

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

INVESTMENT COMMITTEE MEETING

April 23, 2019

9:00 a.m.

MINUTES

Attendance was as follows:

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

Also Present: Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Reginald Tucker, Managing Director; Tarek Turaigi, CFA, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Julius Cuaresma, Investment Analyst; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Brittany Cleberg, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; Allan Emkin; Mark McKeown; and Stephanie Sorg

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

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting

March 28, 2019

Recommendation: Authorize meeting and approve minutes.

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.

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

INFORMATION ITEMS

I-1 DIRECT LENDING & LEVERED LOANS EDUCATION

Presentation by Douglas I. Ostrover, Co-Founder & James Clarke, Managing Director, Owl Rock

Ms. Murphy introduced Owl Rock's Douglas I. Ostrover and James Clarke.

Ms. Freidenrich arrived at 9:20 a.m.

Mr. Ostrover provided an overview of Owl Rock. He explained Owl Rock's differentiated investment process in the direct lending and levered loan space. He evaluated the opportunities and risks, and outliers and themes that Owl Rock sees in the direct lending and levered loan market, as well as in the overall market.

The Committee recessed at 10:13 a.m.

The Committee reconvened at 10:30 a.m.

CIO COMMENTS

Ms. Murphy provided brief introductory comments on the day's agenda.

Ms. Murphy evaluated recent price action in the markets and reviewed various economic indicators. She observed that while the recent rally has lifted the S&P 500 effectively back to its fall 2018 highs, she also remarked that this rally thus far has masked underlying dispersion. For example, she commented upon the Russell 2000's negative performance, explaining that this divergence between small caps and large caps could forecast slowing economic growth. She also evaluated the bond market, noting that parts of the yield curve point to possible conflicting recessionary signs, i.e., signs of both inflation and rate cuts. Further, she discussed this market dispersion within the context of OCERS' increasing allocation to Risk Mitigation Strategies.

Mr. Lindholm and Ms. Murphy reviewed the U.S. small cap equity opportunity set.

Ms. Murphy further evaluated the costs and benefits of active management in U.S. small cap, specifically in small cap value, versus investing indiscriminately through a passive allocation.

Mr. Ball and Ms. Murphy reviewed OCERS' current and target asset allocations; they further discussed how staff currently presents this information as well as potential ways to improve staff's reporting to make it more instructive for trustees.

Ms. Freidenrich, Mr. Eley, Mr. Ball, Mr. Prevatt, Ms. Murphy, and Mr. McCourt opined on possible improvements to current report deliverables.

Ms. Murphy expressed agreement, noting that she would bring updated and improved reports to the next Committee meeting.

I-6 CREDIT – ASSET CLASS REVIEW

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

Mr. Turaigi presented staff's asset class review of the OCERS credit portfolio.

Mr. Ball and Ms. Murphy assessed the advantages and disadvantages of benchmarking asset classes with top-level strategy benchmarks versus portfolio-weighted individual manager benchmarks.

A-2 MEKETA CONTRACT AMENDMENTS

Discussion by Stephen McCourt, CFA & Allan Emkin, Meketa

Ms. Murphy provided brief introductory comments, noting that both Mr. Emkin and Mr. McCourt would present their contract amendment proposal.

Mr. McCourt presented various contract options to the Committee.

Mr. Hilton expressed his concerns with the proposed contract amendments, observing that PCA's intended role as an independent, secondary opinion, would inherently present a conflict of interest.

Mr. Packard expressed his concerns with the proposed risk reporting and the pricing structure.

Ms. Freidenrich, Mr. Delaney, and Ms. Murphy discussed the current contract, including a review of the CPI escalator adjustments.

Ms. Murphy and Mr. Delaney discussed their cadence of meetings with PCA and Meketa.

Ms. Freidenrich suggested a transitional, 1-year trial period that specifically would include Mr. Emkin's continued appearance with a free call option to extend the contract or modify as necessary.

Mr. Ball also expressed agreement with Ms. Freidenrich's suggested trial period.

Mr. Eley expressed agreement with the trial period suggestion. He also remarked upon the different pricing structure, pre- and post-merger, observing that post-merger costs would be less, despite effectively the same scope of services from both consultants.

Mr. Dewane and Ms. Murphy compared areas where staff relies upon Meketa and PCA for risk and return data, versus where staff analyzes and verifies its own data sources.

Mr. Dewane and Mr. Emkin discussed Mr. Emkin's equity interest in Meketa, post-merger.

Mr. Dewane commented upon the unusual nature for the consultants to have differing points of views, as it would largely coalesce around similar set of ideas, given the merger and equity interest. Further, he expressed his concern that the merger would likely not produce a separate and independent opinion.

Mr. Baldwin echoed Mr. Eley's earlier sentiments.

Mr. Hilton and Ms. Ratto discussed the merger, and the case for and against the merger as a source of conflicting interests between Meketa and PCA.

Mr. Prevatt expressed concerns with the proposed pricing structure. He observed that since PCA is already part of merger, the merger and its associated synergies would thus obviate the need to charge additional costs. He expressed further concerns with extending the contract; he preferred a trial period to see similarities and differences in what OCERS would be receiving going forward relative to prior, pre-merger, services. He discussed the possibility of an hourly rate for special circumstances that required Mr. Emkin's services.

Ms. Murphy remarked that the conflict of interest and loss of independence is real, but perhaps should be part of separate, related discussion. She rationalized that the discussion today therefore could be more focused on the pricing and value proposition that Mr. McCourt and Mr. Emkin provide together as a new service team versus separately.

A **motion** was made by Mr. Hilton and **seconded** by Mr. Ball to table this discussion for next month's Investment Committee meeting. The **motion carried unanimously**.

I-5 MANAGER SELECTIONS & TERMINATIONS REPORT

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

Ms. Murphy discussed recent manager selections and terminations and described the rationale, opportunities, and risks, for those respective selections and terminations.

Ms. Freidenrich, Mr. Prevatt, and Ms. Murphy discussed OCERS' commitment sizes and the motivation driving the ranges and targets of those commitment sizes. They evaluated the required resources, internally and externally, regardless of the commitment size.

Ms. Murphy described that certain strategies have a range of capacity constraints – those strategies with high demand would naturally limit the size of OCERS commitments. That in mind, she further explained that OCERS would be size-appropriate when OCERS can in an ongoing effort to keep manager name proliferation down as much as possible.

I-7 RFP DISCUSSION

Discussion by Stephen McCourt, CFA, Meketa

Mr. McCourt discussed best practices in the industry concerning the use of RFPs for manager searches. He presented OCERS' historical and current manager search process, including prior to delegated authority. He concluded and recommended that OCERS continue with the current process, namely that OCERS use RFPs for certain occasions and strategies.

Mr. Ball explained that he has no preference on the use of RFPs for manager searches, i.e., frequency; rather, he stated that the use of RFPs should be clearly defined and documented in OCERS' charters and policies.

Ms. Freidenrich similarly noted that OCERS' RFP process should be in OCERS' charters and policies. She also discussed OCERS' contract procurement process, seeking the need for OCERS to further replicate industry best practices.

Ms. Murphy responded that OCERS recently adopted an amended Procurement and Contracting Policy which includes investment related best practices.

Ms. Murphy, Mr. McCourt, and Ms. Freidenrich continued to discuss best RFP practices, particularly as it concerns fees and pricing.

Mr. Dewane departed at 12:36 p.m.

I-2 COMMITTEE MEETING MINUTES
Manager Monitoring Subcommittee Minutes

I-3 REPORTS – PORTFOLIO ACTIVITY
Written report only

I-4 SECURITIES LITIGATION UPDATE
Written report only

COMMITTEE MEMBER/CEO/CIO/CONSULTANT/COUNSEL COMMENTS

Mr. McCourt provided a follow-up response to Mr. Ball's earlier question concerning historical versus forward-looking returns. He evaluated possible limiting factors to those returns presented earlier in the day: (1) gross versus net; and (2) 10-year historical returns to date have occurred during an atypical market cycle, i.e., absent of normal cyclical defaults.

ADJOURNMENT: The Chair adjourned the meeting at 12:45 p.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Roger Hilton
Chair