



AGENDA
INVESTMENT COMMITTEE
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
April 11, 2017
2:00 PM
Board Room
348 West Hospitality Lane, First Floor
San Bernardino, California

PUBLIC NOTICE

Items of interest to the public that are within the subject matter jurisdiction of the Committee may be addressed by the public during the meeting. Persons wishing to address items on the agenda should provide notice to the Secretary of the Board prior to Committee's discussion of the item. Members of the public may also comment during the Public Comment period at the end of the meeting. Speakers are limited to three minutes.

1. Call meeting to order.
2. Action: Approve minutes of Investment Committee of February 14, 2017.
3. Action: Approve the FY 2017-2018 Investment Manager On-site Due Diligence Schedule, extensions, and exceptions.
4. Action: Recommend that the Board of Retirement approve the use of derivatives in the Waterfall Asset Management Master Custodial Account (MCA) as a hedging tool to offset unwanted risk exposures.
5. Action: Recommend that the Board of Retirement approve the termination of Oaktree High Income Convertible II, L.P., OCM Convertible Trust, and Non-US Convertible Securities Portfolio.
6. Request staff review and submit policy revisions related to Manager Concentration.
7. Discussion on American Realty organizational update.

CLOSED SESSION

8. Consideration of the sale of a particular, specific pension fund investment (real property located at 810 First Street, Washington DC), pursuant to section 54956.81 of the California Government Code.

OPEN SESSION

PUBLIC COMMENT

At this time, the Committee will provide an opportunity for the public to address any subject,

within the jurisdiction of the Committee, which is not already scheduled on this agenda. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chairman, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to three minutes.

ADJOURN

NOTES

The term "Action" in the wording of any Agenda item contained herein serves as notice that the Committee may, in its discretion, dispose of any item by any action in the following non-exclusive list: approve, disapprove, modify, defer, table, take no action, and receive and file.

The Board of Retirement meeting facility is accessible to persons with disabilities. If assistive listening devices or other auxiliary aids or services are needed in order to participate in the public meeting, requests should be made through the Executive Assistant at least three (3) business days prior to the meeting. The Executive Assistant's telephone number is (909) 885-7980, and the office is located at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA.

UPCOMING MEETINGS

Investment Committee Meeting
Tuesday, May 9, 2017
2:00 p.m.



**MINUTES
INVESTMENT COMMITTEE
February 14, 2017
BOARD ROOM
348 WEST HOSPITALITY LANE, FIRST FLOOR
SAN BERNARDINO, CA**

Trustees Present:

GLENN DUNCAN, Committee Chair
JARED NEWCOMER, Committee Member
VERE WILLIAMS, Committee Member
LOUIS FIORINO, Alternate Committee Member

Others Present:

GARY AMELIO, Chief Executive Officer
MICHAEL CALABRESE, Chief Counsel
DONALD PIERCE, Chief Investment Officer
LAURA VOSSMAN, Sr. Investment Officer
YOLANDA BULLOCK, Recorder
JOHN MICHAELSON, Trustee in attendance as a member of the public
DAWN STAFFORD, Trustee in attendance as a member of the public

Not Present:

OSCAR VALDEZ, Committee Member

1. Call meeting to order.

Committee Chair Duncan called the meeting to order at 2:04 p.m.

Committee Chair Duncan appointed Fiorino as Alternate Committee member in the absence of Valdez.

2. Action: Approve minutes of Investment Committee of January 10, 2017.

Williams moved, Newcomer seconded, to Approve minutes of Investment Committee of January 10, 2017.

Ayes: Duncan, Fiorino, Newcomer, Williams

Absent: Valdez

Motion Passed.

3. 2017 Asset Allocation Assumptions Review.

Allan Martin of NEPC presented.

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Investment Committee Minutes

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4. Presentation by Staff and NEPC on the Kayne Anderson Energy Fund VII.

Laura Vossman, staff, and Allan Martin of NEPC presented.

5. Presentation by Kayne Anderson Capital Advisors on the Kayne Anderson Energy Fund VII.

Cade McNown, Paul Blank and Chuck Yates of Kayne Anderson Capital Advisors presented.

6. Action: Recommend that the Board of Retirement approve a \$10 million commitment to Kayne Anderson Energy Fund VII, to be purchased in a secondary transaction from an affiliate of the general partner.

Newcomer moved, Williams seconded, to Approve to Recommend that the Board of Retirement approve a \$10 million commitment to Kayne Anderson Energy Fund VII, to be purchased in a secondary transaction from an affiliate of the general partner.

Ayes: Duncan, Fiorino, Newcomer, Williams

Absent: Valdez

Motion Passed.

PUBLIC COMMENT

Allan Martin of NEPC provided a brief update regarding the SBCERA portfolio peer universe ranking.

ADJOURN

Chair Duncan announced that the Investment Committee meeting scheduled for March 14, 2017, has been canceled. The next Investment Committee meeting will be held on April 11, 2017.

The meeting adjourned at 3:05 p.m.

Respectfully submitted,

GLEN DUNCAN, Chair

GARY A. AMELIO, Secretary

DATED _____

**REPORT/RECOMMENDATION TO THE INVESTMENT COMMITTEE
OF SAN BERNARDINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

April 11, 2017

FROM: Eydie Cox
Senior Investment Analyst

SUBJECT: FY 2017-2018 Investment Manager On-site Due Diligence Schedule

RECOMMENDATION:

Approve the FY 2017-2018 Investment Manager On-site Due Diligence Schedule, extensions, and exceptions.

BACKGROUND INFORMATION:

Investment staff recommends approval of the proposed FY 2017-2018 Investment Manager On-site Due Diligence Schedule in accordance with SBCERA's Due Diligence Policy, and approval of one (1) exception, to discontinue additional on-site and remote due diligence visits for Lexington Partners as listed on the accompanying table of Exceptions and 2017-2018 Proposed Exceptions. SBCERA's investments with the managers listed on the Exceptions and 2017-2018 Proposed Exceptions table are currently being redeemed or wound down.

SBCERA's Due Diligence Policy that was most recently approved by the Board on January 8, 2015, requires on-site investment due diligence for all managers at least once every three (3) years. In accordance with the policy, managers that will not be visited within the required timeframe must be approved for exception by the Board.

Additionally, in a previous period, staff requested and was granted three (3) extensions for Standard Life, State Street Bank, and Declaration Management and Research on-site visits to be completed within the next two (2) fiscal years. The visits to Standard Life and State Street Bank have been completed and the visit to Manulife Asset Management (formerly Declaration Management and Research) has been included on the Proposed FY 2017-2018 on-site due diligence schedule. At this time, staff would also like to request an extension to 2019, for the TOBAM on-site visit (currently slated for 2018), to align its due diligence cycle with that of the UK managers.

The FY2016-2017 on-site due diligence schedule included an on-site visit to managers in San Francisco, however, this trip has been canceled due to changes in circumstance or location for each of the three managers.

The Plan's Due Diligence Policy language regarding on-site due diligence:

On-site Investment Due Diligence is required for all managers, at least once every three years. Typically, managers will be visited for due diligence every other year. Managers that will not be visited at least once every three years must be approved for exception by the Board. For reasons relating to The Brown Act (Government Code §54950-54962) governing meeting access for local public bodies, no more than four Board members may attend the same scheduled due diligence trip, regardless of the number of manager on-site reviews. A minimum of one staff member is

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required at each on-site meeting; consultant support is recommended but not required.

ADMINISTRATIVE BUDGET IMPACT: Investment Costs are deducted from Net Asset Value.

ATTACHMENTS: Yes

PRESENTER: Eydie Cox, Senior Investment Analyst

**Proposed FY 2017 – 2018
Investment Manager
On-site Due Diligence Schedule**

Manager Category	Name	City	State	Proposed Dates
Global Debt	Declaration Management & Research	Boston	MA	Fall 2017
Service Provider	Foley & Lardner			
Custodian	State Street Bank and Trust Company			
Real Assets	Hancock Timber Resource Group			
Consultant	NEPC			
MCA	Industry Ventures	San Francisco	CA	Fall 2017
Global Equity	State Street Global Advisors			
Real Estate	Prudential Real Estate Investors			
Global Debt	Halcyon	New York	NY	Spring 2018
Global Debt	GoldenTree Asset Management			
Global Debt	Marathon Asset Management			
Global Debt	Waterfall Asset Management			
Real Assets	Pinnacle	Greenwich	CT	
Global Debt	Gramercy			
Alpha Pool	Corrum Capital	Charlotte	NC	Spring 2018

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Exceptions and FY 2017-2018 Proposed Exceptions

Manager Category	Name	Board Approval	Mkt. Val* (000) 17
Global Credit	Angelo Gordon	1/10/2013	\$ 2,399.00
Private Equity	Aurora	TERM	\$ 29,562.00
Non-Core Real Estate	Beacon Capital Partners	1/10/2013	\$ 2,433.00
Non-Core Real Estate	BlackRock Realty	3/1/2012	\$ 83.00
Real Assets	Blue Tip Energy Management	1/10/2013	\$ -
Non-Core Real Estate	Bryanston Realty Partners	1/10/2013	\$ 11,917.00
Private Equity	Catalyst Capital Group Inc.	1/10/2013	\$ 16,929.00
Non-Core Real Estate	CB Richard Ellis Investors	1/10/2013	\$ 1,386.00
Private Equity	Crescent Capital	1/10/2013	\$ 4,400.00
Real Assets	Energy Spectrum	1/8/2015	\$ 10,322.00
Non-Core Real Estate	Fillmore Capital Partners	2/3/2011	\$ 9,607.00
Real Estate/Real Assets	Fortress	4/7/2016	\$ 54,251.00
Real Assets	High Star Capital (AIG)	1/10/2013	\$ 35,325.00
Non-Core Real Estate	Invesco Real Estate Investment (Asia)	1/10/2013	\$ 20.00
Global Debt	King Street Capital	2/3/2011	\$ 328.00
Non-Core Real Estate	LaSalle Investment Management	1/10/2013	\$ -
Private Equity	Lexington Capital	Proposed	\$ 27,719.00
Non-Core Real Estate	MorganStanley	3/1/2012	\$ 1,571.00
Private Equity	Neuberger Berman	1/10/2013	\$ 8,882.00
Non-Core Real Estate	RREEF	2/3/2011	\$ 112.00
Private Equity	Siguler Guff	1/10/2013	\$ 4,028.00
Non-Core Real Estate	Square Mile	1/9/2014	\$ 3,705.00
Non-Core Real Estate	Starwood Capital	1/10/2013	\$ 19,598.00
Real Assets	Timbervest	1/8/2015	\$ 64,845.00
Non-Core Real Estate	Tricon Capital Group Inc.	2/3/2011	\$ 1,672.00
Non-Core Real Estate	Walton Street Capital	3/1/2012	\$ 16,508.00
			\$ 335,786.00

*Source: State Street Report 1/31/16

% of Fund

4%

**FY 2016-2017
Investment Manager
On-site Due Diligence Schedule**

Manager Category	Name	City	State	Proposed Dates
MCA	Pathway	Irvine	CA	August 2016
MCA	Ares	Los Angeles	CA	October 2016
Global Debt	Oaktree			
Custodian	State Street Bank	Sacramento	CA	November 2016
Service Provider	Kreischer Miller	Horsham	PA	June 2017
Private Equity	Lexington	Menlo Park	CA	May 2017
Global Debt	Corrum	San Francisco		
Long/Short Equity	Passport			

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**Subject to Change
FY 2018-2019
Due Diligence Schedule
Included For Reference**

Manager Category	Name	City	State
Non-Core Real Estate	INVESCO Real Estate	Dallas	TX
Non-Core Real Estate	Invesco Real Estate Asia	Dallas	TX
Global Debt	BeachPoint (Post Advisory Group, LLC)	Santa Monica	CA
Global Debt	Tennenbaum Capital Partners, LLC	Santa Monica	CA
Non-Core Real Estate	American Realty Advisors	Glendale	CA
Service Provider	Maples FS	Toronto	Ca
Alpha Pool	ZAIS Group	Red Bank	NJ
Alpha Pool	Birch Grove	New York	NY
EM Debt	Pramerica (Prudential)	New York	NY
Global Debt	York Capital Management	New York	NY

**REPORT/RECOMMENDATION TO THE INVESTMENT COMMITTEE
OF SAN BERNARDINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

April 11, 2017

FROM: Amit Thanki, CAIA
Investment Officer

SUBJECT: Waterfall Asset Management – MCA Guideline Change

RECOMMENDATION:

Recommend that the Board of Retirement approve the use of derivatives in the Waterfall Asset Management Master Custodial Account (MCA) as a hedging tool to offset unwanted risk exposures.

BACKGROUND:

Waterfall Asset Management (WAM) is a Manhattan based asset manager focusing on high yield asset backed securities and loans. The firm was founded in 2004 by Thomas Capasse and Jack Ross and currently manages over \$6.4 billion in assets. The MCA invests in performing and non-performing mortgages, asset backed securities, consumer loans, and small business loans in the US and Europe.

SBCERA first invested \$30 million in Waterfall Victoria Fund in August 2008. The relationship was further broadened to take advantage of the manager's capabilities with the implementation of a master custodial account in 2014. As of February 28, the MCA has a net asset value of \$108 million.

MCA GUIDELINE CHANGE

The primary decision driver for any investment decision at WAM is fundamental characteristics of the investment opportunity and in most cases will include credit risk, interest rate risk, and in the case of non-US investments currency risk embedded in the opportunity. A primary tool available to mitigate unwanted risks in a portfolio is the use of derivatives contracts. Staff recommends revising the MCA guidelines to permit the use of derivatives for the purpose of risk mitigation.

NON-ADMINISTRATIVE BUDGET IMPACT: Investment Costs are deducted from Net Asset Value.

ATTACHMENTS: None.

PRESENTER: Amit Thanki, Investment Officer

**REPORT/ RECOMMENDATION TO THE INVESTMENT COMMITTEE
OF SAN BERNARDINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

April 11, 2017

FROM: Jake Abbott, CFA
Investment Officer

SUBJECT: Termination of Oaktree High Income Convertible II, L.P., OCM Convertible Trust and Non-US Convertible Securities Portfolio

RECOMMENDATION:

Action: Recommend that the Board of Retirement approve the termination of Oaktree High Income Convertible II, L.P., OCM Convertible Trust, and Non-US Convertible Securities Portfolio.

BACKGROUND INFORMATION:

Oaktree currently manages approximately \$70 million in three convertible bond strategies and \$9.5 million in a closed-end real estate fund. Subsequent to the January Investment Committee meeting, Oaktree provided sufficient transparency for Kreisler Miller to complete its due diligence review. However, staff recommends that the convertible bond accounts be terminated because the potential benefit of these toehold positions is no longer justified. The Real Estate fund is in its harvest period and staff recommends that this investment be allowed to self-liquidate.

Oaktree provided full access to materials and personnel needed to complete the Kreisler Miller review.

However, considering the totality of SBCERA's experience with Oaktree, we feel the relationship has been unnecessarily difficult. The convertible bond investments were made at a time when there was a dislocation in the convertible market and valuations were highly attractive. Looking forward, staff no longer believes that the potential benefits of toehold positions in dedicated convertible bond strategies justify the allocation.

SBCERA originally funded the convertible bond investments in 2008 and 2009 with a total of \$55 million. In 2011 and 2015, withdrawals were made for amounts totaling the initial principal investment. SBCERA's first contribution to Real Estate Opportunities Fund V was in 2012 as part of a \$25 million commitment. To date, this fund has distributed about \$30 million and is in its harvest period. As capital is returned, it will be deployed to meet the asset allocation needs of the portfolio.

ATTACHMENTS: None.

PRESENTERS: Jake Abbott, CFA, Investment Officer

