



Resolution Supporting Pension Share-Classes and Hard Hurdles for Institutional Investment Funds

Whereas public pension plans including OCERS are reliable, long-term investors of patient capital, which is highly attractive to institutional investment advisory firms, and

Whereas the institutional investment industry spends hundreds of millions of dollars annually marketing to public pension plans because this is a lucrative business for them, and

Whereas the fees charged by investment advisors in certain market sectors do not reflect the true costs of operating a business, but often represent “scarcity rent” or “economic rent” that inures solely to the benefit of the advisory firm. This anomaly reflects an inefficient market and a failure by this highly scalable, high-margin industry to recognize the value of public pension fund commitments, and

Whereas a more rational and justifiable industry fee structure would include a system of “pension share-classes,” or “P share-classes,” that automatically provide competitive and justifiable graduated fee discounts to public pension plans when the aggregate of their patient long-term institutional investments is sufficiently large to reward the advisor with sustainable profit margins, and

Whereas many managers of alternative asset strategies receive performance fees for total returns, rather than for performance above a “hard hurdle” that actually represents skill in producing “alpha” and not just taking risk (“beta”) in achieving expected returns

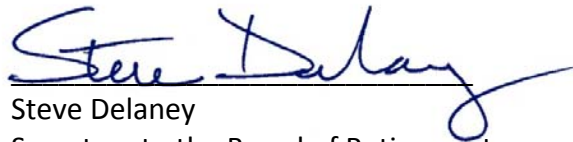
Now therefore be it resolved that the OCERS Board Investment Committee endorses the concepts of graduated “P-share-classes” and “hard hurdles” for hedge funds, private equity funds, commingled investment funds, and similar vehicles for institutional investment, and encourages our incumbent and prospective investment advisors to offer such fee structures.

Be it further resolved that absent an evidently superior investment strategy and capability, or a discernible reason to expect materially superior investment performance from a competitor looking forward, public pension plans should generally give selection preference to firms that offer the most appropriate and advantageous fee structures aligned with professional best practices and the best interests of plan sponsors, beneficiaries, taxpayers, stakeholders, and the general public.

Be it further resolved that a copy of this resolution shall be forwarded to other retirement systems in our state, our relevant investment advisors, and Investments@ocers.org, where a log of such resolutions will be retained for public and industry reference.

ATTESTED TO:

I hereby certify that on the 27th day of February, 2014, the Investment Committee of the Orange County Employees Retirement System adopted this Resolution.

A handwritten signature in blue ink that reads "Steve Delaney". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Steve Delaney
Secretary to the Board of Retirement
Orange County Employees Retirement System