

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

**INVESTMENT MANAGER MONITORING
SUBCOMMITTEE MEETING
September 7, 2017
9:00 A.M.**

MINUTES

The Chair called the meeting to order at 9:03 a.m. and read the opening statement into the record. Attendance was as follows:

Present: Frank Eley, Chair; Charles Packard, Vice Chair; Russell Baldwin; and Shawn Dewane

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

A. INDIVIDUAL MANAGER PRESENTATIONS

Mr. Beeson introduced Adams Street, one of OCERS' private equity managers. Adams Street invests on behalf of OCERS through multiple vehicles: legacy separate account program (dating back to 1991); Adams Street's fund-of-fund program (2007-2015 global annual partnership funds); and Adams Street's direct funds (Co-Investment Fund III, Global Secondary Fund 5, and Venture/Growth Fund VI).

Mr. Dewane, Mr. Eley, and Mr. Beeson discussed Adams Street's IRR since inception.

Mr. Baldwin and Ms. Murphy discussed the costs and benefits of direct and indirect private equity investing.

ADAMS STREET PARTNERS

Presentation by Saguna Malhotra & Scott Hazen, CFA

The key highlights of the presentation were:

Firm update: Adams Street is 100% employee-owned, with over 160 employees located across the globe in nine offices. Adams Street manages in excess of \$30 billion in private equity investments, across primary, secondary, co-investments, and direct investments. More recently, the manager launched private credit/direct lending strategies.

Market Overview/Outlook for 2018: The manager observed that the credit-friendly environment has been a tailwind to their opportunity set. In this environment, the manager remarked that their underlying GPs have been net sellers. Adams Street described the challenging investment and deployment environment, where GPs have had to bid up for platform investments.

Adams Street is currently prioritizing sectors undergoing disruption and change, through either technological innovation, or structural transformations that can arrive through regulatory change. A particular area of focus for the manager is the healthcare sector.

Portfolio Strategy: The portfolio is intentionally diversified across strategies and sectors. More recently, the manager observed that a strong performance contributor has been in the small/mid-cap buyout space, where there has been ample liquidity as well. Within their venture portfolios, Adams Street seeks to be in early stage funds.

Performance: Since OCERS' initial investment with Adams Street in 1991, Adams Street has generated a 23.3% net IRR. Due to the robust performance, the manager observed that OCERS' investment is essentially self-funding, as OCERS' investments have been funded through distributions.

Mr. Packard, Ms. Malhotra, and Mr. Hazen discussed the potential impact of recent natural disasters upon Adams Street underlying portfolios.

Mr. Packard and Mr. Hazen discussed Adams Street's total value paid-in capital (TVPI) vehicle by vehicle since OCERS' initial investment.

Mr. Hazen also discussed some factors that have dampened some of OCERS' returns, including the J-curve effect and the technology bubble.

Mr. Packard and Ms. Malhotra discussed the costs and benefits of direct and indirect private equity investing.

Ms. Malhotra opined on the challenge in directly accessing top performing private equity managers. She remarked that Adams Street not only tracks firms, but they also closely follow spin-off opportunities through disciplined monitoring of partners within those firms and their respective track records.

Mr. Eley and Ms. Malhotra discussed the investing environment in China.

Mr. Packard and Ms. Malhotra discussed the investing environment in India.

Mr. Eley, Ms. Malhotra, and Mr. Hazen discussed the various investing and distribution schedules of Adams Street's investment strategies.

Mr. Baldwin, Ms. Malhotra, and Mr. Hazen discussed Adams Street's clean technology and renewable venture investments.

Ms. Malhotra discussed the difficulty in the aforementioned space, including the lack of persistence in clean technology investing.

Mr. Hazen discussed their ESG process within the overall framework of Adams Street's due diligence process.

Mr. Dewane and Mr. Hazen discussed Adams Street's performance.

Mr. Hazen observed that a couple one-off, outlier events strongly contributed to OCERS' 20%+ net IRR. He remarked that OCERS should expect prospective net IRR returns around the mid-teens level. He also noted the importance of time diversification.

Mr. Dewane and Ms. Malhotra discussed persistence of private equity returns.

Ms. Malhotra observed that there is evidence of persistent returns in some strategies, e.g., venture, and less so in others, e.g., buyout.

Mr. Dewane, Ms. Malhotra, and Mr. Hazen discussed the importance of employee-invested, internal capital and the correlation of such internal capital and outperformance.

Mr. Eley and Mr. Hazen discussed the secondary investment environment.

The Committee recessed at 10:19 a.m.

The Committee reconvened at 10:31 a.m.

Mr. Eley and Ms. Murphy discussed various factors and LP characteristics that could impair or amplify OCERS' access to top private equity firms.

Mr. Dewane opined on LP characteristics that private equity firms tend to favor. He suggested that the Committee draft protocols and guidelines detailing OCERS' private equity due diligence and commitment to the space.

CROSS OCEAN PARTNERS

Presentation by Graham Goldsmith, Steve Zander, Steve Heanly, & Mark Berry

Mr. Beeson introduced Cross Ocean where OCERS has committed \$50 million to Cross Ocean ESS Fund I (December 2013 inception) and \$200 million to Cross Ocean ESS Fund II (April 2016 inception). These two European direct lending strategies fall within OCERS' credit asset class. Cross Ocean invests in secondary debt issuances directly sourced from European banks who, due to regulatory pressure, continue to be forced sellers of non-core assets.

The key highlights of the presentation were:

Firm update: Cross Ocean manages \$3.1 billion in committed capital. The firm now comprises of 35 people in two offices (London, England and Greenwich, CT).

Market Overview/Outlook for 2018: The manager observed the continued inflation in asset prices due to the compression in interest rates. The manager believes their opportunity set remains robust as European banks are still under pressure to delever.

Portfolio Strategy: Cross Ocean's portfolio primarily consists of first lien, senior secured debt purchased at a discount. Such discounts exist due to their less-liquid nature. The manager avoids jurisdictional risk by investing in European countries with strong creditor protection rights (e.g.,

Germany and the United Kingdom). Rather than focusing on restructuring situations, the manager focuses on performing assets, which tend to have a shorter average investment life. This enables Cross Ocean to recycle and return capital faster to LPs.

Performance: In both Fund I and Fund II, there have been zero realized losses to date. Since inception, through the end of June 2017, Fund I has generated a 7.5% net IRR. Fund II is still early in its investment period; since inception, it has generated a 19.5% net IRR which is inflated due to a few exits early in the life of the fund

Mr. Eley, Mr. Zander, and Mr. Goldsmith discussed Cross Ocean's risk-adjusted performance.

Mr. Goldsmith also observed that Cross Ocean primarily focuses on risk-adjusted performance measures from a bottoms-up, credit-by-credit perspective.

Mr. Eley asked about Cross Ocean's use of leverage.

Mr. Zander and Mr. Goldsmith responded that Cross Ocean does not use leverage. They also discussed Fund II's credit facilities.

Mr. Baldwin, Mr. Zander, and Mr. Goldsmith discussed Cross Ocean's approach to Environmental, Social and Governance (ESG) investing.

Mr. Zander and Mr. Goldsmith discussed their focus on mundane industries where revenues are repeatable and recurring. They also remarked upon Cross Ocean's general aversion to investing in retail and energy companies, where companies tend to be largely predicated on binary events and/or on large externalities and factors.

Mr. Packard, Mr. Zander, and Mr. Goldsmith discussed the work experience of Cross Ocean's principals, as Mr. Zander, Mr. Goldsmith, and other Cross Ocean employees have worked together at prior firms for a number of years.

Mr. Eley and Ms. Murphy discussed Cross Ocean's performance.

Mr. Dewane and Ms. Murphy discussed Cross Ocean's valuation and pricing policy.

A **motion** was made by Mr. Packard and **seconded** by Mr. Baldwin to receive and file the manager presentations. The **motion carried unanimously.**

PUBLIC COMMENTS:

None

COMMITTEE MEMBER COMMENTS:

None

STAFF COMMENTS:

None

COUNSEL COMMENTS:

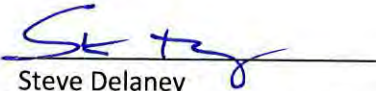
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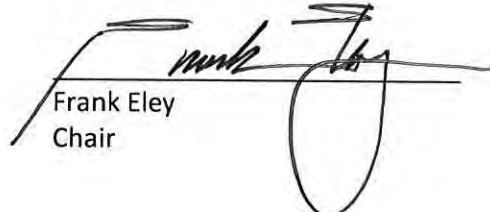
ADJOURNMENT:

The Chair adjourned the meeting at 11:50 a.m.

Submitted by:

Approved by:


Steve Delaney
Secretary to the Committee


Frank Eley
Chair