



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 23

MEETING DATE: August 18, 2021

SUBJECT: Representation on Advisory Committees Policy

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

RECOMMENDATION

Staff recommends the Board approve the updated Representation on Advisory Committees Policy, which was initially adopted in 2007 and last affirmed in 2017.

PURPOSE

This item supports the Strategic Management Plan goal to ensure effective oversight of the investment program.

BACKGROUND

SCERS invests in alternative investment funds, such as private equity, private credit, real assets, and real estate, under limited partnership arrangements (LPAs). In LPAs, the investment manager is the general partner (GP) and institutional investors like SCERS are the limited partners (LPs).

Many GPs invite a subset of limited partners to serve on an LP Advisory Committee (LPAC) as voting members or observers. Serving on an LPAC can provide investors a better understanding of the GP and underlying fund investments. Generally, LPAC membership can be a good way for LPs to aid the interests of the organizations they represent.

Within the institutional investing landscape, the LPAC's role has become more defined over the last 20 years. Often LPAC meetings are held alongside annual general meetings in large metropolitan cities. Most common issues discussed at LPAC meetings are:

- Cross-fund investments
 - Where the GP has a single investment held in the portfolio of two different funds
- Extending a fund's term
 - Private market funds are typically structured as 10-15 year investments; however, funds are often not at the point of liquidation by the time the term expires. Therefore, LPACs often vote to extend the life of the fund, as determined in the LPA.

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- Key-person definition
 - In many cases, investors determine a person or subgroup of investment professionals who are fundamental to the fund's success. Accordingly, the LPAC, as defined in the LPA, may be called upon to amend the LPA's Key Person clause if a key person leaves or a new person joins.

Participation in LPACs also carries risks that must be considered and mitigated. The risk of liability is a function of the extent of authority given by the GP to the committee, and whether the LP holds a voting seat or an observer seat. Several common issues may arise when staff sits with a voting seat on LPACs, including:

1. California conflicts-of-interest rules, especially when a GP pays for an LP's travel and lodging to participate on the Advisory Committee. The LPA typically allows LPAC members to submit reasonable expenses to the GP, and the fund reimburses these costs. All LPs in the fund in turn, pay the costs of the LPAC members. *SCERS does not accept any travel-related costs from managers or service providers.*
2. The liability of the individual serving on the Advisory Committee and the corresponding liability of the underlying pension fund for decisions made by the Advisory Committee. LPs normally indemnify the LPAC members for all their decisions as part of the subscription process.
3. Access an LPAC member may have to confidential information not shared with other LPs. As a rule, GPs do not share materials outside of an LPAC meeting.

CURRENT PRACTICE

On January 18, 2007, the Board first approved the Representation on Advisory Committees Policy, as SCERS expanded its investments into alternative asset classes. As of August 2021, Staff holds two formal LPAC seats and a host of observer seats.

Staff currently hold several observer seats on LPAC committees, often finding these roles just as influential as formal voting seats while avoiding the previously described issues. LPAC observer seats have access to all the information and documents given to LPAC members and allow Staff to participate in LPAC discussions actively. Additionally, SCERS' alternative asset and real estate consultants often formally hold a voting LPAC seat in some of the funds in which SCERS invests.

Voting seats on LPACs are not readily available to SCERS. While large at an absolute level, commitment sizes from SCERS do not rise to the point where SCERS can demand a voting seat-based purely on SCERS' investment size. However, SCERS does engage the GP about LPAC participation during the due diligence process when evaluating new funds. GPs want to select LP representatives they believe can add value to the fund as an LPAC member, and Staff has been able to prove its capacity to add value both formally and informally to LPACs.

Reasons to hold a voting seat include:

- New or different strategy for SCERS

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- For a new or developing strategy in which SCERS has less experience investing, Staff may take advantage of a GP's knowledge of the markets via a seat on the LPAC. Getting an insider's view of the strategy allows for a better understanding of a market.
 - GP stability
 - Private markets are considered a "people" business, with individual members of a fund's team often representing a key determinant of fund performance and success. Partnerships are often tested during a fund's life. An LPAC can advise GPs in helping the GP understand the bigger picture and act as a mechanism to stabilize partnership, especially during difficult times when professionals leave.
 - Relationship-building with the GP
 - LPAC members often have more interactions with a GP than other members of the investor base. These interactions allow Staff to develop personal connections throughout an organization which can help secure allocations in sought-after funds.
 - Deeper understanding of what—or who—drives performance
 - LPAC members typically learn the professionals who drive performance at a GP.
 - Public pension plan representation on the Advisory Committee.
 - Less representation from other public pension plans translates to more of a reason for SCERS to take a voting seat.
 - The institutional maturity of the market opportunity and/or the track record of GP.
 - More nascent market opportunities and/or GP's with less of an institutional track record translate to more of a reason for SCERS to take a voting seat.

POLICY REVISIONS

The current policy allows the entire investment staff to sit on up to three advisory committees. The existing policy was created when SCERS invested in a far fewer funds, and the size of SCERS' investment staff was smaller. The proposed amendments would allow individual senior SCERS investment staff (CIO, DCIO, Senior Investment Officer, Investment Officer) to sit on no more than three Advisory Committees each as voting members, unless otherwise approved by the Board, with the following key provisions:

1. The Chief Investment Officer will determine whether the incremental benefits of a voting seat over an observer seat outweighs the risk of more direct participation, and whether a member of the investment staff has the experience and expertise to take a voting seat on an Advisory Committee.
2. SCERS will reimburse its representative for all reasonable expenses and costs directly related to the representative's attendance and participation at an advisory committee or board meeting.
3. Neither SCERS nor its representative will accept any form of remuneration or reimbursement from the general partnership for serving on an advisory committee or board.

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4. The fund documents shall specify that the General Partner and all limited partners waive any claim, including but not limited to subrogation rights, against SCERS or its representative, provided such representative acted in good faith.
 5. The fund documents shall further provide that the GP and the Partnership will indemnify SCERS and its representative for any claim against the Partnership, the General Partner, SCERS, or its representative, provided the representative acted in accordance with the rights of Indemnification and Exculpation as more fully set forth in the Fund Documents.
 6. When seeking an LPAC seat, Staff will highlight in the final recommendation report to the Board the reasons for taking the seat.

The determination of which member of the SCERS investment staff sit on LPACs, either as a voting member or as an observer, is at the discretion of the CIO. If the CIO is taking a seat, it will be at the discretion of the CEO. In determining whether Staff is qualified to serve on an LPAC, the CIO (or CEO) will review:

- Experience as an institutional investor
- Experience as an investor in private markets
- Experience as a member of an LPAC
- Length of service to SCERS

ATTACHMENTS

- Board Order
- Representation on Advisory Committees Policy (new version)
- Representation on Advisory Committees Policy (old version)

Prepared by:

/S/

Jim Donohue
Deputy Chief Investment Officer

Reviewed by:

/S/

Steve Davis
Chief Investment Officer

/S/

Eric Stern
Chief Executive Officer



Retirement Board Order

Sacramento County Employees' Retirement System

**Before the Board of Retirement
August 18, 2021**

MOTION:

Representation on Advisory Committees Policy

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to approve the updated Representation on Advisory Committees Policy.

I HEREBY CERTIFY that the above order was passed and adopted on August 18, 2021 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

Richard B. Fowler II
Board President

Eric Stern
Chief Executive Officer and
Board Secretary



REPRESENTATION ON ADVISORY COMMITTEES POLICY

PURPOSE

The purpose of this policy is to establish for Sacramento County Employees' Retirement System ("SCERS") staff serving on Advisory Committees of limited partnership in which SCERS is a participating limited partner.

POLICY

The Chief Investment Officer (CIO) with approval of the Chief Executive Officer may authorize investment staff (CIO, Deputy CIO, Senior Investment Officer and Investment Officer) participation on Advisory Committees with any of the limited partnerships in which SCERS invests, so long as:

1. Each investment staff member may serve on no more than three Advisory Committees in a voting capacity (i.e., a Board seat).
2. Because serving on an Advisory Committee in a voting capacity presents litigation risk to both the SCERS representative and SCERS as a limited partner, such participation should occur rarely and selectively. In authorizing investment staff to serve on an Advisory Committee in a voting capacity, the CIO shall determine whether the incremental benefits of a voting seat over an observer seat outweigh that risk. Specifically, the CIO shall consider all of the following:
 - a. Whether SCERS can potentially add value by serving in a voting capacity on an Advisory Committee: SCERS must bring experience and qualities to an Advisory Committee that will assist the general partner (GP) regarding fund issues and conflicts as well as help protect SCERS' commitment. Specifically, the CIO will consider the investment staff member's:
 - Time as an institutional investor (i.e., does the staff member have a track record across investment cycles and an ability to help protect SCERS' interest);
 - Experience in committing institutional capital to private market investments (i.e., does the staff member understand the peculiarities of private markets at an institutional level);
 - Length of service with SCERS (i.e., does the staff member understand important SCERS issues such as personal identifiable information or reporting requirements).
 - b. Public pension plan representation on the Advisory Committee

- Less representation from other public pension plans translates to more of a need for SCERS to take a voting seat and vice versa;
- c. The institutional maturity of the market opportunity and/or the track record of GP
 - More nascent market opportunities and/or GP's with less of an institutional track record translate to more of a need for SCERS to take a voting seat, and vice versa.
 - d. Track record of GP with public pension investors and California plans
 - The more experience and Board members with this experience, the less need there is for SCERS to take a voting seat.
 - e. Role of the asset class/manager in the portfolio
 - If the GP represents a significant commitment across multiple funds within SCERS' portfolio, there is a greater need for SCERS to take a voting seat considering the importance of the investment to the plan
 - f. The CIO shall report his/her conclusions on the foregoing to the Board in the Final Report in advance of fund closing.
3. In determining whether an investment staff member is qualified to serve on a particular Advisory Committee in a voting capacity, the CIO shall (1) identify the issues that Advisory Committee members will be called upon to vote on, (2) determine whether the investment staff member has the requisite expertise and experience to vote on those issues, and (3) report those conclusions to the Board in the Final Report in advance of fund closing. To the extent that the Advisory Committee calls for the investment staff member to vote on waivers of conflicts of interest, or other matters requiring legal knowledge, the assigned Investment Officer shall immediately consult SCERS' General Counsel and/or outside counsel.
 - a. If the assigned investment staff member is no longer able to serve on the Advisory Committee, and no other investment staff member is qualified to do so, then SCERS' seat on that Advisory Committee shall be vacated.
 4. Each investment staff member may serve on an unlimited number of Advisory Committees in an Observer capacity.
 5. It is anticipated that all Advisory Committee participants (whether voting or observer) may receive, review, or otherwise have access to confidential information not readily available to all other limited partners. To protect against the risks presented by such access:
 - a. The limited partnership must carry insurance that extends errors and omissions coverage to the SCERS representative personally and to SCERS as the underlying limited partner. Such insurance coverage must

extend to claims against the SCERS representative and SCERS by other limited partners based on their receipt and possession of such confidential information.

- b. The limited partnership agreement shall provide that the general partner and the partnership will indemnify SCERS and/or its representative for claims against SCERS and/or its representative in connection with acts and omissions related to Advisory Committee activities.
 - c. The limited partnership agreement must specify that neither Advisory Committee participants nor the systems they represent owe any fiduciary duties to other limited partners. If the limited partnership agreement does not contain such a provision, the General Partner shall take reasonable steps to obtain approval of an amendment so specifying.
6. SCERS will reimburse its representative for all reasonable expenses and costs directly related to the representative's attendance and participation at an advisory committee or board meeting. SCERS will not seek reimbursement for these expenses from the limited partnership even if such reimbursement is available under the partnership agreement. This is notwithstanding the fact that the expenses and fees paid by limited partners (including SCERS) under the terms of the partnership agreement are a source of such reimbursement for other limited partners.
 7. Neither SCERS nor its representative will accept any form of remuneration or reimbursement from the general partnership for serving on an advisory committee or board.
 8. The Private Placement Memorandum, the Offering Memorandum or any similar document (the "Fund Document") shall specify that the general partner and all limited partners waive any claim, including but not limited to subrogation rights, against SCERS or its representative, provided such representative acted in good faith.
 9. The Fund Document shall further provide that the general partner and the Partnership will indemnify SCERS and its representative for any claim against the Partnership, the general partner, SCERS or its representative, provided that the representative acted in accordance with the rights of Indemnification and Exculpation as more fully set forth in the Fund Document.
 10. Legal Counsel for SCERS shall concur that SCERS participation on an Advisory Committee pursuant to Fund Documents is consistent with this policy.

BACKGROUND

SCERS invests in alternative investment funds, such as private equity, private credit, real assets, and real estate, under limited partnership arrangements (LPAs). In LPAs, the investment manager is the general partner (GP) and institutional investors like SCERS are the limited partners (LPs).

Many GPs invite a subset of limited partners to serve on an LP Advisory Committee (LPAC) as voting members or observers. Serving on an LPAC can provide investors a better understanding of the GP and underlying fund investments. Generally, LPAC membership can be a good way for LPs to aid the interests of the organizations they represent. However, participation on an LPAC carries risks that need to be considered and mitigated.

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
08-18-2021	Board approved amended policy
08-01-2018	Renumbered from 037
12-20-2017	Board affirmed policy in revised format
10-18-2012	Board amended policy in Resolution 2012-15
01-18-2007	Board approved policy in Resolution 2007-02



REPRESENTATION ON ADVISORY COMMITTEES POLICY

Revision Date: December 20, 2017	Policy Number: 017
Revision Number: 2	

PURPOSE

The purpose of this policy is to establish for Sacramento County Employees' Retirement System ("SCERS") trustees or staff serving on Advisory Committees of limited partnership in which SCERS is a participating limited partner.

POLICY

The Chief Investment Officer with approval of the Chief Executive Officer may authorize investment staff participation on no more than four Advisory Committees with any of the limited partnerships in which SCERS invests, so long as:

1. SCERS will reimburse its representative for all reasonable expenses and costs directly related to the representative's attendance and participation at an advisory committee or board meeting.
2. Neither SCERS nor its representative will accept any form of remuneration or reimbursement from the general partnership for serving on an advisory committee or board.
3. The general partner will agree that representative shall not receive, review or otherwise have access to any confidential information that is not readily available to all other Limited Partners.
4. The Private Placement Memorandum, the Offering Memorandum or any similar document (the "Fund Document") shall specify that the general partner and all limited partners waive any claim, including but not limited to subrogation rights, against SCERS or its representative, provided such representative acted in good faith.
5. The Fund Document shall further provide that the general partner and the Partnership will indemnify SCERS and its representative for any claim against the Partnership, the general partner, SCERS or its representative, provided that the representative acted in accordance with the rights of Indemnification and Exculpation as more fully set forth in the Fund Document.
6. Legal Counsel for SCERS shall concur that SCERS participation on an Advisory Committee pursuant to Fund Documents is consistent with this policy.

BACKGROUND

SCERS invests in real estate and alternative investment funds that often use limited partnership arrangements. In these limited partnerships the investment manager is the general partner, and the institutional investors are the limited partners. Many of the general partners invite investment staff or trustees of the limited partner/institutional investors to serve on Advisory Committees.

There are good reasons and many benefits to SCERS in serving on Advisory Committees. Those serving on Advisory Committees learn a great deal about the markets and the particular asset class that the limited partnership is investing in. The Advisory Committee members also get a much closer look and understanding of the investment manager.

There are also concerns with serving on Advisory Committees. These issues include: potential conflicts of interest under the California FPPC rules, especially when the general partner pays for travel and lodging and/or offers other remuneration to the pension fund for a trustee or staff person to participate on the Advisory Committee; the liability of the individual serving on the Advisory Committee and the corresponding liability of the underlying pension fund for decisions made by the Advisory Committee; and, any special access an Advisory Committee member may have confidential information that is not shared with other limited partners or even the individual committee member's parent fund.

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
08-01-2018	Renumbered from 037
12-20-2017	Board affirmed in revised policy format
10-18-2012	Board amended policy in Resolution 2012-15
01-18-2007	Board approved policy in Resolution 2007-02