

Executive Team

Dominic D. Brown, CPA, CFE
Chief Executive Officer

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
Chief Legal Officer

Matthew Henry, CFE
Chief Operations Officer



Board of Retirement

Juan Gonzalez, Chair
Tyler Whitezell, Vice-Chair
Jeanine Adams
David Couch
Phil Franey
Joseph D. Hughes
Jordan Kaufman
Rick Kratt
Traco Matthews
Dustin Contreras, Alternate
Chase Nunneley, Alternate
Robb Seibly, Alternate

April 21, 2022

Members, Board of Retirement
Employee Bargaining Units
Requesting News Media
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Investment Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Investment Committee will be held on Wednesday, April 27, 2022 at 11:30 a.m. via teleconference pursuant to California Government Code section 54953, subdivision (e).

How to Participate: Listen to or View the Board Meeting

To listen to the live audio of the Board meeting, please dial one of the following numbers and enter ID# 836-8920-3589:

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- <https://us02web.zoom.us/j/83689203589?pwd=OHM0dk5TSDNmL3RsSHQ2VE1jVWI4dz09>
- Passcode: 149938

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to administration@kcera.org.

Sincerely,

Dominic D. Brown
Chief Executive Officer

Attachment

AGENDA:

All agenda item supporting documentation is available for public review on KCERA's website at www.kcera.org following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

**AMERICANS WITH DISABILITIES ACT
(Government Code §54953.2)**

Disabled individuals who need special assistance to listen to and/or participate in the teleconference meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to administration@kcera.org. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

ROLL CALL

1. [Discussion and appropriate action on private market fund recommendation](#) presented by Keirsten Lawton, Investment Managing Director, Cambridge Associates¹, Chief Investment Officer Daryn Miller, CFA, and Senior Retirement Investment Officer Brian Long, CFA – RECOMMEND THE FOLLOWING TO THE BOARD OF RETIREMENT: APPROVE UP TO \$30MM COMMITMENT TO ORBIMED ROYALTY & CREDIT OPPORTUNITIES IV; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW
2. [Discussion and appropriate action on private market fund recommendation](#) presented by Kelly Jensen, Senior Investment Director, Cambridge Associates², Chief Investment Officer Daryn Miller, CFA, and Senior Retirement Investment Officer Brian Long, CFA – RECOMMEND THE FOLLOWING TO THE BOARD OF RETIREMENT: APPROVE UP TO \$10MM COMMITMENT TO ORBIMED PRIVATE INVESTMENTS IX; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

1 Written materials and investment recommendations from the consultants, fund managers and KCERA investment staff relating to alternative investments are exempt from public disclosure pursuant to California Government Code §6254.26, §6255, and §54957.5.

2 Written materials and investment recommendations from the consultants, fund managers and KCERA investment staff relating to alternative investments are exempt from public disclosure pursuant to California Government Code §6254.26, §6255, and §54957.5.

3. [Discussion and appropriate action on private market fund recommendation](#) presented by Maria Surina, Senior Investment Director, Cambridge Associates³, Chief Investment Officer Daryn Miller, CFA, and Senior Retirement Investment Officer Brian Long, CFA – RECOMMEND THE FOLLOWING TO THE BOARD OF RETIREMENT: APPROVE UP TO \$30MM COMMITMENT TO KSL CAPITAL PARTNERS VI; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

4. [Discussion and appropriate action on recommendation for General Investment Consultant Services Provider](#) presented by Chief Executive Officer Dominic Brown, Chief Operations Officer Matthew Henry, Chief Investment Officer Daryn Miller, CFA, and Senior Retirement Investment Officer Brian Long, CFA – RECOMMEND THE BOARD OF RETIREMENT APPROVE VERUS AS GENERAL INVESTMENT CONSULTANT SERVICES PROVIDER; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

PUBLIC COMMENTS

5. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS

6. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.

7. Adjournment

³ Written materials and investment recommendations from the consultants, fund managers and KCERA investment staff relating to alternative investments are exempt from public disclosure pursuant to California Government Code §6254.26, §6255, and §54957.5.

ALTERNATIVE INVESTMENTS RECORDS

EXEMPT FROM PUBLIC DISCLOSURE

(CA Gov. Code §6254.26)
(CA Gov. Code §6255)
(CA Gov. Code §54957.5)

DO NOT REPRODUCE

DO NOT DISTRIBUTE

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Date: April 27, 2022
To: Trustees, Investment Committee
From: Daryn Miller, Chief Investment Officer
Brian Long, Senior Retirement Investment Officer
Matt Henry, Chief Operations Officer
Subject: **Recommendation for General Investment Consultant**

RECOMMENDATION

Staff recommends retaining Verus Advisory, Inc. ("Verus") as KCERA's general investment consultant, and seeks approval, to enter into a contract, subject to negotiating acceptable terms and conditions, and to delegate authority to the Executive Director to execute an agreement on behalf of KCERA.

EXECUTIVE SUMMARY

Staff believes that Verus is the most appropriate general investment consultant for KCERA. Verus's strengths lie in their firm's capabilities, tenure with KCERA's Board of Retirement (the "Board"), familiarity with the KCERA portfolio, understanding of KCERA's newer initiatives (capital efficiency and its expansion), and our lead consultant's, Scott Whalen, experience and presence with the Board.

Verus has been the Plan's general investment consultant for the past 12 years and has worked on many key initiatives over this period. The KCERA investment team looks forward to continuing to work with Verus and build upon current initiatives and investment strategies

BACKGROUND

Verus has been KCERA's general investment consultant since 2011. Best practices recommend that RFPs should be periodically issued to ensure that KCERA's service providers and consultants remain top tier organizations, and are appropriately priced. The last RFP for general investment consulting services was issued in 2010.

RFP PROCESS

Following the decision to issue an RFP for general investment consultant services, staff released an RFP on November 5, 2021. Written questions were due on November 30, 2021, and submission of proposals were due on January 7, 2022. The RFP consisted of approximately 70 questions covering areas such as firm history, professional staff, investment philosophy, research, risk management, reporting, and fees. The RFP also requested information such as ADV's and Code of Ethics. Five proposals were received. An internal RFP evaluation team was formed, consisting of the CIO, SRIO, and COO.

The RFP evaluation team individually reviewed and scored the five proposals. The scores were then aggregated and compared. At that point, the responses were narrowed to a field of three candidate firms, and video conference calls were held with each firm. Following the calls, the candidate firms were discussed amongst the evaluation team, and scoring was updated. The evaluation team concluded that

the two non-incumbent applicants were unable to surpass the incumbent's capabilities. A follow up call was set up with Scott Whalen (Executive Managing Director/Lead Consultant), Jeff MacLean (Chief Executive Officer), Ian Toner (Chief Investment Officer), Marianne Feely (Managing Director of Public Markets), Justin Hatley (Director of Performance Analytics), and Claudia Schloss (Senior Consulting Associate) to finalize the due diligence process. After the call, the evaluation team confirmed that Verus was the best suited candidate.

Staff presents the recommendation to retain Verus Advisory, Inc. to the Investment Committee on April 27th, 2022, and if approved, will present the recommendation to the full Board on May 4th, 2022.

OVERVIEW

Firm Background

Verus was founded in 1986 to provide independent, research-based investment advisory services to public pension plans, corporate DB and DC plans, endowments, foundations, Taft-Harley trusts, private wealth trusts, and sovereign wealth funds. They provide non-discretionary advice as an investment consultant or in the role of Outsourced CIO with full or partial discretion over the management of portfolio assets. Those stated services account for 100% of their total revenues. Verus offers investment policy development, trustee education, strategic asset allocation, portfolio structure analysis, manager selection across traditional and alternative assets, custodial and third-party administrator selection, benchmark analysis, due diligence review and manager monitoring, comparative performance reporting, among others. They also offer private markets consulting and risk advisory services on a stand-alone basis or as part of an overall retainer.

Investment Philosophy

Verus' investment consulting philosophy focuses on six key principles: (1) Return objectives, tolerance for risk, and the strategic mission of the enterprise should drive strategic asset allocation. (2) Risk-free rates and risk premia drive most market returns and are themselves influenced by market and economic fundamentals. (3) Investment skill exists, and the deployment of active management where inefficiencies can be exploited is essential to achieving investment success in both public and private markets. (4) Fees and costs must be managed and minimized where appropriate. (5) Good results can best be achieved by managing uncertainty using varied risk management tools, complemented by discipline, skepticism and humility. (6) A portfolio should be as simple as possible for the goals it is designed to achieve. Investment complexity requires strong governance and appropriate investment oversight.

Engagement Team

Verus assembled a high-caliber engagement team for the KCERA mandate, consisting of Scott Whalen as lead consultant, supported by Claudia Schloss. Brian Kwan will serve as backup consultant to the engagement. In addition to these individuals, the engagement is supported by other individuals, as well as the broader Verus organization.

The members of the engagement team are:

- 1) Mr. Scott Whalen, CFA, CAIA – Executive Managing Director and Senior Consultant
- 2) Claudia Schloss, CFA – Senior Consulting Associate
- 3) Mr. Brian Kwan, CFA, CAIA – Senior Consultant

Scott Whalen: Scott is the proposed primary consultant for KCERA. Scott joined Verus in 2002. Prior to joining Verus in 2002, Mr. Whalen built a distinguished career in management consulting at McKinsey & Company and Ernst & Young, where he led corporate and public sector institutions to increase efficiency and improve operational performance. Mr. Whalen has extensive experience working with multiple stakeholders across industries, where he has honed his ability to foster effective decision-making in challenging environments.

Claudia Schloss: Claudia is the proposed consulting support for KCERA. Claudia joined Verus in 2019. Her primary responsibilities at Verus include assisting in asset allocation studies, creating manager commentary, producing client deliverables, and providing all other support for the Las Angeles based consulting team.

Brian Kwan: Brian is the proposed back up consultant for KCERA. Brian joined Verus in 2013 and advises a broad range of institutional clients on a variety of issues around asset allocation, investment strategies, capital markets, macroeconomics, risk management, and governance. Clients include multi-employer trust funds, corporate sponsored defined benefit and defined contribution plans, and public pensions. He also provides research coverage on various investment strategies, sits on the 401(k) committee, and is a shareholder of the firm.

Terms

If approved, KCERA will enter into a contract with Verus Advisory, Inc. to retain general investment consulting services. The term will be for 5 years, with both Verus and KCERA having the right to terminate the agreement. The annual fee will be \$410,000 for the first three years, \$425,000 and \$440,000 for subsequent two years.