

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

**GOVERNANCE COMMITTEE MEETING  
July 10, 2018  
9:00 a.m.**

**Members of the Committee**

Shawn Dewane, Chair  
Roger Hilton, Vice Chair  
Chris Prevatt  
David Ball

**AGENDA**

This agenda contains a brief general description of each item to be considered. The Committee may take action on any item included in the agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Committee may consider matters included on the agenda in any order, and not necessarily in the order listed.

**PUBLIC COMMENT**

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Committee; and (2) any matter appearing on the Consent Agenda.

When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

**CONSENT AGENDA**

**C-1 APPROVE GOVERNANCE COMMITTEE MEETING MINUTES**

Governance Committee Meeting Minutes

March 28, 2018

**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 PROPOSED AMENDMENTS TO THE TRAVEL POLICY**

*Presented by Gina M. Ratto, General Counsel*

**Recommendation:** Staff proposes the following amendments to the Travel Policy (Policy) for the Governance Committee's consideration, and for recommendation to the Board if the Committee so determines:

- (1) Include a provision in the Policy to state that whenever feasible, Board and staff members will travel on the same day of one-day events, and on the first and last days of multiple-day events, rather than the day before or after.
- (2) Specify that Board members will be reimbursed for transportation costs to attend Board and committee meetings.
- (3) Expand the list of preapproved conferences in Paragraph 10.b. of the Policy to include all conferences sponsored by the National Conference on Public Employee Retirement Systems (NCPERS).

**A-3 TRIENNIAL REVIEW OF THE LEGISLATIVE POLICY**

*Presentation by Gina M. Ratto, General Counsel*

**Recommendation:** Approve, and recommend that the Board approve, proposed revisions to the Legislative Policy as presented.

**A-4 TRIENNIAL REVIEW OF THE EXTRAORDINARY EXPENSE RECOVERY POLICY**

*Presented by Gina M. Ratto, General Counsel*

**Recommendation:** Approve, and recommend that the Board approve, proposed revisions to the Extraordinary Expense Recovery Policy as presented.

**A-5 TRIENNIAL REVIEW OF THE COST IMPACTING POLICY**

*Presented by Gina M. Ratto, General Counsel*

**Recommendation:** Approve, and recommend that the Board approve, proposed revisions to the Cost Impacting Policy as presented.

**A-6 RESCIND THE ANNUAL DISCLOSURE POLICY**

*Presented by Gina M. Ratto, General Counsel*

**Recommendation:** Recommend that the Board rescind the Annual Disclosure Policy.

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

**NOTICE OF NEXT MEETINGS**

**REGULAR BOARD MEETING**

**July 16, 2018  
9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

**INVESTMENT COMMITTEE MEETING**

**July 26, 2018  
9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

**DISABILITY COMMITTEE MEETING**

**August 7, 2018  
10:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

*All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.*

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at [adminsupport@ocers.org](mailto:adminsupport@ocers.org) or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

C-1

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

**GOVERNANCE COMMITTEE MEETING**

**March 28, 2018**

**9:00a.m.**

**MINUTES**

Attendance was as follows:

Present: Shawn Dewane, Chair; Roger Hilton, Vice Chair; Chris Prevatt; and David Ball

Also Present: Steve Delaney, Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Gina Ratto, General Counsel; Brenda Shott; Chief Executive Officer, Internal Operations; Anthony Beltran, Visual Technician; and Sonal Sharma, Recording Secretary

The Chair called the meeting to order at 9:09 a.m.

**ACTION ITEMS**

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**A-1 CHIEF INVESTMENT OFFICER CHARTER**

*Presented by Steve Delaney, CEO and Molly Murphy, CIO*

Mr. Delaney provided background commentary regarding Ms. Murphy's recommended revisions to the CIO Charter, including the recommendation of delegated authority to hire and terminate managers. He suggested this is only a slight change to current processes and procedures, but also noted this change is an important one.

Mr. Delaney reviewed and discussed OCERS' contract with OCERS' Strategic Portfolio and Risk Advisor, PCA; he stated, that "pursuant to Government Code Section 31595 and related provisions of law, the BOARD, may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, ..., with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims." Therefore, he rationalized that the central issue for the CIO Charter discussion, and in particular, the associated risks and benefits of delegated authority, is the prudent person rule.

Ms. Murphy expressed that she understood the Committee's concerns as natural, particularly given the circumstances: she recognized that the proposed change of delegated authority in the CIO Charter arrives at the same time OCERS is building out new internal resources and hiring new external sources, TorreyCove and Townsend Group.

Ms. Murphy suggested that the new relationships are effectively substitutions. She noted that Townsend Group is replacing RVK for real estate coverage. Observing that OCERS is allocating relatively more to private equity versus hedge funds, she noted that TorreyCove is replacing Aksia.

Mr. Delaney observed that some Trustees had wanted Meketa, as OCERS' General Consultant, to opine on private market investment managers; however, he explained that this type of monitoring was not the case historically. For example, he recalled that when RVK advised on a real estate manager, NEPC, as OCERS' General Consultant, would not opine on that manager.

Mr. Ball responded that this was one of his issues with NEPC.

Mr. Delaney responded, noting the difference, as NEPC would provide color on the impact upon the overall portfolio, but would not opine on a RVK's manager recommendation.

Ms. Murphy described the differences between the prior and the proposed CIO charter. In both charters, she discussed the various levers the Committee continues to control over advice, execution, and operations, including all investment consultants and custodians.

Mr. Hilton and Ms. Ratto discussed the OCERS' past processes and the recently proposed steps for hiring/firing investment managers.

Mr. Hilton asked Ms. Ratto if the only way for the Committee to hire/fire managers was through hiring/firing consultants.

Ms. Ratto responded that if the Committee were unhappy with the CIO's manager selection, the recourse would be to direct the CIO to issue an RFP, and work with the CEO and CIO, since the CIO reports to the CEO. She also observed that if the Committee is just concerned with one manager, then the issue is with the investment manager; however, she also noted that if it's a pattern where the CIO selects underperforming managers, then the issue is with CIO, at which point the Committee would then go to the CEO.

Ms. Murphy and Mr. Prevatt duly noted that the Committee has discretion over delegated authority and therefore could pull it anytime in its entirety, and/or change parts of the structure and process anytime as well.

Mr. Prevatt and Mr. Hilton continued the discussion on the appropriate steps and procedures should the Committee have any issues with delegated authority.

Ms. Murphy discussed the role and responsibilities of each of OCERS' investment consultants, including a discussion of their fiduciary duty; she reported upon the standardized contract language surrounding fiduciary language for each consultant.

Ms. Murphy discussed the process that the Committee undertakes prior to manager selection, i.e., the Asset Allocation, which includes asset and sub-asset class targets and ranges. She observed that there are many guidelines around Manager Search and Selection, as the Committee, through Asset Allocation policy, signals the investable areas to staff and consultants. She stated that if it is not defined in the asset allocation, then staff cannot invest without going back to the Committee for an approved mandate.

Ms. Murphy presented a slide on public peers with and without delegated authority, stating she also discussed the slide from a prior Investment Committee meeting. She reported upon peer exceptions, while also reporting those exceptions are evolving towards some form of delegated authority. She also observed that plans of OCERS' similar size have some form of delegated authority.

Ms. Murphy presented her slide on OCERS' Manager Hiring Process, which includes the following steps: (1) Asset Allocation; (2) Ongoing Due Diligence; (3) Manager Search and Selection; and (4) Manager Approval. She opined that the Ongoing Due Diligence process of staff and consultants is not discussed sufficiently enough in the Committee setting, and therefore she suggested the discipline of this process may not be clear or apparent to the Committee.

Ms. Murphy stated that OCERS' Asset Allocation is explicit direction from the Committee on what staff and the consultants can and cannot invest in.

Ms. Murphy discussed that where there is a gap in Asset Allocation, i.e., underperformance, or when the structure of an investment is not ideal, staff will assess the industry for peer group improvements. She also discussed the idea of "white space" i.e., gaps not already addressed or approved in the asset allocation, or structural inefficiencies that OCERS may want to exploit. She reported that it is incumbent of staff to bring such gaps to the Committee, and accordingly provide the needed educational presentations to the Committee. She observed that this is the time and place for input from the Committee to vet whether the investment idea is prudent and palatable such that the staff and consultants can proceed with Manager Search and Selection, and thus implement the Asset Allocation.

Mr. Ball opined upon the hiring of consultants and their respective duties to the Committee and to staff. He discussed the legal responsibility, fiduciary duty of each and every consultant, as well as their practical duty. He opined that Meketa, due to their day-to-day relationship with staff, would report to staff; further, he suggested that PCA, upon their hiring, would be both a Risk consultant, as well as a general consultant that acts as an independent source and voice to the Board.

Mr. Ball further observed that manager approval does not belong to the Committee, as the issue is the process by which the CIO educates and communicates to the Committee how OCERS' Asset Allocation is going to be distributed and implemented, with discussion on ranges and targets. He stated that during the Asset Allocation and Ongoing Due Diligence stages are the only stages where the Committee should get into the discussion and pose issues and questions. He noted that the Committee should step away and empower staff and consultants once staff and consultants are in the Manager Search and Selection stage.

Ms. Murphy expressed agreement with Mr. Ball, and reported that, given her experience, as well as OCERS' prior experience with RVK, OCERS should perform an annual strategic review and plan for each asset class. She expressed one concern with Mr. Ball's comments, specifying that not every manager search would go through a RFI/RFP process. She reported the Manager Search and Selection stage could go through a shortlist process. However, she noted that she would frequently communicate staff's due diligence process to the Committee, otherwise she would not even be doing the CIO's bare job requirements. She also described that another good way to provide transparency and frequent communication would be through providing a running pipeline of potential investments to the Committee on a monthly basis.

Mr. Ball noted that he is not necessarily concerned about the RFP/RFI process; rather, he expressed his concern that as the process is currently drafted, there is a possibility for zero communication

between the Committee and the CIO. He voiced his desire for the Committee to be strategically involved, with frequent communication as to who and what potential manager hires are.

Mr. Prevatt, Mr. Ball, and Ms. Murphy discussed the need for more precise explicit language during the Ongoing Due Diligence process.

Mr. Prevatt reported that one of the Committee's concerns is that a manager could be hired without the Committee even knowing or understanding the manager's strategy.

Mr. Prevatt discussed that the process must explicitly state that new strategies or an underperforming existing strategy be discussed and presented to the Committee. He opined on the need for explicit controls that require a new idea or strategy to come before the Committee prior to additional steps are undertaken by staff and consultants.

Ms. Murphy expressed agreement that a new idea or strategy needs to be first vetted by the Committee.

Mr. Prevatt further explained that it is his understanding that this step would need to be hardcoded into the process for the Committee to get comfortable and agreeable with delegated authority.

Mr. Dewane and Ms. Murphy discussed an extreme example of Large Cap Growth, Private Equity, and Chinese Real Estate to emphasize the necessary steps and discussions required for the CIO to allocate capital across those strategies. The discussions and steps required would include a vetting of the change to the asset class, as well as vetting of the changes to the sub-asset class targets and ranges.

Mr. Ball described two boundaries for the delegated authority process: 1. Asset allocation; and 2. the Investment Committee has the right to be informed prior to the hiring of the manager, whereby a number of items are discussed, including but not limited to returns, risk, and timeframe.

Ms. Murphy and Mr. Ball discussed a hypothetical delegated authority example where Ms. Murphy sought to directly allocate to private equity buyout managers. They discussed the required discussions and communication between the CIO and the Committee, including the structure to fulfill that allocation, returns, risk, timeframe, fee structure, parameters, etc.

Ms. Murphy explained that this type of structural discussion has been lacking, even for less complex assets such as equities. She stated her goal is to have annual asset class reviews, where the Committee, staff, and consultants discuss, for example, goals and target tracking error parameters for each manager. Ms. Murphy commented that these types of discussions should be ongoing regardless of whether or not OCERS is hiring a manager or not.

Mr. Ball agreed, but noted the need for explicit parameters and guidelines.

Ms. Murphy and Mr. Hilton discussed the proper process in providing the information to the Committee.

Mr. Hilton expressed his preference for an executive summary that included the following: manager source (e.g., RFI, RFP); number of applicants; fees; and how the manager fits in the mandate. He explained that many conference attendees generally ask about OCERS' hiring process.

Mr. Hilton explained his concerns stem from the private equity consultant hiring as the background hiring information was limited to the information given to him the day of the ICM.

Ms. Murphy agreed and explained that the hiring process will be transparent. She explained that with the updated agenda format, the Trustees are free to pull items, discuss, and ask questions to the staff about the hiring of the managers.

Mr. Dewane, Ms. Ratto, and Ms. Murphy discussed the prudent person rule and prudent expert rule, particularly as it pertains to delegated authority.

Ms. Ratto explained that as members of the Investment Committee, Trustees would be bound by the prudent expert rule; that said, she continued to explain, that if a Trustee does not believe they are an expert, they are bound by fiduciary duty that they hire experts and rely on that expertise accordingly.

Ms. Murphy further explained and applied the prudent expert rule to her responsibilities as CIO, particularly as it relates to delegated authority; she discussed certain capacities that did warrant her to delegate authority, i.e., delegating authority to a custodian, such as State Street to value the portfolio. She explained that she does not have to serve as a prudent expert in every single capacity.

Mr. Dewane stated for the record that there are good academics supporting delegated authority.

Mr. Dewane asked if there were any comments from the public.

Mr. Eley, Regular Board and Investment Committee Member, addressed the Committee and asked for every '37 act pension to be listed with whether or not they have delegated authority.

Ms. Murphy explained that she reached out to every system but not every system responded.

Mr. Eley and Ms. Murphy discussed the costs and benefits of manager presentations during the manager hiring process.

Mr. Eley addressed the Committee, suggesting that manager materials and information could be added to the agenda under "Information Items", noting the importance of manager presentations as educational tools for the Committee.

Ms. Murphy stated that the termination process is similar to the hiring process, explaining that the process similarly starts with Asset Allocation, as the Asset Allocation will have changed over time from the manager's initial hiring.

Ms. Murphy expressed her preference to increasing the frequency of the quarterly compliance report to monthly, as compliance issues can occur monthly and not squarely on a quarterly basis.

Ms. Murphy described the Watch List process; she provided commentary on the importance of this step in the termination process to be in the public domain and in the domain of the Committee. She discussed the need for transparency, suggesting that a termination could be telegraphed for months through the Watch List step.

Ms. Murphy explained that with the proposed recommendation of delegated authority, the Committee would not necessarily bring a termination to a vote. She explained that in more emergency situations, the CIO has the ability to terminate for cause, with the approval of the CEO, and in conference of the Chair and Vice Chair of the Investment Committee.

Mr. Hilton and Ms. Murphy discussed the appropriate process regarding executive summary memos for termination, including how Board Members could arrive at a different interpretation of the rationale for termination without an executive summary.

Mr. Dewane summarized and confirmed that the Watch List would be regularly given to the Committee. He noted that possible terminations would be telegraphed for months. Further, he confirmed that only under extraordinary situations could there be a surprise to the entire Committee, explaining that under such a scenario, there would necessarily be communication between the CIO, CEO, as well as the IC Chair and Vice Chair.

Ms. Murphy further explained that staff has already been operating under this standard.

Mr. Ball and Ms. Murphy discussed bringing managers on the Watch List to the Investment Manager Monitoring Subcommittee (IMMS).

Ms. Murphy further explained that the IMMS will focus on Watch List managers.

Mr. Dewane asked for public comment.

Mr. Eley, Tustin, addressed the Committee about OCERS' prior manager termination history, including a discussion about OCERS' cash overlay program several years ago, as well as the benefits of manager presentations prior to manager terminations. He also discussed the possibility of an accompanying memo each from PCA, Meketa, and the staff to confirm/deny the manager termination, particularly should there be a disagreement between staff and the CIO. Given the relatively recent hiring of the CIO and consultants, he also stated that they are in their probationary period; in light of this, he suggested that Committee retain investment authority for some strategies, e.g., private equity, while applying the proposed delegated authority process for other strategies.

Mr. Prevatt addressed and responded to Mr. Eley's issues. Regarding the cash overlay program issue, he explained that would be a change in Asset Allocation rather than a manager change, so that would need to come before the Committee. Regarding terminated manager presentations, he discussed the risks of relying upon professional presenters versus relying on OCERS' prudent experts. Regarding possible disagreements between the CIO and staff, he expressed that the CIO is in charge of staff, and for the Investment Committee to get involved here would not prudently manage the investment process.

Mr. Ball expressed agreement with Mr. Prevatt's comments.

Mr. Ball also expressed that only under unusual circumstances would a manager not go through the typical Watch List process. He considered the Watch List as an early warning system. If the Committee has issues or questions with the Asset Allocation or the Watch List, he expressed then and only then could the Committee raise those issues or questions at that respective step, and not after the decisions has already been made. He discussed his issues with manager presentations, reiterating that it is not a matter of time spent with the manager, but rather that the manager will only talk their book up.

Mr. Eley discussed the need to keep managers in check and accountable, particularly as it relates to manager presentations to the Committee.

Mr. Hilton observed Mr. Eley's tenure and service as an OCERS Trustee. He also reported that the vote has already passed and Trustees must get in line with the approval; he also noted that with prior CIOs, the mere idea of delegated authority would likely not have even gotten to this step in discussions.

Mr. Dewane discussed the difficulty in measuring the investment acumen of a manager based upon the manager's ability to present to the Committee. Given his own expertise, he opined upon the persuasive ability of presenters, who are highly trained, and are by definition not objective.

Mr. Dewane opined upon the importance of Committee meetings, while also noting that time at meetings also equates to time spent for OCERS' staff away from their manager due diligence process.

Mr. Dewane expressed that while OCERS' consultants, TorreyCove and Townsend Group, as well as Ms. Murphy are relatively new to OCERS, the idea of delegated authority is not. He stated that delegated authority is well-documented and well-researched, noting that across the industry, delegated authority is considered best practice. He observed that Ms. Murphy is asking for the responsibility and for the accountability of the portfolio and asking to be measured by the performance of the fund itself. He continued to observe that she has skin in the game and opined that she has no incentive to invest improperly. Ultimately, he stated that the Committee always holds full recourse and can recall delegated authority. He opined that this change of delegated authority in the CIO Charter is a small conversion that will help elevate the Committee's discussion to more worthwhile topics and concerns, i.e., OCERS' performance, which he reported has been bottom decile over a number of time-periods.

Mr. Prevatt discussed the manager termination for cause process; he also discussed the Watch List for underperforming managers.

Mr. Prevatt discussed managers where there is a change in strategy, i.e., style drift, and thus, he stated that this would be in contradiction to OCERS' asset allocation, and consequently, he rationalized that the Committee has already made a decision and that would obviate the need for manager presentations. He also noted that if the Chair rationalizes, either due to underperformance or a change in organization structure, that the manager should be able to present during the Watch List process at the IMMS.

Ms. Murphy agreed, expressing that is how it is currently described in the current policy.

Mr. Prevatt further opined that information gap is being filled when the staff brings strategy education to the Committee. He explained strategy education and discussion tends to be less biased than the historical process, where the investment manager would present a new strategy to the Committee through marketing their own funds and firms.

Ms. Murphy, in an effort to discuss associated risks and oversight between selecting managers and selecting underlying securities, initiated a discussion on pension plans managing in excess of \$40 – 50 billion.

Mr. Ball repeatedly voiced his confusion as to why such a discussion is relevant to the day's discussion.

Ms. Murphy responded that the goal of these slides was to explain what OCERS is and is not.

The Committee and Ms. Murphy discussed her CIO Charter memo, which discussed 3 options for the Committee to decide upon, with option 1 stating that the Committee "Maintain the delegated authority as outlined in the CIO Charter approved in January 2018.

Mr. Prevatt explained that Ms. Murphy's option 2, which includes limits, arose due to concerns from the members of the Committee who were concerned that there were no limits in the proposed delegated authority.

Mr. Ball expressed that no dollar limits are needed because the CIO has no authority unless the CIO goes to the Committee first for approval, specifically an executive summary memo that describes the asset and sub-asset category, the targeted size of investment, as well as the implications of the potential investment upon the Asset Allocation targets and ranges.

Mr. Delaney asked and confirmed that Mr. Ball did not care about the "who" the Committee would be allocating capital to, but rather is concerned about the why, in terms of the investment rationale and benefit to OCERS' portfolio

Mr. Ball stated that, to be clear, in no way is the Committee giving blanket authority to staff to allocate capital without first going through the process, expressing that capital could not be invested without the Committee ever knowing.

Mr. Dewane summarized and confirmed that through this process, the Committee, through option 1, would reaffirm the Asset Allocation, and then the CIO would execute the Asset Allocation through Manager Search and Selection.

Mr. Dewane asked if Mr. Ball is advocating option 1 and observed that Mr. Ball seems to be indicating that option 2 and 3 be eliminated because the concern has been previously addressed.

Mr. Prevatt stated that he would like to address again the concerns of half of the Committee regarding the CIO's limits, noting that without option 2, there are no limits within the proposed delegated authority, and thus those concerns would arise again.

Mr. Ball opined that today's discussion obviated the need for limits, because through option 1, the CIO would still need to seek the Committee's approval prior to proceeding with an allocation.

Mr. Dewane asked for public comments.

Ms. Freidenrich, Regular Board and Investment Committee Member, addressed the Committee about option 1, and expressed her concern that there were no limits within the proposed delegated authority.

Mr. Ball responded, and noted that earlier in the meeting, the Committee reviewed the Manager Hiring Process and modified it such that the CIO, for the Committee's review and approval, would present to the Committee a complete description of the proposed investment managers' strategies, including the asset category and the potential capital allocation. He explained further that the CIO then, with the Committee's approval, would implement within those guidelines.

Ms. Freidenrich thanked Mr. Ball for the clarification, and for her understanding, confirmed and summarized that at that point, the CIO would not bring managers to present, but rather select the manager within the approved limits. She further summarized that though option 1 was approved at the prior Investment Committee meeting, the Governance Committee modified option 1 such that no additional allowance or limit would be required because the Investment Committee would have already identified limits through the pre-approval process.

Mr. Ball agreed, and confirmed that the Governance Committee made the limit effectively zero for discretion, again explaining that without the explicit approval from the Committee, there is no authority to proceed with manager selection and investment.

Mr. Dewane observing that Ms. Freidenrich was not present earlier in the day, provided an investment example for Ms. Freidenrich's benefit; he described the steps the CIO could and could not do regarding the Large Cap Growth Equity allocation, Private Equity, and Chinese Real Estate. He particularly explained that the Asset Allocation would limit the CIO from reallocating such proceeds to Chinese Real Estate since that asset class is not within the strategic Asset Allocation.

Mr. Delaney observed that Ms. Murphy move the presentation back to slide 9 to illustrate the process for Ms. Freidenrich's benefit.

Mr. Ball continued Mr. Dewane's example and further explained the necessary steps, including a discussion of the required CIO memo that would describe the proposed investments' risk profile. He also stated that at that point Meketa and the risk consultant would add their input. With the Committee's approval, the CIO would select manager(s) that would fit the approved criteria.

Mr. Ball also explained what the CIO could not do without the Committee's approval, explaining that the CIO must fulfill the pre-approved criteria. For example purposes, he explained that the CIO could not terminate the cash overlay program as that would be a complete change in the Asset Allocation. He stated that the Committee retains 100% control of the direction and timing of the capital; the only thing the Committee is relinquishing is the individual interviewing and selection process of the managers.

Ms. Freidenrich expressed appreciation for the tighter Ongoing Due Diligence process and sufficient checks and balances within the proposed delegated authority.

Ms. Freidenrich, Mr. Ball, and Ms. Murphy discussed TorreyCove and their investment recommendation. They discussed the steps required of the CIO to proceed with an investment, including the initial CIO memo seeking pre-approval, and an executive summary that followed the pre-approval memo, that would remind the Committee of the approved mandate and what the CIO is proposing. They particularly discussed this alleviate Ms. Freidenrich's concerns regarding the need for frequent communication and transparency, which the original proposed recommendation for delegated authority lacked.

Mr. Dewane, sensing consensus amongst the Committee and the Trustees present in the public suggested that: (1) option 2 and 3 are both off the table and (2) option 1 is preferred, pursuant to the Governance Committee's discussions and modifications that occurred at the day's meeting.

Ms. Murphy expressed agreement, explaining that some of today's agreed upon language, steps and processes may end up in the Investment Policy Statement, while others would fall within the purview of the CIO Charter.

Mr. Prevatt asked that Ms. Murphy, in clarifying and confirming option 1 for the approval of the Committee, needs to specify the role and responsibilities of OCERS' consultants, Meketa, PCA, TorreyCove, and Townsend Group.

Mr. Prevatt and Mr. Ball cautioned against PCA providing a second opinion on a specific real estate manager selection, which could pose a conflict of interests; they agreed that PCA, as OCERS' risk consultant, should only opine on the broader risk allocation.

Mr. Dewane expressed agreement and stated the need for OCERS' consultants to provide a written investment recommendation, rather than a verbal one, that confirms or denies staff's proposed recommendation.

Ms. Murphy, also expressed agreement, further explaining that her recommendation would likely not progress to that stage without the expressed agreement from the appropriate OCERS' consultant, i.e., general consultant or specialty consultant.

A **motion** was made by Mr. Ball, **seconded** by Mr. Prevatt to maintain the delegated authority as outlined in the CIO Charter approved at the January 2018 Investment Committee meeting, subject to the two changes discussed at today's Governance Committee meeting: (1) alteration of the due diligence process defining the potential allocation's strategy, pricing, and risk profile identified first to the Committee prior to manager selection and hiring; (2) manager termination process goes through the Watch List process, where the Committee has the right to vote whether or not the manager goes on the Watch List, and the manager cannot be fired without extenuating circumstances. The **motion carried unanimously**.

Mr. Hilton and Ms. Murphy discussed the timing of delegated authority, particularly as it relates to a live example that would require approval at the April Investment Committee meeting.

The Committee further discussed the timing of the finalized delegated authority. They agreed and Mr. Prevatt confirmed that the policy would come back at the April Investment Committee meeting.

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

**COMMITTEE MEMBER/CEO/CIO/STAFF/CONSULTANT COMMENTS**

None

**COUNSEL COMMENTS**

None

**ADJOURNMENT:** The Chair adjourned the meeting at 10:15 a.m.

Submitted by:

Approved by:

\_\_\_\_\_  
Steve Delaney  
Secretary to the Committee

\_\_\_\_\_  
Shawn Dewane  
Chair

A-2

## Memorandum

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**DATE:** July 10, 2018  
**TO:** Members of the Governance Committee  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT: PROPOSED AMENDMENTS TO THE TRAVEL POLICY**

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### Recommendation

Staff proposes the following amendments to the Travel Policy (Policy) for the Governance Committee's consideration, and for recommendation to the Board if the Committee so determines:

- (1) Include a provision in the Policy to state that whenever feasible, Board and staff members will travel on the same day of one-day events, and on the first and last days of multiple-day events, rather than the day before or after.
- (2) Specify that Board members will be reimbursed for transportation costs to attend Board and committee meetings.
- (3) Expand the list of preapproved conferences in Paragraph 10.b. of the Policy to include all conferences sponsored by the National Conference on Public Employee Retirement Systems (NCPERS).

### Background/Discussion

At its March 7, 2018, the Governance Committee undertook an in depth review of the Policy and approved several changes for recommendation to the Board. The Board adopted those changes at its April 18, 2018 meeting, and asked the Governance Committee to consider two additional amendments to the Policy.

The Chief Executive Officer also recommends a revision of Paragraph 10.b. of the Policy to expand the list of preapproved conferences to include all conferences sponsored by NCPERS.

### Early Travel to Conferences

First, there was a question regarding the appropriateness of Board and staff members traveling to a conference the day before the start of the conference, when it is possible or feasible for the Board or staff member to travel on the same day and arrive in time for the start of the conference.

If the Governance Committee determines that an amendment is necessary, Staff suggests the following addition to Paragraph 27 of the Policy:

#### **Limitation on Time and Expense Allowance**

27. Allowance for time and expense shall not exceed that which is reasonable and necessary as claimed by others to that precise destination whether by private automobile or common carrier. Expense reimbursements are limited to those items and amounts considered to be non-taxable income to the recipient by the Internal Revenue Service (IRS). Expense costs for extra days prior to or after a conference will be reimbursed only if such extension results in lower overall trip costs. For staff, cost comparisons for trip extensions shall include the cost of salary for any work days lost by the extension. Whenever feasible, Board and staff

members are expected to travel on the same day of a one-day event and on the first and last days of a multiple-day event, rather than the day before or after, in order to save the System lodging and meal costs. For example, if an event commences late enough in the day that it is reasonably possible for the Board or staff member to travel earlier on the same day and arrive at the event before the start of the event, it is expected that the Board or staff member will do so; and if an event concludes early enough in the day that it is reasonably possible for the Board or staff member to travel home that same day and arrive home before 10:00 p.m., it is expected that the Board or staff member will do so, provided that the traveler's work and travel time for the final day will not exceed 12 hours.

### **Transportation Costs to Attend Board and Committee Meetings**

Second, there was a question regarding whether it is appropriate for OCERS to reimburse Board members for their transportation costs to attend Board and committee meetings.

OCERS has historically applied Government Code section 31521 to pay, *upon Board member request*:

- (1) To the appointed members and the elected retiree member of the Board, a \$100 per meeting stipend for up to five Board and committee meetings attended per month; and
- (2) To all Board members, their transportation costs to attend meetings of the Board and committees.

Government Code section 31521 provides, in full, as follows:

The board of supervisors may provide that the fourth and fifth members, and in counties having a board consisting of nine members or nine members and an alternate retired member, the fourth, fifth, sixth, eighth, ninth, and alternate retired members, and in counties having a board of investments under Section 31520.2, the fifth, sixth, seventh, eighth, and ninth members of the board of investments, shall receive compensation at a rate of not more than one hundred dollars (\$100) for a meeting, or for a meeting of a committee authorized by the board, for not more than five meetings per month, together with actual and necessary expenses for all members of the board. (Emphasis added.)

In order to specify this reimbursement in the Policy, staff suggests the following additions for the Committee's consideration:

First, the addition of a new Paragraph 36 to state:

Board members who use their personal automobiles for transportation to OCERS (or to OCERS' offsite meeting locations) to attend meetings of the Board or committees of the Board or for the purpose of conducting other OCERS business will be reimbursed the per-mile rate allowed by the IRS for only the miles between the Board member's regular place of employment and OCERS (or OCERS' offsite meeting location), or the miles between the Board member's residence and OCERS (or OCERS' offsite meeting location), whichever distance is shorter. The Board member will report such mileage on an OCERS Expense Report Form and provide documentation of the miles driven (e.g., copy of map and route).

Second, an addition to Paragraph 39, as follows:

#### **Public Transportation**

39. Use of taxis, hired cars, shared ride services (e.g., Uber, Lyft, Sidecar) and public transportation for OCERS business (including attendance by a Board member at meetings of the Board or

committees of the Board) will be reimbursed at current rates. The most economical mode of transportation should be used whenever practicable; however, use of a transportation provider with multiple stops (e.g., shuttle) is not required. A receipt is required for amounts over \$25.00.

A copy of the Policy, with the suggested changes in underlined and strikeout text, is attached.

Attachment

**Submitted by:**



---

Gina M. Ratto  
General Counsel

## **Purpose**

1. Prudent oversight of a public sector pension plan requires that trustees and staff occasionally travel to business meetings and educational conferences or seminars, held in or outside of the state of California. Travel and related costs incurred in doing so not only represent legitimate expenses of the plan, but are a sound investment in the ongoing success of the organization in meeting the needs of the membership.
2. The purpose of the Travel Policy is to encourage and facilitate the pursuit of relevant educational and business related initiatives by trustees and staff. The policy is designed to assist them in meeting their fiduciary duties to administer the pension plan, ensure that expenditures incurred in the education and travel process are prudent and cost-effective, and to mitigate the risk of improprieties arising from travel or business related activities. Exceptions to any provision of this policy for a Board member or the Chief Executive Officer require the pre-approval of the Board Chair or Vice Chair; and require the pre-approval of the Chief Executive Officer in the case of an exception for a staff member.

## **Content Requirements**

3. As a general rule, and with the exception of public retirement system meetings discussed below, unless a conference/seminar agenda contains an average of five (5) hours of substantive educational content per day, attendance at the particular conference/seminar will not be approved and related travel expenses will not be reimbursed. Educational forums, conferences and seminars that routinely and consistently satisfy this requirement will automatically qualify for Board approval for attendance. The Chief Executive Officer will screen and determine those conferences or seminars that meet the five (5) hour requirement and provide a list thereof to the Board members and appropriate staff members. Authorization to attend and receive travel expense reimbursement for a client conference organized or sponsored by a single company or firm shall be restricted to those conferences sponsored by firms who have a contractual relationship with OCERS. Board members or staff members who have independent relationships with a conference sponsor are not automatically entitled to attend such conferences at OCERS' expense. The Board of Retirement shall consider each request individually regardless of any Board or staff affiliation.

## **Board Member**

4. The term "Board Member" shall include a designee of the Treasurer, provided such person is designated in writing to act as the designee, has taken the oath of office and has filed the written designation with the County Clerk, County Auditor and OCERS.

## **Travel Authorization**

5. Except as otherwise provided herein, reimbursement of travel expenses for a Board member to attend an educational conference or seminar (or other type of meeting or event) requires the prior approval of the Board of Retirement.

6. All reimbursement of travel expenses for an employee of OCERS to attend an educational conference or seminar (or other type of meeting or event) or for administrative purposes requires the prior approval of the Chief Executive Officer or his or her designee.
7. Travel on OCERS' business within the Southern California region by Board members or staff need not be approved in advance provided that overnight accommodations are not required. The Southern California region shall include the counties of Orange, Los Angeles, San Bernardino, Riverside, San Diego, Imperial, Ventura, Santa Barbara and Kern.

### **Limitation on Meeting for Business Purpose**

8. No more than four members of the Board are authorized to meet together for business purposes within the State of California unless there is appropriate public notice of the meeting. Attendance at educational conferences, seminars and social activities by more than four members of the Board is not a violation of this provision.

### **Cost of Administration**

9. Approved education and travel expenses for Board and staff members shall be direct costs of administration of OCERS (or directly charged to Investments in the case of education and travel expenses for Investments staff) shall be paid by OCERS and shall not be paid through third party contracts or otherwise without express written authorization of the Board of Retirement. All approved travel and education expenses shall be included in the OCERS annual budget approved by the Board of Retirement. Due Diligence expenses, as authorized by the Board, shall not be treated as costs of administration.

### **Pre-Approved Conferences and Meetings**

10. Board members and the OCERS staff members designated by the Chief Executive Officer are automatically authorized and encouraged to attend the following:
  - a. Regular meetings of the State Association of County Retirement Systems (SACRS);
  - b. ~~The Annual Conference, the Annual Safety Conference, and the Annual Legislative Workshop of Conferences of~~ the National Conference on Public Employee Retirement Systems (NCPERS);
  - c. CALAPRS annual General Assembly and Round Table meetings;
  - d. Conferences of the National Association of State Retirement Administrators (NASRA);
  - e. Conferences of the National Institute on Retirement Security (NIRS);
  - f. Conferences sponsored by the Board of Retirement's retained consultants and/or investment managers;
  - g. Conferences sponsored by the California Retired County Employees Association (CRCEA); and
  - h. Conferences sponsored by a firm that has a contractual relationship with OCERS.

In addition, the OCERS staff members designated by the Chief Executive Officer are automatically authorized and encouraged to attend the following:

- i. Annual Conference of the Public Pension Financial Forum (P2F2);
  - j. Conferences of the National Association of Public Pension Attorneys (NAPPA);
  - k. Conferences sponsored by the Government Finance Officers Association (GFOA); and
  - l. Conferences sponsored by CEM Benchmarking.
11. Staff members designated by the Chief Executive Officer and Board members who are appointed to serve on committees and/or the Board of Directors of the organizations named in paragraph 10 are automatically authorized to attend meetings of the committee(s) to which they have been appointed.
12. Board members and the OCERS staff members designated by the Chief Executive Officer are automatically authorized to attend each of the following full curriculum pension management programs and courses on a one-time basis:
- a. Basic and advance educational programs sponsored by CALAPRS;
  - b. Basic and advanced educational programs sponsored by SACRS;
  - c. Basic and advanced investment programs sponsored by the Wharton School; provided, however, if the Wharton School does not offer an advanced investment program, the basic program may be taken a second time after three years of initially completing the program; and
  - d. Global Financial Markets Institute, Inc. (various programs available).
13. New Board members, other than those with prior experience administering a public retirement system or pension fund, are encouraged to attend one of the courses listed in paragraph 12 within the first year after their election or appointment.
14. The Chief Executive Officer has identified the following conferences/seminars that Board members and designated staff members are automatically authorized to attend, subject to the limits set forth in paragraph 16, at OCERS expense:
- a. Conferences and Programs (CAPP) sponsored by the International Foundation of Employee Benefit Plans (IFEBP);
  - b. Conferences sponsored by the Pension Real Estate Association (PREA);
  - c. Conferences sponsored by Pension and Investments;
  - d. Conferences sponsored by the Pacific Pension Institute (PPI);
  - e. Forums sponsored by Institutional Investor;
  - f. Conferences sponsored by the Council of Institutional Investors (CII);
  - g. Conferences sponsored by Institutional Real Estate, Inc. (IREI);
  - h. Conferences sponsored by the Opal Financial Group;
  - i. Conferences sponsored by The Pension Bridge;
  - j. Conferences sponsored by the Investment Management Consultants Association (IMCA);
  - k. Conferences sponsored by SuperReturn;

- l. Conferences sponsored by Global ARC;
  - m. Conferences sponsored by CIO Magazine;
  - n. Conferences sponsored by the Institutional Limited Partners Association;
  - o. Conferences sponsored by the Falk Marques Group; and
  - p. Conferences sponsored by Public Retirement Information Systems Management (PRISM).
15. The Chief Executive Officer shall provide newly elected or appointed Board members with a list of approved conferences scheduled to take place within the current calendar year.

### **Limitation on Attendance at Conferences and Seminars**

16. A Board member is authorized to attend up to three events (i.e., conferences, seminars, meetings, or courses) that require overnight lodging at OCERS' expense each calendar year. Attendance at the pre-approved events listed in paragraphs 10, 11 and 12 are not subject to the three-event limit imposed by this paragraph even if they require overnight travel.
17. Board members who want to attend events (i.e., conferences, seminars, meetings or courses) that require overnight lodging and that are not automatically authorized under paragraphs 10, 11, 12 or 14 require advance approval by the Board. Staff members who want to attend events (i.e., conferences, seminars, meetings or courses) that require overnight lodging and that are not automatically authorized under paragraphs 10, 11, 12 or 14 require advance approval by the Chief Executive Officer or his or her designee.
18. OCERS will not reimburse overnight lodging for travel within Orange County, regardless of whether the event is pre-approved under any of the provisions of this policy. An exception to this provision may be granted by the Board Chair or Vice Chair upon the request of, and showing of good cause by, a Board member or the Chief Executive Officer; and by the Chief Executive Officer upon the request of, and showing of good cause by, a staff member.
19. In cases where attendance at a particular conference, seminar or other event is limited, the CEO will identify those trustees who will be authorized to attend as follows:
- a. first, by giving priority to those trustees who have not previously attended the specific conference, seminar or other event and, if needed, make selections by lottery of the interested trustees in this group;
  - b. second, if additional opportunities to attend remain available, make selections by lottery of other interested trustees, and
  - c. third, designate the remaining interested trustees as alternate attendees, who may attend in the event the trustees originally selected are unable to attend.

### **International Travel and Travel Outside the Continental United States**

20. Travel by Board members to a destination outside the continental United States requires pre-approval by the Board. Travel by staff to a destination outside the continental United States requires pre-approval by the Chief Executive Officer and notification to the Board Chair. Travel to

attend a conference, seminar or meeting held outside the continental United States shall not be reimbursed by OCERS unless it can be demonstrated to the satisfaction of the Board (for travel by a Board member or the Chief Executive Officer) or the Chief Executive Officer (for travel by a staff member) that there is significant value to OCERS in attending, and comparable value cannot be obtained within the continental United States within a reasonable period of time.

## **Travel Reports**

21. The Chief Executive Officer shall submit a quarterly report on conference, seminar and educational course attendance by Board members and staff and OCERS' costs related to such events. Such reports shall identify the individual (Board Member or staff), location, purpose and cost of travel. The Board of Retirement will review these reports in January, April, July and October of each calendar year. The report also shall include scheduled travel for the ensuing quarter.

## **Report on Conference or Seminar**

22. Board Members and staff who travel to conferences or seminars that are not automatically authorized in paragraphs 10, 11, 12 or 14 shall file with the Chief Executive Officer a report that briefly summarizes the information and knowledge gained that may be relevant to other Board Members or staff, provides an evaluation of the conference or seminar, and provides a recommendation concerning future participation. Reports by a Board Member or staff will be made on the Conference/Seminar Report form shown in the appendix. The Chief Executive Officer shall cause a copy of the report to be distributed to each Board Member and to the Chief Investment Officer.

## **Claims for Reimbursement**

23. Reimbursement for travel by a Board member or staff shall be submitted on OCERS Expense Reimbursement Forms accompanied by all supporting original receipts or documentation of the expense incurred. All expense claim forms will be reviewed and approved (or disapproved) in accordance with the provisions of this policy. The Board Chair shall approve expense claims for Board members and the Chief Executive Officer. The Vice Chair will approve expense claims for the Chair. The Chief Executive Officer or his or her designee will approve all expense claims for staff. All approvals are subject to ultimate review and concurrence by the Board of Retirement as part of the quarterly report process required in paragraph 21.

## **Cash Advances**

24. Cash advances will be provided upon request only for those conferences, seminars, meetings, and courses identified in paragraphs 10, 11, 12 or 14 of this policy as pre-approved by the Board and Chief Executive Officer. Any and all cash advances for travel and training shall be requested through the Chief Executive Officer. Cash advances are subject to approval by the Chair of the Board of Retirement and the Chief Executive Officer. Notice of all cash advances for travel and training shall be placed on the Consent Agenda for the next Regular Meeting of the Board of Retirement as an informational item.

## Time Limit for Expense Claims

25. Claims for reimbursement pursuant to this policy must be submitted within 30 days following return to Orange County. In no event will a claim for reimbursement be approved if submitted 90 days after the end of the calendar year in which the expense was incurred.

## Expenses for Traveling Companions

26. Expenses of family members and/or traveling companions are not reimbursable by OCERS.

## Limitation on Time and Expense Allowance

27. Allowance for time and expense shall not exceed that which is reasonable and necessary as claimed by others to that precise destination whether by private automobile or common carrier. Expense reimbursements are limited to those items and amounts considered to be non-taxable income to the recipient by the Internal Revenue Service (IRS). Expense costs for extra days prior to or after a conference will be reimbursed only if such extension results in lower overall trip costs. For staff, cost comparisons for trip extensions shall include the cost of salary for any work days lost by the extension. Whenever feasible, Board and staff members are expected to travel on the same day of a one-day event and on the first and last days of a multiple-day event, rather than the day before or after, in order to save the System lodging and meal costs. For example, if an event commences late enough in the day that it is reasonably possible for the Board or staff member to travel earlier on the same day and arrive at the event before the start of the event, it is expected that the Board or staff member will do so; and if an event concludes early enough in the day that it is reasonably possible for the Board or staff member to travel home that same day and arrive home before 10:00 p.m., it is expected that the Board or staff member will do so, provided that the traveler's work and travel time for the final day will not exceed 12 hours.

## Travel and Lodging Cancellations

28. Board members and staff are responsible for the timely cancellation of registration fees, travel and lodging reservations made on his/her behalf that will not be used, so that no unnecessary expense will be incurred by OCERS.

## Meals

29. **Meals While Attending Events that Require Overnight Travel.** Meals purchased by a Board or staff member while attending an event (i.e., conference, seminar, meeting or course) that requires overnight travel will be reimbursed at the actual and reasonable cost of the meals, including non-alcoholic beverages, tax and tip, (a) provided that both an itemized receipt and a charge receipt (when a payment card is used) are submitted, and (b) provided further that any meals included and already paid for by OCERS (such as through the conference registration fee) and meals paid for by a third party and subject to reporting requirements under the Political Reform Act will not be reimbursed. If an itemized receipt is not submitted, OCERS will reimburse the Board or staff member up to the GSA rate for that meal, upon request.
30. **Reimbursement for Meals Consumed and Purchased During a Business-Purpose Meeting Where Travel is Not Involved.** Board and staff members will be reimbursed for the actual and reasonable

expense of meals, including non-alcoholic beverages, tax and a reasonable tip, consumed and purchased during meetings where business is conducted during the course of the meal, and no overnight travel is required to attend the meeting. (See paragraph 29 for meal reimbursement during trips with overnight travel.) The Board or staff member must provide both an itemized receipt and a charge receipt (when a payment card is used) for all such meals. The names of the people who attended the business-purpose meeting and a brief description of the business discussed or conducted shall be submitted with the reimbursement request. In the event an itemized receipt is lost or is not available, a Missing Receipt Form must be completed and submitted with the expense reimbursement claim. The Missing Receipt Form includes a certification that only allowable items are included in the request for reimbursement.

## **Hotels**

31. Actual expenses for economical and practical lodging will be reimbursed. Reimbursement will be limited to a room considered to be in a standard class. Whenever possible, a request for a government or conference rate will be made.
32. If, at the conclusion of a business-related trip, it would be impractical for a Board member or staff member to return home the same day and arrive home prior to 10:00 p.m. California time (due to the distance that must be traveled, or the unavailability of a return flight) or if the traveler's work and travel time for the final day will exceed 12 hours, the Board member or staff member will be entitled to be reimbursed for one additional night of lodging.

## **Airline Travel**

33. OCERS' Board members and staff will use good judgment to obtain airline tickets at competitive prices. OCERS will not reimburse a Board or staff member to fly business or first class except in extraordinary circumstances, and then only with the approval of the Board Chair or Vice Chair where the traveler is a Board member or the Chief Executive Officer, or the approval of the Chief Executive Officer where the traveler is a staff member. In addition, for travel that exceeds four hours in length, additional legroom seats or premium economy fees will be reimbursed. An individual may, at his or her own expense, pay to upgrade travel to business or first class.
34. If a significant savings can be realized on the airline fare by having a Board member or staff member extend their stay to include a Saturday night, the Board or staff member, at his or her option, may extend his or her stay in order to realize such savings. OCERS will reimburse the additional lodging and meal costs resulting from an extended itinerary, not to exceed the savings in airline fare.

## **Automobile Mileage**

35. A Board member or staff member who uses his/her personal automobile for transportation on OCERS business will keep records of the actual mileage driven on business, and will report such mileage on an OCERS Expense Report Form and will provide documentation of the miles driven (e.g., copy of map and route). Reimbursement will be made at the per-mile rate allowed by the IRS. Mileage will be reimbursed for only those miles incurred beyond the staff member's normal commute to his or her regular worksite (i.e., if an employee departs from or returns to his or her

## OCERS Board Policy Travel Policy

home instead of the regular worksite, only the mileage in excess of the normal daily commute will be reimbursed).

36. Board members who use their personal automobiles for transportation to OCERS (or to OCERS' offsite meeting locations) to attend meetings of the Board or committees of the Board or for the purpose of conducting other OCERS business will be reimbursed the per-mile rate allowed by the IRS for only the miles between the Board member's regular place of employment and OCERS (or OCERS' offsite meeting location), or the miles between the Board member's residence and OCERS (or OCERS' offsite meeting location), whichever distance is shorter. The Board member will report such mileage on an OCERS Expense Report Form and provide documentation of the miles driven (e.g., copy of map and route).
37. A Board member or staff member who elects to use his/her personal automobile for travel will be reimbursed for mileage to the point that does not exceed the cost of the most economical (least expensive) round-trip ticket between Orange County and the destination city.

### Parking and Tolls

38. Parking and tolls will be reimbursed at current rates. A receipt is required for amounts over \$25.00.

### Public Transportation

39. Use of taxis, hired cars, shared ride services (e.g., Uber, Lyft, Sidecar) and public transportation for OCERS business (including attendance by a Board member at meetings of the Board or committees of the Board) will be reimbursed at current rates. The most economical mode of transportation should be used whenever practicable; however, use of a transportation provider with multiple stops (e.g., shuttle) is not required. A receipt is required for amounts over \$25.00.

### Car Rentals

40. The use of a rental car by a Board member or staff will be reimbursed when it is economically reasonable to rent a vehicle rather than use taxis, hired cars, shared ride services or public transportation. Board members and staff are required to obtain and purchase (and OCERS will reimburse) Loss Damage Waiver and Supplemental Liability Insurance when renting vehicles on OCERS' business. Rental car discounts must be used whenever possible and appropriate. If available, a compact vehicle will be requested, unless several Board members and/or staff will be using the vehicle together.

### Incidental Business Expenses

41. Incidental business expenses reasonably incurred in connection with OCERS business, such as telephone, fax, Internet access, and similar business expenses, will be reimbursed. Receipts are required for all amounts.

### Porterage/Housekeeping/Other

42. OCERS will reimburse a maximum of \$15 per day of travel for porterage, housekeeping and non-meal related gratuities. Receipts are not required for these expenses.

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## Excluded Expenses

43. The following expenses will not be reimbursed: Alcoholic beverages, tobacco, in-room movies, barber shop, beauty shop, gifts, magazines, personal telephone calls and mini-bar charges. In the case of a trip longer than five business days or an emergency situation, laundry and dry cleaning expenses will be reimbursed.
44. OCERS will not reimburse or pay for charges for attendance at or participation in networking, social or entertainment type events (e.g., golf, cocktail parties, excursions, outings, etc.) that are in addition to or not included in the general conference registration fee, except that OCERS will pay for NASRA-sponsored networking events that take place during, and are included in the agenda for, NASRA-sponsored conferences.

## Staff Travel

45. In furtherance of this policy, the Chief Executive Officer shall have discretionary authority to approve staff travel as necessary to carry out the administrative responsibilities of OCERS, such as attendance at legislative meetings or hearings, conducting on-site visits as part of due diligence evaluation of existing and proposed service providers, participating in continuing education programs, and other duties as directed.

## Policy Review

46. This policy shall be reviewed every three years by the Governance Committee and may be amended by the Board of Retirement at any time.

## Policy History

47. The Retirement Board adopted this policy on December 16, 2002.
48. This policy was revised on June 18, 2007, March 24, 2008, March 22, 2010, June 21, 2010, June 18, 2012, February 19, 2013, January 21, 2014, February 17, 2015, November 16, 2015, ~~and~~ April 18, 2018, and August 20, 2018.

## Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



Steve Delaney  
Secretary of the Board

04/18/18 08/20/18

Date



Form

# Report of Attendance at Conference or Seminar

Name of Member Attending: \_\_\_\_\_

Name of Conference/Seminar: \_\_\_\_\_

Location of Conference/Seminar: \_\_\_\_\_

Conference/Seminar Sponsor: \_\_\_\_\_

Dates of Attendance: \_\_\_\_\_

Total Cost of Attendance: \_\_\_\_\_

Brief Summary of Information and Knowledge Gained:

\_\_\_\_\_  
\_\_\_\_\_

Evaluation of the Conference or Seminar:

\_\_\_\_\_  
\_\_\_\_\_

Recommendation Concerning Future Attendance:

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Signature

Return to: Executive Assistant

Copies to: Board Members  
Chief Executive Officer  
Assistant Chief Executive Officers

A-3

## Memorandum

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**DATE:** July 10, 2018  
**TO:** Members of the Governance Committee  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT: TRIENNIAL REVIEW OF THE LEGISLATIVE POLICY**

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### Recommendation

Approve, and recommend that the Board approve, proposed revisions to the Legislative Policy as presented.

### Background/Discussion

The Board of Retirement (including the Investment Committee) has formally adopted over 40 charters and policies and has established a review schedule that requires review of every charter and policy every three years. At its February and June 2015 meetings, on recommendation of the Governance Committee, the Board approved a streamlined procedure to more efficiently manage the scheduled review of the charters and policies. Pursuant to this process, certain of the charters and policies are to be first reviewed by the Governance Committee before presentation to the Board for approval.

The Legislative Policy (Policy) is scheduled for review and approval by the Board, after review by the Governance Committee, in 2018. The Policy sets forth procedures for the Board to adopt an official position on proposed legislation; identify future legislative action; facilitate timely communication of proposed and enacted legislative changes to the Board and staff; provide guidance in communicating OCERS' official legislative positions to third parties; and identify optimal sources to promote OCERS' official legislative positions.

Staff has reviewed the Policy recommends a clarifying revision to Section 5.c. of the Policy as follows:

5. The following legislative principles will guide the Board when considering its position on proposed legislation:

...

c. Support legislative proposals that clarify statutory interpretation of the '37 Act provisions unless inconsistent with OCERS' ~~legislative policy~~ legally sound interpretation and implementation of the provision;

A copy of the Policy, with proposed changes indicated in underlined/strikeout text, is attached.

### Attachment

**Submitted by:**

*Gina M. Ratto*

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Gina M. Ratto  
General Counsel

## **Purpose and Background**

1. The purpose of the legislative policy is to provide the organization with a broad framework, which it can utilize as a basis for action. The Board is charged with the responsibility of administering the System in a manner to assure appropriate and prompt delivery of benefits and related services to plan participants and their beneficiaries and of managing the assets in a prudent manner. Legislation affecting the System must be closely monitored to determine the potential impact on the System and whether action is necessary.

## **Policy Objectives**

2. The objectives of the Legislative Policy are to:
  - a. Establish a procedure by which the Board of Retirement can adopt an official OCERS' position on proposed legislation;
  - b. Identify future legislative action in light of the System's needs;
  - c. Facilitate the timely communication of proposed and enacted legislative changes to the Board and staff;
  - d. Provide guidance in communicating OCERS' official legislative positions to third parties;
  - e. Identify the optimal sources to promote OCERS' official legislative positions.

## **Roles and Responsibilities**

3. The Board will be responsible for:
  - a. Adopting an official OCERS' position for pertinent legislative proposals affecting the System;
  - b. Identifying the ongoing needs of OCERS for future legislative proposals;
  - c. Analyzing legislative proposals suggested by OCERS' Board members, staff, or interested third parties, and determining appropriate action.
4. Staff will be responsible for:
  - a. Analyzing and reporting on proposed legislation affecting OCERS, (and other public pension funds if relevant), at the beginning of each legislative session;
  - b. Monitoring proposed legislation throughout the legislative session and reporting material modifications and their potential impact on OCERS to the Board;
  - c. Monitoring all chaptered legislation and determining the impact on OCERS;
  - d. Reporting the impact of, and, as required, suggesting procedures to implement, all chaptered legislation to the Board and staff;
  - e. Communicating with organizations, active and retired OCERS' members, and/or plan sponsors, as applicable, to inform them of legislative changes affecting OCERS;

- f. Drafting proposed legislation based upon proposals received from Board members, staff and interested parties, in accordance with SACRS' Legislative Committee, or other appropriate entity, guidelines and presenting the draft legislation to the Board for consideration; and
- g. Identifying and communicating with elected representatives to serve as authors of OCERS-proposed legislation, when appropriate.

## **Policy Guidelines**

### **Legislative Principles**

- 5. The following legislative principles will guide the Board when considering its position on proposed legislation:
  - a. Promote OCERS' legislative position primarily through organizations in which OCERS participates unless proposed legislation has a specific and unique effect on OCERS;
  - b. Support legislative proposals that strengthen the confidentiality protections for member records;
  - c. Support legislative proposals that clarify statutory interpretation of '37 Act provisions unless inconsistent with OCERS' [interpretation or implementation of the provision legislative policy](#);
  - d. Support legislative proposals that strengthen the financial condition of OCERS and promote administrative efficiency;
  - e. Oppose legislative proposals that create the potential for increased unfunded actuarial liability without appropriate funding provisions.
  - f. Oppose legislative proposals that compromise or interfere with OCERS' duty to deliver benefits to participants and beneficiaries.

### **SACRS' Legislative Committee**

- 6. OCERS will attempt to maintain a representative on the SACRS' Legislative Committee. The representative, or any other Board or staff member that participates in the Committee as a guest, shall adhere to the following standards:
  - a. Represent the official position, if any, taken by the OCERS' Board of Retirement on all legislation considered by the Committee;
  - b. Provide information to the CEO and Board on the activities of the Committee as needed so that the CEO and Board are well informed regarding legislation that is relevant to OCERS.

## **Policy Review**

- 7. The Board will review this policy at least every three years to ensure that it remains relevant and appropriate.

## Policy History

8. The Board adopted this policy on November 17, 2003. The policy was revised on April 16, 2007, June 21, 2010, February 19, 2013, ~~and~~ July 20, 2015, ~~and~~ August 20, 2018.

## Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



~~7/20/2015~~ 08/20/18

Steve Delaney  
Secretary of the Board

Date

**A-4**

## Memorandum

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**DATE:** July 10, 2018  
**TO:** Members of the Governance Committee  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT:** TRIENNIAL REVIEW OF THE EXTRAORDINARY EXPENSE RECOVERY POLICY

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### Recommendation

Approve, and recommend that the Board approve, proposed revisions to the Extraordinary Expense Recovery Policy as presented.

### Background/Discussion

The Board of Retirement (including the Investment Committee) has formally adopted over 40 charters and policies and has established a review schedule that requires review of every charter and policy every three years. At its February and June 2015 meetings, on recommendation of the Governance Committee, the Board approved a streamlined procedure to more efficiently manage the scheduled review of the charters and policies. Pursuant to this process, certain of the charters and policies are to be first reviewed by the Governance Committee before presentation to the Board for approval.

The Extraordinary Expense Recovery Policy (Policy) is scheduled for review and approval by the Board, after review by the Governance Committee, in 2018. The Policy sets forth guidelines for the Board and staff to identify expenses that are incurred by the System as a result of requests by third parties (other than Public Records Act requests and plan sponsor and member data requests) that are outside the ordinary course and scope of business of the System, and a mechanism for recovering such expenses from the responsible parties.

Staff has reviewed the Policy and does not recommend any substantive changes at this time.

A copy of the Policy, with proposed non-substantive changes indicated in underlined/strikeout text, is attached.

### Attachment

### Submitted by:



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Gina M. Ratto  
General Counsel

# Extraordinary Expense Recovery Policy

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## Purpose and Background

1. The Extraordinary Expense Recovery Policy is intended to establish guidelines and codify existing practices by which OCERS' Board of Retirement and staff can identify expenses incurred as a result of requests by third parties, other than expenses related to public records requests, which are handled in accordance with OCERS' Public Records Request Policy, or data requests, which are handled in accordance with OCERS' Plan Sponsor, Member and Stakeholder Data Request Policy, that are outside of the ordinary course and scope of the business of the Retirement System ("Extraordinary Expenses"); and a mechanism for recovering such expenses from the responsible party(ies).

## Policy Objectives

2. The objectives of the policy are to ensure that:
  - a. OCERS expends trust funds on authorized administrative expenses consistent with the law;
  - b. There are clear expectations when third parties cause OCERS to incur Extraordinary Expenses;
  - c. The identification of Extraordinary Expenses is clearly defined;
  - d. The method for recovering Extraordinary Expenses is clearly defined.

## Policy Guidelines

3. The following guidelines will be used to identify Extraordinary Expenses:
  - a. OCERS CEO, or his or her designee, will gather the following information:
    - i. The name of the person or organization responsible for the expense;
    - ii. The purpose of the expense;
    - iii. The amount of the expense;
    - iv. Whether the expense benefits OCERS' membership generally, or a significant number of plan sponsors, and to what extent;
    - v. Whether the expense is necessary for the administration of the system.
  - b. Upon review of all information, the CEO or his or her designee will initially determine whether the expense is beneficial to the membership generally or to a significant number of plan sponsors and whether it is necessary for the administration of the system. If, in the discretion of the CEO or his or her designee, the expense is not beneficial to the membership generally or to a significant number of plan sponsors or necessary for the administration of the system, the CEO or his or her designee will determine the amount of the expense and make a recommendation to the Board for recovery of the full amount of the expense.
  - c. If the CEO or his or her designee initially determines that the party responsible for the expense should reimburse OCERS, the issue will be placed on a Board of Retirement agenda for consideration by the full Board in a public meeting.

## **Extraordinary Expense Recovery Policy**

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- d. The CEO or his or her designee will notify the responsible party of the date and time of the Board of Retirement meeting at which the Board's consideration will take place. The responsible party may be heard on the matter in open session.
- e. If the Board determines that OCERS should be reimbursed for the Extraordinary Expenses, the CEO or his or her designee will provide a written request to the responsible party for reimbursement, detailing the amount of reimbursement requested and a brief statement as to the reason why the Board determined that the party was responsible for the Extraordinary Expenses. The written request will specify that payment is to be received by OCERS within 90 days of the request.
- f. The Board, in its discretion, may allow the party to reimburse OCERS through an installment payment plan that is reasonably designed to allow OCERS to recoup the entire expense plus reasonable interest.
- g. If the responsible party fails to reimburse OCERS within 90 days from the date of the written request or fails to make payments under an installment payment plan, OCERS shall take appropriate action under the law to recover the amount of the Extraordinary Expenses.

### **Policy Review**

- 4. The Board of Retirement will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

### **Policy History**

- 5. The Board of Retirement adopted this policy on May 26, 2009. The Board revised this policy on February 19, 2013, ~~and~~ July 20, 2015, ~~and~~ August 20, 2018.

### **Secretary's Certificate**

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



7/20/201508/20/18

Steve Delaney  
Secretary of the Board

Date

A-5

## Memorandum

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**DATE:** July 10, 2018  
**TO:** Members of the Governance Committee  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT: TRIENNIAL REVIEW OF THE COST IMPACTING POLICY**

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### Recommendation

Approve, and recommend that the Board approve, proposed revisions to the Cost Impacting Policy as presented.

### Background/Discussion

The Board of Retirement (including the Investment Committee) has formally adopted over 40 charters and policies and has established a review schedule that requires review of every charter and policy every three years. At its February and June 2015 meetings, on recommendation of the Governance Committee, the Board approved a streamlined procedure to more efficiently manage the scheduled review of the charters and policies. Pursuant to this process, certain of the charters and policies are to be first reviewed by the Governance Committee before presentation to the Board for approval.

The Cost Impacting Policy (Policy) is scheduled for review and approval by the Board, after review by the Governance Committee, in 2018. The Policy sets forth a process for the Board to follow when the Board is considering decisions that may have a material impact on employer and member financial interests.

Staff has reviewed the Policy and does not recommend any substantive changes at this time.

A copy of the Policy, with proposed non-substantive changes indicated in underlined/strikeout text, is attached.

### Attachment

### Submitted by:



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Gina M. Ratto  
General Counsel

## Background

1. The Board of Retirement recognizes that some of its actions can materially impact employers' and members' financial interests. OCERS believes it prudent, when considering such impactful decisions, to provide appropriate notice and an opportunity for stakeholders to be heard on such matters before taking final action. The Board retains full authority to adopt, modify or repeal OCERS' policies.

## Policy Guidelines

2. In the ordinary course of conducting its business, the Board intends to introduce the adoption or modification of policies or regulations that can materially impact employers' and members' financial interests at an initial duly noticed, public meeting, followed by subsequent duly noticed, public meeting(s), as appropriate, to consider the proposal, alternative proposals and comments from stakeholders, the Board, OCERS staff and consultants.

## Policy Review

3. Absent exigent circumstances, the Board will use the following procedure when taking action on cost-impacting decisions covered by this policy:
  - a. No action on any such proposal will be taken at the introductory meeting other than scheduling, direction to staff and consultants and other related matters;
  - b. Action to be taken on proposals relating to the subject of the proposed action will be taken at one or more subsequent duly-noticed public meetings;
  - c. At the meeting where the Board decides to take action (i.e., vote) on a cost-impacting decision, if only a single alternative is presented and discussed (not counting maintaining the *status quo* if that also is an alternative), the vote will constitute the Board's final determination on the matter;
  - d. However, at the meeting where the Board decides to take action (i.e., vote) on a cost-impacting decision, if more than a single alternative is presented and discussed (not counting maintaining the *status quo* if that also is an alternative), the Board's vote will be considered a tentative determination on the matter and will become the Board's final determination *only if* the Board votes to ratify the tentative determination at a subsequent duly-noticed public meeting without material changes; and
  - e. If material changes are made at the meeting where the ratification vote is taken, that vote (with the changes) will become the Board's final determination on the matter *only if* the Board votes to ratify it at a subsequent duly-noticed public meeting without additional material changes.
4. Challenges to any Board action based on a claim that the procedures in this policy were not properly followed must be brought and fully resolved prior to the end of the next regularly-scheduled Board meeting following the Board meeting where the final vote or final ratification vote on the challenged action takes place.

## OCERS Board Policy Cost Impacting Policy

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### Policy Review

5. The Board will review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

### Policy History

6. This policy was adopted by the OCERS' Board of Retirement on May 17, 2011. It was revised on December 19, 2011, ~~and~~ July 20, 2015, ~~and~~ August 20, 2018.

### Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



~~7/20/15~~ 08/20/18

Steve Delaney  
Secretary of the Board

Date

A-6

## Memorandum

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**DATE:** July 10, 2018  
**TO:** Members of the Governance Committee  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT: PROPOSED RESCISSION OF THE ANNUAL DISCLOSURE POLICY**

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### Recommendation

Staff proposes the Governance Committee recommend to the Board that it rescind the Annual Disclosure Policy.

### Background/Discussion

The Annual Disclosure Policy (Policy) was adopted by the Board on June 21, 2010, and has been reviewed at least every three years since its adoption.

The Policy requires OCERS Board members and executive staff to provide written disclosure to the Board of the following, by April 1 of each year:

1. All matters required to be disclosed on the FPPC's Statement of Economic Interests (Form 700);
2. Family and business relationships with, and value received from, any investment manager, placement agent, registered lobbyist, vendor, consultant, actuary, counsel or other persons who are (i) providing or actively seeking to provide services or products to, or (ii) seeking to influence the deliberations of the Board;
3. All matters required to be disclosed under OCERS' Conflict of Interest Code; and
4. Any other matters required to be disclosed under California law.

A copy of the Policy is attached for the Committee's ease in reference.

The Policy does not require disclosure to the Board of any matters that are not already required to be disclosed by Board members and executive staff under OCERS' Conflict of Interest Code or California law. The reporting requirement is duplicative of existing requirements and therefore is not meaningful or necessary. Staff therefore recommends the Policy be rescinded.

### Attachment

### Submitted by:



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Gina M. Ratto  
General Counsel

## **Purpose**

1. The Board of Retirement adopts this Annual Disclosure Policy to assure the independence of the Board's deliberations and votes on matters of fiduciary responsibility, free from undisclosed interests and influences; to inform the Board and staff of all potential conflicts of interest that may arise in the course of the Board's activities so that appropriate action may be taken in a timely fashion; and to assure the members, plan sponsors and the public that OCERS' processes are free from inappropriate influence.

## **Principles**

2. In order to achieve the Purpose of this Policy, OCERS' Board members and executive staff shall publicly disclose, annually and prior to the time that a related Board or System action item arises, any and all financial interests they or their immediate family members may have that may affect the Board's deliberations and votes, OCERS' operations and other matters affecting OCERS' interests.

Board members and executive staff are encouraged to err on the side of over-disclosure of matters that might be called for by this Policy.

## **Roles**

3. The General Counsel shall be responsible for implementing and monitoring compliance with this Policy, and shall report to the Board, as requested, on the status of disclosures under this Policy.

## **Policy Guidelines**

4. Board members and executive staff shall disclose in writing to the Board, by April 1<sup>st</sup> of each year, the following matters on an annual basis, and more frequently as changes occur:
  - a. All matters required to be disclosed on FPPC Form 700.
  - b. All family and business relationships with, and value received from, any investment manager, placement agent, registered lobbyist, vendor, consultant, actuary, counsel or other persons (i) providing or actively seeking to provide services or products to, or (ii) seeking to influence the deliberations of, OCERS' Board of Retirement.
  - c. Any other matters required to be disclosed under California law.
  - d. All matters required to be disclosed under OCERS' Conflict of Interest Code.
5. OCERS shall maintain all disclosures and writings made pursuant to this Policy as public records subject to disclosure under the provisions of the Public Records Act, Government Code sections 6250, et seq.

## **Policy Review**

6. The Board of Retirement will review this Policy at least once every three years to ensure that it remains relevant and appropriate.

**OCERS Board Policy**  
**Annual Disclosure Policy**

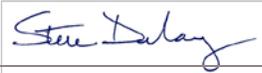
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**Policy History**

7. The Board of Retirement adopted this policy on June 21, 2010. This policy was revised on February 21, 2012, March 17, 2014 and October 16, 2017.

**Secretary's Certificate**

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



Steve Delaney  
Secretary of the Board

10/16/17

Date