

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

**INVESTMENT COMMITTEE MEETING
April 24, 2018**

MINUTES

Attendance was as follows:

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

Absent: Eric Gilbert; and Shari Freidenrich

Also Present: Steve Delaney, Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Shanta Chary, Director of Investment Operations; Tarek Turaigi, CFA, Investment Officer; 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, CAIA & Holly Heiserman-Biertuempfel, CFA

The Chair called the meeting to order at 9:02 a.m. Mr. Hilton led the Pledge of Allegiance.

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Committee Member requests separate action on a specific item.

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

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting	February 20, 2018
Investment Committee Meeting	March 29, 2018
Investment Manager Monitoring Subcommittee Meeting	April 5, 2018

Recommendation: Authorize meeting and approve minutes.

CIO COMMENTS

Ms. Murphy provided OCERS' Quiet Period Policy updates as it relates to OCERS' Illiquid Investments Advisory Services RFP and Proxy Voting Service Provider RFI.

Ms. Murphy provided commentary on the financial markets, including a discussion on the rates markets.

Mr. Ball and Ms. Murphy discussed the London Interbank Overnight Rate (LIBOR), and the rationale behind the new rates, the Secured Overnight Financing Rate (SOFR) and the Sterling Overnight Interbank Average Rate (SONIA).

Mr. Eley, Mr. Ball, and Ms. Murphy continued the discussion on rates, particularly the possible impact on OCERS' direct lending managers.

Mr. Lindholm and Ms. Murphy discussed the foreign exchange markets.

ACTION ITEMS

NOTE: Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee's discussion of the item. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Committee prior to the Committee's discussion on the item by signing in on the Public Comment Sign-In Sheet located at the back of the room.

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

A-2 CHARTERS & INVESTMENT POLICY STATEMENT REVIEW

Presentation by Molly A. Murphy, CFA, CIO, OCERS

Mr. Lindholm commenced the review of the: (1) Investment Committee (IC) Charter; (2) CIO Committee Charter; and (3) Investment Policy Statement. He briefly described the discussions at prior Committee meetings (both Investment and Governance) that led to the day's discussion and recommended amendments. He reported that Ms. Freidenrich would be absent at the day's meeting, but she sent an email that outlined her concerns surrounding the recommended amendments.

Ms. Murphy reported that while there were three documents up for the Committee's approval, only one, the Investment Committee Charter, if approved, would also need to go back to the Board of Retirement for approval.

Mr. Prevatt arrived at 9:08 a.m.

Mr. Ball, Mr. Delaney, and Ms. Ratto discussed the Board of Retirement's role and responsibility as it relates to the Investment Committee charter.

Ms. Ratto explained that the Board of Retirement delegates authority to the various underlying Committees, including the Investment Committee. She further explained that although the Board of Retirement consists of the same Trustees as the Investment Committee, she stated that better governance is achieved through the Investment Committee Charter's approval through the Board of Retirement.

After further discussion, the Committee commenced the discussion regarding the CIO Charter amendments.

Mr. Delaney observed that Ms. Freidenrich’s concerns surround prior, already approved language. Mr. Prevatt and Mr. Baldwin each expressed agreement that Ms. Freidenrich’s concerns were factored in prior approvals of the CIO Charter.

Mr. Delaney and Ms. Ratto discussed Ms. Freidenrich’s concern surrounding the CIO’s interaction with the Audit Committee on page 3 of the CIO Charter. They suggested improved governance and precise language through the inclusion of “its” in the following sentence: “Assist the Audit Committee in coordinating its annual financial audit as related to investment matters.”

Mr. Prevatt and Mr. Dewane each expressed agreement with the proposed inclusion of “its” into the aforementioned sentence.

A **motion** was made by Mr. Prevatt and **seconded** by Mr. Dewane to approve the amendments to the CIO Charter. The **motion carried 7-1** with voting as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Packard	Mr. Eley		Ms. Freidenrich
Mr. Prevatt			
Mr. Dewane			
Mr. Ball			
Mr. Hilton			
Mr. Baldwin			
Chair Lindholm			

Ms. Murphy described the recommended amendments to the Investment Committee Charter.

After further discussion, a **motion** was made by Mr. Ball and **seconded** by Mr. Eley to approve the Investment Committee Charter. The **motion carried unanimously.**

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Packard			Ms. Freidenrich
Mr. Prevatt			
Mr. Dewane			
Mr. Ball			
Mr. Baldwin			
Mr. Eley			
Mr. Hilton			
Chair Lindholm			

Ms. Murphy described the recommended amendments to the Investment Policy Statement.

After further discussion, a **motion** was made by Mr. Ball and **seconded** by Mr. Dewane to approve the Investment Policy Statement.

Mr. Eley and Ms. Murphy discussed the role and responsibilities of consultants during the Watch List and Termination process.

Mr. Ball explained that the responsibility is situation-specific; he described that Meketa and PCA would be concurrently involved if the issue were an asset allocation and/or multi-discipline issue.

Ms. Wirick expressed agreement.

Mr. Eley, Mr. Ball, and Ms. Murphy discussed the proper procedures surrounding managers on Watch List, particularly as it relates to the responsibilities for the Investment Manager Monitoring Subcommittee relative to the Investment Committee.

Mr. Prevatt stated that the Consultants' responsibilities are already described in their respective contracts, thus obviating the need for those details to be also included in the Investment Policy Statement.

A **motion** was made by Mr. Ball and **seconded** by Mr. Dewane to approve the amendments to the Investment Policy Statement. The **motion carried unanimously.**

AYES

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

NAYS

ABSTAIN

ABSENT

Ms. Freidenrich

The Committee recessed at 9:49 a.m.

The Committee reconvened at 9:57 a.m.

A-3 PRIVATE EQUITY OVERVIEW & PROGRAM PLAN FOR OCERS

Presentation by David Fann, Heidi Poon, CFA, CAIA, & Nic DiLoretta, TorreyCove

Ms. Murphy provided initial background commentary regarding TorreyCove's presentation.

Mr. Fann commenced TorreyCove's private equity presentation and provided a brief history of the private equity market. He discussed the various asset classes within private equity, including the three targeted areas for OCERS' portfolio, Leveraged Buyout, Growth Capital and Venture Capital.

Mr. Fann described the opportunities and risks associated with private equity.

Mr. Lindholm and Mr. Fann discussed the fund-of-funds portfolio and TorreyCove's prospective role in monitoring those investments, particularly as it concerns OCERS' intended goal of a direct allocation to this space.

Mr. Ball, Mr. Fann, and Ms. Murphy discussed various asset class performance benchmarks.

Mr. Lindholm and Ms. Murphy discussed OCERS' fund-of-one with Pantheon.

Mr. DiLoretta provided an update on the private equity market.

Mr. Packard and Mr. DiLoretta discussed OCERS' dry powder allocation.

Mr. Ball, Mr. Fann, and Mr. DiLoretta discussed the current valuations (EBITDA) and leverage ratios (Debt-to-Total Capitalization) between public and private markets. Given the rich valuations that characterize both public and private markets, they also discussed the unique prospective opportunity set and risks of those markets.

Mr. Fann and Ms. Murphy discussed the various ways that private equity managers can add value, i.e., operationally through improving supply chain costs and orchestrating buy-and-build strategies.

Mr. Ball expressed his concern regarding the proposed pacing plan, opining that there is no need to rush and fill the allocation.

Mr. Ball and Mr. Fann, in agreement, each discussed the challenge in allocating capital in today's environment that is absent of undervalued assets across the investable universe, and consequently, the particular need for caution and deliberation.

Mr. Dewane and Mr. Fann discussed normalized internal rates of returns versus annualized rate of returns.

Mr. Dewane and Ms. Poon discussed Cambridge's private equity benchmarks.

Ms. Poon commenced TorreyCove's recommended program plan for OCERS' portfolio. She stated that the pacing is best viewed on a multi-rolling year basis, given that capacity for top-quartile managers is limited and managers launching funds on an annual basis.

Mr. Delaney and Ms. Murphy discussed OCERS' staffing needs for the coverage of private equity.

Mr. Ball, Ms. Murphy, and Ms. Poon discussed the number of desired GP relationships and the needed due diligence from OCERS and TorreyCove, particularly at the portfolio company level.

Mr. Ball expressed his concern regarding cryptocurrencies and the potential for OCERS to have exposure to them through private equity, particularly through venture capital managers.

Mr. Fann discussed TorreyCove's internal technology investments, which empowers TorreyCove and OCERS by extension to analyze risk at the company level.

Ms. Poon discussed TorreyCove's and staff's recommended sub-sector ranges.

Mr. Ball asked for more specific color regarding the ranges and weights to venture capital / growth, particularly as it concerns the stages in venture capital investing (i.e., seed, early stage, later stage, etc).

Ms. Murphy discussed that the recommend tactical weighting does not necessarily reflect a macro view of the world, but rather a micro view of the underlying managers and their respective opportunity set.

Mr. Ball expressed the need for extra due diligence surrounding legal structures when OCERS migrates away from investments outside the U.S. and Europe.

Mr. Fann expressed agreement, noting the importance of currency and tax management, in addition to legal structures and intellectual property as it concerns non-U.S. investments.

Ms. Murphy and Mr. Fann discussed typical private equity fee structures.

Mr. Fann described the supply demand imbalance of available capital versus good managers, creating a market disequilibrium that managers use to their advantage. He noted that this imbalance has pushed carried interest to premium levels. He also discussed distortions in the marketplace where targeted returns might be lower. He stated that TorreyCove and staff would emphasize quality managers, explaining that this effort could sometimes lose out on fee negotiations.

Mr. Packard and Mr. Fann discussed the importance of disciplined capital allocation across multiple cycles to all-weather type of managers.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Packard to approve the recommended preliminary plan for 2018 private equity commitments and the sub-sector ranges. The **motion carried unanimously.**

I-5 U.S. & CHINA: CONVERGENCE OR CONFLICT?

Presentation by Jim Meketa, Meketa

Mr. Meketa discussed the current relationship between the U.S. and China and its potential impact on future global trade balances.

Mr. Dewane left at 12:01 p.m.

Mr. Meketa and Mr. Packard discussed the risks and benefits associated with investing in China relative to investing in other Asian countries.

INFORMATION ITEMS

I-1 QUIET PERIOD - INVESTMENT RELATED SEARCHES

Written report only

I-2 INVESTMENT COMMITTEE COMMUNICATIONS

Written report only

I-3 SECURITIES LITIGATION UPDATE

Written report only

I-4 PORTFOLIO ACTIVITY REPORT

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

CLOSED SESSION

**E-1 CONFERENCE WITH LEGAL COUNSEL REGARDING PENDING LITIGATION
(GOVERNMENT CODE SECTION 54956.9)**

In re BP p.l.c. Securities Litigation, United States District Court, Southern District of Texas (Case No. 4:12-CV-3715)

Adjourn pursuant to Government Code section 54956.9(d)(1)

The Committee entered into Closed Session at 12:28 p.m.

The Committee reconvened from Closed Session at 12:41 p.m.

Mr. Eley reported that the Committee unanimously voted to authorize and direct OCERS General Counsel to voluntarily dismiss OCERS' complaint in this case.

*******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

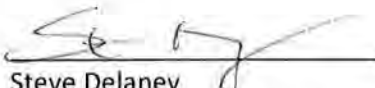
None

COUNSEL COMMENTS


None

ADJOURNMENT: The Chair adjourned the meeting at 12:43 p.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Wayne Lindholm
Chair