

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

**INVESTMENT COMMITTEE MEETING
December 13, 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; David Beeson, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Gina Ratto, Chief Legal Officer; Javier Lara, Visual Technician; and Julius Cuaresma, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; Laura Wirick, CFA

The Chair called the meeting to order at 9:04 a.m. Mr. Ball 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. Ball 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

November 29, 2017

Recommendation: Authorize meeting 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 financial markets, including recent developments surrounding global central bank activity and policy.

Mr. Packard and Ms. Murphy discussed similarities and differences between the 2006 - 2007 market environment and the current market environment.

Mr. Eley, Mr. McCourt, and Ms. Murphy discussed the global and U.S. shadow banking market.

Mr. Ball and Ms. Murphy discussed OCERS' direct lending portfolio; they also observed the number of covenant-lite deals in the current marketplace.

Mr. Dewane arrived at 9:15 a.m.

Mr. Ball and Ms. Murphy discussed different U.S. interest rate regimes and the potential impact of higher U.S. rates upon various asset classes, including the USD.

I-3 ILLIQUID INVESTMENTS ADVISORY SERVICES RFP UPDATE

Presentation by Molly Murphy, CFA, CIO, OCERS

Ms. Murphy provided an update on OCERS' Illiquid Investments Advisory Services RFP.

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

I-4 BENCHMARK RECOMMENDATION

Presentation by Molly Murphy, CFA, CIO, OCERS & Laura Wirick, CFA, Meketa

Ms. Murphy discussed the importance of benchmarking. She also discussed the importance of understanding the inherent flaws and structural biases in benchmarking that thwart attempts at perfect benchmarks.

Ms. Wirick presented Meketa's benchmark review and recommendations for OCERS' portfolio.

Mr. Packard and Ms. Wirick discussed best practices for benchmarking.

Ms. Wirick stated that best practice is implementing benchmark recommendations on a go-forward basis, rather than on a retroactive basis.

Ms. Wirick discussed known structural differences and expected periods of outperformance and underperformance for Meketa's and staff's recommended benchmarks.

Ms. Freidenrich and Ms. Murphy discussed the rationale behind the recommended blended benchmarks for the core fixed income portfolio.

Mr. Ball and Ms. Wirick discussed NCREIF's indices.

Ms. Freidenrich, Ms. Wirick, and Ms. Murphy discussed the various factors that naturally delay performance reporting for illiquid investments.

Ms. Wirick also noted that lagged performance reporting characteristically masks the actual standard deviation of illiquid investments.

A **motion** was made by Mr. Ball and **seconded** by Mr. Dewane to approve the recommended benchmarks. The **motion carried unanimously.**

The Committee recessed at 9:52 a.m.

The Committee reconvened at 10:15 a.m.

I-5 CORE FIXED INCOME ALLOCATION RECOMMENDATION

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

Ms. Murphy and Ms. Chary provided background information regarding OCERS' core fixed income portfolio as well as the rationale driving Meketa's and staff's recommendations to fund a \$125 million allocation each to Longfellow Core (Longfellow) and Schroders Value Core (Schroders) strategies.

Ms. Chary briefly described the active versus passive management breakdown of OCERS' core fixed income portfolio. She further described OCERS' core fixed income portfolio, including the portfolio's investment style breakdown between active and passive management.

Ms. Chary explained the due diligence process that Meketa and staff undertook over the course of 2017 in determining the ideal mix of core fixed income managers.

Ms. Chary summarized the background and investment process of Longfellow and Schroders. She also described the respective costs and benefits of those managers.

Ms. Murphy discussed the contributions of each manager to OCERS' portfolio and the rationale behind pairing Longfellow and Schroders together, rather than investing in one manager.

Mr. Ball and Ms. Murphy discussed various factors driving the performance and risk measures of Longfellow and Schroders.

Ms. Freidenrich and Ms. Murphy discussed the planned allocation process, particularly the funding source for the two recommended managers.

Ms. Murphy observed that the addition of these two recommended managers to OCERS' portfolio would likely result in less credit risk and more interest rate risk. She further outlined pro-forma characteristics for the portfolio.

Mr. Eley and Ms. Murphy discussed OCERS' core plus allocation, which includes active investment managers, PIMCO and Dodge & Cox.

Ms. Murphy observed OCERS' pairing of Dodge & Cox with PIMCO shares similar dynamics in pairing Schroders with Longfellow.

Ms. Murphy described various characteristics for OCERS' core fixed income portfolio, including credit rating, yield, and duration.

Mr. Ball, Mr. McCourt, and Ms. Murphy discussed duration figures for OCERS' core fixed income across different interest rate environments.

Mr. Ball and Ms. Murphy discussed the rationale for including BlackRock's 20+ Treasury Bond Index into OCERS' Risk Mitigation Strategies portfolio.

Ms. Murphy presented Longfellow's and Schroders' Sharpe ratios across different time periods.

A **motion** was made by Mr. Ball and **seconded** by Mr. Dewane to approve an initial \$125 million allocation each to Longfellow Core and Schroders Value Core Strategies. The **motion carried unanimously.**

I-6 PRIVATE EQUITY REVIEW

Presentation by Stephen McCourt, CFA, Meketa

Mr. McCourt provided a summary of OCERS' private equity program through the 2nd quarter of 2017, including a performance and pacing plan update. He discussed changes in the portfolio on a quarter-over-quarter basis.

Mr. McCourt noted, in an effort to reflect certain credit managers' illiquidity, Meketa and staff has reclassified some credit managers as private equity managers; he reported that this effort has thus increased the private equity allocation.

Mr. Baldwin and Mr. McCourt discussed the levels of "dry powder" in today's market relative to the 2006 -2007 period. They also discussed "dry powder," particularly as it relates to fees.

Mr. Lindholm and Mr. McCourt discussed the recently proposed U.S. tax reform bill and its potential impact upon the private equity industry.

A **motion** was made by Mr. Ball and **seconded** by Mr. Packard to receive and file I-6. 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

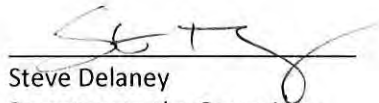
Mr. Baldwin discussed blockchain, its possible impact on the financial industry, as well as Environmental, Social, and Governance (ESG); he indicated his interest in being kept abreast of blockchain and ESG developments.

COUNSEL COMMENTS

None

ADJOURNMENT: The Chair adjourned the meeting at 11:23 p.m.

Submitted by:



Steve Delaney
Secretary to the Committee

Approved by:



Chris Prevatt
Chair