternative Risk Premia.

Ms. Wirick and Mr. Dana described that the goal of the RMS portfolio, through those aforementioned sub-asset classes, is to provide downside protection and generate a positive return during stressed equity market environments.

Mr. Dana provided a deeper dive into the rationale for equally weighting the RMS portfolio across the aforementioned sub-asset classes.

Mr. Prevatt and Mr. Dana discussed CTAs, particularly their role within the RMS portfolio.

Mr. Dewane and Mr. Dana discussed the historical correlations of the sub-asset classes, particularly during the Global Financial Crisis.

Mr. Baldwin asked about infrastructure as a potential sub-asset class for the RMS portfolio as well as characteristics of Alternative Risk Premia, Global Macro, and Trend Following.

Ms. Wirick responded to Mr. Baldwin, noted that target sub-asset classes have a negative correlation to equities.

Ms. Murphy responded to Mr. Baldwin, describing that cost efficiency and liquidity are target characteristics of the RMS sub-asset classes. She stated that at the peak of stressed equity markets, the goal is to use the liquid RMS sub-asset classes as a funding source for dislocated asset classes.

Mr. Dana further described the role of Alternative Risk Premia, Global Macro, and Trend Following, within RMS.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Lindholm to approve a 25% target allocation to each sub-asset class within the risk mitigation asset class: Long-term Treasuries, Global Macro, Systematic Trend Following, and Alternative Risk Premia with a target range of plus or minus 10%. The **motion carried unanimously.**

INFORMATION ITEMS

I-1 INVESTMENT COMMITTEE COMMUNICATIONS

Written report only

I-2 REPORTS – PORTFOLIO ACTIVITY & COMPLIANCE

Written report only

Ms. Murphy reported that the Emerging Market Debt portfolio has been on the watch list for the last 6 months. She reported that staff is still working towards a solution and that a decision point should be forthcoming.

I-3 SECURITIES LITIGATION UPDATE

Written report only

I-4 MANAGER SELECTIONS & TERMINATIONS REPORT

Presentation by Molly A. Murphy, CFA, CIO, OCERS

Ms. Murphy discussed recent manager selections and remarked upon the rationale for those respective selections for the OCERS portfolio.

I-5 3RD QUARTER 2018 REAL ESTATE PERFORMANCE REPORT

Presentation by Jennifer Young Stevens, Townsend

Ms. Stevens presented the Townsend Group's 3rd Quarter 2018 Real Estate Performance Report for OCERS' real estate portfolio.

Ms. Stevens noted that Townsend's return forecasts are moderating, and consequently, Townsend's recommendations for new real estate investments will be focused on funds that generate consistent sustainable total returns through Net Operating Income (NOI) growth.

Ms. Stevens briefly commented upon Townsend's fund coverage, Townsend's highly selective pipeline process, particularly in the go-forward diminished return environment, and how that translates into seamlessly implementing OCERS' recent asset allocation changes to the real estate portfolio.

Mr. Ball and Ms. Stevens discussed the performance attribution of the portfolio, particularly where the OCERS portfolio is outperforming the benchmarks.

Mr. Delaney and Ms. Murphy discussed staff's and Townsend's rebalancing process, particularly real estate sub-sectors that are more economically sensitive, e.g., office, vs. favorable demographic trends, e.g., industrial.

Ms. Murphy also noted that the primary space of rebalancing opportunities is in open-end core managers; she observed that in the current environment, while there is no challenge to exit, there is an approximate 6-month entrance queue.

Ms. Murphy and Ms. Stevens discussed that the hurdle for new real estate investments is quite high and that new managers would be defensive-oriented and recession resistant.

Mr. Dewane and Ms. Stevens discussed Townsend's thoughts on the upcoming 2020 Proposition 13 and the potential impact on OCERS' real estate investments in the Pacific Northwest region.

Mr. Dewane and Ms. Stevens discussed the cash flow of OCERS' real estate portfolio.

Ms. Stevens noted that Townsend would provide further granularity about the cash flow at a future IC meeting.

Mr. Ball asked that Townsend, on a go-forward basis, provide more information and break out exposure restrictions, i.e., the exposure levels core funds are permitted to have in opportunistic.

Ms. Murphy and Ms. Stevens responded, noting specific ODCE index's restrictions on ODCE member core funds' exposure levels.

Ms. Stevens also noted that Townsend would provide more granular exposure data for OCERS' real estate managers.

Mr. Ball, Ms. Murphy, and Mr. McCourt discussed Townsend's near term return expectations relative to Meketa's 20-year forward-looking return assumptions and how those differing forecasts could impact OCERS' asset allocation.

I-6 MEKETA PCA MERGER DISCUSSION

Presentation by Stephen McCourt, CFA, Meketa & Allan Emkin, PCA

Mr. McCourt and Mr. Emkin discussed the merger between their respective firms, the rationale behind it, and the impact upon OCERS.

Mr. Baldwin and Ms. Murphy continued to discuss the merger's impact upon OCERS.

Ms. Murphy noted that the merger naturally triggers a soft review of Meketa's and PCA's contracts with OCERS. Irrespective of this soft review, Ms. Murphy observed that Meketa's and PCA's contracts with OCERS are due for review in the fall of 2019.

The Committee adjourned into Closed Session at 10:36 a.m.

CLOSED SESSION
Government Code section 54956.81

- E-1 PENSION FUND INVESTMENT TRANSACTION**
Adjourn into Closed Session under the authority of Government Code section 54956.81 to consider the purchase or sale of a pension fund investment

Recommendation: Take appropriate action.

OPEN SESSION

The Committee reconvened in Open Session at 11:02 a.m.

REPORT OF ANY REPORTABLE ACTION TAKEN IN CLOSED SESSION

The Committee took **no reportable action.**

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

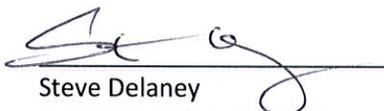
PUBLIC COMMENTS: At this time members of the public may address the Committee of Retirement regarding any items within the subject matter jurisdiction of the Committee, provided that no action may be taken on non-agendized items unless authorized by law.

COMMITTEE MEMBER/CEO/CIO/COUNSULTANT/COUNSEL COMMENTS

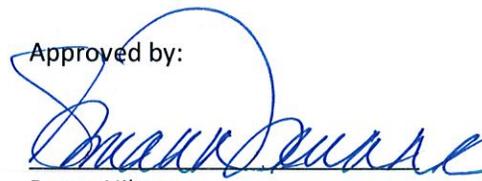
Ms. Murphy introduced the new addition to the OCERS Investments team, Mr. Tucker.

ADJOURNMENT: The Chair adjourned the meeting at 11:04 a.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Roger Hilton
Chair