

**AGENDA**  
**REGULAR BOARD MEETING**  
**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**

**One McInnis Parkway, 1st Floor**  
**Retirement Board Chambers**  
**San Rafael, CA**

**August 12, 2020 – 9:00 a.m.**

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This meeting will be held via teleconference pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020.

The public may listen to and observe the meeting on YouTube at <https://youtu.be/FgoEc-WuyAw>

If members of the public wish to comment, those comments may be submitted to MCERA via email at [MCERABoard@marincounty.org](mailto:MCERABoard@marincounty.org). This account will be monitored prior to and for the duration of the meeting. If the comment pertains to a particular agenda item, please identify that item number and the comment will be read to the Board during that discussion. Otherwise, the comment will be read under Item A, Open Time for Public Expression. All public comments submitted before or during the meeting that pertain to topics within the jurisdiction of the MCERA Board and otherwise comply with MCERA guidelines will be read in open session and kept as part of the permanent record.

The Board of Retirement encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board meetings.

**EVENT CALENDAR**      9 a.m. Regular Board Meeting

**CALL TO ORDER**

**ROLL CALL**

**MINUTES**

June 10, 2020 Board meeting

**A. OPEN TIME FOR PUBLIC EXPRESSION**

Note: The public may also address the Board regarding any agenda item when the Board considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this

time on matters within the Board's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Board concerning a non-agenda item. Members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

## **B. BOARD OF RETIREMENT MATTERS**

### **1. Administrator's Report**

- a. Administrator's Update
- b. Staffing Update
- c. Facility Use Report
- d. Future Meetings
  - August 19, 2020 Finance & Risk Management Committee
  - August 19, 2020 Audit Committee
  - August 19, 2020 Ad Hoc Education Committee
  - September 9, 2020 Board

### **2. Trustee Comments**

- a. Educational Training: Reports by Trustees and Staff
- b. Other Comments

## **C. LEGAL MATTER**

### **1. Conference with Legal Counsel – Existing Litigation (Gov. Code sec. 54956.9(d)(1) (CLOSED SESSION)**

Marin Assn. of Public Employees, et al. v. Marin County Employees' Retirement Assn., California Supreme Court Case No. *S237460*

## **D. NEW BUSINESS**

### **1. Investment Opportunities – Distressed Investments – Catherine Beard, Senior Vice President, Alternatives Consulting Group, Callan LLC (Action)**

Review and discuss proposal for a new opportunistic allocation and its potential placement within the current portfolio including how it will be funded.

### **2. Public Employee Performance Evaluation**

Title: Retirement Administrator (**CLOSED SESSION** pursuant to Government Code section 54957(b)(1))

### **3. Future Meetings**

Consider and discuss agenda items for future meetings.

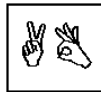
## **E. OTHER INFORMATION**

### **1. Training Calendar (Action)**

## **F. CONSENT CALENDAR (Action)**

**Note on Process:** Items designated for information are appropriate for Board action if the Board wishes to take action. Any agenda item from a properly noticed Committee meeting held prior to this Board meeting may be considered by the Board.

**Note on Voting:** As provided by statute, the Alternate Safety Member votes in the absence of the Elected General or Safety Member, and in the absence of both the Retired and Alternate Retired Members. The Alternate Retired Member votes in the absence of the Elected Retired Member. If both Elected General Members, or the Safety Member and an Elected General Member, are absent, then the Elected Alternate Retired Member may vote in place of one absent Elected General Member.



Agenda material is provided upon request. Requests may be submitted by email to [MCERABoard@marincounty.org](mailto:MCERABoard@marincounty.org), or by phone at (415) 473-6147.

MCERA is committed to assuring that its public meetings are accessible to persons with disabilities. If you require American Sign Language interpreters, assistive listening devices or other accommodations to participate in this meeting, these may be requested by calling (415) 499-7331 (voice) or (415) 499-6172 (TTY) at least 72 hours in advance.

The agenda is available on the Internet at <http://www.mcera.org>

For consideration at August Board meeting

## **MINUTES**

### **REGULAR BOARD MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**

**One McInnis Parkway, 1st Floor  
Retirement Board Chambers  
San Rafael, CA**

**June 10, 2020 – 9:00 a.m.**

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**EVENT CALENDAR** 9:00 a.m. Regular Board Meeting

#### **CALL TO ORDER**

Vice Chair Phillip Thomas called the meeting to order at 9:00 am.

#### **ROLL CALL**

PRESENT: Block, Cooper, Given, Gladstern, Jones (alternate retired), Klein, Murphy, Poirier (alternate safety), Shaw (ex officio alternate), Silberstein (arrived at 9:15 am), Werby

ABSENT: None

#### **A. OPEN TIME FOR PUBLIC EXPRESSION**

No members of the public provided comment.

#### **B. BOARD OF RETIREMENT MATTERS**

##### **1. Administrator's Report**

##### **a. Administrator's Update**

The term for the Third General Member position expires October 31, 2020 and the election process has begun. Nominations are due June 24. If an election is held, ballots will be mailed June 10 and the election date would be August 14.

For consideration at August Board meeting

On June 1, 2020, the MCERA office reopened to members under social distancing guidelines mandated by State and County officials. Staff continues to manage document processing and customer service electronically, and members with services that require an in-office visit are strongly encouraged to make an appointment prior to arriving. All visitors must abide by all public health protocols, including wearing a mask, utilizing the on-site sanitation station, and maintaining social distancing as indicated by posted signs. The majority of staff continue to work remotely.

Staff sent letters to all retirees receiving paper checks recommending they sign up for direct deposit, which is more secure and ensures payments are received timely. As of today, approximately 20% of those retirees have changed their payment method.

The construction of Suite 250 is complete and Computershare will move in to the space in July.

MCERA received two California Public Records Act requests. One was for information on Board trustees since 2001, and the other was for the compensation earnable and pensionable compensation reported for active members in 2019, and retiree benefit payments received in 2019.

b. Staffing update

Accounting Assistant Elizabeth Zhuang has accepted a promotion to a position in the County's Information Services and Technology department and Senior Accounting Assistant Kiana Hawkins was promoted to Retirement Benefits Technician, leaving two vacant positions in the accounting unit. A recruitment will be conducted to fill the Senior Accounting Assistant position and the Accounting Assistant position will remain vacant.

c. Facility Use Report

There was no facility use during the period.

d. Future Meetings

- June 17, 2020 Investment Committee
- July 8, 2020 Board

2. Ad Hoc Committee Reports

a. Ad Hoc One McInnis Committee

The Committee met on May 20 and affirmed the decision to move forward with plans to build two suites in back of the building. In addition, the space reduction project for Suite 100 will move forward. The current kitchen, training room, several offices and a meeting room will be reconfigured as part of the back suites to increase their

For consideration at August Board meeting

footprint. In addition, there are plans to construct a new secure corridor to the restroom and a smaller kitchen where the file room was previously located.

### 3. Standing Committee Reports

#### a. Audit Committee

##### 1. Annual Financial Audit Scope of Services & Process – Rosalva Flores, Brown Armstrong

Review and discuss audit process

Audit Committee Chair Gladstern reported that Brown Armstrong provided an overview of the audit process for the at the May 6 meeting. The engagement partner for the 2019/2020 fiscal year is Rosalva Flores and the co-engagement partner is Ashley Casey. The engagement manager is Colin Lo and the technical review partner is Lindsey Maguire.

##### 2. 2020 Audit Schedule - Rosalva Flores, Partner, Brown Armstrong

Review and discuss schedule of audit activities for 2020

The Committee reviewed the proposed schedule and timeline for the financial audit. Most of the work will be done remotely to accommodate concerns related to COVID-19. Final statements will be prepared for the Committee and Board before the end of the year.

#### b. Governance Committee

##### 1. Proxy Voting

###### a. Proxy Voting Reports

On May 13 the Committee reviewed the proxy voting reports through December of 2019 and discussed votes cast by Dimensional Fund Advisors (DFA) and State Street (SSGA).

###### b. Manager Responses on Proxy Voting Policy Alignment

The Committee reviewed the responses provided by DFA and SSGA in response to questions asked in November regarding specific voting items. DFA noted they are able to vote more in an alignment with MCERA's proxy voting policy but there would be an associated cost. SSGA stated the Board would need to take over voting in cases where there is not alignment. Discussion will continue at the next Governance Committee meeting.

##### 2. Governance Risk Report – Institutional Shareholder Services (ISS) – Nathan Worthington and Jack Ferdon

Review and discuss the ISS quarterly Risk Assessment Report

For consideration at August Board meeting

Mr. Wickman noted that where charts showed share values, if it was a commingled vehicle the value is not specific to MCERA's investment in the vehicle. For separate accounts, the values represent MCERA's specific investment in the fund.

3. Existing Policies – Standard Review with Proposed Updates

a. Conflict of Interest Code (Action)

Consider possible recommendation to Board on update to Code

Based on the action of the Governance Committee, Governance Committee Chair Cooper recommended that the Board change the gift amount to \$500.

AYES: Cooper, Werby, Block, Silberstein, Thomas, Klein, Gladstern, Murphy, Given  
NOES: None  
ABSTAIN: None  
ABSENT: None

4. Existing Policies – Standard Review without Proposed Updates

a. Proxy Voting and Corporate Governance Policy (Action)

Conduct standard policy review

Based on the discussion of the Governance Committee, Chair Cooper recommended that the Board adopt the following changes to the policy:

- Remove item 1.1 because it is redundant.
- Amend item 1.2 by adding more specific language.
- Amend item 1.3 to create more clarity by stating “all” shareholders and “corporate” actions.
- Amend item 2.1 by removing references to “mutual funds” because it is redundant.
- Amend item 2.1 by removing the reference to “International proxy voting,” and adding additional clarifying language about voting expectations on other comingled accounts.

AYES: Cooper, Werby, Block, Silberstein, Thomas, Klein, Gladstern, Murphy, Given  
NOES: None  
ABSTAIN: None  
ABSENT: None

b. Trustee and Staff Travel Expense Policy (Action)

Conduct standard policy review

c. Policy Regarding Implementation of Felony Forfeiture Laws (Action)

Conduct standard policy review

For consideration at August Board meeting

Governance Committee Chair Cooper recommended that the Board accept the review of the policies listed above in Agenda Items B.3.b.4.b and B.3.b.4.c.

AYES: Cooper, Werby, Block, Silberstein, Thomas, Klein, Gladstern, Murphy, Given  
NOES: None  
ABSTAIN: None  
ABSENT: None

c. Finance and Risk Management Committee

1. Administrative Budget for Fiscal Year 2020/21 (Action)

Consider and possibly recommend adoption of Administrative Budget for the next fiscal year

Finance and Risk Management Committee Chair Werby reviewed the proposed budget, noting that shared salary and benefits are the largest expenses and remain flat due to vacancies. Other budget items are based on the prior year including a decrease in independent medical examiner expenses. Overall the proposed budget is slightly lower than the current 2019/20 fiscal year budget.

It was M/S Thomas/Gladstern to adopt the Administrative Budget for Fiscal Year 2020/21 as presented.

AYES: Cooper, Werby, Block, Silberstein, Thomas, Klein, Gladstern, Murphy, Given  
NOES: None  
ABSTAIN: None  
ABSENT: None

2. Administrative Budget Fiscal Year 2019/20 Quarterly Review

Consider and review expenses for quarter ending March 31, 2020

Committee Chair Werby noted that salary and benefits in the third quarter were 7% lower due to position vacancies. Insurance premiums were paid in January and are not prorated.

3. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Committee Chair Werby reported that investment manager fees are as expected. There have been \$21 million in capital calls for private equity and \$33 million in distributions year-to-date. Portfolio rebalancing took place in February and March. The reporting through March 31 only reflects a portion of the rebalance and will be fully reflected in the fourth quarter reports.



For consideration at August Board meeting

4. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

This report lists attendance by trustees and staff and educational events.

b. Continuing Trustee Education Log

Trustees are on schedule with their required education hours.

c. Other expenses per Checklist Guidelines

Credit card expenditures were reviewed by the Committee.

d. Variances in the MCERA administrative budget in excess of 10%

Variances were discussed by the Committee.

e. Vendor services provided to MCERA

No report.

f. MCERA staffing status

No report.

g. Internal controls, compliance activities and capital calls

No report.

h. Audits, examinations, investigations or inquiries from governmental agencies

No report.

i. Other items from the Administrator related to risk and finance

Mr. Wickman reported that State Street notified MCERA of a fraudulent attempt to cash a check on MCERA's custodial account. The transaction was denied as there are not check writing capabilities on the account. An investigation is being conducted by the Marin County Sheriff's department.

For consideration at August Board meeting

j. Form 700 Summary

Counsel Dunning noted that National Disability Evaluations (NDE) has not yet filed a Form 700. Mr. Wickman communicated to NDE the need to file by June 1 in order to comply with MCERA policy and their contract. NDE indicated their intention to file and Mr. Wickman will follow up.

5. MCERA Insurance Review

Review, discuss and consider MCERA's insurance coverage

The Committee received a report from James Vorhis of Nossaman on MCERA's various insurance coverages. Committee Chair Werby reported that current coverage looked complete. A question arose at the Committee meeting about whether any trademark or copyright claims could potentially be made against MCERA and if they would fall under the general liability policy. Counsel Dunning said these are covered under the cyber insurance policy. Based on trustee comments, Mr. Wickman said an increase in cyber coverage levels would be addressed during the next renewal period.

6. Annual Audit of Financial Statements Update

See discussion under Item B.3.a, above.

4. Trustee Comments

Trustee Block expressed appreciation for the ISS reports.

Trustee Given requested that committee materials be provided separately from the regular monthly meeting packet, and Trustee Werby requested that a mechanism be implemented to highlight significant packet items. Mr. Wickman will work with Counsel to identify options to address this.

**C. NEW BUSINESS**

1. Future Meetings

Consider and discuss agenda items for future meetings

No discussion.

**D. OTHER INFORMATION**

1. Training Calendar

No discussion.

For consideration at August Board meeting

**E. CONSENT CALENDAR (Action)**

**May 2020**

RETURN OF CONTRIBUTIONS		
Nicholas Bryant	Full Refund - Termination	\$ 37,251.92
Ernesto Fernandez	Full Refund - Termination	\$ 23,769.83
BUYBACKS		
Rosemarie Colorado-Lara		\$ 1,692.28
Peter Falk		\$ 9,360.68
Shane Kunst		\$ 5,008.39
NEW RETIREES		
John George	County of Marin - District Attorney	
William Sheridan	City of San Rafael	
David Uribe	County of Marin - Health & Human Services	
DECEASED RETIREES		
Steven Aslesen	County of Marin - Community Development Agency	
Margaret Brown	County of Marin - Beneficiary	
Catherine Davis	County of Marin - Health & Human Services	
John Farrell	City of San Rafael	
Louise Granton	County of Marin - Human Resources	
Faye Griffin	County of Marin - Beneficiary	
Mary Miles	County of Marin - Probation	
Erling Nelson	County of Marin - Agricultural Weights & Measures	
Barbara Reising	County of Marin - Information Services & Technology	
Erma Weaver	County of Marin - Sheriff/Coroner	
CONFERENCES/SEMINARS		
SACRS - Trustee Jones		

It was M/S Gladstern/Given to adopt the Consent Calendar as submitted.

AYES: Cooper, Werby, Block, Silberstein, Thomas, Klein, Gladstern, Murphy, Given  
NOES: None  
ABSTAIN: None  
ABSENT: None

For consideration at August Board meeting

There being no further business, Vice Chair Thomas adjourned the meeting at 10:15 am.

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Jeff Wickman, Retirement Administrator

On behalf of:  
Steve Silberstein, Board Chair

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Michelle Hardesty, Assistant Retirement Administrator

On behalf of:  
Laurie Murphy, Secretary

DRAFT

## B.1 Administrator's Report

This is a discussion with no backup.

## COMMUNICATIONS ROUNDTABLE

Friday, July 17, 2020  
9:00 AM – 12:30 PM

### AGENDA

- |            |  |
|------------|--|
| 9:00 a.m.  | Welcome Remarks & Introductions  |
| 9:15 a.m.  | Communicating During COVID: The Good, The Bad & The Ugly<br>Jan Burch, Information Officer, CalPERS Office of Public Affairs                         |
| 10:30 a.m. | Member Communication in a Digital Age: Tools & Tactics<br>Taneda Larios, Senior Management Analyst II, Los Angeles City Employees' Retirement System |
| 11:00 a.m. | Break  |
| 11:10 a.m. | Select Chair or Co-Chairs for Next Meeting   |
| 11:15 a.m. | Websites and Branding<br>Olivia Applegate, Communications & Stakeholder Relations Manager, San Bernardino County Employees' Retirement Association   |
| 12:00 p.m. | Producing Videos In-House: Tips & Resources<br>Linda Webb, Retirement Administrator, Ventura County Employees' Retirement Association                |
| 12:30 p.m. | Closing Remarks & Adjourn  |

C.1

Confidential Matter  
Nossaman Memo  
Agenda Item C.1

Board Meeting  
August 12, 2020

Recusals:  
Trustees Gladstern and Thomas

# Callan

August 12, 2020

Mcera



## Evaluating Distressed/Dislocation Opportunities

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**Catherine Beard**  
Alternatives Consulting

**Jim Callahan, CFA**  
President



Callan

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## **Overview of Private Credit and Current Opportunities**

# Investing in Private Credit

## Definition

### What is Private Credit?

Private Credit strategies invest in credit assets in illiquid closed-end blind pools, with average holding periods of one to three years. Assets can be in the form of traditional loans, public debt securities and other forms of credit-related financing such as leases or structured vehicles. Returns are generated by a combination of coupon payments; capital appreciation; and, in some cases, equity participation.

### Portfolio benefits of Private Credit:

- **Cash flow generation** – Net coupon payments distributed to limited partners relatively quickly, typically after the investment period (2-3 years)
- **Illiquidity/complexity premia** – Incremental yield premium over liquid credit securities for illiquidity and strategy complexity (expected to be 100-300 bps)
- **Diversification** – The Private Credit universe is diverse, with a variety of collateral types
- **J-curve mitigation** – Interest income and loan maturities are distributed more quickly than private equity realizations
- **Downside protection** – Assets have greater seniority than private equity investments
- **Volatility dampening** – Unlike their liquid credit counterparts, Private Credit assets are not marked-to-market daily, thus moderating portfolio volatility

# Private Credit Landscape

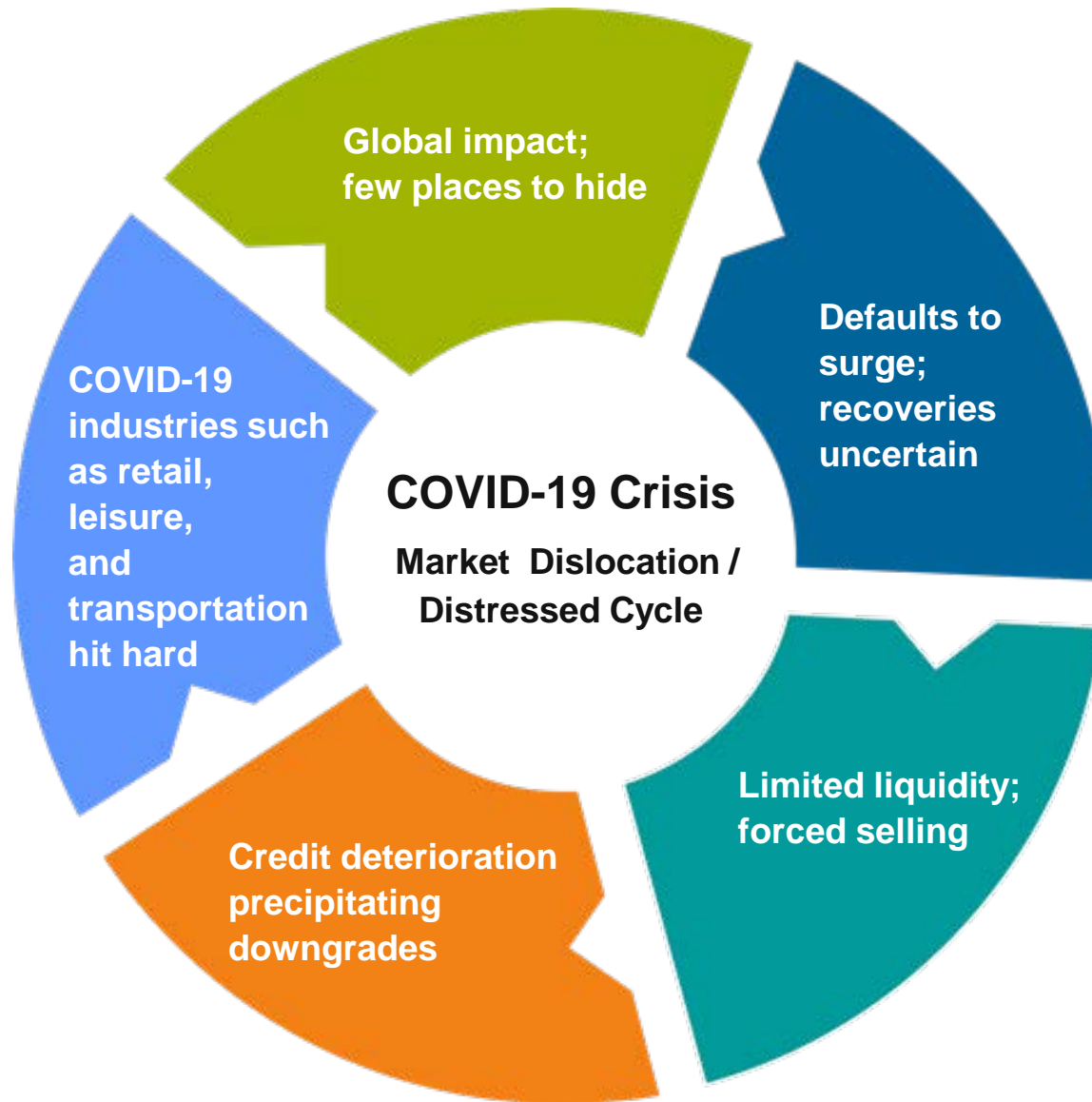
## Characteristics of Primary Private Credit Strategies

Category	Brief Description	Expected IRR	Return Driver(s)	Risk	Type of Collateral
Direct Lending & Mezzanine	Origination or purchase of commercial loans used to finance general business operations, projects, or growth	7-10% unlevered; 10-15% levered; potentially higher for Mezzanine	Yield; prepayment fees; origination fees; credit spread	Credit risk	Corporate or asset
Structured Credit	Pools of corporate and asset backed loans with cash flows segregated into different credit tranches.	8 to 10%	Yield; excess spread	Priority of payment; servicing	Pools of cash flowing contractual obligations
Real Asset Lending	Origination or purchase of loans backed by core real assets, including real estate and infrastructure	6 to 8%	Yield; excess spread	Priority of payment; servicing	Real assets, including real estate, infrastructure, etc.
Distressed Debt/ Special Situations	Invests across the capital structure in stressed or distressed companies, often involving restructuring.	10 to 15+%	Yield; capital gain; recovery in debt prices; restructuring	Liquidity; negotiation with numerous interested parties	Corporate
Specialty Finance, Asset Based Lending, Other Niche	Loans backed by non-corporate or more esoteric forms of collateral, requiring specialized expertise	8 to 12%	Cash flow recovery or enhancement through active servicing	Deep expertise required; highly specialized in nature	Typically cash flow related to stream of payments derived from portfolio of assets
Multi-Strategy	Diversified approach across Private Credit subcategories; allocations may change opportunistically over time	8 to 12%	Yield; equity upside; alpha through sector rotation and broad opportunity set	Expertise in global liquid and private markets; value add from sector rotation	Multiple depending on asset mix of corporate, asset-based, and other

## Screening Factors - Distressed/Dislocation Opportunity Example

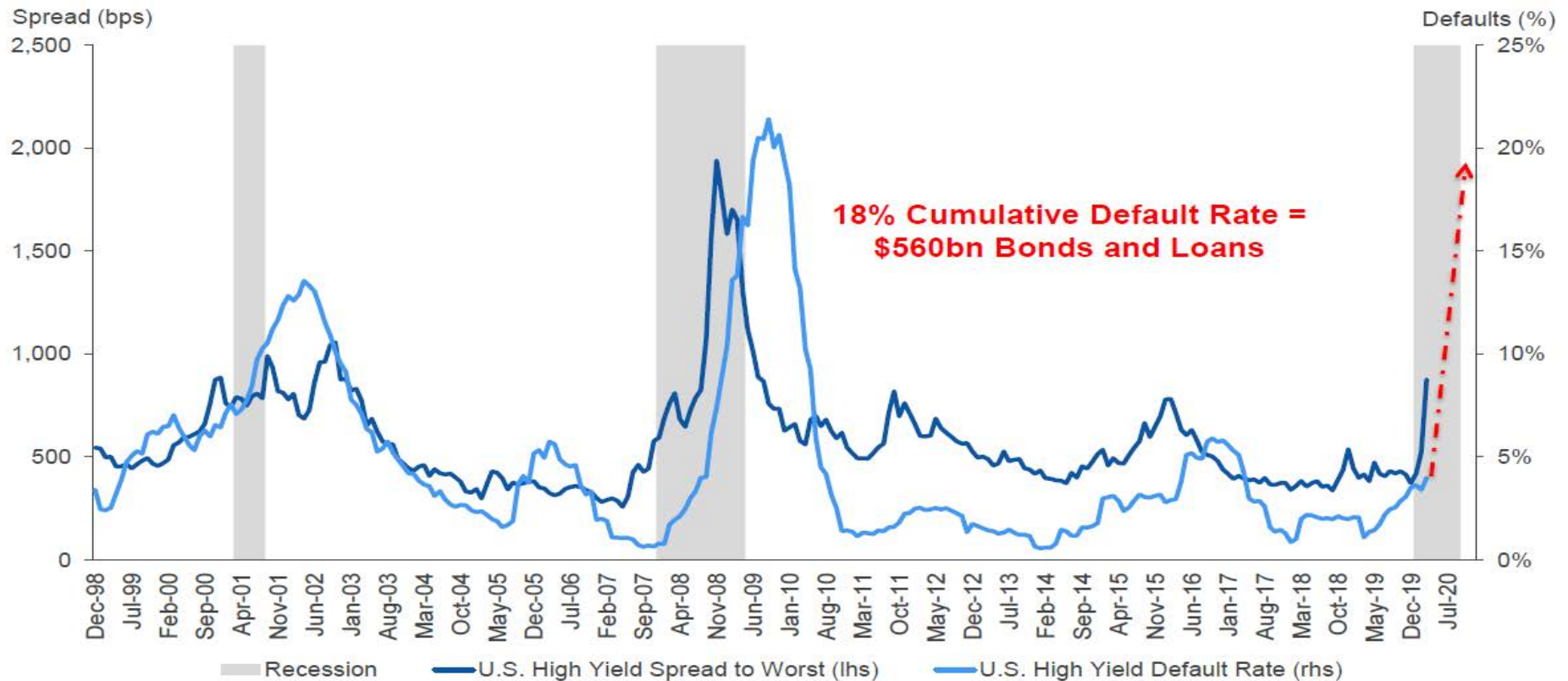
Primary Screening Factors		Callan Preferences for Distressed/Dislocation Opportunity
<b>A Organization/Team</b>		
1	Team turnover / organization instability	Prefer stable and growing team with few recent senior-level departures
2	Limited depth of resources for strategy	Team has sufficient depth to manage existing and broad array of new investments
<b>B Strategy Design</b>		
1	Strategy not focused on distressed/dislocation	Prefer strategies designed to capitalize on distressed/dislocation cycle
2	Primarily limited to Phase I opportunities	Desire exposure to opportunities beyond initial technical dislocation
3	Low target return for strategy	Expect target net unlevered return to exceed 10%
4	Excessive use of leverage	Do not want leverage to be the primary driver of returns
5	Sector focus too narrow	Prefer multi-sector or broad sector strategy to build diversified portfolio
6	Geographic focus too narrow (ex-US)	Avoid strategies with geographically limited non-US focus (non-US regional/country funds)
7	Undesirable fund vehicle	Not considering funds-of-funds, co-investments, secondaries strategies
<b>C Past Performance</b>		
1	Lack of / poor distressed track record	Team has generated competitive, multi-cycle performance in distressed investing
2	Poor liquidity management in past cycles	Avoid managers with poor liquidity management in past cycles (e.g. gating)
3	Imprudent pace of deployment in past cycles	Prefer managers that demonstrated prudent capital deployment in past cycles
<b>D Terms &amp; Conditions</b>		
1	Off-market fees	Competitive fees: 1%-1.5% mgmt fee on invested equity capital / 10%-15% performance fee with hurdle
2	Poor GP/LP alignment	Prefer strong through GP commitment and LP governance rights
3	Fundraising schedule too tight	Require minimum of 4-6 weeks to conduct due diligence
4	Limited capacity/high minimum investment	Prefer funds able to accommodate clients of various commitment amounts (>\$5m)

## Distressed Credit Cycle Has Arrived



## Slowdown Portends Higher Defaults

### U.S. High Yield Bond Defaults



- Market entering another distressed cycle, as defined by spreads in excess of 1,000 bps
  - In March, the amount of USD-denominated debt trading at distressed levels exceeded that of the GFC.
  - Several industries – not just those directly impacted by COVID - will likely experience higher defaults.
  - Expectations for \$500bn of BBB fallen angels, \$400bn of high yield loans and bonds downgraded to CCC, and \$560bn of high yield to default.

Source: Bank of America Merrill Lynch. Marathon Asset Management. As of March 2020.

## Varying Opportunities as Cycle Evolves

<b>Current Period (I)</b> (< 1 yr) Dislocation/Illiquidity	<b>Intermediate Period (II)</b> (< 2 yrs) Exit Paths Emerge	<b>Extended Period (III)</b> (1 – 3+ yrs) Restructuring & Recovery
<p><b>Maximum uncertainty and dislocation</b></p> <p><b>Investment Focus</b></p> <ul style="list-style-type: none"> <li>– Aim for highest quality credits trading down               <ul style="list-style-type: none"> <li>– Often investment grade, sectors leaders with proven resilience</li> <li>– Non-cyclical businesses</li> <li>– Low loan-to-value &amp; capital cushion</li> <li>– Many levers of liquidity; access to capital markets</li> </ul> </li> <li>– Capital structure dislocations</li> </ul>	<p><b>Potential outcomes narrow: deeper credit underwriting and opportunistic lending</b></p> <p><b>Investment Focus</b></p> <ul style="list-style-type: none"> <li>– Corporate stress &amp; distress</li> <li>– Crossover opportunities; integration of credit and asset underwriting</li> <li>– Structured Credit</li> <li>– Private credit               <ul style="list-style-type: none"> <li>– Performing assets; loan portfolios</li> <li>– Rescue lending</li> </ul> </li> </ul>	<p><b>Managers seek to improve recoveries; turnaround and restructuring opportunities</b></p> <p><b>Investment Focus</b></p> <ul style="list-style-type: none"> <li>– Corporate restructurings</li> <li>– Non-performing loan portfolios &amp; structured credit work-outs</li> <li>– Alternative and special situations lending</li> </ul>
<p><b>Key Manager Skills</b></p> <ul style="list-style-type: none"> <li>– Trading</li> <li>– Relative Value Assessment</li> </ul>	<p><b>Key Manager Skills</b></p> <ul style="list-style-type: none"> <li>– Deal Origination</li> <li>– Security Selection</li> <li>– Credit Underwriting</li> <li>– Legal/Workouts</li> </ul>	<p><b>Key Manager Skills</b></p> <ul style="list-style-type: none"> <li>– Ability to Identify/Acquire Fulcrum Security</li> <li>– Operational Turnaround</li> <li>– Ability to Exit</li> </ul>

## Portfolio Allocations Expected to Shift Through Time

Potential Investments	Current Period	Intermediate Period	Extended Period
High Quality Credit at Discount	•	•	
Corporate Stress & Distressed	•	•	
Discounted ABS	•	•	
Rescue Finance	•	•	
Performing Asset and Loan Portfolios		•	•
Structured Credit		•	•
Hard Assets			•
Restructurings; Non-Performing Loans (NPL); Special Situations			•
Debt for Equity Exchanges			•
	0 - 12 Months	0 - 24 Months	12 – 36 Months or longer



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## **Distressed/Dislocation Allocation**

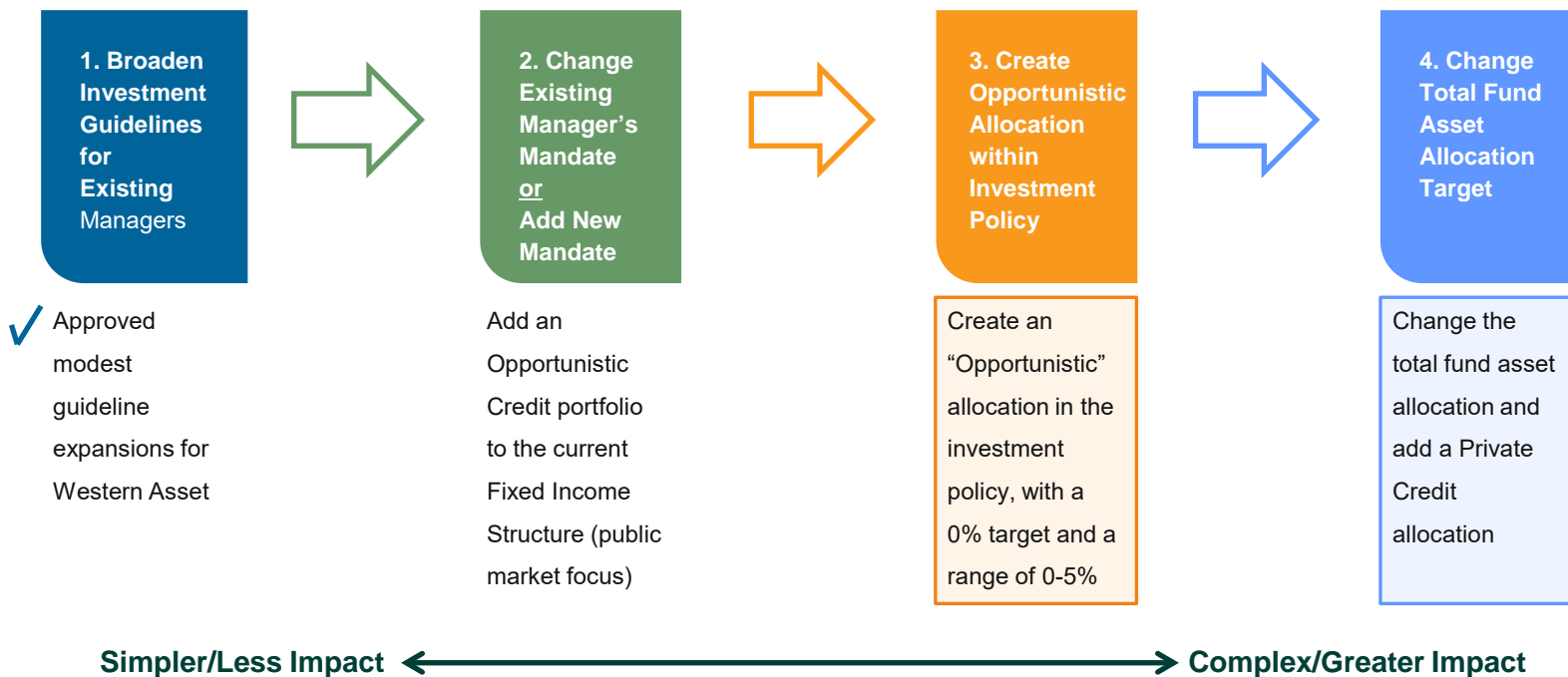
## Framework for Considering Current Market Opportunities

Potential investment opportunity resulting from market disruption lies within the credit and debt markets.

- These emerging opportunities appear to be significant and lie across both the public and private markets.
  - The opportunities range from simple (easier to consider and evaluate, little to no fee impact, smaller impact on overall portfolio) to more complex (heavier due diligence requirements, higher fees, bigger potential impact on portfolio).

In evaluating market dislocation opportunities:

1. What opportunities should be considered?
2. How should these opportunities be included within the portfolio?



## Allocation Options within the Total Fund

1. Broaden Investment Guidelines for Existing Managers
  - Western Asset Intermediate Credit - MCERA increased the limit on below investment grade securities from 20% to 30% and on contingent convertible securities and preferred stock from 5% to 10%.
2. Change Existing Manager's Mandate or Add New Mandate
  - An opportunistic allocation focused on public markets could be added, but we believe private market funds are more compelling and offer broader diversification (options 3 or 4).
3. Create an “Opportunistic” allocation in the investment policy, with a 0% target and a range of 0-5%
  - Allows the Board to consider compelling investment opportunities that result from market cycles and dislocations.
  - Allocation would only be used to the extent the Board was presented with an idea that added to the overall portfolio and represented a unique situation given market conditions or circumstances.
4. Change the Total Fund Asset Allocation
  - Could add a Private Credit allocation to the total fund asset allocation.
  - Changing the asset allocation target would have the biggest impact on the risk and return of the portfolio.
  - Would always need to “fill” the allocation to maintain the target.

### Recommendation :

Option 3 - creating an Opportunistic allocation within MCERA's total fund and allocating approximately 4% of total plan assets (~\$100 million) in commitments to distressed/dislocation funds.

## Private Distressed/Dislocation Funds

### Benefits and Considerations

Distressed/dislocation funds are private, closed-end funds and operate similar to private equity.

#### Benefits:

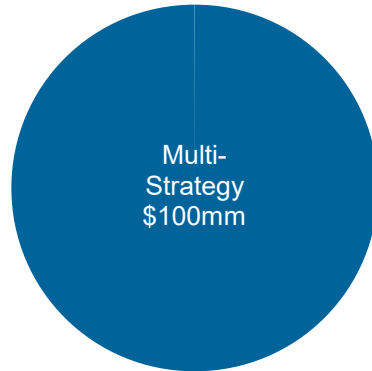
- Capitalize on current opportunities
- Higher potential return
  - Targeted net internal rates of return for distressed funds range from 10% - 20%+
- Provides a differentiated return stream and diversification
- Addresses a different opportunity set – private debt/credit

#### Considerations:

- Higher returns = higher risk
  - Expected volatility ranges from 15% - 20%
- Higher fees
  - Management fees range from 1% - 2% plus carried interest
  - Additional underwriting and due diligence costs for Callan evaluations
- Funds are illiquid and commitment is locked up for life of the fund
- Typical fund is structured for 6 - 10+ years
  - A specific amount is committed to a fund
  - Capital is called as investment opportunities present themselves:
    - *The investment period is generally 3-5 years, so it could take that long for a fund to draw most of the commitment amount*
  - Net coupon payments distributed back to investors (generally after investment period)

## Structure Considerations

One Manager



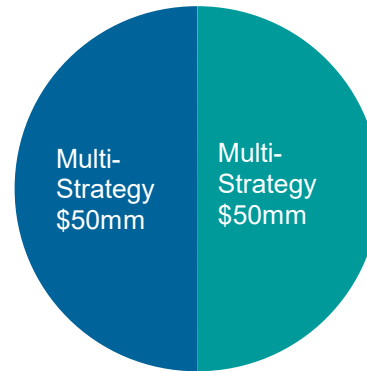
**Expected Return:\***

Net IRR (levered): 15% – 20%

MOIC: 1.2x – 1.5x

**Expected Volatility\*:** 16% – 20%

Two Managers



**Expected Return:**

Net IRR (levered): 13% – 18%

MOIC: 1.2x – 1.5x

**Expected Volatility:** 15% – 18%

Three Managers



**Expected Return:**

Net IRR (levered): 13% – 18%

MOIC: 1.3x – 1.7x

**Expected Volatility:** 15% – 18%

**Reference: Callan Capital Markets Projections (10 Years)**

	Expected Return	Expected Volatility
Broad U.S. Equity	7.15%	18.10%
Global ex-U.S. Equity	7.25%	20.50%
Core U.S. Fixed Income	2.75%	3.75%
Private Equity	8.50%	27.80%
MCERA Total Fund	6.60%	13.20%

Net IRR = Net Internal Rate of Return

MOIC = Multiple of Invested Capital

\*Approximations: expected return and volatility for each structure will depend on actual manager composition

## Funding the Allocation

Where to fund this type of allocation?

- Given any allocation to the Opportunistic portfolio would make it overweight to its 0% target, the resulting implication is that another asset class (or classes) would need to be underweight their targets.

Funding for the allocation can come from equities, fixed income, or a combination of both:

- Funding from equities: comparable/increased return, slightly lower or equivalent risk
- Funding from fixed income: increases return, increases risk
- Mixture of both: increases return, moderated risk

Funding will occur over multiple quarters as capital is drawn.

- When capital calls occur, current allocations relative to targets will be reviewed to determine funding source.

Callan

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## **Distressed/Dislocation Funds**

# Callan High Conviction Distressed/Dislocation Focus

## Multi-Strategy Funds

	CarVal	Fortress	Sixth Street Partners	Varde Partners
Name of Strategy	<b>CVI Credit Value Fund V</b>	<b>Credit Opportunities Fund V Expansion</b>	<b>TAO</b>	<b>Dislocation Fund</b>
Distressed Style	<b>Multi-Strategy</b>	<b>Multi-Strategy</b>	<b>Multi-Strategy</b>	<b>Multi-Strategy</b>
Investment Focus	Corporate securities, loan portfolios, structured credit, hard assets. Quality assets at distressed prices, orphaned asset sales, and distressed restructurings.	Distressed and mispriced opportunities; financial institutions and specialty finance companies; orphan portfolios; idiosyncratic asset transactions; structured credit transactions.	Theme-based investing across the SSP platform including liquid stressed/distressed; opportunistic lending and special situations	Initially dislocated, high quality credits; eventually larger restructurings and NPLs
Primary Activity Phase*	I, II, III	I, II, III	I, II, III	I, II, III
Structure	Draw-Down	Draw-Down	Draw-Down	Draw-Down
<b>FUND DATA</b>				
Target Net IRR	15%	20%+ Gross	15 - 20%	Mid to high teens
Target net MOIC	N/A	N/A	1.4 - 1.6x	N/A
Investment Period	3 years	Co-terminus with FCOF V - April 2023	Long-term LPs - 5.5 yr; short-term LPs - 3.5 yrS	18 month investment period
Fund Term	6 years	6 year harvest through April 2029	After 1 year from end of Investment Period	4 1/2 years
Target Fund Size	\$2.5bn	\$3bn	\$6bn	\$1bn
Hard Cap	\$3.0bn	\$3.5bn	TBD	\$1.5bn
Open?	Yes	Yes	Yes	Yes
First Close Date	31-May	every 15 days	01-Jun	May
Second Close Date		every 15 days	NA	June
Final Close Date	H1 2021	November	September/October timeframe	October
<b>FEES</b>				
Management Fee	150 bps	150 bps	Long-term LPs: 65 bps unfunded + 135 bps invested; Short-term LPS: 115 bps (UF) + 150 bps (Inv)	150 bps
Charged on	Invested	Invested	Invested	Invested
Carried Interest	20%	20%	17.5% (LT); 18.5% (ST)	20%
Preferred Return/Hurdle	8%	8%	5%	8%
GP Catch-Up	100%	50%	100%	60%

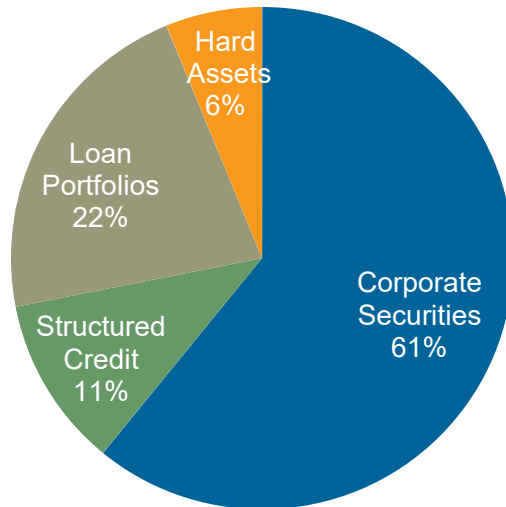
\*Phase I = Current Period (0-12 mos); Phase II = Intermediate Period (0-24 mos); Phase III = Extended Period (12-36+ mos)

Note: Subject to change based on information released by managers. As of 5/18/2020.

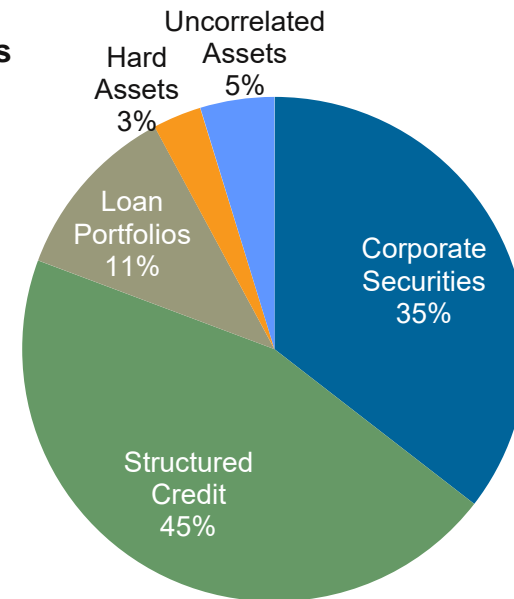


## Portfolio Construction by Sector

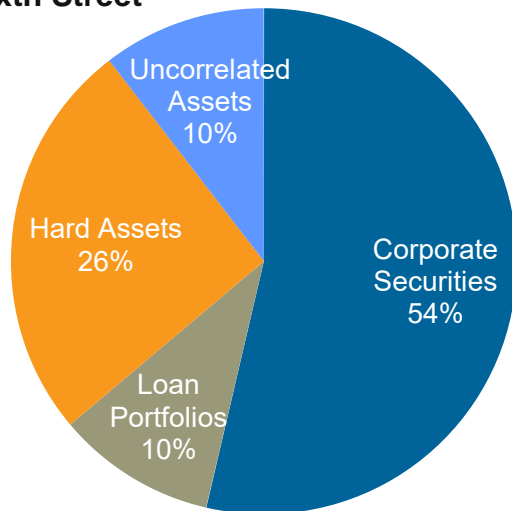
**CarVal**



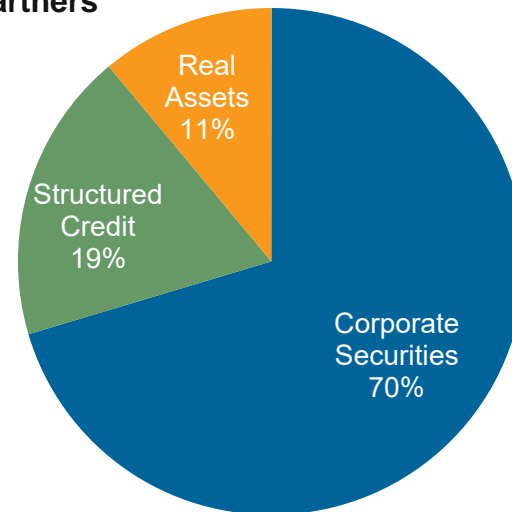
**Fortress**



**Sixth Street**



**Varde Partners**



## Net Internal Rate of Return (IRR) and Total Value to Paid In (TVPI) by Vintage

Multi-strategy Private Credit Fund Vintage – Net IRR Comparison												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Net IRR</b>												
<b>Fortress</b>		25.5%	17.4%		14.4%				13.9%			18.8%
Quartile		1 <sup>st</sup>	1 <sup>st</sup>		1 <sup>st</sup>				1 <sup>st</sup>			1 <sup>st</sup>
<b>CarVal</b>	6.9%	17.5%			19.4%		8.4%		7.4%			(-11.1%)
Quartile	3 <sup>rd</sup>	1 <sup>st</sup>			1 <sup>st</sup>		2 <sup>nd</sup>		3 <sup>rd</sup>			4 <sup>th</sup>
<b>Varde</b>		15.3%		11.3%			8.0%			8.2%		0.8%
Quartile		2 <sup>nd</sup>		3 <sup>rd</sup>			2 <sup>nd</sup>			3 <sup>rd</sup>		4 <sup>th</sup>
<b>Sixth Street</b>						15.8%		9.9%				
Quartile						1 <sup>st</sup>		2 <sup>nd</sup>				
<b>Quartiles*</b>												
Upper	10.38%	15.96%	14.82%	14.28%	10.23%	11.70%	9.21%	10.89%	10.08%	11.90%	11.09%	9.12%
Median	7.35%	11.90%	12.05%	11.89%	8.17%	7.26%	6.54%	8.38%	8.83%	9.32%	6.98%	7.19%
Lower	2.10%	9.80%	9.01%	9.83%	7.00%	3.72%	5.00%	6.79%	6.68%	0.62%	3.86%	2.78%
Multi-strategy Private Credit Fund Vintage – Net TVPI Comparison												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Net TVPI</b>												
<b>Fortress</b>		2.0x	1.9x		1.6x				1.7x			1.5x
Quartile		1 <sup>st</sup>	1 <sup>st</sup>		1 <sup>st</sup>				1 <sup>st</sup>			1 <sup>st</sup>
<b>CarVal</b>	1.4x	2.0x			2.3x		1.4x		1.2x			0.9x
Quartile	2 <sup>nd</sup>	1 <sup>st</sup>			1 <sup>st</sup>		1 <sup>st</sup>		2 <sup>nd</sup>			4 <sup>th</sup>
<b>Varde</b>		2.2x		1.9x			1.5x			1.2x		1.0x
Quartile		1 <sup>st</sup>		1 <sup>st</sup>			1 <sup>st</sup>			1 <sup>st</sup>		2 <sup>nd</sup>
<b>Sixth Street</b>						1.6x		1.3x				
Quartile						1 <sup>st</sup>		1 <sup>st</sup>				
<b>Quartiles*</b>												
Upper	1.67x	1.90x	1.68x	1.60x	1.53x	1.44x	1.38x	1.27x	1.25x	1.16x	1.18x	1.09x
Median	1.35x	1.45x	1.45x	1.46x	1.37x	1.22x	1.27x	1.21x	1.13x	1.13x	1.13x	1.05x
Lower	1.15x	1.36x	1.27x	1.31x	1.33x	1.12x	1.13x	1.15x	1.18x	1.01x	1.05x	1.01x

\*Fortress, CarVal, Sixth Street data provided by the manager; Varde vintage data from Pitchbook

\*\*Pitchbook Distressed Credit benchmark

\*\*\*Green fields highlight 1<sup>st</sup> Quartile manager performance; Varde TVPI > IRR Quartile performance due to little to no fund leverage; limited use of subscription lines; longer investment periods; less portfolio turnover.

## Realized/Unrealized Loss and Recovery by Year

Multi-strategy Private Credit Fund – Realized Loss/Recoveries														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>Fortress</b>														
# Investments	6	0	12	3	4	2	2	2	0	0	0	0	3	34
Below Cost %	15.0%	0%	18.5%	4.3%	8.7%	7.4%	7.7%	6.5%	0%	0%	0%	0%	15.0%	7.10%
Recovery %	77.0%	0%	68.2%	43.0%	91.7%	91.1%	79.6%	82.1%	0%	0%	0%	0%	0.0%	75.3%
<b>CarVal</b>														
# Investments			1	6	11	38	35	27	20	10	41	16	2	207
Below Cost %			25.0%	18.2%	19.3%	25.5%	26.7%	29.7%	15.9%	12.7%	13.2%	12.1%	4.4%	17.9%
Recovery %			97.9%	95.1%	83.2%	77.3%	87.3%	83.6%	70.6%	87.6%	90.4%	55.8%	75.9%	81.6%
<b>Varde</b>														
# Investments	37	17	19	20	4	3	0	0	2	1				103
Below Cost %	12.2%	15.5%	12.6%	15.1%	10.3%	98.4%	0.0%	0.0%	100.0%	100.0%				13.6%
Recovery %	66.5%	64.5%	75.2%	79.8%	75.6%	91.7%	NA	NA	68.2%	NA				69.2%
<b>Sixth Street</b>														
# Investments				0	0	0	0	1	0	2	2	0		5
Below Cost %				NA	NA	NA	NA	2.6%	NA	6.7%	5.7%	NA		2.6%
Recovery %				NA	NA	NA	NA	68.4%	NA	75.1%	60.2%	NA		73.9%
Multi-strategy Private Credit Fund – Unrealized Loss/Recoveries														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>Fortress</b>														
# Investments	1	0	2	3	1	2	3	9	3	5	8	11	6	53
Below Cost %	2.5%	NA	3.1%	4.3%	2.2%	7.4%	11.5%	29.0%	15.0%	22.7%	20.5%	25.6%	30.0%	11.1%
Recovery %	65.2%	NA	45.5%	70.8%	92.6%	73.9%	73.7%	81.9%	63.7%	92.2%	92.3%	94.4%	90.8%	77.1%
<b>CarVal</b>														
# Investments			0	2	0	4	6	1	8	5	5	13	7	52
Below Cost %			NA	6.1%	NA	2.7%	4.6%	1.1%	6.3%	6.3%	1.6%	9.8%	15.6%	4.4%
Recovery %			NA	NM	NA	NM	45.0%	13.8%	57.0%	71.0%	84.6%	51.5%	34.4%	53.8%
<b>Varde</b>														
# Investments	0	1	1	0	0	0	0	0	0	0				2
Below Cost %	NA	0.2%	6.7%	NA	NA	NA	NA	NA	NA	NA				1.0%
Recovery %	NA	13.2%	87.2%	NA	NA	NA	NA	Na	Na	NA				83.8%
<b>Sixth Street</b>														
# Investments					1	1	0	3	1	1	2	4	NA	13
Below Cost %					6.3%	11.1%	NA	7.90%	4.3%	3.3%	5.0%	13.3%	NA	6.8%
Recovery %					98.2%	77.1%	NA	90.9%	99.7%	100.0%	84.1%	98.5%	NA	94.0%

\*Recovery calculated by Total Value (proceeds + NAV) divided by capital invested at loss

# Callan High Conviction Distressed/Dislocation Focus

## Opportunistic Lending Funds

	Blue Torch	HPS
Name of Strategy	<b>Fund II</b>	<b>Specialty Loan Fund V</b>
Distressed Style	<b>Opportunistic Lending</b>	<b>Opportunistic Lending</b>
Investment Focus	Opportunistic lending strategy providing flexible lending fo companies in transition.	Opportunistic lending to middle- and upper middle market companies on a global basis.
Primary Activity Phase*	II	II, III
Structure	Draw-Down	Draw-Down
<b>FUND DATA</b>		
Target Net IRR	10 - 12% (unlevered); 13 - 15% (levered)	9 - 11% (unlevered); 11 - 14% (levered)
Target net MOIC	N/A	N/A
Investment Period	3 years	3 years
Fund Term	6 years	7 years
Target Fund Size	\$1bn	\$5.5bn
Hard Cap	\$1.5bn	\$6.0bn
Open?	Yes	Yes
First Close Date	31-Jan	raised \$1bn
Second Close Date	31-Mar	May
Final Close Date	Earlier of \$1.5 bn hard cap or March 2021 (have raised \$1.03 bn to date)	Q1 2021
<b>FEES</b>		
Management Fee	100 bps	150 bps, then 125 bps after investment period
Charged on	Committed	Committed, then NAV
Carried Interest	15%	15%
Preferred Return/Hurdle	6%	5% (unlevered); 7% (levered)
GP Catch-Up	100%	100%

\*Phase I = Current Period (0-12 mos); Phase II = Intermediate Period (0-24 mos); Phase III = Extended Period (12-36+ mos)

Note: Subject to change based on information released by managers. As of 5/18/2020.

## D.2 Public Employee Performance Evaluation

The agenda item is in Closed Session.

### D.3 Future Meetings

This is a discussion with no backup.

**E.1**  
**MCERA**  
**CONFERENCE AND TRAINING CALENDAR**  
**August 2020**

Block	Cooper	Given	Gladstern	Jones	Klein	Murphy	Poirier	Shaw	Silberstein	Thomas	Werby	Wickman	Hardesty	Dunning	DATE	APPROVED	SPONSOR	PROGRAM	LOCATION
															7/28/20-8/13/20	*	SACRS	Public Pension Investment Management Program – UC Berkeley Haas School of Business	Virtual
															8/11/20	*	CalAPRS	Attorney's Meeting	Virtual
															8/18 & 25-26/20	*	CalAPRS	Principles for Trustees	Virtual
															8/24-25/20	*	NCPERS	Public Pension Funding Forum	Virtual
															8/24-28/20	**	Pension Bridge	Annual Conference	Virtual
															9/14-24/20	*	CalAPRS	Leadership Forums	Virtual
															9/17-22/20	*	CII	Fall Conference	Virtual
											★				9/24-25/20	*	CalAPRS	Administrators' Institute	Virtual
															9/29-30/20	*	NCPERS	Fall Conference	Virtual
															9/30/20-10/2/20	*	Nossaman	Fiduciaries' Forum	Virtual
															10/13-15/20	*	Callan	Introduction to Investments	Virtual
															10/23/20	*	CalAPRS	Trustees' Roundtable	Virtual
															11/4-6/20	*	CalAPRS	Intermediate Course in Retirement Plan Administration	Virtual
															11/10-13/20	*	SACRS	Fall Conference	Indian Wells, CA
															11/16-20/20	**	Wharton	Investment Strategies & Portfolio Management	Philadelphia, PA
															12/2-4/20	*	CalAPRS	Advanced Course in Retirement Plan Administration	Virtual

## E.1

Block	Cooper	Given	Gladstern	Jones	Klein	Murphy	Poirier	Shaw	Silberstein	Thomas	Werby	Wickman	Hardesty	Dunning	DATE	APPROVED	SPONSOR	PROGRAM	LOCATION
												★			3/6-9/21		CalAPRS	General Assembly	Monterey, CA
															3/8-10/21	*	CII	Spring Conference	Washington, DC
															3/31/21-4/2/21	*	CalAPRS	Advanced Principles of Pension Governance for Trustees	Los Angeles, CA
															5/11-14/21	*	SACRS	Spring Conference	Long Beach, CA
															5/23-26/21	*	NCPERS	Annual Conference	Denver, CO
															6/14-18/21	**	Wharton	Investment Strategies & Portfolio Management	Philadelphia, PA
															6/21-23/21	*	Callan	National Conference	San Francisco, CA

\*Pre-approved events: CalAPRS; Callan; CII; Nossaman LLP; NASRA; SACRS – \*\* Board-approved events – **New event or attendee**

CALLAN

Callan College  
<http://www.callan.com/education/college>  
 Callan investment Institute  
<http://www.callan.com/education/cii/conferences.asp>

NASRA

National Association of State Retirement Administrators

SACRS

State Association of County Retirement Systems  
<http://www.sacrs.org>



**CONSENT CALENDAR****MCERA BOARD MEETING, WEDNESDAY, August 12, 2020****July 2020**

<b>RETURN OF CONTRIBUTIONS</b>			
Claudia Asprer	Full Refund - Termination	\$	162,931.26
Cesar Caro	Full Refund - Termination	\$	755.28
Kate Collins	Full Refund - Termination	\$	8,286.27
Kerrie Desbiens	Partial Refund - 30 year overpayment	\$	1,597.23
Amber Fleetwood	Full Refund - DRO	\$	45,455.14

<b>BUYBACKS</b>			
Zachary Cordisco		\$	6,411.01
Kathryn Cuevas		\$	18,470.77
William Passmore		\$	40,130.77

<b>NEW RETIREES</b>	
Christopher Coale	City of San Rafael
Maria Teresa Cozzi Rossetti	County of Marin - Probation
Sandra Hirschfield	County of Marin - Health & Human Services
Craig Hunter	County of Marin - Sheriff/Coroner
Stephanie Kentala	County of Marin - Health & Human Services
Daniel Lee	City of San Rafael
Elizabeth Lewallyn	County of Marin - Human Resources
Bryan Lewis	County of Marin - Fire
Carolyn McGrath	County of Marin - Health & Human Services
Joseph Meesey	County of Marin - Sheriff/Coroner
Scott Michalik	Novato Fire
Deborah Tull	County of Marin - Health & Human Services
William Vieira	County of Marin - Fire

<b>DECEASED RETIREES</b>	
Loy Cornett	County of Marin - Parks & Open Space
Shirley McCormick	County of Marin - Health & Human Services
Dana Melnichek	City of San Rafael
Joyce Pollock	County of Marin - Beneficiary
Heidi Vaughey	County of Marin - Beneficiary