

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

**INVESTMENT COMMITTEE MEETING
October 25, 2017**

MINUTES

Attendance was as follows:

Present: Chris Prevatt, Chair; Wayne Lindholm, Vice Chair; Charles Packard; Russell Baldwin; Shawn Dewane; Roger Hilton; David Ball; Frank Eley; and Shari Freidenrich

Absent: Eric Gilbert

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

Meketa Investment Group: Laura Wirick, CFA; Gerald Chew; Lisa Bacon; and Holly Heiserman-Biertuempfel, CFA

The Chair called the meeting to order at 9:08 a.m. Mr. Packard 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.

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

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting
Investment Manager Monitoring Subcommittee Meeting

September 19, 2017
October 5, 2017

Recommendation: Authorize meetings and approve minutes.

C-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES

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 CIO COMMENTS

Presentation by Molly Murphy, CFA, CIO, OCERS

Ms. Murphy provided commentary on the global markets.

Ms. Murphy also discussed the 2018 calendar; she indicated plans for more education sessions for the Committee.

I-3 PORTFOLIO ACTIVITY REPORT

Presentation by Molly Murphy, CFA, CIO & Shanta Chary, DIO, OCERS

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

Ms. Chary presented 3rd quarter and 2017 year-to-date performance figures for the global markets.

Mr. Delaney, Ms. Chary, and Ms. Murphy discussed procedures and policies pertaining to situations where asset classes could temporarily fall outside of approved asset allocation ranges.

Mr. Ball, Mr. Prevatt, Ms. Wirick, and Ms. Murphy discussed manager asset re-classification procedures and policies.

Mr. Ball cautioned against modifying manager asset classifications in order to fit within the asset allocation ranges.

Ms. Wirick and Ms. Murphy expressed agreement, noting that changes in manager asset classifications are generally a one-time occurrence and should only arise after the approval of asset allocation targets and ranges.

Mr. Ball observed that USD's performance has been a tailwind for ex- U.S. assets.

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

I-4 U.S. LONG TREASURY ALLOCATION

Presentation by Molly Murphy, CFA, CIO, OCERS

Ms. Murphy provided the rationale behind the U.S. long Treasury bond allocation as part of the Risk Mitigation Strategies (RMS) allocation structure. She further provided the costs and benefits of expressing the U.S. long Treasury bond exposure through the simpler structure of BlackRock's 20+ Treasury Bond Index relative to the more complex Bridgewater's Pure Alpha structure.

Ms. Freidenrich asked for index product comparisons in the future.

Mr. Baldwin expressed agreement for the BlackRock 20+ Treasury Bond Index and suggested potentially managing similar, plain-vanilla assets, in-house.

Ms. Murphy discussed the costs and benefits of managing similar strategies and assets in-house.

Ms. Freidenrich and Ms. Murphy discussed the cash flow process of implementing the U.S. Treasury Bond allocation into the RMS portfolio.

A **motion** was made by Mr. Baldwin and **seconded** by Mr. Dewane to approve the use of the BlackRock 20+ Treasury Bond Index for the 2.5% U.S. Long Treasury Bond allocation within the Risk Mitigation asset allocation, which amounts to approximately \$370 million based on the current total fund assets.

I-5 REAL ASSETS REVIEW

Presentation by Lisa Bacon, Gerald Chew, & Laura Wirick, CFA, Meketa

Ms. Wirick introduced Mr. Chew and Ms. Bacon to the Committee. They presented Meketa's initial review of OCERS' Real Assets portfolio.

Mr. Chew discussed the rationale for Real Assets within the context of a diversified pension portfolio.

Mr. Chew provided market commentary on the energy complex and the infrastructure opportunity set.

Mr. Baldwin, Ms. Bacon, and Mr. Chew discussed the classification and opportunity set of fossil fuels, renewables, and infrastructure.

Mr. Packard, Ms. Murphy, Mr. Chew, and Ms. Wirick discussed the potential impact of electric vehicles upon fossil fuels over the short-term relative to the long-term.

Mr. Ball discussed the hydrocarbon market and its efficacy within industrial markets relative to the electric vehicle market.

Ms. Wirick discussed the real estate opportunity set and briefly provided the rationale for increasing exposure to value-add/opportunistic real estate managers.

Mr. Baldwin and Mr. Chew discussed timing issues pertaining to OCERS' timberland investments.

Mr. Packard and Mr. Chew discussed the investment structure and liquidity profile of OCERS' timberland investments.

Mr. Chew and Ms. Wirick characterized the timberland market as a sub-optimal time for OCERS to sell, and thus Meketa's recommendation is to sell down and exit this asset class over time.

Ms. Freidenrich, Ms. Wirick, and Mr. Chew discussed the expected risk-return of the Real Return asset class.

Ms. Freidenrich asked for the expected risk-return figures for the underlying sub-asset classes within the Real Return asset class.

Ms. Murphy provided the rationale for agriculture and timberland investments, including the diversification benefits and the ballast it provides against the more-volatile energy asset class.

Mr. Lindholm and Mr. Chew discussed the various risks associated with timberland assets invested outside the U.S.

Mr. Ball asked for a correlations analysis of the underlying assets within the Real Assets space.

Mr. Ball asked for the overall rationale behind timberland and agriculture, opining that both asset classes appear to contribute insufficient returns to OCERS' portfolio.

Mr. Prevatt and Ms. Wirick discussed specifics of Meketa's recommended timing in selling down OCERS' timberland investments.

Mr. Eley expressed agreement with Meketa's recommendation to sell down timberland, but also opined that infrastructure and farmland may be beneficial to OCERS' portfolio, particularly due to recent trends, including demographic changes and technological innovation.

Ms. Freidenrich and Mr. Ball expressed the need for more Board education on each of the underlying Real Assets sub-asset classes.

Ms. Wirick noted that adopting Meketa's recommendations would not obligate OCERS to make investments within Real Assets. Rather, she remarked that the recommendations provide more of a road map and framework.

Mr. Chew presented Meketa's proposed pacing plan for the Real Assets portfolio.

Mr. Dewane and Mr. Chew discussed the importance of vintage year time diversification.

Mr. Dewane and Ms. Wirick discussed that Meketa's Real Assets recommendation does not increase the overall risk of the Real Assets portfolio; the recommendation, rather, proposes sub-asset class allocation changes that not only maintain the Real Assets risk budget, but also forecast into improved risk-adjusted returns.

Mr. Ball expressed disagreement with Meketa's recommendations, citing the need for more education and information, particularly, sub-asset class correlations. He expressed concern regarding timberland, farmland, and infrastructure investments. He expressed agreement regarding the importance of timing, particularly in markets priced to perfection, i.e., real estate.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Hilton to

1. Adopt the allocation targets and ranges for Real Estate and Real Return.
2. Adopt the sub-asset class allocation targets for the components of Real Estate and Real Return.

The **motion carried 6-3** with voting as follows:

AYES

Mr. Dewane
Mr. Baldwin
Mr. Hilton
Mr. Lindholm
Mr. Eley
Chair Prevatt

NAYS

Mr. Ball
Ms. Freidenrich
Mr. Packard

ABSTAIN

ABSENT

The Committee recessed at 10:30 a.m.

The Committee reconvened at 10:50 a.m.

I-6 ENERGY ALLOCATION RECOMMENDATION

Ms. Murphy provided a brief framework of item I-6 Energy Allocation Recommendation, noting that EnCap Investments (EnCap) would commence their presentation with an education session on the energy complex and then proceed to discuss their investment vehicles, EnCap Energy Capital Fund XI and EnCap Flatrock Midstream Fund IV.

Ms. Murphy presented an energy value chain flow chart; she also described characteristics that typify upstream, midstream, and downstream companies.

Mr. Eley and Ms. Murphy discussed similarities and differences between EnCap and OCERS' incumbent energy investments.

ENCAP INVESTMENTS, LP

Presentation by Charles Bauer, Gary Petersen, & Jason DeLorenzo

Mr. Chew provided commentary on EnCap's track records, as well as EnCap's capital raising efforts on their Capital Fund XI and Flatrock Midstream Fund IV.

Mr. Ball and Mr. Chew discussed the fee structures of EnCap's funds.

Ms. Freidenrich, Mr. Chew, Ms. Murphy discussed potential key man risks associated with EnCap.

Ms. Murphy observed that EnCap has a deep and experienced bench that supports the four founding members.

Mr. Ball and Ms. Chary further discussed the fee structures of EnCap's funds, particularly as it relates to hard and soft hurdles.

Mr. Baldwin asked about EnCap’s investment philosophy regarding Environmental, Social, and Governance (ESG) and the impact of the recent hurricane season upon EnCap’s portfolios.

Mr. Baldwin stated that he would vote no on the proposed EnCap investments due to his belief that renewable energy and electric vehicles would adversely affect EnCap’s opportunity set.

Mr. Packard and Ms. Murphy discussed the rationale driving OCERS’ proposed allocation to each of EnCap’s respective funds.

Mr. Ball, Mr. Eley, Ms. Wirick, and Ms. Murphy discussed EnCap’s use of leverage at the fund level and at the project level.

Mr. Lindholm, Mr. Ball, and Mr. Chew discussed EnCap’s investment life cycle.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Ball to approve a \$100 million commitment to EnCap Energy Capital Fund XI and a \$50 million commitment to EnCap Flatrock Midstream Fund IV. The **motion carried 8-1** with voting as follows:

AYES

Mr. Ball
Ms. Freidenrich
Mr. Hilton
Mr. Lindholm
Mr. Packard
Mr. Eley
Mr. Dewane
Chair Prevatt

NAYS

Mr. Baldwin

ABSTAIN

ABSENT

*** * * * *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

Ms. Murphy provided the performance for hedged and unhedged non-U.S. equities.

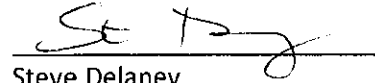
COUNSEL COMMENTS

None

Orange County Employees Retirement System
October 25, 2017
Investment Committee Meeting – Minutes

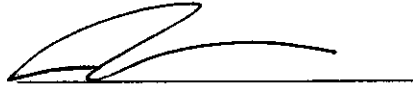
ADJOURNMENT: The Chair adjourned the meeting at 12:40 p.m.

Submitted by:



Steve Delaney
Secretary to the Committee

Approved by:



Chris Prevatt
Chair