

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

**2020 STRATEGIC PLANNING WORKSHOP
September 9-10, 2020**

The OCERS Board takes no actions at the annual Strategic Planning Workshop. Therefore, a summary of discussion topics is provided.

Wednesday, September 9, 2020

Attendance was as follows:

Present via Zoom video teleconference pursuant to Executive Order N-29-20 issued by Governor Newsom on March 17, 2020:

Roger Hilton, Chair; Shawn Dewane, Vice-Chair; Shari Freidenrich, Adele Tagaloa, Charles Packard, Chris Prevatt, Arthur Hidalgo, Frank Eley, Wayne Lindholm and Jeremy Vallone

WELCOME & INTRODUCTORY COMMENTS

Chair Hilton and Steve Delaney provided introductory comments and an overview of the day's schedule.

HEARING FROM OUR STAKEHOLDERS

Michelle Aguirre, Chief Financial Officer, County of Orange

Ms. Aguirre presented for the sixth year in a row the County's budget and the balancing strategy that the County implemented in order to stay afloat. She also discussed the challenges that the County faces with the current COVID-19 pandemic as well as measures taken to ensure the safety of staff and the public.

Charles Barfield, General Manager, OCEA

Mr. Barfield thanked the OCERS team for the intelligent and continued uninterrupted services provided to each member. He stated that OCEA members rely on OCERS to protect their assets and their retirement. He also discussed the challenges each person faces due to the COVID-19 pandemic and the importance of working diligently together in order to provide the best service

to each member. He also thanked OCERS staff for the continued communication and updates provided to them on a monthly basis.

Paul Bartlett, Executive Director, AOCDS

Mr. Bartlett acknowledged the Board faces tough questions as it deals with the recent Alameda Court decision and asked that they keep in mind how this will impact member lives. Mr. Bartlett also stated that he appreciates the staff and all the hard work involved in providing great customer service in the midst of the COVID-19 pandemic.

ANNUAL OCERS EMPLOYER REVIEW

Ms. Jenike and Mr. Delaney presented the annual OCERS Employer Review with a summary of key financial information based upon information provided by the 2019 audited financial statements and 2019 budget and forecast documents. Despite the COVID-19 pandemic they did not see any immediately pressing employer financial issue that would suggest the Board need take action.

SECOND LOOK AT AGE BASED RATES

Ms. Jenike and Mr. Delaney presented the Second Look At Age Based Rates and showed examples of member contribution rates, age based rates and single flat rates.

Segal Consulting gave the Board examples of how employee contributions rates might change with this policy change. The Board requested additional information at a subsequent meeting for further discussion.

PENSION ADMINISTRATION SYSTEM OUTLOOK

Ms. Jenike, Ms. Shott and Ms. Sadoski presented the Pension Administration System Outlook. They discussed the V3 program and all the updates that would be needed going forward. They also discussed the OCERS current system considerations and well as planning for future pension administration systems. A loose timeline was discussed and what that would look like in upcoming years. System risks were highlighted and discussed as well.

Thursday, September 10, 2020

Present via Zoom video teleconference pursuant to Executive Order N-29-20 issued by Governor Newsom on March 17, 2020:

Roger Hilton, Chair; Shawn Dewane, Vice Chair; Frank Eley; Shari Freidenrich; Arthur Hidalgo; Wayne Lindholm; Charles Packard; Chris Prevatt; Adele Tagaloo; and Jeremy Vallone

WELCOME

Vice-Chairman Dewane and Ms. Murphy provided introductory comments and an overview of the day's schedule.

INTRODUCTION TO PRIVATE EQUITY CO-INVESTMENTS

Mr. David Fann with Aksia TorreyCove discussed the benefits of co-investments. A variety of co-investment models exist, ranging from active to passive. Co-investments can offer greater returns with an improved ability to manage exposure, better risk-adjusted returns, greater control over the pace of investment, total control over investment vintage year and potential return enhancement. OCERS is able to become a preferred investor by participating in co-investments. Mr. Fann also discussed the guardrails to be put in place to make co-investments a successful program. One of the key challenges to co-investments highlighted was the timeframe for decision making. General partners are usually very sensitive to information being disclosed and company financials. Ms. Murphy offered some context and scale to OCERS' investments relative to the co-investments discussion.

INVESTMENT CONTRACT TERMS – NEGOTIATIONS AND BEST PRACTICES

Mr. Reginald Tucker, OCERS; gave an overview of the objectives for enhancing the investment process before, during, and after contract negotiations. OCERS is working to align with best practices according to ILPA standards. Mr. Tucker also mentioned the desire to perform historical analysis of OCERS' fund contract terms and identify and track trends to identify both areas of success and for improvement.

Ms. Yuliya Oryol, Nossaman; discussed the oversubscription of funds and the corresponding reduced ability to negotiate the standards. Under those circumstances, the side letter process is utilized to protect the investor. Mr. Tucker reviewed the highest priority terms during fund negotiations. Ms. Oryol discussed the fiduciary duty of managers. Fiduciary duties can be expanded or restricted under Delaware law or common law. In a co-mingled fund the fiduciary is responsible to all parties. Standards of care and fiduciary duties are nuanced and should be handled with care. If pushed by LPs, the majority of managers are willing to change verbiage to make the investor comfortable and get the more friendly LP terms.

Mr. Thomas Hickey, Foley and Lardner; expanded on fiduciary duty and the three primary fund documents reviewed by outside counsel. Mr. Hickey highlighted the identification of more robust conflicts of interest disclosures and noted the example of related party transactions. Counsel is also reviewing reasonable fees in conjunction with the market. Mr. Hickey noted that when working with some of his largest LPs, terms related to fiduciary duties are negotiated upfront. During a discussion on MFNs, Mr. Hickey noted that the ability of other LPs to access these are often capped, but that Counsel reviews the terms that bigger investors negotiated that OCERS did not, so they know what to ask for the next time. Ms. Murphy added that OCERS'

Investment Team asks all external legal counsel if they have or are representing other institutional investors in each prospective fund that goes out to bid.

THE STATE OF OCERS

Mr. Delaney presented the sixth annual State of OCERS presentation and gave an overview of active and retired membership. Ms. Murphy gave an overview of Investments and items that OCERS is currently working on. Mr. Delaney also discussed the COVID pandemic as well as current staffing. Mr. Delaney also discussed the challenges in 2021 and beyond. He talked about COVID-19, Alameda, early retirement rush, employer's solvency as well as cyber security. Mr. Delaney touched on OCERS opportunities and discussed the year 2033 being a key cost savings year as the bulk of OCERS liability will be paid off. He stated that OCERS is doing great overall. In conclusion, Mr. Delaney stated he found the current "state of OCERS" to be sound.

2021-2023 STRATEGIC PLAN

Mr. Delaney discussed the Strategic Plan and focused on the last page, "Looking Ahead 5-10 Years." He briefly touched upon the Investment best practices as the fund approaches \$35 billion. The document he highlighted also discussed the following topics: End of V3 useful life, Investigate implementation of artificial intelligence driven, Investigate OCERS management/oversight of member medical coverage upon retirement, Multi-Factor Authentication for Member and Employer Accounts. He concluded his discussion with OCERS looking into the future with the possible use of artificial intelligence to detect fraudulent activity and transactions.

2021 BUSINESS PLAN

Ms. Shott presented the 2021 Business Plan. Business Plan Initiatives are items to be worked on in the upcoming year to support moving forward the three year Strategic Plan. The Strategic Goals of Fund Sustainability, Excellent Service and Support, Risk Management, Talent Management and Effective Governance all have Business Plan initiatives for 2021. The Executive Management team then presented each of business initiatives being proposed. The initiatives that have costs associated with them were highlighted and estimates provided. After some discussion, the Board was agreeable to moving the 2021 Business Plan forward to be approved at the October Board of Retirement meeting and incorporating the associated costs in the proposed budget to be presented to the Board in November for approval.