

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

**INVESTMENT COMMITTEE MEETING
December 17, 2018**

MINUTES

Attendance was as follows:

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

Absent: Wayne Lindholm, Chair; 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; Tarek Turaigi, CFA, Investment Officer; Stina Walander-Sarkin, Investment Analyst; Julius Cuaresma, Investment Analyst; Gina Ratto, Chief Legal Officer; Anthony Beltran, Visual Technician; and Brittany Cleberg, Recording Secretary

Meketa Investment Group: Stephen McCourt, CFA; and Laura Wirick, CAIA, CFA
Pension Consulting Alliance: Colin Bebee, CFA

The Chair called the meeting to order at 9:04 a.m. Mr. Dewane led the Pledge of Allegiance.

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Committee Member requests separate action on a specific item.

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

C-1 COMMITTEE MEETING:

Approval of Meeting and Minutes

Investment Committee Meeting

November 28, 2018

Recommendation: Authorize meeting and approve minutes.

CIO COMMENTS

Ms. Murphy provided commentary on the global economic and capital markets, including recent developments surrounding global tariff tensions and Federal Reserve news. In particular, she discussed recent performance in the equity and bond markets – she remarked upon the downward

price action and the flattening yield curve that aptly sets the stage for the day's Risk Mitigation Strategies (RMS) discussion.

Ms. Murphy remarked upon the placemats, noting that staff continues to work through the Committee's suggestions provided from the prior IC meeting. She reported there were no manager selections or terminations this month.

Mr. Ball and Ms. Murphy discussed equity risk directly derived from the equity allocation and indirectly derived from the non-equity allocation, particularly from OCERS' credit allocation.

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 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

INFORMATION ITEMS

I-1 INVESTMENT COMMITTEE COMMUNICATONS

Written report only

I-2 3rd QUARTER 2018 PORTFOLIO RISK DISCUSSION

Presentation by Colin Beebe, CFA, PCA

Mr. Beebe provided PCA's 3rd Quarter 2018 Portfolio Risk Discussion presentation.

Mr. Eley and Mr. Beebe discussed OCERS' portfolio allocation by capital weights and risk weights.

Mr. Ball and Ms. Murphy discussed OCERS' cash overlay program and the liquidity of OCERS' portfolio. They also discussed potential capital sources for opportunistic market dislocations.

Ms. Murphy further discussed liquidity and capital sources in the context of managing opportunity costs and trade-offs, i.e., realizing losses in order to re-allocate to strategies with higher expected returns.

Mr. Eley and Ms. Murphy discussed staff's ongoing rebalancing efforts and the difficulty in market timing.

Ms. Murphy described that historically equities have been negatively correlated to bonds, thus enabling allocators, in equity sell-offs, to rebalance from outperforming bonds into underperforming equities. Likewise, she explained that one of the objectives of the Risk Mitigation Strategies (RMS) allocation is to have a negative correlation to equities.

Mr. Delaney, Ms. Murphy, and Mr. McCourt discussed potentially adding rebalancing and capital sources for opportunistic market dislocations to the agenda of a future IC meeting.

I-3 RISK MITIGATION STRATEGIES EDUCATION

Presentation by Laura Wirick, CFA, CAIA, Roberto Obregon, Meketa & Kathryn M. Kaminski, Ph.D., CAIA, AlphaSimplex

Ms. Murphy framed the Risk Mitigation Strategies (RMS) discussion by briefly discussing the objectives of Meketa's presentation and AlphaSimplex's presentation.

Mr. Obregon discussed the portfolio construction of the Risk Mitigation Strategies (RMS) portfolio, particularly the recommended RMS sub-asset classes and sub-strategies.

Ms. Wirick and Ms. Murphy noted that at the January 2019 IC meeting, staff, Meketa, and PCA would provide further specific Risk Mitigation Strategies (RMS) portfolio construction details, such as the underlying strategies' liquidity, risk, and return profile.

Mr. Eley, Ms. Wirick, and Ms. Murphy discussed the potential timing and implementation of the Risk Mitigation Strategies (RMS) allocation.

Ms. Murphy noted that OCERS could move relatively quickly, i.e., 30 to 45 days.

Mr. Ball and Mr. Obregon discussed the rationale for including global macro strategies into Risk Mitigation Strategies (RMS), particularly given the recent challenging investing environments for global macro strategies.

Mr. Obregon noted that while global macro has the highest manager selection risk, global macro has historically tended to capitalize upon large market disruptions.

Mr. Ball, Mr. Eley, and Ms. Murphy further discussed OCERS' cash overlay allocation.

Ms. Murphy observed that though this allocation could be used as a source of capital for market dislocations, it is only a fractional part of the portfolio. She also observed that the cash overlay program should not be misconstrued as a means to re-risk or de-risk the portfolio.

Ms. Kaminski discussed potential ways of thinking about risk and risk management, particularly through the simplified lenses of convergent and divergent strategies. She provided examples of convergent trading strategies, i.e. long risk premia, short volatility, versus divergent strategies, i.e., long volatility, trend following.

Mr. Ball asked about the various assets and strategies to comprise the Risk Mitigation Strategies (RMS) portfolio.

Ms. Murphy noted that trend following is just one of the four strategies to be included in the OCERS Risk Mitigation Strategies (RMS) portfolio.

Mr. Ball and Ms. Murphy compared trend following to other hedge funds, particularly to global macro managers.

Ms. Murphy continued the earlier discussion concerning global macro strategies. She expressed agreement that global macro strategies have recently underperformed – that said, she observed that global macro managers have increasingly incorporated more quantitative and systematic strategies and relied more on teams of researchers and analysts, versus historically relying on one CIO or portfolio manager.


*****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/COUNSULTANT/COUNSEL COMMENTS
None

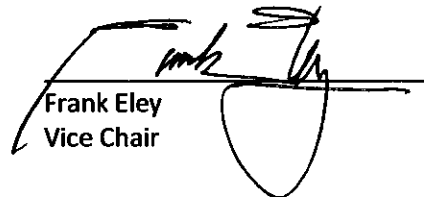
ADJOURNMENT: The Chair adjourned the meeting at 10:58 a.m.

Submitted by:



Steve Delaney
Secretary to the Committee

Approved by:



Frank Eley
Vice Chair