

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** September 25, 2024

**TO:** SBCERS Board of Retirement

**FROM:** SBCERS Investment Staff

**RE:** **Investment Consultant Oversight Review**

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## **Recommendation**

That the Board of Retirement receive and file the Investment Consultant Oversight Review for the year ending June 30, 2024.

## **Summary**

Investment Staff has prepared this annual due diligence report pursuant to the Consultant Oversight Policy. The review covers both General and Specialty Investment Consultants and is designed to ensure:

- Investment consultant professionals render service in the best interests of the System, its members and beneficiaries, and in compliance with the SBCERS Investment Policy Statement
- SBCERS receives complete and accurate information regarding investment consultants, including verification of compliance with contractual and regulatory requirements.

The annual report is based on questionnaires sent to consultants which are evaluated by the SBCERS Investment Team. For the period ending June 30, 2024, questionnaires were sent to General Consultant, RVK Inc. and Specialty Consultant, Hamilton Lane.

Both RVK Inc. and Hamilton Lane have provided comprehensive responses to the questionnaires and all requested exhibits. What follows is a summary of the submitted material for the Board of Retirement and important context through which to view the responses. Fees paid by SBCERS to consultants appear at the end of this review.

## **RVK**

### **Organization**

In January of 2024, the RVK Board of Directors informed clients of succession planning initiatives for both President Jim Voytko and Chief Executive Officer Rebecca “Becky” Gratsinger. The firm announced that the role of President would be co-facilitated by Tony John and Spencer Hunter and that Josh Kevan would take over role of Chief Executive Officer. Jim Voytko stepped down as President of RVK as of May 1<sup>st</sup>, 2024. Becky Gratsinger remains Chief Executive Officer until January 1<sup>st</sup>, 2025. Also notable is that Matthias Bauer, co-lead consultant to SBCERS, is a member

of the firm’s Board of Directors. RVK has been very communicative of this succession planning initiative with SBCERS staff in real time.

RVK moved the Portland, Oregon home office location during March 2024. The new office is in the same business district of downtown Portland as the old office. The move did not impact business operations of RVK or its ability to service SBCERS.

RVK’s cornerstone philosophy is to provide clients with a high standard of investment consultant services using a non-discretionary consulting model. This is reflected in their source of revenues, below. Revenue received by RVK for the period requested, has come exclusively from non-discretionary consulting.

	Source of Revenue (US\$ in thousands)	2023		2022		2021		2020		2019	
		\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue
1	Consulting: Discretionary	-	-*	-	-	-	-	-	-	-	-
2	Consulting: Non-Discretionary	\$25,778	100%	\$23,866	100%	\$23,247	100%	\$21,860	100%	\$20,881	100%
3	Non-Consulting Services	-	-	-	-	-	-	-	-	-	-
4	Asset Management	-	-	-	-	-	-	-	-	-	-
	<b>Total Revenue</b>	\$25,778	100%	\$23,866	100%	\$23,247	100%	\$21,860	100%	\$20,881	100%

### Standard of Conduct

RVK had no conflicts of interest to report. Reportable conflicts of interest include financial relationships with, or gifts given to SBCERS Board Members, Santa Barbara Board of Supervisors, or SBCERS employees.

In previous years, SBCERS staff reported on active litigation involving RVK. RVK was one of several defendants in a suit brought in Kentucky by Kentucky Retirement Systems. In April 2023, the original filing of Case 1348 was dismissed, this dismissal was final. Subsequent cases have also been dismissed and are not active. An external audit concluded that RVK “met [its] contractual and fiduciary duties,” “honestly disclos[ed] the investment challenges KRS faced,” and “served as a valuable consultant.” This information was all previously reported in the 2023 Consultant Oversight Review and no further updates on inactive cases in available. While the original case has been dismissed, related cases may still be appealed which makes it reportable under the questionnaire.

## Clients

RVK has a stated goal of growing the firm at a modest rate. RVK prefers modest growth as it enables RVK to grow without jeopardizing service quality to the clients, attracting and retaining talented employees and enhancing tools and resources of the firm. RVK has achieved their goal by increasing the client base by a net four new relationships and growing the Asset Under Advisement by net \$80,844,457 (in thousands).

	2024*	2023	2022	2021	2020
<b>Number of Clients**</b>					
U.S. Public Pension Plan	28	27	27	29	18
Corporate Pension Plan	4	4	4	4	2
Endowments/Foundations	2	2	2	2	1
Others (please specify)***	46	41	41	48	39
<b>Total Number of Clients</b>	<b>80</b>	<b>74</b>	<b>74</b>	<b>83</b>	<b>60</b>
<b>Total Assets Under Advisement (US\$ thousands)</b>					
U.S. Public Pension Plan	\$1,038,045,225	\$983,515,230	\$1,004,164,317	\$1,060,575,213	\$743,524,719
Corporate Pension Plan	\$8,991,241	\$8,771,337	\$9,531,528	\$11,168,862	\$3,080,386
Endowments/Foundations	\$2,899,299	\$2,716,811	\$2,580,126	\$2,789,989	\$1,255,484
Others (please specify)***	\$537,757,625	\$511,845,554	\$209,003,767	\$230,027,612	\$202,123,432
<b>Total Number of Clients</b>	<b>\$1,587,693,390</b>	<b>\$1,506,848,933</b>	<b>\$1,225,279,738</b>	<b>\$1,304,561,677</b>	<b>\$949,984,021</b>

	2024	2023	2022	2021	2020
Number of Clients Gained	4	8	7	6	15
Number of Clients Lost	8	3	8	4	8
<b>Total Number of Clients at Year End**</b>	<b>185*</b>	<b>184</b>	<b>182</b>	<b>187</b>	<b>178</b>

## Professional Staff

There has been no turnover of RVK personnel supporting the relationship with SBCERS. Marcia Beard and Matthias Bauer, CFA continue to provide support as co-lead primary consultants. In addition to Marcia and Matthias, the SBCERS relationship is supported by Joe Ledgerwood, Paige Blaser and other non-Board facing staff.

Name and Title	Job Function	Primary Office location	Years with Firm	Total years of Consulting
<b>Marcia Beard</b> Senior Consultant, Principal	Investment Consulting	Portland, OR	28	28
<b>Matthias Bauer, CFA</b> Senior Consultant, Principal	Investment Consulting	Portland, OR	17	17
<b>Paige Blaser</b> Consultant	Investment Consulting	Boise, ID	10	12
<b>Joe Ledgerwood, CFA</b> Director of Investment Manager Research, Principal	Manager Research	Portland, OR	14	22
<b>Jordan Masukawa</b> Investment Associate	Research and Portfolio Analysis	Portland, OR	5	5

Outside of the team supporting SBCERS, RVK saw increase in personnel by two additional employees from 2023. The RVK team supporting SBCERS has provided clear and consistent communication about staffing changes at RVK. The table below details the broad categories for current personnel at RVK, Inc.

(1) Category of Staff	(2) Number of Staff
Senior Investment Professionals (Consultants and/or Portfolio Managers)	54
Junior Investment Professionals (Investment Analysts)	63
Dedicated Executive Management Staff	3
Other Non-Investment Professionals	4
Technical/IT staff	4
Administrative staff	15
<b>Total Staff</b>	<b>143</b>

### **Investment Philosophy**

RVK’s investment philosophy continues to be rooted in Modern Portfolio Theory. As such, diversification is a cornerstone of RVK’s investment philosophy. RVK highlighted four areas of modification in which they have enhanced their investment philosophy:

- Liquidity Matters
- Not All Risk Is Compensated Equally
- Correlations Need to be Modeled Dynamically
- Equity Beta Can be Hidden Throughout the Portfolio

For liquidity matters, RVK created new liquidity metrics which help to create a more holistic view of a client’s portfolio. For risk compensation, RVK has implemented a “far left tail” in the asset allocation modeling process. For modeling correlations dynamically, RVK can now stress test with correlations ranging from -1 to 1. Lastly, RVK now recognizes the strong equity beta of asset classes like high yield or emerging market debt.

### **Legal and Regulatory**

RVK reports that they are in compliance with all regulatory filings, including but not limited to: (a) SEC filings; (b) California Fair Political Practices Commission Form 700 filings; and (c) disclosures required by SBCERS’ Placement Agent Policy.

### **Consultant Feedback**

RVK reports that areas of success during the Fiscal Year ending June 30, 2024, were education, communication and favorable relative performance. SBCERS staff agrees with. The firm was very involved in several educational presentations brought before the Board of Retirement including Environmental, Social, & Governance (ESG), China Equity and Manager Watch List. Communication between RVK and SBCERS staff has continued to flourish through bi-weekly meetings.

### **Exhibits**

RVK has provided and SBCERS staff has reviewed the following exhibits:

1. Organization Chart
2. Business Continuity Plan

3. Conflict of Interest Policy
4. Code of Conduct
5. Biographies of Key Professionals
6. Experience of Internal and External Legal Counsel
7. Recent Form ADV Parts I and II

Upon reviewing the exhibits, SBCERS staff has deemed all materials are in good order and there is no additional information to report to the Board of Retirement. SBCERS staff is satisfied with RVK's responsiveness to the Consultant Oversight Questionnaire.

## Hamilton Lane Organization

As a publicly traded company, Hamilton Lane Incorporated's (HLI) ownership is fluid because its shares are traded in the open market. In 2024, HLI completed one separate follow-on share offering in March. After the follow-on offering, directors and executive officers collectively held approximately 24% of the economic interest in HLA and 63% of the total voting power of HLI. Since the Initial Public Offering (IPO) in 2017, HLI has made 1 or 2 subsequent offerings annually.

When asked about the future growth of the organization, Hamilton Lane responded that they intend to further develop solutions to meet clients' evolving needs and respond to changing market conditions. To achieve this, Hamilton Lane evaluates prospective business relationships according to many factors, including managing access/allocation as well as firm coverage capabilities. Hamilton Lane's aim is always to achieve the highest level of client service and, to ensure that their investment capacity keeps pace with the best investment opportunities. The chart below shows that Hamilton Lane continues to grow in alignment with their revenue year over year.

	Source of Revenue (US\$ in thousands)	2024		2023		2022		2021		2020	
		\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue	\$ Revenue	% of Total Revenue
1	Specialized Funds	\$261,012	(57.7%)	\$196,268	(52.8%)	\$150,079	(47.8%)	\$148,023	(51.1%)	\$111,803	(45.7%)
2	Separate Accounts	\$128,826	(28.5%)	\$117,763	(31.7%)	\$103,229	(32.9%)	\$93,963	(32.5%)	\$90,750	(37.1%)
3	Advisory and Reporting	\$49,010	(10.8%)	\$49,577	(13.4%)	\$48,299	(15.4%)	\$37,573	(13.0%)	\$33,262	(13.6%)
4	Distribution Management	\$5,054	(1%)	\$2,560	(0.7%)	\$10,466	(3.3%)	\$6,701	(2.3%)	\$4,920	(13.6%)
5	Fund Reimbursement Revenue	\$8,104	(2%)	\$5,706	(1.5%)	\$2,155	(0.7%)	\$3,184	(1.1%)	\$4,185	(1.7%)
6	Total Management & Advisory Fees	\$451,936	(100%)	\$371,874	(100%)	\$314,228	(100%)	\$289,444	(100%)	\$244,920	(100%)

## Standard of Conduct

Hamilton Lane reports no new information under Standard of Conduct. Hamilton Lane had no conflicts of interest to report. Reportable conflicts of interest include financial relationships with

or gifts given to SBCERS Board Members, Santa Barbara Board of Supervisors, or SBCERS employees.

Hamilton Lane has no ongoing material business-related litigation or regulatory action against the firm, affiliates or employees.

### Clients

Hamilton Lane grew Assets Under Advisement by \$102,241,419 (in thousands). Clients gained by Hamilton Lane was 21 and clients lost was 9, giving Hamilton Lane a total client load of 273 as of December 31<sup>st</sup>, 2023.

	6/30/2024	6/30/2023	6/30/2022	6/30/2021	6/30/2020
Commingled	7	7	6	5	4
Public Pension Fund	27	26	26	25	20
Taft-Hartley	4	3	2	2	1
ERISA Corporate Pension Plan	4	4	4	3	3
Sovereign Wealth Fund	2	6	5	6	5
Corporate Pension Fund	2	2	2	1	1
Financial Institutions/ Insurance	18	20	22	17	14
Endowment & Foundation	2	3	4	3	2
Family Office	3	2	1	1	1
<b>Total Number of Clients</b>	<b>69</b>	<b>73</b>	<b>72</b>	<b>63</b>	<b>51</b>
<b>Assets Under Management (US\$ thousands)</b>					
Commingled	20,705,979.7	16,557,713.8	13,680,005.5	10,563,293.9	6,615,121.2
Public Pension Fund	42,350,894.0	47,809,433.9	43,604,663.0	37,843,846.5	26,536,951.7
Taft-Hartley	7,119,703.3	5,729,356.5	5,565,233.1	4,413,954.5	2,497,599.4
ERISA Corporate Pension Plan	1,147,491.5	1,679,682.9	1,700,673.6	1,340,031.9	1,148,549.7
Sovereign Wealth Fund	4,540,731.2	4,613,826.8	4,073,426.2	4,586,059.6	4,121,288.7
Corporate Pension Fund	-	-	-	-	-
Financial Institutions/ Insurance	5,479,164.0	7,118,923.1	7,686,421.8	6,125,374.9	4,750,593.5
Endowment & Foundation	958,226,749	959,831.7	1,003,843.1	836,725.0	751,916.3
Family Office	-	-	-	-	-
<b>Total Assets Under Management (US\$ thousands)</b>	<b>82,302,190</b>	<b>84,468,768.6</b>	<b>77,314,266.2</b>	<b>65,709,286.3</b>	<b>46,422,020.3</b>
<b>Assets Under Advisement (US\$ thousands)</b>					
Commingled	-	-	-	-	-
Public Pension Fund	387,750,642.5	311,313,085.8	334,738,559.9	284,892,731.9	223,435,055.4

Taft-Hartley	8,158,434,664	8,619,250.4	763,012.2	902,678.1	879,675.9
ERISA Corporate Pension Plan	16,697,452.7	15,030,456.2	15,555,517.5	12,447,497.5	6,182,783.9
Sovereign Wealth Fund	245,692,561.7	234,041,766.4	218,040,673.6	265,398,937.0	144,227,089.3
Corporate Pension Fund	7,147,410.3	6,674,987.4	5,910,985.2	3,194,559.1	2,646,900.9
Financial Institutions/ Insurance	117,822,946.1	109,872,111.4	135,085,982.6	83,034,019.8	57,567,017.9
Endowment & Foundation	2,464,263.3	3,020,908.5	4,192,353.8	4,577,511.7	2,455,494.6
Family Office	9,214,987.6	4,134,712.9	2,593,145.3	1,816,600.2	1,212,062.0
	<b>794,948,698.80</b>	<b>692,707,279.0</b>	<b>716,880,230.1</b>	<b>656,264,535.4</b>	<b>438,606,079.8</b>

	<b>12/31/2023<sup>1</sup></b>	<b>12/31/22</b>	<b>12/31/21</b>	<b>12/31/20</b>	<b>12/31/19</b>
Number of Clients Gained	21	30	21	27	11
Number of Clients Lost	9	4	3	10	5
<b>Total Number of Clients at Year End</b>	<b>273</b>	<b>238</b>	<b>212</b>	<b>198</b>	<b>170</b>

### Professional Staff

There has been no turnover of the Hamilton Lane personnel supporting the relationship with SBCERS during the period. Amanda Pinho, a junior consultant on our client team departed Hamilton Lane after June 30, 2024. Ms. Pinho did not have a Board of Retirement facing role but was well connected with SBCERS staff. While she was appreciated, Ms. Pinho's departure was not impactful to SBCERS because of Hamilton Lane's team-based approach to supporting clients.

Name and Title	Job Function	Primary Office location	Years with Firm	Total years of Real Estate Consulting
<b>Paul Yett</b>	Managing Director	San Francisco, CA	24 years	>20 years
<b>Brent Burnett</b>	Managing Director – Global Head of Real Assets	Portland, OR	6 years	18 years
<b>Natalie Fitch</b>	Relationship Management/Fund Investments	San Diego	13 years	0
<b>Elizabeth Bell</b>	Real Assets	Conshohocken	1.5 years	~15 years
<b>Zach Rosenberg</b>	RM Support	Denver	4.5 years	0
<b>Amanda Pinho</b>	RM Support	Conshohocken	2 years	0

(1) Category of Staff	(2) Number of Staff
Senior Investment Professionals (Consultants and/or Portfolio Managers) <sup>1</sup>	114
Junior Investment Professionals (Investment Analysts) <sup>2</sup>	146
Dedicated Executive Management Staff	7

Other Non-Investment Professionals	369
Technical/IT staff	45
Administrative staff	33
<b>Total Staff<sup>3</sup></b>	<b>714</b>

Overall

Hamilton

Lane grew its staff by 92 individuals, most of the increased staffing came from Investment Professionals, both Senior and Junior. This is consistent with Hamilton Lane’s preference for increasing staffing ahead planned growth of the organization.

### **Investment Philosophy**

Investment Philosophy of Hamilton Lane remains unchanged. Hamilton Lane’s philosophy regarding private markets portfolio management is embodied in the portfolio construction approach. Using managers as building blocks, Hamilton Lane searches for complementary managers by style and strategy and prudent diversification by industry and geography to allow for appropriate risk-return. For example, Hamilton Lane recognizes that mid-market comprises managers taking varying amounts of risk – the value buyer, the buy-and-build manager, the turnaround specialist and the growth equity player. All these managers and strategies have their place in a portfolio, but recognizing their unique differences, risk-return profile and portfolio fit is crucial to portfolio construction.

Hamilton Lane’s analysis then drops down to the fund level, where they conduct quantitative and qualitative analysis on the suitability of individual investments for the portfolio. Such an approach allows Hamilton Lane to make investments in fund managers with compelling performance or in sectors and/or geographies that seem poised to outperform. Among the managers Hamilton Lane is seeking unique, yet complementary return streams. This fund-level analysis and evaluation of fund manager investment style typically lasts 3 months from initial screening to final investment recommendation.

### **Legal and Regulatory**

Hamilton Report reports that they currently in compliance with all regulatory filings, including but not limited to: (a) SEC filings; (b) California Fair Political Practices Commission Form 700 filings; and (c) disclosures required by SBCERS’ Placement Agent Policy.

### **Consultant Feedback**

Hamilton Lane continues to greatly value its long-term relationship with SBCERS. Hamilton Lane reports that they genuinely enjoy working with Staff and the Board and consider it a privilege to work on behalf of Santa Barbara’s pensioners. Hamilton Lane is proud of the returns achieved; as of March 31, 2024, the Private Equity Portfolio, Private Real Return Portfolio, and Private Real Estate Portfolio have generated since inception net IRRs of 13.51%, 12.16%, and 8.63%, respectively. Hamilton Lane continues to execute all three Portfolios according to the annual strategic plans.

### **Exhibits**

Hamilton Lane has provided and SBCERS staff has reviewed the following exhibits:

1. Organization Chart
2. Business Continuity Plan

3. Conflict of Interest Policy
4. Code of Conduct
5. Biographies of Key Professionals
6. Experience of Internal and External Legal Counsel
7. Recent Form ADV Parts I and II

Upon reviewing the exhibits, SBCERS staff has deemed all materials are in good order and there is no additional information to report to the Board of Retirement. SBCERS is satisfied with Hamilton Lane’s responsiveness to the Consultant Oversight Questionnaire.

**Fees**

SBCERS paid investments consultants \$1,533,500 for the one-year period ending September 30<sup>th</sup>, 2024. During the period SBCERS engaged RVK to provide additional support for the Custodial Banking Request for Proposal. This additional support is beyond the scope of RVK’s standard contract, and an auxiliary \$40,000 project fee was assessed. The Board approved this additional fee at the October 25<sup>th</sup>, 2023, meeting. RVK does not have discretion over any portion of the portfolio, all investment recommendations are approved by the Board and facilitated by staff with the assistance of outside legal counsel.

Hamilton Lane’s charges one quarterly fee, which consolidates the three separate contracts SBCERS has with Hamilton Lane for Specialty Discretionary strategies: Private Equity, Private Real Estate and Private Real Return. Private Real Estate and Private Real Return reflect economies of scale for additional Assets under Advisement based on the original contract for Private Equity. Hamilton Lane has full discretion over their portion of the portfolio. In addition to executing investment allocations Hamilton Lane is responsible for legal negotiations and operational implementation of investments in these strategies.

<b>Consultant</b>	<b>Quarterly Fee</b>	<b>Auxiliary Fees</b>	<b>Annual Total Fees for Period Ending 9/30/2024</b>
RVK Inc.	\$85,875	\$40,000	\$383,500
Hamilton Lane Advisors	\$287,500		\$1,150,000
Private Equity	\$162,500		\$650,000
Private Real Estate	\$87,500		\$350,000
Private Real Return	\$37,500		\$150,000

**Attachments:**

- SBCERS Investment Consultant Oversight Policy 2024
- RVK Response to Due Diligence Questionnaire
- RVK Leadership Transition Press Release
- Hamilton Lane - Annual Due Diligence Questionnaire
- Exhibit #1 - Hamilton Lane - Organizational Chart

- Exhibit #1 - Hamilton Lane - Structure Chart
- Exhibit #2 - Hamilton Lane Business Continuation Plan - North America
- Exhibit #3 - Hamilton Lane Compliance Manual
- Exhibit #4 - Hamilton Lane Code of Ethics
- Exhibit #5 - Hamilton Lane Professional Biographies
- Exhibit #6 - Hamilton Lane Legal Biographies
- Exhibit #7 - Form ADV Part 1 Links (SEC Website and PDF Download)