



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 13

**MEETING DATE:** August 21, 2024

**SUBJECT:** Investment Manager Compliance and Watch List Report—Second Quarter 2024

**SUBMITTED FOR:**  Consent     Deliberation and Action     Receive and File

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#### **RECOMMENDATION**

Receive and file the Investment Manager Compliance and Watch List Report for the quarter ended June 30, 2024.

#### **PURPOSE**

This item complies with SCERS' investment policy statement reporting requirements and contributes to the effective management and oversight of investment activities.

#### **DISCUSSION**

SCERS' investment manager transactions have been reviewed for compliance with their respective investment guidelines and objectives. No compliance violations have been found.

As of June 30, 2024, the following managers were on the Watch List:

- TCW (Fixed Income) – organizational changes
- D.E. Shaw Investment Management (Global Equity) – performance related
- William Blair Investment Management (Global Equity) – performance related
- Davidson Kempner Institutional Partners (Absolute Return) – operational concerns

The following changes were made to the Watch List during the second quarter of 2024.

Snyder Capital Management (Snyder) was removed from the Watch List. Snyder was placed on the Watch List effective June 2023 following the retirement of CEO and Portfolio Manager Peter Eisele. Since the retirement of Mr. Eisele, Snyder has effectively managed the portfolio during the transition and continued to deliver strong performance. Additionally, there have been no other significant changes in personnel or assets under management.

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Prudential Investment Management (PGIM) was removed from the Watch List. PGIM was added to the Watch List in March 2023 due to organizational changes, which included the retirement of several members of senior leadership. Staff is comfortable with the succession plan and new leadership appointments without any lingering effects from the transition.

Third Point Partners was removed from the Watch List. SCERS placed a full redemption request with Third Point in April 2023. The investment had a 25% investor level gate, which spread the redemption out over the balance of four quarters. The remaining balance with Third Point is approximately \$4.5 million (0.03% of portfolio), which is due to side-pocketed investments and will be received as liquidity becomes available.

William Blair Investment Management (International Small Cap Growth public equity) was added to the Watch List, effective June 2024, due to performance concerns. Recent performance for the International Small Cap Growth strategy has underperformed its benchmark, which has resulted in the strategy underperforming across the 1-year, 3-year, 5-year, and 10-year periods. Negative relative performance was particularly acute during calendar year 2022, when growth stocks significantly declined. SCERS has had several meetings with William Blair and will continue to monitor the strategy for improvements to performance.

Davidson Kempner Institutional Partners (DKIP) was added to the Watch List, effective April 2024. DKIP was added to SCERS' Watch List, following the recommendation by Cliffwater. The Watch List recommendation was primarily based on the increase in Level 3 (less liquid) assets and recent decline in assets under management. SCERS is also invested in the Davidson Kempner Long-Term Distressed Opportunities Funds IV and V. Subsequent to the end of the quarter, SCERS placed a full redemption request for its investment in DKIP during the third quarter, based on an updated recommendation from Cliffwater.

Staff and the investment consultants will continue to monitor the performance and/or organizational concerns for SCERS' investment managers and update the Watch List accordingly.

### **ATTACHMENTS**

- Board Order
- Watch List and Compliance Report—Second Quarter 2024

Prepared by:

/s/

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Brian Miller  
Senior Investment Officer

Reviewed by:

/s/

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Eric Stern  
Chief Executive Officer

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Steve Davis  
Chief Investment Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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Before the Board of Retirement  
August 21, 2024

AGENDA ITEM:

### Investment Manager Compliance and Watch List Report—Second Quarter 2024

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to receive and file the Investment Manager Compliance and Watch List Report for the quarter ended June 30, 2024.

I HEREBY CERTIFY that the above order was passed and adopted on August 21, 2024 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:

(Present but not voting)

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Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary

**SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**Quarterly Investment Manager Watch List - June 2024**

#	Investment Manager	Fund Type	Net Asset Value (as of June 2024, \$ thousands)	Reason	Effective (month - year)	Commentary
1	<b>TCW</b>	Fixed Income	\$ 395,906	<b>Organizational Changes</b>	Dec-23	TCW is a core/core plus fixed income manager that allocates across government securities, corporate bonds, mortgage backed securities, and other asset backed securities. TCW is undergoing organizational changes in 2024, which includes the retirement of one of the Co-CIO's of Fixed Income and the retirement of another Portfolio Manager. With these retirements, TCW is promoting several members of the investment team into new roles and greater levels of responsibility. Staff was informed that there is a succession plan for these retirements and appointments will occur over the next 12 months. Staff is placing TCW on the watchlist and will continue to monitor the changes for potential impacts. SCERS first invested with TCW in 2002.
2	<b>D.E. Shaw Investment Management</b>	Global Equity	\$ 192,486	<b>Performance</b>	Dec-23	D.E. Shaw is a quantitative, systematic investment firm that manages a number of investment strategies across public equity and absolute return. SCERS is invested in the Broad Market Core Alpha Extension strategy, which is a U.S. 130/30 portfolio benchmarked to the Russell 1000. The strategy significantly underperformed the benchmark in 2023 (21.2% vs 26.5%), contributing to underperformance versus the benchmark for the trailing 3-year period and since inception of SCERS' investment in February 2019. Staff is placing D.E. Shaw on the watch list and will continue to monitor the portfolio for improvements to performance.
3	<b>William Blair Investment Management</b>	Global Equity	\$ 102,774	<b>Performance</b>	Jun-24	William Blair manages an international small cap public equity mandate for SCERS. The strategy has underformed in recent years, leading to underperformance relative to its benchmark across all time periods (1, 3, 5, and 10 years). SCERS has been invested in the strategy with William Blair since 2008. Since inception, the strategy has still outperformed its benchmark (gross of fees). Staff will continue to monitor William Blair for improvements to performance.
4	<b>Davidson Kempner Institutional Partners</b>	Absolute Return	\$ 64,220	<b>Operational Concerns</b>	Apr-24	Davidson Kempner Institutional Partners (DKIP) is a multi-strategy absolute return fund, which employs an event-driven approach across a range of strategies and asset types including equity and credit. The multi-strategy fund offers quarterly liquidity for investors. The percentage of the fund invested in Level 3 assets has increased and is near 25% (including Level 3A and 3B). The fund has also experienced a decline of assets under management. Subsequent to the end of the quarter, SCERS placed a full redemption request for its investment in DKIP during the third quarter, based on an updated recommendation from Cliffwater.