



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 15

MEETING DATE: May 15, 2019

SUBJECT: General Investment Consultant Contract

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

RECOMMENDATION

Staff recommends the Board renew and extend the contract with Verus Advisory, Inc. (Verus) for general investment consulting services, for a three-year term, and authorize SCERS' Chief Executive Officer to negotiate and execute documents necessary to update the contract.

PURPOSE

This agenda item does not specifically support the 2018-19 Strategic Management Plan, but contributes to the effective management and oversight of investment activities. The Board is responsible for approving contracts with its consultants, auditors, actuaries, and investment managers.

DISCUSSION

In March 2011, SCERS hired Strategic Investment Solutions (SIS), which became Verus Advisory Inc. following the merger between SIS and Verus in 2016, as its general investment consultant. The contract with Verus was amended and extended in 2014 and 2017, and with both extensions, the language and terms of the underlying general investment consultant agreement remained largely unchanged. The current contract with Verus expires June 30, 2019.

Specific duties of the general investment consultant include:

- Investment strategy development and implementation
- Investment policy development
- Asset allocation among asset classes and subclasses
- Investment manager selection, monitoring, and due diligence
- Investment performance monitoring, measurement, and analytics
- Investment risk monitoring
- Capital markets projections

- Coordination with the System's actuary in conducting periodic asset-liability studies and other required reporting
- Board education

BACKGROUND

Staff has been pleased with the performance of Verus as its general investment consultant (and SIS prior to the merger with Verus). Verus has assisted SCERS through two asset liability studies and revisions to the strategic asset allocation. Verus has also assisted in structuring asset classes around the strategic asset allocation, developing investment policy statements, designing policy benchmarks, conducting manager searches, and providing performance results and analysis. Staff believes that SCERS' strategic asset allocation and investment structures are well positioned going forward, and implementation of the asset allocation is making good progress. Staff does not believe that a formal asset-liability study will be needed for another 2-3 years. In addition, SCERS' investment returns have been strong on both an absolute and relative basis.

While it is prudent to stay educated on the broader general investment consulting market, Staff believes that conducting a competitive search for general consulting services is not needed at this time. Staff therefore recommends that SCERS enter into a three-year contract renewal with Verus for general consulting services, and update the language, scope of services, and terms within the contract as needed.

While the recommended contract term for Verus is three years, the contract will have language that gives either party the ability to terminate the engagement upon notice. With this flexibility, SCERS will have the ability to evaluate Verus on an ongoing basis, and consider a competitive search if needed.

Verus currently charges SCERS a flat annual fee of \$300,000, which includes one asset liability study every three years. Non-recurring project fees such as investment manager searches and special asset-liability modeling are charged as additional fees. Verus has offered to keep the existing annual fee of \$300,000 for the three-year term of a renewed contract with SCERS. The cost for manager searches increases from \$25,000 to \$30,000 per search (with a cap on total fees charged for searches). The current consulting team for SCERS of Barry Dennis, John Nicolini, and Margaret Jadallah are named as the consulting team for SCERS in the renewed contract.

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