



Santa Barbara County Employees' Retirement System

DATE: February 22, 2023

Agenda Item # 7

TO: SBCERS BOARD OF RETIREMENT

FROM: SBCERS Investment Team

RE: **Investment Consultant Oversight Review**

Recommendation

That the Board of Retirement receive and accept the Investment Consultant Oversight Review for the year ending June 30, 2022, 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 evaluated by the SBCERS Investment Team. This year, the questionnaire was sent only to RVK for response. In lieu of questionnaires, the responses to the Request For Proposal (RFP) on the Discretionary Real Estate portfolio were used to analyze ORG and Hamilton Lane for the completion of this mandate. Due to the current real estate consultant transition, this report focuses mainly on RVK and Hamilton Lane.

This annual oversight review evaluates 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 2021-2022 RVK reported no changes to the SBCERS' client team. Marcia Beard and Matthias Bauer have served as the co-lead consultants for RVK since the inception to the SBCERS relationship. For fiscal year ended June 30, 2022, RVK reported a manager research departure affecting SBCERS. In 2021, Justin Outslay, a manager research consultant, served SBCERS as the RVK daily contact on private credit. Justin departed RVK in mid-2022 as he was accepted into University of Chicago's Booth School of Business. At that time, Joe Ledgerwood,

Director of RVK’s entire Manager Research department, and who had already stepped in to be SBCERS’ manager research contact, assumed Justin’s duties for communication with Investment Staff and Board regarding private credit.

As a firm, RVK’s client roster declined marginally, dropping from 187 down to 182. Employee growth has slightly increased: the total number of firm employees increased during the fiscal year from 132 to 133 while the number of investment professionals went from 105 to 107. In terms of firm ownership, the number of employee owners increased from 24 to 34 during the fiscal year. This increase was expected because in October 2021, RVK announced the expansion of its shareholder base from 24 to 35, illustrating their continued commitment to remaining both independent and 100% employee owned.

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. The Case 1348 and Case 645 are currently reassigned to a new circuit judge in Franklin Circuit Court after the initial judge recused himself. Motions to dismiss Case 1348 and Case 645 are pending a decision from the current presiding judge. Federal Case 29 is stayed pending the resolution of state cases. Additionally, Kentucky Retirement Systems, now KPPA, commissioned an independent investigation into the claims of the plaintiffs. New York-based law firm, Calcaterra Pollack LLP, was retained to complete the independent investigation. In August 2022 the “KRS Investigation Report” was released to the public. Calcaterra concluded that “R.V. Kuhns met their contractual and fiduciary duties to KRS by honestly disclosing the investment challenges KRS faced, and consistently and thoroughly identifying the aggressive to conservative investment options for KRS to consider.”

	As of June 30, 2022	As of June 30, 2021	As of June 30, 2020
Number of firm employees (in total)	133	132	120
Number of investment professionals (in total)	107	105	94
Percentage of firm owned by employees	100%	100%	100%
Number of employees with ownership in the firm	34	24	27
Number of office locations	4	4	4

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

- July 2021 - 2021 Capital Market Expectations
- March 2022 – Formal Investment Policy Statement Review
- April 2022 – 2022 Capital Market Expectations
- June 2022 – Public Markets Strategic Plan & Fixed Income Structure Study
- Private Credit Manager Selection – Deerpath VI, Angelo Gordon Evergreen and Atalaya (not funded due to contract negotiation)

Update as of February 22, 2023: RVK called SBCERS to advise that Kyle Hagemeyer would be departing the RVK team serving the SBCERS staff. RVK notified SBCERS prior to Kyle's departure was announced internally. Paige Blaser will rejoin Consultants Marcia Beard and Matthias Bauer, replacing Kyle Hagemeyer as one of the key RVK team members working with SBCERS. The Board may recall that Paige Blaser served in the Associate Consultant role prior to Kyle serving SBCERS from the beginning of the relationship in 2016 to 2019 before departing RVK for a career change. Paige returned to RVK in 2021. While this change is very recent, no major issues in client service have been experienced.

RVK had additional departures from its manager research team since the completion of the Consultant Oversight Report review period for fiscal year end June 30, 2022. One manager research consultant who had a leadership role in fixed income and private credit research and had a direct relationship with SBCERS left RVK for personal reasons at the end of 2022.

While preparing updated consultant firm profiles for the 2023 New Trustee Orientation, staff learned that RVK had recently completed a restructuring of its Investment Management Research Team. Upon further review staff learned that in addition to the restructuring of the Team format, approximately 30% of the team has turned over between February 2022 and January 2023. RVK has assured SBCERS staff that apart from the manager research consultant addressed above, many of the departures did not impact SBCERS as they were analyst positions dedicated to asset classes for which SBCERS is served by their discretionary consultants.

Hamilton Lane

During the 2021-2022 fiscal year, Hamilton Lane reported no changes to the SBCERS' client team. 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, Total Assets Under Management and Total Asset Under Advisement:

	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17
Number of Clients^{4,10,11}					
Commingled ⁶	7	4	4	3	2
Public Pension Fund	25	22	18	16	16
Taft-Hartley	2	2	2	2	2
ERISA Corporate Pension Plan	4	3	3	3	2
Sovereign Wealth Fund	6	5	5	7	7
Corporate Pension Fund	1	1	1	1	2
Financial Institutions/ Insurance	20	16	10	8	6
Endowment & Foundation	3	2	1	1	1
Family Office	1	1	1	NA	NA
Total Number of Clients	69	56	45	41	38
Assets Under Management (US\$ thousands)²					
Commingled ⁶	13,708,896.4	7,796,795.4	6,211,050.9	4,218,882.6	3,254,667.1
Public Pension Fund	40,070,651.6	29,344,266.3	24,639,926.7	21,188,189.3	19,474,816.0
Taft-Hartley	4,996,629.9	4,076,022.1	3,383,435.1	3,089,788.5	2,676,313.9
ERISA Corporate Pension Plan	1,555,944.1	1,184,674.5	1,162,303.9	1,186,832.5	907,273.6
Sovereign Wealth Fund	4,820,915.1	4,344,973.7	4,288,953.6	4,567,121.1	3,443,084.7
Corporate Pension Fund	-	-	-	-	-
Financial Institutions/ Insurance	6,946,964.2	5,283,400.4	3,392,558.7	2,565,595.0	1,032,515.1
Endowment & Foundation	732,098.2	-	-	-	-
Family Office	-	-	-	-	-
Total Assets Under Management (US\$ thousands)	72,832,099.4	52,030,132.4	43,078,228.9	36,816,409.0	30,788,670.3
Assets Under Advisement (US\$ thousands)³					
Commingled ⁶	-	-	-	-	-
Public Pension Fund	306,838,626.3	247,686,495.6	203,474,480.1	180,590,858.2	182,883,719.1
Taft-Hartley	831,151.8	888,743.5	1,052,205.5	1,304,851.4	1,486,951.6
ERISA Corporate Pension Plan	15,438,282.5	11,541,210.0	6,467,530.0	6,760,259.8	2,248,510.5
Sovereign Wealth Fund	286,679,236.4	160,038,003.4	146,129,674.4	163,549,110.4	141,041,532.7
Corporate Pension Fund	3,426,823.8	2,979,518.4	2,695,233.6	2,565,595.2	4,190,481.3
Financial Institutions/ Insurance	124,249,747.3	71,776,550.3	49,225,381.6	41,026,723.8	31,114,746.1
Endowment & Foundation	4,821,693.0	75,505,733.6	2,046,627.6	2,247,578.8	1,933,301.1
Family Office	1,989,813.0	1,588,672.1	1,226,331.6	-	-
Total Assets Under Advisement (US\$ thousands)	744,275,374.0	572,004,927.0	412,317,464.5	398,044,977.6	364,899,242.5

The overall number of employees at Hamilton Lane increased during the review period from 474 to 521 while the number of investment professionals increased from 150 to 174. 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.”

Since the 2022 Discretionary Real Estate RFP and subsequent hiring of Hamilton Lane as the Discretionary Real Estate Consultant, Elizabeth Bell has joined Paul Yett, Brent Burnett and Natalie Fitch as part of Hamilton Lane’s team servicing SBCERS. As a result of Hamilton Lane being the discretionary consultant to 3 portfolios for SBCERS, monthly meetings are hosted by SBCERS Investment Team to keep in continuous contact with Hamilton Lane regarding the status of various ongoing projects.

Hamilton Lane’s legal due diligence process involves a comprehensive review of an investment’s qualitative and quantitative merits shown in the tables below. This is similar to the review performed by other consultant manager research teams. In addition to core manager research functions, Hamilton Lane also uses an in-house legal team to review deal specific terms and negotiate partnership structures. Hamilton Lane executes limited partnership agreements on behalf of SBCERS once an investment has been selected by its research team and has also completed comprehensive legal review.

Qualitative Criteria
Organizational stability & depth
Appropriate use of leverage
Thorough due diligence processes
"Market" or better Fund terms
Limited strategy drift
Strong investment pipeline
Lack of past/pending litigation

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

- August 2021 – Education: Private Equity Co-Investments
- Committed over \$110M across 11 funds in the Private Equity Portfolio
- Committed over \$90M across 6 funds in the Private Real Return Portfolio

ORG Portfolio Management

For the 2021-2022 fiscal year ORG had no changes to the SBCERS service team. Ed Schwartz serves as the Primary Consultant to SBCERS with the assistance of Barbara McDowell and Thorsen Eriksen as the Secondary Consultants. Both Ed and Barbara have served as part of the ORG team servicing since 2010, while Thorsen joined the team in 2020.

ORG, as the incumbent, performed well during the Discretionary Real Estate RFP and a strong investment return track record. However, they were not retained by SBCERS as the consultant to the Real Estate portfolio. As part of the transition away from ORG to Hamilton Lane, ORG has been retained as consultant to the SBCERS Real Estate portfolio through March 31st, 2023. ORG continues to provide professional and timely responses to SBCERS Investment Staff.

Conclusion and Recommended Actions

SBCERS staff has thoroughly reviewed all materials collected from all consultants through the Request for Proposal and 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.

Due to the restructuring of the investment manager research team, staff recommends the Board consider forming an ad hoc committee to conduct an on-site due diligence visit to the RVK Home

Office. It has been more than 7 years since SBCERS has performed an on-site visit to RVK and staff views this as opportunity for the Board to understand the principal strategy guiding the reorganization and meet the manager research team. 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	ORG
Function	General Investment	Private Equity, Private Real Return and Real Estate	Real Estate
Type	Non-Discretionary	Discretionary	Discretionary
Start of Relationship	6/1/2016	PE - 9/18/2006 PRR - 8/13/2014 RE - 10/1/2022	8/10/2010
Last RFP	2016 (<i>last contract renewal: 2021</i>)	PE - 2021 PRR- 2014 RE - 2022	2022, term date 3/31/23
Next RFP (proposed)	2026	PE - 2025 PRR- 2022 RE - 2027	N/A

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:

- RVK Response to Annual Due Diligence Review
- HL Response to SBCERS - Discretionary Real Estate Mandate - June 2022
- 2022 SBCERS Real Estate Consultant RFP