



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 14

**MEETING DATE:** January 18, 2023

**SUBJECT:** Quarterly Investment Manager Compliance and Watch List Report—December 2022

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

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#### **RECOMMENDATION**

Receive and file the Quarterly Investment Manager Compliance and Watch List report as of December 2022.

#### **PURPOSE**

This item complies with SCERS' investment policy statement reporting requirements and contributes to the effective management and oversight of investment activities.

#### **DISCUSSION**

At the August 2022 Board meeting, Staff provided an education on the monthly Investment Manager Activity, Compliance, and Watch list report. The goal of the education was to familiarize the Board with the objectives and layout of the report as well as to survey the Board for feedback on potential changes to the report. As highlighted at the September 2022 Board meeting, and based on the internal Staff discussions and feedback from the Board, the report has been modified to remove the exposure and activity data and convert it into a quarterly report that will only provide reporting related to investment managers on the Watch List and material investment compliance violations from investment guidelines.

SCERS' investment manager transactions have been reviewed for compliance with their respective investment guidelines and objectives. No compliance violations have been found.

As of December 31, 2022, the following managers were placed on the Watch List:

- Sculptor Capital Management Group (Absolute Return)
- Third Point Partners (Global Equity)

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Sculptor Capital Management Group was placed on the Watch List due to organizational concerns and underperformance in 2022. SCERS is invested in the Sculptor Domestic Partners II, L.P., a multi-strategy absolute return fund. Third Point Partners was placed on the Watch List due to portfolio construction and operational concerns. SCERS is invested in the Third Point Partners, L.P., an event driven hedge fund that resides within SCERS' Global Equity asset class.

Staff removed Mondrian Investment Partners from the Watch List due to the recent termination of the investment mandates managed by the Firm, which included an Emerging Markets mandate and an International Developed Small Cap mandate.

Staff and the investment consultants will continue to monitor the performance and/or organizational concerns for SCERS' investment managers and update the Watch List accordingly.

## **ATTACHMENTS**

- Board Order
- Quarterly Watch List and Compliance Report – as of December 2022

Prepared by:

**/S/**

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Michael Vang  
Investment Analyst

Reviewed by:

**/S/**

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Steve Davis  
Chief Investment Officer

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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  
January 18, 2023

AGENDA ITEM:

**Quarterly Investment Manager Compliance and Watch List Report—  
December 2022**

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to receive and file the Quarterly Investment Manager Compliance and Watch List Report as of December 2022.

I HEREBY CERTIFY that the above order was passed and adopted on January 18, 2023 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:  
(Present but not voting)

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Keith DeVore  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary

**SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**Quarterly Compliance Report - December 2022**

#	Investment Manager	Fund Type	Net Asset Value (as of December 2022)	Report Month	Compliance Violation	Commentary
None						

**SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**Quarterly Investment Manager Watch List - December 2022**

#	Investment Manager	Fund Type	Net Asset Value (as of Decemer 2022)	Reason	Effective (month - year)	Commentary
1	<b>Sculptor Capital Management Group</b>	Absolute Return	\$ 58,095,695	<b>Performance and Organization</b>	Jan-23	Sculptor Domestic Partners II, L.P. is a diversified multi-strategy fund within SCERS' Diversifying asset category that invests on a global basis across North America, Europe, and Asia in fundamental equities, corporate credit, structure credit, and merger arbitrage strategies. The firm is exploring potential options to restructure ownership of the company and Staff and Consultant are concerned with the potential risks of increased turnover among senior professionals and future losses in AUM. The Fund has also underperformed other absolute return fund peers and multi-strategy indices during 2022. Year to date through December, the Fund has declined -11.6% versus the HFRI Fund Weighted Composite Index down -4.3%. Given the performance and organizational issues, Sculptor was placed on the Watch List, and Staff will monitor Sculptor's performance and organizational changes.
2	<b>Third Point Partners</b>	Global Equity	\$ 62,062,228	<b>Portfolio Construction and Operational Concerns</b>	Jan-23	Third Point Partners, L.P. is an absolute return fund that resides within SCERS' Global Equity portfolio and was placed on the Watch List due to an increase in private equity exposure and operational concerns. The Fund employs an event-driven, opportunistic investment strategy to invest globally across asset classes including, public equity, credit, and private equity securities. Although the fund invests across asset classes, it is predominately invested in public equity. However, with the public equity portfolio facing significant decline in 2022, the private equity exposure has increased as a percentage of the overall portfolio from 4% in June 2021 to over 9% as of October 2022. The increase in private equity exposure creates a potential liquidity mismatch risk to investors. Staff will closely monitor Third Point going forward.