

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

INVESTMENT COMMITTEE MEETING

May 29, 2019

9:00 a.m.

MINUTES

Attendance was as follows:

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

Absent: Frank Eley

Also Present: Steve Delaney, Chief Executive Officer; Molly Murphy, CFA, Chief Investment Officer; Reginald Tucker, Managing Director; Shanta Chary, Director of Investments; David Beeson, Senior 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 Brittany Cleberg, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; Laura Wirick, CFA, CAIA; Stephanie Sorg
TorreyCove: David Fann; Heidi Poon, CFA, CAIA; Nic DiLoretta
Townsend: Jennifer Stevens; Felix Fels

The Chair called the meeting to order at 9:07 a.m. Ms. Freidenrich 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. Lindholm and **seconded** by Mr. Packard to approve the Consent Agenda. The **motion carried unanimously.**

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting

April 23, 2019

Recommendation: Authorize meeting and approve minutes.

CIO COMMENTS

Ms. Murphy remarked upon price action in the markets, reviewed various economic indicators, and discussed recent rhetoric surrounding the global trade war.

Ms. Murphy observed that today's performance review only covers through the first quarter of 2019, i.e., a risk-on time period. Therefore, in light of the risk-off tone thus far in the second quarter, she stated that the quarterly portfolio evaluation reflects a more optimistic view of performance. Despite the heightened trade rhetoric distressing the equity markets in May, she noted that many equity markets are still fluctuating above 10% ytd. She remarked upon the performance disconnect between U.S. large caps and U.S. small caps, as well as the disconnect between developed markets and emerging markets. She also commented upon the yield inversion between the 3-month Treasury bill and the 10-year note, particularly within the context of OCERS' increasing allocation to Risk Mitigation Strategies.

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

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 provide public comment at this time should fill out a speaker card located on the counter at the back of the room and deposit it in the Recording Secretary's inbox on the wall near the middle of the room.**

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

A-2 MEKETA CONTRACT AMENDMENT

Discussion by Stephen McCourt, CFA, Meketa

Ms. Murphy provided background commentary. She discussed staff's additions to the amendment: Meketa's involvement with State Street with performance validation in a more official capacity, enhanced risk and operational reporting.

Mr. Packard, Ms. Freidenrich, and Mr. Ball discussed an increase in Mr. Emkin's Investment Committee Meeting attendance.

Mr. Prevatt noted that staff needs to manage his attendance in accordance with the Investment Committee Meeting agenda.

Ms. Murphy responded that staff would manage Mr. Emkin's Investment Committee attendance when it is pertinent and consistent with the Investment Committee agenda.

A **motion** was made by Mr. Ball and **seconded** by Ms. Freidenrich to accept Meketa's proposal.

Ms. Freidenrich suggested that the motion be amended to reflect an increase in Mr. Emkin's Investment Committee Meeting attendance.

Ms. Murphy suggested the following motion: to accept Meketa's proposal, with the added change that Mr. Emkin's Investment Committee attendance is at least six times per year.

A **motion** was made by Mr. Ball and **seconded** by Ms. Freidenrich to accept Meketa's proposal, with the added change that Mr. Emkin's Investment Committee attendance is at least six times per year. The **motion carried unanimously.**

INFORMATION ITEMS

I-1 INVESTMENT COMMITTEE COMMUNICATIONS

Written report only

I-2 MEKETA ECONOMIC OUTLOOK

Written report only

I-3 REPORTS – PORTFOLIO ACTIVITY & COMPLIANCE

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

Ms. Murphy noted changes and improvements to the portfolio activity report, as well as the placemat. She noted that these improvements are focused on including commitment schedules for OCERS' private markets.

Ms. Murphy and Ms. Freidenrich further discussed the commitment schedule, including the tangential relationship with OCERS' liabilities and employer prepayment schedule.

Mr. Ball and Ms. Murphy discussed OCERS' governance structure and delegated authority process as it relates to percentage limits, the annual pacing plan, as well as the rolling 3-year pacing plan.

Mr. Ball discussed certain allocations that could push some asset and sub-asset classes beyond their Committee-approved ranges and targets. He expressed agreement with such flexibility to make such allocations, but expressed that staff should set in a place Committee-approved guardrails by means of written procedure.

Ms. Murphy responded, noting that staff would come back with such guardrails.

Ms. Freidenrich and Ms. Murphy further discussed specifics as it relates to guardrails.

Ms. Freidenrich particularly specified her desire for what two of those guardrails should be: (1) clear communication what the guardrail is; and (2) downside, worst-case scenarios of each guardrail.

I-4 MANAGER SELECTIONS & TERMINATIONS REPORT

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

Ms. Murphy discussed the Manager Selections & Terminations Report.

I-5 1st QUARTER 2019 PORTFOLIO EVALUATION REPORT

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

Mr. McCourt briefly provided an update upon capital markets, noting that recent action reflects normal late cycle dynamics. He referenced Ms. Murphy's earlier CIO comments, also highlighting the economic forecast disconnect between the equity markets i.e., optimistic, and bond markets, i.e., pessimistic. He also discussed the lagged pricing effects in the illiquid private markets portfolio, which inherently dampens both downside and upside volatility.

Mr. Ball and Mr. McCourt discussed the portfolio's volatility that would reflect the private markets' lagged price action, and its sensitivity to upside and downside public equity price action.

Mr. McCourt and Mr. Ball also discussed the differing valuation processes for various private markets' assets, including private credit and real estate.

Ms. Wirick presented Meketa's quarterly report.

Ms. Wirick discussed the performance of the OCERS portfolio and the OCERS peer group, as well as specific asset class and manager outliers.

Mr. Baldwin and Mr. McCourt discussed China, particularly the potential impact of the trade war upon the Chinese equity markets.

The Committee recessed at 10:08 a.m.

The Committee reconvened at 10:28 a.m.

1-6 2018 YEAR IN REVIEW

Presentation by Molly A. Murphy, CFA, CIO, OCERS; Laura Wirick, CFA, CAIA, Meketa; Jennifer Stevens, Townsend Group; Heidi Poon, CFA, CAIA, TorreyCove

Ms. Murphy provided commentary on the Investment 2018 Year in Review presentation.

Ms. Murphy, Ms. Wirick, Ms. Stevens, and Ms. Poon respectively reviewed their scope of work done over the past year; acknowledged where something did not meet expectations; and previewed the investment program's objectives for this year.

Mr. Delaney and Ms. Wirick discussed Meketa's monitoring of the broad asset classes but also the sub-asset classes.

Ms. Murphy also observed that Meketa's monitoring and approval of asset and sub-asset targets and ranges are codified in OCERS Investment Charters and Policies.

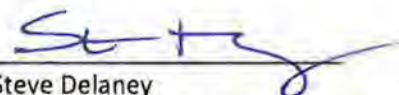
Mr. Baldwin, Ms. Stevens and Mr. Prevatt further discussed Townsend's and staff's core/non-core rebalancing efforts.

Mr. Hilton and Ms. Poon discussed the potential timeline in fulfilling OCERS' infrastructure portfolio.

COMMITTEE MEMBER/CEO/CIO/CONSULTANT/COUNSEL COMMENTS

ADJOURNMENT: The Chair adjourned the meeting at 11:09 a.m.

Submitted by:


Steve Delaney
Secretary to the Committee

Approved by:


Roger Hilton
Chair