



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 12

MEETING DATE: January 17, 2024

SUBJECT: Quarterly Investment Manager Compliance and Watch List Report—Fourth Quarter 2023

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Receive and file the Quarterly Investment Manager Compliance and Watch List Report—Fourth Quarter 2023.

PURPOSE

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

DISCUSSION

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, 2023, the following managers were on the Watch List:

- Third Point Partners (Global Equity) – portfolio construction and operation concerns
- Prudential Investment Management (Fixed Income) – organizational changes
- Snyder Capital Management (Global Equity) – organizational changes
- TCW (Fixed Income) – organizational changes
- D.E. Shaw Investment Management (Global Equity) – performance related

During the fourth quarter, TCW and D.E. Shaw were added to the Watch List. TCW was added due to organizational changes and D.E. Shaw was added due to performance concerns.

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 – Fourth Quarter 2023

Prepared by:

/s/

Brian Miller
Senior 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
January 17, 2024

AGENDA ITEM:

**Quarterly Investment Manager Compliance and Watch List Report—
Fourth Quarter 2023**

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to receive and file the Quarterly Investment Manager Compliance and Watch List Report for the quarter ended December 31, 2023.

I HEREBY CERTIFY that the above order was passed and adopted on January 17, 2024 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:
(Present but not voting)

James Diepenbrock
Board President

Eric Stern
Chief Executive Officer and
Board Secretary

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
Quarterly Investment Manager Watch List - December 2023

#	Investment Manager	Fund Type	Net Asset Value (as of December 2023, \$ thousands)	Reason	Effective (month - year)	Commentary
1	Third Point Partners	Global Equity	\$ 31,706,677	Portfolio Construction and Operational Concerns	Jan-23	SCERS put in a full redemption to the fund in April 2023, with proceeds to be received over the next year. Third Point will remain on the Watch List through the end of the second quarter 2024 when the majority of the redemption should be received. 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.
2	Prudential Investment Management (PGIM)	Fixed Income	\$ 344,043,332	Organizational Changes	Mar-23	PGIM is a core plus fixed income manager that allocates across government securities, investment grade corporate bonds, and higher yielding securities such as high-yield bonds and structured credit. The firm is undergoing some organizational changes in 2024, with the retirement of several key members of senior leadership. Staff was informed that there is a succession plan for these retirements and appointments will occur over the next 12 months. The retirements are not immediate; however, Staff is placing PGIM on the watchlist to notify the Board and will continue to monitor the changes for potential impacts. SCERS first invested with PGIM in 2014.
3	Snyder Capital Management	Global Equity	\$ 123,758,154	Organizational Changes	Jul-23	Snyder Capital Management manages a small cap value-oriented strategy within the domestic equity segment of SCERS' Global Equity asset class. SCERS first invested \$110 million with Snyder in February 2021. Since inception, Snyder has outperformed the benchmark returns by over 3% annualized. In July 2023, Snyder announced the pending retirement of CEO and Portfolio Manager Peter Eisele, effective September 30, 2023. Snyder is privately owned by four partners who also serve as portfolio managers on the strategy. Mr. Eisele is the longest tenured member of the leadership team, having been with Snyder for over 20 years. Following Mr. Eisele's retirement, Snyder will continue to be managed by the remaining three partners and portfolio managers. Staff will closely monitor Snyder going forward to ensure there are no significant organizational disruptions and/or impact to performance with the retirement of Mr. Eisele.
4	TCW	Fixed Income	\$ 344,332,598	Organizational Changes	Dec-23	TCW is a core/core plus fixed income manager that allocates across government securities, corporate bonds, mortgage backed securities, and other asset backed securities. TCW is undergoing organizational changes in 2024, which includes the retirement of one of the Co-CIO's of Fixed Income and the retirement of another Portfolio Manager. With these retirements, TCW is promoting several members of the investment team into new roles and greater levels of responsibility. Staff was informed that there is a succession plan for these retirements and appointments will occur over the next 12 months. Staff is placing TCW on the watchlist and will continue to monitor the changes for potential impacts. SCERS first invested with TCW in 2002.
5	D.E. Shaw Investment Management	Global Equity	\$ 170,861,311	Performance	Dec-23	D.E. Shaw is a quantitative, systematic investment firm that manages a number of investment strategies across public equity and absolute return. SCERS is invested in the Broad Market Core Alpha Extension strategy, which is a U.S. 130/30 portfolio benchmarked to the Russell 1000. The strategy significantly underperformed the benchmark in 2023 (21.2% vs 26.5%), contributing to underperformance versus the benchmark for the trailing 3-year period and since inception of SCERS' investment in February 2019. Staff is placing D.E. Shaw on the watch list and will continue to monitor the portfolio for improvements to performance.