

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

**INVESTMENT MANAGER MONITORING
SUBCOMMITTEE MEETING**

**November 2, 2017
9:00 A.M.**

MINUTES

The Chair called the meeting to order at 9:06 a.m. and read the opening statement into the record.
Attendance was as follows:

Present: Frank Eley, Chair; and Charles Packard, Vice Chair

Absent: Russell Baldwin; 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; Stina Walander-Sarkin, Investment Analyst; Anthony Beltran, Visual Technician; and Julius Cuaresma, Recording Secretary

A. INDIVIDUAL MANAGER PRESENTATIONS

Mr. Beeson introduced City of London, an emerging markets (EM) investment firm that manages approximately \$276 million on behalf of OCERS as of September 30, 2017. OCERS originally invested \$125 million in October 2013. Rather than directly trading in underlying individual stocks, City of London trades in closed-end funds that own stocks.

Mr. Eley, Mr. Beeson, and Ms. Murphy discussed appropriate statistical risk measures for City of London, as well as markets where the manager should likely outperform and underperform its benchmark.

Mr. Beeson observed that due to the manager's value orientation, City of London could relatively underperform its benchmark in a bull EM environment; conversely, in a bear market, the manager should provide downside protection and relatively outperform.

Mr. Packard, Ms. Chary, and Ms. Murphy discussed the current allocation size of City of London within the context of the EM opportunity set.

Ms. Murphy noted that the increased allocation size of City of London is also a by-product of the manager's recent outperformance.

Ms. Chary also observed the capacity constraints that limit the size of EM managers.

Mr. Packard and Ms. Murphy discussed the prospective investment environment, specifically pertaining to economic headwinds that could hamper the U.S., relative to the tailwind that could push asset prices further in the rest of the world.

CITY OF LONDON INVESTMENT MANAGEMENT COMPANY LIMITED
Presentation by Barry Olliff, Mark Dwyer, & Todd Fawaz

The key highlights of the presentation were:

Firm update: As of September 30, 2017, City of London's assets under management (AUM) was approximately \$5 billion. The EM closed-end strategy represents approximately 90% of AUM; the balance in AUM is across developed markets (DM), frontier EM, and global tactical asset allocation strategies.

Portfolio Strategy: City of London uses a top-down, macro strategy, i.e., ranking EM countries, combined with a bottom-up analysis of closed-end fund managers. City of London generates alpha by exploiting closed-end funds' intraday and intraweek volatility, buying those funds perceived to be trading at a discount to net asset value (NAV). The manager discussed the importance of good corporate governance, including Environmental, Social, and Governance (ESG) as part of their investment philosophy and portfolio construction. The manager seeks out closed-end funds that perform corporate actions such as tender offerings, IPOs, buybacks, and distributions, that narrow the discount to NAV. The portfolio will hold between 60-100 closed-end funds, each of which hold an average of 60 securities, providing a total look-through exposure to 3,500 to 4,500 stocks.

Market Overview/Outlook for 2018: In order to continue generating high-quality risk-adjusted returns in the face of a limited opportunity set, the manager has and will close the fund from new inflows. Historically, City of London has closed the fund three times. The manager reported that they are about to close again, with near-term capacity of about \$300-400 million. The manager noted that even as EM has outperformed DM, EM's price-to-earnings (P/E) ratios have decreased, while DM's valuations have increased.

Performance: Since OCERS' inception, the manager has returned 5.6% net of fees versus 3.6% for the index. City of London has a slight bias to small cap funds, which in recent years has been a headwind, and yet City of London has relatively outperformed. The manager observed, due to the cyclical nature of their universe, those headwinds should likely reverse course and develop into a tailwind for their portfolio.

Mr. Eley and Mr. Oliff discussed the size of City of London's opportunity set.

Mr. Oliff observed that across their 25 targeted EM exchanges, there are approximately 500 closed end-funds, representing an overall universe of about \$500 billion.

Mr. Eley and Mr. Oliff discussed statistical measures, including the portfolio's size weighted average discount (SWAD) and its probabilistic relationship to City of London's performance, i.e., narrowing discount should lead to a tailwind to performance, and a widening discount, a headwind to performance.

Mr. Packard and Mr. Oliff discussed the Delaware Statutory Trust (DST) and fees as it relates to the OCERS' fund structure and setup.

Mr. Packard and Mr. Oliff discussed City of London's geographical exposures, specifically as it pertains to contrarian views of under-followed and/or under-invested countries.

Mr. Delaney and Mr. Dwyer discussed City of London's country selection performance, including the manager's underweight positioning to China in 2017.

Mr. Delaney and Mr. Dwyer discussed City of London's view of Mexico.

Mr. Dwyer also observed that City of London is neutral to constructive on Mexico, and this positioning is primarily tempered due to their short-term concerns regarding NAFTA.

Mr. Eley and Mr. Oliff discussed correlations between City of London's performance and the performance of commodities.

Mr. Oliff indicated that City of London might look to be more invested in cyclical, commodity-related sectors such as industrials and materials, primarily due to those sectors relative underperformance in comparison to the technology sector.

Mr. Dwyer further observed technology's sector weight in the MSCI EM Index has approached 30%. He remarked that industrials and materials, in aggregate, are approximately only 10% of the index, whereas ten years ago, those sectors were approximately 30%.

The Committee recessed at 10:06 a.m.

The Committee reconvened at 10:25 a.m.

JAMESTOWN, L.P.

Presentation by Amy Knopf & Alix Rice

Mr. Beeson introduced Jamestown, a vertically integrated, full service real estate manager that both owns and manages properties. OCERS' \$75 million commitment to Jamestown's Premier Property Fund was called in July 2015. As of June 30, 2017, OCERS' net asset value was \$76.4 million. OCERS has received \$7.2 million in distributions, which is in the queue available for reinvestment. Mr. Beeson noted that the manager's recent short-term performance has slightly missed the stated target net returns of 8-10.5% due to a Q4 2016 write-down of an office property in the Washington, D.C. metro area.

The key highlights of the presentation were:

Firm update: Jamestown managed approximately \$11.1 billion as of June 30, 2017, with dual headquarters in Atlanta and New York; the manager has additional offices in San Francisco, Boston, Cologne, Germany, and Bogota. Jamestown launched their Premier Property Fund in late 2011 and the fund has a gross asset value of \$4.4 billion.

Portfolio Strategy: The manager targets investments in 24-hour major metropolitan markets, specifically New York, San Francisco, Washington, D.C., Boston, and Los Angeles. Within those

targeted markets, Jamestown primarily focuses on the office and retail space. As of June 30, 2017, the fund had 66% invested in the office sector, 27% in retail, with the balance in other investments. The fund's leverage will not exceed 50% at the fund or asset level; as of September 30, 2017, the leverage ratio for the fund was 37%, and will generally hover around 40%.

Market Overview/Outlook for 2018: The manager stated that they have a subscription queue of about \$680 million. While they are actively looking for investments, Jamestown has been priced out of potential investments. Transaction volume is down as buyers and sellers cannot meet at an agreeable price.

Performance: As of As of June 30, 2017, Jamestown's Premier Property Fund has generated a 7.1% net IRR since OCERS' inception.

Mr. Packard and Ms. Knopf discussed the real estate market environment in Washington, D.C.

Ms. Knopf observed that in particular, the Washington, D.C. market has been the slowest market to recover from the lows out of 2008, primarily due to relatively light exposure to the technology sector.

Mr. Packard, Mr. Eley, and Ms. Knopf discussed the New York real estate market, including New York's west-side area, Hudson Yards, as an increasingly popular new office destination.

Mr. Packard and Mr. Eley asked for quantitative measures regarding the impact of Hudson Yards upon the rest of the New York real estate market.

Mr. Delaney, Ms. Knopf, and Ms. Rice discussed the Miami, Florida real estate market, particularly as it relates to ESG.

Ms. Rice further discussed Jamestown's ESG's investment process and certifications, including their United Nation PRI signatory since 2015.

Mr. Packard, Ms. Knopf, and Ms. Rice discussed Jamestown's investment in the North Waterfront Collection in San Francisco, CA, particularly as it relates to Waterfront's ground lease within the Port of San Francisco.

Mr. Eley and Ms. Knopf discussed the current market environment relative to the 2007 environment.

Ms. Knopf also remarked upon Jamestown's recent investment strategies in the anticipation of a near-term potential real estate market correction, including their sale of four properties in 2016.

Mr. Packard, Ms. Murphy, Ms. Rice, and Ms. Knopf discussed the Jamestown's fee structure.

A **motion** was made by Mr. Packard and **seconded** by Mr. Eley to receive and file the manager presentations. The **motion carried unanimously.**

PUBLIC COMMENTS:

None

COMMITTEE MEMBER COMMENTS:

Mr. Eley, Mr. Packard, and Ms. Murphy further discussed the real estate environment, particularly how Jamestown is positioned relative to other real estate managers.

Ms. Murphy also remarked upon Jamestown's portfolio, including the use of leverage and their current subscription queue. She also commented upon the manager's recent transactions in a sellers' market, as well as costs and benefits of core and value-add real estate managers in different real estate market environments.

STAFF COMMENTS:

None

COUNSEL COMMENTS:

None

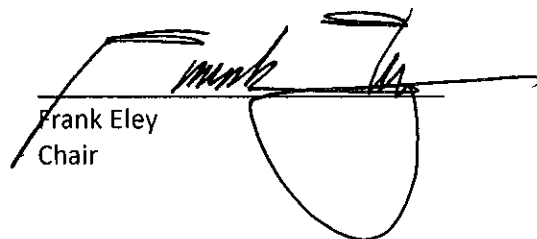
ADJOURNMENT:

The Chair adjourned the meeting at 11:27 a.m.

Submitted by:

Steve Delaney
Secretary to the Committee

Approved by:



Frank Eley
Chair