



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 20

**MEETING DATE:** May 18, 2022

**SUBJECT:** General Investment Consultant Contract

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

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### **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 the Chief Executive Officer to execute documents necessary to update the contract.

### **PURPOSE**

This agenda item supports the 2022 Annual Investment Plan, and 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.

### **BACKGROUND**

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, 2017, and 2019, and with each extension, the language and terms of the underlying general investment consultant agreement remained largely unchanged. The current contract with Verus expires June 30, 2022.

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

## **DISCUSSION**

Staff has been pleased with the performance of Verus as SCERS' general investment consultant. Verus has assisted SCERS through three asset liability studies, including the most recent one in 2021, 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 recently revised asset allocation is making good progress. 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 contains language that gives either party the ability to terminate the engagement upon notice. With this flexibility, SCERS has the ability to evaluate Verus on an ongoing basis, and consider a competitive search if needed.

Verus has been charging SCERS a flat annual fee of \$300,000 since the firm was hired in 2011. Given increasing costs, Verus has proposed a 5% increase to their base fee, which would increase the annual fee from \$300,000 to \$315,000. Verus is also proposing an annual escalator of 3% starting after year two over the three-year contract. Staff believes that this proposal is reasonable, and it is common for service based contracts to include an annual escalator, which has not been a component of SCERS' contract with Verus historically.

Non-recurring project fees such as investment manager searches and special asset-liability modeling are charged as additional fees. Verus has proposed keeping the cost for manager searches at \$30,000 per search, and has agreed to cap the fees on manager searches in a given year to \$90,000.

The current Verus consulting team for SCERS of John Nicolini (lead consultant), Brian Kwan (co-lead consultant), and Garrett Dinsmore (back up consultant) will be reflected as the consulting team for SCERS in the renewed contract. Barry Dennis, John Nicolini, and Margaret Jadallah are named as the consulting team for SCERS in the current contract; however, Barry Dennis retired from Verus in 2020, and Margaret Jadallah rotated off of SCERS' account over the past year and is in the process of retiring from Verus as well.

**ATTACHMENT**

- Board Order

Prepared by:

/S/

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Steve Davis  
Chief Investment Officer

Reviewed by:

/S/

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Eric Stern  
Chief Executive Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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Before the Board of Retirement  
May 18, 2022

AGENDA ITEM:

### General Investment Consultant Contract Recommendation

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to renew and extend the contract with Verus Advisory, Inc. for general investment consulting services, for a three-year term, and authorize the Chief Executive Officer to execute documents necessary to update the contract.

I HEREBY CERTIFY that the above order was passed and adopted on May 18, 2022 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

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Richard B. Fowler II  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary