



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 19

MEETING DATE: January 15, 2025

SUBJECT: Investment Manager Compliance and Watch List Report—Fourth Quarter 2024

SUBMITTED FOR: Action Information

RECOMMENDATION

Receive and file the Investment Manager Compliance and Watch List Report for the quarter ended December 31, 2024.

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 September 30, 2024, the following managers were on the Watch List:

- TCW (Fixed Income) – organizational changes
- D.E. Shaw Investment Management (Global Equity) – performance related
- William Blair Investment Management (Global Equity) – performance related

The following managers were added to the Watch List during the fourth quarter of 2024:

PSquared Asset Management was added to the Watch List due to performance concerns. The PSquared Event Opportunity Fund that SCERS is invested in has delivered negative performance during calendar year 2024, down approximately -6%, significantly underperforming benchmark and peer returns. Assets under management for PSquared have also declined, due to a combination of negative performance and client outflows. SCERS will closely monitor PSquared for improved performance and stabilization of its asset base. SCERS first invested

with PSquared in August 2020 and has approximately \$52 million invested with the firm as of December 2024.

LSV Asset Management was added to the Watch List due to organizational concerns. In the fourth quarter of 2024, civil litigation was filed against LSV by four former partners. The litigation seeks monetary damages based on the valuation of the equity stakes sold by the departed partners. The claim is that LSV significantly undervalued the equity stakes of the partners. Staff will monitor LSV for a resolution to the litigation and any impact to the organization. SCERS first invested with LSV in January 2005 and has approximately \$530 million invested in the international developed large cap equity strategy as of December 2024.

Staff plans on removing two managers from the Watch List during the first quarter of 2025:

TCW is a Core Plus Fixed Income manager for SCERS that was placed on the Watch List effective December 2023 due to announced organizational changes that the firm underwent in 2023 and 2024. These changes included the retirement of Generalist Portfolio Manager, Laird Landmann, at the end of 2023, and the retirement of Generalist Portfolio Manager and Co-CIO of Fixed Income, Stephen Kane, during 2024. The retirements took place alongside the promotion of two fixed income sector heads (Jerry Cudzil and Ruben Hovhannisyan) to Generalist Portfolio Managers in late 2023. Bryan Whalen, who was Co-CIO with Mr. Kane, is now the CIO of Fixed Income for TCW and continues to serve as a Generalist Portfolio Manager along with the recently promoted Mr. Cudzil and Mr. Hovhannisyan. While working through the retirements and promotions, the investment approach and process remain the same at TCW. Over the past year, TCW has shown that the management changes haven't had a significant negative impact to the firm or the Core Plus Fixed Income strategy in which SCERS invests. Additionally, performance for the strategy has remained solid, outperforming the benchmark index over the trailing 1-, 3-, and 5-year periods. Therefore, TCW should be removed from the Watch List.

D.E. Shaw was added to the Watch List in the fourth quarter of 2023 due to performance concerns. Over the past year, performance for the D.E. Shaw strategy in which SCERS invests (130/30 Broad Market Core Alpha Extension) has significantly improved. For calendar year 2024, the strategy outperformed the benchmark by approximately 9%, resulting in the strategy also outperforming the benchmark over the trailing 3- and 5-year periods. The improved performance eliminates the need to retain D.E. Shaw on the Watch List.

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 2024

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 15, 2025

AGENDA ITEM:
Investment Manager Compliance and Watch List Report—Fourth Quarter 2024

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to receive and file the Investment Manager Compliance and Watch List Report for the quarter ended December 31, 2024.

I HEREBY CERTIFY that the above order was passed and adopted on January 15, 2025 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 2024

#	Investment Manager	Fund Type	Net Asset Value (as of December 2024, \$ thousands)	Reason	Effective (month - year)	Commentary
1	TCW	Fixed Income	\$ 369,460	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 will continue to monitor the changes for potential impacts. SCERS first invested with TCW in 2002 and has rebalanced the account several times since inception, adjusting the amount invested. Since inception annualized net returns are +4.5%.
2	D.E. Shaw Investment Management	Global Equity	\$ 233,243	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. Staff will continue to monitor the portfolio for improvements to performance. SCERS first invested \$118 million with D.E. Shaw in 2019 and has rebalanced the account several times since inception, adjusting the amount invested. Since inception annualized net returns are +14.3%.
3	William Blair Investment Management	Global Equity	\$ 109,891	Performance	Jun-24	William Blair manages an international small cap public equity mandate for SCERS. The strategy has underperformed in recent years, leading to underperformance relative to its benchmark across all time periods (1, 3, 5, and 10 years). Staff will continue to monitor William Blair for improvements to performance. SCERS first invested with William Blair in 2008 and has rebalanced the account several times since inception, adjusting the amount invested. Since inception annualized net returns are +6.6%.
4	PSquared Asset Management	Absolute Return	\$ 52,298	Performance	Dec-24	PSquared manages an event driven absolute return fund (Event Opportunity Fund). The strategy has underperformed, delivering approximately -6% returns in calendar year 2024, which has resulted in underperformance since SCERS first invested in the strategy in August 2020. Since inception, the strategy has delivered approximately 1.7% annualized returns, trailing the HFRI Conservative Index and 3-Month T-Bills + 2% benchmarks. Assets under management have declined due to negative performance and client outflows. SCERS has approximately \$52 million invested with PSquared as of December 2024.
5	LSV Asset Management	Global Equity	\$ 529,669	Organization	Dec-24	LSV Asset Management was added to the Watch List due to organizational concerns. In the fourth quarter of 2024, civil litigation was filed against LSV by four former partners. The litigation seeks monetary damages based on the valuation of the equity stakes sold by the departed partners. The claim is that LSV significantly undervalued the equity stakes of the partners. Staff will monitor LSV for a resolution to the litigation and any impact to the organization. SCERS first invested with LSV in January 2005 and has approximately \$530 million invested in the international developed large cap equity strategy as of December 2024.