



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 10

MEETING DATE: July 19, 2018

SUBJECT: Investment Manager Changes within SCERS' Domestic Equity Asset Class – June 2018 Board Action

SUBMITTED FOR: X Consent Deliberation and Action Receive and File

PURPOSE

At the June 20, 2018 Board meeting, the SCERS Board met in closed session (Agenda Item 19) and approved Staff and Verus' recommended investment manager structure and implementation plan for SCERS' Domestic Equity asset class, and authorized Staff to determine the most effective method to transition assets. Public disclosure at that time was not required pursuant to Government Code Section 54956.81, which states that a pension fund may hold a closed session to consider the purchase or sale of particular, specific pension fund investments.

The Board approved the recommendations, and Staff has completed the transition of assets related to this approval. Therefore, the following action satisfies all public disclosure requirements.

DISCUSSION

The recommended and approved Domestic Equity investment manager structure (as compared to the prior structure) is:

Prior Manager Structure

| | Policy | Benchmark | Allocation | Manager |
|--------------------|--------|-----------|------------|---------|
| Russell 3000 | 100.0% | | | |
| LC Passive (R1000) | | 54.0% | 54.0% | |
| AB | | | | 54.0% |
| LC Active (R1000) | | 14.0% | 17.2% | |
| JPM 130/30 | | | | 5.5% |
| Eagle | | | | 11.7% |
| LCV (R1000 V) | | 11.0% | 5.5% | |
| Huber | | | | 5.5% |
| LCG (R1000 G) | | 11.0% | 6.4% | |
| Brown | | | | 6.4% |
| SCV (R2000V) | | 5.0% | 7.8% | |
| DGHM | | | | 3.7% |
| Wedge | | | | 4.1% |
| SCG (R2000G) | | 5.0% | 9.1% | |
| UBS | | | | 3.6% |
| Weatherbie | | | | 5.5% |

New Manager Structure

| | Policy | Benchmark | Allocation | Manager | Target | Value |
|-------------------------------|--------|-----------|------------|---------|--------|---------|
| Russell 3000 | 100.0% | | | | | |
| LC Passive (R1000) | | 54.0% | 54.0% | | | |
| AllianceBernstein | | | | | 54.0% | \$1,100 |
| LC Active (R1000) | | 36.0% | 36.0% | | | |
| Fundamental - Eagle | | | | | 12.0% | \$245 |
| 130/30 Extension - TBD | | | | | 12.0% | \$245 |
| Systematic Multi-Factor - AQR | | | | | 12.0% | \$245 |
| SCV (R2000V) | | 5.0% | 5.0% | | | |
| DGHM | | | | | 5.0% | \$102 |
| SCG (R2000G) | | 5.0% | 5.0% | | | |
| Weatherbie | | | | | 5.0% | \$102 |

The specific actions approved by the Board include:

- 1) Retaining Alliance Bernstein within the large cap passive allocation of the domestic equity asset class, and reducing the engagement with Alliance Bernstein by ~\$121 million, to its revised target weight.
- 2) Large cap active allocation:
 - a. A 12% target allocation to a fundamental active segment.
 - i. Retaining Eagle Capital Management as a fundamental active manager, and reducing the engagement with Eagle Capital Management by ~\$22 million, to its revised target weight.
 - ii. Termination of a ~\$148 million domestic equity large cap growth engagement with Brown Advisory.
 - iii. Termination of a ~\$122 million domestic equity large cap value engagement with Huber Capital Management.
 - b. A 12% target allocation to an equity extension 130/30 segment.
 - i. A manager recommendation to be provided at a future Board meeting.
 - c. A 12% target allocation to a systematic, multi-factor segment.
 - i. Implementation of a ~\$245 million systematic, multi-factor engagement with AQR Capital Management (AQR U.S. Enhanced Equity strategy) to its approved target allocation.
- 3) Small cap active allocation:
 - a. Small cap value segment
 - i. Retaining Dalton, Greiner, Hartman, Maher & Co. (DGHM), and increasing the engagement by ~\$18 million, to its revised target weight.
 - ii. Termination of a ~\$96 million engagement with Wedge Capital Management.
 - b. Small cap growth segment
 - i. Retaining Weatherbie Capital, and reducing the engagement by ~\$34 million, to its revised target weight.
 - ii. Termination of a ~\$86 million engagement with UBS Asset Management.
- 4) Authorization of SCERS' investment staff to determine the most efficient method of transitioning the assets, and to execute any necessary documents or agreements to effectuate the transition(s), including the hiring of Zeno Consulting to assist SCERS with the transition of assets.

ATTACHMENTS

None

Prepared by:

/S/

Steve Davis
Chief Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer