

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

**INVESTMENT COMMITTEE MEETING**

**February 27, 2019**

**9:00 a.m.**

**MINUTES**

Attendance was as follows:

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

**Absent:** Roger Hilton, Chair; Russell Baldwin

**Also Present:** Brenda Shott, Assistant Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Shanta Chary, Director of Investments; 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, CAIA, CFA; Stephanie Sorg, MSF  
Pension Consulting Alliance: Allan Emkin; Colin Bebee, CFA

The Chair called the meeting to order at 9:02 a.m. Ms. Freidenrich 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. Packard and **seconded** by Mr. Eley to approve the Consent Agenda. The **motion carried unanimously.**

**C-1 COMMITTEE MEETING:**

**Approval of Meeting and Minutes**

Investment Committee Special Meeting  
Investment Committee Meeting

January 7, 2019  
January 23, 2019

**Recommendation:** Authorize meeting and approve minutes.

**CIO COMMENTS**

Ms. Murphy remarked upon the significant swings in market performance, behavior, and sentiment, from the risk-averse 4<sup>th</sup> quarter of 2018 to the risk-seeking first two months of 2019.

Ms. Murphy also provided an update on recent Federal Reserve interest rate developments and news surrounding global trade talks between the U.S. and China.

## 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 WATCH LIST – MONDRIAN INVESTMENT PARTNERS**

Ms. Murphy discussed the rationale for staff's and Meketa's placement of Mondrian on Watch List in June of 2018. She explained staff's and Meketa's recent recommendation to remove Mondrian due to the turnaround in performance relative to its benchmark, particularly noting that Mondrian has performed in-line with expectations.

A **motion** was made by Mr. Eley and **seconded** by Mr. Packard to remove Mondrian from Watch List. The **motion carried unanimously**.

## INFORMATION ITEMS

### **I-1 REPORT OF ACTION TAKEN IN CLOSED SESSION ON JANUARY 7, 2019 PURSUANT TO GOVERNMENT CODE SECTION 54957.1**

### **I-2 INVESTMENT COMMITTEE COMMUNICATONS**

Written report only

### **I-3 MEKETA ECONOMIC OUTLOOK**

Written report only

### **I-5 MANAGER SELECTIONS & TERMINATIONS REPORT**

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

Ms. Murphy briefly discussed the re-up selection process for the direct lending fund.

Ms. Murphy presented the rationale for the selection in a venture capital, stage-agnostic private equity firm. She also discussed the due diligence process driven by staff and Torrey Cove.

### **I-4 REPORTS – PORTFOLIO ACTIVITY & COMPLIANCE**

Written report only

Ms. Freidenrich asked for more color on the portfolio activity report, specifically the recent cash flow activity.

***Mr. Ball arrived at 9:15 a.m.***

Ms. Murphy responded, describing the recent subscriptions and the distributions from various asset and sub-asset classes.

Ms. Murphy also provided forward-looking guidance on expected near-term cash flow activity, particularly the upcoming employer prepayment inflows.

#### **I-6 4<sup>th</sup> QUARTER 2018 PORTFOLIO EVALUATION REPORT**

*Presentation by Laura Wirick, CFA, CAIA & Stephanie Sorg, MSF, Meketa*

Ms. Wirick and Ms. Sorg presented Meketa's quarterly report.

Ms. Wirick discussed the market environment. She remarked upon the absence of volatility in 2017, the return to more normalized volatility levels in 2018, the immediate emergence of heightened volatility during the 4<sup>th</sup> quarter, and the abrupt pivot to a risk-seeking rally at the onset of 2019.

Ms. Wirick discussed Meketa's and staff's benchmark and policy index review that occurred approximately a year ago, and the recent changes to OCERS' benchmarks to more properly reflect the current asset allocation policy.

Ms. Wirick discussed the performance of the OCERS portfolio and the OCERS peer group, as well as specific asset class and manager outliers.

Ms. Wirick focused on the overall difficulty for all active managers in the current risk-seeking market environment.

Ms. Wirick discussed the Emerging Market Debt (EMD) portfolio, the challenges in this specific asset class environment, and the limitations that underpin a passive investment vehicle in this asset class. She briefly remarked upon the OCERS Watch List process as it relates to EMD, observing that staff is particularly working on improving this portfolio.

***Mr. Prevatt arrived at 9:22 a.m.***

Mr. Ball and Ms. Wirick noted the direction and the trend in the structural improvement in the OCERS portfolio and the consequent improvement in the portfolio's risk-adjusted performance.

#### **I-7 4<sup>th</sup> QUARTER 2018 PORTFOLIO RISK DISCUSSION**

*Presentation by Allan Emkin & Colin Bebee, CFA, PCA*

Mr. Emkin and Mr. Bebee presented PCA's quarterly report.

Mr. Bebee discussed current and prospective risks in the markets, particularly as it relates to the liquid portion of the OCERS portfolio.

Mr. Bebee described the current and prospective positioning of the Risk Mitigation Strategies (RMS) Portfolio.

Ms. Freidenrich, Mr. Emkin, and Mr. Bebee discussed the divergence of global interest rate policy.

Mr. Emkin described the illusion of dampened volatility in private equity, particularly during the 4<sup>th</sup> quarter, given the asset class' lagged pricing mechanism.

Mr. Dewane, Mr. Eley, Mr. Emkin discussed the counterintuitive relationship between the Fed's recent countercyclical efforts to nudge rates up and market participants' flight to safety activities, which drives down rates.

Mr. Bebee discussed the complementary risk and return attributes of the RMS portfolio during the quarter.

***The Committee recessed at 9:43 a.m.***

***The Committee reconvened at 9:52 a.m.***

**I-8 CAPITAL MARKET EXPECTATIONS & 2019 ASSET STUDY**

*Presentation by Laura Wirick, CFA, CAIA, & Frank Benham, Director of Research, Meketa*

Ms. Murphy provided a brief backdrop of Meketa's capital market expectations work and research. She remarked upon the imperfect and inherent forecasting process, given the length of time; she observed that the objective is that the OCERS' asset allocation is directionally correct.

Ms. Murphy described that OCERS implements capital market assumptions through two ways: (1) Meketa's Asset Allocation study; and (2) Asset Liability studies with Segal, OCERS' actuarial consultant. Given the necessary and sufficient output of the 2018 Meketa Asset Allocation study, she explained that this Asset Allocation study is not scheduled for this year; that said, she observed that material market moves could speed up the occurrence of the study. She noted that the Segal study is more comprehensive and that today's study served as an update.

Ms. Wirick noted her colleague, Mr. Benham, is also on the conference call line should there be comments, questions, concerns from the Committee.

Ms. Wirick and Ms. Freidench noted that Meketa's report does not reflect the recent recovery in risk assets.

Ms. Wirick presented Meketa's updated Capital Market Expectations Report, ultimately stating that Meketa has no recommended changes to the current asset allocation mix.

**I-9 J.P. MORGAN – MACRO AND ASSET ALLOCATION OUTLOOK**

*Presentation by Benjamin R. Mandel, PhD, Global Strategist, Multi-Asset Solutions, Rich Forslund, CFA, JP Morgan*

Ms. Murphy introduced the J.P. Morgan team.

Mr. Mandel and Mr. Forslund presented J.P. Morgan's macro and asset allocation outlook.

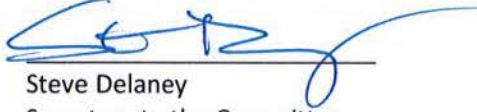
Mr. Stephen Wontrobski, Mission Viejo, addressed the Committee about inflation expectations.

**COMMITTEE MEMBER/CEO/CIO/CONSULTANT/COUNSEL COMMENTS**

**None**

**ADJOURNMENT:** The Chair adjourned the meeting at 11:28 a.m.

Submitted by:



Steve Delaney  
Secretary to the Committee

Approved by:



Roger Hilton  
Chair