



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 25

MEETING DATE: August 17, 2022

SUBJECT: Education: Investment Manager Activity, Compliance, and Watch List

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

RECOMMENDATION

Staff recommends the Board receive and file the educational presentation related to the monthly Investment Manager Activity, Compliance, and Watch List report.

PURPOSE

This item supports the Strategic Management Plan objectives to ensure effective oversight of the investment program and to promote a strong Board-Staff partnership.

BACKGROUND

The Investment Manager Activity, Compliance, and Watch List report is a monthly consent item report that has been in existence for well over a decade. The report is being presented as an open session agenda item for the August meeting in order to familiarize the Board with the objectives and layout of this report, and the information that it provides.

The report is intended to provide the Board with a granular snapshot of the exposures and activity within SCERS' portfolio, down to the investment manager/fund level. It was originally created to track SCERS' investment managers to ensure that they were in compliance with their respective investment guidelines, and to track investment managers that were on SCERS' Watch List. However, the report also provides a meaningful amount of portfolio data, broken out by asset class, including:

- Investment manager/fund net asset values (NAVs)
- Manager/fund benchmarks
- Public market manager/fund monthly purchase and sale activity
- Public market manager top ten holdings
- Private market fund monthly capital calls and distributions
- Private market fund cash flow tracking

The underlying content within the report has remained consistent over the years; however, the format and layout of the report has evolved over time. In addition, SCERS' underlying asset allocation and portfolio has changed significantly over the years, particularly with the addition and maturation of several alternative and private market asset classes, such as Absolute Return, Private Equity, Private Credit, Real Assets, and Real Estate. There is information in the report that is more relevant to traditional/public market asset classes, such as monthly purchase and sale activity and top ten holdings, which is not relevant for the alternative/private market asset classes. Vice versa, there is information in the report that is more relevant to alternative/private asset classes, such as capital calls and distributions and cash flow tracking, which is not relevant for the traditional/public market asset classes.

The format and content within this report goes back some time. Staff expects to evaluate this report to ensure that it contains the most relevant information for the Board. This could include eliminating content that is no longer useful and relevant, and adding more summary information in the form of charts and graphs, particularly with output from the soon to be on-boarded Caissa portfolio analytics software. Another consideration is the frequency with which this report is presented (i.e., monthly vs. quarterly).

Board input related to any revisions to the report is welcomed.

ATTACHMENTS

- Board Order
- Investment Manager Activity, Compliance, and Watch List presentation

Prepared by:

/S/

Steve Davis
Chief Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

/S/

Brian Miller
Senior Investment Officer

/S/

Michael Vang
Investment Analyst



Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
August 17, 2022

AGENDA ITEM:

Education: Investment Manager Activity, Compliance, and Watch List

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff for the Board to receive and file the educational presentation related to the monthly Investment Manager Activity, Compliance, and Watch List.

I HEREBY CERTIFY that the above order was passed and adopted on August 17, 2022 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



Education: Investment Manager Activity, Compliance, and Watch List Report

August 17, 2022

Introduction

Goal: Familiarize Board with the objectives and layout of this report, and the information that it provides.

- Purpose of the report
- Inputs
- Outputs
- Report layout
- Potential changes

Purpose of Report

- Monthly snapshot of SCERS' portfolio
 - One-stop granular drill-down of portfolio activity and exposures at the manager/fund level
- Tracking of private markets activity
 - Monthly capital calls/distributions
- Manager compliance oversight
- Watch List tracking

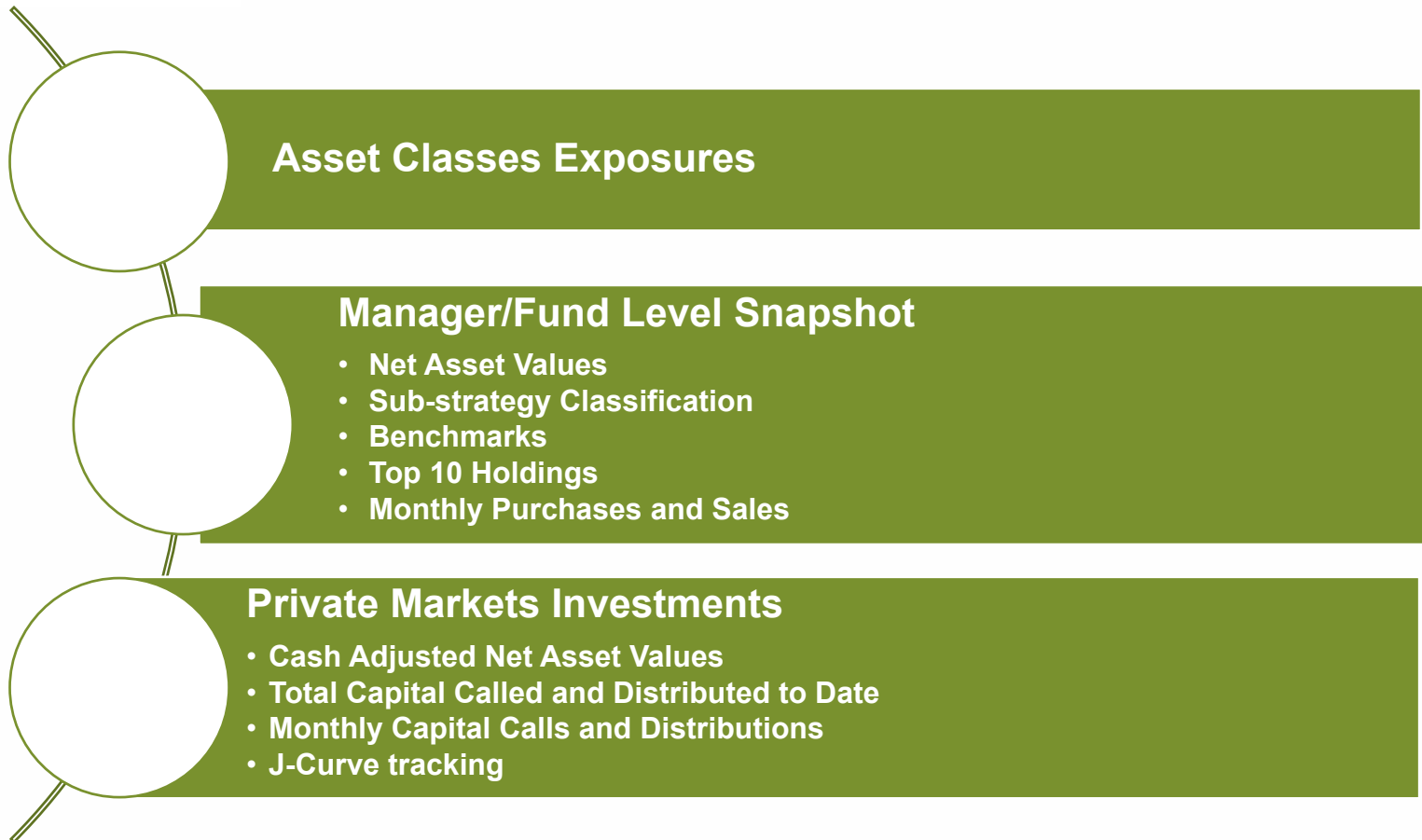
Inputs

- Public market data - as of prior month end
- Private markets' NAVs - reported quarterly, but the report provides NAVs adjusted for monthly cash flows

	NAVs
State Street	Purchases and Sales
	Top Ten Holdings
	Committed Investments
Colmore (private markets)	Cash Adjusted NAVs
	Capital Calls/Distributions
	Purchases and Sales
Managers (commingled funds)	Top Ten Holdings

Outputs

- Top-down exposure and activity snapshot of the portfolio



Outputs

- Compliance Confirmation
 - Reports whether managers are in compliance with guidelines
 - Utilize services of State Street Compliance Monitoring
 - Examples of State Street compliance rules:

Investment Objectives

Eligible and Ineligible Investments

Investment Diversification

Investment Quality

Outputs

- Watch List Tracker
 - Tracks managers placed on the Watch List
 - Criteria for adding managers include:

Liquid funds (public market investments)

Performance

Organization Restructuring

Strategy Shifts

- Removal of managers is dependent on confirmation that issue(s) has been resolved

Report Layout

- Public Equity Example:

#	Investment Manager	Fund Type	Watch List	Net Asset Value (as of June 30, 2022)*	SCERS Investment / Commitment	Total Capital Called to Date	Total Capital Returned to Date**	Benchmark	Comply	Counter-Party Comply	Monthly Purchases / Capital Called	Monthly Sales / Capital Returned**	Top 10 Holdings / Notes
DOMESTIC EQUITY													
1	Alliance Bernstein	Large Cap Passive		\$1,032,096,546				Russell 1000	Yes	N/A	\$22,372,344	\$20,114,682	Apple Inc, Microsoft Corp, Amazon.Com Inc, Alphabet Inc Cl A, Alphabet Inc Cl C, Tesla Inc, Berkshire Hathaway Inc Cl B, Unitedhealth Group Inc, Johnson + Johnson, Meta Platforms Inc Class A
2	JP Morgan Asset Management	Equity 130/30		\$143,528,496				Russell 1000	Yes	N/A	\$8,922,525	\$7,956,005	Microsoft, Alphabet 1, Amazon, Apple, Mastercard, UnitedHealth Group, NXP Semiconductors, AbbVie, Wells Fargo, Thermo Fisher Scientific
3	D.E. Shaw Broad Market Core Alpha Extension	Equity 130/30		\$149,684,214				Russell 1000	Yes	N/A			Microsoft, Apple Inc, Alphabet Inc, Amazon.com, Tesla Inc, Walmart Inc, Meta Platforms, PayPal Holdings, Blackstone Inc, Ford Motor Co
4	Eagle Capital Management	Large Cap Core		\$258,725,342				Russell 1000	Yes	N/A	\$2,692,014	\$1,921,364	Microsoft Corp, Alphabet Inc Cl C, Unitedhealth Group Inc, Amazon.Com Inc, Marriott International Cl A, Meta Platforms Inc Class A, Liberty Broadband C, Goldman Sachs Group Inc, Comcast Corp Class A, Morgan Stanley
5	AQR US Enhanced Equity	Large Cap Core		\$284,047,128				Russell 1000	Yes	N/A	\$38,076,271	\$36,744,492	Apple Inc, Microsoft Corp, Amazon.Com Inc, Alphabet Inc Cl C, Alphabet Inc Cl A, Exxon Mobil Corp, Tesla Inc, Pfizer Inc, Meta Platforms Inc Class A, Berkshire Hathaway Inc Cl B
6	Weatherbie Capital	Small Cap Growth		\$88,562,416				Russell 2000 Growth	Yes	N/A	\$3,687,053	\$3,413,064	Firstservice Corp, Casella Waste Systems Inc A, Sps Commerce Inc, Hamilton Lane Inc Class A, Montrose Environmental Group, State Street Bank + Trust Co, Stepstone Group Inc Class A, Globant Sa, Siteone Landscape Supply Inc, Novanta Inc
7	Snyder Capital Management	Small Cap Value		\$107,170,689				Russell 2000 Value	Yes	N/A	\$3,221,046	\$2,966,167	Halozyme Therapeutics Inc, Kbr inc, Clean Harbors Inc, Caci International Inc Cl A, State Street Bank + Trust Co, Ugi Corp, Entegris Inc, Cabot Corp, Bwx Technologies Inc, Rbc Bearings Inc
	TOTAL DOMESTIC EQUITY			\$2,063,814,830							\$78,971,252	\$73,115,774	

Report Layout

- Private Equity Example:

#	Investment Manager	Fund Type	Watch List	Net Asset Value (as of June 30, 2022)*	SCERS Investment / Commitment	Total Capital Called to Date	Total Capital Returned to Date**	Benchmark	Comply	Counter-Party Comply	Monthly Purchases / Capital Called	Monthly Sales / Capital Returned**	Top 10 Holdings / Notes
PRIVATE EQUITY													
16	Abbot Capital Private Equity Fund VI, LP	Fund of Funds		\$34,980,022	\$75,000,000	\$74,625,000	\$113,775,084	Cambridge Assoc. All Private Equity	Yes	N/A			
17	HarbourVest International PEP VI, LP	Fund of Funds		\$34,801,658	\$50,000,000	\$38,011,131	\$49,616,516	Cambridge Assoc. All Private Equity	Yes	N/A		\$1,412,490	Fund is denominated in Euros and has been converted to US dollars based on the exchange rate at the time of the transaction.
18	HarbourVest VIII, LP	Fund of Funds		\$8,932,807	\$50,000,000	\$36,375,000	\$61,271,917	Cambridge Assoc. All Private Equity	Yes	N/A		\$231,996	
19	Private Equity (Goldman Sachs) X, LP	Fund of Funds		\$23,619,938	\$75,000,000	\$69,035,860	\$102,735,578	Cambridge Assoc. All Private Equity	Yes	N/A			
20	Accel-KKR Capital Partners IV, LP	Buyout			\$15,000,000	\$15,951,492	\$55,776,517	Cambridge Assoc. All Private Equity	Yes	N/A			
21	Accel-KKR Capital Partners V, LP	Buyout		\$28,704,118	\$25,000,000	\$24,670,737	\$19,054,736	Cambridge Assoc. All Private Equity	Yes	N/A			
22	Accel-KKR Capital Partners VI, LP	Buyout		\$12,603,617	\$30,000,000	\$12,672,857		Cambridge Assoc. All Private Equity	Yes	N/A	\$3,132,386		
23	H.I.G. Capital Partners V, LP	Buyout		\$13,607,868	\$14,000,000	\$13,569,193	\$16,662,662	Cambridge Assoc. All Private Equity	Yes	N/A			
24	Linden Capital Partners III, LP	Buyout - Middle Market Healthcare		\$54,734,926	\$35,000,000	\$39,843,496	\$61,228,393	Cambridge Assoc. All Private Equity	Yes	N/A		\$431,151	
25	Linden Capital Partners IV, LP	Buyout - Middle Market Healthcare		\$49,373,299	\$44,330,000	\$38,579,137	\$7,749,292	Cambridge Assoc. All Private Equity	Yes	N/A			
26	Linden Capital Partners V, LP	Buyout - Middle Market Healthcare		(\$400,412)	\$30,000,000			Cambridge Assoc. All Private Equity	Yes	N/A			
27	Thoma Bravo Fund XI, LP	Buyout - Middle Market Technology		\$46,039,544	\$30,000,000	\$31,357,162	\$61,475,631	Cambridge Assoc. All Private Equity	Yes	N/A			

Potential Changes

- Potential report enhancement considerations include:
 - Updates to include most relevant information
 - Format and content of the report goes back some time
 - Incorporating Burgiss/Caissa data
 - Inclusion of exposure charts and graphs
 - Separate tab to directly note any compliance issues
 - Reporting frequency considerations – monthly vs. quarterly
- Board input is welcomed