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

INVESTMENT MANAGER MONITORING
SUBCOMMITTEE MEETING
April 5, 2018
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: Charles Packard, Chair; Russell Baldwin, Vice Chair; Shawn Dewane; and Frank Eley

Also present: Steve Delaney, Chief Executive Officer; Shanta Chary, Director of Investment Operations; David Beeson, Investment Officer; Tarek Turaigi, CFA, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Anthony Beltran, Visual Technician; and Julius Cuaresma, Recording Secretary

A. INDIVIDUAL MANAGER PRESENTATIONS

Mr. Beeson described the new format of the Investment Manager Monitoring Subcommittee (IMMS) meeting: the IMMS will now have at least three presenting managers present at each quarterly IMMS meeting. This compared to monthly IMMS meetings, where two-three managers presented and every manager presented on a two to three year cycle. Staff will now bring in managers to each meeting that are on exception; specifically, presenting managers will likely either be: (1) on watch list, underperforming managers, and/or managers who have a material change at the organization level; or (2) outperforming managers and/or managers who have continued opportunities in their target universe.

Mr. Beeson discussed the day's presenting managers: Pictet Asset Management (Pictet), ASB Real Estate Investments (ASB), and Acadian Asset Management (Acadian). He stated that whereas Pictet and ASB are presenting due to underperformance, Acadian is presenting due to outperformance.

Mr. Beeson introduced Pictet, one of OCERS' Emerging Market Debt (EMD) managers (the other one is BlueBay EMD). OCERS invested $105 million in March 2013 in Pictet's Emerging Market Local Currency Debt Fund. With two additional investments, OCERS' total investment in Pictet is $140 million. Due to unfortunate timing with headwinds such as the Federal Reserve's "taper tantrum," the fund initially generated negative returns. This initial headwind is similar to OCERS' investment timing in BlueBay EMD. Mr. Beeson also described Pictet's relative conservative portfolio positioning, including active underweights to EM currencies leading to relative underperformance in 2017. The NAV as of the end of February 2018 is $129 million.

Mr. Eley and Mr. Beeson discussed the EMD asset class, specifically as it relates to OCERS' watch list process and the diversification benefits of local currency relative to hard currency allocations.

Mr. Baldwin and Mr. Beeson discussed the overall credit allocation and its sub-asset classes, particularly as it relates to EMD.

Mr. Baldwin and Mr. Beeson briefly discussed the outlook on the emerging markets (EM), particularly the relative performance between the USD and EM currencies.

Mr. Eley and Mr. Beeson discussed the relationship between the EM and commodities; they also briefly discussed active versus passive investment management in the EM space.

PICTET ASSET MANAGEMENT
Presentation by Carrie Liaw, CFA, & Doug Balleine

The key highlights of the presentation were:

Firm update: As of the end of February 2018, Pictet managed approximately $193 billion in their asset management business, with $19 billion in EMD assets roughly split between hard currency (HC) and local currency (LC) strategies.

Portfolio Strategy: Pictet's portfolio strategy is a combination of macro and bottom-up active investment management. While a country's credit quality (current credit rating and the direction the rating is trending) is important, Pictet believes this can be dominated by top-down, macro factors. Risk is managed through disciplined stop-gain and stop-loss rules.

Market Overview/Outlook for 2018: Synchronized global growth, as well as U.S. expansionary fiscal policy, and the continued rebound in oil prices could continue to be a tailwind for EM.

Performance: Since OCERS' investment inception date, the manager has absolutely and relatively underperformed: net of fees, Pictet has returned -2.1%, while its benchmark, the JP Morgan GBI-EM Global Diversified Index has returned -1.0%.

Mr. Packard and Ms. Liaw discussed Argentina's LC debt performance in 2017.

Mr. Delaney and Ms. Liaw discussed Pictet's view and portfolio positioning, particularly as it relates to U.S. policies and its impact on EM as well as on U.S. treasury yields.

Mr. Baldwin, Ms. Liaw, and Mr. Balleine discussed Pictet's resources that identify political risks and Environmental, Social, and Governance (ESG) trends, including Pictet's artificial intelligence efforts.

Mr. Balleine also noted that Pictet has a dedicated ESG team and is a UNPRI Signatory.

Mr. Eley and Mr. Balleine discussed Pictet's fees.

Mr. Eley and Ms. Liaw discussed Pictet's portfolio positioning relative to the benchmark.

Mr. Dewane and Ms. Liaw discussed Pictet's portfolio positioning in Mexico.

The Committee recessed at 10:02 a.m.

The Committee reconvened at 10:15 a.m.

ASB REAL ESTATE INVESTMENTS
Presentation by Robert Bellinger, David Quigley & Frank Nigro

Mr. Beeson introduced ASB, one of OCERS' core real estate managers. As of the end of 2017, the NAV was $162.6 million. He discussed the manager's 2013-2015 outperformance relative to its NCREIF ODCE benchmark, while also describing their recent underperformance from 2016-2017. He observed that their underperformance has been a function of: (1) conservative use of leverage relative to current market dynamics where leverage has been accretive to performance; (2) overweight to urban markets in the recent environment where secondary markets have outperformed; and (3) overweight exposure to the urban retail market space.

Mr. Dewane and Mr. Beeson discussed ASB's overweight positioning on the retail sector.

The key highlights of the presentation were:

Firm update: As of the end of 2017, ASB had approximately $7.7 billion in assets under management.

Portfolio Strategy: ASB focuses on the following four sectors: office, industrial, multi-family assets and retail (particularly in the big city, urban market retail space). ASB avoids traditional office space investments, preferring open, flexible, mixed-use, creative office spaces. As it relates to the retail space, ASB employs a tenant centric mindset in that they analyze investments based on long-term forecasts of what tenants will likely want and need. Such properties tend to be supply constrained with heavy foot traffic.

Market Overview/Outlook for 2018: ASB noted that the market is now in its 10th year of economic recovery. As a core real estate manager, ASB understands their first goal is to protect capital. ASB continues to be a pro-active seller in this and the go-forward environment. They are particularly focused on their assets that are or could face competition. The manager noted that they are constantly evaluating their assets relative to their perceived opportunity set. While they appreciate the positive characteristics of their assets, they are cognizant of the risks in being wed to their assets as well. The manager reported that they have no single ground up project and do not plan to in light of current and near-term market dynamics.

Performance: Through the end of December 2017, ASB's three-year gross of fees performance has trailed the NCREIF ODCE index, 9.1% versus 10.7%.

Mr. Baldwin and Mr. Bellinger discussed ASB's targeted opportunity set, including a discussion on ASB's focus on tenants and the urban real estate space.

Mr. Dewane and Mr. Bellinger discussed ASB's new leverage facility, particularly in light of the current rising rate environment and overall headwinds to the real estate and overall economic environment as well.

Mr. Baldwin and Mr. Bellinger discussed ASB's real estate exposure as it relates to ESG and sustainability.

Mr. Packard and Mr. Bellinger discussed cap rates of specific ASB properties.

Mr. Baldwin and Mr. Bellinger discussed technology trends and the impact on downtown and satellite cities; they also discussed ASB's macro view on the multi-family space and the current state of housing and rental affordability given the backdrop of recent changes to the U.S. tax code.

Mr. Baldwin and Mr. Bellinger discussed characteristics of high street retail, as well as ASB's perceived risks and opportunities associated with high street retail exposure.

Mr. Baldwin and Mr. Quigley discussed ASB's geographical exposure, specifically the risks associated with San Diego relative to the opportunities associated with San Francisco.

Mr. Baldwin and Mr. Bellinger discussed social and technological disruption trends as it relates to real estate, particularly as it relates to ASB's focus on tenant demands.

Mr. Eley and Mr. Bellinger discussed the state of the multi-purpose real estate sector, and the associated city planning challenges of the dynamic supply-demand imbalances.

Mr. Packard and Mr. Bellinger discussed ASB's underlying tenants and the characteristics ASB focuses on, including a discussion of government tenants as it relates to secured rental income.

The Committee recessed at 11:17 a.m.

The Committee reconvened at 11:28 a.m.

ACADIAN ASSET MANAGEMENT
Presentation by Churchill Franklin, Kurt Livermore, CFA & Douglas Coughlin, CFA

Mr. Beeson introduced Acadian, where OCERS has two investments: (1) Acadian EM Equity II (original investment date of November 2013); and (2) Acadian EM Small Cap Equity (original investment date of June 2014). As of the end of February 2018, OCERS' holding in Acadian EM Equity II and EM Small Cap Equity were $303 million and $202 million, respectively. In light of OCERS' recent Investment Committee education presentation by BlackRock on the China A-Share market, he also discussed Acadian's China A-Share research and fund.

Firm update: Acadian has approximately $99.4 billion in assets under management, with $25.6 billion in EM and frontier assets. Acadian discussed recent departures of two senior researchers, noting that while they did not directly manage money, they do understand and appreciate their input and contributions to Acadian's quantitative research efforts.

Portfolio Strategy: Acadian applies both top-down and bottom-up fundamental research in a systematic, quantifiable manner to narrow an investable universe of 12,000 stocks. The focus is on domestic driven EM companies rather than on export driven EM companies. The manager also tends to avoid energy and financial companies.

Market Overview/Outlook for 2018: The Committee, in particular Mr. Packard, discussed with Mr. Franklin, Acadian's view on the markets and how Acadian would position their portfolios during the next market downturn. Mr. Franklin noted that Acadian would continue to hold a fully invested portfolio, as market timing is not part of their strategy. While Acadian thinks about capital preservation at all times, he described that diversification and a focus on the long-term market dynamics are their primary risk management tools.

Performance: For the last twelve months ending February 2018, Acadian EM Equity II has generated a net return of 30.3%, effectively matching the benchmark's return of 30.5%

For the last twelve months ending February 2018, Acadian EM Small-Cap Equity has generated a net return of 35.4%, while the MSCI EM Small Cap Index has only returned 23.3%.

The Committee and Mr. Franklin discussed Acadian's China A-Share historical and ongoing research efforts. Mr. Franklin noted how Acadian has been ahead of the curve in this particular opportunity set, specifically as it relates to Acadian's quantitative oriented processes implemented to fundamentally driven research.

Mr. Livermore also noted that EM valuations are substantially below U.S. indices.

Mr. Packard and Mr. Livermore discussed the current global trade environment, particularly as it concerns the trade war between the U.S. and China, and its impact on inflation.

Mr. Dewane and Mr. Livermore discussed how Acadian gets comfortable with EM statistics.

Mr. Livermore discussed Acadian's use of discount valuations at the country level to price in corruption risk. He also stated this type of risk is why EM investors are compensated for taking on EM risk.

Mr. Franklin also noted that Acadian searches for hard data, non-manageable, and non-adjustable data.

Mr. Eley and Mr. Livermore discussed Acadian's exposure to Mexico and Turkey, and the associated risks and opportunities in those respective countries.

Mr. Eley and Mr. Livermore discussed Argentina and the country's MSCI frontier market status.

Mr. Coughlin also noted that Acadian has exposure to Argentina through their frontier market funds.

Mr. Packard, Mr. Eley, and Mr. Livermore discussed Acadian's exposure to Thailand and South Korea.

Mr. Livermore also noted Acadian's differentiated positioning to South Korea's large and small capitalization stocks, and the rationale behind such positioning.

Mr. Baldwin and Mr. Livermore discussed Acadian's investment process as it relates to ESG.

Mr. Baldwin and Mr. Livermore discussed Acadian's Brazil, Russia, India, and China (BRIC) exposure.

PUBLIC COMMENTS:
None

COMMITTEE MEMBER/STAFF COMMENTS:
Mr. Eley and Ms. Chary discussed the opportunity set and the associated risks of the China A-Shares market.

Mr. Beeson explained that staff and the respective consultant will continue to monitor and evaluate the underperforming managers in the near future to determine if a watch list recommendation is needed.

ADJOURNMENT:
The Chair adjourned the meeting at 12:17 p.m.

Submitted by:

Steve Delaney
Secretary to the Committee

Approved by:

Charles Packard
Chair