

SBCERS

Santa Barbara County Employees' Retirement System

DATE: September 27, 2023
TO: SBCERS BOARD OF RETIREMENT
FROM: SBCERS Investment Team
RE: **Investment Consultant Oversight Review**

Recommendation

That the Board of Retirement receive and file the Investment Consultant Oversight Review for the year ending June 30, 2023, and direct staff on any additional follow up items.

Background

The Investment Consultant Oversight Policy dictates that on an annual basis staff shall perform a due diligence update on SBCERS' investment consultants. The annual report is based on questionnaires sent to consultants which are then evaluated by the SBCERS Investment Team. Staff's review consists of evaluating any material changes in organization, personnel, and philosophy/process, and verifies compliance with legal requirements and SBCERS policies. Staff have analyzed consultant responses, followed up with additional questions, and created the following report outlining the material matters and highlights of the consultants' responses.

RVK

Organizational, Business and Legal

For the fiscal year 2022-2023 RVK reported two changes to SBCERS' Team. While Marcia Beard and Matthias Bauer continue to serve as the co-lead consultants for RVK since the inception to the SBCERS relationship, Kyle Hagmeier SBCERS' Associate Consultant took a job with a local Registered Investment Advisor (RIA) in February 2023. Kyle Hagmeier's departure did not impact the Board of Retirement, because he did not interact with the Board on a regular basis. Kyle Hagmeier worked closely with the Investment Team to ensure a smooth transition to Paige Blaser who rejoined the RVK's team supporting SBCERS. Paige Blaser had previously worked with SBCERS staff and was part of the original team hired by SBCERS. The other SBCERS-interfacing RVK personnel that departed during the fiscal year 2022-2023 were part of the RVK Private Credit team, and their departure was discussed with the Board of Retirement at the June 28th, 2023, Board Meeting.

Firm Clients and Staffing

As a firm, RVK's client roster increased marginally, increasing from 182 to 183. The total number of firm employees increased during the fiscal year from 133 to 141 and the number of investment professionals went from 107 to 114. In terms of firm ownership, the number of employee owners slightly decreased from 34 to 33 during the fiscal year. RVK has continued their commitment to remaining both independent and 100% employee owned.

Legal and Regulatory

During the 2018 consultant oversight review, staff noted that RVK alongside 30+ other organizations had been named in a complaint filed in Kentucky by eight individuals regarding management of the Kentucky Retirement System. RVK maintains that claims made against them are without merit. In April 2023 Court of Appeals ruled that one of the lawsuits, which was previously covered in 2022 Consultant Oversight report, should have been dismissed and the Attorney General should not have been allowed to intervene. This ruling is not finalized, and remains stayed pending resolution of the Appeals Court. Related court cases remain pending or stayed pending the outcome of appeals court process. The cases related to the Kentucky Retirement System were previously known to SBCERS and no new notable information was uncovered during the Consultant Oversight Review in 2023. No other additional legal or regulatory items were uncovered. RVK remains transparent and responsive around legal and regulatory actions involving their firm.

Significant Recent Projects

During this review period, RVK completed the following significant projects for SBCERS:

- July 2022 and September 2022 – Asset Liability Study
- August 2022 – Non-Core Fixed Income Structure Review
- August 2022 – Private Credit Fund Recommendation: Ares Pathfinder Core Fund
- December 2022 – Equity Structure Review
- March 2023 – Capital Market Assumptions Review
- April 2023 – Asset Allocation Review
- April 2023 – Private Credit Strategic Plan Review and Pacing Analysis

Hamilton Lane

During the 2022-2023 fiscal year, Hamilton Lane had one significant change to the SBCERS' client team. Elizabeth Bell joined the SBCERS' client team as the Lead Consultant to the Discretionary Real Estate Portfolio. Elizabeth joins Paul Yett, Brett Burnett and Natalie Fitch continue to serve on the SBCERS team and investments staff has experienced no issues in client service. As a firm, Hamilton Lane continues to grow steadily as evident by the growth in the Number of Clients, and Total Asset Under Management:

	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019
Number of Clients^{4,7,8}					
Commingled ⁵	7	6	5	4	3
Public Pension Fund	26	26	25	20	18
Taft-Hartley	3	2	2	1	1
ERISA Corporate Pension Plan	4	4	3	3	3
Sovereign Wealth Fund	6	5	6	5	6
Corporate Pension Fund	2	2	1	1	1
Financial Institutions/ Insurance	20	22	17	14	9
Endowment & Foundation	3	4	3	2	2
Family Office	2	1	1	1	0
Total Number of Clients	73	72	63	51	43
Assets Under Management (US\$ thousands)^{1,7}					
Commingled ⁵	16,557,713.8	13,680,005.5	10,563,293.9	6,615,121.2	4,695,110.6
Public Pension Fund	47,809,433.9	43,604,663.0	37,843,846.5	26,536,951.7	23,375,664.3
Taft-Hartley	5,729,356.5	5,565,233.1	4,413,954.5	2,497,599.4	2,362,570.9
ERISA Corporate Pension Plan	1,679,682.9	1,700,673.6	1,340,031.9	1,148,549.7	1,142,435.6
Sovereign Wealth Fund	4,613,826.8	4,073,426.2	4,586,059.6	4,121,288.7	4,384,687.7
Corporate Pension Fund	-	-	-	-	-
Financial Institutions/ Insurance	7,118,923.1	7,686,421.8	6,125,374.9	4,750,593.5	3,540,851.2
Endowment & Foundation	959,831.7	1,003,843.1	836,725.0	751,916.3	762,280.9
Family Office	-	-	-	-	-
Total Assets Under Management (US\$ thousands)	84,468,768.6	77,314,266.2	65,709,286.3	46,422,020.3	40,263,601.1
Assets Under Advisement (US\$ thousands)^{3,8}					
Commingled ⁶	-	-	-	-	-
Public Pension Fund	311,313,085.8	334,738,559.9	284,892,731.9	223,435,055.4	197,984,865.0
Taft-Hartley	8,619,250.4	763,012.2	902,678.1	879,675.9	1,171,140.6
ERISA Corporate Pension Plan	15,030,456.2	15,555,517.5	12,447,497.5	6,182,783.9	6,711,052.7
Sovereign Wealth Fund	234,041,766.4	218,040,673.6	265,398,937.0	144,227,089.3	141,792,310.9
Corporate Pension Fund	6,674,987.4	5,910,985.2	3,194,559.1	2,646,900.9	2,547,995.4
Financial Institutions/ Insurance	109,872,111.4	135,085,982.6	83,034,019.8	57,567,017.9	44,906,314.0
Endowment & Foundation	3,020,908.5	4,192,353.8	4,577,511.7	2,455,494.6	2,977,938.2
Family Office	4,134,712.9	2,593,145.3	1,816,600.2	1,212,062.0	-
Total Assets Under Advisement (US\$ thousands)	692,707,279.0	716,880,230.1	656,264,535.4	438,606,079.8	398,091,616.7

The overall number of employees at Hamilton Lane increased during the review period from 521 to 622 while the number of investment professionals increased from 174 to 203. Hamilton Lane attributes this growth to its commitment to “measured, disciplined growth of our business, including the expansion of existing and new strategies – while continuing to maintain capacity that keeps pace with investment opportunities.”

No significant findings came out of the response to the Due Diligence Questionnaire which is for the Fiscal Year ending June 30, 2023. However, after the period covered by the questionnaire Hamilton Lane announced that Mario Giannini is stepping away from Chief Executive Officer and joining Hartley Rogers as Executive Co-Chairman of Hamilton Lane. The position of Chief Executive Officer will be jointly filled by Juan Delgado-Moreira and Erik Hirsch. This transition will be effective January 1st, 2024. Mario Giannini has spent 22 years as the CEO of Hamilton Lane, so this announcement has significant implications for Hamilton Lane as a firm. The Investment Team believes that it is a positive affirmation of Hamilton Lane’s corporate culture that Mario is choosing to stay on with the firm and will be a continued resource after the transition. Juan Delgado-Moreira has been with Hamilton Lane since 2005. Juan Delgado-Moreira is currently located in Hong Kong and heads the firm’s international activities. Erik Hirsch has been with Hamilton Lane since 1999. Erik Hirsch is based in the Conshohocken, PA and currently leads Hamilton Lane’s Strategic and Technology initiatives. Staff will continue to monitor the effect of having two Chairmen of the Board and two CEOs on the firm.

During this review period, Hamilton Lane completed the following significant projects for SBCERS:

- August 2022 – Education: Environmental, Social and Governance (ESG)

- January 2023 – Education: Real Estate Market Overview
- Committed over \$80M across 8 funds in the Private Equity Portfolio
- Committed over \$95M across 9 funds in the Private Real Return Portfolio
- Assisted Staff with the Private Real Estate portfolio consultant transition
- Committed over \$20M across 2 funds in the Private Real Estate Portfolio
- Affirmed 2 fund recommendations from departing Consultant for inclusion in the Private Real Estate Portfolio

SBCERS staff has thoroughly reviewed all materials collected from all consultants through the Consultant Oversight Questionnaires and verified that the consultants were in compliance with legal requirements and SBCERS policies. No significant concerns requiring immediate action were noted. Investment Staff will continue to monitor the consultants and bring any issue identified in that process to the Board's attention.

Consultant relationship timeline:

	RVK	Hamilton Lane			Bank of New York Mellon
Function	General Investment	Private Equity	Private Real Return	Private Real Estate	Custodian
Type	Non-Discretionary	Discretionary	Discretionary	Discretionary	N/A
Start of Relationship	6/1/2016	9/18/2006	8/13/2014	8/10/2010	8/1/2004
Last RFP	2016 (<i>last contract renewal: 2021</i>)	2021	2014	2022	2012 (in depth review 2016)
Next RFP (proposed)	2026	2025	2024	2027	2023

The Investment Consultant Oversight Policy, last reviewed on April 28th, 2021, gives the Board the option to issue a request for proposal (RFP) for investment consultant services every five years. The table above shows the most recent RFP and when the next RFP should be considered by the Board. The policy does not require the Board to initiate an RFP.

Attachments Available Online:

- RVK Response to Due Diligence Questionnaire
- HL Response_SBCERS 2023 DDQ Final incl. Attachments