

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

**INVESTMENT COMMITTEE MEETING  
June 28, 2017**

**MINUTES**

Attendance was as follows:

Present: Chris Prevatt, Chair; Eric Gilbert; Charles Packard; Shawn Dewane; Roger Hilton; David Ball; and Frank Eley

Absent: Wayne Lindholm; Russell Baldwin; and Shari Freidenrich

Also Present: Steve Delaney, Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Shanta Chary, Director of Investment Operations; David Beeson, Investment Officer; Adam Cheng, CFA, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Joe Fletcher, Staff Attorney; Anthony Beltran, Visual Technician; and Julius Cuaresma, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; and Holly Heiserman  
Pension Consulting Alliance: Allan Emkin

The Chair called the meeting to order at 9:36 a.m. Mr. Gilbert 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.

***Mr. Packard arrived at 9:37 a.m.***

**C-1 COMMITTEE MEETING:**

**Approval of Meeting and Minutes**

Investment Committee Meeting

May 24, 2017

Investment Manager Monitoring Subcommittee Meeting

June 1, 2017

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

**C-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES**

**Recommendation:** Receive and file.

**C-3 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 COMMENTS**

##### ***Presentation by Steve Delaney, CEO, OCERS***

Mr. Delaney introduced Ms. Molly Murphy, OCERS' new CIO.

Mr. Delaney noted that PCA's John Linder, CFA, left the firm. Mr. Delaney and Mr. Emkin introduced Colin Beebee as Linder's replacement in relationship coverage as OCERS' risk consultant.

A **motion** was made by Mr. Hilton and **seconded** by Mr. Eley to approve the Consent Agenda. The **motion carried unanimously.**

#### **I-3 CIO COMMENTS**

##### ***Presentation by Molly Murphy, CFA, CIO, OCERS***

Ms. Murphy introduced herself and discussed her investment background in various capacities, including her most recent role as CIO at Mercy Health, a \$5 billion multi-state healthcare system based in Cincinnati, Ohio.

Mr. Delaney and Ms. Murphy discussed her responsibilities at Mercy Health, as well as her role in forming and developing an investment team (including the launch of an in-house internal risk management system), and her initiatives in migrating away from a private equity fund-of-funds model.

Mr. Eley and Ms. Murphy discussed staff's Economic Dashboards, including its opportunity costs and benefits to the Committee and staff, as well as its fundamental versus technical predictability.

Mr. Prevatt and Ms. Murphy discussed her prior experience with Investment Boards, including the dynamic and strategic roles and responsibilities between staff, the Investment Committee and consultants, as well as the costs and benefits of monthly, quarterly, and ad-hoc meetings.

#### **I-4 PORTFOLIO ACTIVITY REPORT**

##### ***Presentation by Molly Murphy, CFA, CIO, 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 May 2017.

Ms. Chary discussed OCERS' 1-, 3-, and 5-year returns.

Ms. Chary provided an update on the employer prepayment proceeds and the global equity redeployment efforts.

Ms. Chary provided an update on the asset class re-categorizations, and its impact on OCERS' portfolio, including the Absolute Return and Real Return portfolios.

Mr. McCourt discussed the upcoming Asset Allocation timetable, including asset class reviews and policy target parameters for each asset class.

Ms. Murphy expressed her support of the newly adopted Asset Allocation policy.

Mr. McCourt discussed the market environment, including the technical factors moving various markets higher and its impact upon long-term return expectations.

Mr. McCourt discussed the relative complacency in the markets and the muted standard deviation levels of pension portfolios, including OCERS' portfolio, relative to both expectations and historical averages.

Mr. Ball and Mr. McCourt discussed potential pockets of complacency in OCERS' portfolio, namely the private credit portfolio. They also discussed Meketa's forward-looking returns in the credit space.

Mr. Prevatt asked PCA for warning signals that would suggest to the Committee to reduce portfolio risk.

Mr. Emkin responded that under policy, OCERS could only adjust each asset class within stated policy ranges. He warned against significant changes, observing there is no evidence that market timing works on a consistent and repeatable basis. He explained, however, that volatility could create opportunities, such as when OCERS capitalized on the dislocation in the energy complex.

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

***The Committee recessed at 10:30 a.m.***

***The Committee reconvened at 10:45 a.m.***

#### **I-5 RVK PUBLIC FUND UNIVERSE ANALYSIS REPORT**

***Presentation by Stephen McCourt, CFA & Holly Heiserman, Meketa***

Mr. McCourt presented the RVK SACRS Public Fund Universe Analysis Report (period ending December 31, 2016) and summarized key factors and results. He reported that OCERS' recent one-year return ranked in the 20<sup>th</sup> percentile, but the five-year return ranked in the 86<sup>th</sup> percentile.

Mr. McCourt reported that OCERS' asset allocation and the underlying manager selection across all asset classes positively contributed last year. He noted that the one outlier, OCERS' global equity

allocation, relatively underperformed; he stated that the Committee recently decided to terminate this allocation.

Relative to peers, Mr. McCourt summarized that OCERS' equity allocation is underweight the U.S. and international markets, while overweight emerging markets. He explained that while OCERS' equity allocation is overall relatively lower, there is some equity risk from energy and private credit allocations.

Relative to peers, Mr. McCourt observed that OCERS' alternatives allocation is larger due to a higher allocation to private equity and real assets.

Mr. McCourt acknowledged that the portfolio is relatively less liquid over recent periods, and so he cautioned that the risk in the portfolio may be masked or understated. He explained that though the volatility may be lower, that does not necessarily equate into a less risky portfolio, particularly relative to peers.

Mr. Emkin clarified that standard deviation is not only downside risk, but also upside risk; he explained that most market participants only view standard deviation as risk of loss.

Mr. Dewane and Mr. McCourt discussed OCERS' muted standard deviation over the last five years and the improbable likelihood of it remaining at such low levels.

Mr. Dewane stated that the possibility exists that a two or three standard deviation move could occur where OCERS' recent 5.2% standard deviation level jumps to over 10%. He opined then that OCERS could face headline risk that reflects such a left-tail move. However, he suggested that the Committee should make it known that opportunity could arise from such volatility.

Mr. McCourt noted that Mr. Dewane's sentiment echoes Mr. Emkin's comments earlier, acknowledging that a fund such as OCERS with a long-term horizon can and should view the dislocation as an opportunity, and capitalize on the downside volatility.

Mr. Dewane suggested that in a market environment where assets decline by two or more standard deviations to the downside, OCERS should pro-actively have a policy in place that guides the Committee in action, to avoid an emotional reaction, i.e., indiscriminately cutting risk across the portfolio.

Mr. Dewane, Mr. McCourt, and Mr. Emkin discussed OCERS' Sharpe ratio relative to peers.

Mr. Emkin observed how abnormal OCERS' standard deviation and Sharpe ratio has been over the recent time period.

Mr. Ball discussed OCERS' Investment Beliefs, and the concept of an opportunistic allocation, which is meant to capture anomalies that may arise from volatility.

A **motion** was made by Mr. Packard and **seconded** by Mr. Gilbert to receive and file I-5. The **motion carried unanimously.**

Mr. Ball suggested that OCERS' consultants and staff present quantitative-oriented presentation to the Committee in less technical and more layperson terms.

**I-6 CAPITAL GROUP - WATCH LIST**

***Presentation by Shanta Chary, DIO & David Beeson, IO, OCERS***

Mr. Beeson stated the rationale for Capital Group's addition to watch list for change in key personnel, describing Capital Group's portfolio management team diminished from seven portfolio managers (at the onset of 2015) to four.

Mr. Beeson explained the rationale for Capital Group's removal from watch list, reporting that over the past two years since the personnel change, he observed that this four-person portfolio manager team has remained stable and that there has been strong relative net of fees performance versus the MSCI EAFE benchmark.

Mr. Beeson reported that at the May Manager Monitoring Subcommittee Meeting, the Subcommittee was in favor and supported the removal of Capital Group from watch list.

Mr. Hilton and Mr. Prevatt discussed the process for manager addition/removal to watch list.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Packard to remove Capital Group from watch list. 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/CEO/CIO/STAFF/CONSULTANT COMMENTS**

Mr. Delaney discussed communication from Mr. Stephen Wontrobski, Mission Viejo, regarding Socially Responsible Investing. He also discussed his future travel plans to other pension plans, in an effort to learn of best practices.

Mr. Emkin commented that there has been very little benefit from peer group comparisons. He also remarked upon private markets, which appear to be statistically a low risk asset class; he stated that the absence of mark-to-market valuations generally masks and underestimates its actual risk.

Mr. Ball, Mr. McCourt, and Mr. Emkin discussed OCERS' recent top percentile rankings, the tailwind factors that drove them, and how easily those very same factors can become headwinds.

Mr. Emkin observed that while the RVK Public Fund Analysis Report is of value to the Committee, he recommended that it only be on the Consent Agenda.

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Mr. McCourt suggested that the value in reviewing the analysis is adopting best peer practices, rather than peer group comparison; he opined that such comparison is based on outcomes, which could be predicated on luck.

Mr. Eley expressed his agreement with Mr. Emkin's comment regarding the value of the RVK Public Fund Analysis Report. However, he opined that the Committee needs to review it to understand and appreciate the portfolio's drivers of risk and returns. He commented that the analysis as a Consent Agenda item may not be sufficient.

Mr. Hilton observed that this analysis aids many of the Committee members who are often asked by members and plan sponsors to discuss peer group comparisons.

**COUNSEL COMMENTS**

**None**

**ADJOURNMENT:** The Chair adjourned the meeting at 11:20 a.m.

Submitted by:



Steve Delaney  
Secretary to the Committee

Approved by:



Chris Prevatt  
Chair