



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 23

MEETING DATE: January 21, 2026

SUBJECT: Investment Manager Compliance and Watch List Report—Fourth Quarter 2025

SUBMITTED FOR: Action Information

RECOMMENDATION

Receive and file the Investment Manager Compliance and Watch List Report for the quarter ended December 31, 2025.

PURPOSE/STRATEGIC PRIORITY

This item complies with SCERS' investment policy statement reporting requirements.

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, 2025, the following managers were on the Watch List:

- PSquared Asset Management (Absolute Return) – performance related
- LSV Asset Management (Global Equity) – organizational concerns
- Walter Scott & Partner (Global Equity) – performance related

During the fourth quarter of 2025, Staff and Verus recommended the addition of Weatherbie Capital (Global Equity) to the Watch List due to performance considerations. SCERS first invested with Weatherbie in January 2003, with the firm managing approximately \$147 million for SCERS as of December 31, 2025. The Specialized Growth strategy managed by Weatherbie, which SCERS is invested in, is a U.S. small cap growth-oriented public equity strategy within the Domestic Equity sub-asset class of the Global Equity portfolio.

During the fourth quarter, SCERS terminated the investment with PSquared Asset Management (Absolute Return). PSquared has been on the Watch List since the fourth quarter of 2024 due to performance considerations. The termination of PSquared was effective at the end of calendar year 2025, with capital expected to be returned during the first quarter of 2026.

Therefore, managers on the Watch List going forward are:

- LSV Asset Management (Global Equity) – organizational concerns
- Walter Scott & Partner (Global Equity) – performance related
- Weatherbie Capital (Global Equity) – performance related

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.

Staff will present and discuss the content of the Compliance and Watch List report during the January Board meeting.

ATTACHMENTS

- Board Order
- Quarterly Watch List and Compliance Report—Fourth Quarter 2025

Prepared by:

/S/

Brian Miller
Senior Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

/S/

Steve Davis
Chief Investment Officer



Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
January 21, 2026

AGENDA ITEM:

Investment Manager Compliance and Watch List Report—
Fourth Quarter 2025

THE BOARD OF RETIREMENT hereby approves the Staff recommendation to receive and file the Investment Manager Compliance and Watch List Report for the quarter ended December 31, 2025.

I HEREBY CERTIFY that the above order was passed and adopted on January 21, 2026 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

Chris Giboney
Board President

Eric Stern
Chief Executive Officer and
Board Secretary

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
Quarterly Investment Manager Watch List - December 2025

| # | Investment Manager | Fund Type | Net Asset Value (as of December 2025, \$ thousands) | Reason | Effective (month - year) | Commentary |
|---|-----------------------------|---------------|--|-----------------------|-----------------------------|--|
| 1 | LSV Asset Management | Global Equity | \$ 795,487 | Organizational | 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 \$795 million invested in the international developed large cap equity strategy as of December 2025. |
| 2 | Walter Scott | Global Equity | \$ 492,611 | Performance | Sep-24 | The Walter Scott strategy (international developed large cap) has significantly underperformed its benchmark over the past several quarters, leading to bottom quartile performance ranking over the trailing 1, 3, and 5 year periods. The Walter Scott strategy takes a fundamental, bottom-up approach to stock selection and portfolio construction. The strategy has relatively high active share and tracking error, which can result in meaningful departure from benchmark returns, requiring evaluation over a full market cycle. However, the recent performance is below expectations leading to the Watch List addition. SCERS has approximately \$493 million invested with Walter Scott as of December 2025. |
| 3 | Weatherbie Capital | Global Equity | \$ 146,536 | Performance | Dec-25 | The Weatherbie Specialized Growth strategy (domestic equity small cap growth) has significantly underperformed its benchmark over the past year, leading to bottom quartile performance ranking over the trailing 1, 3, and 5 year periods. Weatherbie takes a fundamental, bottom-up approach to stock selection with the Specialized Growth strategy focused on investing in a portfolio of fifty high conviction small cap stocks. The strategy has added value since inception, however, the recent performance is below expectations leading to the Watch List addition. SCERS has approximately \$147 million invested with Weatherbie as of December 2025. |