

Executive Team

Dominic D. Brown, CPA, CFE
Chief Executive Officer

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
Chief Legal Officer

Matthew Henry, CFE
Chief Operations Officer



Board of Retirement

Tyler Whitezell, Chair
Phil Franey, Vice-Chair
Jeanine Adams
David Couch
Juan Gonzalez
Joseph D. Hughes
Jordan Kaufman
Rick Kratt
John Sanders
Dustin Contreras, Alternate
Chase Nunneley, Alternate
Robb Seibly, Alternate

May 26, 2023

Members, Board of Retirement
Employee Bargaining Units
Requesting News Media
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Investment Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Investment Committee will be held on Thursday, June 1, 2023 at 1:00 p.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

How to Participate: Listen to or View the Board Meeting

To listen to the live audio of the Board meeting, please dial one of the following numbers (*for best audio a landline is recommended*) and enter ID# 843-4886-2567:

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- <https://us02web.zoom.us/j/84348862567?pwd=dlk5NGdJWVJXMjRoVFhJb3BvbGhKZz09>
- Passcode: 735248

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to administration@kcera.org.

Sincerely,

Dominic D. Brown
Chief Executive Officer

Attachments

AGENDA:

All agenda item supporting documentation is available for public review on KCERA's website at www.kcera.org following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

**AMERICANS WITH DISABILITIES ACT
(Government Code §54953.2)**

Disabled individuals who need special assistance to listen to and/or participate in the teleconference meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to administration@kcera.org. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

CALL TO ORDER

ROLL CALL (IN PERSON)

AB 2449 REMOTE APPEARANCE(S)

Items 1 and/or 2 withdrawn from agenda if no trustees will have a need to appear via teleconference:

The first two items on the agenda are reserved for trustees who have a need to appear via teleconference due to a "just cause" need or an "emergency circumstance." Trustees who have notified this Committee before agenda-posting will be called upon and will provide a general description of their need to attend via teleconference as allowed by law. Trustees who were not able to notify the Committee in advance of posting and have a need to attend via teleconference will state their notification or request when called upon to do so. All trustees appearing via teleconference will need to disclose any adult person(s) present in the room of their remote location and their relationship to such person(s). Trustees appearing remotely are reminded to keep their cameras on throughout the meeting.

1. JUST CAUSE CIRCUMSTANCE(S):

- a) The following Trustee(s) have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).
 - NONE
- b) Call for Trustee(s) who wish to notify the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).

2. EMERGENCY CIRCUMSTANCE(S):

a) The following Trustee(s) have requested the Committee approve their attendance of this meeting via teleconference due to an “Emergency Circumstance.” (See Government Code § 54953).

- NONE

b) Call for Trustee(s) requesting the Committee approve their attendance of this meeting via teleconference due to an “Emergency Circumstance.” (See Government Code § 54953).

TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE

3. [Discussion and appropriate action on private market fund recommendation](#) presented by Keirsten Lawton, Managing Director, Cambridge Associates¹, and Senior Investment Officer Geoff Nolan – RECOMMEND THE BOARD OF RETIREMENT APPROVE UP TO \$50MM COMMITMENT TO ARES SENIOR DIRECT LENDING III; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW
4. [Discussion and appropriate action on private market fund recommendation](#) presented by Keirsten Lawton, Managing Director, Cambridge Associates², and Senior Investment Officer Geoff Nolan – RECOMMEND THE BOARD OF RETIREMENT APPROVE UP TO \$50MM COMMITMENT TO CERBERUS LEVERED LOAN OPPORTUNITIES FUND V; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW
5. [Discussion and appropriate action on private market fund recommendation](#) presented by Maria Surina, Senior Investment Director, Cambridge Associates³, and Chief Investment Officer Daryn Miller, CFA – RECOMMEND THE BOARD OF RETIREMENT APPROVE UP TO \$30MM COMMITMENT TO MERIT HILL SELF-STORAGE V; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW
6. [Discussion and appropriate action on recommendation for Portfolio Risk Analytics](#) System Provider presented by Chief Investment Officer Daryn Miller, CFA, and Investment Analyst II Jack Bowman – RECOMMEND THE BOARD OF RETIREMENT APPROVE VENN AS PORTFOLIO RISK ANALYTICS SYSTEM PROVIDER; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

1 Written materials and investment recommendations from the consultants, fund managers and KCERA investment staff relating to alternative investments are exempt from public disclosure pursuant to California Government Code § 7928.710, § 7922.000, and §54957.5.

2 Written materials and investment recommendations from the consultants, fund managers and KCERA investment staff relating to alternative investments are exempt from public disclosure pursuant to California Government Code § 7928.710, § 7922.000, and §54957.5.

3 Written materials and investment recommendations from the consultants, fund managers and KCERA investment staff relating to alternative investments are exempt from public disclosure pursuant to California Government Code § 7928.710, § 7922.000, and §54957.5.

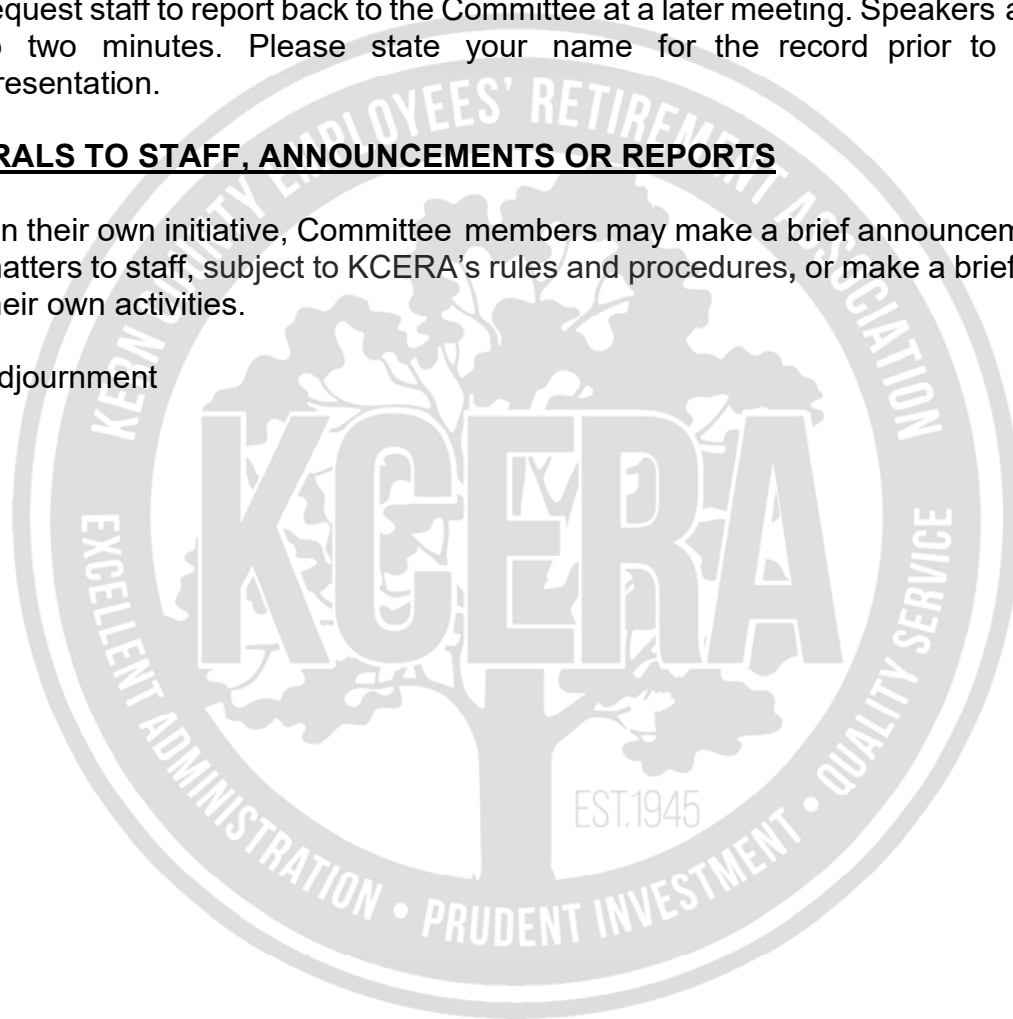
7. [Verbal update from Chief Investment Officer Daryn Miller, CFA – HEAR UPDATE](#)

PUBLIC COMMENTS

8. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS

9. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.
10. Adjournment



ALTERNATIVE INVESTMENTS RECORDS

EXEMPT FROM PUBLIC DISCLOSURE

(CA Gov. Code §7928.710)

(CA Gov. Code §7922.000)

(CA Gov. Code §54957.5)

DO NOT REPRODUCE

DO NOT DISTRIBUTE

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Date: June 1, 2023
To: Trustees, Investment Committee
From: Daryn Miller, Chief Investment Officer
Subject: **Portfolio Risk Analytics System Recommendation**

RECOMMENDATION

Staff asks your committee to recommend that the Board of Retirement approves staff's recommendation to contract with Venn risk analytics system ("Venn") by Two Sigma Investor Solutions ("Two Sigma"), and subject to legal advice and review, to authorize the Chief Executive Officer to sign corresponding documents.

RISK ANALYTICS SYSTEM EXPLAINED

A risk analytics system is used to assist in systematically identifying, assessing, monitoring, and reporting on portfolio risk for the entire portfolio, as well as analyzing subsets of the total portfolio on an isolated basis. One of the biggest distinguishing factors of a risk analytics system is whether the system is holdings based or returns based. Holdings based systems gather security level detail of the portfolio's holding versus a returns based system which utilizes return streams of investment strategies or funds, and then runs regression analysis on the return data. There are pros and cons of each type of system, but this RFP was specifically for returns based systems due to their cost benefit analysis (timely output vs. cost of system) and their ease to maintain.

SUMMARY

Staff believes that Venn is the most appropriate portfolio risk analytics system for KCERA. Venn's strengths lie in the firm's capabilities, the polished interface, the ease of maintaining the system, and solid value proposition. Additionally, KCERA is able to use Venn's investment library of over 100,000 investments as proxies for our current investments to have real time risk analytics.

BACKGROUND

Staff released a Request for Information (RFI) for portfolio risk analytics system on October 3, 2022 to survey the market landscape for portfolio risk analytics offerings, consider functionality offered, understand the different approaches utilized, and collect a range of pricing models. Following the RFI, Staff held calls with approximately 10 firms that provide risk analytic systems and had product demos with several providers. Additionally, Staff had conversations with users of risk analytics systems, to gain insight from others who had already implemented a solution.

RFP PROCESS

Following the RFI process for a portfolio risk analytics system, staff released a formal RFP on December 22, 2022. Written questions were due on January 23, 2023, and submission of proposals were due on February 10, 2023. The RFP consisted of approximately 45 questions covering areas such as firm history, implementation, support, data, system, and analytics. Four proposals were received. The RFP responses were evaluated by staff and each was individually reviewed and scored. The

scores were then aggregated and compared. At that point, the responses were narrowed to a field of two candidate firms, multiple video conference calls were held with each firm. Throughout the process, staff made multiple reference calls with other clients, which included other public pensions plans, to gain additional insight. Upon completing due diligence, staff determined that Venn was the best suited candidate.

Staff presents the recommendation to contract for the Venn risk analytics solution to the Investment Committee on June 1st, 2023, and if approved, will present the recommendation to the full Board on June 14th, 2023.

OVERVIEW

Firm background

Two Sigma is a financial science company, combining rigorous inquiry, data analysis, and invention to solve the challenges in investment management, insurance, securities, private equity, and venture capital. Founded in 2001 by David Siegel and John Overdeck, Two Sigma, as of October 1, 2022, employs over 1,900 people, and has offices in New York, Houston, Stamford, Portland, Chicago, London, Tokyo, Hong Kong and Shanghai. Following Venn's private launch in 2018, Two Sigma announced the public launch of Venn in November 2019, as a cloud-based investment analytics software platform. Venn was initially introduced on a limited, invite-only basis, and is now available to institutional investors and wealth managers among others. Venn operates a password-protected, web-based platform that provides institutional subscribers with access to analytic and research tools and data to help subscribers manage their investment programs.

Venn

Venn is a holdings based risk analytics system that uses 18 different factors to run regression analysis to determine which factors are significant and then will run Ordinary Least Squares (OLS) multiple linear regression. Venn provides tracking error, proforma analysis (factor exposures), portfolio construction and optimization, stress testing (including max drawdowns), for an additional cost, reporting and data visualization.

Venn also provides additional functionality that we will not be contracting with to start but will continue to evaluate. The additional functionality includes Report Lab (a custom reporting tool) and a custodian bank integration tool (potentially streamlines data integration between KCERA's custodian bank and Venn).

KCERA will have a dedicated member of the Client Strategy and Solutions Team ("CSS") to assist with implementation and ongoing support. The individual will provide training and support. The individual will be available as needed, as well as facilitate quarterly calls and updates and any ad-hoc support that KCERA requires. If technical/engineering support is needed beyond the CSS team's capabilities, the CSS team will reach out to a member of the engineering team for additional guidance.

Terms

If approved, KCERA will enter into a contract with Venn to retain portfolio risk analytics system services. The term will be for five years. The first-year annual fee will be \$65,000, with \$2,500 annual increases thereafter. KCERA has negotiated an annual fee break of \$20,000 until Venn implements certain key functionality. The key functionality is important to KCERA as it relates to handling portfolio level leverage. This functionality is currently planned as part of Venn the production queue. Once the functionality is delivered, the fee break will cease. For context, the range of annual costs for risk

Portfolio Risk Analytics System Recommendation

June 1, 2023

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systems from the RFI was \$50,000 to \$400,000, with the median annual cost of approximately \$125,000 to \$150,000.

**No Material
to be Distributed**