

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

**INVESTMENT COMMITTEE MEETING  
November 29, 2017**

**MINUTES**

Attendance was as follows:

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

Absent: Eric Gilbert; and Shari Freidenrich

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; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Julius Cuaresma, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; John Humphreys; and Holly Heiserman-Biertuempfel, CFA

Pension Consulting Alliance: Allan Emkin; and Collin Bebee, CFA

The Chair called the meeting to order at 9:02 a.m. Mr. Eley led the Pledge of Allegiance.

**CONSENT AGENDA**

All matters on the Consent Agenda are to be approved by one action unless a Board Member or a member of the public requests separate action on a specific item.

**Mr. Ball pulled item C-3.**

A **motion** was made by Mr. Packard and **seconded** by Mr. Ball to approve the Consent Agenda. The **motion carried unanimously.**

**C-1 COMMITTEE MEETING:**

**Approval of Meeting and Minutes**

Investment Committee Meeting  
Investment Manager Monitoring Subcommittee Meeting

October 25, 2017  
November 2, 2017

**Recommendation:** Authorize meetings and approve minutes.

**C-2 QUIET PERIOD - INVESTMENT RELATED SEARCHES**

**Recommendation:** Receive and file.

**C-3 INVESTMENT MANAGER FEE STRUCTURE UPDATES**

**Recommendation:** Receive and file.

**C-4 INVESTMENT REPORTS**

**Recommendation:** Receive and file.

**C-5 MEKETA ECONOMIC OUTLOOK**

**Recommendation:** Receive and file.

**C-6 PRIVATE EQUITY DRY POWDER**

**Recommendation:** Receive and file.

**\* \* \* \* \* END OF CONSENT AGENDA \* \* \* \* \***

**INDIVIDUAL ITEMS AGENDA**

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

Mr. Ball pulled item C-3 to thank staff for the clarity on fees in item C-3.

A **motion** was made by Mr. Ball and **seconded** by Mr. Hilton to receive and file C-3. The **motion carried unanimously.**

**I-2 CIO COMMENTS**

***Presentation by Molly Murphy, CFA, CIO, OCERS***

Ms. Murphy provided commentary on the global financial markets, including an update on the Federal Reserve. She also remarked upon recent developments in Germany, including a discussion regarding Germany's chancellor, Angela Merkel.

Mr. Baldwin and Ms. Murphy discussed current and prospective Federal Reserve monetary policy.

**I-3 ILLIQUID INVESTMENTS ADVISORY SERVICES RFP UPDATE**

***Presentation by Molly Murphy, CFA, CIO, OCERS***

Ms. Murphy provided an update on OCERS' Illiquid Investments Advisory Services RFP.

Mr. Ball and Ms. Murphy discussed the candidate pool.

Mr. Prevatt and Ms. Murphy further discussed potential fees for the advisory services.

A **motion** was made by Mr. Dewane and **seconded** by Mr. Eley to receive and file I-3. The **motion carried unanimously.**

#### **I-4 PORTFOLIO ACTIVITY REPORT**

##### ***Presentation by Molly Murphy, CFA, CIO & David Beeson, IO, OCERS***

Ms. Murphy and Mr. Beeson presented the portfolio activity report, including the total fund overview, subscriptions and redemptions, as well as the asset allocation for October 2017.

Mr. Beeson provided an update on the absolute return and core fixed income portfolios.

Mr. Ball and Ms. Murphy discussed the duration of OCERS' core fixed income portfolio.

Ms. Murphy noted that there would be further discussion on the core fixed income portfolio, including duration, at the next Investment Committee meeting.

Mr. Beeson discussed the equity portfolio, including recent rebalancing activity.

Ms. Murphy briefly discussed the various costs and benefits associated with active versus passive investing within each asset class.

Mr. Baldwin and Ms. Murphy discussed OCERS' Risk Mitigation Strategies (RMS) allocation.

Mr. Beeson provided duration information for the Bloomberg Barclays Aggregate Bond Index.

Mr. Beeson presented 2017 year-to-date performance figures for the global markets.

A **motion** was made by Mr. Packard and **seconded** by Mr. Eley to receive and file I-4. The **motion carried unanimously.**

#### **I-5 3<sup>rd</sup> QUARTER 2017 PORTFOLIO RISK DISCUSSION**

##### ***Presentation by Allan Emkin & Colin Beebe, CFA, PCA***

Mr. Emkin and Mr. Beebe presented PCA's 3<sup>rd</sup> Quarter 2017 Portfolio Risk Discussion for OCERS' portfolio.

Mr. Beebe discussed various risks in OCERS' portfolio, particularly the growth risk. He also observed the importance of having many diversified drivers of risk.

Mr. Beebe discussed the core fixed income portfolio, including the transition towards a pure fixed income portfolio that more closely resembles the Bloomberg Barclays Aggregate Bond Index, and away from a portfolio with credit risk.

Mr. Ball, Mr. Emkin, Mr. Beebe, and Ms. Murphy discussed the RMS portfolio and its potential impact on the overall OCERS portfolio. They particularly discussed characteristics of OCERS' portfolio prior to RMS and its recent inclusion of the BlackRock's 20+ Treasury Bond Index.

Mr. Emkin discussed the market environment, including several quantitative and qualitative remarks about the recent period marked by unprecedented low volatility levels. He further commented upon such volatility levels and its unsustainable impact upon Sharpe Ratios for the portfolios across the pension industry.

Mr. Ball expressed agreement, while also asking for slides that similarly comment upon the market's low levels of volatility. He also asked presentation slides that more accurately and clearly reflect the current exposure positioning of the RMS portfolio.

Mr. Eley and Mr. Emkin discussed the need for a currency policy, as developed market currency risk is a significant exposure.

Ms. Murphy stated that a formal currency discussion would be at the January 2018 Investment Committee Meeting.

Mr. Emkin, Ms. Murphy, and Mr. Lindholm discussed recent developments in the Energy Master Limited Partnership space (MLP).

A **motion** was made by Mr. Lindholm and **seconded** by Mr. Hilton to receive and file I-5. The **motion carried unanimously**.

***The Committee recessed at 9:46 a.m.***

***The Committee reconvened at 10:03 a.m.***

#### **I-6 3<sup>rd</sup> QUARTER 2017 PORTFOLIO EVALUATION REPORT**

***Presentation by Stephen McCourt, CFA & Holly Heiserman-Biertuempfel, CFA, Meketa***

Mr. McCourt presented Meketa's 3<sup>rd</sup> Quarter 2017 Portfolio Evaluation Report for OCERS' portfolio.

Mr. McCourt discussed the current market environment, including differing characteristics and factors that typify fundamentally driven markets relative to psychologically driven markets.

Ms. Heiserman-Biertuempfel provided an update on OCERS' private equity and credit allocations, including the recent re-classification of managers according to their risk, which properly shifted some credit managers into the private equity portfolio.

Ms. Heiserman-Biertuempfel provided an update on the remaining absolute return managers, including ones re-classified into the equity portfolio.

Mr. Ball, Ms. Murphy, and Mr. McCourt discussed performance outliers, particularly within the context of investment factor styles, i.e., Value versus Growth, as well as the need for improved benchmarking of managers.

Mr. Prevatt, Ms. Heiserman-Biertuempfel, and Ms. Murphy discussed OCERS' investment process specifically the re-underwriting of managers on a timely basis.

Mr. Prevatt and Ms. Murphy also discussed upcoming discussions and actionable items regarding the role of the Investment Manager Monitoring Subcommittee Meeting, and revised Investment Charters and Policies.

Mr. Ball commented upon OCERS' allocation to dedicated infrastructure managers.

Mr. Baldwin, Ms. Murphy, and Mr. McCourt discussed performance reporting, particularly for the private markets allocation. They further remarked upon the J-curve impact upon performance.

Ms. Heiserman-Biertuempfel noted that Meketa would roll up OCERS' private market managers to an aggregated asset class level, since time-weighted returns at an individual manager level are less relevant.

Mr. Lindholm, Mr. Ball, and Ms. Murphy discussed improvements to OCERS' watch list and compliance report.

A **motion** was made by Mr. Lindholm and **seconded** by Mr. Baldwin to receive and file I-6. The **motion carried unanimously.**

**I-7 2<sup>nd</sup> QUARTER 2017 REAL ESTATE PERFORMANCE REPORT**

***Presentation by Stephen McCourt, CFA & John Humphreys, Meketa***

Mr. McCourt and Mr. Humphreys presented Meketa's 2nd Quarter 2017 Real Estate Performance Report for OCERS' portfolio. Mr. Humphreys and Mr. McCourt provided commentary on recent developments within the real estate market.

Mr. Packard, Mr. Ball, Mr. McCourt, and Mr. Humphreys discussed the NCREIF Index.

Mr. Humphreys, Mr. McCourt, Ms. Murphy, and Mr. Ball discussed the performance breakdown and attribution for closed-end versus open-end funds.

A **motion** was made by Mr. Ball and **seconded** by Mr. Packard to receive and file I-7. The **motion carried unanimously.**

***The Committee recessed at 10:49 a.m.***

***The Committee reconvened at 11:02 a.m.***

**I-8 WATERTON RESIDENTIAL PROPERTY VENTURE XIII**

***Presentation by David Schwartz & Michelle Wells, Waterton***

Ms. Murphy provided a brief framework of item I-8, noting that Waterton would commence their presentation with an education session on the real estate market, specifically the multi-family market. She noted that Waterton would then proceed to discuss their investment vehicle, Waterton Residential Property Venture XIII.

Ms. Murphy provided the investment rationale for Waterton, including multi-family property exposure as beneficial defensive positioning in the prospective real estate market environment.

A **motion** was made by Mr. Ball and **seconded** by Mr. Packard to approve a \$100 million commitment to Waterton Residential Property Venture XIII. The **motion carried unanimously.**

\* \* \* \* \***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/STAFF/CONSULTANT COMMENTS**

None

**COUNSEL COMMENTS**

None

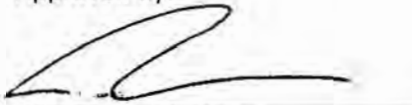
**ADJOURNMENT:** The Chair adjourned the meeting at 12:28 p.m.

Submitted by:



Steve Delaney  
Secretary to the Committee

Approved by:



Chris Prevatt  
Chair