



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 17

MEETING DATE: August 15, 2018

SUBJECT: 2017 Alternative Asset Fee and Expense Report

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

RECOMMENDATION

Staff recommends the Board receive and file the 2017 Alternative Asset Fee and Expense Report.

PURPOSE

This agenda item does not specifically support the 2018-19 Strategic Management Plan, but provides 2017 fee and expense data for SCERS' alternative asset vehicles, within the Absolute Return (Hedge Fund), Private Equity, Private Credit, Real Assets, and Real Estate asset classes, in order to comply with California Government Code Section 7514.7. This item also contributes to the effective management and oversight of investment activities.

BACKGROUND: CALIFORNIA FEE AND EXPENSE DISCLOSURE LAW

Assembly Bill (AB) 2833 was signed into law in September 2016, adding Section 7514.7 to the Government Code and establishing a new standard for transparency over investment fees. The new law requires SCERS and other public retirement systems to make the following disclosures annually in a report presented at an open meeting:

- The direct fees and expenses paid by the public investment fund to the alternative investment vehicle or related parties.
- The public investment fund's pro rata share of fees and expenses (not included in direct expenses reported) that are paid from the alternative investment vehicle to the fund manager or related parties.
- The public investment fund's pro rata share of carried interest distributed to the fund manager or related parties.

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- The public investment fund's pro rata share of aggregate fees and expenses paid by all of the portfolio companies held within the alternative investment vehicle to the fund manager or related parties.
 - Information subject to disclosure in California Government Code Section 6254.26, which became effective January 1, 2007, including:
 - name, address, and vintage year of each alternative investment vehicle;
 - dollar amount of the commitment made to each alternative investment vehicle since inception;
 - dollar amount of cash contributions made and distributions received by each alternative investment vehicle since inception;
 - year-end total value of the plan's investment in each alternative vehicle;
 - net internal rate of return of each alternative investment vehicle since inception;
 - investment multiple of each alternative investment vehicle since inception.

These required disclosures apply to all new alternative investment vehicle contracts entered into, or new capital commitments made, by a public pension fund, on or after January 1, 2017. Public pension funds are also required to undertake reasonable efforts to obtain the fee and expense data for alternative investments made prior to January 1, 2017, and comply with the reporting requirement for any information obtained after January 1, 2017.

Section 7514.7 defines "alternative investment" to mean an "investment in a private equity fund, venture fund, hedge fund, or absolute return fund." Most public pension plans interpret this to include private equity, private credit, real assets and absolute return. There is less specificity with regard to private real estate investments, but SCERS is reporting the fee and expense disclosures from its real estate funds/managers as well.

Staff and Cliffwater provided an educational overview to the Board in October 2017 related to Section 7514.7, and Staff's recommended approach to complying with the new legislation.

STANDARDIZED REPORTING

In 2015, the Institutional Limited Partners Association¹ (ILPA) survey of its members revealed that 52% of institutions had created custom templates to capture fee and expense information beyond what was being provided in standard general partner (GP) reporting packages. In response, the ILPA convened a working group of limited partners (LPs) and interested stakeholders for the ILPA Transparency Initiative to address shared reporting and compliance challenges by establishing more robust standards for fee and expense reporting as well as

¹ The ILPA is a global, member-driven organization dedicated exclusively to advancing the interests of private equity limited partners through industry-leading education programs, independent research, best practices, networking opportunities, and global collaborations. Initially founded in the early 1990's as an informal networking group, ILPA currently has over 400 member organizations spanning all categories of small and large institutions including public pensions, corporate pensions, endowments, foundations, family offices, and insurance companies from North America, UK, Europe, Asia, Australia, South America, New Zealand, and the Middle East representing more than \$1 trillion in private equity assets under management.

compliance disclosures among investors, fund managers, and their advisors. In January 2016, ILPA released its Reporting Template for fees, expenses, and carried interest. The aim of the template is to encourage uniformity in these disclosures, both to provide LPs with an improved baseline of information to streamline analysis and drive decision-making, and to reduce the compliance burden on general partners being asked to report against a range of disparate formats from LPs. SCERS endorsed the ILPA Reporting Template in 2016.

The ILPA Reporting Template asks for information similar to the type required by Section 7514.7, but seeks greater depth and breadth of information. The ILPA template includes:

- Beginning and ending NAV of the fund;
- Total cash flows (contributions and distributions);
- Management fees;
- Partnership expenses;
- Offsets to fees and expenses;
- Realized gains/losses and change in unrealized gains/losses;
- Accrued and paid incentive allocation (carried interest)

Since its release, more than 140 organizations, SCERS included, have endorsed the template, with more than 20 GPs among them. Additionally, it has been reported by LPs mandating ILPA Template usage that, as of third quarter 2017, more than 200 GPs are completing the Template when asked. While many GPs have adopted reporting using the ILPA reporting template, many GPs have not, primarily due to limited internal reporting resources.

The California law does not specify a particular format for obtaining or reporting the fee and expense information. If SCERS were to require investment managers to report using the ILPA template at this time, it would limit the number of alternative investment GPs with which SCERS could invest, in asset classes where the dispersion of returns between top quartile and bottom quartile managers can be significant. Staff has been emphasizing to GPs the importance of standardized reporting with a template like that provided by the ILPA, as it creates economies of scale for both LPs and GPs, and is hopeful that progress continues to be made over time.

As a substitute to the ILPA Reporting Template, Staff is also providing GPs with an alternative standardized fee and expense reporting template (SCERS Reporting Template), which covers the essential requirements of Sections 7514.7 and 6254.26. For those GPs that have not adopted the ILPA reporting template, Staff has found the SCERS Reporting Template to be widely accepted by SCERS' GPs. Therefore, Staff is comfortable accepting the SCERS Reporting Template as an alternative to the ILPA Reporting Template.

Following enactment of Section 7514.7, SCERS modified its investment due diligence process to discuss the California fee and expense disclosure requirements. A SCERS due diligence questionnaire, which Staff provides to GPs early in the due diligence process, includes questions to ascertain if the investment manager will provide the required information to enable SCERS to comply with the new law, which is required for SCERS to move forward with an investment.

SCERS' requested side letter terms have included language that the investment manager will provide fee and expense reporting to SCERS, and several side letters have also included

language specifying that the reporting will include data in the form of the ILPA Reporting Template or SCERS' Reporting Template. Further adoption of reporting through standardized reporting templates will evolve over time as GPs (particularly smaller GPs) develop systems and back office infrastructure.

2017 REPORTING PROCESS

In December 2017, SCERS sent a formal letter to each of SCERS' alternative assets investment managers requesting fee and expense information for calendar year 2017, with a target deadline of June 30, 2018 to receive the data. For the initial year of reporting, SCERS is reporting the disclosures on a calendar year basis as of December 31st. For future years, SCERS will consider converting to reporting fee and expense data as of SCERS' fiscal year end (June 30th), which would align with the reporting of SCERS' Comprehensive Annual Financial Report (CAFR).

The letter to each of SCERS' alternative investment fund managers/GPs targeted the following:

1. For new funds or commitments made by SCERS after January 1, 2017, the letter advised that the manager was required to disclose fees and expenses in accordance with California law.
2. For funds or commitments made by SCERS prior to 2017, the letter advised that the law requires SCERS to make reasonable efforts to obtain the fee and expense disclosures, and annually report the information obtained.
 - a. SCERS requested that GPs provide the data using either the ILPA template or the SCERS Reporting Template.
 - b. If a manager declined to use the ILPA Reporting Template or the SCERS Reporting Template altogether, then the information was found within the annual financial statements for the fund, or another form of reporting by the fund, which is not the optimal approach.

Staff asked for data from all of SCERS' alternative assets managers. As mentioned above, new fund commitments made after January 1, 2017 are required to provide SCERS the data. SCERS has made 11 commitments after January 1, 2017 (funds that have accumulated financial data in 2017), and of these commitments, all of the respective GPs provided the required data. This included 3 hedge funds, 2 private equity funds, 2 private credit funds, 2 real assets funds, and 2 real estate funds. Out of these 11 funds, 8 provided the data using the ILPA Reporting Template, 2 provided the data using the SCERS Reporting Template, and one used another form such as fund financial statements or a fund specific template.

For alternative asset vehicles that SCERS invested with prior to January 1, 2017, Staff made better than reasonable efforts to obtain the data from its asset managers. This was a time-consuming task for Staff and consultants (particularly Cliffwater and Townsend), as SCERS has invested in approximately 100 alternative asset investment vehicles. The effort included an initial letter requesting the data in December 2017. If the data was not received, then Staff followed-

up with a second request June 2018. SCERS obtained data for close to 95% of these alternative asset vehicles, mostly in a combination of the ILPA Reporting Template and the SCERS Reporting Template, but also in some other form of reporting. Overall, SCERS alternative asset investment managers were cooperative in providing this information.

The SCERS report includes all alternative investment vehicle in which SCERS invests, including alternative asset vehicles committed to prior to and after January 1, 2017. The data is presented by asset class (absolute return, private equity, private credit, real assets, real estate).

KEY TAKEAWAYS

When SCERS makes an investment in an alternative investment strategy, the structure of the fund terms associated with the vehicle are generally more complex than that of traditional public markets investments such as public equity and public fixed income. In addition, fees and expenses associated with alternative asset vehicles are typically higher than those investments within public markets.

A component of the disclosure report is the reporting of gross and net IRR. The spread between the gross and net IRR is due to the fees and expenses associated with a fund, as well as the payment of carried interest (the timing of which depends on the waterfall distribution structure of a vehicle). The spread between the gross and net IRR is generally highest early in the life of the fund, due to the J-curve impact, when capital is being drawn and invested, and management fees are being paid, prior to the generation of meaningful investment returns. SCERS reports all alternative assets returns (including the investment multiple) on a net basis (not gross). While the spread between the gross and net IRR can be wide, the net IRR (and net investment multiple) that SCERS has earned in aggregate across the various alternative asset classes is meaningful, often exceeding those of public market investments on a net basis. Staff and consultants believe that these returns support the allocation to alternative asset investment strategies within SCERS' portfolio.

However, Staff and consultants remain diligent in reviewing the fees and expenses associated with an alternative asset vehicle. One objective for a limited partner like SCERS when making an investment in an alternative investment vehicle is to gain comfort that there is a strong alignment of interest between the general partner and limited partners, including transparency related to fees and expenses associated with the vehicle.

While transparency and reporting of fees and expenses has improved significantly over the years, there is still progress that needs to be made. This is an iterative and evolutionary process that will improve over time. In building SCERS' alternative assets portfolio, an objective of Staff and consultants has been to build a long-term relationship with GPs. This has included identifying general partners that have demonstrated a strong alignment of interest with its limited partners, including transparency around fees and expenses, in addition to a strong investment track record.

In future years, it is expected that SCERS will have more automated accounting and reporting solutions in place as a result of the investment accounting modernization project within SCERS'

broader IT modernization program that will complement the current efforts of Staff and consultants as it relates to aggregative and reporting alternative asset fee and expense data.

As referenced earlier, for future years, SCERS will potentially convert to reporting fee and expense data as of SCERS' fiscal year end (June 30th), instead of a calendar year basis, which would align with the reporting of SCERS' CAFR.

ATTACHMENTS

- 2017 Alternative Asset Fee and Expense Report
- Staff and Consultants 2017 Alternative Asset Fee and Expense Presentation
- Government Code Section 7514.7
- Government Code Section 6254.26

Prepared by:

/S/

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Reviewed by:

/S/

Eric Stern
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Sacramento County Employees' Retirement System
2017 Alternative Asset Fee and Expense Report
Data reported as of December 31, 2017



Sacramento County Employees' Retirement System - Calendar Year 2017 Data (7514.7) - Absolute Return

Investment	Commitment	Ending Valuation	Realized Gain/Loss	Mgmt. Fee	Partnership Expenses	Offsets	Other Fees & Expenses Paid to GP ¹	Carried Interest Paid	Fees & Expenses Paid by Port. Companies
AQR DELTA Fund II, LP	N/A	72,524,364	(987,188)	704,933	838,258	N/A	826,562	0	0
Brevan Howard, LP - Series B	N/A	33,943,932	N/A	667,746	N/A	N/A	173,122	0	N/A
Claren Road Credit Partners, LP - R Interests	N/A	141,746	N/A	0	0	0	0	0	0
Elliott International Limited - Class A & B	N/A	52,997,159	N/A	750,000	154,780	346,500	N/A	1,015,032	N/A
Graham Global Investment Fund II SPC Ltd. Tactical Trenc	N/A	35,303,646	N/A	366,883	N/A	N/A	N/A	0	N/A
Grosvenor Institutional US Hedged Fund, LP	N/A	188,726	N/A	0	0	0	0	0	0
Grosvenor SC Absolute Return Fund LLC	N/A	266,668,350	16,586,082	1,930,869	N/A	N/A	0	0	N/A
Grosvenor SC Absolute Return Fund LLC Series B	N/A	71,083,343	2,564,403	462,252	N/A	N/A	0	0	N/A
JANA Partners Qualified, L.P.	N/A	40,987,586	5,376,138	707,659	148,598	0	296,135	0	0
Lakewood Capital Partners, LP	N/A	45,477,958	N/A	659,384	N/A	N/A	N/A	872,870	N/A
Laurion Capital Ltd. - Class A	N/A	43,008,387	1,110,568	828,221	N/A	N/A	0	186,686	0
OZ Domestic Partners II, L.P.	N/A	46,768,479	N/A	1,007,003	N/A	N/A	N/A	1,257,834	N/A
Third Point Partners Qualified L.P.	N/A	49,301,153	N/A	900,439	N/A	N/A	N/A	1,859,523	N/A
Winton Diversified Futures Fund L.P.	N/A	37,216,076	2,216,076	315,794	N/A	N/A	52,838	682,852	0

This reporting relies upon the accuracy and completeness of information (which may or may not be audited by the fund manager) provided to SCERS and Cliffwater by each fund manager or its professional staff. Neither SCERS nor Cliffwater has conducted an independent verification of the information provided nor have we conducted an audit of such information.

1. Other fees and expenses paid to GP are reported gross of income wherever possible.

*N/A = not available or not applicable

Sacramento County Employees' Retirement System - Since Inception Data (6254.26) - Absolute Return

Investment	Address	Vintage/ Inception	Commitment	Contributions	Distributions	Remaining Value	Total Value	S.I. Net IRR	S.I. Gross IRR	Net Inv. Multiple
AQR DELTA Fund II, LP	Greenwich, CT	2013	N/A	60,000,000	0	72,524,364	72,524,364	5.6%	7.0%	1.21
Brevan Howard, LP - Series B	New York, NY	2014	N/A	35,000,000	9,244,149	33,943,932	43,188,081	-0.8%	N/A	1.23
Claren Road Credit Partners, LP - R Interests	New York, NY	2012	N/A	30,000,000	26,190,419	141,746	26,332,165	-3.1%	N/A	0.88
Elliott International Limited - Class A & B	New York, NY	2012	N/A	40,945,627	0	52,997,159	52,997,159	7.7%	10.4%	1.29
Graham Global Investment Fund II SPC Ltd. Tactical Trend	Rowayton, CT	2017	N/A	35,000,000	0	35,303,646	35,303,646	0.9%	2.9%	1.01
Grosvenor Institutional US Hedged Fund, LP	Chicago, IL	2004	N/A	120,000,000	136,915,769	188,726	137,104,495	2.0%	N/A	1.14
Grosvenor SC Absolute Return Fund LLC	Chicago, IL	2011	N/A	326,142,539	130,642,539	266,668,350	397,310,889	4.6%	6.0%	1.22
Grosvenor SC Absolute Return Fund LLC Series B	Chicago, IL	2013	N/A	368,450,334	214,550,334	71,083,343	285,633,677	2.3%	3.9%	0.78
JANA Partners Qualified, L.P.	New York, NY	2013	N/A	35,000,000	0	40,987,586	40,987,586	3.6%	6.5%	1.17
Lakewood Capital Partners, LP	New York, NY	2013	N/A	33,000,000	0	45,477,958	45,477,958	7.9%	10.5%	1.38
Laurion Capital Ltd. - Class A	New York, NY	2014	N/A	35,000,000	0	43,008,387	43,008,387	5.5%	N/A	1.23
OZ Domestic Partners II, L.P.	New York, NY	2012	N/A	30,000,000	0	46,768,479	46,768,479	7.7%	12.3%	1.56
Third Point Partners Qualified L.P.	New York, NY	2012	N/A	30,000,000	2,579,428	49,301,153	51,880,581	11.4%	N/A	1.73
Winton Diversified Futures Fund L.P.	London, United Kingdom	2017	N/A	35,000,000	0	37,216,076	37,216,076	6.3%	8.4%	1.06

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Sacramento County Employees' Retirement System - Calendar Year 2017 Data (7514.7) - Private Equity

Investment	Commitment	Ending Valuation	Realized Gain/Loss	Mgmt. Fee	Partnership Expenses	Offsets	Other Fees & Expenses Paid to GP ¹	Carried Interest Paid	Fees & Expenses Paid by Port. Companies
Abbott Capital Private Equity Fund VI, L.P.	75,000,000	60,277,512	11,187,521	509,794	12,203	0	(1,316)	0	0
Accel-KKR Capital Partners IV, L.P.	15,000,000	12,037,289	2,936,074	217,050	14,190	N/A	N/A	665,159	0
Accel-KKR Capital Partners V, L.P.	25,000,000	4,608,508	N/A	428,447	69,995	N/A	N/A	0	0
Accel-KKR Growth Capital Partners II	15,000,000	6,005,791	804,101	173,074	93,750	N/A	N/A	0	0
Atalaya Special Opportunities Fund V, L.P.	25,000,000	9,921,460	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Atalaya Special Opportunities Fund VI, L.P.	25,000,000	19,130,617	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dyal Capital Partners II	35,000,000	8,420,257	N/A	612,500	0	N/A	165,800	N/A	N/A
Dyal III Pension Investors LP	35,000,000	12,616,097	(403)	700,000	105,045	N/A	287,858	0	0
Garrison Opportunity Fund III A LLC	20,000,000	13,727,383	(52,513)	303,980	154,891	N/A	N/A	0	154,458
Goldman Sachs Private Equity Partners X, L.P.	75,000,000	38,266,291	14,620,523	203,821	N/A	N/A	281,262	N/A	N/A
H.I.G. Bayside Loan Opportunity Fund III (Europe-US\$), L.P.	30,000,000	22,287,924	1,521,168	382,918	N/A	N/A	328,309	518,230	0
H.I.G. Capital Partners V, L.P.	14,000,000	7,284,743	1,157,282	280,000	N/A	N/A	N/A	269,242	0
H.I.G. Europe Capital Partners II, L.P.	16,803,495	7,133,393	33,657	420,087	N/A	N/A	0	0	0
HarbourVest International Private Equity Partners VI-Part	38,648,039	36,797,968	3,679,963	385,242	N/A	N/A	9,830	N/A	690,640
HarbourVest Partners VIII - Buyout Fund L.P.	37,500,000	16,953,253	3,922,322	296,157	N/A	N/A	2,104	669,159	132,527
HarbourVest Partners VIII - Mezzanine and Distressed Deb	5,000,000	1,366,610	310,128	39,488	N/A	N/A	1,957	42,169	24,971
HarbourVest Partners VIII - Venture Fund L.P.	7,500,000	4,886,032	865,812	59,230	N/A	N/A	1,637	0	80,172
Khosla Ventures IV, L.P.	10,000,000	17,367,372	432,066	151,217	0	0	19,754	2,150,935	N/A
Khosla Ventures V	20,000,000	15,945,830	849,342	174,981	0	0	13,355	955,834	N/A
Linden Capital Partners III	35,000,000	32,757,579	877	0	N/A	N/A	323,090	0	252,186
Marlin Equity IV, L.P.	20,000,000	17,960,966	35,152	346,128	12,499	91,079	13,710	0	0
Marlin Heritage Europe, L.P.	15,603,245	2,794,843	0	185,539	46,190	10,442	32,054	0	0
Marlin Heritage Fund	10,000,000	9,181,819	3,597,562	134,407	11,080	134,407	449	966,291	0
Marlin Heritage II	10,000,000	794,204	0	84,501	16,794	3,901	10,430	0	0
New Enterprise Associates 14, L.P.	25,000,000	37,014,706	2,284,381	217,491	N/A	N/A	0	N/A	N/A
New Enterprise Associates 15, L.P.	35,000,000	32,918,926	63	313,811	N/A	N/A	0	N/A	N/A
New Enterprise Associates 16, L.P.	35,000,000	4,104,669	(516)	279,432	38,627	67,075	4,337	0	0
RRJ Capital Master Fund II, L.P.	35,000,000	20,804,301	1,505,273	119,347	14,081	0	19,282	0	0
RRJ Capital Master Fund III, LP	40,000,000	14,979,225	82,591	694,444	12,163	0	78,781	0	0
Spectrum Equity Investors VII, L.P.	25,000,000	24,851,514	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Summit Partners Venture Capital Fund IV-A, L.P.	35,000,000	12,463,409	2,561,008	667	52,388	667	70,540	227,249	586
Summit Partners Venture Capital III-A, LP	16,350,000	17,577,162	7,449,296	1,140	26,233	1,140	0	2,195,942	1,140
Thoma Bravo Fund XII, L.P.	30,000,000	15,741,370	5,520	392,216	N/A	N/A	54,468	0	57,545
Thoma Bravo XI	30,000,000	42,612,403	846,950	102,524	N/A	N/A	(11,001)	81,603	215,780
TPG Opportunities Partners III	40,000,000	21,742,984	1,772,679	700,000	146,246	13,083	32,304	146,046	13,083
Trinity Ventures XI, L.P.	25,000,000	26,178,713	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Trinity Ventures XII, L.P.	30,000,000	10,173,382	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TSG7 A L.P.	16,000,000	5,754,980	(17,544)	259,527	N/A	N/A	100,457	0	N/A
TSG7 B L.P.	4,000,000	261,230	2,075	84,000	N/A	N/A	60,474	0	0
Waterland Private Equity Fund V C.V.	19,203,994	21,469,583	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wayzata Opportunities Fund III, L.P.	30,000,000	7,100,366	669,389	254,432	6,192	0	0	0	0
WPEF VI Feeder, L.P.	28,805,992	11,191,518	N/A	N/A	N/A	N/A	N/A	N/A	N/A
WPEF VI Overflow Fund C.V.	7,201,498	10,722	N/A	N/A	N/A	N/A	N/A	N/A	N/A

This reporting relies upon the accuracy and completeness of information (which may or may not be audited by the fund manager) provided to SCERS and Cliffwater by each fund manager or its professional staff. Neither SCERS nor Cliffwater has conducted an independent verification of the information provided nor have we conducted an audit of such information.

1. Other fees and expenses paid to GP are reported gross of income wherever possible.

*N/A = not available or not applicable

Sacramento County Employees' Retirement System - Since Inception Data (6254.26) - Private Equity

Investment	Address	Vintage/ Inception	Commitment	Contributions	Distributions	Remaining Value	Total Value	S.I. Net IRR	S.I. Gross IRR	Net Inv. Multiple
Abbott Capital Private Equity Fund VI, L.P.	New York, NY	2008	75,000,000	72,000,000	48,000,868	60,277,512	108,278,380	11.9%	13.5%	1.50
Accel-KKR Capital Partners IV, L.P.	Menlo Park, CA	2013	15,000,000	12,307,042	6,498,209	12,037,289	18,535,498	22.0%	35.0%	1.51
Accel-KKR Capital Partners V, L.P.	Menlo Park, CA	2016	25,000,000	4,723,822	0	4,608,508	4,608,508	-4.4%	34.0%	0.98
Accel-KKR Growth Capital Partners II	Menlo Park, CA	2015	15,000,000	5,823,930	510,953	6,005,791	6,516,744	8.0%	22.0%	1.12
Atalaya Special Opportunities Fund V, L.P.	New York, NY	2013	25,000,000	24,875,000	20,212,050	9,921,460	30,133,510	8.4%	N/A	1.21
Atalaya Special Opportunities Fund VI, L.P.	New York, NY	2015	25,000,000	22,127,629	5,043,295	19,130,617	24,173,912	8.0%	N/A	1.09
Dyal Capital Partners II	New York, NY	2014	35,000,000	12,864,682	2,978,126	8,420,257	11,398,383	-6.4%	3.4%	0.89
Dyal III Pension Investors LP	New York, NY	2015	35,000,000	13,513,119	1,910,100	12,616,097	14,526,197	9.8%	30.6%	1.07
Garrison Opportunity Fund III A LLC	New York, NY	2012	20,000,000	20,000,000	6,220,104	13,727,383	19,947,487	-0.1%	2.6%	1.00
Goldman Sachs Private Equity Partners X, L.P.	New York, NY	2008	75,000,000	68,957,765	71,936,526	38,266,291	110,202,817	11.5%	15.3%	1.60
H.I.G. Bayside Loan Opportunity Fund III (Europe-US\$), L.P.	Miami, FL	2013	30,000,000	24,230,705	7,441,557	22,287,924	29,729,481	8.9%	15.5%	1.23
H.I.G. Capital Partners V, L.P.	Miami, FL	2013	14,000,000	6,671,024	1,437,210	7,284,743	8,721,953	19.5%	34.5%	1.31
H.I.G. Europe Capital Partners II, L.P.	Miami, FL	2014	16,803,495	7,895,311	0	7,133,393	7,133,393	-16.2%	19.7%	0.93
HarbourVest International Private Equity Partners VI-Partn	Boston, MA	2008	38,648,039	37,148,618	16,250,139	36,797,968	53,048,107	11.5%	17.9%	1.43
HarbourVest Partners VIII - Buyout Fund L.P.	Boston, MA	2006	37,500,000	35,812,500	42,909,944	16,953,253	59,863,197	10.7%	13.1%	1.67
HarbourVest Partners VIII - Mezzanine and Distressed Debt	Boston, MA	2006	5,000,000	4,800,000	5,259,262	1,366,610	6,625,872	7.7%	11.3%	1.38
HarbourVest Partners VIII - Venture Fund L.P.	Boston, MA	2006	7,500,000	7,350,000	7,911,412	4,886,032	12,797,444	10.2%	12.8%	1.74
Khosla Ventures IV, L.P.	Menlo Park, CA	2011	10,000,000	9,810,000	3,153,782	17,367,372	20,521,154	20.7%	33.1%	2.09
Khosla Ventures V	Menlo Park, CA	2014	20,000,000	13,600,000	1,012,798	15,945,830	16,958,628	12.9%	24.0%	1.25
Linden Capital Partners III	Chicago, IL	2016	35,000,000	27,198,342	80,949	32,757,579	32,838,528	23.5%	30.4%	1.21
Marlin Equity IV, L.P.	Hermosa Beach, CA	2013	20,000,000	16,774,024	190,655	17,960,966	18,151,621	4.3%	9.4%	1.08
Marlin Heritage Europe, L.P.	Hermosa Beach, CA	2016	15,603,245	3,048,184	0	2,794,843	2,794,843	-9.1%	0.0%	0.93
Marlin Heritage Fund	Hermosa Beach, CA	2014	10,000,000	8,764,637	7,093,243	9,181,819	16,275,062	40.3%	54.3%	1.86
Marlin Heritage II	Hermosa Beach, CA	2017	10,000,000	901,985	0	794,204	794,204	-11.9%	0.0%	0.88
New Enterprise Associates 14, L.P.	Menlo Park, CA	2012	25,000,000	23,500,000	3,099,450	37,014,706	40,114,156	16.0%	22.3%	1.71
New Enterprise Associates 15, L.P.	Menlo Park, CA	2015	35,000,000	25,904,431	0	32,918,926	32,918,926	16.5%	25.7%	1.27
New Enterprise Associates 16, L.P.	Menlo Park, CA	2017	35,000,000	4,200,000	0	4,104,669	4,104,669	-4.1%	-10.3%	0.98
RRJ Capital Master Fund II, L.P.	Hong Kong, China	2013	35,000,000	34,912,514	23,544,098	20,804,301	44,348,399	10.5%	14.0%	1.27
RRJ Capital Master Fund III, LP	Hong Kong, China	2015	40,000,000	14,507,670	1,220,679	14,979,225	16,199,904	11.1%	25.0%	1.12
Spectrum Equity Investors VII, L.P.	Boston, MA	2014	25,000,000	20,937,500	5,463,095	24,851,514	30,314,609	24.8%	N/A	1.45
Summit Partners Venture Capital Fund IV-A, L.P.	Boston, MA	2015	35,000,000	13,129,603	4,935,627	12,463,409	17,399,036	35.9%	35.0%	1.33
Summit Partners Venture Capital III-A, LP	Boston, MA	2012	16,350,000	18,524,550	15,113,206	17,577,162	32,690,368	18.9%	29.0%	1.76
Thoma Bravo Fund XII, L.P.	San Francisco, CA	2016	30,000,000	18,070,273	3,700,690	15,741,370	19,442,060	9.0%	19.0%	1.08
Thoma Bravo XI	San Francisco, CA	2014	30,000,000	30,951,890	6,337,171	42,612,403	48,949,574	21.0%	30.6%	1.58
TPG Opportunities Partners III	Fort Worth, TX	2014	40,000,000	32,627,132	15,405,772	21,742,984	37,148,756	10.3%	19.3%	1.14
Trinity Ventures XI, L.P.	Menlo Park, CA	2013	25,000,000	19,500,000	0	26,178,713	26,178,713	10.6%	N/A	1.34
Trinity Ventures XII, L.P.	Menlo Park, CA	2016	30,000,000	9,975,000	0	10,173,382	10,173,382	2.4%	N/A	1.02
TSG7 A L.P.	San Francisco, CA	2016	16,000,000	5,534,433	0	5,754,980	5,754,980	4.0%	25.8%	1.04
TSG7 B L.P.	San Francisco, CA	2016	4,000,000	465,252	0	261,230	261,230	-34.9%	18.6%	0.56
Waterland Private Equity Fund V C.V.	Bussum, Netherlands	2011	19,203,994	15,380,985	19,699,613	21,469,583	41,169,196	41.9%	N/A	2.68
Wayzata Opportunities Fund III, L.P.	Wayzata, MN	2013	30,000,000	14,718,000	7,580,634	7,100,366	14,681,000	-0.1%	6.0%	1.00
WPEF VI Feeder, L.P.	Bussum, Netherlands	2015	28,805,992	10,500,898	0	11,191,518	11,191,518	9.1%	N/A	1.09
WPEF VI Overflow Fund C.V.	Bussum, Netherlands	2015	7,201,498	9,851	0	10,722	10,722	4.9%	N/A	1.09

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*N/A = not applicable or not available

Sacramento County Employees' Retirement System - Calendar Year 2017 Data (7514.7) - Private Credit

Investment	Commitment	Ending Valuation	Realized Gain/Loss	Mgmt. Fee	Partnership Expenses	Offsets	Other Fees & Expenses Paid to GP ¹	Carried Interest Paid	Fees & Expenses Paid by Port. Companies
Athyrium Opportunities Fund II	32,000,000	18,154,250	842,914	368,101	104,445	0	N/A	153,149	0
Athyrium Opportunities Fund III	25,000,000	4,848,887	5,285	369,792	104,083	45,314	N/A	0	26,796
Benefit Street Partners Senior Secured Opportunities Fund	50,000,000	20,326,222	386,350	145,632	N/A	N/A	0	0	25,733
Summit Partners Credit Fund II, L.P.	35,000,000	23,264,165	0	N/A	84,863	0	0	0	N/A
Summit Partners Credit Fund, LP	20,000,000	5,828,984	4,022	N/A	N/A	N/A	N/A	N/A	N/A

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1. Other fees and expenses paid to GP are reported gross of income wherever possible.

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Sacramento County Employees' Retirement System - Since Inception Data (6254.26) - Private Credit

Investment	Address	Vintage/ Inception	Commitment	Contributions	Distributions	Remaining Value	Total Value	S.I. Net IRR	S.I. Gross IRR	Net Inv. Multiple
Athyrium Opportunities Fund II	New York, NY	2015	32,000,000	33,286,574	18,790,480	18,154,250	36,944,730	8.0%	14.3%	1.11
Athyrium Opportunities Fund III	New York, NY	2016	25,000,000	5,821,642	661,953	4,848,887	5,510,840	-9.1%	9.6%	0.95
Benefit Street Partners Senior Secured Opportunities Fund	New York, NY	2016	50,000,000	20,871,476	1,007,534	20,326,222	21,333,756	2.3%	13.6%	1.02
Summit Partners Credit Fund II, L.P.	Boston, MA	2014	35,000,000	31,601,559	13,598,141	23,264,165	36,862,306	10.6%	15.0%	1.17
Summit Partners Credit Fund, LP	Boston, MA	2011	20,000,000	20,696,525	20,745,642	5,828,984	26,574,626	9.4%	14.0%	1.28

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Sacramento County Employees' Retirement System - Calendar Year 2017 Data (7514.7) - Real Assets

Investment	Commitment	Ending Valuation	Realized Gain/Loss	Mgmt. Fee	Partnership Expenses	Offsets	Other Fees & Expenses Paid to GP ¹	Carried Interest Paid	Fees & Expenses Paid by Port. Companies
ACM Fund II, LLC	25,000,000	6,790,077	0	437,500	6,640	0	8,181	0	0
ArcLight Energy Partners Fund VI	40,000,000	30,601,521	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Atalaya Real Assets SMA	100,000,000	23,655,590	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brookfield Infrastructure Fund III, L.P.	40,000,000	13,964,192	(21,722)	538,949	31,154	0	843,670	0	7,914
Carlyle Power Partners II, L.P.	40,000,000	15,793,034	459,052	600,000	103,939	0	69,446	0	74,841
EnCap Energy Capital Fund IX, L.P.	33,000,000	25,829,613	2,661,213	369,746	5,741	0	(333,126)	0	0
EnCap Energy Capital Fund X, L.P.	40,000,000	25,503,509	3,596,163	411,951	3,836	0	(50,503)	0	0
EnCap Flatrock Midstream III	20,000,000	11,863,147	195,180	300,000	2,395	0	(309)	0	0
Global Energy & Power Infrastructure Fund II	35,000,000	17,113,134	9,644,416	343,082	N/A	N/A	155	0	0
IFM Global Infrastructure Fund	100,000,000	104,437,322	1,053,568	443,801	177,055	0	1,214	0	0
Meridiam Infrastructure North America Fund III	50,000,000	107,540	0	283,151	174,554	0	21,317	0	0
Pantheon SCERS SIRF MM, LLC	100,000,000	59,582,192	294,859	453,187	161,342	0	2,537	0	0
Quantum Energy Partners VI, LP	35,000,000	25,227,727	3,041,190	363,848	42,126	N/A	26,602	553,413	N/A
Quantum Energy Partners VII, LP	40,000,000	7,189,981	0	370,333	20,710	N/A	37,161	0	N/A
Wastewater Opportunity Fund	25,000,000	4,655,688	0	500,000	62,440	N/A	0	0	0

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1. Other fees and expenses paid to GP are reported gross of income wherever possible.

*N/A = not available or not applicable

Sacramento County Employees' Retirement System - Since Inception Data (6254.26) - Real Assets

Investment	Address	Vintage/ Inception	Commitment	Contributions	Distributions	Remaining Value	Total Value	S.I. Net IRR	S.I. Gross IRR	Net Inv. Multiple
ACM Fund II, LLC	Portland, OR	2016	25,000,000	11,601,690	4,194,305	6,790,077	10,984,382	-11.1%	-0.6%	0.95
ArcLight Energy Partners Fund VI	Boston, MA	2015	40,000,000	34,687,792	6,878,640	30,601,521	37,480,161	6.8%	N/A	1.08
Atalaya Real Assets SMA	New York, NY	2015	100,000,000	28,100,263	6,878,597	23,655,590	30,534,187	8.2%	N/A	1.09
Brookfield Infrastructure Fund III, L.P.	Toronto, Canada	2016	40,000,000	13,243,743	966,603	13,964,192	14,930,795	13.3%	22.3%	1.13
Carlyle Power Partners II, L.P.	Washington, DC	2014	40,000,000	15,666,454	2,963,952	15,793,034	18,756,986	11.1%	6.8%	1.20
EnCap Energy Capital Fund IX, L.P.	Houston, TX	2013	33,000,000	34,983,910	21,251,013	25,829,613	47,080,627	16.8%	24.3%	1.35
EnCap Energy Capital Fund X, L.P.	Houston, TX	2015	40,000,000	27,077,183	5,576,121	25,503,509	31,079,629	15.9%	27.3%	1.15
EnCap Flatrock Midstream III	San Antonio, TX	2014	20,000,000	9,790,853	1,596,554	11,863,147	13,459,702	28.7%	48.6%	1.37
Global Energy & Power Infrastructure Fund II	Greenwich, CT	2014	35,000,000	21,762,461	14,848,570	17,113,134	31,961,704	53.3%	N/A	1.47
IFM Global Infrastructure Fund	Melbourne, Australia	2013	100,000,000	100,000,000	3,378,567	104,437,322	107,815,889	9.9%	14.1%	1.08
Meridiam Infrastructure North America Fund III	New York, NY	2017	50,000,000	586,566	860	107,540	108,400	-76.4%	0.0%	0.18
Pantheon SCERS SIRF MM, LLC	London, United Kingdom	2014	100,000,000	42,100,000	0	59,582,192	59,582,192	19.4%	24.5%	1.42
Quantum Energy Partners VI, LP	Houston, TX	2014	35,000,000	21,897,097	9,556,570	25,227,727	34,784,297	49.1%	74.0%	1.59
Quantum Energy Partners VII, LP	Houston, TX	2017	40,000,000	7,627,739	777,395	7,189,981	7,967,376	9.0%	55.0%	1.04
Wastewater Opportunity Fund	Portland, OR	2014	25,000,000	6,175,106	0	4,655,688	4,655,688	-22.4%	-2.0%	0.75

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Sacramento County Employees' Retirement System - Calendar Year 2017 Data (7514.7) - Private Real Estate

Investment	Commitment	Ending Valuation	Realized Gain/Loss	Mgmt. Fee	Partnership Expenses	Offsets	Other Fees & Expenses Paid to GP	Carried Interest Paid	Fees & Expenses Paid by Port. Companies
AEW Value Investors Fund II	21,812,596	47,053	(51,897)	N/A	N/A	N/A	N/A	N/A	N/A
Allegis Value Trust	25,000,000	15,574,720	855,738	67,840	N/A	N/A	N/A	N/A	N/A
Barings Separate Account	255,273,169	77,429,987	0	429,000	212,007	N/A	N/A	N/A	N/A
BlackRock Separate Account	995,705,753	173,588,605	0	903,338	N/A	236,542	236,542	N/A	N/A
Carlyle China Project Rome Co-Investment	20,000,000	10,698,729	0	243,169	82,380	N/A	N/A	N/A	N/A
Carlyle China Realty	10,000,000	3,527,967	0	182,377	170,396	N/A	N/A	N/A	N/A
CIM Fund VIII	35,000,000	28,261,474	44,151	437,500	11,484	N/A	N/A	N/A	N/A
DRC European Real Estate Debt Fund II ¹	31,400,000	9,717,929	2,484,483	229,002	N/A	N/A	N/A	N/A	N/A
ECE European Prime Shopping Centre Fund II ²	31,000,000	10,619,314	137,720	113,712	105,161	N/A	N/A	N/A	7,904
Hammes Partners II	25,000,000	17,027,097	91,800	375,000	54,702	N/A	N/A	N/A	N/A
Hines US Office Value Added Fund II	25,000,000	539,559	(58,081)	6,651	5,592	N/A	N/A	N/A	N/A
Jamestown Premier Property Fund	15,000,000	21,573,863	(32,262)	117,054	17,325	N/A	3,753	45,087	148,871
KKR Real Estate Partners Americas	35,000,000	20,538,188	9,393,216	186,957	N/A	N/A	N/A	505,002	61,655
MetLife Core Property Fund	35,000,000	56,141,376	0	253,059	71,783	N/A	N/A	N/A	N/A
NREP Nordic Strategies Fund II ²	32,000,000	15,838,455	10,374,150	477,256	46,981	N/A	N/A	N/A	N/A
NREP Nordic Strategies Fund ²	19,700,000	16,163,762	1,204,042	173,341	21,962	N/A	N/A	N/A	N/A
Och-Ziff Real Estate Fund III	35,000,000	15,381,497	1,910,780	525,000	62,270	N/A	N/A	606,080	N/A
Prime Property Fund	35,000,000	55,824,191	N/A	549,768	N/A	N/A	N/A	N/A	N/A
Principal U.S. Property Account	35,000,000	42,378,231	959,530	387,311	18,049	N/A	N/A	N/A	N/A
Prologis Targeted Europe Logistics Fund ²	40,485,000	30,446,566	81,961	76,685	10,395	N/A	N/A	196,652	N/A
Prologis Targeted U.S. Logistics Fund	50,000,000	61,853,273	124,569	302,987	42,230	N/A	N/A	1,050,183	N/A
Townsend Real Estate Fund, L.P.	90,000,000	102,827,382	5,652,512	217,623	33,124	N/A	N/A	N/A	N/A

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1. GBP-denominated Fund. Figures provided are in GBP.

2. EUR-denominated Fund. Figures provided are in EUR.

*N/A = not available or not applicable

Sacramento County Employees' Retirement System - Since Inception Data (6254.26) - Private Real Estate

Investment	Address	Vintage/ Inception	Commitment	Contributions	Distributions	Remaining Value	Total Value	S. I. Net IRR	S. I. Gross IRR	Net Inv. Multiple
AEW Value Investors Fund II	Boston, MA	2007	21,812,596	21,857,719	27,736,393	47,053	27,783,446	5.7%	7.4%	1.27
Allegis Value Trust	Hartfort, CT	2006	25,000,000	25,550,296	17,909,296	15,574,720	33,484,016	3.4%	4.0%	1.31
Barings Separate Account	Charlotte, NC	2004	255,273,169	255,273,169	270,306,331	77,429,987	347,736,318	5.6%	6.6%	1.36
BlackRock Separate Account	New York, NY	1995	995,705,753	996,424,145	1,258,654,101	173,588,605	1,432,242,706	8.6%	10.0%	1.44
Carlyle China Project Rome Co-Investment	Washington DC	2017	20,000,000	10,951,455	0	10,698,729	10,698,729	-4.5%	1.4%	0.98
Carlyle China Realty	Washington DC	2017	10,000,000	3,941,786	0	3,527,967	3,527,967	-20.3%	1.5%	0.90
CIM Fund VIII	Los Angeles, CA	2015	35,000,000	25,829,678	857,764	28,261,474	29,119,238	6.1%	N/A	1.13
DRC European Real Estate Debt Fund II ¹	London, U.K.	2013	31,400,000	30,900,392	27,040,804	9,717,929	36,758,733	8.1%	N/A	1.18
ECE European Prime Shopping Centre Fund II ²	Hamburg, Germany	2015	31,000,000	7,099,318	1,309,892	10,619,314	11,929,206	N/A	19.3%	1.43
Hammes Partners II	Brookfield, WI	2015	25,000,000	19,494,076	4,725,597	17,027,097	21,752,694	10.1%	17.2%	1.12
Hines US Office Value Added Fund II	Houston, TX	2007	25,000,000	24,382,964	16,970,755	539,559	17,510,314	-4.8%	-3.1%	0.72
Jamestown Premier Property Fund	Atlanta, GA	2014	15,000,000	19,002,608	5,851,924	21,573,863	27,425,787	12.1%	14.9%	1.44
KKR Real Estate Partners Americas	New York, NY	2014	35,000,000	28,496,656	16,718,108	20,538,188	37,256,296	14.2%	N/A	1.32
MetLife Core Property Fund	Whippany, NJ	2013	35,000,000	42,760,510	8,350,974	56,141,376	64,492,350	12.2%	12.9%	1.51
NREP Nordic Strategies Fund II ²	Copenhagen, Denmark	2016	32,000,000	17,908,269	1,204,022	15,838,455	17,042,477	14.7%	25.0%	1.14
NREP Nordic Strategies Fund ²	Copenhagen, Denmark	2014	19,700,000	19,216,843	17,672,561	16,163,762	33,836,323	25.0%	31.0%	1.76
Och-Ziff Real Estate Fund III	New York, NY	2014	35,000,000	16,282,651	7,246,339	15,381,497	22,627,836	18.1%	27.6%	1.39
Prime Property Fund	New York, NY	2013	35,000,000	42,459,512	7,459,512	55,824,191	63,283,703	11.8%	N/A	1.49
Principal U.S. Property Account	Des Moines, IA	2015	35,000,000	35,000,000	0	42,378,231	42,378,231	8.9%	N/A	1.21
Prologis Targeted Europe Logistics Fund ²	San Francisco, CA	2015	40,485,000	27,585,000	2,695,664	30,446,566	33,142,230	6.8%	8.0%	1.16
Prologis Targeted U.S. Logistics Fund	San Francisco, CA	2015	50,000,000	50,000,000	3,021,593	61,853,273	64,874,866	18.4%	N/A	1.30
Townsend Real Estate Fund, L.P.	Cleveland OH	2016	90,000,000	94,578,558	4,578,558	102,827,382	107,405,940	10.8%	11.0%	1.14

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2. EUR-denominated Fund. Figures provided are in EUR.

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2017 Alternative Asset Fee and Expense Report

August 15, 2018



SCERS

SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

CLIFFWATER^{L.L.C.}



Overview

- ❖ Background on CA Government Code §7514.7
- ❖ SCERS due diligence modifications
- ❖ Data collection process
- ❖ Key takeaways



Government Code §7514.7

- ❖ Enacted 2016; California Assembly Bill 2833
- ❖ Mandates that California public pension or retirement systems require each alternative investment manager with which they contract to make annual disclosures of fees and expenses charged to the retirement system, and that the fund publicly disclose such information on an annual basis at an open meeting.
- ❖ Effort to bring transparency to alternative assets investments.
- ❖ Required for fund investments made after January 1, 2017.
 - ❖ Reasonable efforts for fund investments made prior to 2017.
- ❖ Alternative investments defined as private equity, venture capital, and hedge funds (absolute return).
 - ❖ Staff interpreting to also include private credit, real assets, and real estate.
- ❖ Provided overview at October 2017 Board meeting.



Government Code §7514.7 Requirements

1. The fees and expenses that the public investment fund pays directly to the alternative investment vehicle, the fund, or related parties.
2. The public investment fund's pro rata share of fees and expenses not included in paragraph (1) that are paid from the alternative investment vehicle to the fund manager or related parties.
3. The public investment fund's pro rata share of carried interest distributed to the fund manager or related parties.
4. The public investment fund's pro rata share of aggregate fees and expenses paid by all of the portfolio companies held within the alternative investment vehicle to the fund manager or related parties.



Government Code §7514.7

Requirements

5. Any additional information described in subdivision (b) of Government Code §6254.26
 - ❖ Includes: (1) the name, address, and vintage year of each alternative investment vehicle; (2) the dollar amount of the commitment made to each alternative investment vehicle since inception; (3) the dollar amount of cash contributions made to and distributions received from each alternative investment vehicle since inception; (4) the year-end total value of the plan's investment in each alternative vehicle; (5) the net internal rate of return of each alternative investment vehicle since inception; and (6) the investment multiple of each alternative investment vehicle since inception.
 - ❖ Every public investment fund shall disclose the information provided pursuant to the above at least once annually in a report presented at a meeting open to the public.
 - ❖ The public investment fund's report required pursuant to this subdivision shall also include the gross and net rate of return of each alternative investment vehicle, since inception, in which the public investment fund participates.
 - ❖ The public investment fund may report the gross and net rate of return and information required above based on its own calculations or based on calculations provided by the alternative investment vehicle.



SCERS Due Diligence Modifications

- ❖ Government Code §7514.7 covered early in the SCERS due diligence process.
 - ❖ SCERS due diligence questionnaire (DDQ).
 - ❖ Conversations with the GP and its counsel.
 - ❖ Provide GP with sample standardized reporting templates.
- ❖ Side Letter
 - ❖ Secure specific language that GP will report financial information to comply with state law.
 - ❖ SCERS has a strong track record of obtaining sufficient language.



Standardized Reporting

- ❖ §7514.7 does not specify a particular format for reporting disclosures.
 - ❖ Standardized reporting creates efficiencies for LPs and GPs.
- ❖ ILPA Reporting Template
 - ❖ A widely adopted standardized template from the Institutional Limited Partners Association (ILPA).
 - ❖ Requests that private fund GPs provide disclosure on fees, expenses, and incentive allocations.
 - ❖ Covers most required information within Government Code §7514.7, but with greater depth and breadth of information.
 - ❖ Wide LP endorsement for the template.
 - ❖ SCERS endorsed the ILPA template, but does not require it.
 - ❖ Fewer GPs have endorsed it, but many are completing it when asked.



Standardized Reporting

❖ SCERS Reporting Template

- ❖ Alternative standardized template which covers the essential requirements of Government Code §7514.7 and Government Code §6254.26.
- ❖ Good alternative for those GPs that do not provide the ILPA template.
- ❖ Staff requested either the ILPA template or the SCERS template.
- ❖ For those GPs that did not provide the ILPA template, the SCERS template was widely accepted.



Data Collection Process

- ❖ Close to 100 alternative asset vehicles in SCERS' portfolio.
- ❖ Formal letter sent to all GPs in December 2017.
- ❖ Follow-up letter sent in June 2018.
- ❖ Provided GPs with both the ILPA template and the SCERS template.
- ❖ Required funds (post January 1, 2017 commitments).
 - ❖ 11 alternative asset vehicles under this category.
 - ❖ All complied.
- ❖ Legacy funds (pre January 1, 2017 commitments).
 - ❖ Obtained data for close to 95% of these funds.
- ❖ Overall, managers were very cooperative in the process.



Data Presentation

- ❖ Presentation of results broken out by asset class, and between Government Code §7514.7 (calendar year) data and §6254.26 (since inception) data.
- ❖ The reporting was provided to SCERS and Consultants from each fund manager. Neither SCERS nor Consultants have conducted an independent verification or an audit of the information.



Key Takeaways


- ❖ Alternative investment strategies have complex structures with higher fees and expenses than those within traditional public markets strategies.
 - ❖ Higher fees and expenses translate to significant gross-net IRR spreads.
 - ❖ Wide early in a fund's life due to J-curve impact, and later in a fund's life due to payment of carried interest.
- ❖ Strong returns support allocation to alternative investment strategies.
 - ❖ SCERS reports all alternative asset returns net of fees, expenses, and carried interest.
 - ❖ Strong SCERS track record, with meaningful net returns.
 - ❖ Provides portfolio diversification.
- ❖ While fee and expense transparency has improved, there is still room for improvement.
 - ❖ Consultants and Staff are diligent in understanding (and reducing where feasible) fees and expenses prior to investing.
 - ❖ Key is a strong alignment of interest between GPs and LPs.



Future Considerations

- ❖ Modernization of SCERS' investment accounting will translate to better aggregation of financial information, and reporting of data.
- ❖ Exploring converting the reporting period from calendar year (December 31st) to fiscal year (June 30th), to align with SCERS' CAFR.



 KeyCite Yellow Flag - Negative Treatment
Proposed Legislation

West's Annotated California Codes
Government Code (Refs & Annos)
Title 1. General
Division 7. Miscellaneous
Chapter 21. Public Pension and Retirement Plans (Refs & Annos)
Article 1. General Provisions (Refs & Annos)

West's Ann.Cal.Gov.Code § 7514.7

§ 7514.7. Public investment funds; alternative investment vehicles; disclosures

Effective: January 1, 2017

Currentness

(a) Every public investment fund shall require each alternative investment vehicle in which it invests to make the following disclosures at least annually:

(1) The fees and expenses that the public investment fund pays directly to the alternative investment vehicle, the fund manager, or related parties.

(2) The public investment fund's pro rata share of fees and expenses not included in paragraph (1) that are paid from the alternative investment vehicle to the fund manager or related parties. The public investment fund may independently calculate this information based on information contractually required to be provided by the alternative investment vehicle to the public investment fund. If the public investment fund independently calculates this information, then the alternative investment vehicle shall not be required to provide the information identified in this paragraph.

(3) The public investment fund's pro rata share of carried interest distributed to the fund manager or related parties.

(4) The public investment fund's pro rata share of aggregate fees and expenses paid by all of the portfolio companies held within the alternative investment vehicle to the fund manager or related parties.

(5) Any additional information described in subdivision (b) of Section 6254.26.

(b) Every public investment fund shall disclose the information provided pursuant to subdivision (a) at least once annually in a report presented at a meeting open to the public. The public investment fund's report required pursuant to this subdivision shall also include the gross and net rate of return of each alternative investment vehicle, since inception, in which the public investment fund participates. The public investment fund may report the gross and net rate of return and information required by subdivision (a) based on its own calculations or based on calculations provided by the alternative investment vehicle.

(c) For purposes of this section:

(1) “Alternative investment” means an investment in a private equity fund, venture fund, hedge fund, or absolute return fund.

(2) “Alternative investment vehicle” means the limited partnership, limited liability company, or similar legal structure through which a public investment fund invests in an alternative investment.

(3) “Fund manager” means the general partner, managing manager, adviser, or other person or entity with primary investment decisionmaking authority over an alternative investment vehicle and related parties of the fund manager.

(4) “Carried interest” means any share of profits from an alternative investment vehicle that is distributed to a fund manager, general partner, or related parties, including allocations of alternative investment vehicle profits received by a fund manager in consideration of having waived fees that it might otherwise have been entitled to receive.

(5) “Portfolio companies” means individual portfolio investments made by the alternative investment vehicle.

(6) “Gross rate of return” means the internal rate of return for the alternative investment vehicle prior to the reduction of fees and expenses described in subdivision (a).

(7) “Public investment fund” means any fund of any public pension or retirement system, including that of the University of California.

(8) “Operational person” means any operational partner, senior advisor, or other consultant or employee whose primary activity for a relevant entity is to provide operational or back office support to any portfolio company of any alternative investment vehicle, account, or fund managed by a related person.

(9) “Related person” means any current or former employee, manager, or partner of any related entity that is involved in the investment activities or accounting and valuation functions of the relevant entity or any of their respective family members.

(10) “Related party” means:

(A) Any related person.

(B) Any operational person.

(C) Any entity more than 10 percent of the ownership of which is held directly or indirectly, whether through other entities or trusts, by a related person or operational person regardless if the related person or operational person participates in the carried interest received by the general partner or the special limited partner.

(D) Any consulting, legal, or other service provider regularly engaged by portfolio companies of an alternative investment vehicle, account, or fund managed by a related person and that also provides advice or services to any related person or relevant entity.

(11) “Relevant entity” means the general partner, any separate carry vehicle, the investor advisor, any of the investment advisor's parent or subsidiary entities, or any similar entity related to any other alternative investment vehicle, account, or fund advised or managed by any current or former related person.

(d)(1) This section shall apply to all new contracts the public investment fund enters into on or after January 1, 2017, and to all existing contracts pursuant to which the public investment fund makes a new capital commitment on or after January 1, 2017.

(2) With respect to existing contracts not covered by paragraph (1), the public investment fund shall undertake reasonable efforts to obtain the information described in subdivision (a) and comply with the reporting requirements contained in subdivision (b) with respect to any information obtained after January 1, 2017.

Credits

(Added by Stats.2016, c. 361 (A.B.2833), § 2, eff. Jan. 1, 2017.)

Editors' Notes

HISTORICAL AND STATUTORY NOTES

2016 Legislation

“SEC. 3. The Legislature finds and declares that Section 2 of this act, which adds Section **7514.7** to the Government Code, furthers, within the meaning of paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the purposes of that constitutional section as it relates to the right of public access to the meetings of local public bodies or the writings of local public officials and local agencies. Pursuant to paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the Legislature makes the following findings:

“The information in the disclosures required under subdivisions (a) and (b) of Section **7514.7** of the Government Code is necessary to ensure public confidence in the integrity of investments made by retirement boards pursuant to alternative investment vehicles.

West's Ann. Cal. Gov. Code § **7514.7**, CA GOVT § **7514.7**
Current with urgency legislation through Ch. 221 of 2017 Reg.Sess

West's Annotated California Codes
Government Code (Refs & Annos)
Title 1. General
Division 7. Miscellaneous
Chapter 3.5. Inspection of Public Records (Refs & Annos)
Article 1. General Provisions (Refs & Annos)

West's Ann.Cal.Gov.Code § 6254.26

§ 6254.26. Alternative investments of public investment funds; records exempt from disclosure

Effective: January 1, 2007

Currentness

(a) Notwithstanding any provision of this chapter or other law, the following records regarding alternative investments in which public investment funds invest shall not be subject to disclosure pursuant to this chapter, unless the information has already been publicly released by the keeper of the information:

- (1) Due diligence materials that are proprietary to the public investment fund or the alternative investment vehicle.
- (2) Quarterly and annual financial statements of alternative investment vehicles.
- (3) Meeting materials of alternative investment vehicles.
- (4) Records containing information regarding the portfolio positions in which alternative investment funds invest.
- (5) Capital call and distribution notices.
- (6) Alternative investment agreements and all related documents.

(b) Notwithstanding subdivision (a), the following information contained in records described in subdivision (a) regarding alternative investments in which public investment funds invest shall be subject to disclosure pursuant to this chapter and shall not be considered a trade secret exempt from disclosure:

- (1) The name, address, and vintage year of each alternative investment vehicle.
- (2) The dollar amount of the commitment made to each alternative investment vehicle by the public investment fund since inception.
- (3) The dollar amount of cash contributions made by the public investment fund to each alternative investment vehicle since inception.

(4) The dollar amount, on a fiscal yearend basis, of cash distributions received by the public investment fund from each alternative investment vehicle.

(5) The dollar amount, on a fiscal yearend basis, of cash distributions received by the public investment fund plus remaining value of partnership assets attributable to the public investment fund's investment in each alternative investment vehicle.

(6) The net internal rate of return of each alternative investment vehicle since inception.

(7) The investment multiple of each alternative investment vehicle since inception.

(8) The dollar amount of the total management fees and costs paid on an annual fiscal yearend basis, by the public investment fund to each alternative investment vehicle.

(9) The dollar amount of cash profit received by public investment funds from each alternative investment vehicle on a fiscal year-end basis.

(c) For purposes of this section, the following definitions shall apply:

(1) "Alternative investment" means an investment in a private equity fund, venture fund, hedge fund, or absolute return fund.

(2) "Alternative investment vehicle" means the limited partnership, limited liability company, or similar legal structure through which the public investment fund invests in portfolio companies.

(3) "Portfolio positions" means individual portfolio investments made by the alternative investment vehicles.

(4) "Public investment fund" means any public pension or retirement system, and any public endowment or foundation.

Credits

(Added by Stats.2005, c. 258 (S.B.439), § 2. Amended by Stats.2006, c. 538 (S.B.1852), § 233.)

Relevant Additional Resources

Additional Resources listed below contain your search terms.

Editors' Notes

HISTORICAL AND STATUTORY NOTES

“The Legislature finds and declares that Section 2 of this act, which adds Section **6254.26** of the Government Code, imposes a limitation on the public's right of access to the meetings of public bodies or the writings of public officials and agencies within the meaning of Section 3 of Article I of the California Constitution. Pursuant to that constitutional provision, the Legislature makes the following findings to demonstrate the interest protected by this limitation and the need for protecting that interest:

Notes of Decisions containing your search terms (0)

[View all 3](#)

West's Ann. Cal. Gov. Code § **6254.26**, CA GOVT § **6254.26**

Current with urgency legislation through Ch. 653 of 2017 Reg.Sess

End of Document

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