

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

**INVESTMENT COMMITTEE MEETING
April 24, 2017**

MINUTES

Attendance was as follows:

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

Absent: Chris Prevatt; and Shawn Dewane

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

Meketa Investment Group: Stephen McCourt, CFA; and Laura Wirick, CFA
Pension Consulting Alliance: Allan Emkin

The Chair called the meeting to order at 9:00 a.m. Mr. Baldwin led the Pledge of Allegiance.

CONSENT AGENDA

All matters on the Consent Agenda to be approved by one action unless a Committee 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. Ball to approve the Consent Agenda. The **motion carried unanimously**.

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Manager Monitoring Subcommittee Meeting
Investment Committee Meeting
Investment Manager Monitoring Subcommittee Meeting

March 2, 2017
March 28, 2017
April 6, 2017

Recommendation: Authorize meetings and approve minutes.

C-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES

Recommendation: Receive and file.

C-3 INVESTMENT MANAGER FEE STRUCTURE UPDATES

Recommendation: Receive and file.

C-4 ECONOMIC DASHBOARDS

Recommendation: Receive and file.

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

INDIVIDUAL ITEMS AGENDA

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

I-2 CEO & STAFF COMMENTS

Presentation by Steve Delaney, CEO & Shanta Chary, DIO, OCERS

Mr. Delaney provided an update on OCERS' CIO search.

Mr. Delaney responded to questions from Mr. Packard regarding the general background and experience of the CIO applicant pool.

Ms. Chary discussed staff's work outside of day-to-day management of OCERS' portfolio, including: 1. manager recategorization as a result of the new asset allocation; and 2. work with OCERS' finance team in managing CAFR-related items.

I-3 PORTFOLIO ACTIVITY REPORT

Presentation by Shanta Chary, DIO, OCERS & Stephen McCourt, CFA, Meketa

Ms. Chary presented the portfolio activity report, including the total fund overview, subscriptions and redemptions, as well as the asset allocation for March 2017.

Mr. Ball and Ms. Chary discussed OCERS' unfunded commitments.

Mr. Lindholm and Ms. Chary discussed the monthly and quarterly portfolio activity/performance reports.

Mr. Gilbert arrived at 9:16 a.m.

Mr. Ball and Mr. McCourt discussed the historical performance of emerging markets.

Mr. McCourt remarked upon recent and upcoming significant economic and political events.

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

I-4 REVIEW OF APRIL 6, 2017 MANAGER MONITORING SUBCOMMITTEE MEETING
Presentation by Stephen McCourt, CFA & Laura Wirick, CFA, Meketa

Mr. Delaney briefly summarized the April 6, 2017 Investment Manager Monitoring Subcommittee (IMMS) meeting.

Mr. McCourt outlined the rationale behind the review. He also explained Meketa's rationale for their PIMCO-related recommendations from the March 28, 2017 Investment Committee meeting.

Mr. McCourt stated that Meketa recommended the All Asset All Authority (AAAA) and Unconstrained strategies for termination. He also noted that Meketa's termination rationale was not due to performance issues or fee-related issues, but rather that AAAA's investment strategy, Global Tactical Asset Allocation (GTAA), was not a fit in OCERS' newly adopted asset allocation policy. He also observed that coincidentally, besides charging relatively higher fees, AAAA's performance has not met OCERS' expectations.

Mr. Eley expressed his logic behind his statements during the April IMMS meeting. He opined his preference to wait until OCERS hires its new CIO before the Committee implements Meketa's recommendations. He noted that waiting would not only minimize execution costs, but it would also enable the new CIO the opportunity to have an input on the re-allocation of the assets.

Mr. Eley and Mr. McCourt discussed AAAA, its role in the portfolio, and its performance.

Mr. Ball and Mr. Emkin discussed OCERS' asset allocation, particularly as it relates to simplifying the portfolio through direct target asset class exposure, instead of broader GTAA-like mandates.

Mr. Emkin further explained that simplifying the portfolio also includes moving away from discretionary managers.

Mr. Baldwin discussed Mr. Eley's earlier comments about waiting until the new CIO is hired. He asked for staff's thoughts on Mr. Eley's comments.

Ms. Chary responded that staff's concern arises from the redeployment plan, clarifying that staff's concern is not fixated on whether a specific manager should or should not be retained. She described that an appropriate redeployment plan would include: 1. the targeted home, with sufficient consideration of where there may be more value in one investment relative to another; 2. a balance between active and passive management, given the significant rebalancing already done into the passive index space.

Mr. Packard observed that the Committee made a conscious decision to: 1. not wait until the new CIO is hired; and 2. hire Meketa and PCA to guide the Committee. He recognized that asset allocation decisions take time, particularly given the large size of OCERS' portfolio. He concluded that it would be inappropriate to wait for the new CIO, and suggested that the Committee move forward with what has already been approved.

A **motion** was made by Mr. Ball and **seconded** by Mr. Baldwin to receive and file I-4. The **motion carried unanimously.**

I-5 IMPLEMENTATION & REDEPLOYMENT PLAN

Presentation by Stephen McCourt, CFA & Laura Wirick, CFA, Meketa

Mr. Delaney provided a summary of the Committee-approved motions from the March Investment Committee meeting.

Mr. McCourt discussed OCERS' Global Tactical Asset Allocation (GTAA) managers. He reported that Meketa is working with staff on redeployment alternatives, specifically a proxy for real assets.

Mr. Ball and Mr. McCourt discussed the costs and benefits of relying on the cash overlay program more extensively, and less so on passive Exchange-Traded Funds, as a funding source for future capital commitments.

Ms. Chary presented staff's recommended redeployment options.

Mr. Eley discussed active and passive investing, observing that the Committee may not have appropriately discussed this asset allocation topic.

Mr. Ball requested that a physical copy of OCERS Investment Beliefs be individually available to the Trustees on the dais. He also opined on the costs and benefits of passive investing relative to active in some asset classes.

Mr. Lindholm and Ms. Chary discussed agenda items I-5 Implementation & Redeployment Plan and I-6 Global Equity Asset Allocation Initial Review, particularly the rationale as to why both items are up for discussion and how they are intertwined.

Ms. Chary specified that staff's recommendation is based on making a balanced allocation between active and passive management, to ensure an appropriate level of diversification and appropriate consideration of the valuation component. Ms. Chary explained that active could be used in less efficient markets and passive would continue to be used in more efficient markets, such as U.S. large cap equity.

Mr. Lindholm asked that staff and Meketa bring back a proposed redeployment list of managers at next month's Investment Committee meeting.

Mr. Baldwin and Ms. Chary discussed active management and how active may provide better downside protection relative to passive management.

Mr. Baldwin opined his preference for active management in less efficient markets, specifically in emerging markets.

Ms. Freidenrich discussed the terminology of rebalancing and redeployment. She requested clarification between these two types of investment transactions and suggested that the Committee distinctly use the appropriate term. She explained that this discussion does not seem

to be a mere rebalancing effort since there is an elimination of strategies that involve a significant amount of capital.

Mr. Delaney responded that staff, on a regular basis, rebalances the portfolio within the approved ranges. Conversely, he stated that redeployment is strategic and is more of a one-time event.

Mr. Delaney observed that, at the previous March Investment Committee (IC) meeting, the Committee approved that staff and consultants would work on the redeployment plan. He spelled out that should staff and consultants determine that a mix of active and passive may be more beneficial to OCERS' portfolio, staff and consultants would need to come back at the next IC meeting for approval, since that would be a change to the Committee's previously approved motion in relation to the re-deployment of the global equity assets.

Mr. Eley discussed the historical performance of active and passive management in different asset classes.

Mr. McCourt explained Meketa's rationale driving their passive indexing recommendation, reporting that it could be an efficient way to move the portfolio towards the approved asset allocation mix. He noted that once the CIO is hired, it is Meketa's intention to re-evaluate active versus passive management within each asset class. He also reported that a year ago, about 22% of the portfolio was indexed, today it is 28%, and that their recommendations would push the portfolio to about 39%. He observed that 39% would likely still be lower in comparison to OCERS' peers; he also qualified that Meketa is not endorsing that 100% of the portfolio be indexed.

Mr. Ball asked if these percentages reflected the inclusion of OCERS' illiquid assets, observing that those assets could not be invested passively.

Mr. McCourt responded that those percentages included illiquid assets.

Mr. Ball suggested that a more accurate calculation that reflects the breakdown of active and passive investments within OCERS' portfolio would not include illiquid assets. He asked that Meketa incorporate such a presentation going forward.

Mr. Ball, Mr. Lindholm, and Mr. McCourt discussed the approximate transaction costs associated with transitioning active and passive assets.

A **motion** was made by Mr. Ball and **seconded** by Mr. Baldwin to receive and file I-5, with staff and consultants to provide further guidance. The **motion carried unanimously.**

The Committee recessed at 10:03 a.m.

The Committee reconvened at 10:14 a.m.

I-6 GLOBAL EQUITY ASSET ALLOCATION INITIAL REVIEW

Presentation by Stephen McCourt, CFA & Laura Wirick, CFA, Meketa

Ms. Wirick presented Meketa’s initial review of OCERS’ global equity portfolio.

Ms. Wirick presented the OCERS global equity’s geographical sub-asset classes (i.e., U.S., international developed and emerging markets), their respective current allocations, and Meketa’s proposed sub-asset class allocation targets and ranges.

Mr. McCourt presented U.S. equity valuations; he also reviewed the current and past interest rate environments.

Mr. Lindholm and Mr. McCourt discussed pension portfolios that have been underweight equities, including OCERS’ portfolio, long-term versus short-term strategic decisions, and the risks in market timing.

Mr. Baldwin and Mr. McCourt discussed corporate debt levels, stock buybacks, and its impact upon price-to-earnings ratios over the short-term and long-term.

Mr. Lindholm and Mr. McCourt discussed the limited data set that confines emerging markets from a complete historical comparison to the developed markets.

Mr. Ball and Mr. McCourt discussed the historical correlations between developed and emerging markets.

Mr. Ball and Mr. McCourt discussed global and domestic growth, and the look-through geographical exposures and earnings of U.S. companies.

Mr. Emkin discussed small capitalization companies, its role in the overall economy, and the inefficiency in this market capitalization. He also discussed global and domestic correlations.

A **motion** was made by Mr. Ball and **seconded** by Mr. Gilbert to approve Meketa Investment Group’s recommendations: 1. Adopt the Global Equity sub-asset class allocation targets and ranges; 2. Retain the individual managers; and 3. Breakdown of individual manager allocations be determined by staff and consultants. 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 COMMENTS

Mr. Eley and Mr. McCourt discussed polling results between European and U.S. elections.

Mr. Ball noted that Jim Meketa will present at the next Investment Committee, observing that Trustees may be inclined to prepare possible topics and questions.

CHIEF EXECUTIVE OFFICER/STAFF/CONSULTANT COMMENTS

Mr. Emkin and Mr. McCourt discussed the recent French elections and the general global market reaction to the outcome of those elections.

Mr. Emkin also discussed OCERS' historical euro hedge transactions.

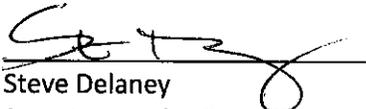
Mr. McCourt discussed the financial adage that "markets climb a wall of worry" and the risks in the markets.

COUNSEL COMMENTS

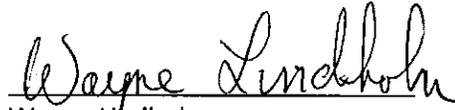
None

ADJOURNMENT: The Chair adjourned the meeting at 10:50 a.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Wayne Lindholm
Chair