

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

**INVESTMENT COMMITTEE MEETING
July 26, 2018**

MINUTES

Attendance was as follows:

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

Absent: Jeremy Vallone

Also Present: Steve Delaney, Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Shanta Chary, Director of Investment Operations; David Beeson, Investment Officer; Tarek Turaigi, CFA, Investment Officer; Julius Cuaresma, Investment Analyst; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Brittany Cleberg, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; Laura Wirick, CFA, CAIA; Holly Heiserman-Biertuempfel, CFA
Townsend Group: Robert Miranda; Felix Fels

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

CONSENT AGENDA

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

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

Mr. Baldwin arrived at 9:03 a.m.

Ms. Freidenrich arrived at 9:06 a.m.

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes
Investment Committee Meeting

June 27, 2018

Recommendation: Authorize meeting and approve minutes.

CIO COMMENTS

Ms. Murphy provided commentary on recent developments in the capital markets, including the yield curve and the foreign exchange markets. She also provided an update on recent global trade news and on the earnings season, both particularly in the context of the equity markets.

Mr. Baldwin expressed concerns regarding OCERS' equity allocation.

Mr. Baldwin and Ms. Murphy discussed OCERS' equity allocation, particularly within the context of the business cycle relative to the market cycle.

Ms. Murphy discussed the upcoming Strategic Planning Workshop; she indicated that staff would work with Meketa and PCA on OCERS' allocation to active versus passive managers, as well as to Risk Mitigation Strategies.

Mr. Ball, Ms. Murphy, and Mr. McCourt discussed the foreign exchange markets, specifically as it relates to potential strategic versus tactical currency hedges.

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

Mr. McCourt discussed USD's recent price action; he further explained that a stronger USD would be the pain trade in the capital markets, and in particular, would likely negatively impact a portion of OCERS' assets, namely equities.

Mr. Eley arrived at 9:18 a.m.

Mr. Lindholm and Mr. McCourt continued the foreign exchange discussion, particularly the GBP's recent price action, in relation to the probability of Brexit's success/failure.

Mr. Lindholm, Ms. Murphy, and Mr. McCourt discussed the automobile market, including the supply-demand dynamics between the U.S. and Europe.

Mr. Lindholm asked for data regarding the automobile market, including autos as a percentage of trade at the country level.

Mr. McCourt also commented that the real global trade imbalance is in the agricultural market.

Ms. Murphy, Mr. Ball, and Mr. Lindholm discussed China's "One Belt, One Road" initiative.

Ms. Murphy also indicated that at a future Investment Committee meeting, OCERS would have an investment manager to further discuss the implications of the opening of the Chinese markets.

Ms. Murphy provided updated performance figures for OCERS' portfolio.

Mr. Ball, Mr. McCourt, and Ms. Murphy discussed performance data for some of OCERS' peers, including the factors driving performance dispersion, specifically as it relates to each peer's asset mix between passive and active managers.

Mr. Ball commented that performance dispersion across the peer group could be a function of differing allocations to alternatives.

Mr. Dewane and Ms. Murphy discussed the cash flow benefits paid to OCERS' members on a monthly basis.

Mr. Dewane asked for a breakdown of OCERS' 2017 YTD portfolio return by dividends, interest income, other cashflow, and capital gains.

Mr. Dewane, referencing the earlier equity discussion earlier between Mr. Baldwin and Ms. Murphy, expressed his preference to increase OCERS' equity exposure.

Ms. Murphy and Mr. Dewane discussed that the Committee, consultants, and staff would further discuss OCERS' asset allocation at the September Strategic Planning Workshop.

Mr. Lindholm and Mr. McCourt discussed the historical asset allocation of market participants between passive and active investment managers.

Ms. Murphy also discussed the evolution of indexing, specifically the rise of industry and thematic ETFs and the impact of ETFs on passive and active managers.

Mr. Dewane and Mr. McCourt discussed the number of active investment managers.

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

INFORMATION ITEMS

I-1 QUIET PERIOD - INVESTMENT RELATED SEARCHES

Written report only

I-2 INVESTMENT COMMITTEE COMMUNICATIONS

Written report only

I-3 SECURITIES LITIGATION UPDATE

Written report only

I-4 MANAGER ACTIVITY

Written report only

Ms. Freidenrich expressed her concerns with the information provided under Manager Activity, stating her desire for more information. She particularly requested, on staff's cover page, the following information: the managers' investment strategy, OCERS' concentration levels (% of firm, % of fund), and potential risks associated with the investment manager.

Mr. Delaney noted her suggestions and concerns.

Ms. Murphy welcomed Ms. Freidenrich's feedback, noting that Manager Activity, including the title itself, is a work in progress. She responded to her questions and concerns, stating that staff and consultants are prepared to discuss the rationale behind managers stated under Manager Activity.

Ms. Murphy provided the rationale for OCERS' direct private recent allocations, including the process driving commitment sizes – she explained that commitments could be at the lower end or the higher end of the Committee-approved commitment ranges contingent on a number of factors. She reported that the goal overall is to have a more concentrated portfolio of higher conviction managers.

Ms. Murphy and Ms. Freidenrich discussed possible improvements to both staff's and consultants' memos.

Ms. Freidenrich and Ms. Murphy discussed reporting for OCERS' private markets allocation, particularly situations where OCERS has made a commitment, but capital has yet to be called by the manager.

Ms. Murphy also noted that besides the Manager Activity process being new, the relationship with OCERS' private market consultants, Townsend Group and TorreyCove, is also new, and thus the frequency for their standardized reporting is out of sync in this interim period.

Mr. Eley discussed the importance of Investment Committee meetings, particularly the record-setting aspect of the meetings and the education received from staff and consultants. Similar to Ms. Freidenrich's concerns, he expressed his preference for more information and communication during Manager Activity.

Mr. Eley expressed his preference for Manager Activity to have a presentation by default, rather than a presentation and discussion to occur contingent on a Trustee pulling the I-item.

Ms. Murphy discussed the Investment Committee meeting agenda and timeline, including the time allocated for the day's I-items.

Mr. Eley stated his preference that each manager action stated under Manager Activity be given ten minutes for a staff and consultant presentation and Committee discussion.

Ms. Murphy asked for feedback, specifically noting that the delegated authority process is new and a work in progress. She also reported that staff and consultants would work on improving the layout and information provided for each of the managers in Manager Activity.

Mr. Ball echoed Mr. Eley's and Ms. Freidenrich's earlier concerns regarding Manager Activity. He commented that, though he was a proponent for a Committee more strategic in nature and for abbreviating the Manager Activity process, he stated this new process is a bit too abbreviated. He expressed his desire for more of a staff presentation that primarily included the investment rationale, the associated risks, and a peer group analysis. He also expressed that he did not want to revert to the prior process where managers were interviewed by the Committee.

Mr. Hilton expressed similar concerns to Mr. Ball, Ms. Freidenrich, and Mr. Eley, while also expressing his desire to know the fees associated with the investment managers.

Mr. Ball recalled his prior requests from prior Investment Committee meetings, namely that he had requested a standardized sheet outlining the risk profile of the managers in Manager Activity.

Ms. Murphy noted that while some of the information asked for was not specifically detailed in summary presentation format, staff and consultants prepared such information in memo format in the Investment Committee Binder. She reported that staff and consultants were prepared for questions and discussion as well.

Ms. Murphy then proceeded to provide a verbal summary commentary on each of the managers, particularly noting the rationale for each investment and the associated risks as well.

Ms. Murphy provided background commentary on Accel-KKR.

Ms. Freidenrich asked that the Manager Activity reports also include the managers' background and history.

Mr. Ball suggested that staff create a draft manager summary sheet for Manager Activity, and to circulate to the Committee for their input.

Mr. Lindholm and Ms. Murphy discussed the agenda format and forum for Manager Activity.

Ms. Murphy responded that Manager Activity could include staff presentations, in addition to staff and consultant written reports, as the agenda is currently formatted.

Mr. Dewane stated that since each Trustee has unique preferences, it is difficult to curtail those preferences for a policy-making Committee.

Mr. Dewane also stated that providing more information introduces more complexity, while also reducing time for the Committee to focus strategically and on exceptions.

Mr. Dewane expressed his preference for more brevity regarding staff's and consultants' Manager Activity deliverables; he noted that such brevity expects that all Committee members have read such deliverables in advance of the Investment Committee meeting. He suggested a one-page summary, with no staff presentation at all.

Mr. Eley and Mr. Dewane briefly discussed the advantages and disadvantages of such a Manager Activity summary.

Mr. Dewane modified his earlier preference, stating that he preferred staff not to present what is already documented in written format.

The Committee recessed at 10:13 a.m.

The Committee reconvened at 10:26 a.m.

Ms. Murphy continued the Manager Activity discussion. She provided background commentary on Thomo Bravo.

Ms. Murphy, Mr. McCourt, and Mr. Ball discussed the private equity market's use of credit facilities and subscription lines, particularly their impact on IRR, Multiple on Invested Capital (MOIC), and fees charged to the LP.

Mr. Eley and Ms. Murphy discussed OCERS' allocation to Buyout strategies.

Ms. Murphy described Buyout, noting the space is not homogenous due to a number of unique sub-strategies within Buyout, i.e., large cap versus mid-cap. She described the allocation process to Buyout, outlining a number of factors: OCERS' historical fund-of-fund allocations, current underweight Buyout allocation. She summarized that that the near-term private equity goal is allocating to best-in-class firms, without necessarily focusing on strategy buckets.

Mr. Eley expressed his preference for more visual slides on OCERS' indirect and direct private equity allocations.

I-7 BLOCKCHAIN & CRYPTOCURRENCY DISCUSSION

Presentation by Bill Maurer, Ph.D., Dean, School of Social Sciences, University of California, Irvine

Mr. Lindholm and Ms. Murphy introduced Dr. Maurer. They provided a brief introduction of Dr. Maurer and his work regarding Blockchain.

Dr. Maurer provided his presentation "Blockchain Basics." He discussed the history of money, the origin and rise of Blockchain, and the global regulatory efforts as it relates to various cryptocurrencies, particularly Bitcoin.

Mr. Hilton left at 10:50 a.m.

Dr. Maurer and the Committee further discussed Blockchain, particularly the current and potential applications of Blockchain for various end industries, both public and private, around the globe.

Mr. Dewane left at 12:20 p.m.

I-4 MANAGER ACTIVITY

The Committee returned to item I-4 Manager Activity.

Ms. Freidenrich and Ms. Murphy discussed the private markets asset allocation approved at the April 2018 Investment Committee meeting.

Ms. Murphy provided additional color and commentary regarding the allocations and exposures approved at the April 2018 Investment Committee meeting. In particular, she discussed the Buyout space, explaining the various cycles of investing in Buyout, i.e., large cap versus small cap, Developed Markets/North America versus Emerging Markets.

Ms. Freidenrich and Ms. Murphy discussed the inclusion of various investment risks, i.e., key man risks, into staff's Manager Activity memos and presentations.

Ms. Murphy reported that staff will standardize the memos and presentations.

Mr. Prevatt expressed his concern re-litigating staff's due diligence work and efforts. He expressed this concern in the context of balancing all the information requested, how it is communicated, relative to staff's available resources.

Ms. Murphy explained that TorreyCove and staff at the September Strategic Planning Workshop will spend a considerable amount of time describing the manager due diligence process.

Mr. Miranda presented Townsend Group's rationale for investing in Almanac.

Mr. Ball and Mr. Miranda discussed Almanac's use of leverage and the use of an operating structure.

Mr. Ball and Mr. Packard asked about Almanac's investment structure, specifically the use of an operating structure versus a partnership structure.

Ms. Murphy discussed the investment rationale of Almanac's operating structure, including the manager's consistency of returns, even vintages around the Global Financial Crisis, due to Almanac's tight legal structuring of debt.

Mr. Packard and Mr. Miranda discussed Almanac's audit process.

Mr. Ball, Ms. Murphy, and Mr. Miranda discussed where Almanac's LP investors stood in the capital structure.

Mr. Miranda and Ms. Murphy noted that Townsend and staff would provide more precise detail as it relates to Almanac, particularly the audit process and capital structure.

As a follow-up to the Committee's suggestions, OCERS staff will bring back, to the Committee, the following standardized documents:

- (1) Cover page memo that would include: the managers' investment strategy; OCERS' commitment size;
- (2) Report that would include: managers' background and history; fee information associated with the investment manager;
- (3) Presentation that would discuss: investment rationale; the potential risks; peer group information.

I-6 1st QUARTER 2018 REAL ESTATE PERFORMANCE REPORT

Presentation by Robert Miranda & Felix Fels, Townsend Group

Mr. Miranda and Mr. Fels provided commentary on OCERS 1st Quarter 2018 Real Estate performance.

Ms. Freidenrich inquired regarding changes in the cross state vendors' sales tax code, particularly its impact on the real estate retail space.

I-5 REPORT - PORTFOLIO ACTIVITY

Presentation by Molly Murphy, CFA, CIO & Tarek Turaigi, CFA, IO, OCERS

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

PUBLIC COMMENTS: At this time members of the public may address the Committee of Retirement regarding any items within the subject matter jurisdiction of the Committee, provided that no action may be taken on non-agendized items unless authorized by law.

COMMITTEE MEMBER/CEO/CIO/STAFF/CONSULTANT COMMENTS

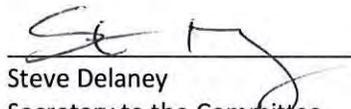
None

COUNSEL COMMENTS

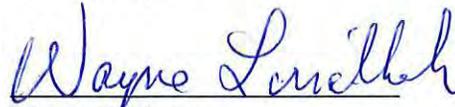
None

ADJOURNMENT: The Chair adjourned the meeting at 1:12 p.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Wayne Lindholm
Chair