

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

INVESTMENT COMMITTEE MEETING
July 27, 2017

MINUTES

Attendance was as follows:

Present: Chris Prevatt, Chair; Eric Gilbert; Russell Baldwin; Charles Packard; David Ball; and Frank Eley

Absent: Shawn Dewane; Wayne Lindholm; Shari Freidenrich; and Roger Hilton

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; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Cammy Danciu, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; and Holly Heiserman

The Chair called the meeting to order at 9:05 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 Board Member or a member of the public requests separate action on a specific item.

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting

June 28, 2017

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

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

INDIVIDUAL ITEMS AGENDA

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

I-2 CIO COMMENTS

Presentation by Molly Murphy, CFA, CIO, OCERS

Ms. Murphy provided an update on OCERS' investments in EnerVest.

Mr. Baldwin, Ms. Murphy, and Mr. Beeson discussed OCERS' original commitments to EnerVest.

Mr. McCourt commented upon lessons learned from OCERS' experience with EnerVest.

Mr. Ball, Ms. Murphy, and Mr. Beeson discussed the ongoing prospects of EnerVest and its underlying funds.

Mr. Eley, Mr. Ball, and Ms. Murphy discussed the current and prospective energy markets.

Ms. Murphy reported that Adam Cheng, CFA, is leaving OCERS to work for Los Angeles County Employees Retirement Association (LACERA), and thanked him for his service to OCERS.

Mr. Prevatt, observing that there were attendees present specifically for the public comments section, (which is scheduled for the end of the day), moved forward the public comments section of the meeting's 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.

Mr. Jordan Fein, of Unite Here, addressed the Committee about CBRE and their investment in the Pullman Hotel in the Bay Area (San Francisco and Redwood City). He specifically addressed the Committee about the hotel's employees and their desire to unionize.

Ms. Mitra Elie, of Pullman Hotel, addressed the Committee about her work experience at the Pullman Hotel and her want to unionize.

Mr. Ramon Qunitero, of Pullman Hotel, addressed the Committee about his work experience at the Pullman Hotel and his want to unionize.

Mr. Prevatt observed that Committee action would not be taken since this discussion was not on the agenda.

Mr. Prevatt asked if OCERS has an allocation to CBRE's fund that is invested in the Pullman Hotel.

Mr. Beeson responded that CBRE's Strategic Partner Fund 7 is invested in the Pullman Hotel and OCERS is not invested in this particular CBRE fund.

A discussion ensued amongst the Committee members regarding OCERS' screening techniques to ensure compliance with applicable laws.

Mr. Packard, Mr. Eley, and Mr. Prevatt discussed the possibility of agendizing this CBRE issue, OCERS' governance process, and how OCERS should prospectively monitor their real estate investments.

I-3 PORTFOLIO ACTIVITY REPORT

Presentation by Molly Murphy, CFA, CIO & David Beeson, IO, OCERS

Mr. Beeson presented the portfolio activity report, including the total fund overview, subscriptions and redemptions, as well as the asset allocation for June 2017.

Mr. Beeson provided an update on the redeployment and rebalancing activities, particularly within the OCERS' equity allocation.

Mr. Ball asked for an update on the private equity portfolio, including the actual run rate for private equity versus projections.

Mr. Packard, Mr. Beeson, and Ms. Murphy discussed OCERS' historical currency hedges, particularly the euro hedge.

Ms. Murphy stated that as the market naturally changes, so too does OCERS' portfolio continue to evolve; accordingly, she expressed that the Investments team continues to explore hedging opportunities in all asset classes.

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

I-4 CORE FIXED INCOME ASSET ALLOCATION REVIEW

Presentation by Molly Murphy, CFA, CIO, OCERS, Stephen McCourt, CFA, & Holly Heiserman, Meketa

Mr. McCourt presented Meketa's review of OCERS' Core Fixed Income portfolio, including a brief review of the approved asset allocation and target ranges for core fixed income.

Mr. Ball and Mr. McCourt discussed the rationale in categorizing Risk Mitigation Strategies (RMS) within Core Fixed Income versus as a separate asset class.

Ms. Murphy noted that there would be a discussion on RMS and possible strategies that could be included in OCERS' RMS allocation at the upcoming Strategic Annual Planning Meeting. She remarked that health care royalties can behave as bond-like substitutes, while also providing idiosyncratic risk and returns to the portfolio.

Mr. McCourt and Ms. Heiserman presented Meketa's recommended Fixed Income allocation approach as "core-satellite."

Mr. McCourt and Ms. Heiserman discussed the costs and benefits of interest rate risk and credit risk.

Mr. McCourt described Meketa's and staff's Core Fixed Income recommendations, including the division of the asset class into three sub-asset classes and proposed allocations and ranges for each sub-asset classes.

Mr. McCourt summarized that the proposed changes aim to reduce the portfolio's credit risk and economic sensitivity, while also extending the portfolio's duration.

Mr. Ball and Ms. Murphy discussed the duration of OCERS' core fixed income portfolio.

Mr. Ball and Mr. McCourt discussed managers and strategies that have investments above and below investment grade ratings.

Mr. McCourt and Mr. Prevatt discussed Meketa's and staff's proposed manager roster changes.

Mr. Eley, Mr. Baldwin, and Ms. Murphy continued the manager roster discussion, including staff's process that led to those changes.

Mr. Ball, Mr. McCourt, and Ms. Murphy also discussed manager roster changes in other asset classes, including Global Equity and Real Return.

Mr. Ball asked about duration, the market backdrop, and the investment rationale behind Meketa's want for more duration in the portfolio. He also requested education on duration at different times of the economic cycle.

Ms. Murphy responded that, on a forward basis, she intends on incorporating a quarterly (and possibly monthly) discussion on duration during Investment Committee Meetings.

Mr. McCourt provided a brief commentary on changes in duration, and its impact upon yield-to-maturity, and upon a portfolio's volatility in response to a change in interest rates.

Ms. Murphy and Mr. Ball discussed bond duration visually as a seesaw, where the closer one is to the fulcrum, the less one moves, so analogously, the longer the duration, the more one moves.

Mr. Eley, Mr. Ball, and Mr. McCourt discussed returns of fixed income managers (both active and passive), particularly within the context of fees, potential style drift, and statistical measures, e.g., Sharpe Ratio.

A **motion** was made by Mr. Ball and **seconded** by Mr. Gilbert to approve the proposed Fixed Income recommendations:

1. Review the Core Fixed Income sub-asset class allocation targets and ranges
2. Retain the existing four individual Core Fixed Income strategies as noted
3. Reassign PIMCO and Loomis Sayles unconstrained strategies to the Credit allocation
4. Terminate CQS and Tricadia from the Credit allocation
5. Trim Loomis Sayles High Yield to bring exposure to a benchmark neutral weight

The **motion carried unanimously.**

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

COMMITTEE MEMBER/CEO/CIO/STAFF/CONSULTANT COMMENTS

Mr. Eley stated his preference to agendize and verify the CBRE/Pullman Hotel union issue.

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Mr. Prevatt responded that he would work with staff on this issue. He also observed that, since OCERS is not invested in CBRE Fund 7, the difficulty in staff appropriately working on this issue.

Mr. Ball suggested that the Chair provide direction to staff to come back with a report and agendaize the CBRE/Pullman union issue.

Mr. Prevatt stated that he would work with staff to provide the appropriate response to the Committee.

Mr. McCourt and Mr. Ball discussed private equity cash flows.

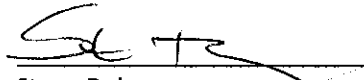
Mr. McCourt indicated that Meketa would review OCERS' private equity portfolio at the next Investment Committee Meeting.

COUNSEL COMMENTS

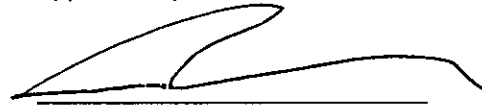
None

ADJOURNMENT: The Chair adjourned the meeting at 10:27 a.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Chris Prevatt
Chair