

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

**GOVERNANCE COMMITTEE MEETING
March 28, 2018
9:00 a.m.**

Members of the Committee

Shawn Dewane, Chair
Roger Hilton, Vice Chair
Chris Prevatt
David Ball

AGENDA

This agenda contains a brief general description of each item to be considered. The Committee may take action on any item included in the agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Committee may consider matters included on the agenda in any order, and not necessarily in the order listed.

PUBLIC COMMENT

At this time, members of the public may comment on matters not included on the Agenda that are within the subject matter jurisdiction of the Committee, provided that no action can be taken on any item not appearing on this Agenda unless otherwise authorized by law.

When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) 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. Persons wishing to address items on the agenda should provide written notice to the Secretary of the Committee prior to the Committee's discussion on the item by signing in on the Public Comment Sign-In Sheet located at the back of the room.

A-1 [CHIEF INVESTMENT OFFICER CHARTER](#)

Presented by Steve Delaney, CEO and Molly Murphy, CIO

Recommendation: Consider possible revisions to the Chief Investment Officer Charter, which was recently revised by the Investment Committee to include, among other things, authority to hire and terminate investment managers, and recommend those revisions to the Charter to the Investment Committee for its consideration and approval.

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

**REGULAR BOARD MEETING
APRIL 24, 2018
9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

**INVESTMENT COMMITTEE MEETING
MARCH 29, 2018
9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

**INVESTMENT MANAGER MONITORING SUBCOMMITTEE MEETING
APRIL 5, 2018
9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at adminsupport@ocers.org or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

A-1



Memorandum

DATE: March 28, 2018
TO: Members of the Governance Committee
FROM: Molly A. Murphy, CFA, Chief Investment Officer
SUBJECT: Chief Investment Officer Charter

Background

At the January Investment Committee meeting, OCERS' Investment Committee approved an amended Chief Investment Officer Charter, delegating authority for investment manager approval and termination to the CIO, conditional on agreement by the Investment Consultant.

At the February Investment Committee meeting, at the request of Committee members, staff discussed additional details pertaining to procedures to ensure adequate checks and balances, examples of other public pension systems that have adopted similar delegated authority and information regarding any other limitations that should be considered by the Committee.

The Investment Committee deferred further discussion to the Investment Committee Chair, and then the Board Chair, who designated the Governance Committee to advance the discussion.

Analysis

OCERS has retained four investment consultants that all serve equally as fiduciaries to the plan. By policy, each of the four consultants reports directly to the Investment Committee, with each consultant serving a particular role, recommending strategy and implementation:

- Meketa: General consultant with oversight for asset allocation and public markets and direct lending strategies (70-75% of AUM)
- Torrey Cove: Specialist private capital consultant with oversight for private equity, private real assets and special situations (15-20% of AUM)
- Townsend Group: Specialist real estate consultant with oversight for real estate (10% of AUM)
- PCA: Specialist risk consultant

While the number of consultants has grown to four, this structure is the same concept that OCERS used as recently as three years ago when OCERS employed NEPC for general consulting, Aksia for Hedge Fund consulting, RVK for Real Estate consulting and Blackrock for risk consulting. Each consultant advised OCERS on a distinct part of the OCERS portfolio, providing independent due diligence and counsel to OCERS staff and the Investment Committee.

Memorandum

As market conditions have changed over the years, a traditional portfolio of publicly traded stocks and bonds is no longer expected to generate future returns sufficient to sustain defined benefit pension plan obligations. As such, those responsible for the oversight of these plans have turned to more complex investment strategies and structures to produce higher expected returns. These types of strategies, such as hedge funds, structured finance products and private equity, have challenged the historic Board and Investment Committee structures, comprised of Trustees who may not have professional investment backgrounds or daily investment involvement. As such, the investment governance best practice has evolved over time to one where internal staff is empowered to approve, terminate and modify investment manager relationships.

OCERS' legal counsel opines that, as a general matter, the OCERS Investment Committee has exclusive control over the investment of trust assets, and the Investment Committee must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims. In other words, the committee must invest and manage the plan assets as a prudent investor would. However, the Investment Committee is not expected to do everything itself (nor does it have the time, resources, expertise or experience to do so); and it is not only prudent for the committee to delegate certain responsibilities to others, it would be **imprudent** for the committee to **not** delegate certain discretion and duties to staff and consultants.

Counsel affirms that while certain duties cannot be delegated, like the duty to establish the diversified asset allocation, establishing asset classes and sub asset classes, and defining manager style mandates within those classes, the selection of investment managers is one that can, and arguably should, be delegated to the Chief Investment Officer within defined parameters and then with monitoring of performance to be assured that the delegates are performing appropriately. Once the parameters are established, the CIO can have delegated responsibility to select and contract with managers who meet the investment mandates, with the assistance of investment consultants and counsel. This responsibility can be constrained by dollar or other limits if the Investment Committee so chooses.

If any substantive investment manager activity occurs, it will be captured and reported to the Investment Committee through regular communications at monthly, quarterly and annual intervals, as is the current custom. Enhanced reporting of newly hired investment managers/products and any terminations will be highlighted through Executive Summary memos providing added detail as to the rationale and appropriateness of the action. As with any information item, these memos can be pulled for discussion by Investment Committee members in order to ask questions or received additional information or clarification.

Documents

To facilitate this discussion, a presentation is attached as well as several supplemental documents:

- Examples of peer pension plan policies:
 - Large plan with internal trading operations
 - Medium plan with AUM limitations by activity type and asset type
 - Medium plan with reporting checks and balances
- Mock investment consultant memo

Memorandum

- OCERS CIO Charter

Recommendation

The current CIO Charter, approved in January, delegates authority conditional on agreement with the investment consultant with asset specific investment oversight so that every investment manager and investment product decision follows the same rigorous due diligence. The information submitted for Governance Committee review, illustrates the intensity of the OCERS' process and details the process of checks and balances.

However, if the Committee believes that other options may better suit the governance of OCERS investment programs, three options are outlined below. While OCERS staff believes that Option #1 is the gold standard and ultimate best practice, all options would be steps towards better governance and a more adaptable, proactive investment program.

Option #1: Maintain the delegated authority as outlined in the CIO Charter approved in January 2018

Option #2: Modify the delegated authority to include the following limits per fund/strategy

	Maximum Initial % of Plan AUM	Maximum Total % of Plan AUM
Passive Index Funds	10%	20%
Public Markets Active Investments	3%	5%
Private Equity, Private Credit, Private Real Estate, Private Real Assets, Hedge Funds	1%	2%

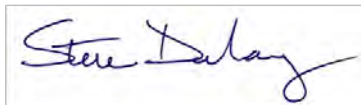
Option #3: Modify the delegated authority to include limitation per fund/strategy of 1% of total plan AUM for all investments regardless of risk or strategy type (e.g. active vs. passive, traditional vs. alternative)

Submitted by:



Molly A. Murphy, CFA
 Chief Investment Officer

Approved by:



Steve Delaney
 Chief Executive Officer

DELEGATED AUTHORITY



MARCH 28, 2018

FIDUCIARY ROLES AND POLICIES

Current OCERS CIO Charter – Authority and Oversight

- Coordinate with OCERS' investment consultants and key stakeholders, as needed, to ensure an effective implementation of Board-approved mandates (*page 1; Leadership & Responsibilities, final bullet*)
- Approve, monitor, and terminate investment managers, conditional on agreement with the investment consultant and on alignment with approved asset allocation ranges and targets (*page 2; Investment Management, 2nd bullet*)
- Provide the Investment Committee and the CEO with all relevant and timely information required to carry out their respective fiduciary responsibilities (*page 2; Monitoring & Reporting, 1st bullet*)

OCERS Investment Committee maintains the ability to hire and terminate all investment consultants and custodians as Named Service Providers, thereby ensuring Investment Committee fiduciary controls over advice, execution and operations (including the asset valuation process)

Investment Consultants' Role – as agreed to in all OCERS' Investment Consultant agreements

- In performing the Consulting Services, CONSULTANT will (i) discharge its duties: a) solely in the interest of, and for the exclusive purposes of providing benefits to, OCERS participants and their beneficiaries; (b) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims; (c) shall assist the Board to diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so ("Fiduciary Standards"); and (ii) at all times act in compliance with the OCERS' Investment Plan, Policy and Guidelines, and all other applicable laws and regulations

OCERS Asset Allocation

ASSET CLASS	POLICY TARGET (%)*	SUB-ASSET TARGET (%)*	RANGE (%) **
Global Public Equity	35.0		28 - 42
U.S. Equity		17.5	14 - 20
International Developed Equity		10.5	9 - 13
Emerging Markets Equity		7.0	5 - 9
Private Equity	8.0		4 - 12
Fixed Income	17.0		12 - 22
Core Fixed Income		10.2	7 - 13
Core Plus Fixed Income		3.4	0 - 6.5
TIPS		3.4	0 - 6.5
Credit	13.0		8 - 18
Corporate Credit		5.2	2 - 8
Private Credit		2.6	1 - 5
Emerging Markets Debt		2.6	1 - 5
Opportunistic Credit		2.6	1 - 5
Real Assets	22.0		17 - 27
Real Return		12.0	9 - 15
Real Estate		10.0	7 - 13
Risk Mitigation	5.0		0 - 10
Cash	0.0		0 - 5
*Totals may not sum to 100% due to rounding			
** Ranges for illiquid asset categories can be fulfilled by commitments that are not yet invested, so that policy compliance is fulfilled through capital commitments			

REPRESENTATIVE EXAMPLES

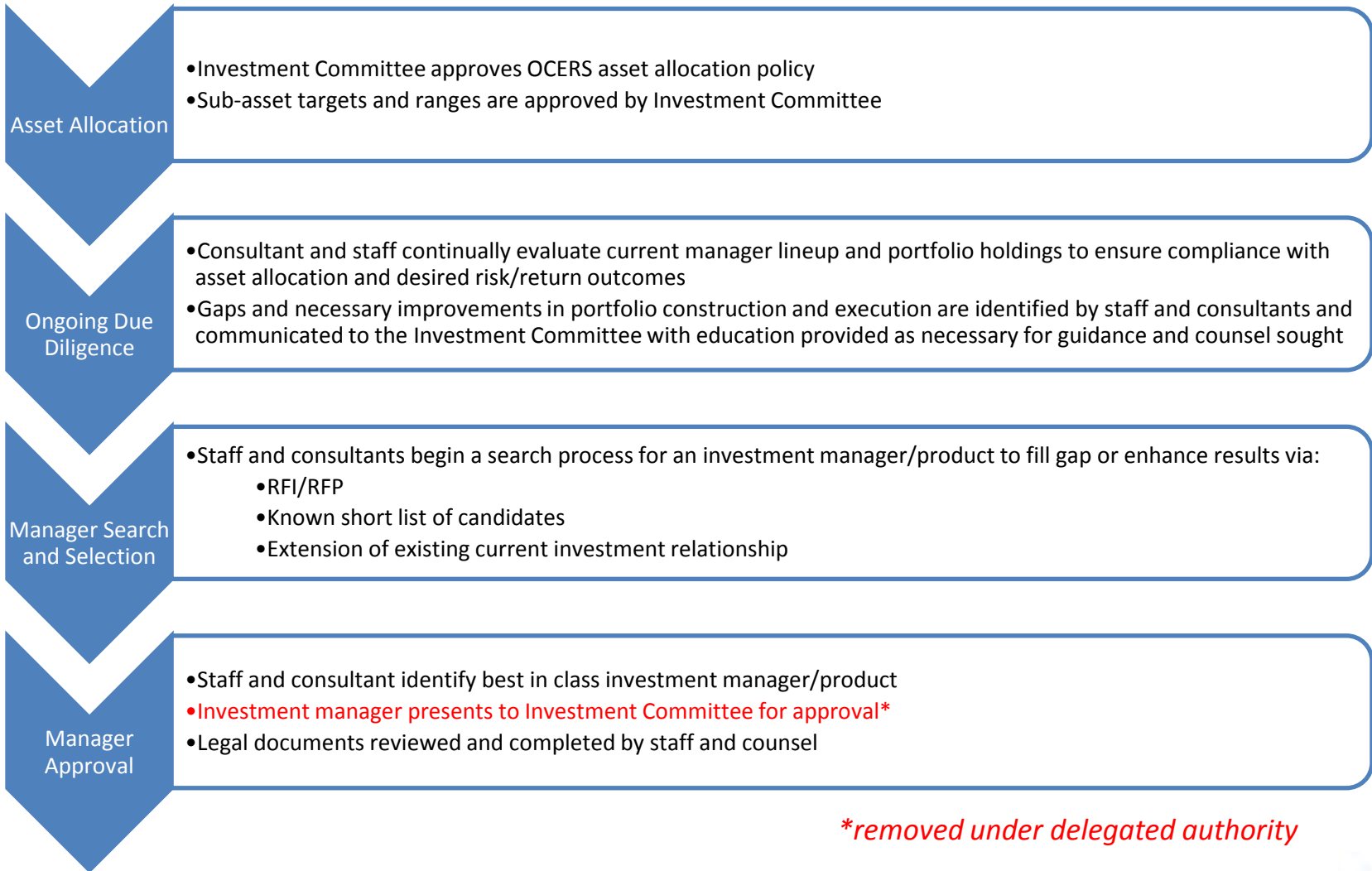
Public Peers with Delegated Authority

Representative Examples

<u>Plan Name</u>	<u>AUM (\$Billions)</u>	<u>State</u>
California Public Employees Retirement System	336	CA
California State Teachers Retirement System	216	CA
Florida Retirement System	168	FL
Teachers Retirement System of Texas	146	TX
New York State Teachers Retirement System	116	NY
Wisconsin Retirement System	110	WI
Ohio Public Employees Retirement System	98	OH
Virginia Retirement System	79	VA
State Teachers Retirement System of Ohio	76	OH
Michigan Public School Employees Retirement System	75	MI
Oregon Public Employees Retirement System	75	OR
Tennessee Consolidated Retirement System	55	TN
Maryland State Retirement and Pension System	50	MD
Teachers Retirement System of Illinois	50	IL
Public School Retirement System of Missouri	42	MO
Arizona State Retirement System	38	AZ
South Carolina Retirement System	37	SC
Indiana Public Retirement System	33	IN
Alaska Retirement Management Board	31	AK
Iowa Public Employees Retirement System	31	IA
Employees Retirement System of Texas	31	TX
San Francisco Employees Retirement System	27	CA
Public Employees Retirement Association of New Mexico	16	NM
Orange County Employees Retirement System	15	CA
Ohio Police and Fire Pension Fund	15	OH
Ohio School Employees Retirement System	14	OH
San Diego County Employees Retirement Association	12	CA
Sacramento County Employees Retirement System (**HF/PE/RE/PC/RA)	10	CA
Missouri State Employees Retirement System	10	MO
Wyoming Retirement System	9	WY
Contra Costa Employees Retirement Association	8	CA
Fire & Police Pension Association of Colorado	5	CO
Denver Employees Retirement Plan	3	CO
MoDOT and Patrol Employees Retirement System	2	MO

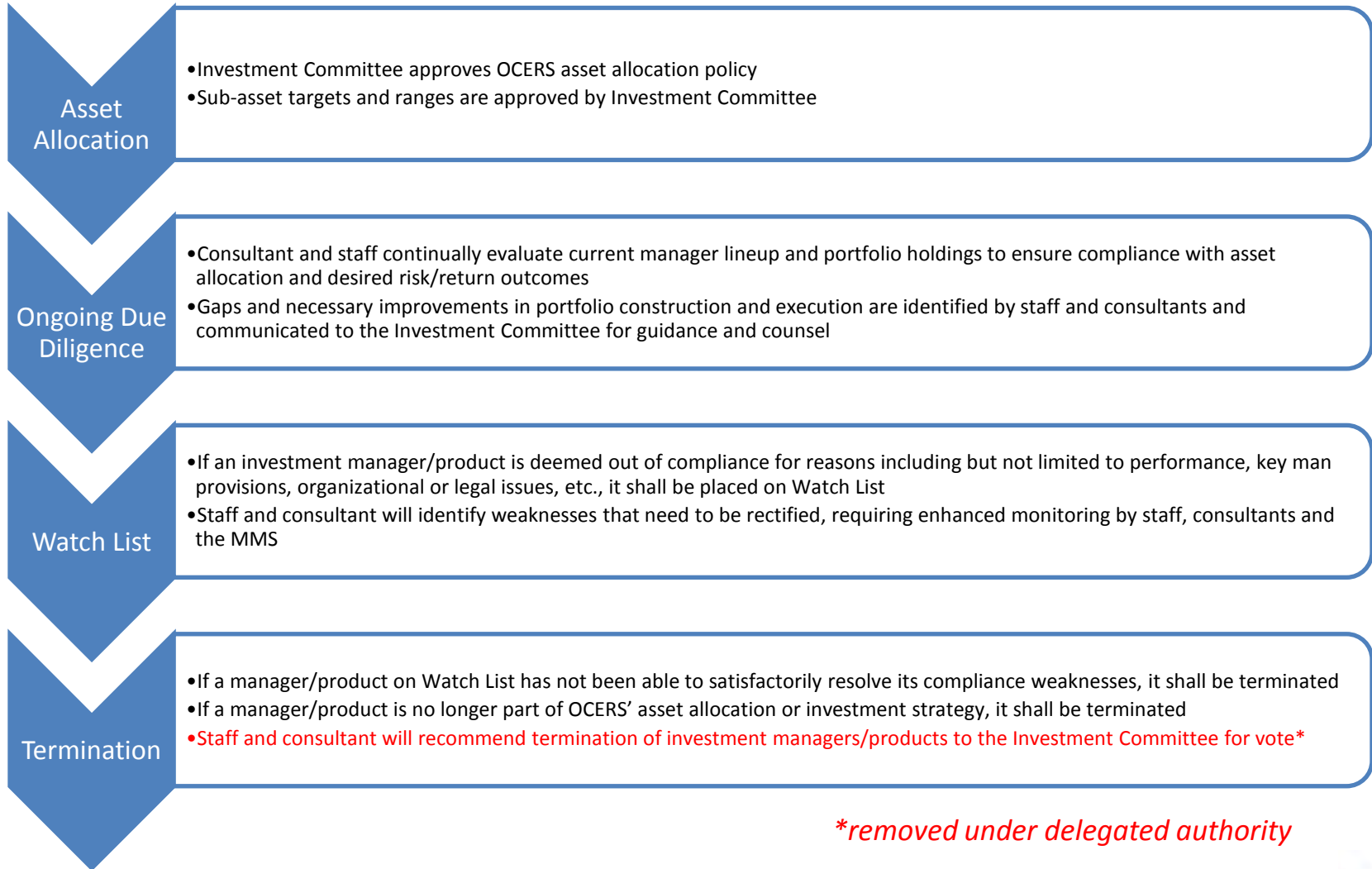
INVESTMENT MANAGER APPROVAL/TERMINATION PROCESS

OCERS - Manager Hiring Process



**removed under delegated authority*

OCERS - Manager Termination Process



**removed under delegated authority*

INVESTMENT MANAGER MONITORING AND DUE DILIGENCE

Robust Investment Process by Staff and Consultants



INVESTMENT COMMITTEE MONITORING AND REPORTING

Investment Committee – Standard Reporting

- Monthly Portfolio Activity Report
- Quarterly
 - General Consultant Portfolio Performance Review
 - Private Equity Performance Review
 - Real Estate Performance Review
 - Portfolio Risk Discussion
- Annual
 - Asset Allocation Review
 - Real Estate Strategic Plan
 - Private Equity Strategic Plan

Investment Committee – Enhanced Reporting

- Monthly Portfolio Activity Report
 - Investment manager report added
 - Details all cash flows, commitments and terminations
- Executive Summary Memos
 - Details each new manager/product approval, termination or material change
 - Included as information items in the Investment Committee materials for the meeting immediately following the described investment activity

Public Pension Plan Policy Samples

Large Plan with Internal Trading Operations

Annual Review of Delegation
Investments – Chief Investment Officer

BACKGROUND

Discretion is divided into two areas, daily trading ticket limits and discretion over investment transactions. The former is fairly straight forward and governs the movement of money (cash wires) or purchases and sales of securities on a daily basis. The latter is the key to operational efficiency. Investment decisions such as the hiring and funding of investment managers and the investment into a partnership transaction are directly linked to the strategy and nimbleness of each asset class.

Listed below and on the following pages are all the various levels of discretion the Investment Committee has granted to the chief investment officer and investment staff, as designated. The levels are listed by asset class.

Global Equity		
External Managers	The chief investment officer, or designee, has the authority to retain, terminate and allocate assets to external U.S., non-U.S., emerging markets and corporate governance investment managers	
Global Equity Internal Portfolios		
Non-cumulative daily trade limits	Chief Investment Officer	Up to 10% of total internal management
	Deputy Chief Investment Officer	Up to 10% of total internal management
	Director of Global Equities	Up to 5% of total internal management
	Portfolio Manager	Up to 4% per internally managed portfolio
	Associate Portfolio Manager	Up to 3% per internally managed portfolio
	Investment Officer III	Up to 2.5% per internally managed portfolio
	Investment Officer II	Up to 2% internally managed portfolio
	Investment Officer I	Up to 1% per internally managed portfolio
Global Equity Derivatives (e.g. Cash Equalization) and transition management portfolios		
The following risk-based trading parameters are non-cumulative and are applied to the market value of the U.S. or Non-U.S. segments of the Global Equity portfolio		
Non-cumulative daily trade limits	Chief Investment Officer	10%

	Deputy Chief Investment Officer	10%
	Director of Global Equity Portfolio Manager	5%
	Associate Portfolio Manager	4%
	Investment Officer III	3%
	Investment Officer II	2.5%
	Investment Officer I	2%
	Investment Officer I	1%
Corporate Governance Activist Investment Program		
Non-cumulative daily limits	Chief Investment Officer	\$1 billion for Capital Calls \$250 million for Co-investments
	Deputy Chief Investment Officer	\$1 billion for Capital Calls \$250 million for Co-investments
	Director of Corporate Governance	\$100 million
	Director of Global Equity Portfolio Manager	\$100 million
	Associate Portfolio Manager	\$50 million
	Investment Officer III	\$35 million
	Investment Officer II and I	\$25 million
	Investment Officer I	\$15 million

Fixed Income		
External Managers	The chief investment officer, or designee, has the authority to retain, terminate and allocate assets to external fixed income and currency investment managers.	
Internal Fixed Income Portfolio		
Daily trade activity	Chief Investment Officer	Up to 10% of total fixed income portfolio
	Deputy Chief Investment Officer	Up to 10% of total fixed income portfolio
	Director of Fixed Income Portfolio Manager	Up to 5% of total fixed income portfolio
	Associate Portfolio Manager	Up to 10% of related internally managed portfolio
	Investment Officer III	Up to 6% of related internally managed portfolio
	Investment Officer II	Up to 6% of related internally managed portfolio
	Investment Officer I	Up to 4% of related internally managed portfolio
	Investment Officer I	Up to 2% of related internally managed portfolio

Currency Management		
Daily currency trade activity	Chief Investment Officer	Up to 10% of the total non-USD holdings
	Deputy Chief Investment Officer	Up to 10% of the total non-USD holdings
	Director of Fixed Income	Up to 5% of the total non-USD holdings
	Portfolio Manager	Up to 5% of core (notional) program
	Associate Portfolio Manager	Up to 3% of core (notional) program
	Investment Officer III	Up to 3% of core (notional) program
	Investment Officer II	Up to 2% of core (notional) program
	Investment Officer I	Up to 1% of the core (notional) program

Private Equity		
Approval Decision for Commitments		
New (to) Limited Partnerships	Chief Investment Officer	Up to \$250 million or 15% of the partnership capitalization, whichever is less
Follow-on Limited Partnerships	Chief Investment Officer	Up to \$500 million or 15% of the partnership capitalization, whichever is less
Direct Investment in General Partnerships	Chief Investment Officer	Maximum amount of each commitment shall not exceed 10% of size of portfolio. Ownership percentage of the direct investment can be up to 35 percent
Secondary Limited Partnerships	Chief Investment Officer	Up to \$100 million or 20% of the partnership capitalization, whichever is less
Co-Investments	Chief Investment Officer	Up to \$125 million or 5% of the size of the partnership, or 80% of General Partner's commitment to the transaction commitment to that partnership, whichever is less
Separately Managed Partnerships	Chief Investment Officer	Up to \$500 million for an existing general partner

Proactive Portfolio New (to) Fund of Funds Proactive	Chief Investment Officer	relations or \$250 million for a new general partner relationship Shall not exceed \$100 million
Portfolio Follow-on investment Fund of Funds Proactive	Chief Investment Officer	Shall not exceed \$250 million
Portfolio New (to) Co-Investments/FOF Side-by-Side	Chief Investment Officer	Shall not exceed \$55 million or 30% of the total commitment to that partnership, whichever is less
Proactive Portfolio Follow-on Co-Investment/FOF Side-by-side	Chief Investment Officer	Shall not exceed \$100 million or 30% of the total amount of the partnership capitalization.
Daily Trading Authority		
	Chief Investment Officer	\$1.5 billion
	Director of Private Equity	\$400 million
	Portfolio Manager	\$100 million
	Associate Portfolio Manager	\$70 million
	Investment Officer III	\$70 million
	Investment Officer II	\$50 million
	Investment Officer I	\$15 million
Credit Enhancement Program		
		Maximum amount of outstanding commitments is limited to 3% of the market value of the Investment Portfolio.
Approval decision per transaction	Chief Investment Officer	\$400 million
Daily authority to wire transfer funds or purchase bonds	Chief Investment Officer	\$600 million
	Director of Private Equity	\$400 million
	Portfolio Manager	\$300 million
	Associate Portfolio Manager	\$100 million
	Investment Officer III	\$100 million
	Investment Officer II	\$75 million
	Investment Officer I	\$50 million

Real Estate		
Approval Decision on Investments		
New (to) Firms	Chief Investment Officer	Up to 2% of Net Asset Value of the total Real Estate Portfolio
Follow-on Investments	Chief Investment Officer	Up to 4% of Net Asset Value of the total Real Estate Portfolio. Thereafter,

Large Transactions	Chief Investment Officer	<p>incremental allocations beyond the 6% may be approved by staff, subject to review by the Investment Committee if so requested. Discretion to approve up to two transactions in any rolling 12-month period, which may include co-investment opportunities for up to 10% of the Net Asset Value of the total Real Estate Portfolio</p>
Non-cumulative limits for cash disbursements		
	Chief Executive Officer	\$1.5 billion
	Chief Investment Officer	\$1.5 billion
	Deputy Chief Investment Officer	\$1 billion
	Director	\$400 million
	Portfolio Manager	\$100 million
	Associate Portfolio Manager	\$70 million
	Investment Officer III	\$70 million
	Investment Officer II	\$50 million
	Investment Officer I	\$15 million

Inflation Sensitive		
Internally Managed Portfolios (e.g. GIPS/TIPS)		
Non-cumulative daily trading activity	Chief Investment Officer	Up to 10% of total internal management
	Deputy Chief Investment Officer	Up to 10% of total internal management
	Director of Inflation Sensitive	Up to 5% of total Inflation Sensitive Portfolio
	Portfolio Manager	Up to 10% of related internally managed portfolio
	Associate Portfolio Manager	Up to 6% of related internally managed portfolio
	Investment Officer III	Up to 6% of related internally managed portfolio
	Investment Officer II	Up to 4% of related internally managed portfolio
	Investment Officer I	Up to 2% of related internally managed portfolio
Non-cumulative daily cash disbursements	Chief Investment Officer	\$500 million

Attachment 1
Investment Committee

	Deputy Chief Investment Officer	\$500 million
	Director of Inflation Sensitive Portfolio Manager	\$200 million
	Associate Portfolio Manager	\$75 million
	Investment Officer III	\$50 million
	Investment Officer II	\$30 million
	Investment Officer I	\$20 million
Home Loan Program		
Daily trade activity	Chief Investment Officer	\$100 million
	Director of Fixed Income Portfolio Manager	\$50 million
	Associate Portfolio Manager	\$35 million
	Investment Officer III	\$20 million
	Investment Officer II	\$20 million
	Investment Officer I	\$10 million
		\$5 million
Infrastructure		
Approval Decisions on Investments		
New/Initial Commitment to a new General Partner	Chief Investment Officer	Up to \$300 million
Follow-on commitments	Chief Investment Officer	Up to \$300 million; thereafter if a single general partner manages a total portfolio in excess of \$750 million additional allocations or commitments may still be approved by CIO, but are subject to review by the Investment Committee if requested.
Separate Accounts/Co-Investments and/or Direct Investments/Joint Ventures	Chief Investment Officer	Up to \$250 million
Non-cumulative daily cash disbursements		
	Chief Investment Officer	\$500 million
	Deputy Chief Investment Officer	\$500 million
	Investment Director	\$200 million
	Portfolio Manager	\$75 million
	Associate Portfolio Manager	\$65 million
	Investment Officer III	\$50 million
	Investment Officer II	\$30 million
	Investment Officer I	\$20 million

Risk Mitigating Strategies		
Non-cumulative daily limits for approval of commitment, internal management trading and/or cash transfers to a strategy	Chief Investment Officer	0.50% of Total Fund
	Deputy Chief Investment Officer	0.50% of Total Fund
	Director	0.25% of Total Fund
	Portfolio Manager	0.15% of Total Fund
	Associate Portfolio Manager	0.05% of Total Fund
	Investment Officer III	0.05% of Total Fund
	Investment Officer II	0.01% of Total Fund
	Investment Officer I	0.0025% of Total Fund
Innovation Program		
Non-cumulative daily limits for approval of commitment, internal management trading and/or cash transfers to a strategy	Chief Investment Officer	\$500 million
	Director of Innovation & Risk	\$300 million
	Director	\$300 million
	Portfolio Manager	\$200 million
	Associate Portfolio Manager	\$50 million
	Investment Officer III	\$50 million
	Investment Officer II	\$15 million
	Investment Officer I	\$15 million
Commodity Portfolio		
Approval of commitment to a manager	Chief Investment Officer	\$100 million
	Director of Innovation & Risk	\$75 million
	Portfolio Manager	\$50 million
	Investment Officer III	\$40 million

Medium Plan with AUM Limits

B. Delegated Authority on Investment Program Implementation and Oversight

In delegating this authority, the Board establishes the core operating principles of responsibility, accountability, and transparency that will apply to actions taken under this authority as well as the duties delegated to Investment Staff in Section III.C.

Under the legal authority granted the Board summarized in Chapter I, the Board grants to Chief Executive Officer (CEO) and CIO Staff, the following authority and responsibilities:

1. Recommend to the Board for its approval an appropriate program structure to implement the Board-approved asset allocation and investment policy.
2. Hire external investment management firms within the parameters in the table below. All decisions must be approved by Staff.

<i>Asset Class / Role within Total Fund</i>	<i>Initial Allocation</i>	<i>Follow-on Allocation **</i>	<i>Total Manager Exposure</i>
Public Markets and Actively Managed Liquid* Portfolios	3%	2%	5%
Private Markets*** and Illiquid Portfolios	0%	1%	5%
Passive-Plus Index Funds	10%	5%	30%
Index Funds	30%	20%	50%

% = Percentage of the Total Trust Fund

*“Liquidity” is defined as open-ended investments and investment vehicles whereby the manager can liquidate the investments without meaningful market impact and/or bid/ask spreads in a period of days or weeks, depending on the asset class.

**“Follow-on Allocation” is defined as additional investments made with an existing investment manager. Generally speaking, this applies to private asset

managers where [redacted] invests in subsequent funds managed by the same team, applying the same investment thesis.

***Private Markets are private market investments, such as private equity and private real estate. Given their long-lived nature, potential for volatility, and higher investment management costs, private markets require a higher standard of review. As such, the Board will review and approve all such investments based on the recommendation of the CIO and the due diligence conducted by the Investment Staff and General Consultant.

3. The Board grants [redacted] Staff authority for follow-on allocations for Private Markets investments of up to 1% of the value of the total Trust Fund. Follow-on investments cannot occur within six months of initial manager allocation without prior approval of the Board.
4. Allocations to Public Markets portfolios above 2% where the assets are not held by [redacted] Custodian or custodial correspondent bank or in a registered fund such as a SEC registered 1940 Act fund or a European registered UCITS fund must be approved by the Board.
5. The Board grants [redacted] Staff the authority to terminate investment managers. All such terminations will be reported to the Board in the [redacted] monthly risk-return report. Reasons to terminate a manager may include, but are not limited to, turnover of investment management or other professionals that is likely to have an adverse impact on the performance of the strategy, divergence of strategy from stated objectives, violation of guidelines, legal action or action by any regulatory organization on the investment management firm, and/or a change in the organizational structure that is likely to have an adverse impact on the performance of the strategy.
6. The CIO will review and approve recommendations and supporting documentation relating to manager selection and termination. The specific elements of due diligence are to be conducted by [redacted] Investment Staff or the General Consultant and will vary based on the asset class and the characteristics of the individual manager(s) and/or strategies under consideration. The due diligence with respect to underlying investment managers will include, but is not limited to, an assessment of the merits of investment process and philosophy, resources and talent available to the organization, the likelihood that key resources will remain, risk management processes, internal control and compliance processes and procedures, other organizational considerations, and, where appropriate, background checks on the key principals managing the portfolio or leading the investment management firm.

7. Investment Staff has the responsibility and authority to rebalance assets within an asset class to maintain the Board-approved asset allocation and risk limits. The rebalancing review will be done monthly upon receiving the holdings report provided by the custodian, or when a materially large shift in asset values has occurred. When portfolio rebalancing to guidelines is required, the Investment Staff will have up to twenty business days after the review date to implement the changes. The Investment Staff has authority to change the allocations to the existing investment managers within the existing asset allocation. The CIO must approve all these rebalancing changes. Additional rebalancing rules are contained in Chapter V, Section D.
8. All investment manager hiring and terminations will be reported to the Board by Investment Staff in the monthly risk-return report. Reporting will include a summary of due diligence of ; Investment Staff and/or General Consultant.

C. Duties Delegated to Investment Staff

1. Conduct a review of the asset allocation and IPS on an annual basis, and in-depth analysis every three years, as set forth in Chapter II;
2. With the CFO, recommend to the Board firms to serve as the Custodian and, if appropriate, the securities lending agent;
3. Monitor and supervise the ongoing investment program asset allocation, risk, external managers, and the measurement and verification of investment management fees;
4. Manage day-to-day investment operations;
5. Manage day-to-day liquidity needs and rebalance the Trust Fund in accordance with rebalancing framework;
6. Conduct manager searches and recommend candidates for Board approval for manager candidates that fall outside Investment Staff's authority;
7. Address and resolve violations of investment manager guidelines;
8. Negotiate manager fees and other outside vendor fees; and
9. Monitor and provide analysis of the General Consultant and other advisors to the investment program, periodically.

Medium Plan with Reporting

INVESTMENT POLICY

I. INTRODUCTION

A. Statutory Authority

B. Authority and Duties of the Board

C. Mission Statement

D. Roles and Responsibilities/Delegations of Authority

To accomplish its mission, the Board relies on employees and third-party investment consultants (Investment Consultants) to properly administer the Fund and implement the investment strategies it adopts. Because of the number of parties involved, their roles in investing and managing the Fund must be clearly explained. Doing so increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

Ethics and Conflicts of Interest

The Board, and employees are obligated to act in the exclusive interest of members, retirees, and beneficiaries. Investment Consultants serve in a fiduciary capacity to . Board members and employees shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make decisions in accordance with mission statement.

Board of Trustees

The primary fiduciary responsibility of the Board is to ensure prudent investment and management of the Fund. It is the responsibility of the Board to ensure that employees administer investments of the Fund at reasonable cost, while preserving the quality of investments. All principal investment policy decisions are subject to approval by the Board. The Board shall oversee the management of the Fund in compliance with this Investment Policy and all applicable federal and State laws and regulations concerning the administration of a government pension plan. The Board, with the assistance of investment staff (Staff) and consultants, determines the strategic direction of investment of the Fund including the strategic asset allocation target, adoption of a risk budget, and the active management strategy target, all of which shall be reviewed at least semiannually.

Investment Committee

To assist the Board in carrying out its duties, it established an Investment Committee (the Committee). The Committee makes recommendations to the Board on strategic asset allocation target, the risk budget, and the active management strategy target. The Committee establishes benchmarks, including a reference portfolio, for evaluating the performance of the total investment portfolio. The Committee shall also adopt an annual work plan and, at least quarterly, review all principal investment policy actions and performance of the portfolio. The Committee may invite Staff and Investment Consultants to inform and make recommendations to the Committee on any topic or issue pertinent to investment operations. The Committee Chair shall have the duty and the authority to set Committee meeting agendas and request specific analyses and reports from Staff and Investment Consultants.

Executive Director

The Board appoints the Executive Director (the Director). The Director is responsible for planning, organizing, and administering the operations of under policy guidance and direction from the Board. In fulfilling these investment responsibilities, the Director retains and relies on Staff and Investment Consultants.

Chief Investment Officer and Investment Staff

Staff reports directly to the Chief Investment Officer (the CIO) who in turn reports to the Director. The CIO, with the assistance of Staff, has the responsibility and authority to assist the Board and the Committee in establishing investment and administrative policies. The CIO and Staff are responsible for implementing the policies and programs established by the Board. The CIO has primary responsibility to implement and direct all decisions necessary and appropriate to carry out the Board's investment policies, including the strategic asset allocation target, risk budget, and active management strategic target approved by the Board. The CIO shall report on all decisions and the progress of implementation of those decisions to the Committee.

The CIO and Staff shall manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, report on the progress of the Fund in meeting its investment objectives, and monitor and report to the Board on the performance of the Fund against the appropriate benchmarks. The CIO and staff shall have

the delegated authority to evaluate, select, monitor and terminate investment vehicles and managers necessary and appropriate to implement the Board's policies. Their actions shall be disclosed to the Board periodically, as directed by the Committee. Staff exercises the same fiduciary responsibility under applicable law as the Board.

General Counsel and Legal Staff

The Office of General Counsel and legal staff (Legal Counsel) are primarily responsible for legal compliance of the investment program and advises the Board, the Director, the CIO, and Staff on investment-related legal matters. Legal Counsel exercises the same fiduciary responsibility under applicable law as the Board.

Third Party Service Providers

- **Investment Consultants.** Investment Consultants are hired by and accountable to the Board through the authority of the Director. Investment Consultants shall report to the Board or the Committee as directed. An Investment Consultant's duty is to work with the Board and Staff in the oversight and implementation of investment objectives.

The Board's investment strategic consultant shall provide advice and recommendations to the Board or Committee regarding its strategic objectives, risk budget, and oversight and implementation of principal investment objectives.

Investment selection and monitoring consultants shall provide advice and recommendations regarding selection of investment managers and portfolio monitoring to the CIO and Staff.

- **Custodian Bank.** The Custodian Bank serves as the bank of record for the assets comprising the Fund and is responsible for maintaining the official book of record under the supervision of Staff, calculating investment performance, and serving as the primary layer of risk control in the safekeeping of Fund assets. The Custodian Bank is responsible for the ongoing pricing and valuation of all assets, collection of income generated by those assets, and any corporate action notification. The Custodian Bank cooperates with and provides assistance to Staff and Investment Managers in the reconciliation process. may opt to designate other duties to the Custodian Bank as stipulated in the professional services agreement.
- **Investment Managers.** The Board believes that external management of Fund assets optimizes the potential to maximize risk-adjusted returns and minimize the associated expenses. Investment Managers are selected by the CIO and, subject to the terms and conditions of this Policy, serve through contracts that specify in principal part: investment guidelines, administrative requirements, responsibilities, and performance expectations for management of each mandate. Proxy voting is considered to be a component of the investment decision process and will be exercised in accordance with the established Proxy Voting Policy. Investment Managers will report to Staff on the performance of the Fund using formats and at intervals specified by Staff. This information will be synthesized by Staff and presented to the Committee on at least a quarterly basis in accordance with established performance monitoring and oversight procedures.
- **External Legal Counsel.** The General Counsel may retain external legal counsel to advise Staff and negotiate and prepare contracts with Investment Consultants and Investment Managers to protect interests and status as a tax-exempt government plan.

II. OVERVIEW OF INVESTMENT POLICY

A. Purpose of the Investment Policy

Introduction

The Chief Investment Officer (“CIO”) is appointed by and reports to the Chief Executive Officer (“CEO”). The CIO is responsible for leading the management and operation of OCERS’ investment program. The CIO will be an active member of OCERS’ senior management team and will actively participate in the overall administration of OCERS. The CIO will work with the OCERS’ Board of Retirement (“Board”) and the Investment Committee (“Committee”) on investment-related matters and will carry out all of his/her duties and responsibilities under the direction of the CEO.

Duties and Responsibilities

As part of the executive management team of OCERS, the CIO has obligations to OCERS, its staff, its members, its governance, and the public. The duties of the CIO include but are not limited to the following. The CIO may delegate any of the functions listed below, as necessary and appropriate.

Leadership and Responsibilities

- Formulate and recommend to the Board or its committees an investment philosophy describing the fundamental principles underlying the investment program; the investment policies and strategies required to achieve investment goals; the guidelines for the invested asset classes to manage portfolio risk; the decision-making process to ensure disciplined outcomes and the independent measurement of performance.
- Lead OCERS’ investment program and staff to implement Board-approved policies, strategies, guidelines and mandates to achieve investment objectives.
- Oversee the overall administration of investment operations to ensure the smooth implementation of strategic and tactical goals of the investment program.
- Identify and analyze trends that could have significant implications on the investment program and make recommendations to address such issues.
- Maintain a commitment to the OCERS’ Code of Ethics and Standards of Professional Conduct Policy.
- Participate and maintain contact with investment professionals to stay abreast of developments and best practices in the industry.
- Coordinate with OCERS’ investment consultants and key stakeholders, as needed, to ensure an effective implementation of Board-approved mandates.

Investment Management

- Develop, recommend and implement appropriate investment strategies to meet OCERS' stated goals and objectives.
- Approve, monitor, and terminate investment managers, conditional on agreement with the investment consultant and on alignment with approved asset allocation ranges and targets.
- Approve investment manager guidelines.
- Conduct an annual asset allocation study, in coordination with the investment consultant, making recommendations to the Committee for approval as necessary.
- Develop and implement processes and procedures necessary for the effective management of the investment portfolios in accordance with Committee approved policies.
- Rebalance the investments of the portfolio as needed to maintain compliance with the Committee approved asset allocation ranges.
- Perform regular review of investment policies, strategies and portfolio guidelines and make recommendations, as needed.
- Oversee and coordinate regular analysis of OCERS' investment portfolios.
- Oversee and monitor investment consultants and custodians to ensure the successful administration of the investment program, providing feedback to the Committee as needed.
- Manage and coordinate, with other divisions within OCERS, the System's cash position and cash flow.
- Coordinate asset/liability studies.
- Perform other investment-related functions, as required.

Monitoring and Reporting

- Provide the Investment Committee and the CEO with all relevant and timely information required to carry out their respective fiduciary responsibilities.
- Review all investment portfolios on a regular basis to ensure that OCERS and its investment managers are in compliance with OCERS' approved policies, procedures and guidelines, taking action where necessary to adhere to policy.
- Monitor the investment performance and risk levels of the investment program, the component asset classes and the individual portfolios, reporting at least quarterly to the Investment Committee.
- Evaluate the investment and overall performance of staff, consultants, investment managers, custodians and all other third parties.
- Monitor and ensure compliance with all applicable laws and regulations.
- Monitor the investment program operations to ensure efficiency and cost-effectiveness.

Administration

- Develop and recommend to the CEO an annual investment program budget, business and strategic plans and any necessary updates.
- Negotiate fees and contracts involving investment managers and other investment-related service providers.
- Coordinate with legal counsel on investment agreements, contracts and other legal matters.
- Authorize payments for investment services consistent with applicable contracts and internal controls.
- Implement internal control policies related to the OCERS' investment program.
- Coordinate with other members of OCERS' senior management to ensure that appropriate systems are in place to effectively and efficiently administer the investment program.
- Maintain all records related to the investment division and assets in an accessible format.
- Provide support as necessary to the actuarial valuation process.
- Coordinate with the CEO and legal counsel on all claims, demands, disputes or legal proceedings, settlements or legal action involving OCERS' investment portfolios.

Governance

- Assist the Audit Committee in coordinating the annual financial audit as related to investment matters.
- Provide the Board with investment education and training as necessary to promote sound investment decisions.
- Oversee the preparation of agenda items for the Board and its committees.

Human Resources

- Assess the resources needs of the investment division and support the CEO in establishing Human Resources programs and procedures, consistent with the Human Resources and compensation policy of the Board.
- Hire, manage and terminate investment staff.
- Ensure the development and training of investment staff.
- Perform staff evaluations in accordance with Human Resources policies.

Charter Review

The Investment Committee will review this charter at least once every three (3) years and make any amendments as may be necessary to ensure that the charter remains relevant and appropriate.



OCERS Board Charter

Chief Investment Officer Charter

Charter History

The charter was adopted by the Board of Retirement on November 18, 2002, and revised on August 20, 2012, and July 20, 2015. The charter was revised by the Investment Committee on May 25, 2016, January 25, 2017 and January 24, 2018.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

A handwritten signature in blue ink that reads "Steve Delaney". The signature is written in a cursive style.

Steve Delaney
Secretary of the Board

1/24/2018

Date



MEMORANDUM - DRAFT

TO: Orange County Employees Retirement System (“OCERS”)
FROM: TorreyCove Capital Partners (“TorreyCove”)
DATE: March 21, 2018
RE: H.I.G. Advantage Buyout Fund, L.P. (“Advantage” or the “Fund”)

Strategy:

H.I.G. will pursue control buyout and equity-related investments in stable, high quality middle-market companies. The Firm will invest across a variety of industries including business services, consumer, retail, food, healthcare, industrials, TMT, natural resources and chemicals. The Fund’s targeted investments will generally include: (i) privately-held, market leading companies, (ii) companies seeking an active partner to help fund growth initiatives or synergistic add-on acquisitions, and (iii) non-core subsidiaries of larger companies. Given the targeted fund size, H.I.G. expects to complete between 12 and 15 platform investments. The Firm anticipates investing between \$100 million and \$250 million of equity per transaction. Targeted portfolio companies will typically generate between \$25 million and \$100 million of EBITDA at entry and will exhibit strong existing management teams, stable operations with a low capex profile, and sufficient resources to execute accretive acquisitions.

The Firm’s track record demonstrates a consistent ability to generate commendable returns. For example, a vast majority of the Firm’s prior buyout funds outperformed their vintage year benchmarks.

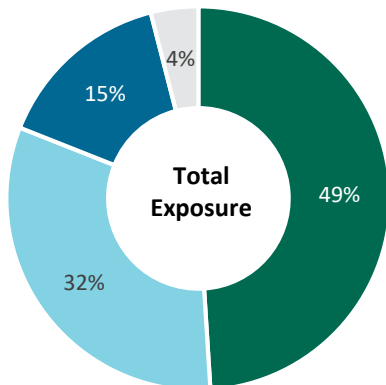
H.I.G.’s existing LBO and Middle Market platforms are focused on under-managed or stressed businesses and complex transactions such as carve-outs, turnarounds, and restructurings. In contrast, the newly established Advantage platform will target companies with predictable business models, leading market shares, sustainable competitive advantages, and other high quality characteristics. As such, the Fund’s strategy and target return resemble a typical buyout framework.

Allocation:

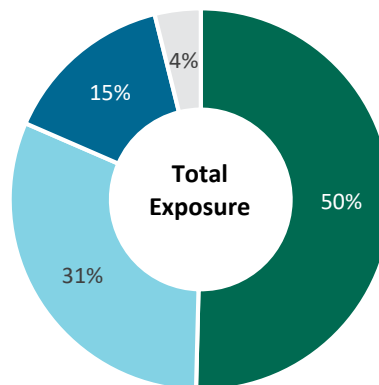
A new commitment to the Fund would be allocated 100% to the Buyout investment sub-sector and will further be categorized as a North American investment. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OCERS’ current portfolio allocation. Commitments to the Fund are complementary to OCERS’ existing fund commitments and provide the overall portfolio with a further degree of diversification.

The following charts indicate OCERS’ total exposure by strategy before and after the recommended commitment.

Before Commitment



After Commitment



■ Buyouts ■ Venture / Growth ■ Special Situations ■ Other

Conclusion:

The Fund offers OCERS an opportunity to participate in a differentiated portfolio of private equity investments with relatively attractive overall terms. TorreyCove’s review of the General Partner and the proposed Fund finds that the proposed Fund has the potential to generate attractive risk-adjusted returns. As such, **TorreyCove recommends that OCERS make a commitment of up to \$50 million to the Fund.** TorreyCove’s recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of OCERS to the Partnership until such time as all the preceding conditions are met.