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Executive Staff

Richard Stensrud
Chief Executive Officer

Steve Davis
Chief Investment Officer

Robert L. Gaumer
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

For Agenda of:
May 11, 2017

May 8, 2017

TO: President and Members
Board of Retirement

FROM: Robert L. Gaumer
General Counsel

SUBJECT: Quarterly Placement Agent Disclosure Report

Recommendation:

It is recommended that your Board receive and file the First Quarter 2017 Placement Agent Disclosure Report.

Background:

In June 2009, the SCERS Board adopted a policy related to the proactive disclosure of placement agents which was titled "Third Party Representation of and Fee Sharing Policy by SCERS' Investment Managers" (Policy). SCERS was one of the first CERL Systems to adopt such a policy and it did so a year before the California Legislature passed legislation in June 2010 mandating that all California pension plans create such a policy. The 2010 legislation utilizes the term "Placement Agents" to describe third party representatives. SCERS chose to continue using the latter term in its Policy. The 2010 legislation also included the disclosure of campaign contributions made by placement agents to members of the Board. In June 2010 the SCERS Board revised its Policy to include the campaign contribution disclosures. The 2010 version of the Policy has been included in every investment contract that SCERS has entered since June 2010.

It should be noted that in its legislation the California Legislature has developed a very broad definition for the term “placement agent.” A typical placement agent relationship exists when an investment fund hires a third party entity to perform marketing activities on behalf of the fund. The third party entity is then compensated for successfully attracting fund investors. In California, placement agents can include this traditional relationship, but a placement agent can also include internal marketing staff. Under the statutory definition, persons employed directly by an investment fund that perform marketing functions for the fund are defined as placement agents unless, in addition to their marketing activities, they spend at least one third of their time managing fund assets. This internal marketing relationship represents the majority of the placement agent disclosures that SCERS receives.

Despite the fact that this legislation has been around for almost seven years, it is constantly an area of contention during side letter negotiations. SCERS is repeatedly required to educate investment funds and their counsel regarding SCERS’ placement agent disclosure requirements. Investment funds are often resistant to disclose internal marketing employees as placement agents. However, as law mandates the disclosure, SCERS has to inform investment funds and their counsels that failure to make the required disclosure will preclude SCERS from investing in the fund.

Discussion:

Last year Staff performed a periodic review of the Policy and recommended some updates. Staff recommended to the Board that the Policy be updated to remove references to the 2009 and 2010 Policy versions, to expand on the definition of a placement agent to explicitly cite the need to disclose internal marketers and to include reference to the Staff developed Placement Agent Disclosure Form. In performing that review, Staff also realized that in addition to distributing Third Party Representation information to the Board on the Board secure website as part of the implementation protocol, there is a requirement that Staff prepare and distribute a quarterly report to the Board disclosing whether SCERS was informed of the use of any placement agents by the investment funds that SCERS invests. Attached, as Exhibit A, is the first quarter 2017 placement agent disclosures that SCERS received. Going forward, this report will become a periodic report to the Board.

Conclusion:

As always, Staff will be happy to discuss the contents of the report or address any suggestions from the Board regarding its format.

Respectfully submitted,

Concur:

Robert L. Gaumer
General Counsel

Richard Stensrud
Chief Executive Officer

First Quarter 2017 Placement Agent Disclosure Report

Investment Fund	Date Closed	Name of Disclosed Placement Agent	Employer of Placement Agent
Dyal Capital Partners III	7-Dec-16	None	N/A
Winton Diversified Futures Fund (US) LP	28-Dec-16	Nicholas Smith	Winton Capital US LLC
AQR Delta Fund II, LP	3-Jan-17	None	N/A
Walter Scott & Partners Limited	27-Jan-17	None	N/A
Graham Global Investment Fund II SPC Ltd.	18-Jan-17	Jennifer Whelen	Graham Capital Management
Marlin Equity V, L.P.	8-Mar-17	Michael Murphy Kevin E. Naughton Mike Custar	Credit Suisse Private Fund Group Credit Suisse Private Fund Group Credit Suisse Private Fund Group