



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 23

MEETING DATE: August 21, 2024

SUBJECT: Investment Oversight Initiative

SUBMITTED FOR: ___ Consent ___ Deliberation and Action X Receive and File

RECOMMENDATION

Receive and file presentation on strengthening SCERS' oversight of investment portfolio.

PURPOSE

This item contributes to the effective management and oversight of investment activities.

DISCUSSION

SCERS' investment staff will review initiatives to strengthen the oversight of SCERS' investment portfolio, which has grown significantly in terms of size and complexity. Part of this growth has occurred in the number of investment managers within the portfolio, especially within the private market asset classes. The presentation will focus on measures to ensure sufficient oversight of the SCERS investment portfolio, including:

- Investment staff resources,
- Maintaining a reasonably sized investment manager lineup, and
- Providing the Board with consistent engagement and exposure to SCERS' investment managers in its fiduciary role.

ATTACHMENTS

- Board Order
- Investment Oversight presentation

Prepared by:

Reviewed by:

/s/

/s/

Steve Davis
Chief Investment Officer

Eric Stern
Chief Executive Officer



Retirement Board Order

Sacramento County Employees' Retirement System

**Before the Board of Retirement
August 21, 2024**

AGENDA ITEM:

Investment Oversight Initiative

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to receive and file presentation on strengthening SCERS' oversight of investment portfolio.

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)

Board President

Eric Stern
Chief Executive Officer and
Board Secretary



Investment Oversight Initiative

August 21, 2024

Purpose

As the SCERS investment program has grown in size and complexity, the depth at which staff and the Board are able to oversee, monitor, and keep pace with manager relationships poses operational risks to the fund.

Keys to Successful Oversight

Investment Staff

- Ample resources and balanced workload for Staff to perform implementation, monitoring, and oversight of investment portfolio and manager relationships

of Investment Managers

- Reasonably sized lineup of managers for staff, consultants, and Board to oversee and be familiar with

SCERS Board

- Consistent Board engagement with time allocated to oversight and monitoring during board meetings

Initiatives

Investment Staff

- Add 1.0 Investment Officer position

of Investment Managers

- Manage the manager count

SCERS Board

- Focus and improve Board oversight and engagement with managers



Investment Staff

Investment Staff Functions

Strategy/Planning

Manager
Selection

Manager
Oversight

Board Meeting
Prep

Other

Strategy/Planning

Investment Foundation

- Investment objectives
- Investment philosophies
- Investment policies
- Governance

Portfolio Construction

- ALM studies
- Strategic asset allocation
- Asset class structures
- Benchmarks

Resources

- Investment staff planning
- Consultant relations
- Third party software systems

Manager Selection

Investment Due Diligence

- Investment due diligence of manager and strategy
- Board reporting

Legal

- Facilitating legal review and contract negotiation
- Fund documents – subscription agreement

Onboarding

- Account set up
- Transition of assets – public markets/AR
- Coordinating with service providers – custodian, overlay, portfolio analytics

Manager Oversight

Meeting with Existing Managers

- Manager on site; SCERS' office; Zoom
- Monthly/quarterly/yearly
- Annual investor meetings (private markets)

Reporting

- Monthly/quarterly/annual
- Performance reports
- Quarterly and financial statements
- ADVs

Other

- Compliance monitoring
- Fund document amendments/MFNs
- Portfolio analytics – exposures/risk/attribution

Board Prep

Reporting

- Monthly Activity
- Quarterly Rebalancing, Compliance
- Annual Investment Operations, Fee & Expense

Presentations

- Manager recommendations
- Education
- Consultant presentations

Projects

- Investment Year In Review/Annual Plan
- Asset Liability Management Study
- Liquidity Analysis

Other

Research

- Market
- Macro/economic
- Asset class
- Industry

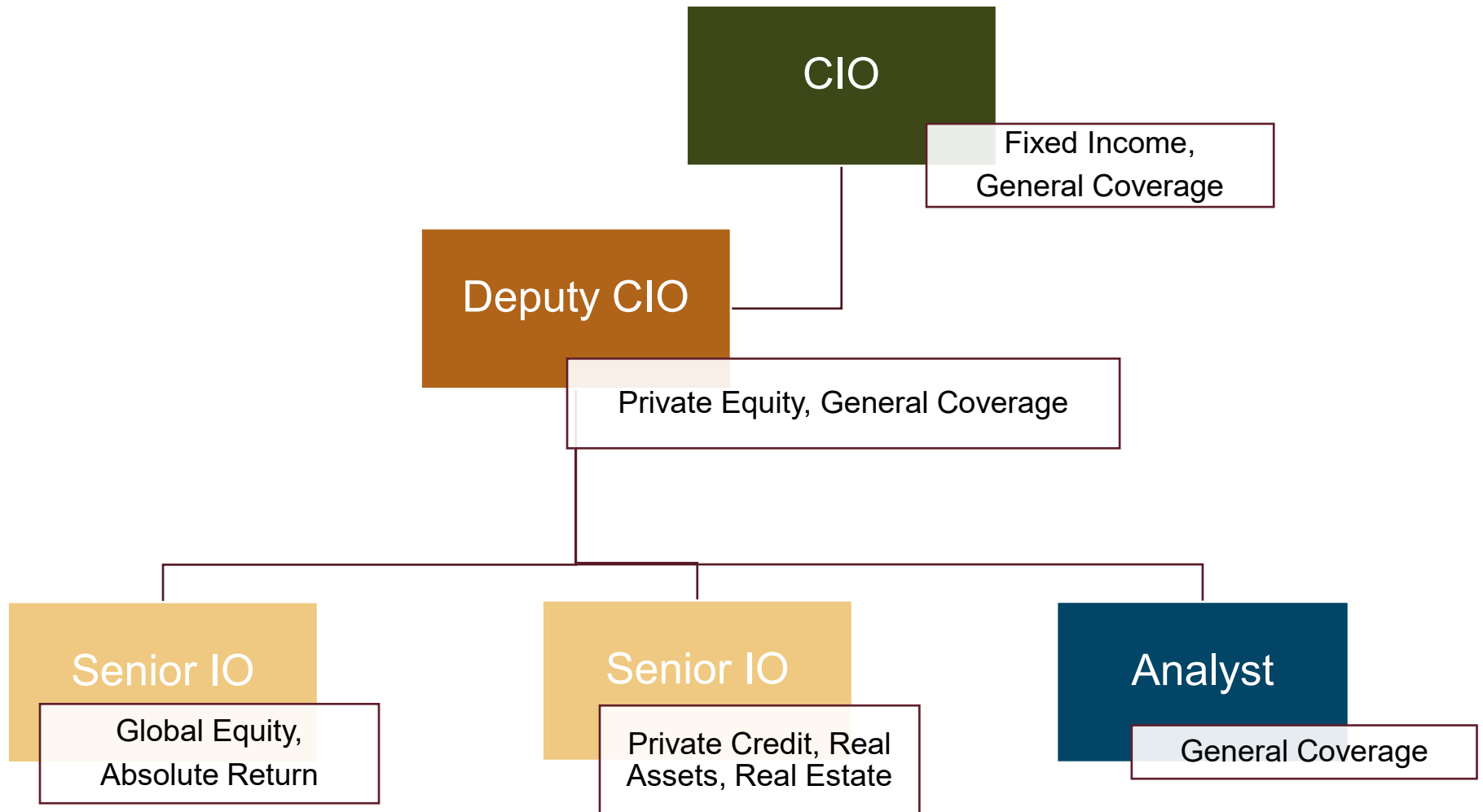
Industry Conferences

- Broad industry
- Asset class specific
- General (SACRS)

Administrative

- Portfolio rebalancing/transitions
- Securities lending, securities litigation, proxy voting, TCA

Investment Staff - Current



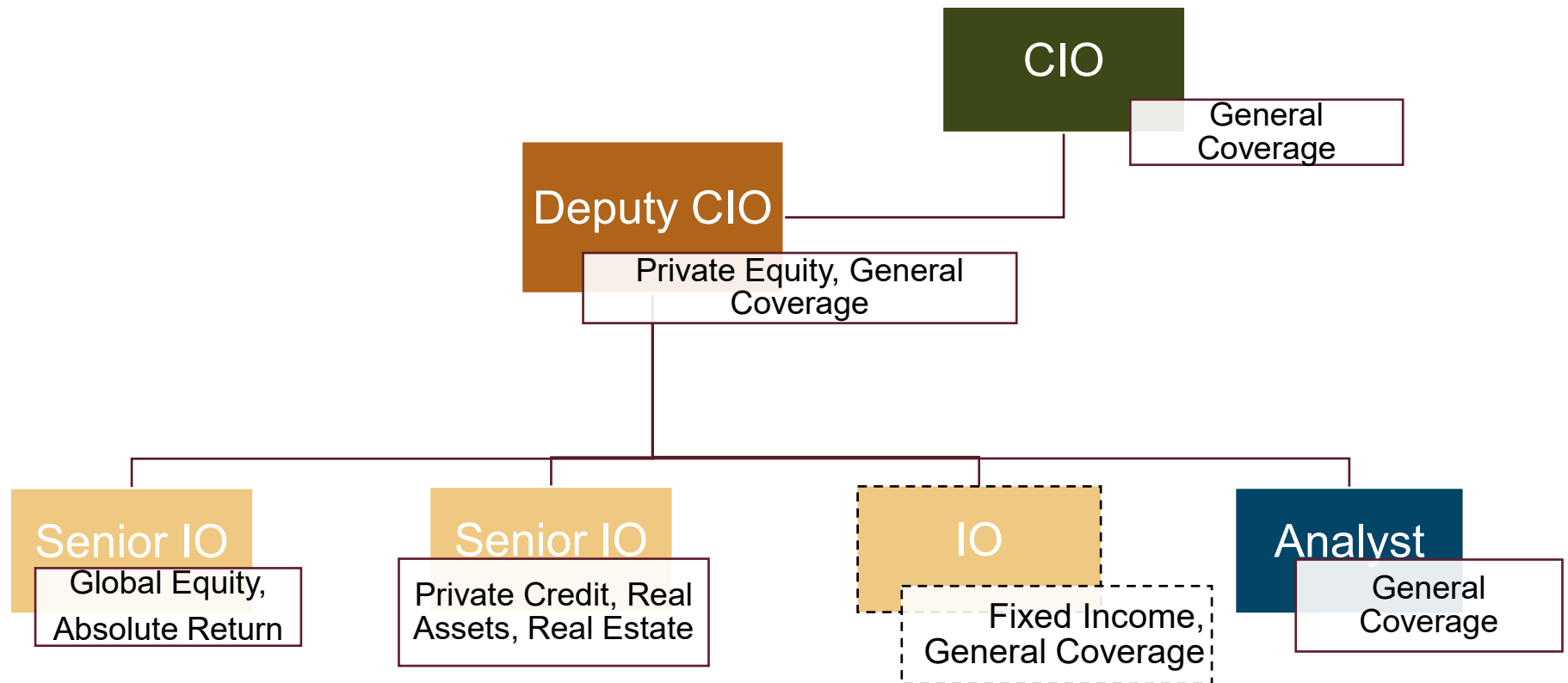
Adding Investment Officer Position

- Key responsibilities of proposed IO
 - Day-to-day Fixed Income oversight
 - Current responsibility of CIO
 - General monitoring, oversight, and due diligence support across other asset classes
 - Board meeting preparation
- Adjust/redistribute workload of other investment staff

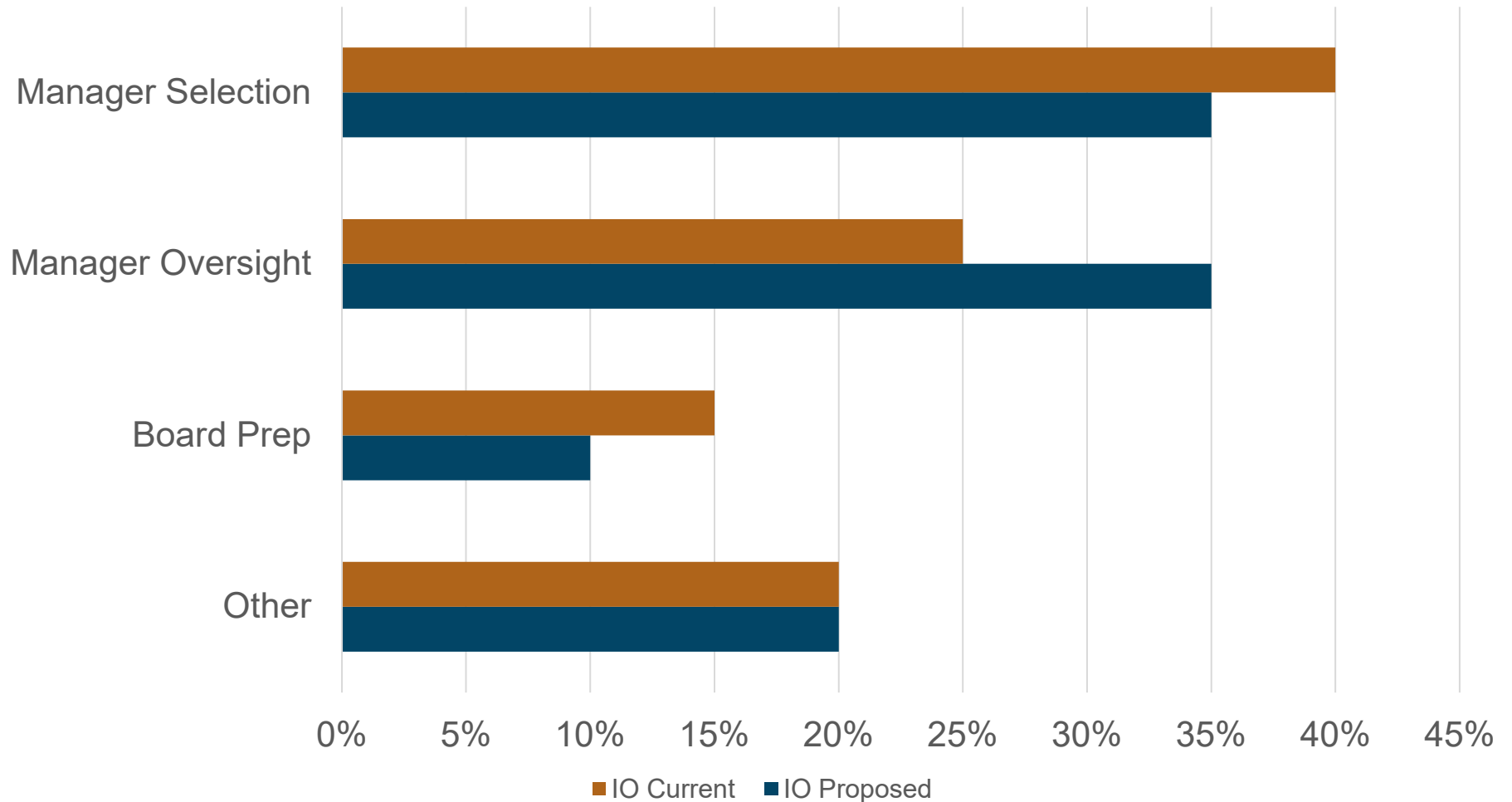
Improves Manager Oversight

- Ongoing due diligence and monitoring of existing manager relationships
- Provides multiple information points
 - Is a manager and its strategy performing to expectations?
 - Are there developing risks with the manager/strategy?
 - Evaluating if SCERS should consider “re-upping” with a private market fund series before the fundraise

Investment Staff - Proposed

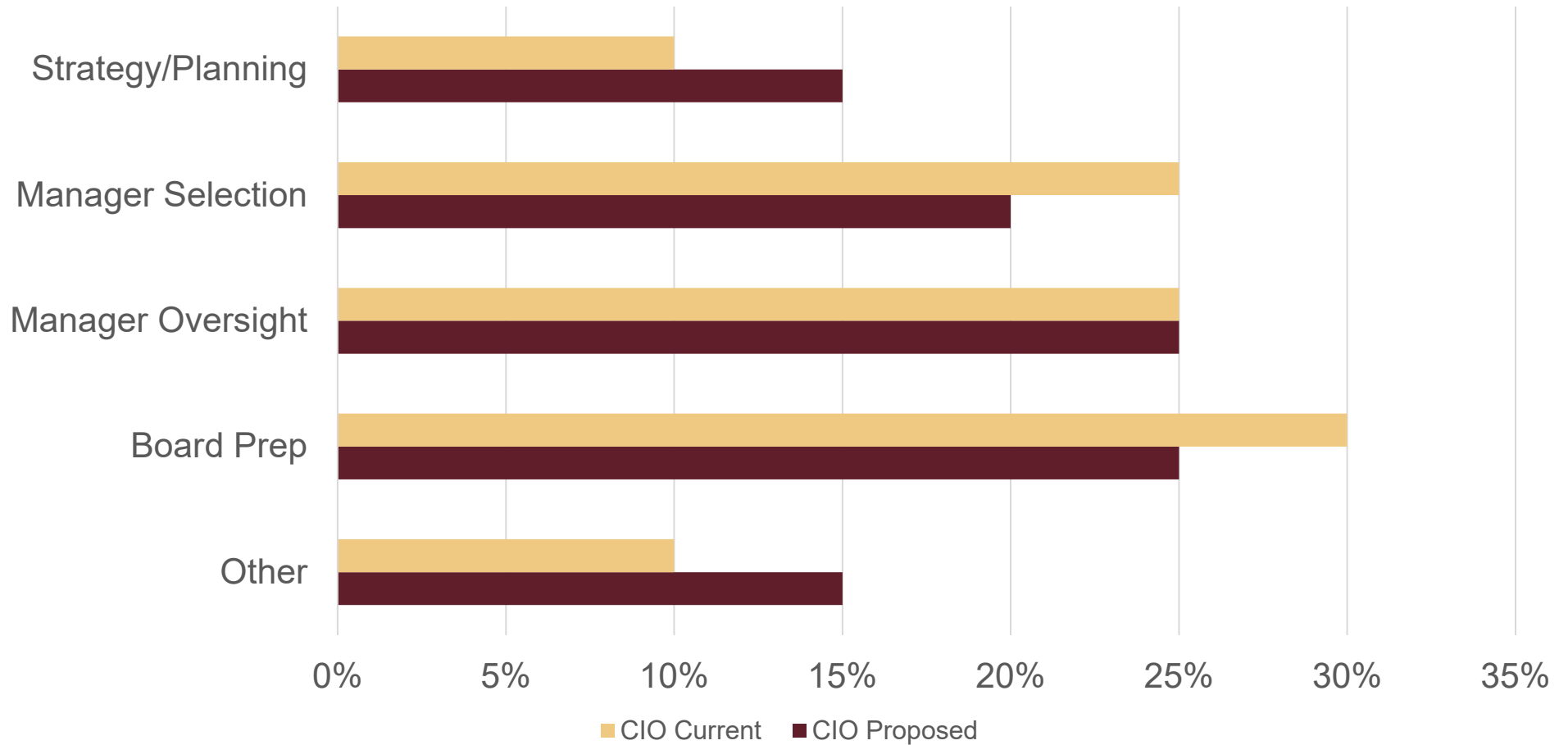


Time Allocation – Investment Officers



- 'Other' includes research, industry conferences, administrative

Time Allocation – Chief Investment Officer



- 'Other' includes research, industry conferences, administrative

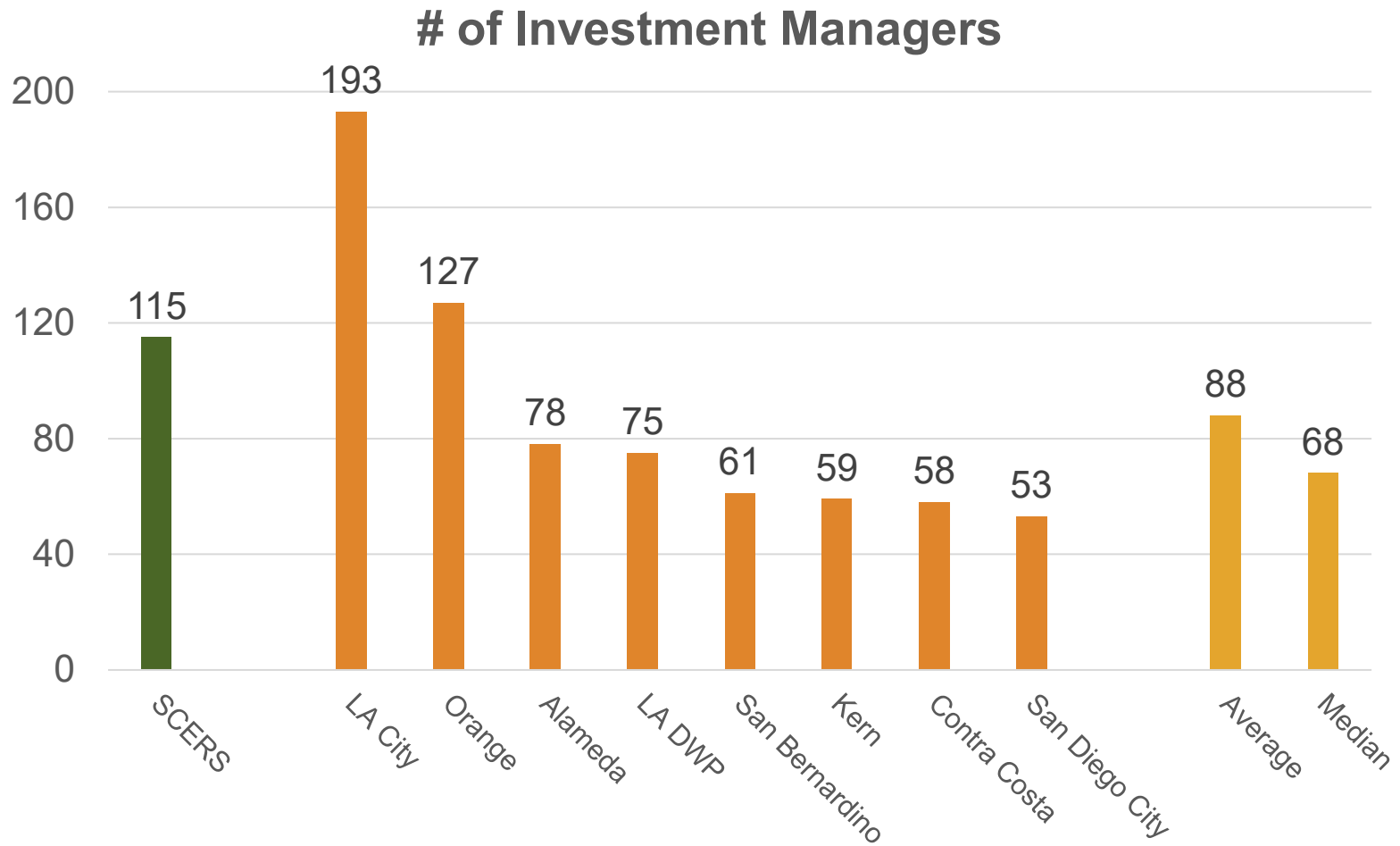


Peer Plan Comparisons

Peer Plan Comparison

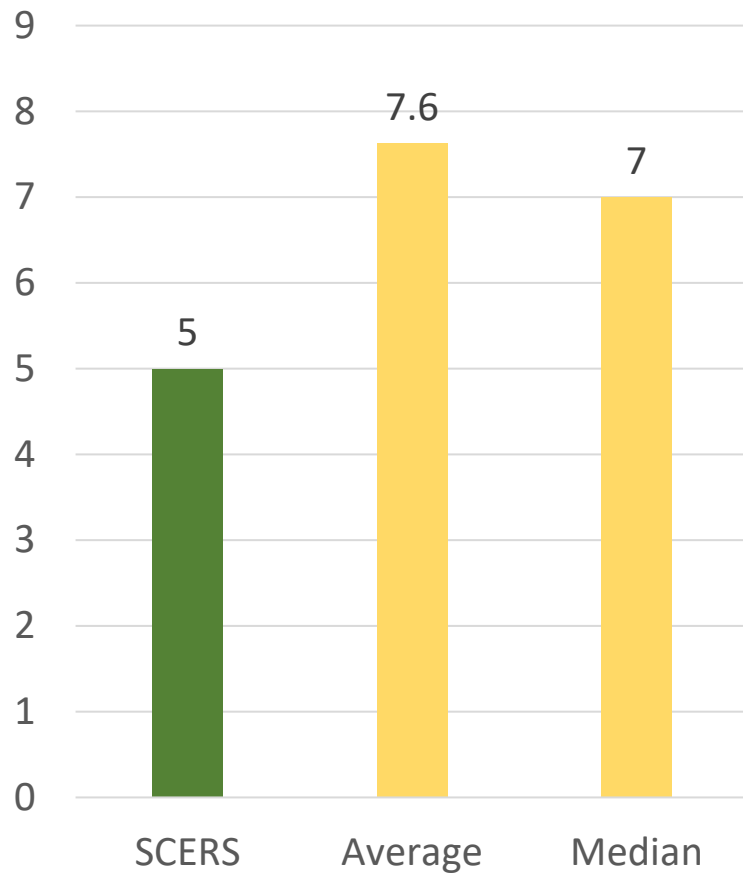


Peer Plan Comparison



Peer Plan Comparison

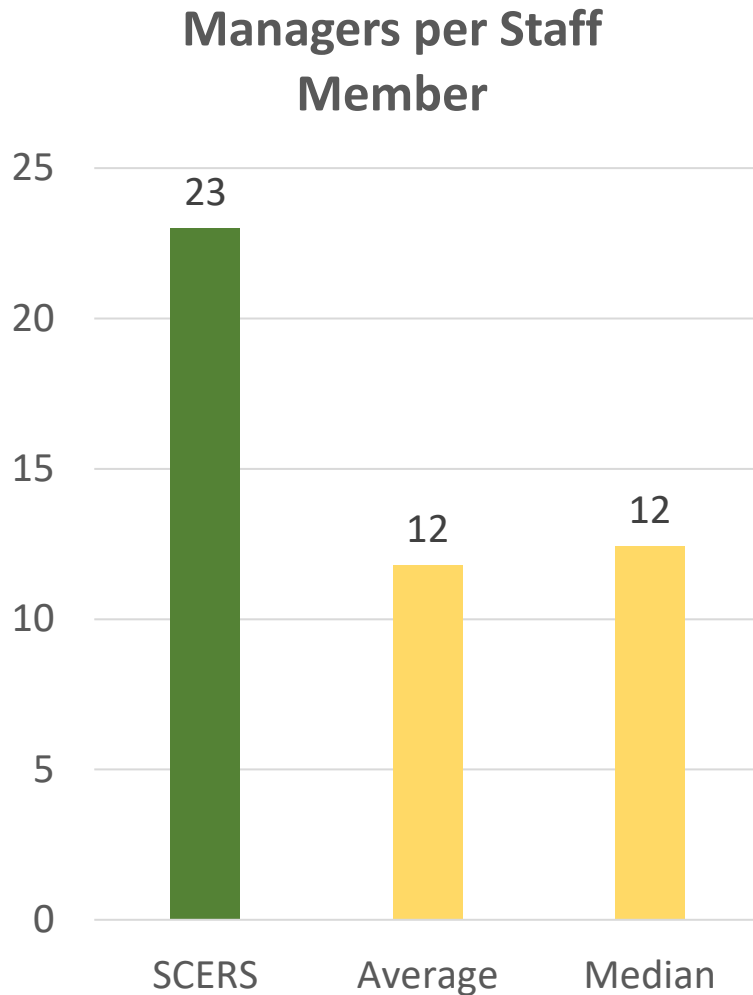
Number of Investment Staff



Assets per Staff (in billions)



Peer Plan Comparison



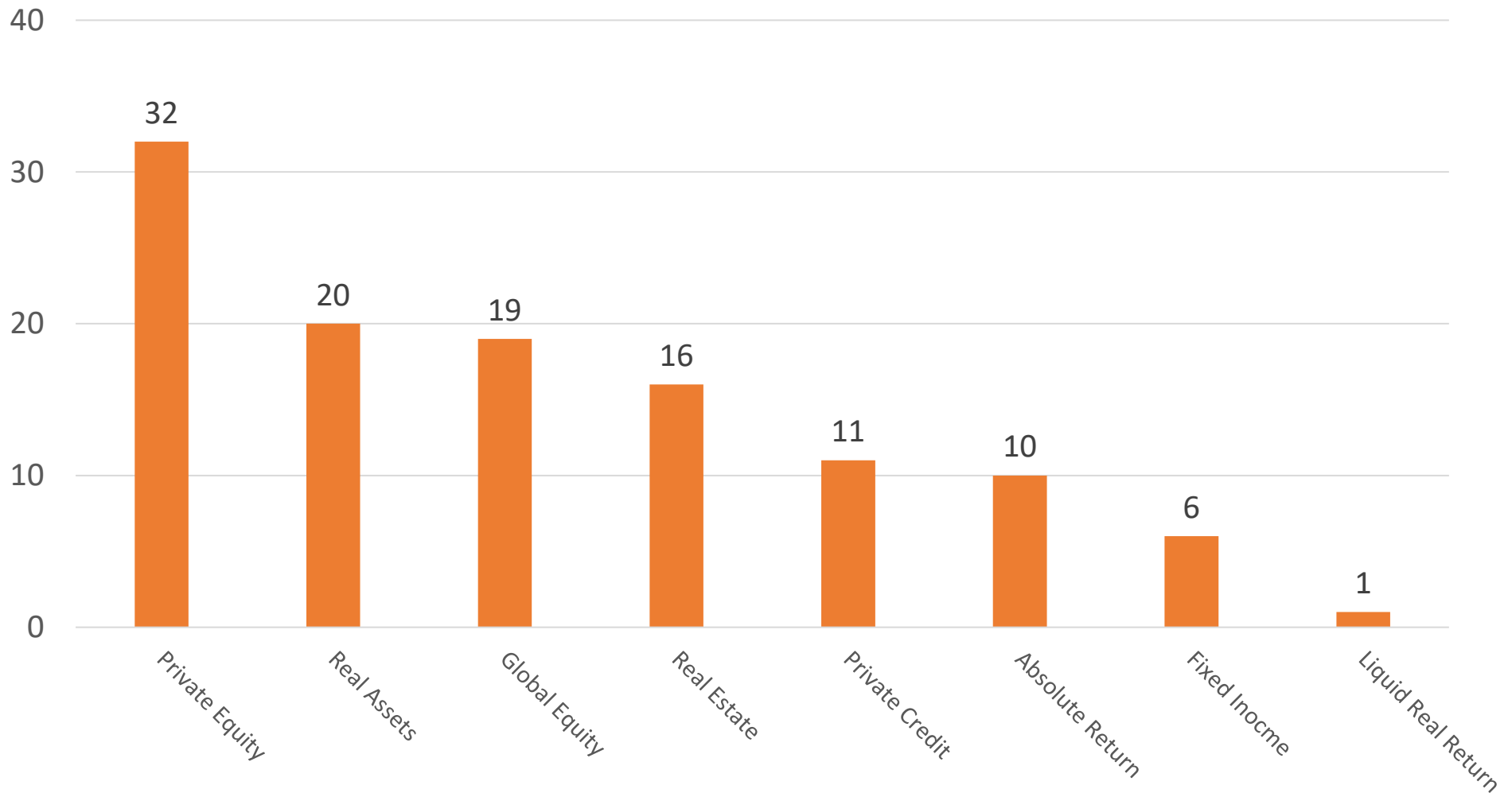
- SCERS has fewer staff and greater complexity
- Solution – Add staff but also manage the manager count



SCERS Investment Managers

SCERS Investment Managers

115 Managers



Why So Many Managers?

- SCERS has been investing in private markets since 2011
 - Mature program
 - Meaningful allocation (32% of portfolio)
 - Smaller commitment sizes than public markets
- SCERS invests directly in funds vs. fund of funds
 - More control, better returns, lower costs
- Our highest conviction managers tend to raise smaller funds
 - Often translates to smaller allocations to SCERS
 - Favor specialist over generalist funds

Why So Many Managers?

- Controlled approach to risk management
 - Illiquid strategies (cannot easily trade)
 - Often smaller organizations with some level of key person risk
- Diverse opportunity set in privates
 - Global investment mandate that includes a variety of strategies
- Implementation approach has led to higher returns

How to Manage the Manager Count

- Do more with existing, high-conviction managers
- Larger fund commitments in privates, where feasible
- Fund of ones where appropriate
- Eliminate redundancy among strategies
- Private market secondary sales – portfolio management tool
- Reasonably sized manager lineup will give staff and consultants more capacity to perform deeper insight
 - And keep the Board better engaged with SCERS' managers

Manager Oversight

- Leverage portfolio analytics software
 - Exposures, risk, performance attribution, company level holdings
- Evaluate workflow management software for staff
- Leverage existing investment consultants
 - Manager monitoring reports, annual meeting reports, ongoing due diligence reports
- Ongoing review of fees and expenses



SCERS Board

SCERS Board

- Board role in meetings – focus less on manager selection and more on program oversight
- Oversight best practices
 - Consistent manager interactions and presentations to the Board at meetings
 - Move Quarterly Manager Compliance and Watch List Report off consent for discussion
 - Highlight top and bottom performing managers during quarterly performance reports

SCERS Board

- Evaluate benchmarks and how they're used
- Consider annual investment education day / offsite
- Review staff delegation