

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

**INVESTMENT COMMITTEE MEETING
November 28, 2018**

MINUTES

Attendance was as follows:

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

Absent: Shari Freidenrich; and Shawn Dewane

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; Stina Walander-Sarkin, Investment Analyst; Julius Cuaresma, Investment Analyst; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Sonal Sharma, Recording Secretary

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

The Chair called the meeting to order at 9:03 a.m. Mr. Vallone 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. Eley and **seconded** by Mr. Hilton to approve the Consent Agenda. The **motion carried unanimously**.

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting

September 12, 2018

Investment Committee Meeting

October 25, 2018

Recommendation: Authorize meetings and approve minutes.

CIO COMMENTS

Ms. Murphy provided commentary on the markets. She remarked upon the continued rhetoric concerning tariffs between the U.S. and China, the diverging interest rate regimes across the globe, and the spike in equity market volatility. She also discussed the OCERS portfolio, which has fallen modestly into negative territory on an YTD basis through November.

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

Mr. Lindholm and Ms. Murphy discussed the performance of the OCERS portfolio, and possible improvements to OCERS' performance reports.

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 PROXY VOTING POLICY REVIEW

Presentation by Andrew Linberg, Joshua Russell, ISS

Ms. Murphy provided background commentary on ISS and the services ISS provides to OCERS. She provided the rationale for their presentation today: regular review of the proxy season and a discussion of OCERS' current policy for proxy voting, the ISS Benchmark Policy, and the possible adoption of one of the ISS custom policies, the ISS Public Fund Policy.

Mr. Linberg and Mr. Russell further discussed ISS and the services ISS provides to investors.

Mr. Linberg described ISS' transparent and inclusive process in developing their Standard Benchmark policy and custom policies. He stated that this process is a two-way street with institutional investors, as it involves ongoing market surveys, roundtables, and feedback from market participants.

Mr. Eley, Mr. Ball, Mr. Lindholm, and Mr. Russell discussed the differences and similarities between the Benchmark Policy and the Public Fund Policy.

Mr. Lindholm, Mr. Ball, Mr. Russell, and Ms. Murphy discussed the entire voting proxy process and the role ISS plays in providing research and recommendations to their clients.

Mr. Ball, Mr. Lindholm, Mr. Prevatt, Ms. Murphy, and Mr. Russell discussed OCERS' participation and role in proxy voting relative to much larger institutions, and relative to the retail market.

Mr. Russell and Ms. Murphy described the rationale driving some clients to formulate their own custom proxy voting policy. They also commented upon the standard ISS Benchmark Policy, which is a reflection of the preferences of the entire marketplace.

Ms. Murphy further explained the challenges and the time required of OCERS in possibly formulating their own custom policy.

Mr. Packard and Mr. Russell discussed ISS' organization and structure, and in particularly the ISS research process as it concerns the use of committees and sub-committees in verifying such research.

Mr. Lindholm and Ms. Murphy discussed staff's due diligence process in narrowing down the available choices of ISS' custom policies into just the ISS Benchmark Policy and the Public Fund Policy.

Mr. Prevatt and Ms. Murphy discussed where the Benchmark Policy is more and less supportive of other ISS policies.

A **motion** was made by Mr. Baldwin and **seconded** by Mr. Prevatt to approve the adoption of the ISS Public Fund Policy for voting proxies.

Mr. Ball, Mr. Lindholm, Mr. Eley, and Mr. Russell, further discussed areas where the Public Fund Policy materially diverged from the Benchmark Policy, including proxy voting on Board and Auditors.

After further discussion, a **substitute motion** was made by Mr. Ball and **seconded** by Mr. Packard to approve the continued use of the incumbent ISS Benchmark Policy.

Upon further discussion, the Committee voted on the **substitute motion** made by Mr. Ball and **seconded** by Mr. Packard to approve the continued use of the incumbent ISS Benchmark Policy. The **substitute motion carried 5-2** with voting as follows:

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

Mr. Eley and Mr. Russell discussed a recent Credit Suisse report about Board Diversity and performance.

Mr. Eley asked that Mr. Russell share the Credit Suisse report with staff and the Committee.

The Committee recessed at 10:19 a.m.

The Committee reconvened at 10:32 a.m.

INFORMATION ITEMS

I-1 REPORTS – PORTFOLIO ACTIVITY & COMPLIANCE

Written report only

I-2 MEKETA ECONOMIC OUTLOOK

Written report only

I-4 3rd QUARTER 2018 PORTFOLIO EVALUATION REPORT

Presentation by Stephen McCourt, CFA & Laura Wirick, CFA, CAIA, Meketa

Mr. McCourt and Ms. Wirick presented Meketa's 3rd Quarter 2018 Portfolio Evaluation Report for the OCERS portfolio.

Mr. McCourt provided market commentary, describing the late cycle market dynamics that characterize the current markets, i.e., heightened volatility, high valuations, and high corporate leverage. He expressed Meketa's inclination to be more cautious than optimistic.

Ms. Wirick discussed areas of the OCERS portfolio that are temporarily out of range; however, she explained at year-end, they would no longer fall out of target ranges when the recent October Asset Allocation changes are implemented and in effect.

Ms. Murphy, Ms. Wirick, and Mr. Lindholm discussed outperforming and underperforming strategies, including the emerging markets (EM), both debt and equity, as well as real assets.

Mr. Lindholm and Ms. Murphy discussed OCERS' performance during up, down, and choppy markets.

Ms. Murphy observed that, from a peer perspective, the OCERS portfolio relatively outperforms in challenging equity periods, because the portfolio has relatively less equities.

Mr. Ball discussed the EM environment, posing the question whether EM may be a buying opportunity; he particularly suggested that staff and consultants, for a future Investment Committee meeting, have a presentation and discussion on the EM opportunity set.

Mr. McCourt expressed agreement; he also observed that such a discussion would naturally involve a significant discussion on China, since approximately 30% of EM is China. He further explained that many managers are either trailing or outperforming because of their exposure to China.

Mr. Ball, Mr. McCourt, and Ms. Murphy discussed the inherent difficulty in performance reporting, on both an absolute and relative basis because of benchmarking issues.

Ms. Wirick also discussed managers that absolutely and relatively outperformed during the quarter.

I-3 MANAGER SELECTIONS & TERMINATIONS REPORT

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

Ms. Murphy discussed recent manager selections and remarked upon the rationale for those respective selections for the OCERS portfolio.

I-5 ENERGY UPDATE

Presentation by Robert Sinnott, Kayne Anderson

Ms. Murphy introduced Kayne Anderson's Robert Sinnott and provided a brief commentary on Mr. Sinnott's presentation.

Mr. Sinnott provided an update on the energy markets.

*******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/COUNSULTANT/COUNSEL COMMENTS

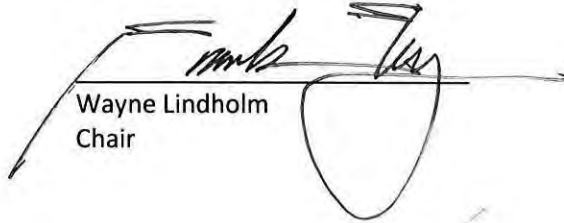
Steve Delaney expressed thanks to the IT department for their work and efforts in preventing fraud.

ADJOURNMENT: The Chair adjourned the meeting at 11:42 a.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Wayne Lindholm
Chair