



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 16

MEETING DATE: December 19, 2018

SUBJECT: Transition of Commodities Exposure

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

RECOMMENDATION

Staff recommends the Board approve the transition of SCERS' investment in the Gresham Strategic Commodities Fund, Ltd. into Gresham's The TAP Fund, Ltd., and authorize SCERS' Chief Executive Officer to execute documents to complete the transition into The TAP Fund.

PURPOSE

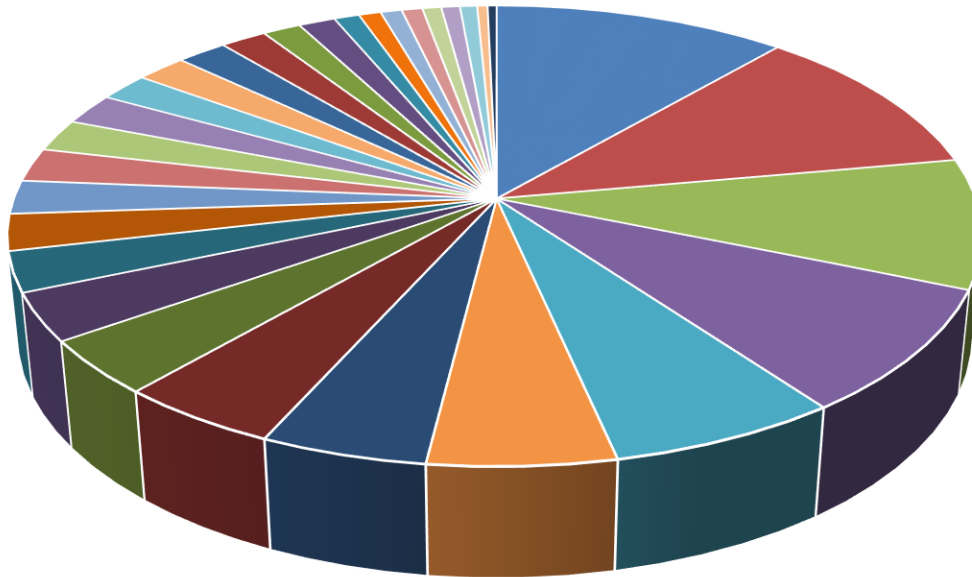
This agenda item does not specifically support the 2018-2019 Strategic Management Plan, but complies with SCERS' Real Return Investment Policy Statement implementation protocol requirements and contributes to the effective management and oversight of investment activities.

DISCUSSION

Gresham Investment Management, LLC (Gresham), the investment manager for Strategic Commodities Fund Ltd. (SCF) has decided to wind down the fund effective December 31, 2018. SCF is a commingled commodities fund that invests in long-only, fully collateralized exchange-traded commodity futures contracts. SCERS has been an investor in SCF since April of 2008. As of September 30, 2018, SCERS' total net asset value in SCF was \$27,477,461.

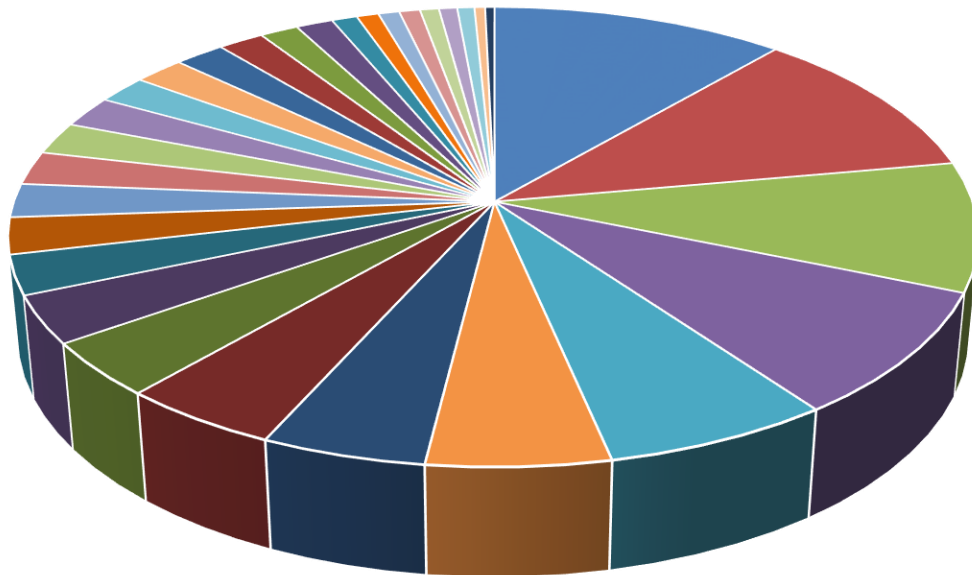
SCF has historically contained a large number of financial advisory assets, which has experienced a trend of redemptions rotating out of commodities. This has left SCF with assets under management (AUM) of approximately \$98 million, and led to Gresham's decision to close the fund. Gresham has offered to transition investors' investments in another commingled fund they manage called The TAP Fund, Ltd., (TAP), which has the same underlying investment strategy as SCF (see exposures between SCF and TAP as of 10/31/18 below), with identical material terms (management fees, liquidity, etc.), but at lower fund administrative expenses. Gresham has managed The TAP Fund since 1987, and the feeder fund that SCERS would be transitioned to has approximately \$996 million in AUM. Gresham implements its commodities strategy through several TAP commingled funds and separate accounts. Gresham has total assets in its commodities strategy of over \$3.6 billion.

SCF Ltd



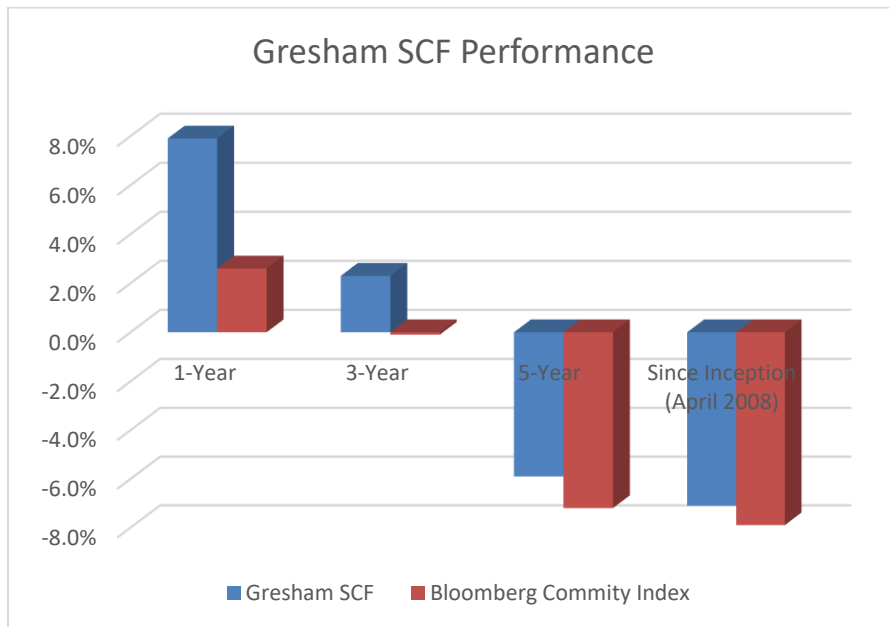
- WTI Crude Oil: 11.3%
- Brent Crude Oil: 10.8%
- Natural Gas: 9.1%
- Gold: 8.7%
- Live Cattle: 6.6%
- Copper (LME): 5.4%
- Aluminum: 4.8%
- Soybeans: 4.7%
- Corn: 3.8%
- Gas Oil: 3.4%
- Heating Oil (ULSD): 2.8%
- Cotton: 2.6%
- RBOB Gasoline: 2.4%
- Sugar: 2.4%
- Soybean Meal: 2.3%
- Silver: 2.2%
- Copper (COMEX): 2.0%
- Lean Hogs: 2.0%
- Zinc: 2.0%
- Feeder Cattle: 1.8%
- Wheat (Chicago): 1.5%
- Nickel: 1.4%
- Soybean Oil: 1.0%
- Wheat (Kansas City): 0.9%
- Wheat (Minneapolis): 0.8%
- Lead: 0.8%
- Palladium: 0.7%
- Cocoa: 0.7%
- Platinum: 0.7%
- Coffee: 0.4%
- Coffee (Robusta): 0.4%
- Sugar (White): 0.0%

TAP Master Fund Ltd



- WTI Crude Oil: 11.3%
- Brent Crude Oil: 10.9%
- Natural Gas: 9.1%
- Gold: 8.8%
- Live Cattle: 6.6%
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The SCF strategy has generated negative returns since inception for SCERS, as SCERS originally invested in the strategy in 2008, right before a significant correction in oil prices. However, SCF has outperformed the Bloomberg Commodity Index benchmark over all measurable time periods. TAP has slightly outperformed SCF historically due to the lower administrative fund expenses.



Within SCERS’ total portfolio, the Commodities portfolio has a target allocation of 2%, with a range of 0% to 3%. With the closure of the Blackstone Resources Select Fund in 2017, SCERS’ only dedicated active commodities investment manager is Gresham. SCERS receives additional commodities exposure within the State Street Global Advisors Return overlay program proxy, which does not count towards the commodities allocation. SCERS’ total commodities exposure is approximately 0.6%, made up of 0.3% in the overlay proxy and 0.3% with Gresham.

SCERS’ existing side letter with Gresham will carry over, but will contain additional language related to California specific laws that have come into place since the side letter was originally created.

Given SCERS’ small allocation to commodities, Staff and consultants will review SCERS’ approach to investing in commodities going forward, and provide any further guidance and recommendations to the Board.

Prepared by:

/S/

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