



Alameda County Employees' Retirement Association

**Board of Trustees Offsite Event
Friday, November 1, 2019**



**Scott's Jack London Square
#2 Broadway - Jack London Square, Oakland, CA 94607**

Trustees

Henry Levy - Chair

Elizabeth Rogers - 1st Vice-Chair / Jaime Godfrey - 2nd Vice-Chair

Dale Amaral / Ophelia Basgal / Keith Carson / Tarrell Gamble

Liz Koppenhaver / George Wood

Alternate Trustees

Nancy Reilly / Darryl Walker



Alameda County Employees' Retirement Association
475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612
Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event
Friday, November 1, 2018
8:00 a.m. to 3:00 p.m.

Scott's Jack London Square
#2 Broadway - Jack London Square, Oakland, CA 94607

AGENDA

08:00 – 09:00 a.m.	Continental Breakfast	Meet/Greet - (Sign-In/Material)
09:00 a.m.	Offsite – Kick-Off	Henry Levy, ACERA Board Chair
09:05 – 10:15 a.m.	Multi-Asset Strategies Global Macro Outlook	Eric Van Nostrand, Director Head of Macro Research & Portfolio Strategy, Multi-Asset Strategies Group – BlackRock
10:15 – 10:30 a.m.	Break (a.m.)	
10:30 – 11:30 a.m.	Future of China	Douglas Eu, CEO (US) – Allianz Global Investors
11:30 a.m. – 11:45 p.m.	Break (Buffet Lunch)	
11:45 – 12:45 p.m.	Links between Firm Diversity and Fund Performance	David P. Daniels, Assistant Prof. – Hong Kong University of Science and Technology
12:45 – 1:45 p.m.	New Actuarial Standard of Practice	Paul Angelo, FSA, Sr. VP & Actuary – Segal Consulting
1:45 – 2:00 p.m.	Break (p.m.)	
2:00 – 3:00 p.m.	Governance – Trends and Best Practices	Tom Iannucci, President – Cortex Applied Research, Inc.
3:00 p.m.	2019 – Board Offsite Event Wrap-Up	Henry Levy, ACERA Board Chair



Alameda County Employees' Retirement Association

475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612

Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event

Friday, November 1, 2019

8:00 a.m. to 3:00 p.m.

Scott's Jack London Square

#2 Broadway - Jack London Square, Oakland, CA 94607

Continental Breakfast Menu

08:00 – 09:00 a.m.

Fresh Seasonal Fruit, Hard-boiled Eggs, Non-Fat Yogurt,

Granola, Steel-Cut Oatmeal, Raisins, Almonds, Bran Muffins

Fresh Squeezed Orange Juice, Peerless European Royale Coffee, Hot Tea Service

Classic Buffet Lunch Menu

11:30 a.m. – 02:00 p.m.

SALAD – Scott's Mixed Greens and Traditional Sourdough Bread with Sweet Butter

SIDES – Scott's Fresh Vegetables and Garlic Mashed Potatoes

PASTA STATION – Roasted Vegetable Ravioli with Pesto Cream Sauce
and Fresh Grated Parmesan Cheese

Entrée

Sliced Roasted Filet Mignon

Grilled Atlantic Salmon with Hollandaise Sauce



Eric Van Nostrand
Head of Macro Research & Portfolio Strategy
Multi-Asset Strategies Group
BlackRock

Multi-Asset Strategies
Global Macro Outlook

Douglas Eu
Chief Executive Officer (US)
Allianz Global Investors

Future of C H I N A

David P. Daniels
Assistant Professor
Hong Kong University of
Science and Technology

**Links between Firm Diversity
And Fund Performance**

Paul Angelo
FSA, Sr. VP & Actuary
SEGAL Consulting
New Actuarial Standard of Practice

Tom Iannucci
President
Cortex Applied Research, Inc.
Governance
Trends and Best Practices



Alameda County Employees' Retirement Association

475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612

Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event

Friday, November 1, 2019

8:00 a.m. to 3:00 p.m.

Scott's Jack London Square

#2 Broadway - Jack London Square, Oakland, CA 94607

Multi-Asset Strategies – Global Macro Outlook

09:05 – 10:15 a.m.



Eric Van Nostrand

Director, Head of Macro Research and Portfolio Strategy, Multi-Asset Strategies Group

Eric Van Nostrand, Director, the Head of Macro Research and Portfolio Strategy in BlackRock's Multi-Asset Strategies Group. Eric is responsible for a range of fundamental and quantitative macroeconomic research across advanced and emerging economies.

Prior to joining BlackRock, Eric was a staff economist and advisor to the Chairman of the White House Council of Economic Advisers, focusing on the U.S. macroeconomy and the global policy landscape. Previously, Eric was a U.S. Interest Rate Strategist at Credit Suisse and worked in Research at Bridgewater Associates.

Eric holds a law degree from Yale Law School and degrees in economics and engineering from the University of Pennsylvania.

Eric Van Nostrand

Head of Macro Research & Portfolio Strategy

Multi-Asset Strategies

October 2019

BlackRock

Multi-Asset Strategies

Global Macro Outlook

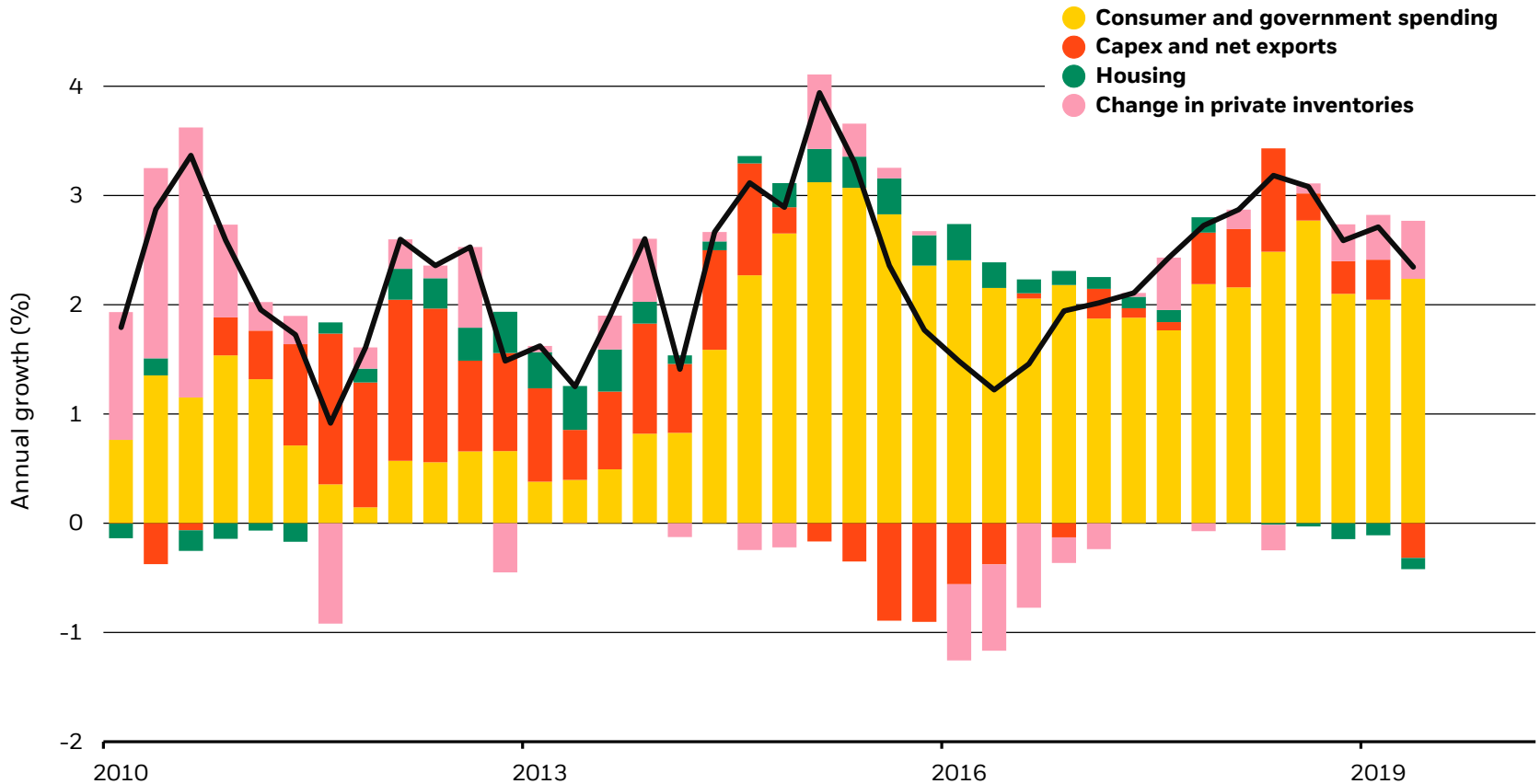
FOR INSTITUTIONAL AND PROFESSIONAL INVESTOR USE ONLY

MASH1019U-986296-1/20

Breaking down U.S. growth

Companies are building up inventories in expectations of tariffs and cutting investment spending. Resilient consumption is helping offset manufacturing weakness.

Composition of U.S. gross domestic product, 2010-2019

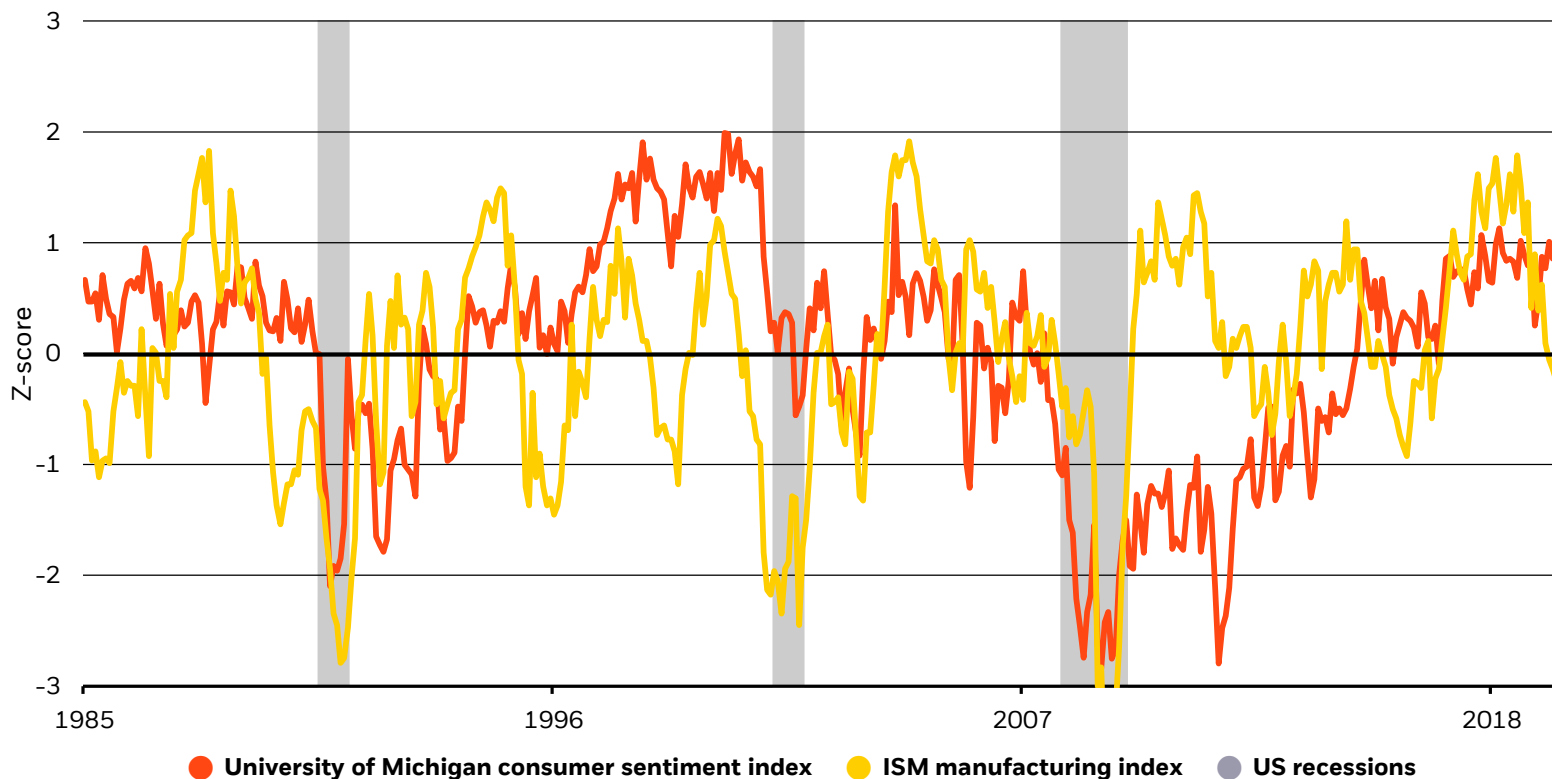


Source: BlackRock Investment Institute, with data from the U.S. Bureau of Economic Analysis, September 2019. Notes: The chart shows the annual rate of U.S. GDP growth broken down by components through the second quarter of 2019. Personal and government spending refers to a combination of personal consumption expenditures; government consumption expenditures and gross investment. Capex refers to non-residential domestic gross investment, and housing refers to residential investment.

A confident consumer

The record-long U.S. economic expansion is underpinned by healthy household spending and looks unlikely to morph into a deeper downturn in the near term.

U.S. consumer sentiment vs manufacturing sector, 1985-2019

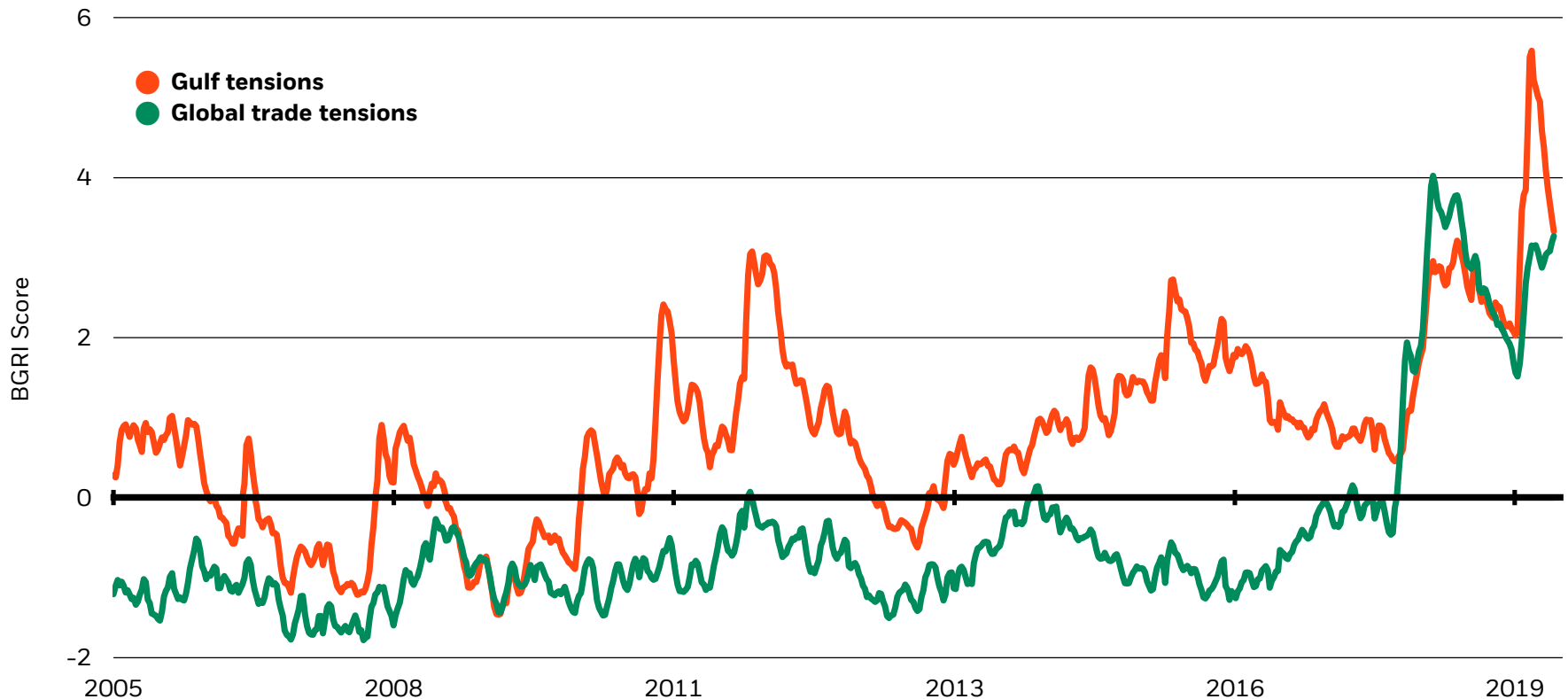


Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, University of Michigan, Institute of Supply Management, National Bureau of Economic Research, September 2019. Notes: The University of Michigan's survey of consumers captures consumer attitudes and expectations. It focuses on three areas: how consumers view prospects for their own financial situation, how they view prospects for the general economy over the near term, and their view of prospects for the economy over the long term. The index is rebased to 100 as of the first quarter of 1966. The ISM manufacturing survey is based on data compiled from purchasing and supply executives across the U.S. manufacturing sector. Z-scores measure how much current readings compare to historical averages over the 1985-2019 period, and are measured in standard deviations.

Persistent geopolitical uncertainty

The U.S. and China have both taken steps to cool tensions ahead of a new round of talks. Trade frictions and an escalation of Gulf tensions underscore the risk of supply shocks.

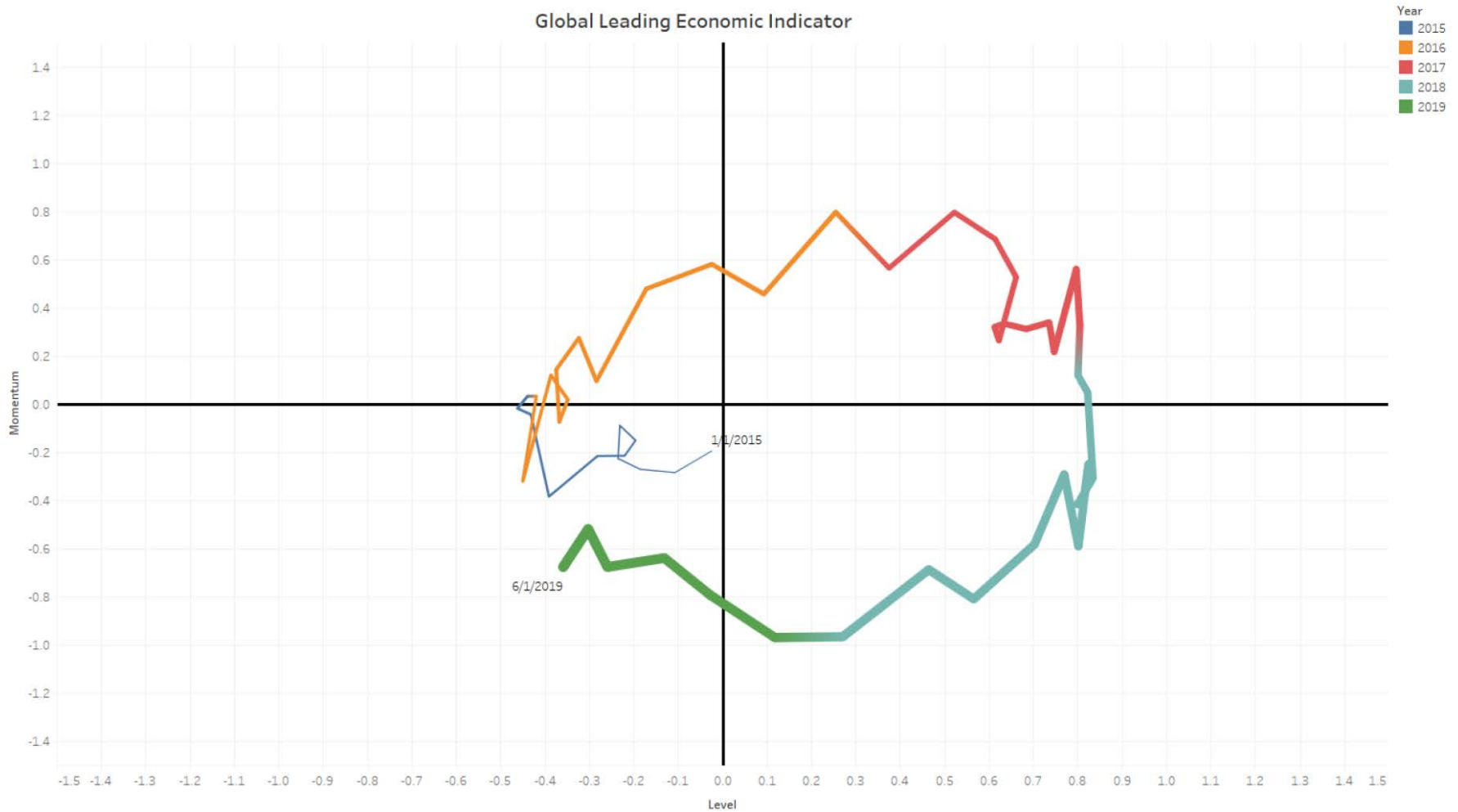
BlackRock Geopolitical Risk Indicators (BGRIs) for global trade and Gulf tensions, 2005–2019



Source: BlackRock Investment Institute, with data from Refinitiv Datastream, September 2019. Notes: See BlackRock's [Geopolitical risk dashboard](#) for full details. We identify specific words related to geopolitical risk in general and to our top-10 risks. We use text analysis to calculate the frequency of their appearance in the Refinitiv Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGR level over its history from 2003 up to that point in time. A score of one means the BGR level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average. The BGR's risk scenario is for illustrative purposes only and does not reflect all possible outcomes as geopolitical risks are ever-evolving.

Global macro outlook

Global leading indicator

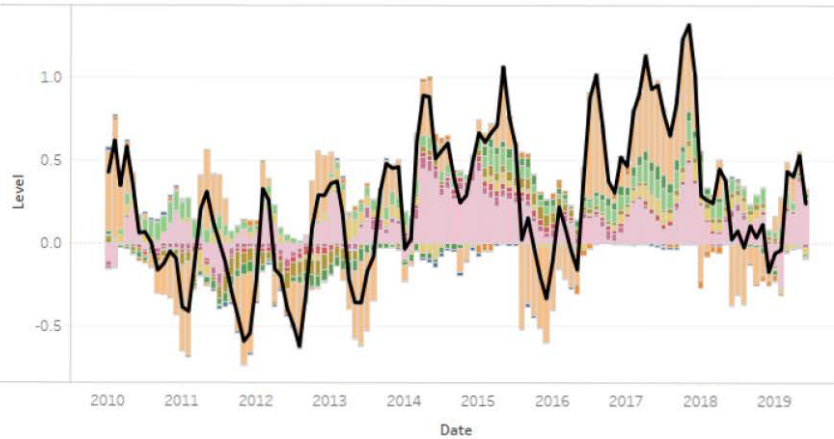


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019.

Global macro outlook

Global activity indicators

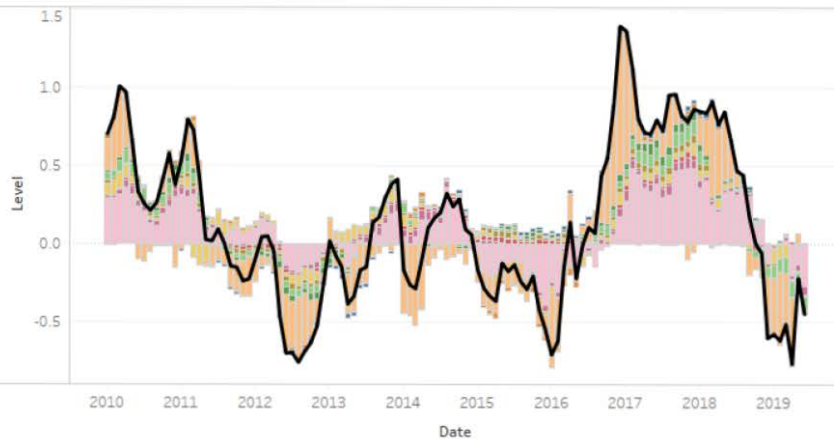
Global Consumer Indicator



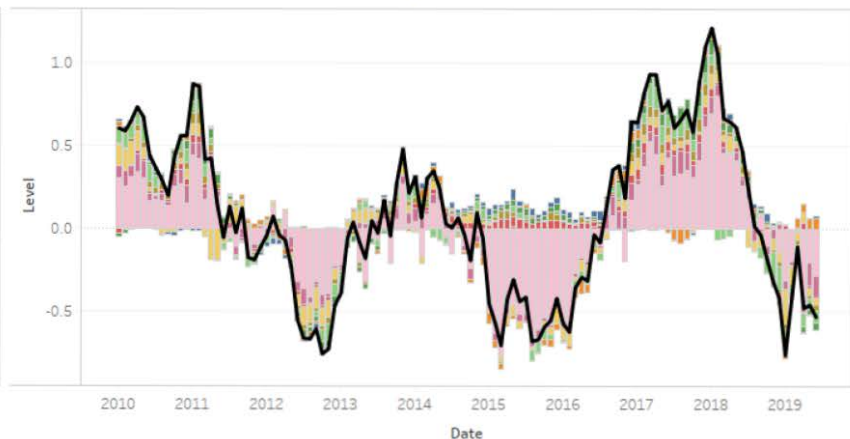
Global Capex Indicator



Global Manufacturing Indicator



Global Export Indicator



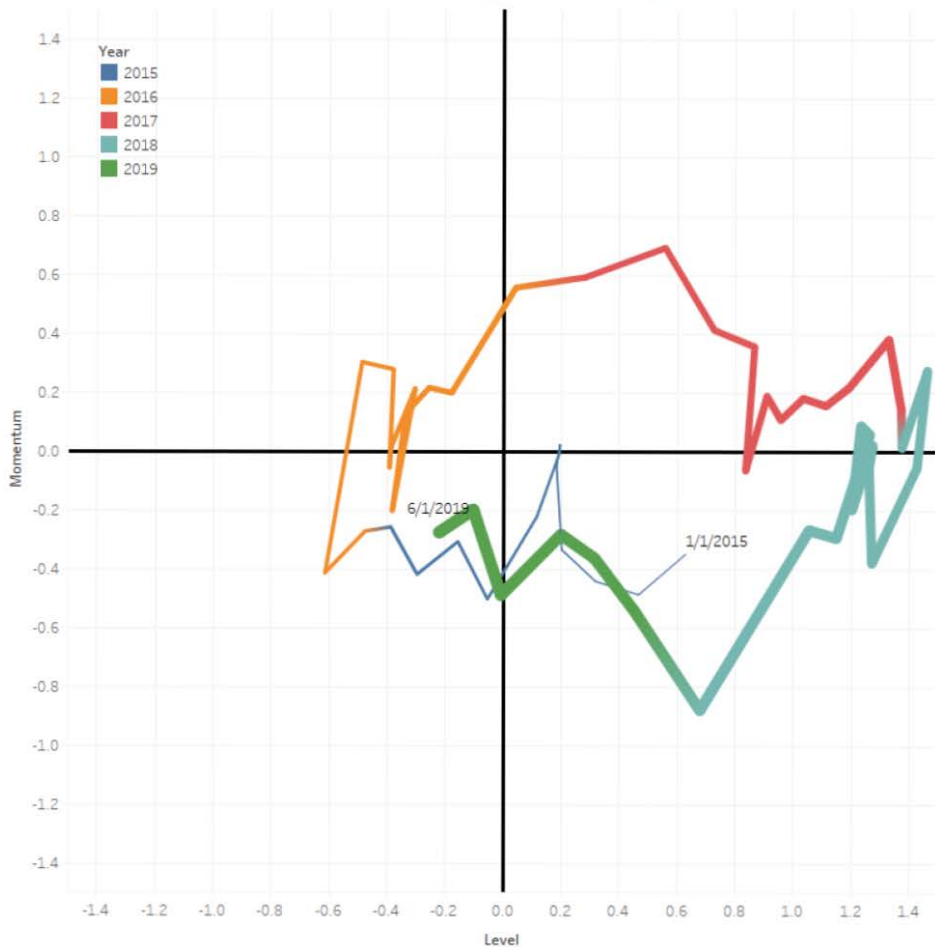
- Component
- Australia
 - Canada
 - China
 - France
 - Germany
 - Italy
 - Japan
 - Spain
 - United Kingdom
 - United States

Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

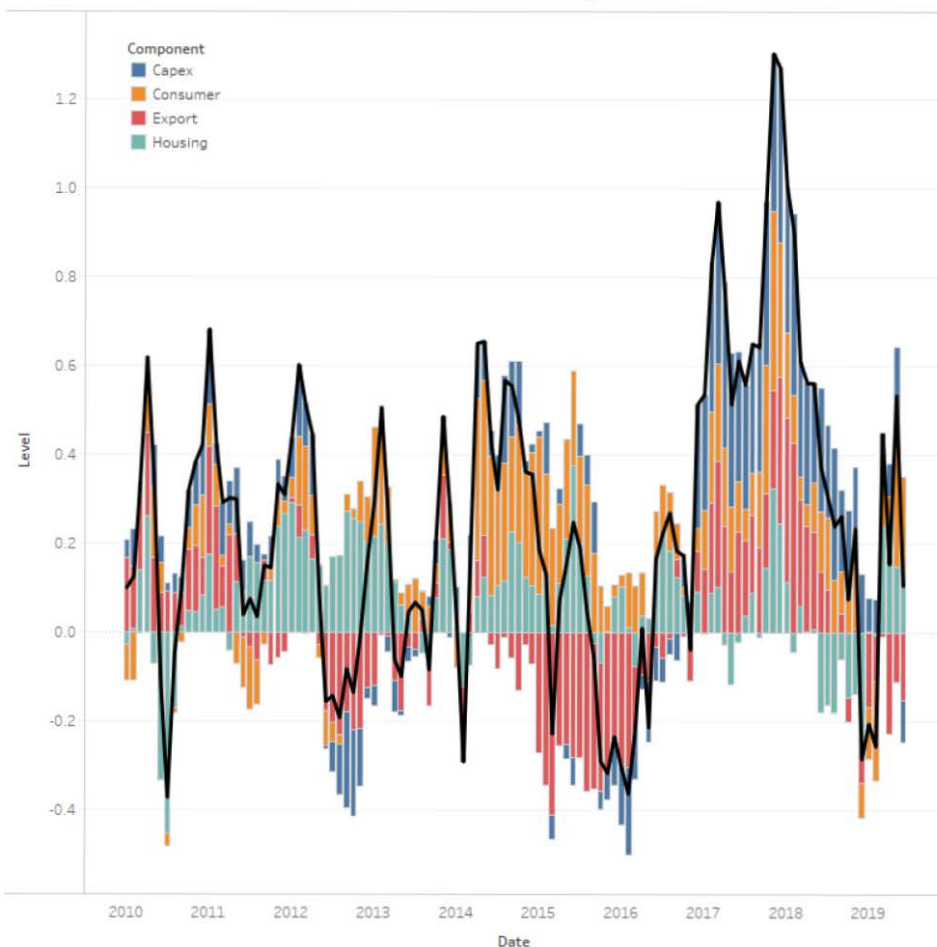
U.S. macro outlook

U.S. leading and activity indicators

United States Leading Economic Indicator



United States National Activity Indicator

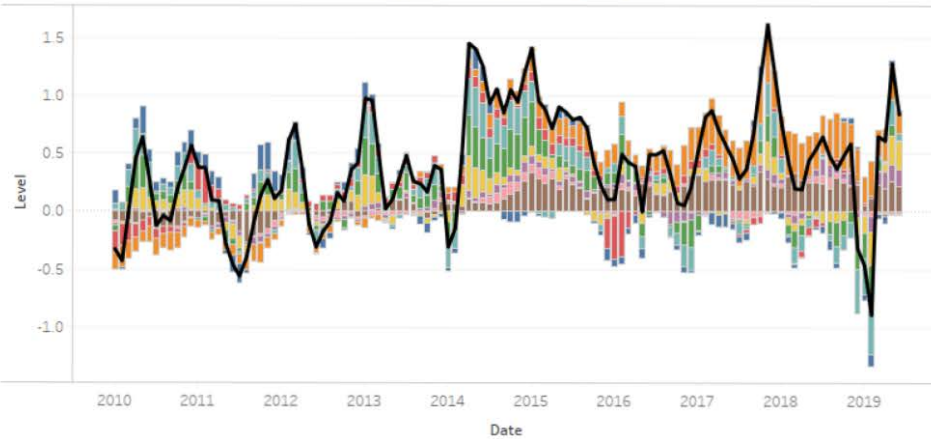


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

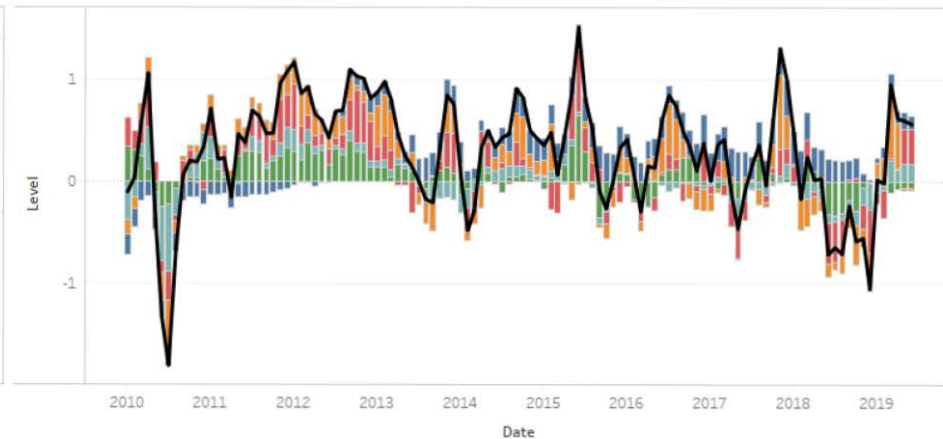
U.S. macro outlook

U.S. activity indicators

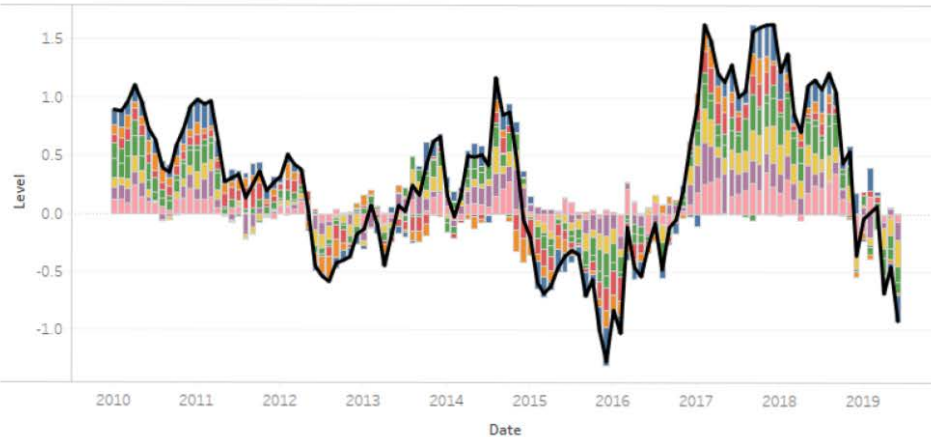
United States Consumer Indicator



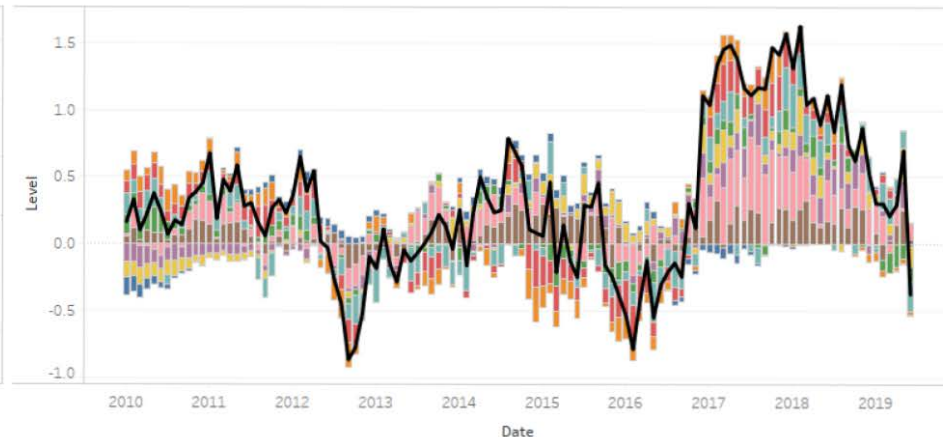
United States Housing Indicator



United States Manufacturing Indicator



United States Capex Indicator

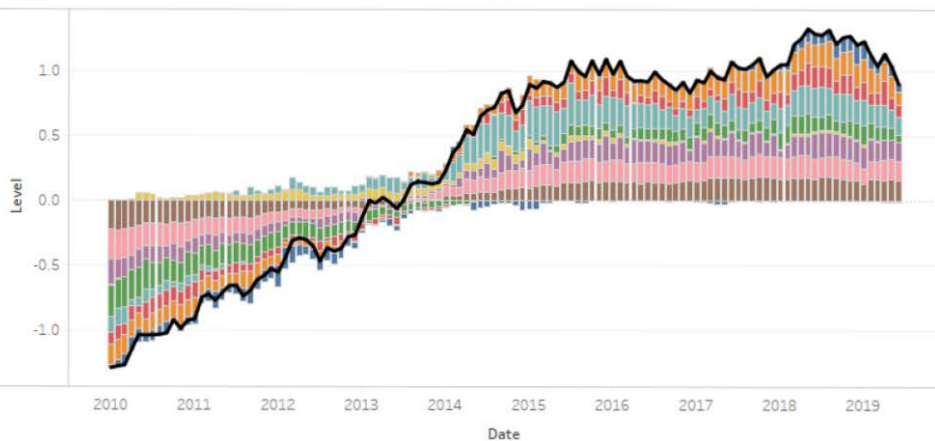


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

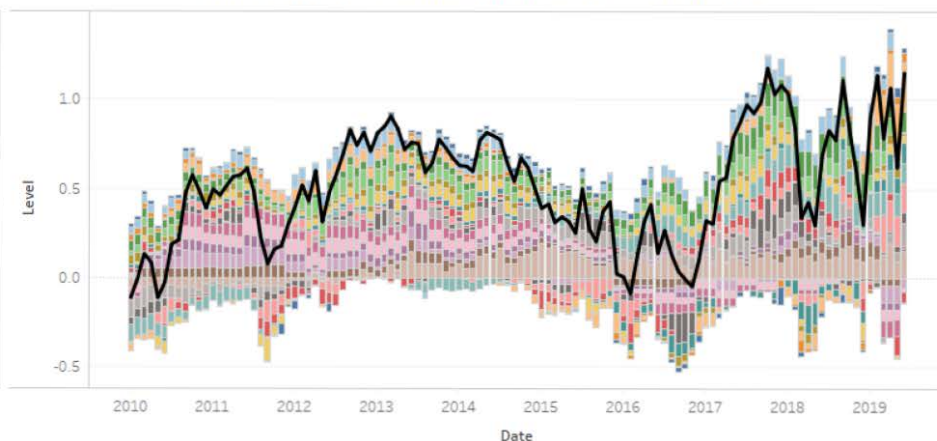
U.S. macro outlook

U.S. labor market, policy and inflation indicators

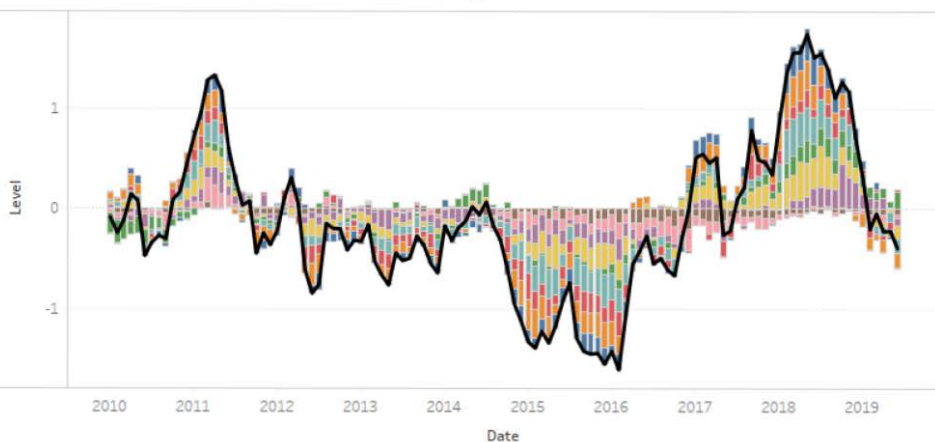
United States Labor Indicator



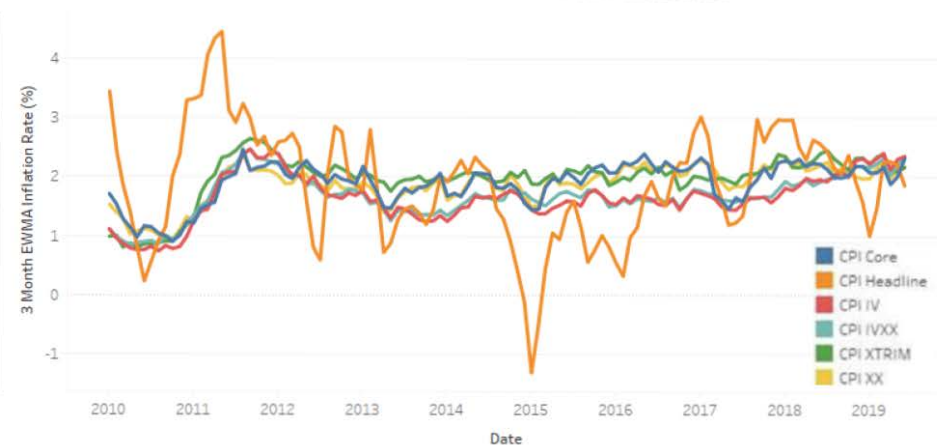
United States Financial Conditions Index Indicator



United States Survey Inflation Indicator



United States Alternative Inflation Measures

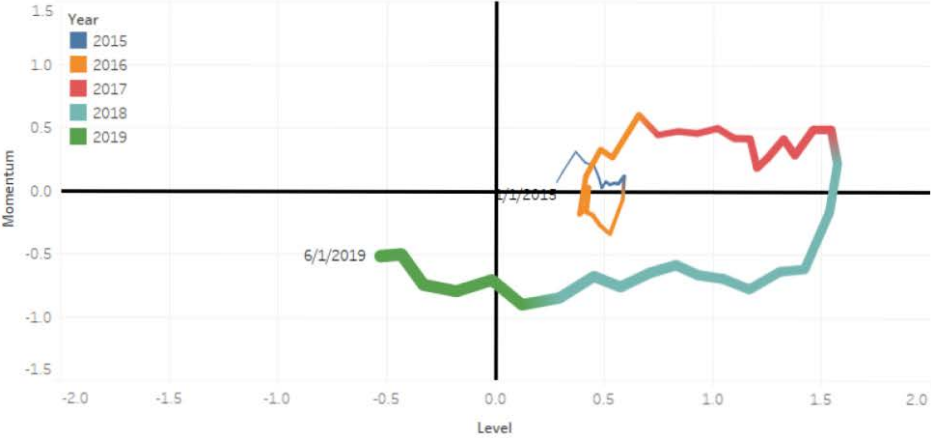


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

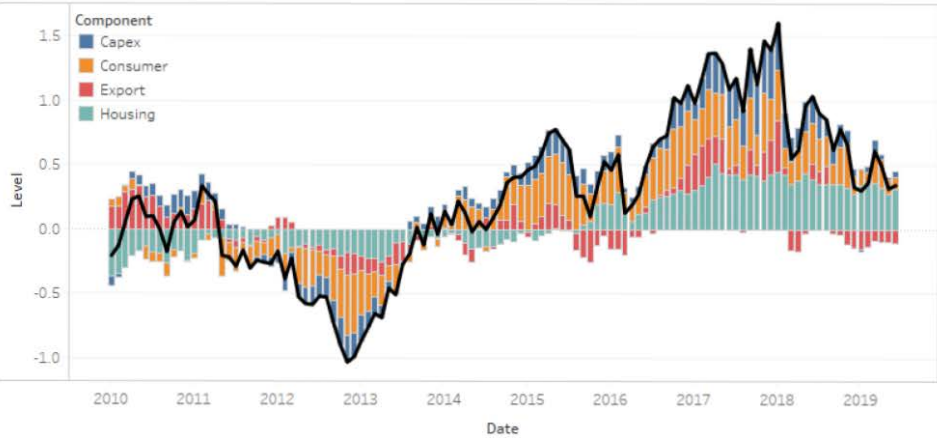
Euro-Zone macro outlook

Euro-Zone leading and activity indicators

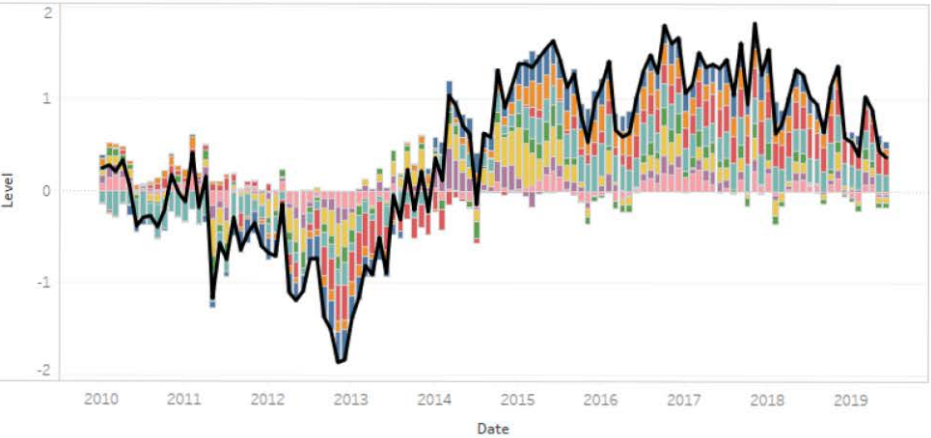
Euro-Zone Leading Economic Indicator



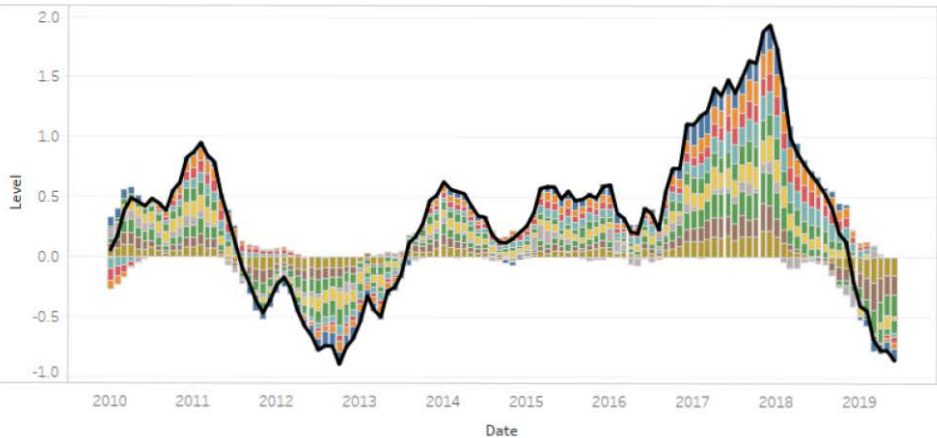
Euro-Zone National Activity Indicator



Euro-Zone Consumer Indicator



Euro-Zone Manufacturing Indicator

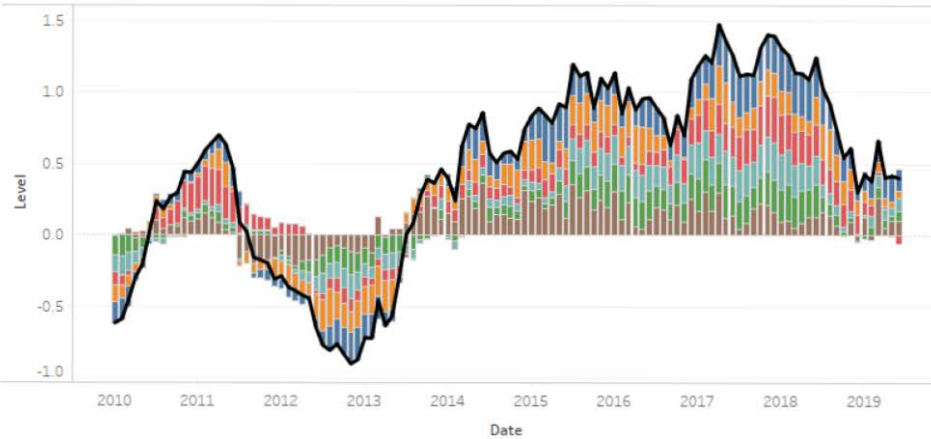


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

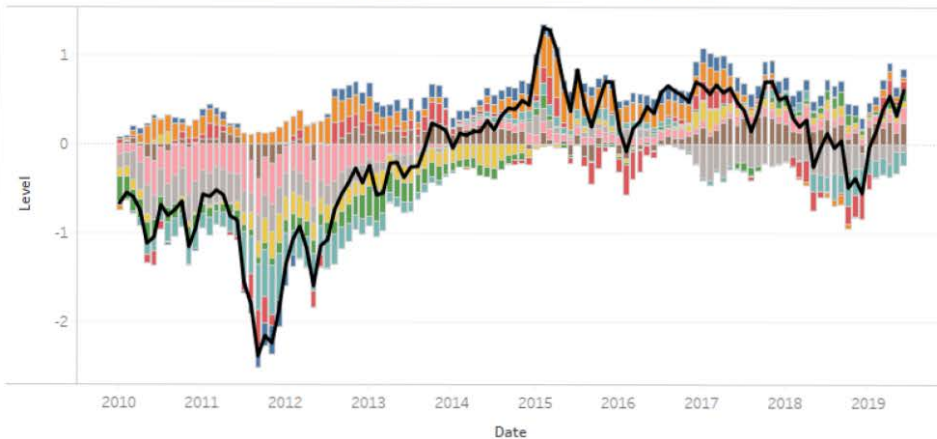
Euro-Zone macro outlook

Euro-Zone labor market, policy and inflation indicators

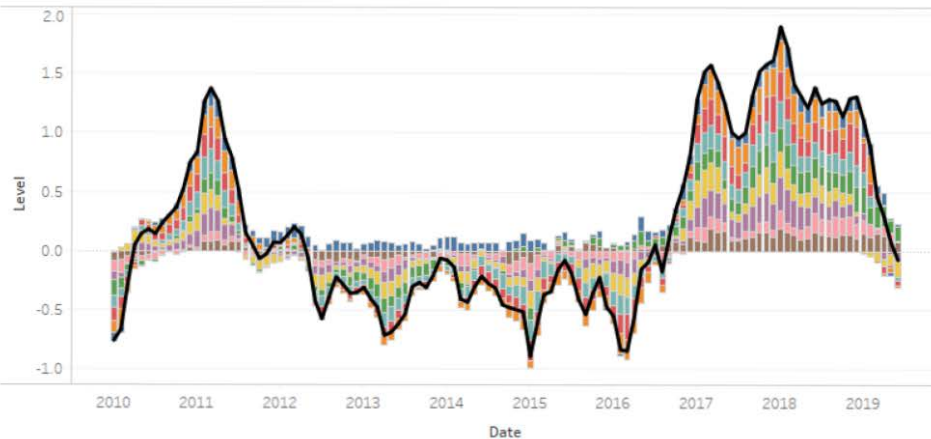
Euro-Zone Labor Indicator



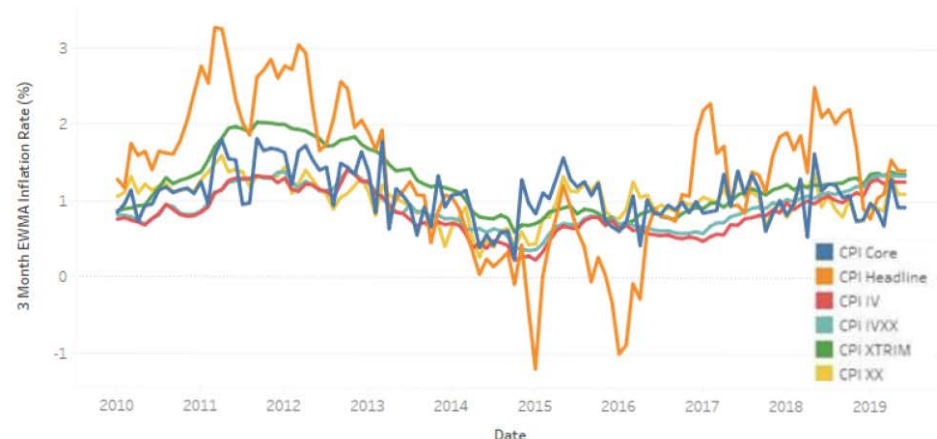
Euro-Zone Financial Conditions Index Indicator



Euro-Zone Survey Inflation Indicator



Euro-Zone Alternative Inflation Measures

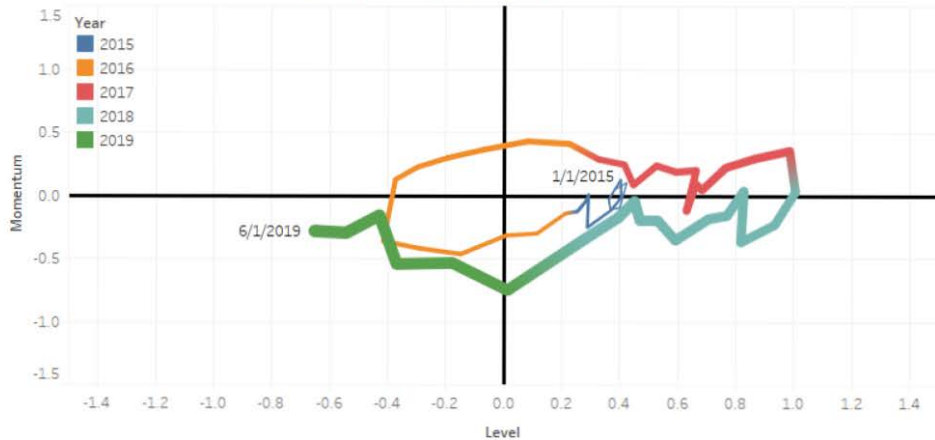


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

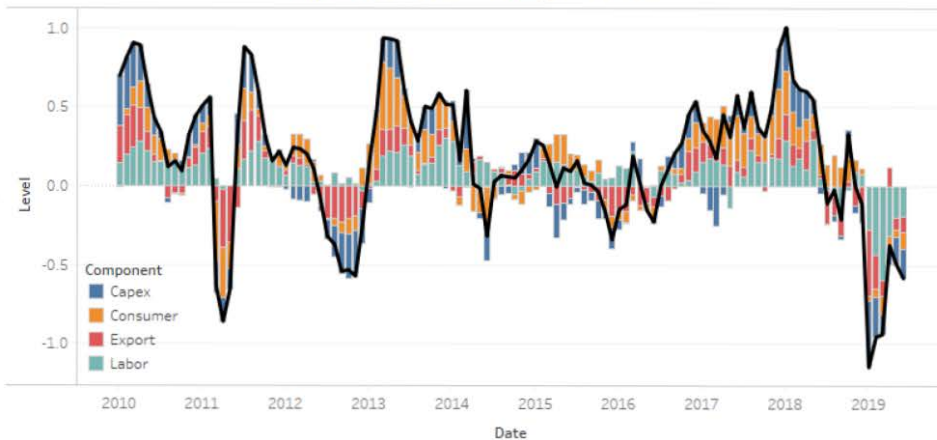
Japan macro outlook

Japan leading and activity indicators

Japan Leading Economic Indicator



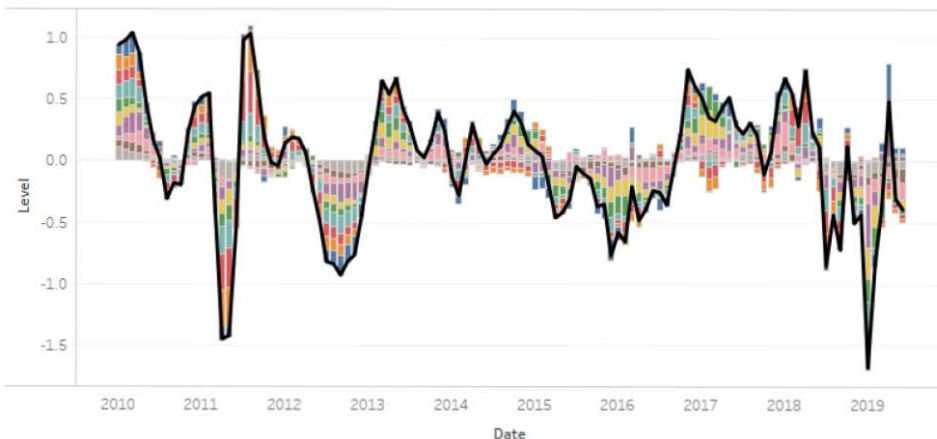
Japan National Activity Indicator



Japan Consumer Indicator



Japan Export Indicator

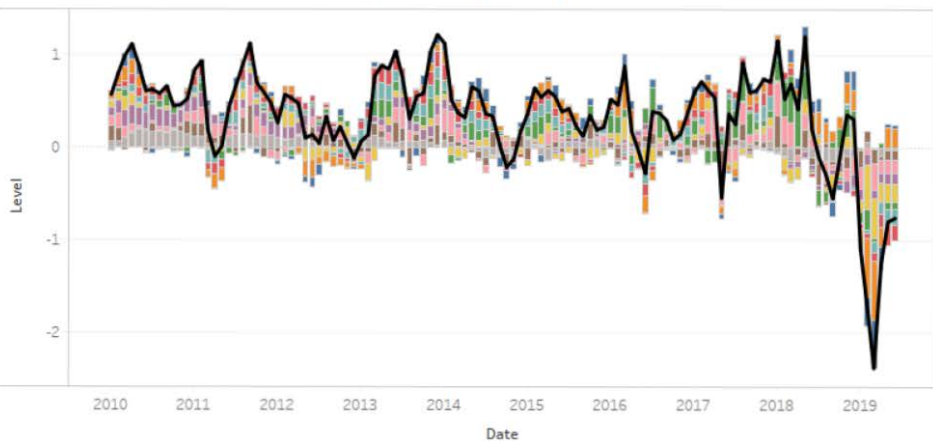


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

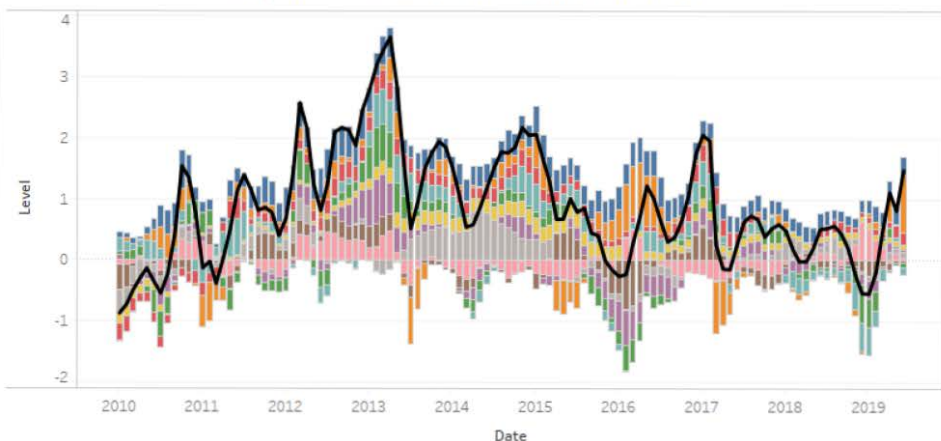
Japan macro outlook

Japan labor market, policy and inflation indicators

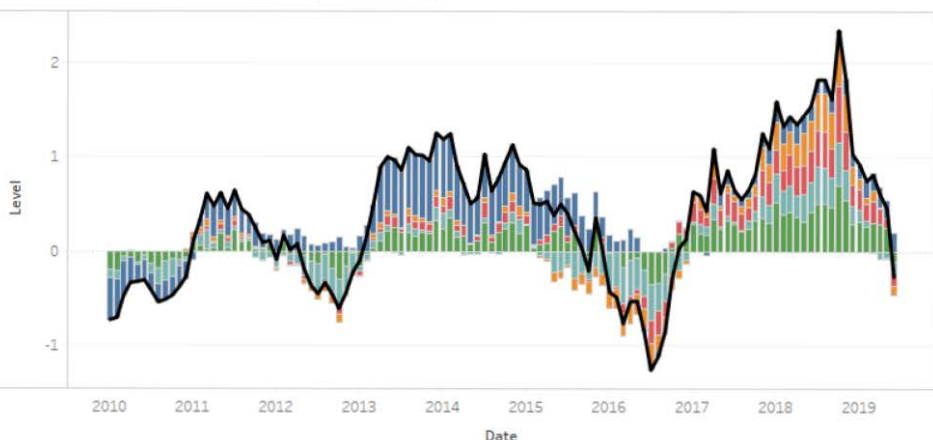
Japan Labor Indicator



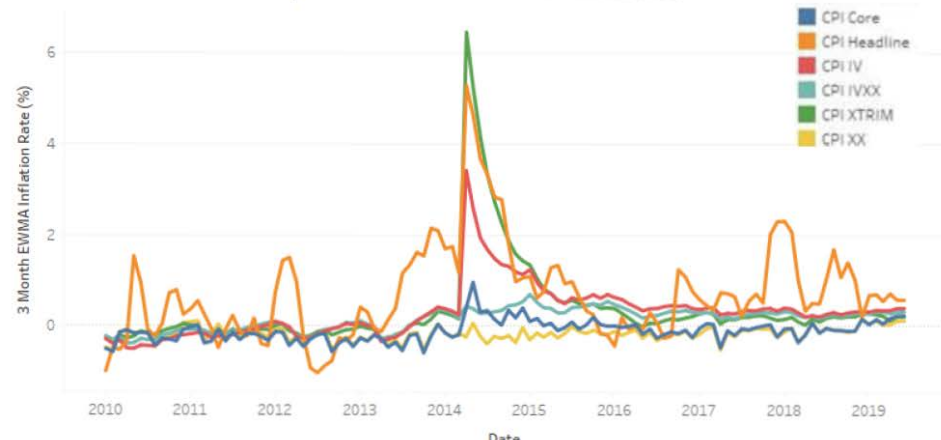
Japan Financial Conditions Index Indicator



Japan Survey Inflation Indicator



Japan Alternative Inflation Measures

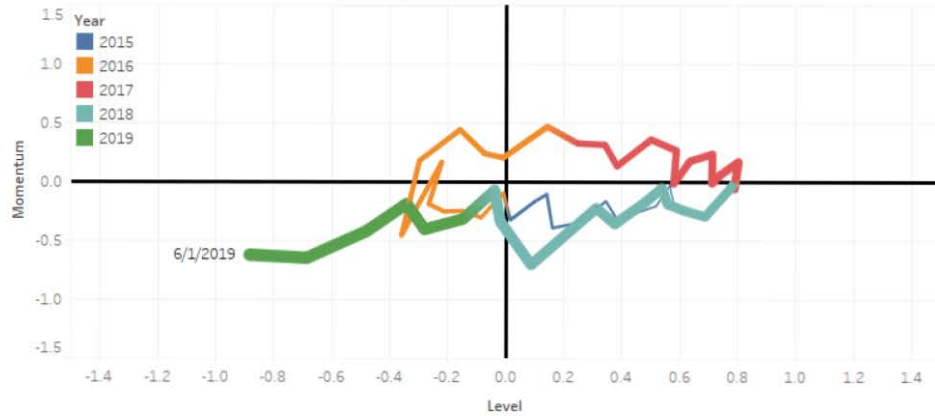


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

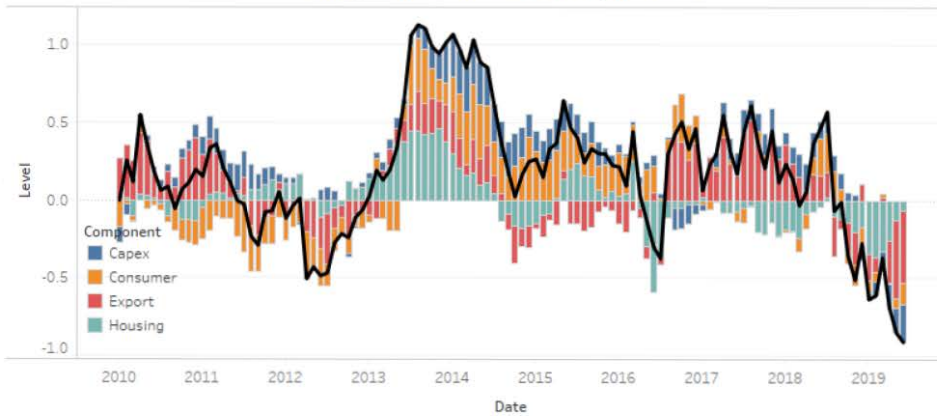
U.K. macro outlook

U.K. leading and activity indicators

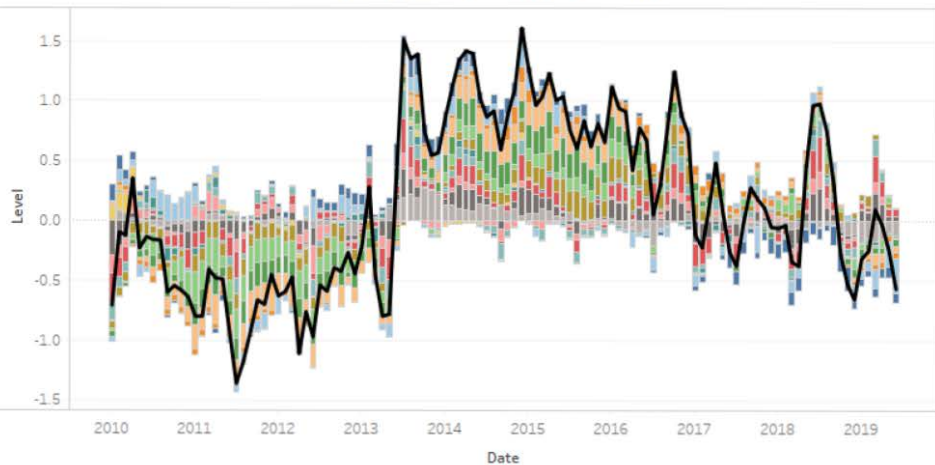
United Kingdom Leading Economic Indicator



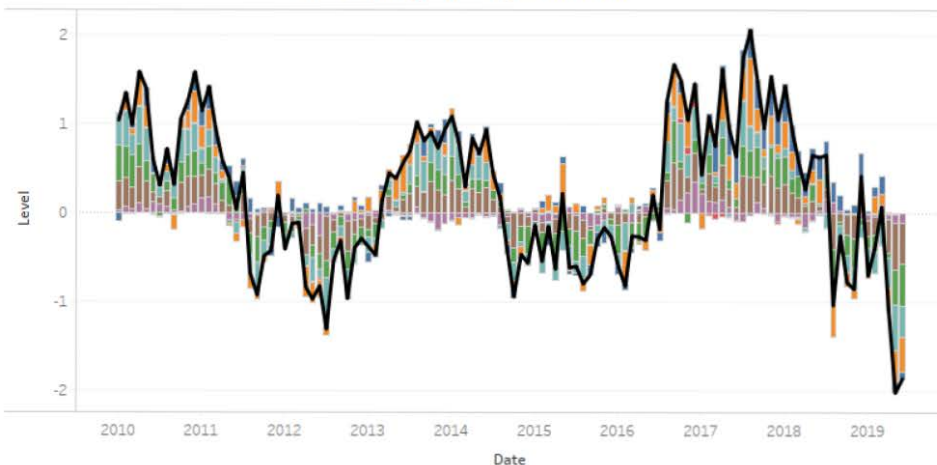
United Kingdom National Activity Indicator



United Kingdom Consumer Indicator



United Kingdom Export Indicator

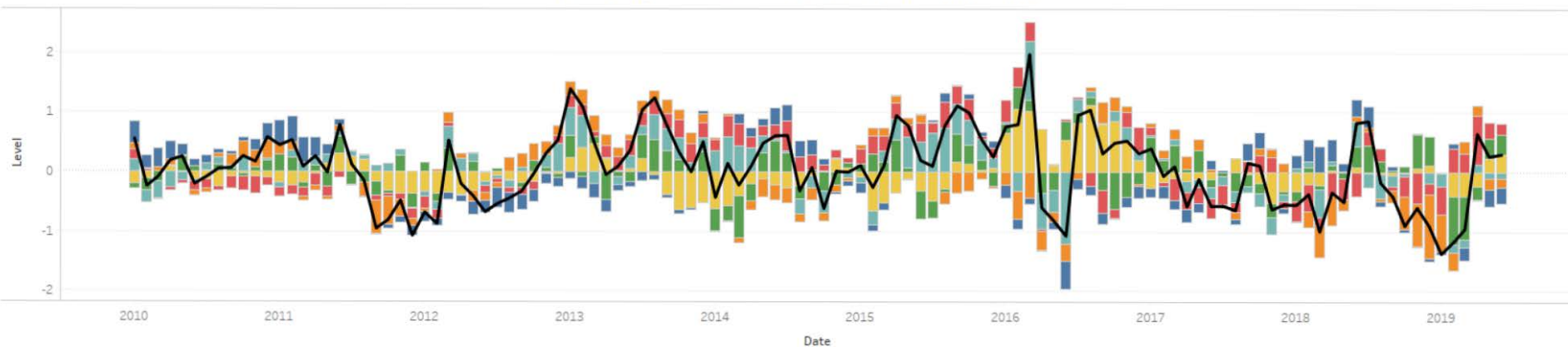


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

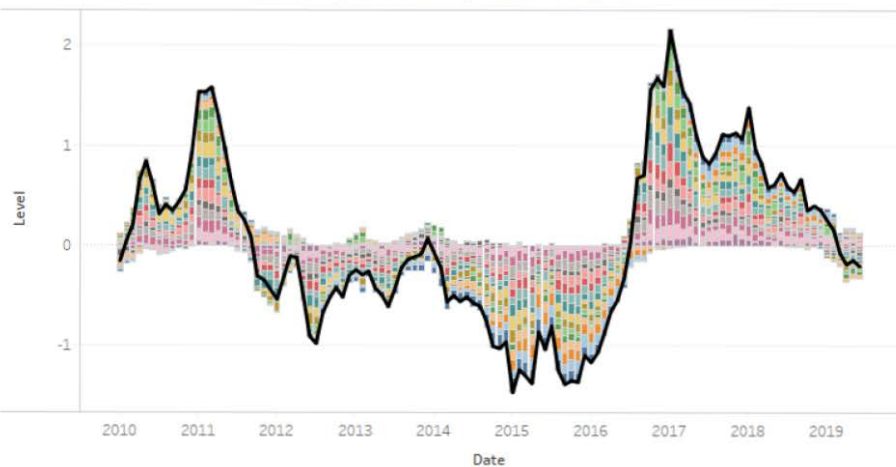
U.K. macro outlook

U.K. policy and inflation indicators

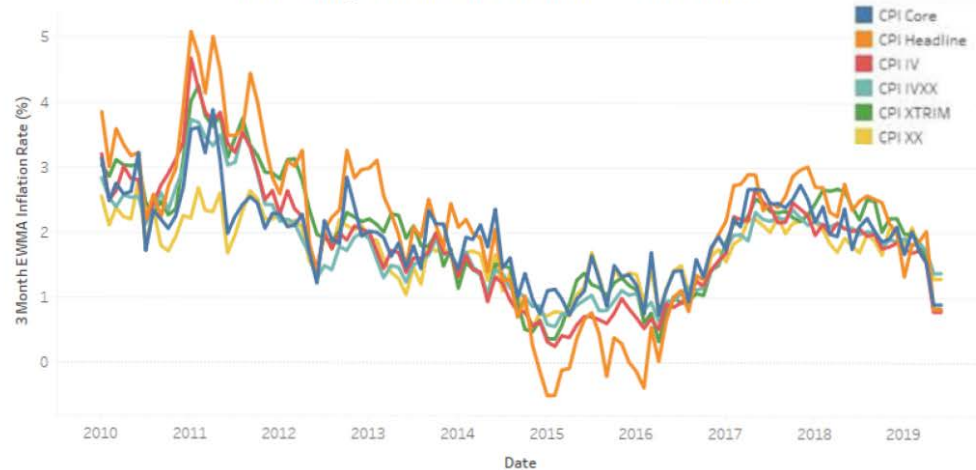
United Kingdom Financial Conditions Index Indicator



United Kingdom Survey Inflation Indicator



United Kingdom Alternative Inflation Measures

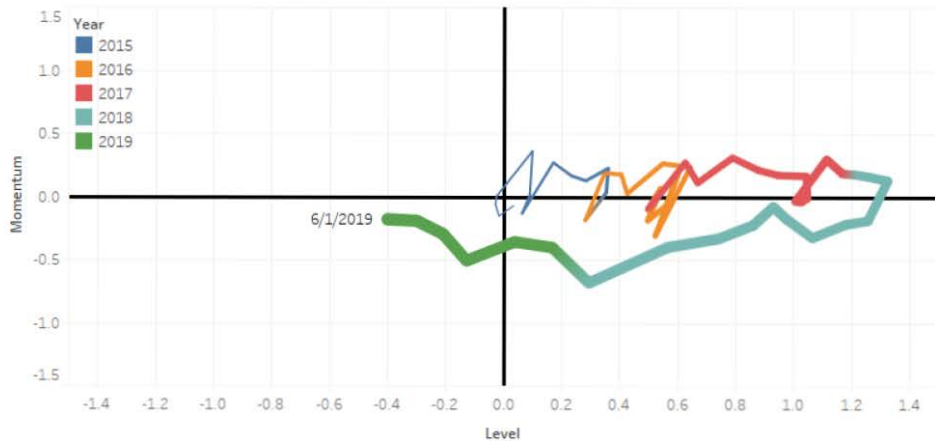


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

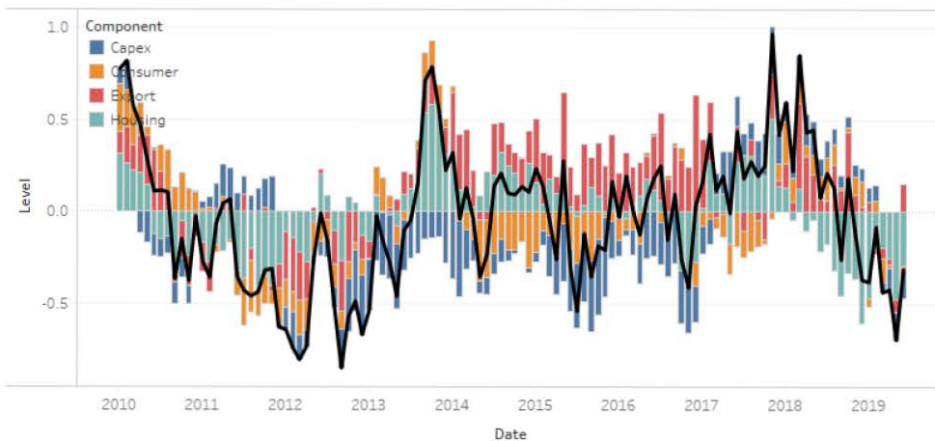
Australia macro outlook

Australia leading and activity indicators

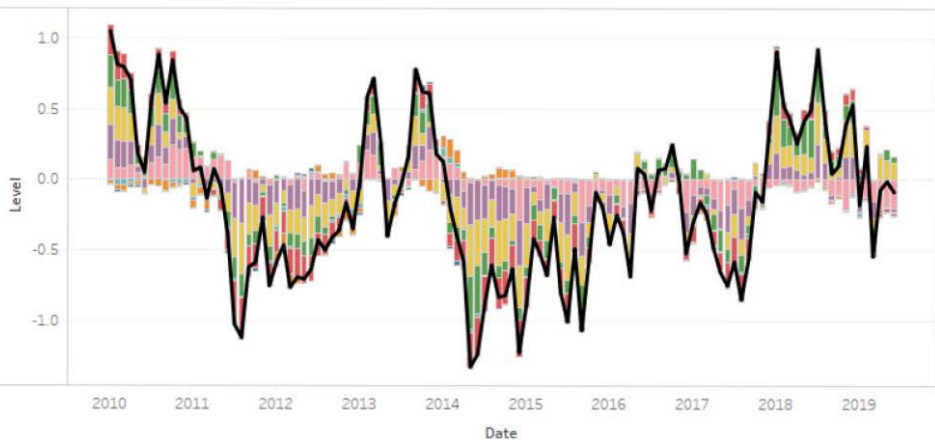
Australia Leading Economic Indicator



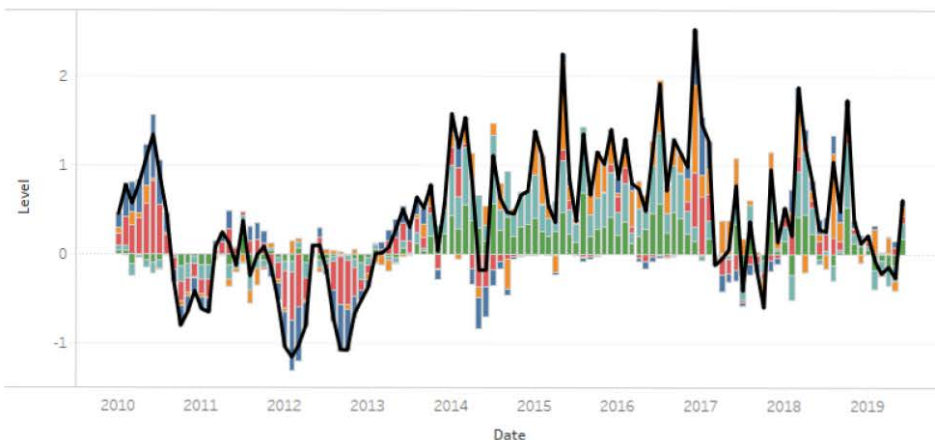
Australia National Activity Indicator



Australia Consumer Indicator



Australia Export Indicator



Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

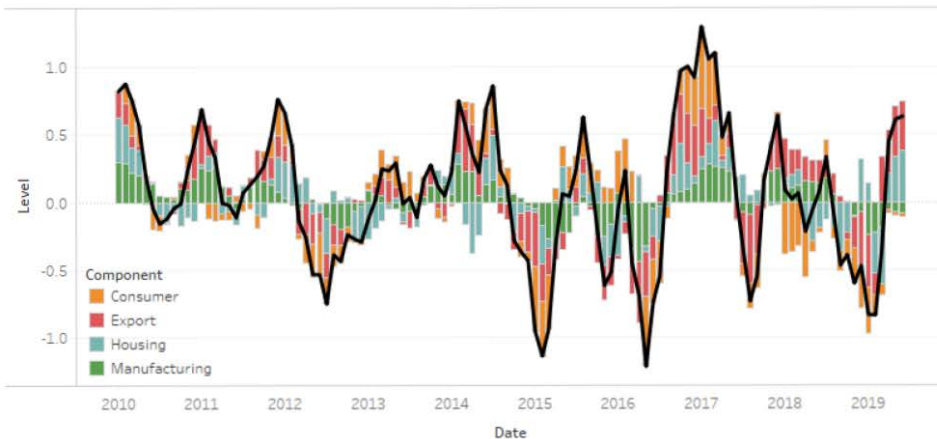
Canada macro outlook

Canada leading, activity and inflation indicators

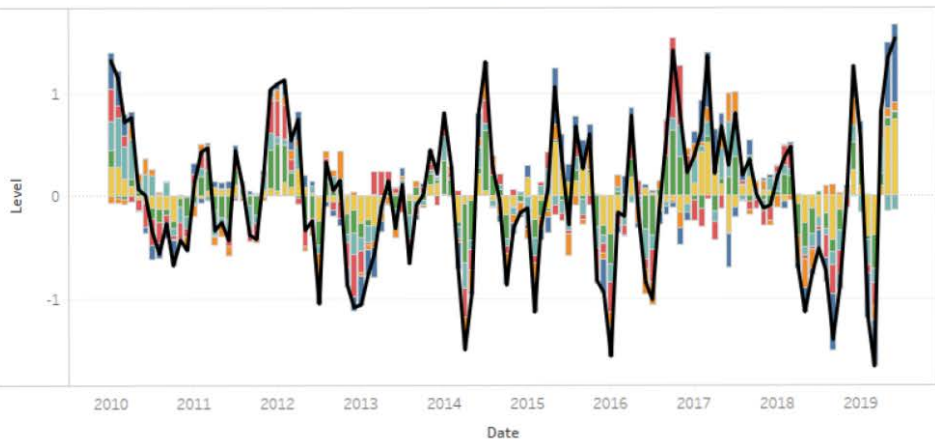
Canada Leading Economic Indicator



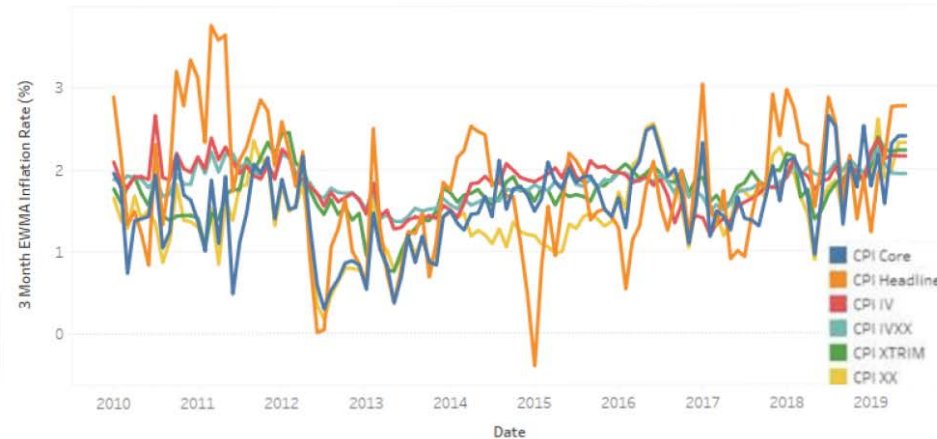
Canada National Activity Indicator



Canada Housing Indicator



Canada Alternative Inflation Measures

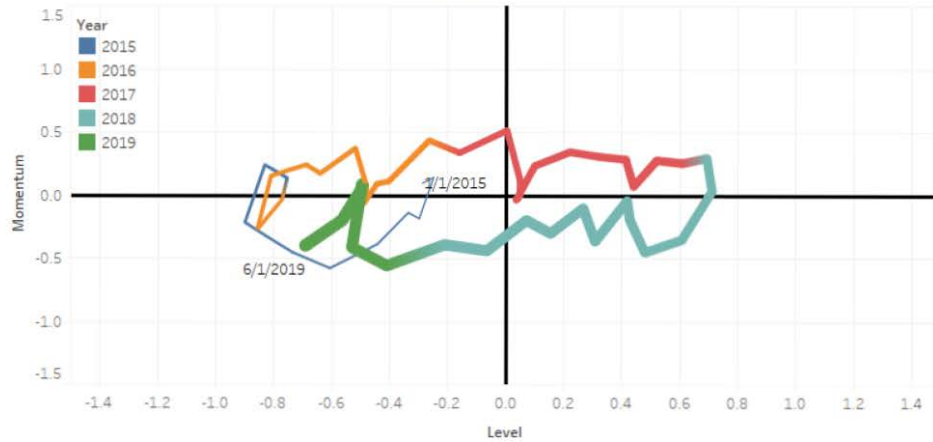


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

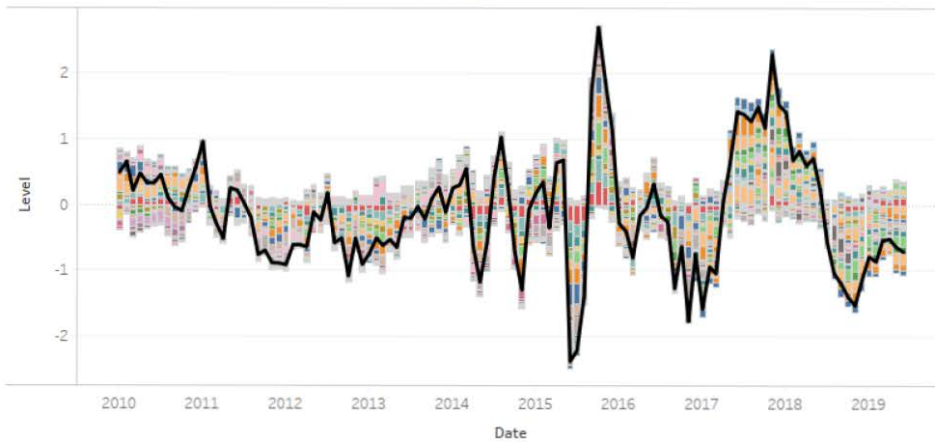
Korea macro outlook

Korea leading and activity indicators

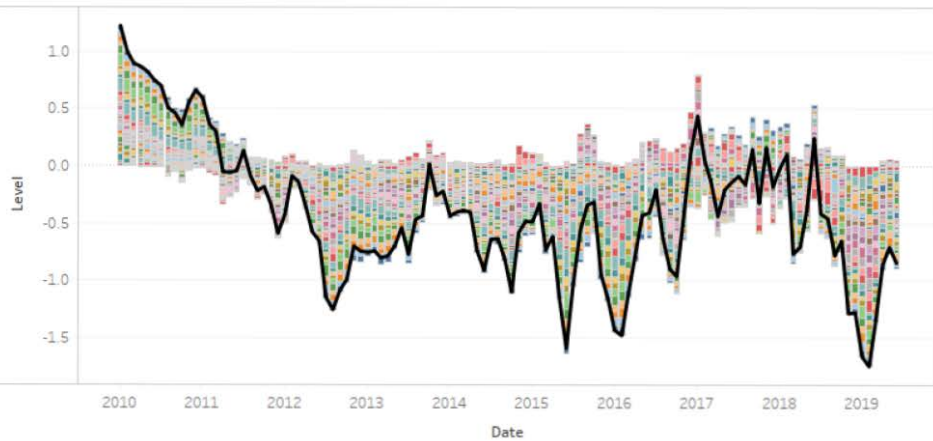
Korea Leading Economic Indicator



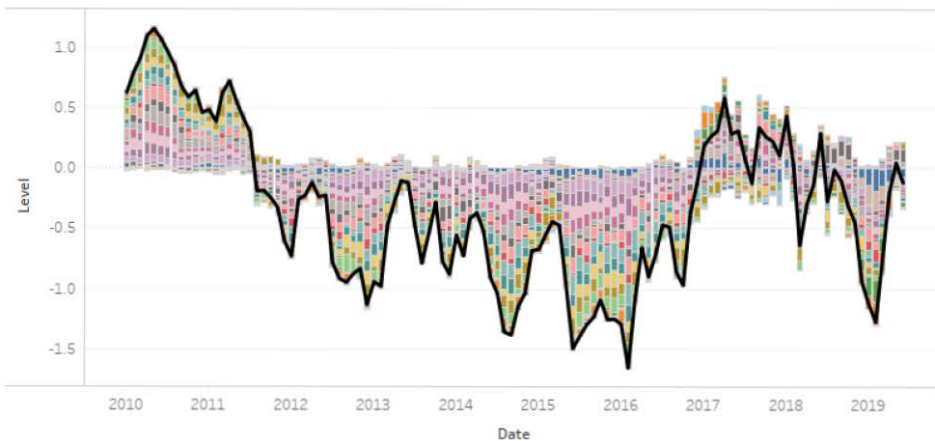
Korea Consumer Indicator



Korea Manufacturing Indicator



Korea Export Indicator

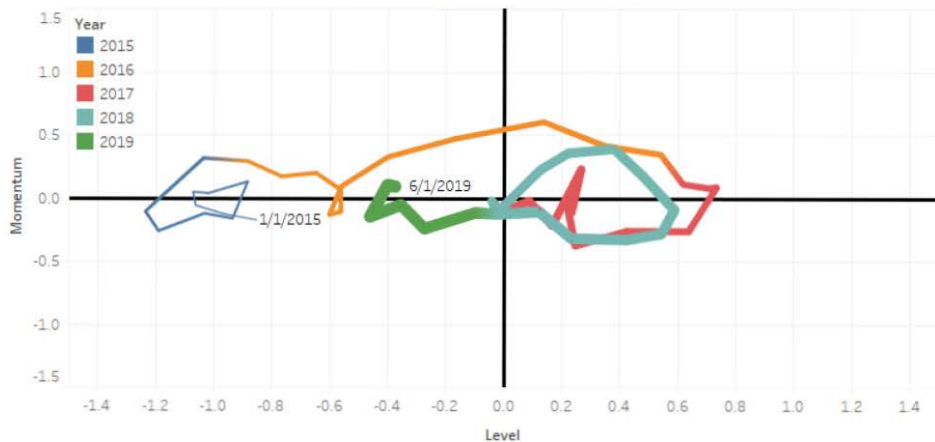


Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

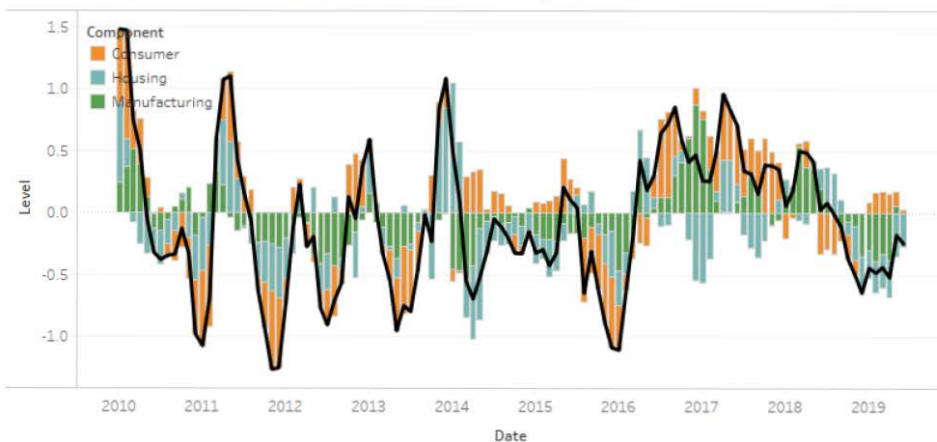
China macro outlook

China leading and activity indicators

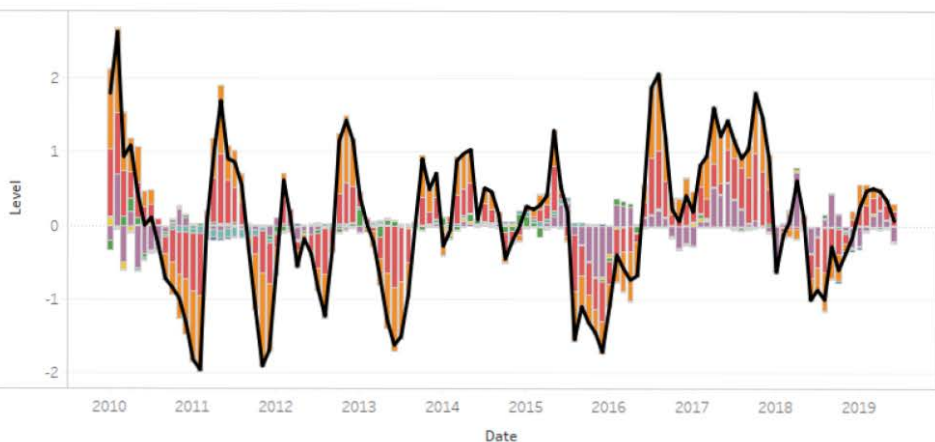
China Leading Economic Indicator



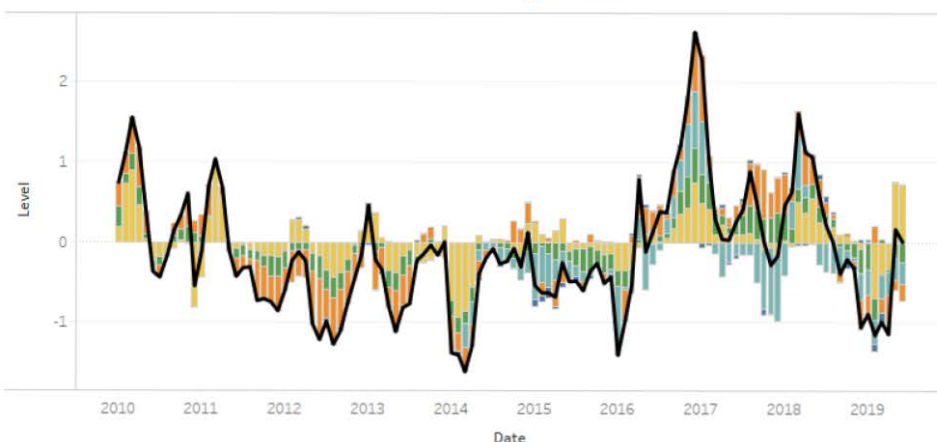
China National Activity Indicator



China Consumer Indicator



China Manufacturing Indicator



Source: BlackRock; Bloomberg; Datastream. As of 16 July 2019. Different colors represent the various sub-indicators. Additional detail is available upon request.

Important notes

This material is for distribution only to those types of recipients as provided below and should not be relied upon by any other persons. This material is provided for informational purposes only and does not constitute a solicitation in any jurisdiction in which such solicitation is unlawful or to any person to whom it is unlawful. Moreover, it neither constitutes an offer to enter into an investment agreement with the recipient of this document nor an invitation to respond to it by making an offer to enter into an investment agreement.

This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of yields or returns, and proposed or expected portfolio composition. Moreover, where certain historical performance information of other investment vehicles or composite accounts managed by BlackRock, Inc. and/or its subsidiaries (together, “BlackRock”) has been included in this material and such performance information is presented by way of example only. No representation is made that the performance presented will be achieved, or that every assumption made in achieving, calculating or presenting either the forward-looking information or the historical performance information herein has been considered or stated in preparing this material. Any changes to assumptions that may have been made in preparing this material could have a material impact on the investment returns that are presented herein by way of example.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed in this material may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Any investments named within this material may not necessarily be held in any accounts managed by BlackRock. Reliance upon information in this material is at the sole discretion of the reader. Past performance is no guarantee of future results.

In the US this material is for institutional investors only

This document contains general information only and is not intended to represent general or specific investment advice. The information does not take into account your financial circumstances. An assessment should be made as to whether the information is appropriate for you having regard to your objectives, financial situation and needs.

THIS MATERIAL IS HIGHLY CONFIDENTIAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED TO PERSONS OTHER THAN THE RECIPIENT.

BlackRock® is a registered trademark of BlackRock, Inc. All other trademarks are the property of their respective owners.

© 2019 BlackRock, Inc. All rights reserved.



Alameda County Employees' Retirement Association

475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612

Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event

Friday, November 1, 2019

8:00 a.m. to 3:00 p.m.

Scott's Jack London Square

#2 Broadway - Jack London Square, Oakland, CA 94607

Future of China

10:30 – 11:30 a.m.



Douglas Eu

Chief Executive Officer US

Douglas Eu is CEO US with Allianz Global Investors, which he joined in 2006. He is a member of the firm's Global Executive Committee and US Executive Committee, and was previously CEO Asia Pacific.

"Investment firms succeed when investment professionals and relationship managers work together as one, sharing a passion for their work – and a commitment to the highest standards of service and delivery."

Future of China

Alameda County Employees'
Retirement Association

Douglas Eu, CEO US

November 1st, 2019

Value. Shared.

For institutional use only.



Allianz 
Global Investors

01

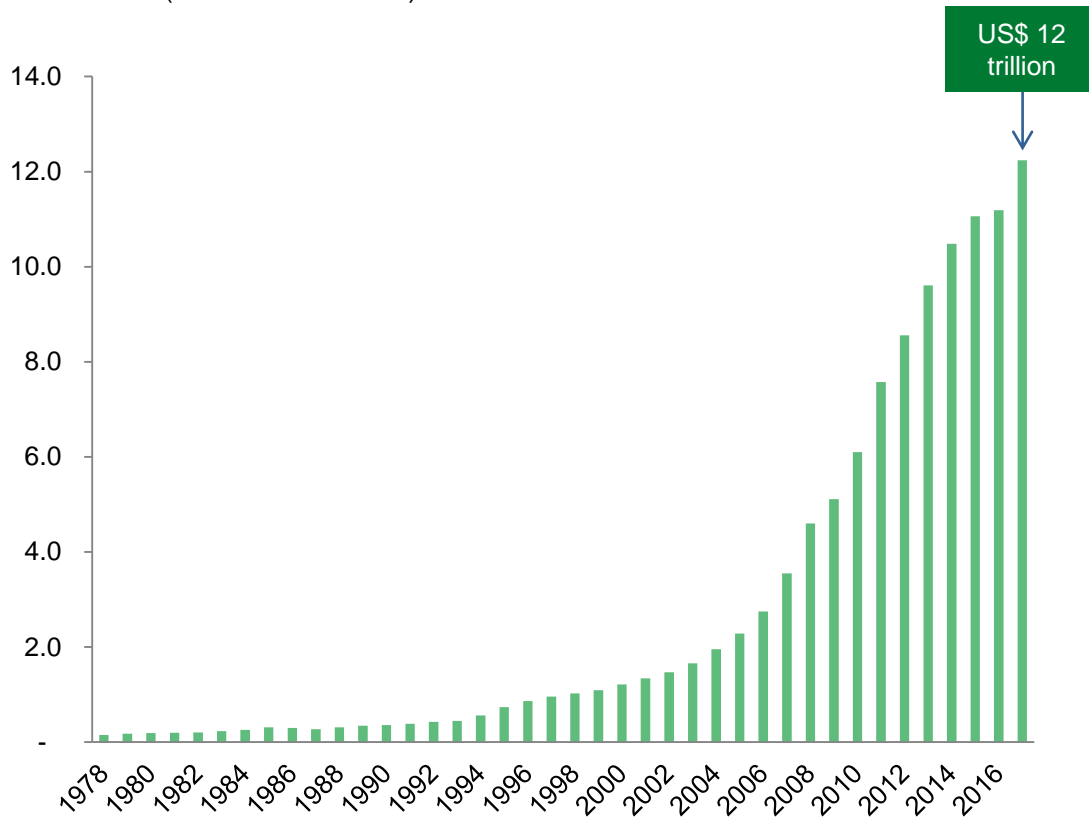
Why invest in China?



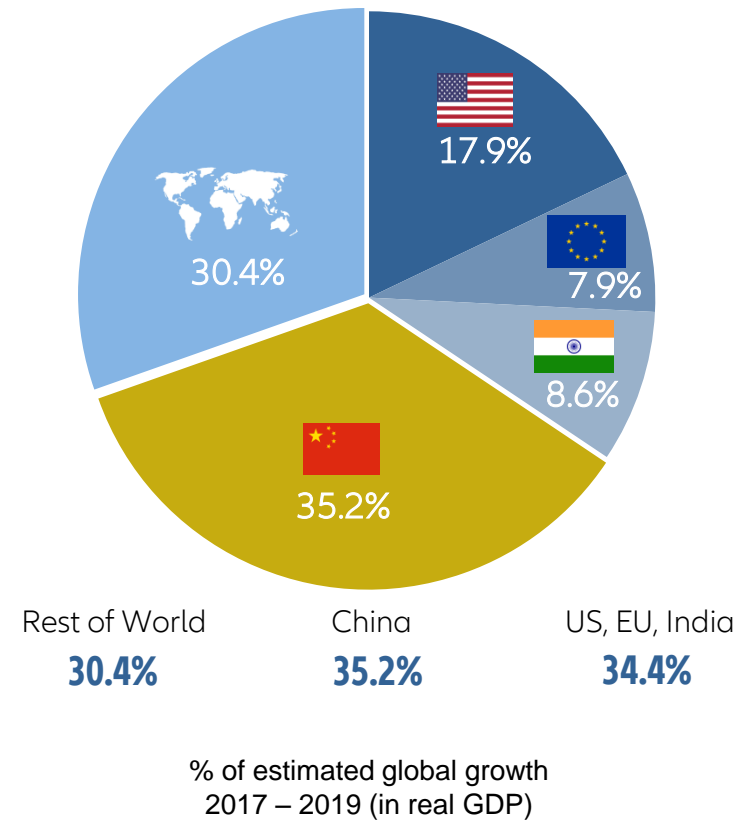
Strong economic growth

Tremendous growth since opening up and reform in 1978

China GDP (current USD trillion)



Increase in GDP per capita (1990-2017)



Source: World Bank Database. China National Bureau of Statistics, GDP per capita is based on current US\$.

Economic growth has been the primary focus



“We need to give the Chinese people growth and prosperity”

Key indicators	China 1978	China 2019	US 1978	US 2019
% of global GDP	1.8%	15.2%	27.1%	24.1%
GDP per capita	USD 156	USD 8,823	USD 10,565	USD 62,641
Poverty Rate	97.5%	3.1%	11.4%	11.8%
Economic pillar	Agriculture & industry: 75% of GDP	Services: 52% of GDP	Services: 52% of GDP	Services: 82% of GDP
State vs private	No private sector	Private sector 60%+ GDP	Private sector 85% + GDP	Private sector 88%+ GDP
Financial market	No stock exchanges or bond market	Second largest global stock market	Largest global market since WWII	Largest global market since WWII

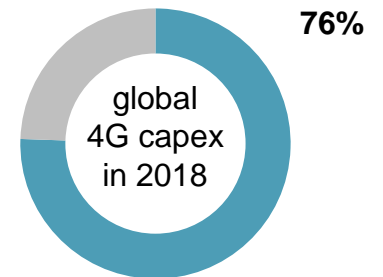
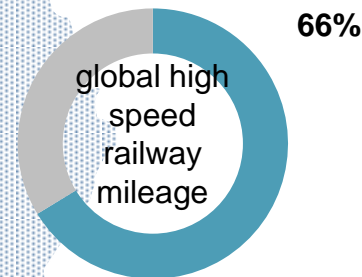
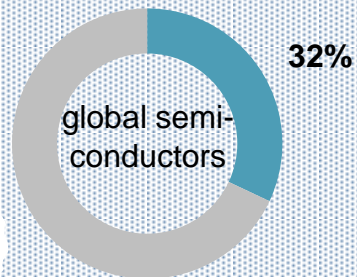
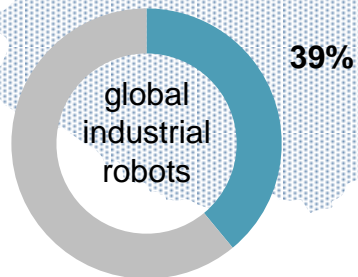
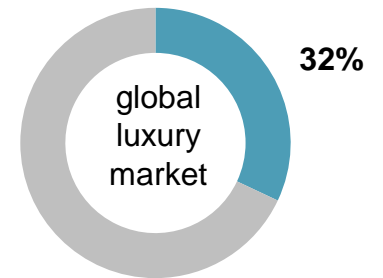
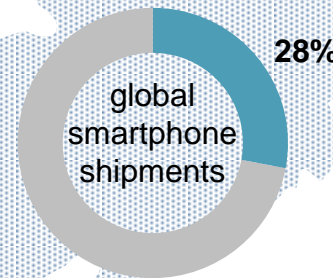
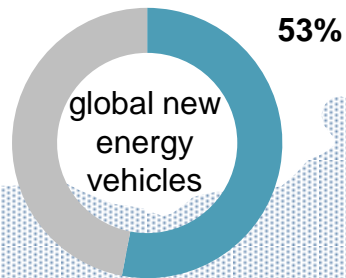
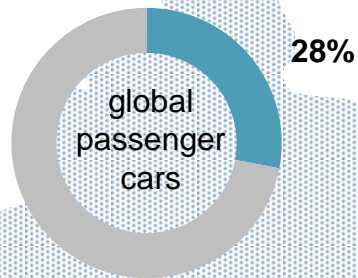
02

China: Not the world's factory anymore



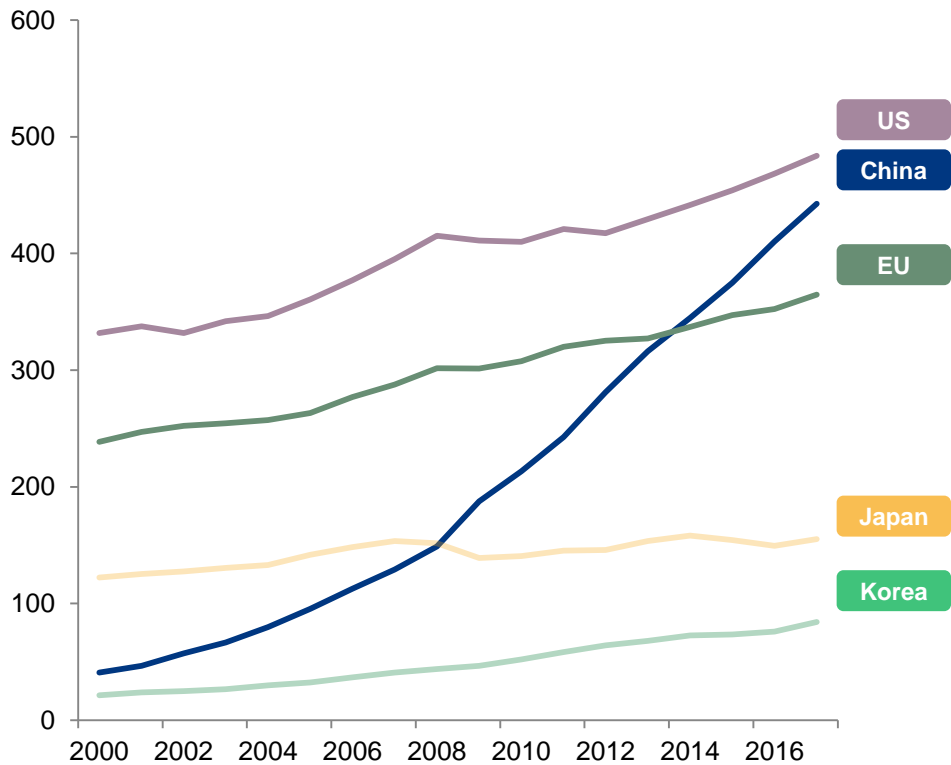
China a leader in existing and future industries

China consumes / represents...



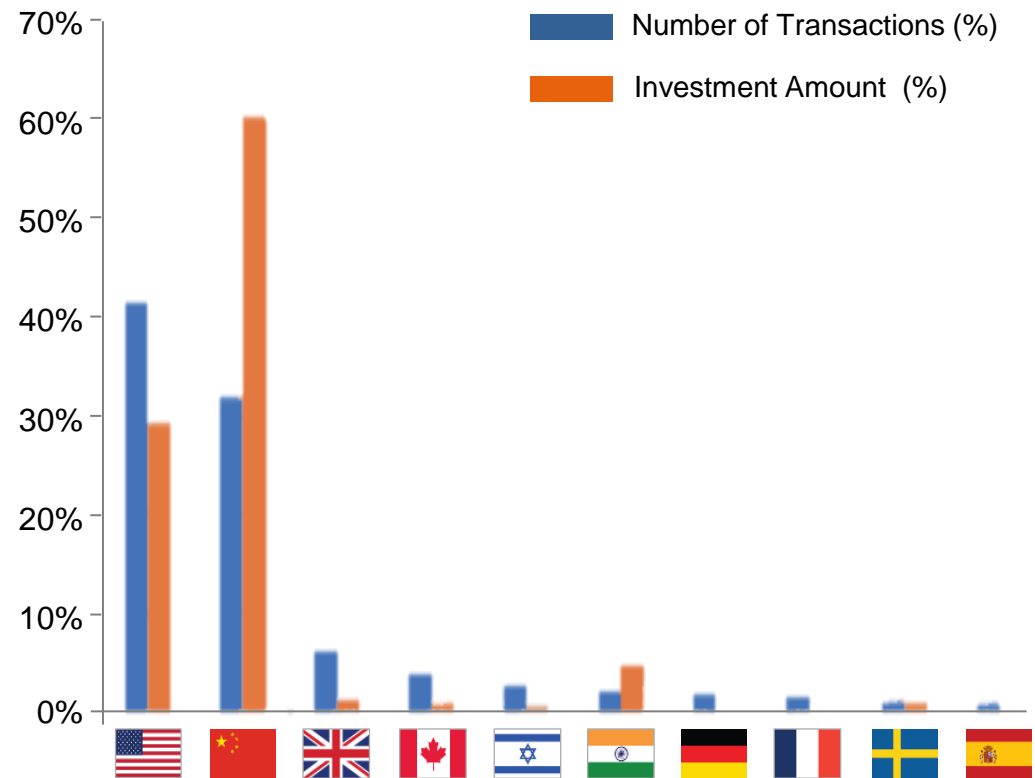
From imitating to innovating

Global R&D expenditure and growth (USD bn)



Source: OECD data, Allianz Global Investors, as of 2017.

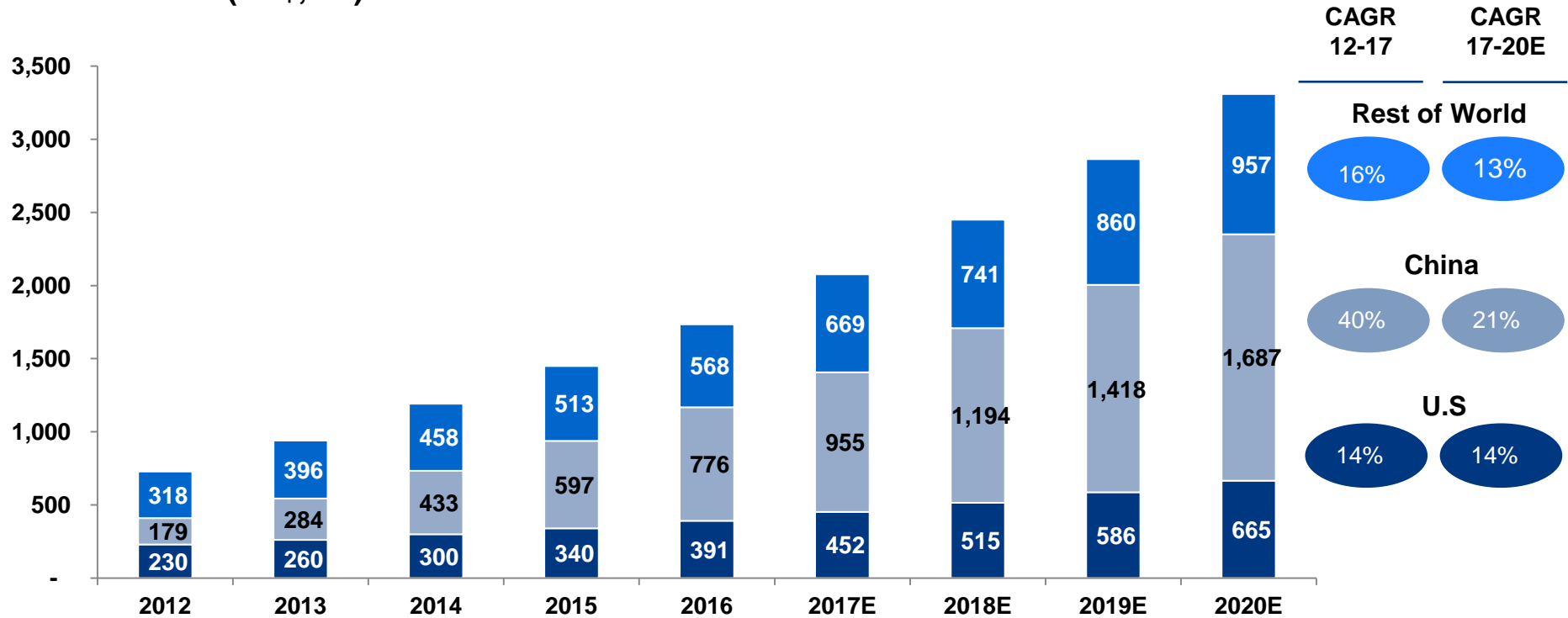
Artificial Intelligence investments by country (2013 to Q1 2018)



Source: China Institute for Science and Technology Policy at Tsinghua University "China AI Development Report 2018", Allianz Global Investors, as of July 2018.

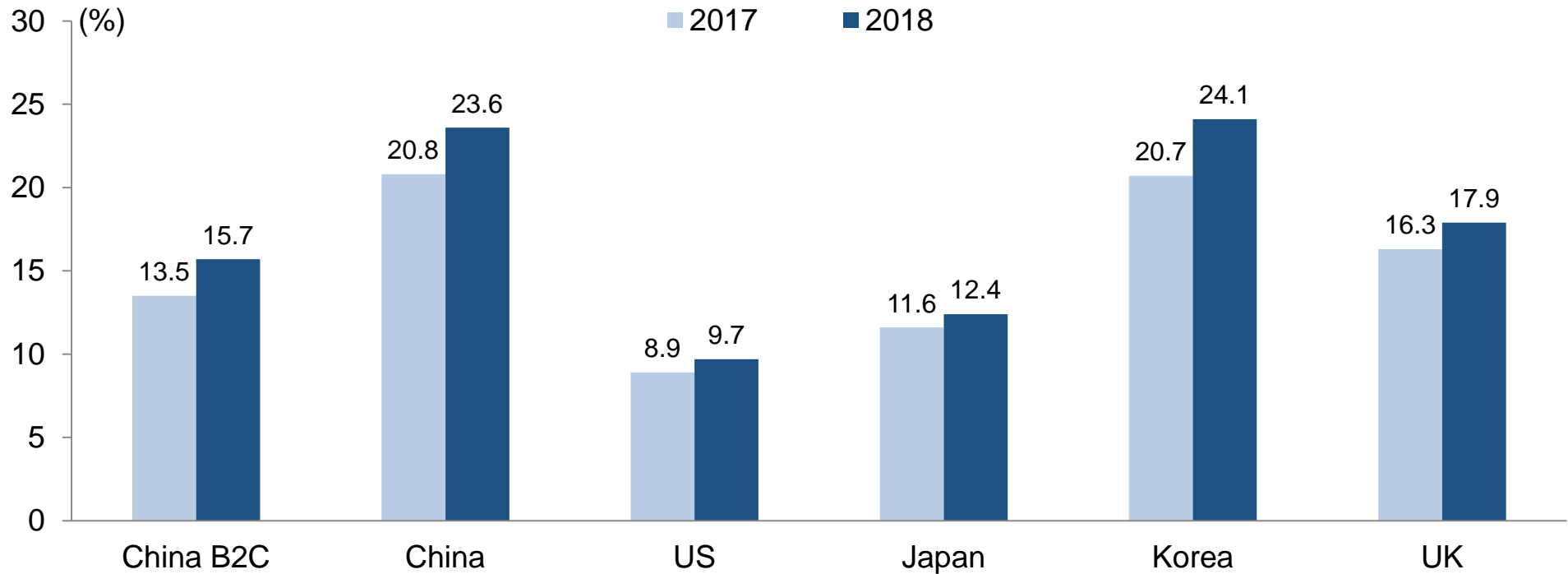
China is the most exciting market in eCommerce

eCommerce GMV (US\$, bn)



China accounts for half of global eCommerce activities and continues to grow at a fast pace.

China has deep penetration in ecommerce



ePayment is more than eCommerce, its convenience changes behavior

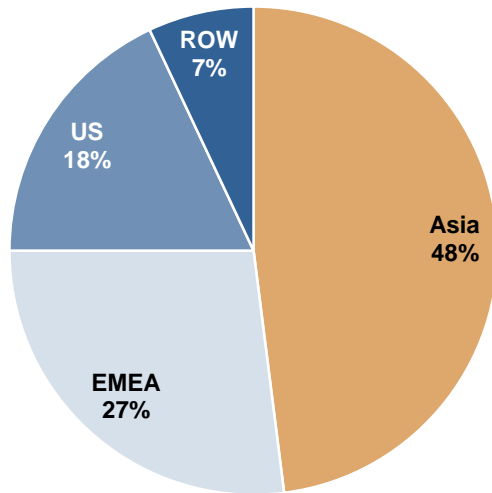
Alipay in action



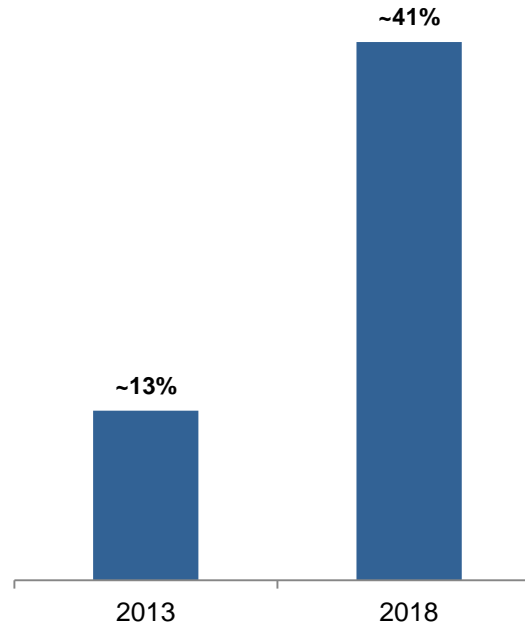
Source: Chinadaily.com.cn, udn.com

Asia rich in data “reserves”; Data-edge creating investing opportunities beyond the BATs

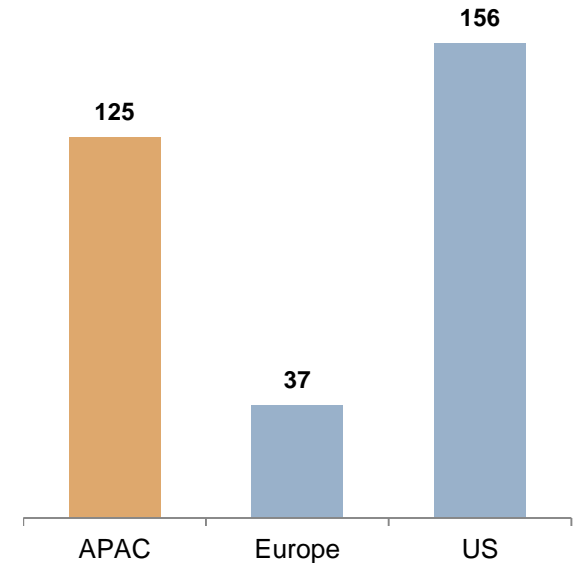
Global Datasphere share by region 2025E



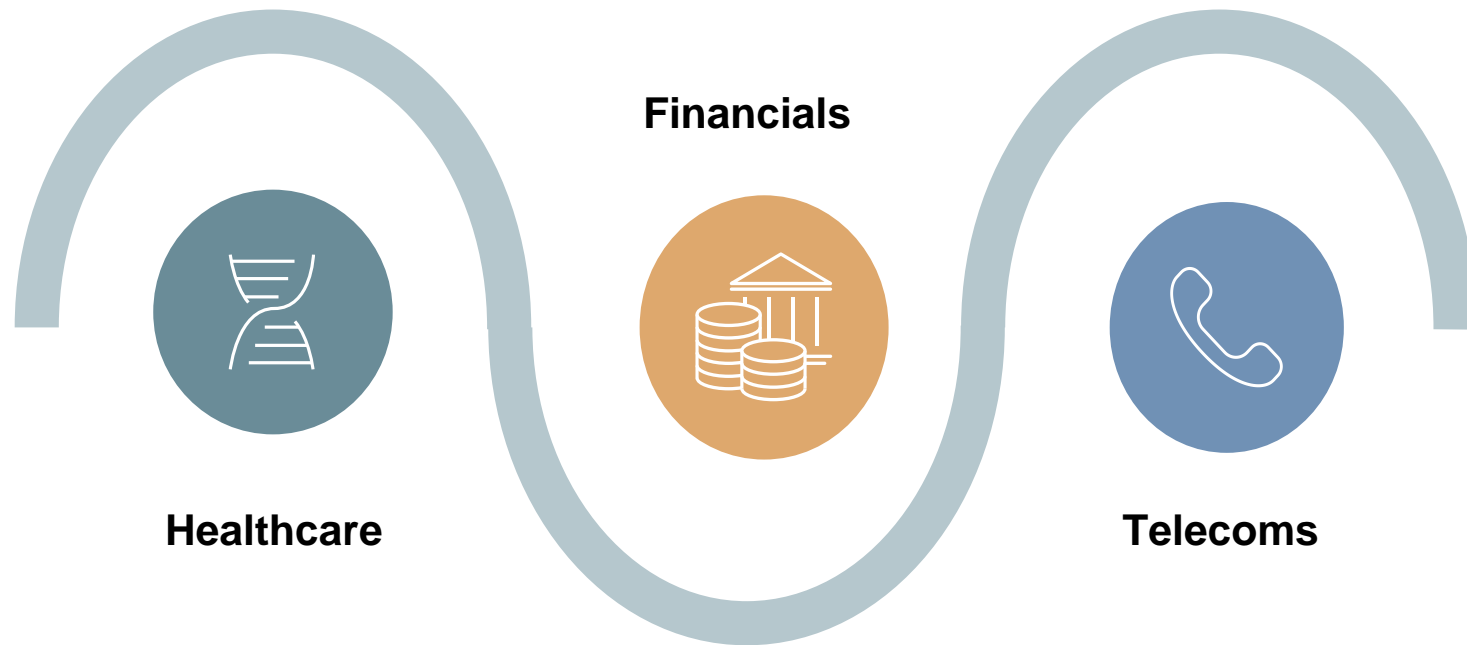
VC funding for Asia as % of global



Number of Unicorns by region (as of Feb 2019)



Asia's data-edge creating investing opportunities across sectors



Revolutionising healthcare in China with AI

Ping An Good Doctor (PAGD) - China's over-crowded hospitals



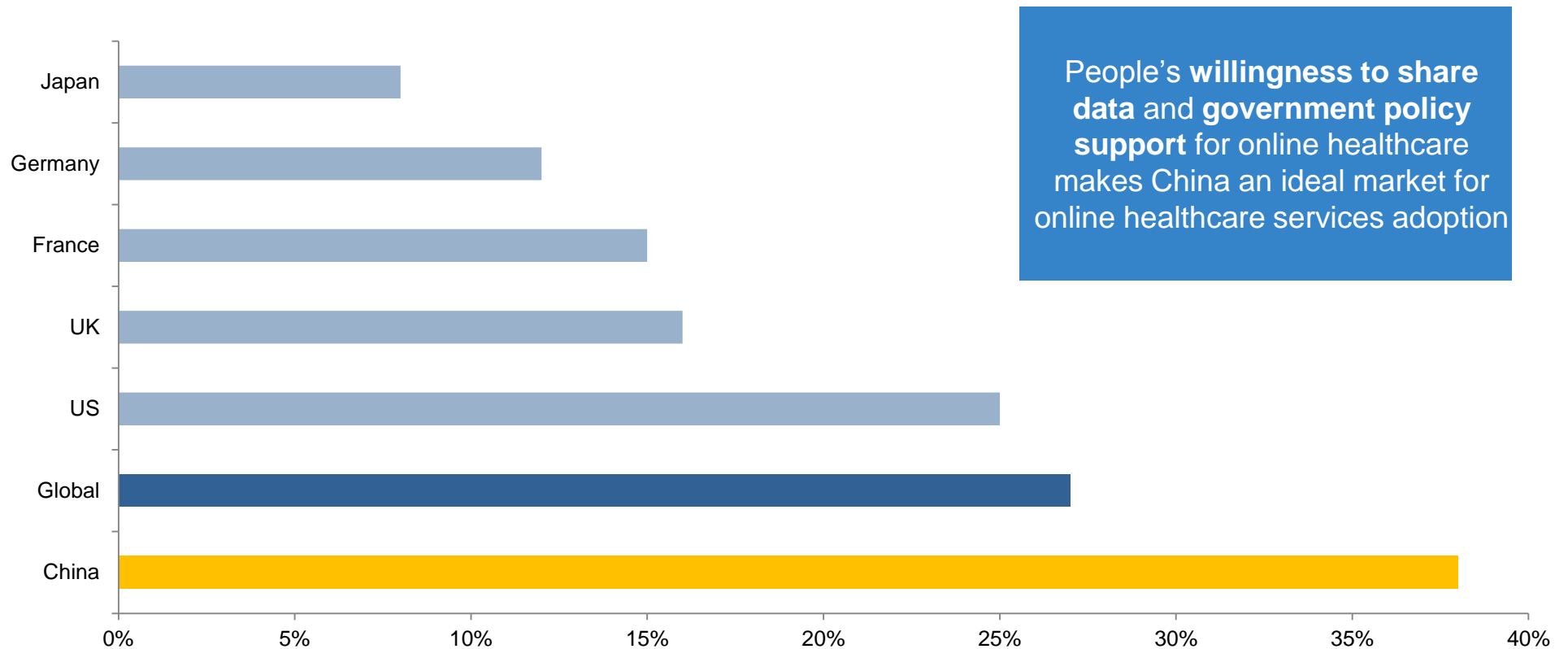
Average waiting time =
3 hours

Average doctor
consultation time =
8 minutes

Social medical
insurance deficit on the
rise putting a strain on
government budget and
healthcare quality

Revolutionising healthcare in China with AI – 2

Willingness to share data in exchange for benefits or rewards (% of agreed users)



Revolutionising healthcare in China with AI – 3

AI has enabled each doctor on average to cover **450 consultations/doctor/day!**

That is **½ a million consultations a day** with their 1200 in house doctors

Ping An's **global leading AI learning engine** is growing exponentially. At end 2017, the company had accumulated 200 million medical records... and this grew to **400 million medical records** by the end of 2018

Online consultation via Good Doctor app



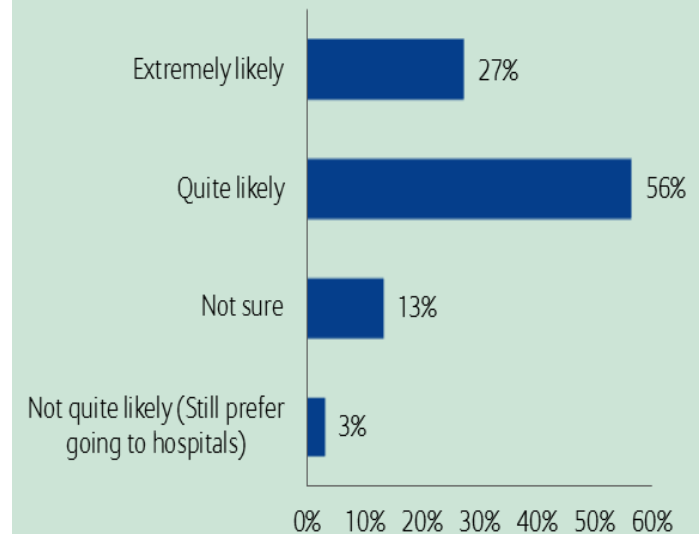
Revolutionising healthcare in China with AI – 4

The “One-minute Unmanned Clinic”

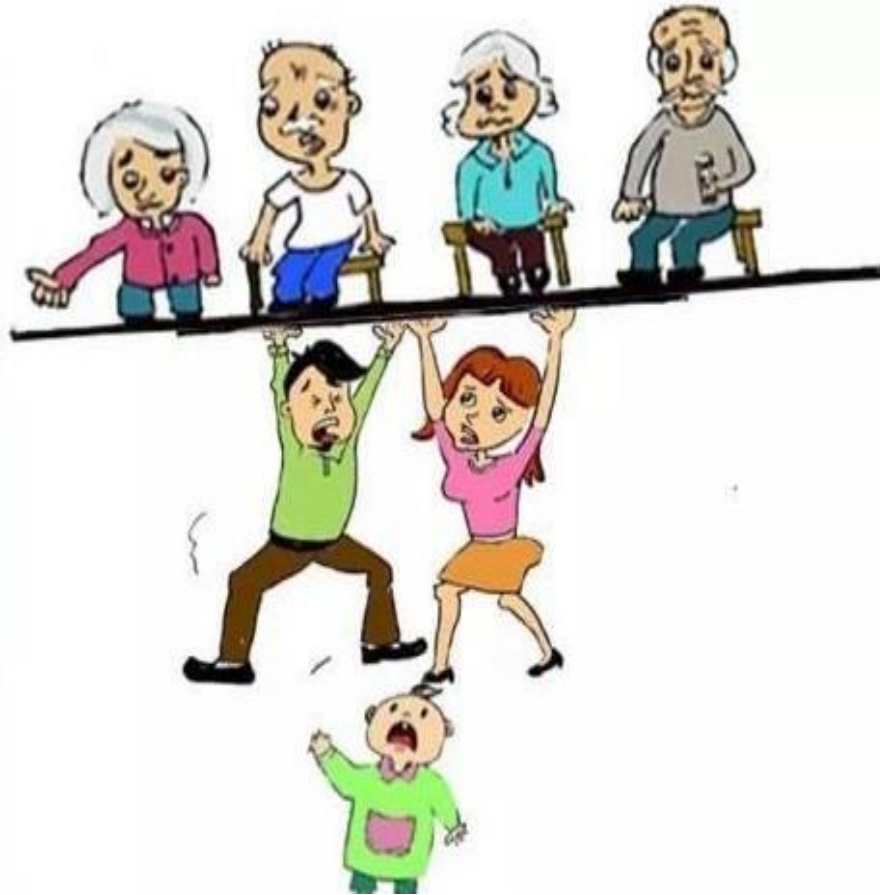


Grassroots[®] Research

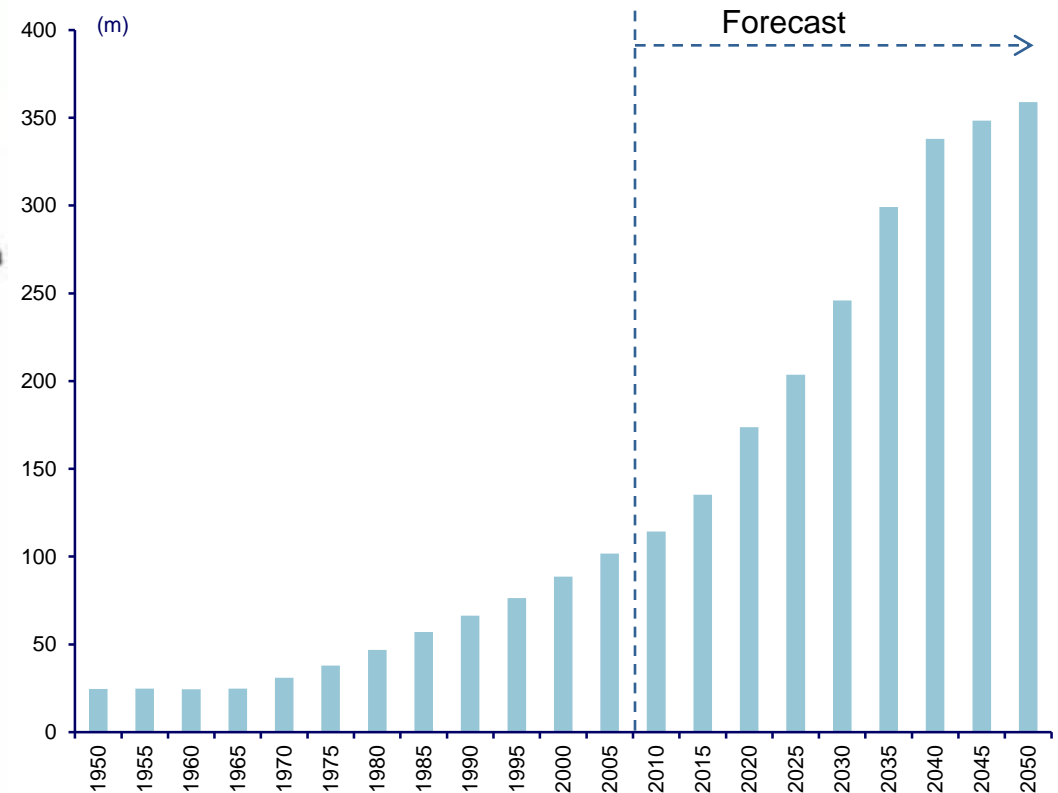
Q: How likely would you use PAGD more when you need to get medical consultation instead of going to the hospitals going forward?



The 4-2-1 problem: demand for healthcare and education

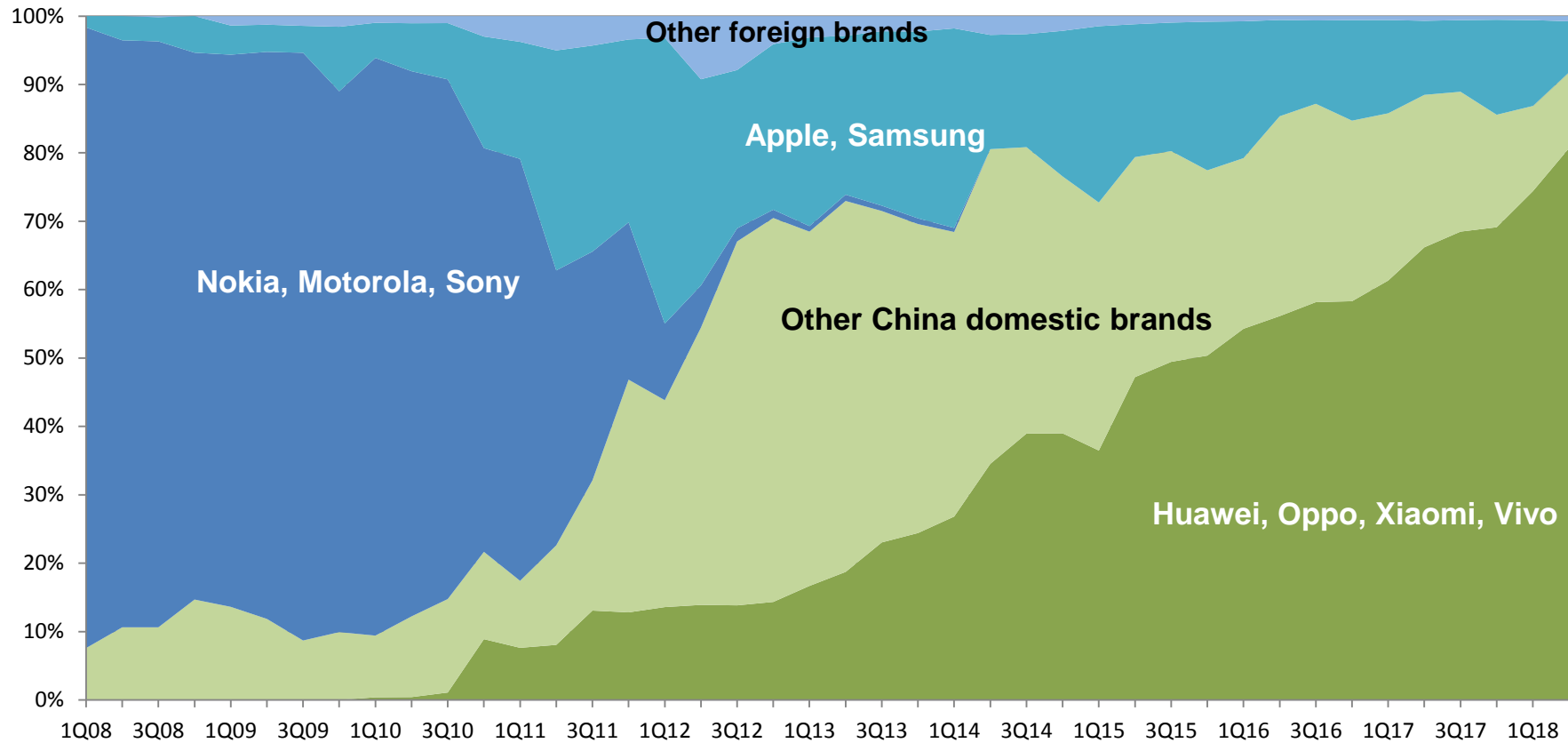


China: population above 65



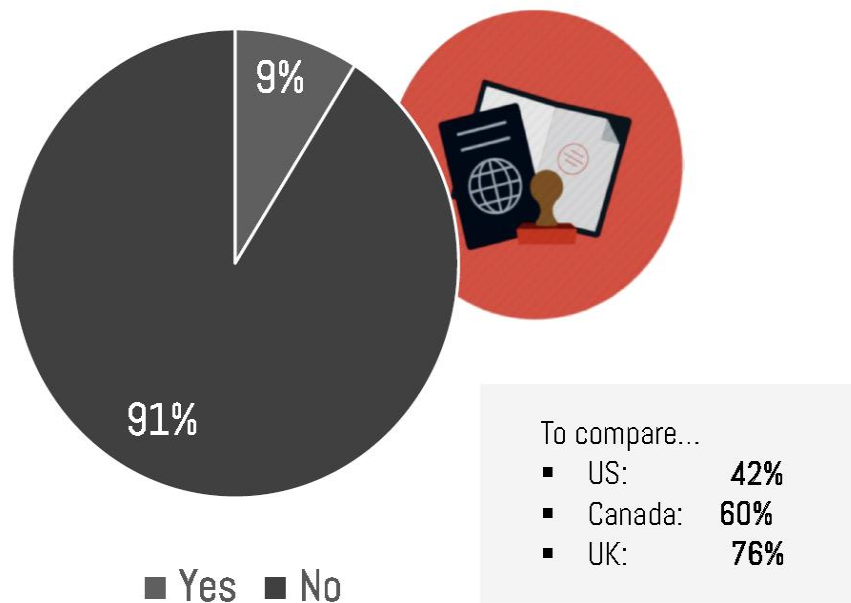
The rise of domestic brands

Smartphone Shipments by Brands in China

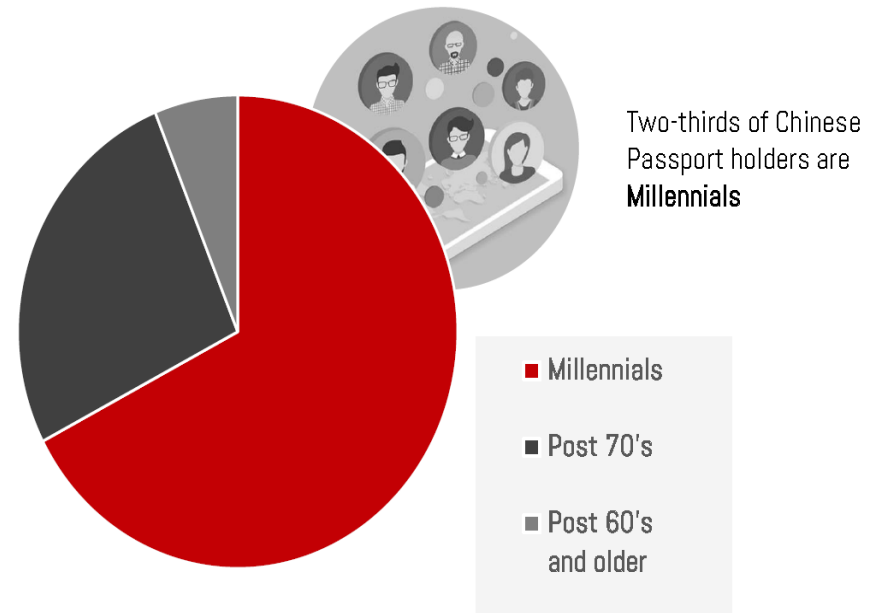


The rise of travel and entertainment

China passport ownership



Breakdown of China passport owners by age

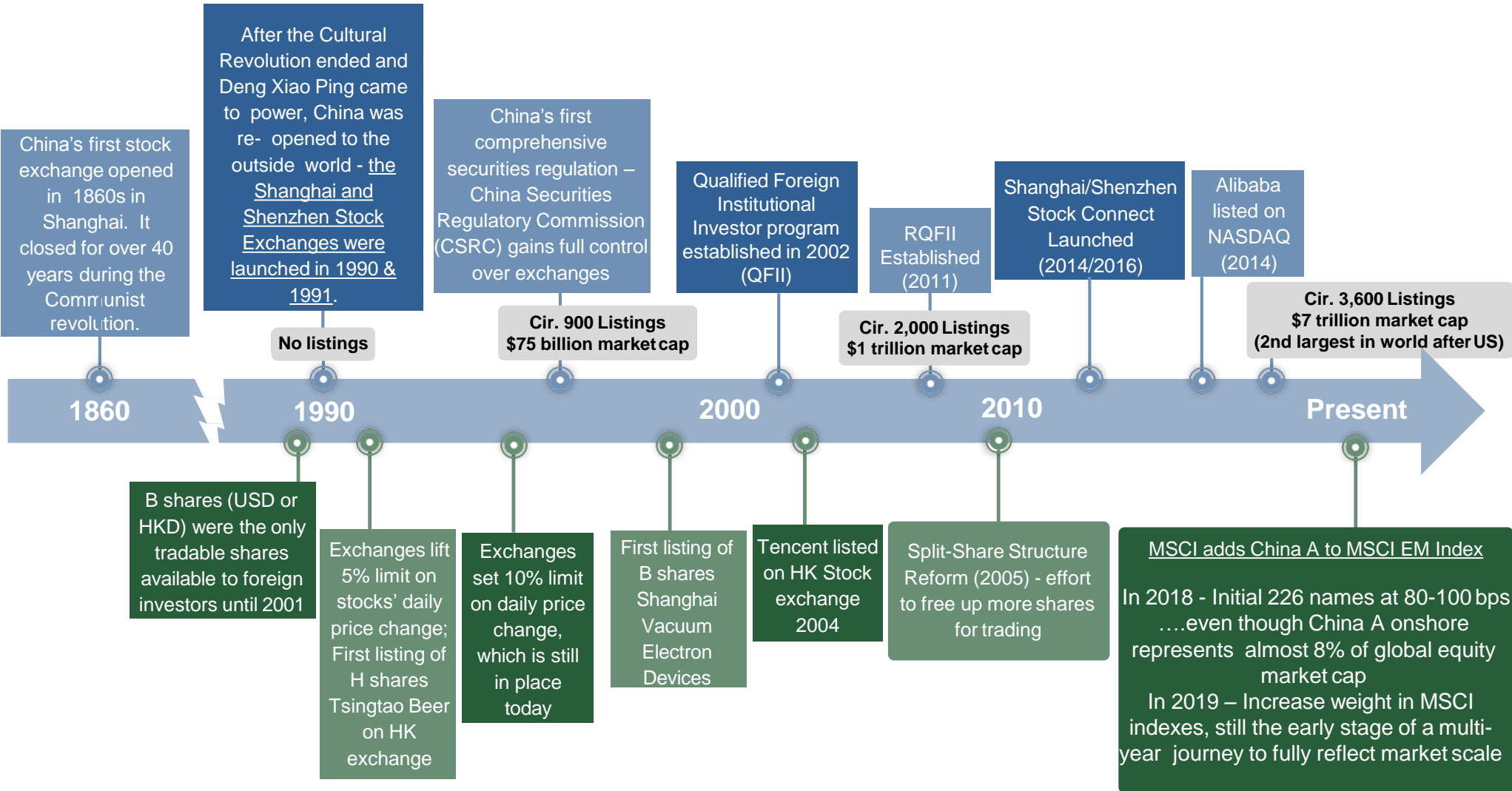


03

Investing in China

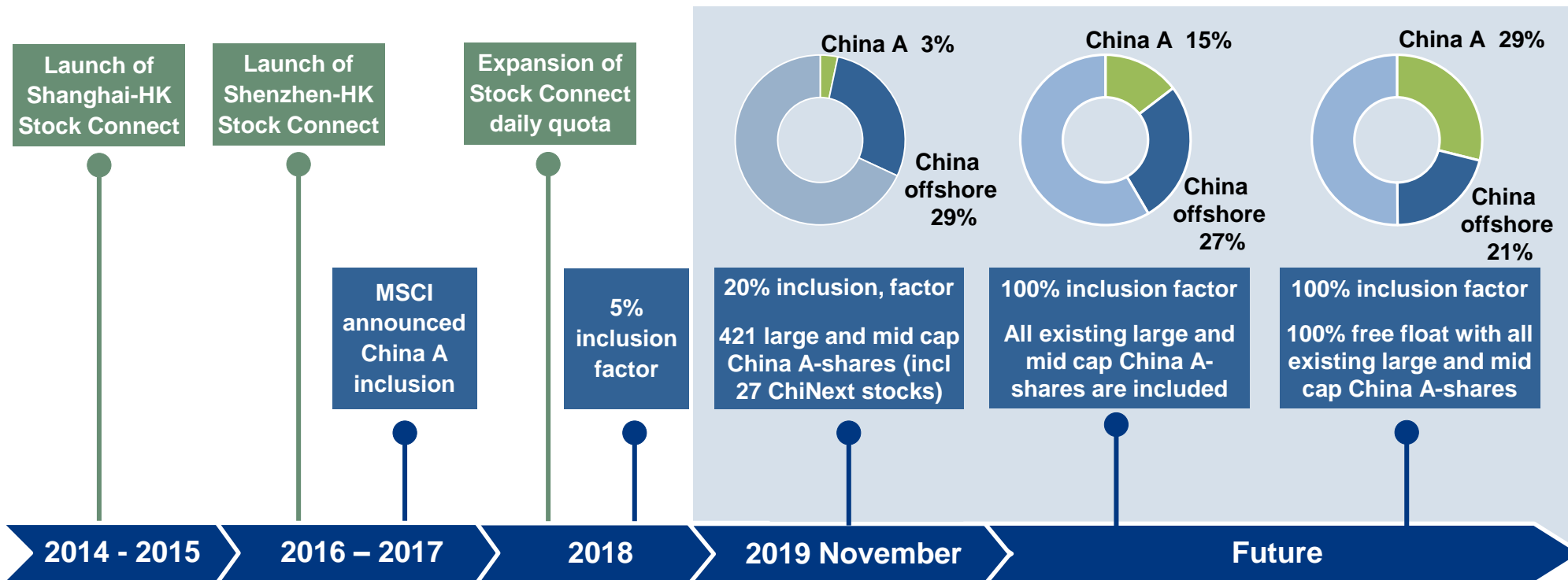


Evolution of China's Equity Markets



China A-shares inclusion to raise market profile

China A-shares: weighting in MSCI Emerging Markets Index



Source: MSCI, Citi, Bank of America Merrill Lynch, Allianz Global Investors, as of March 2019. Explanation of the index evolution pie charts: The chart on the left is calculated based on MSCI's proposal in March 2019 for inclusion as at November 2019. This includes 421 large and mid cap China A-share stocks included in the MSCI Emerging Markets Index, of which 27 are ChiNext stocks. The middle pie chart is based on the assumption that all China A shares are available to be included in MSCI Emerging Market Index under the current market structure. The pie chart on the right is based on the assumption that all China A shares are available to be included in MSCI Emerging Markets Index, without free float coverage being capped.

China Public Equity Platforms

Major stock exchanges for China equities

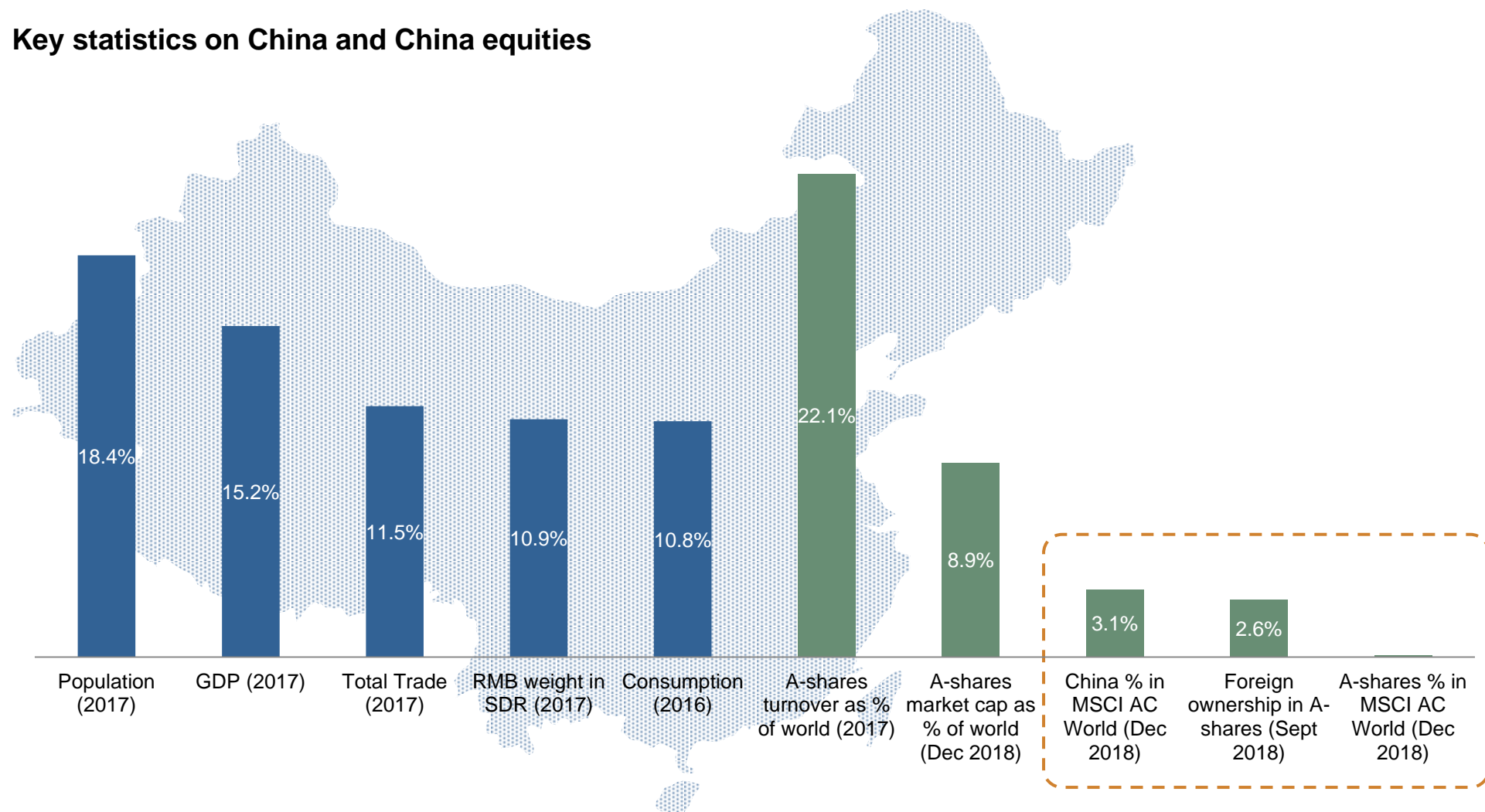


	Shenzhen A-shares	Shanghai A-shares	China Stocks listed in HK	US-listed ADRs	Total	Euro Area
Market cap (USD tn)	3.0	4.8	2.6	0.9	10.0	7.9
Number of stocks	2,160	1,471	1,116	171	4,918	4750

Source: Nasdaq, Bloomberg, Allianz Global Investors, as of June 30, 2019. Only the market cap of the listed share class by exchange is included. Offshore China stocks are defined based on companies with ultimate parent domiciled in China. Suspended stocks are excluded. Euro Area data is as of December 31, 2018.

China equities: poorly represented in index compared to economic influence and market scale

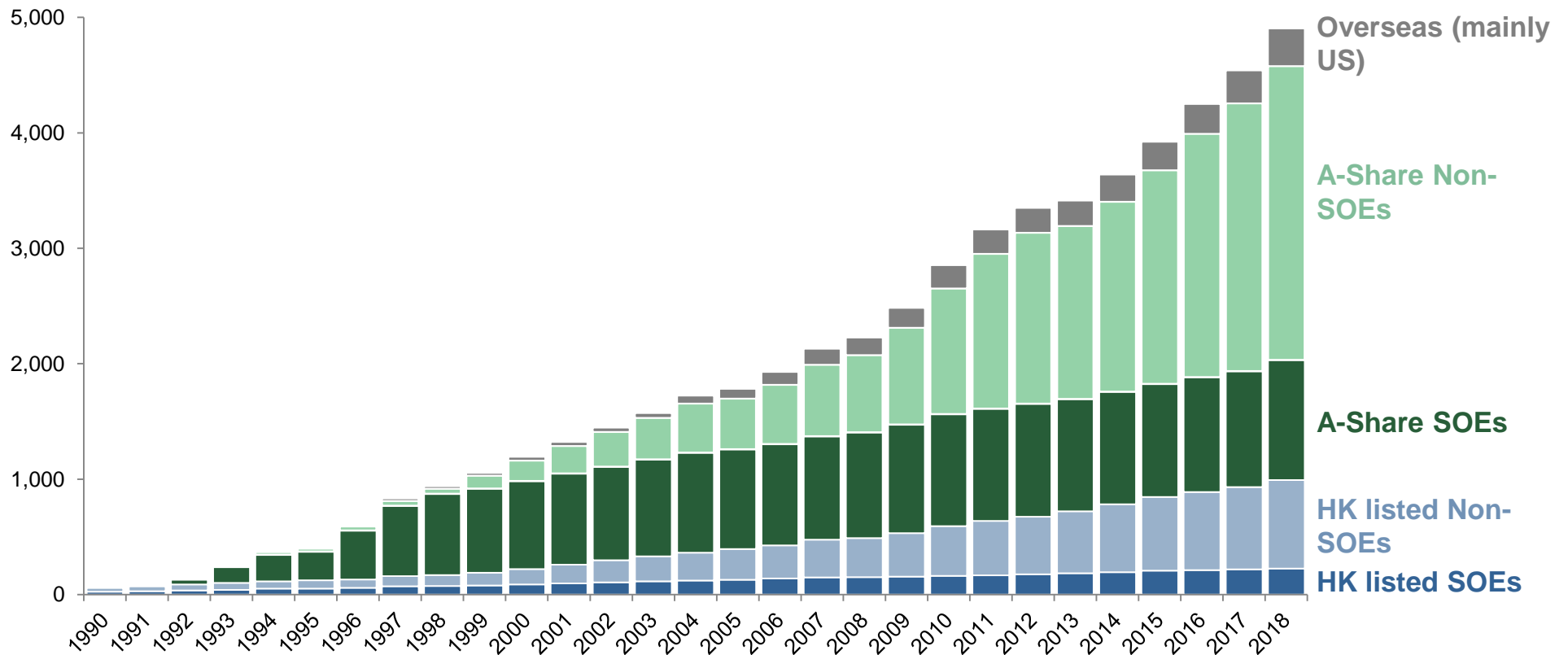
Key statistics on China and China equities



Source: Bloomberg, People's Bank of China, World Bank Database, Shanghai Stock Exchange, Shenzhen Stock Exchange, Allianz Global Investors, as of December 31, 2018.

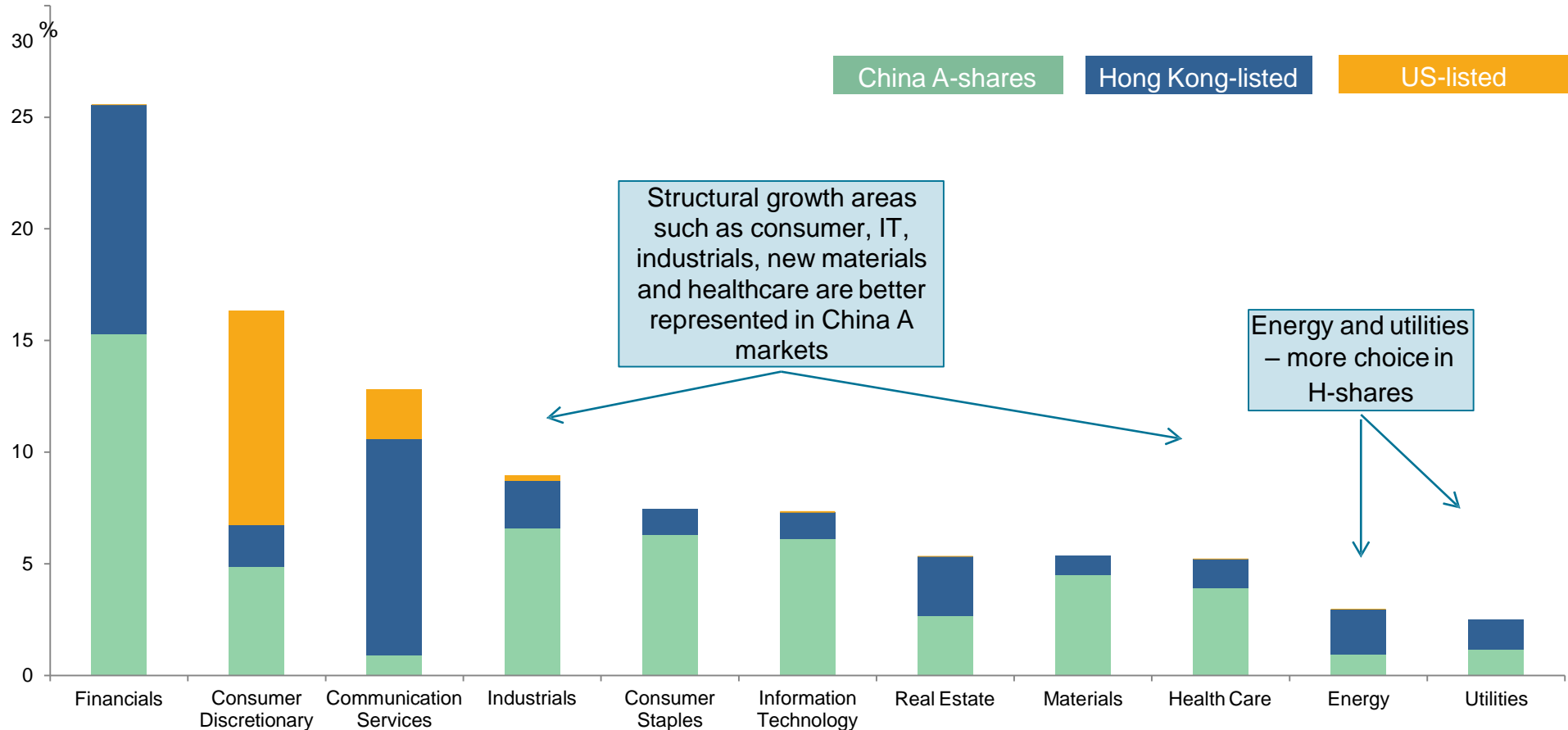
China A-Shares – the growth area for listed China companies

Number of listed Chinese companies since launch of Shanghai / Shenzhen Stock Exchanges



China A Shares: More diverse representation of China...

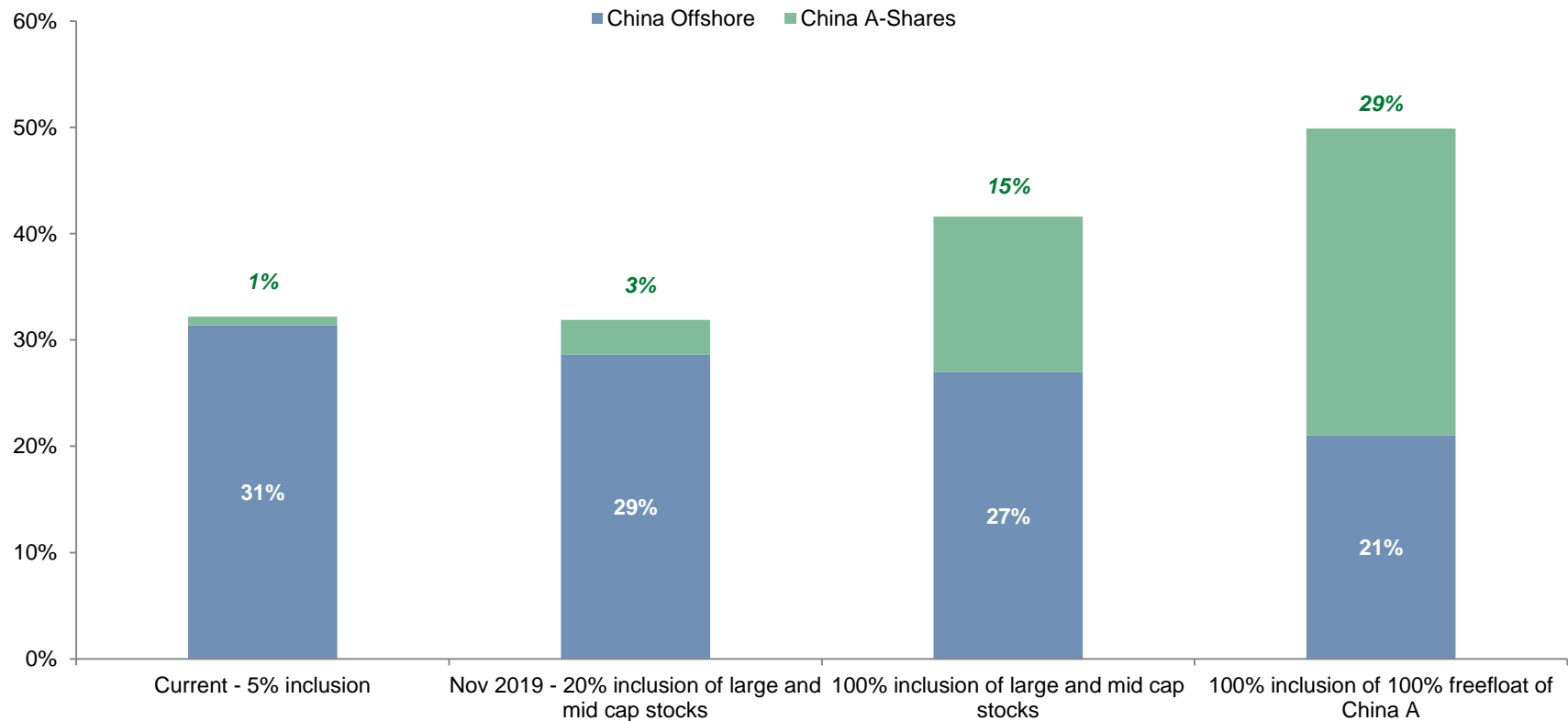
Sector breakdown of MSCI All China Index



Source: Bloomberg, Allianz Global Investors, as of June 30, 2019. The above information is used for the purpose to demonstrate AllianzGI's research technique, it is not a recommendation or investment advice to buy or sell any particular securities and should not be considered investment advice.

Capital market reform: MSCI signals good progress....

China A-Shares inclusion level in MSCI Emerging Market Index

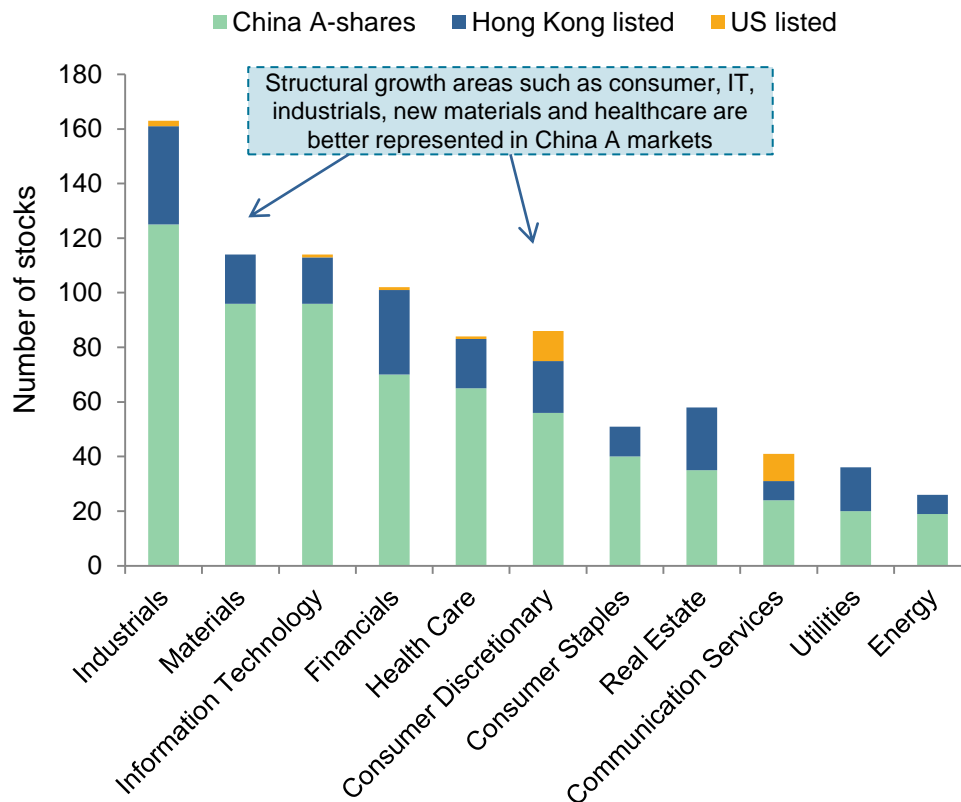


Source: MSCI, Citi, Bank of America Merrill Lynch, Allianz Global Investors, as of March 2019. Large and Mid cap stocks refer to the 421 large and mid cap China A-share stocks included in the MSCI Emerging Markets Index, of which 27 are ChiNext stocks.

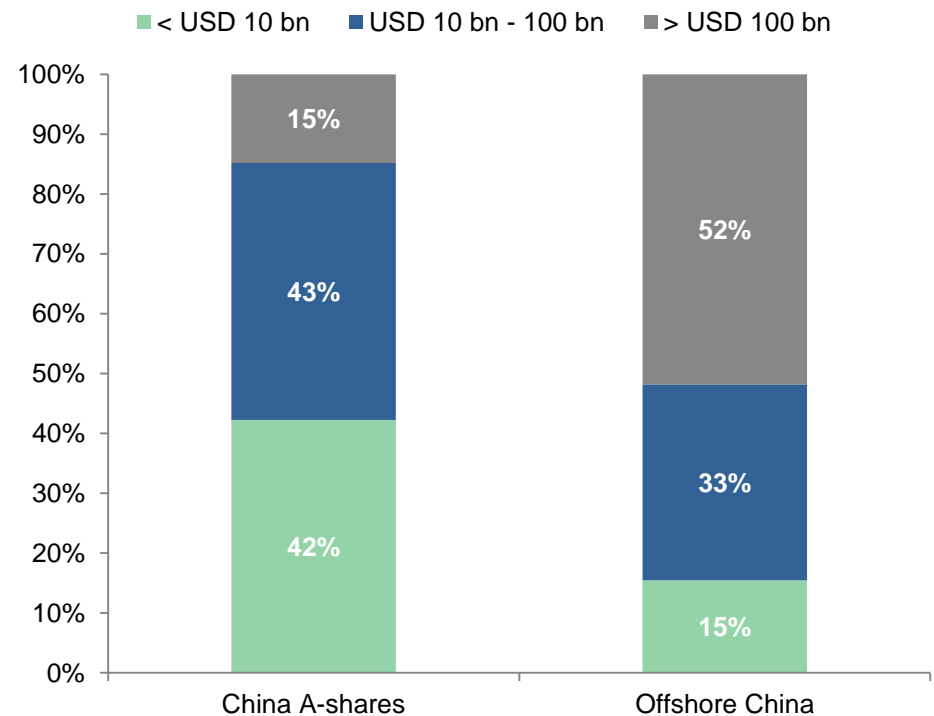
China A-Shares complement China stocks in EM Index

Access to new economy areas and small / mid caps

MSCI All China Index – number of stock by listing location



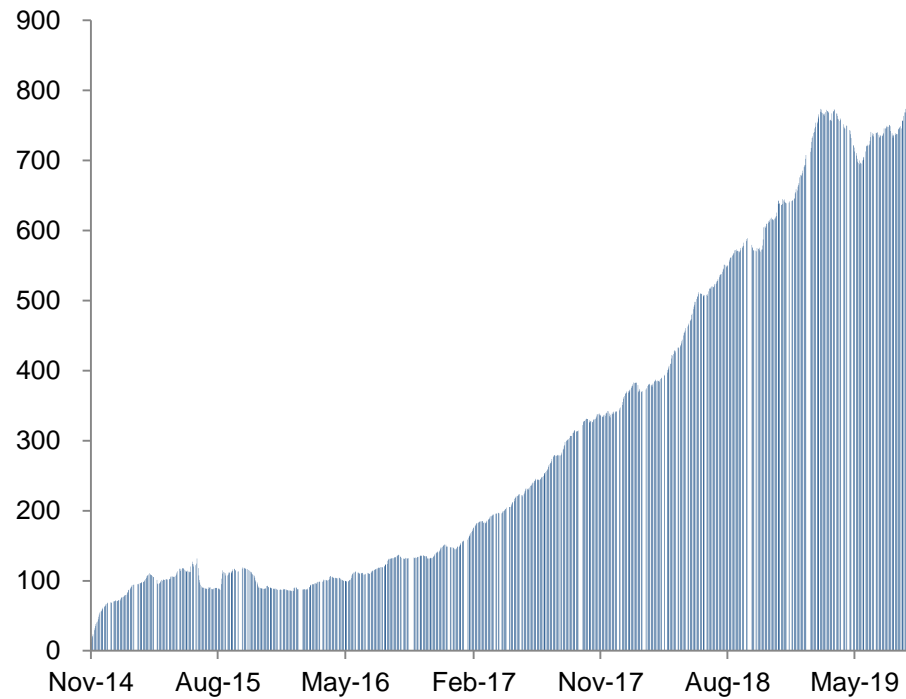
Market Cap Breakdown



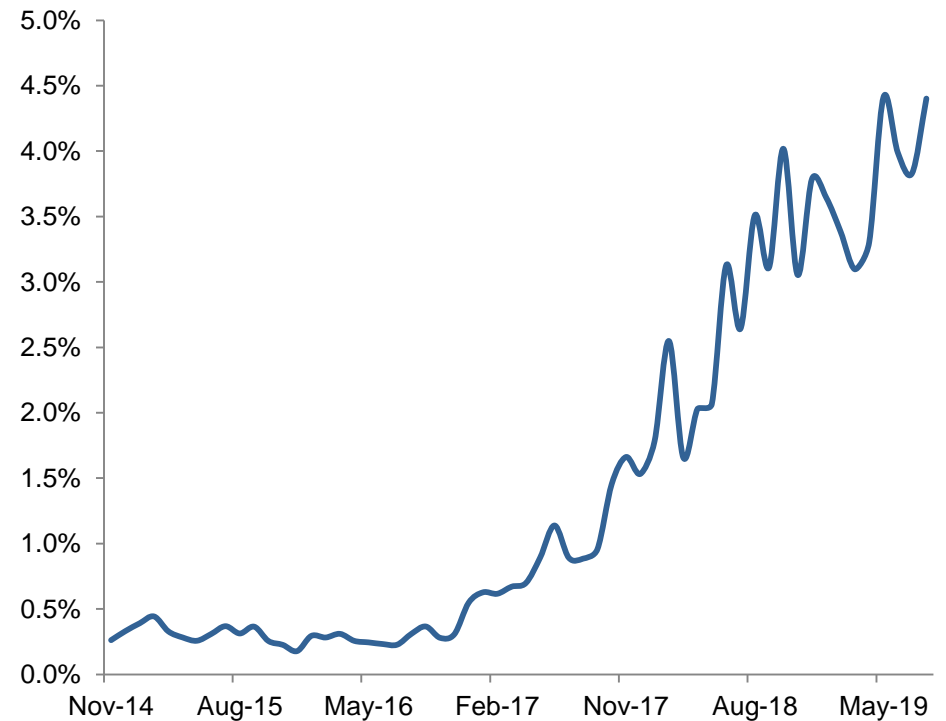
Significant pick up in global investor flows into A-shares

Cumulative Northbound buying through Stock Connect

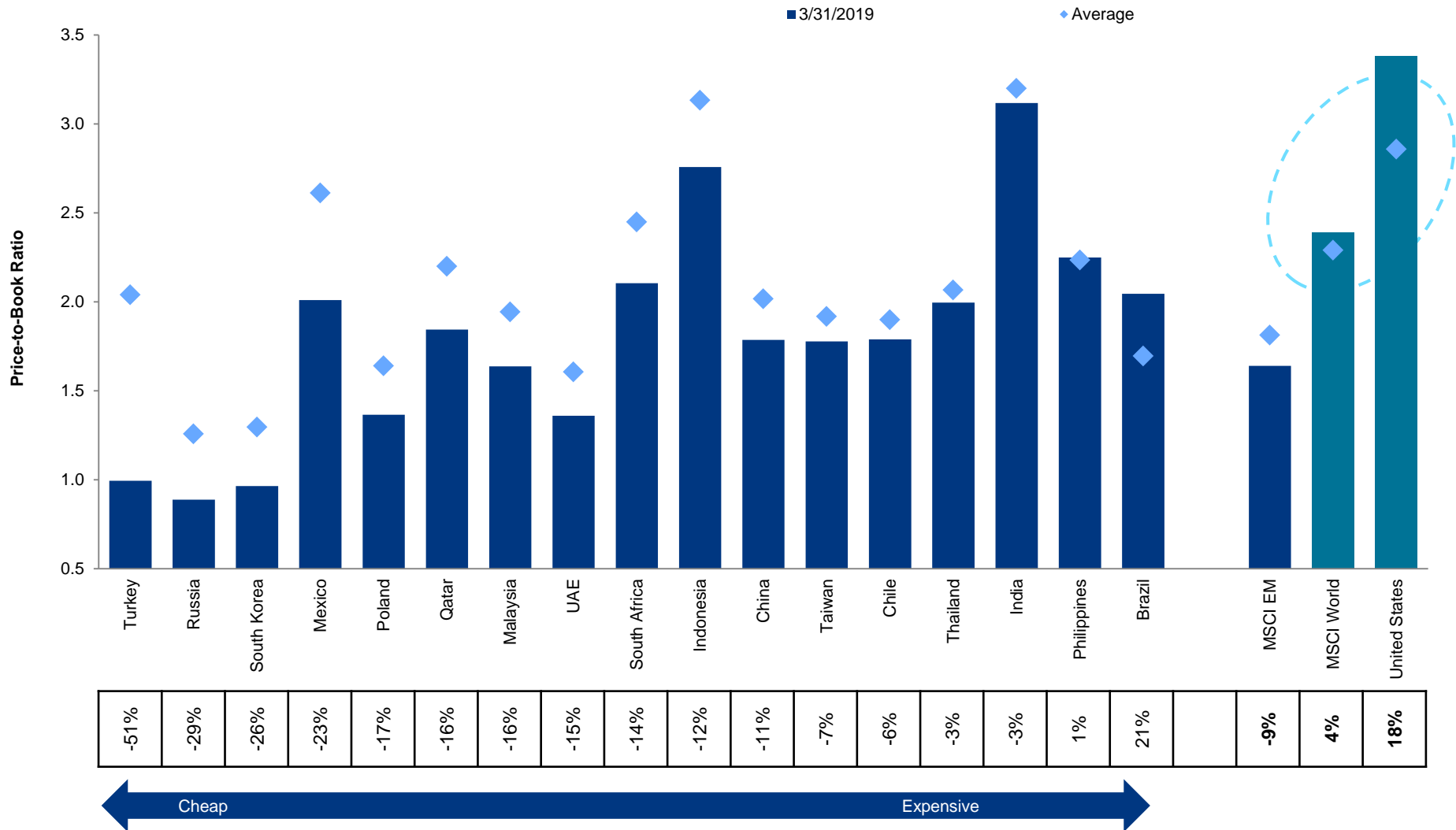
(USD mn)



Northbound Stock Connect as % of A-share turnover



EM trades at a discount to DM equities



Source: MSCI, FactSet, Allianz Global Investors. As of March 31, 2019. Figures comparing the average monthly price-to-book ratio from January 31, 2000 to March 31, 2019. Shown are MSCI Emerging Markets Index constituents with a benchmark weighting of 50 bps or higher. Past performance is not indicative of future results.

China A-Shares: Low correlations, diversification benefits

Historical correlation between major equity markets

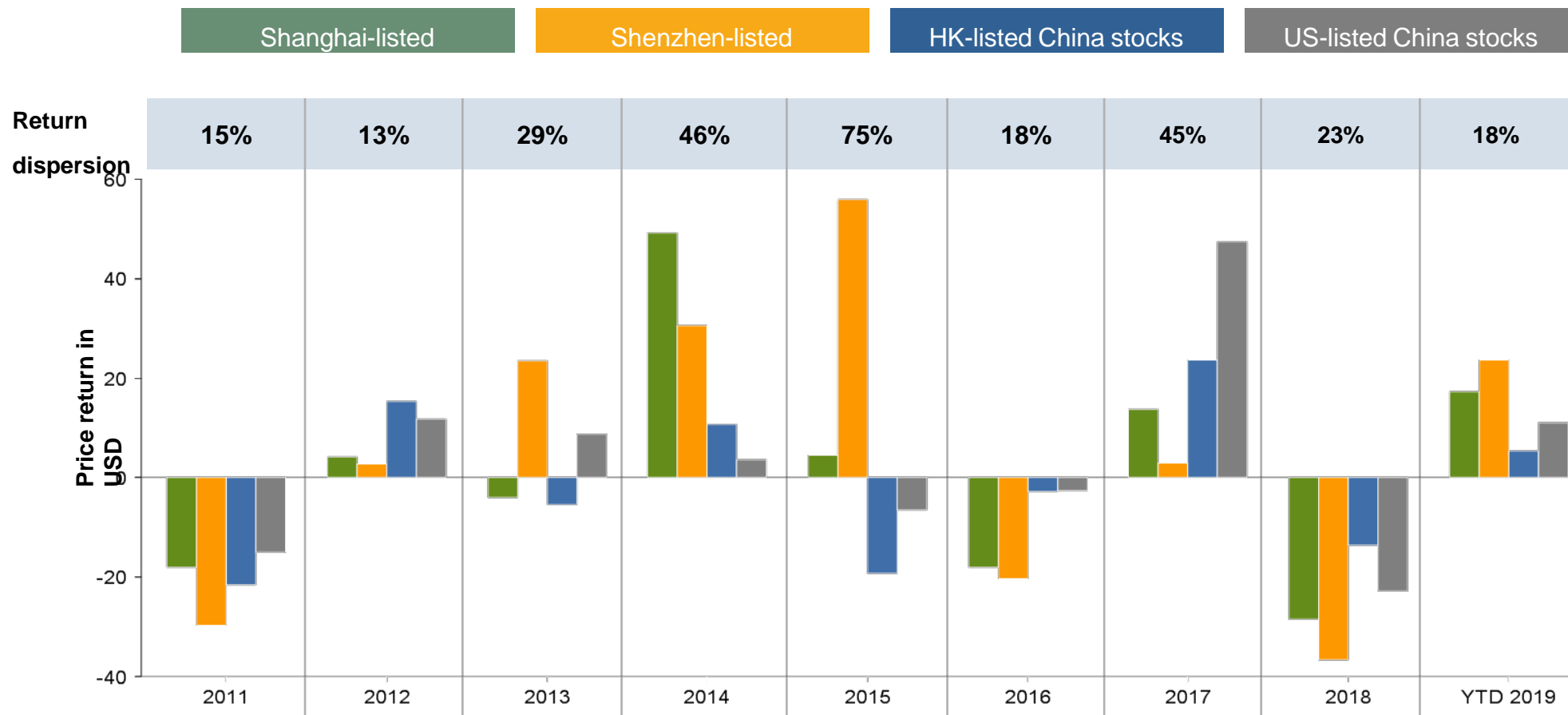
■ Low correlation ■ High correlation

	China A-shares	HK-listed China stocks	APxJ equities	GEM equities	Japan equities	US equities	European equities	World equities
China A-shares	1.00	0.58	0.46	0.43	0.25	0.14	0.19	0.22
HK-listed China stocks	0.58	1.00	0.86	0.81	0.44	0.26	0.41	0.43
APxJ equities	0.46	0.86	1.00	0.92	0.54	0.32	0.50	0.55
GEM equities	0.43	0.81	0.92	1.00	0.45	0.48	0.63	0.69
Japan equities	0.25	0.44	0.54	0.45	1.00	0.15	0.28	0.33
US equities	0.14	0.26	0.32	0.48	0.15	1.00	0.62	0.91
European equities	0.19	0.41	0.50	0.63	0.28	0.62	1.00	0.80
World equities	0.22	0.43	0.55	0.69	0.33	0.91	0.80	1.00

Source: Bloomberg, Allianz Global Investors, as of July 31, 2019. Correlation data is calculated based on historical return of respective MSCI indices for the past 10 years, using weekly USD return. China A-shares represented by MSCI China A Onshore Index. HK-listed China stocks represented by MSCI China Index. APxJ equities represented by MSCI AC Asia ex Japan Index. GEM equities represented by MSCI Emerging Markets Index. Japan Equities represented by TOPIX Index. US equities represented by S&P 500 Index. European equities represented by MSCI Europe Index. World equities represented by MSCI World Index

Difficult to time the different China markets: Portfolio construction close to 'region-neutral'

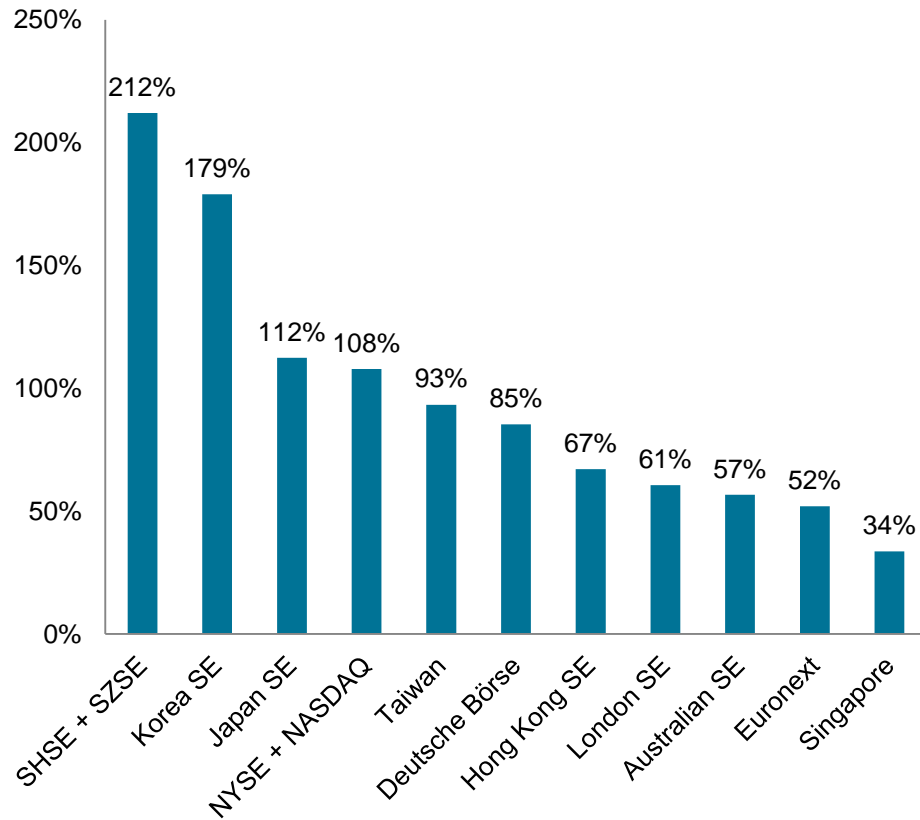
Calendar year return for different China equity markets



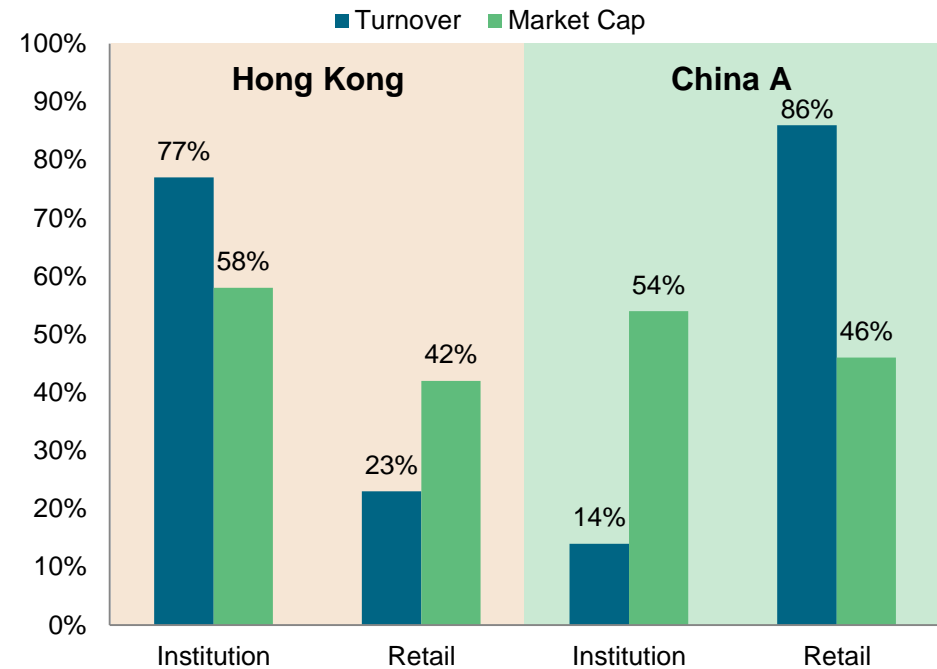
Source: Thomson Reuters Datastream, Allianz Global Investors, as of July 31, 2019. Index used for calculation: Shanghai SE Composite Index, Shenzhen SE Composite Index, Hang Seng China Enterprises Index, Hang Seng China Affiliated Corp Index, and BNY Mellon China ADR Index. Investment involves risks. **Past performance is not indicative of future performance. Individual performance will vary.**

Dominance of retail investors creates significant inefficiencies: alpha source for disciplined investors

Stock turnover ratio by stock exchange (2017)

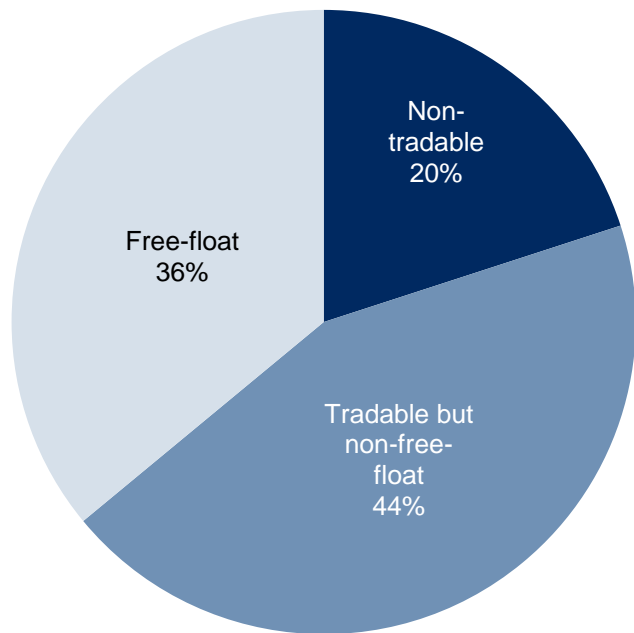


Retail investors as % of market cap and turnover



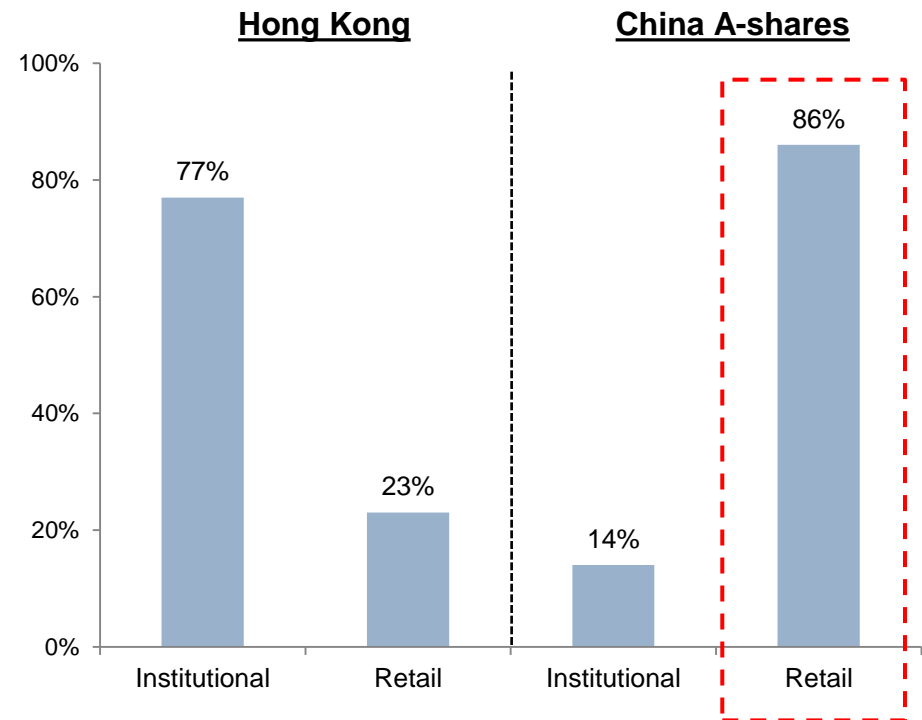
China A - high state ownership but turnover dominated by private individual investors

China A-shares - total market cap by share type



Note: (1) Non-tradable shares are shares that can't be traded on public exchanges which are mostly held by the State; (2) Tradable but non-free-float shares can be traded but have restrictions. This includes shares held by company management, strategic shareholders, some state shares and other major shareholders; (3) Free float shares are shares that can be freely traded on stock exchanges. As at 28 February 2017.

Market turnover by investor type



Note: (1) Turnover data is for 2016. (2) HK institutional turnover includes both institutional investor and principal trading conducted by brokers.

04

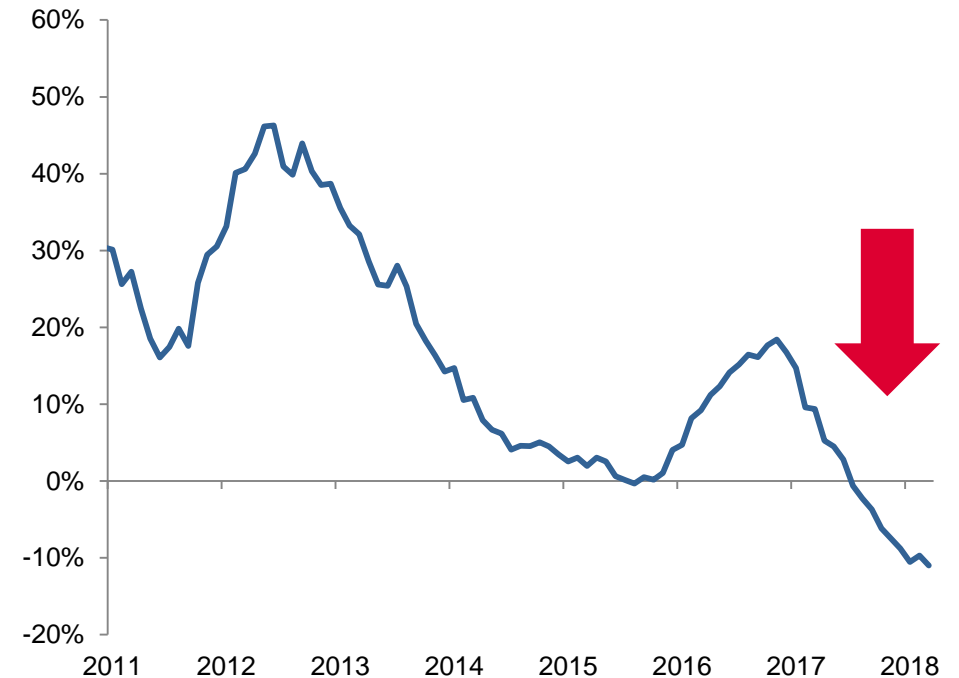
China Market Outlook



2018 weakness – primarily a China credit issue



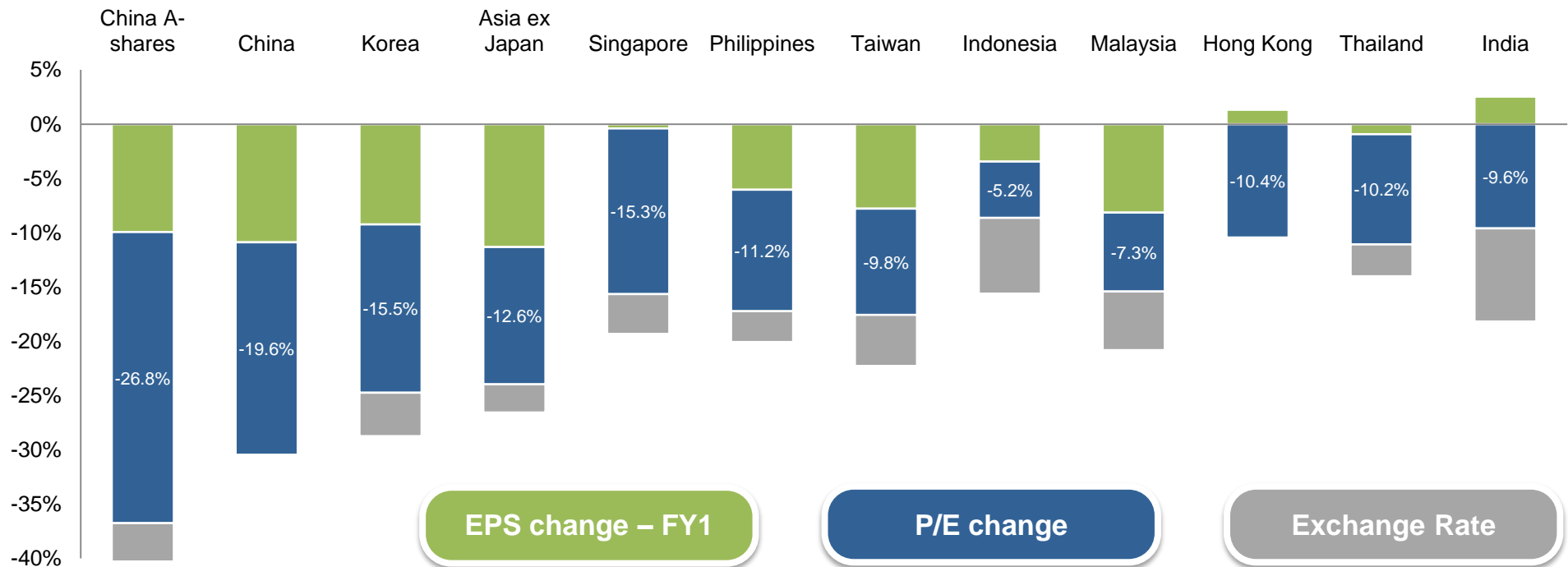
China Shadow Banking Social Financing (Y/Y % change)



Market weakness because of derating, not earnings

Performance breakdown since peak in January in USD

MSCI Indices (25 January 2018 – December 2018)



Source: Allianz Global Investors, Bloomberg, as at 31 December 2018. EPS change is calculated based on local currency terms. Numbers in the chart refer to the degree of valuation contraction.
Note: Past performance is not indicative of future performance

Geo-politics: Losers

Tech sector will continue to be in the spotlight

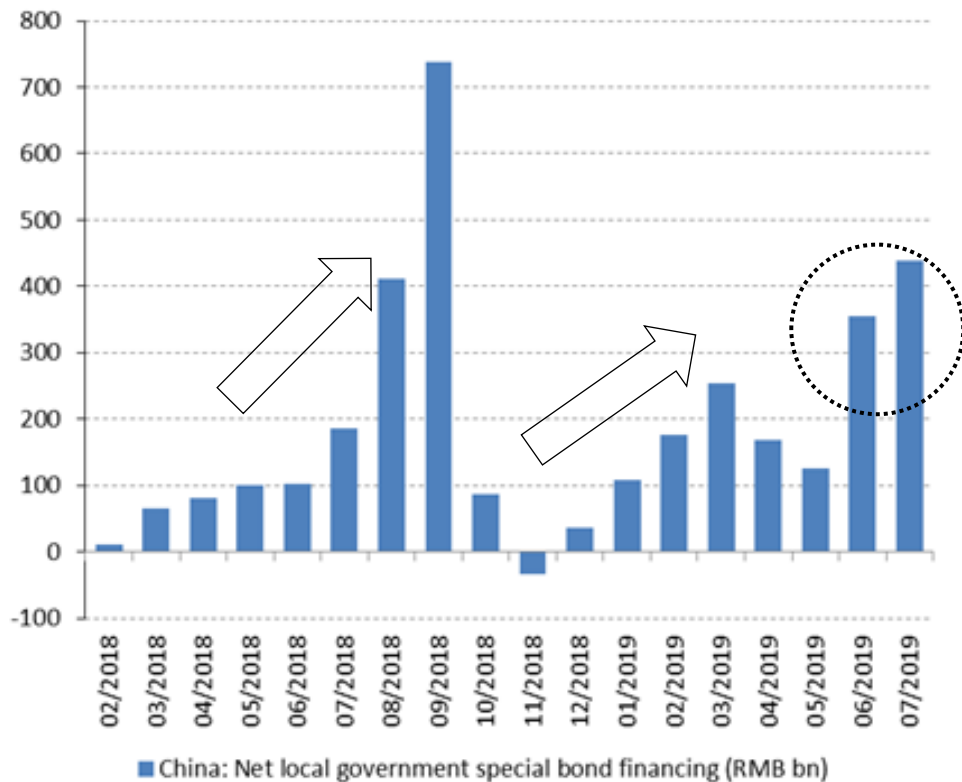


China tech vs US tech

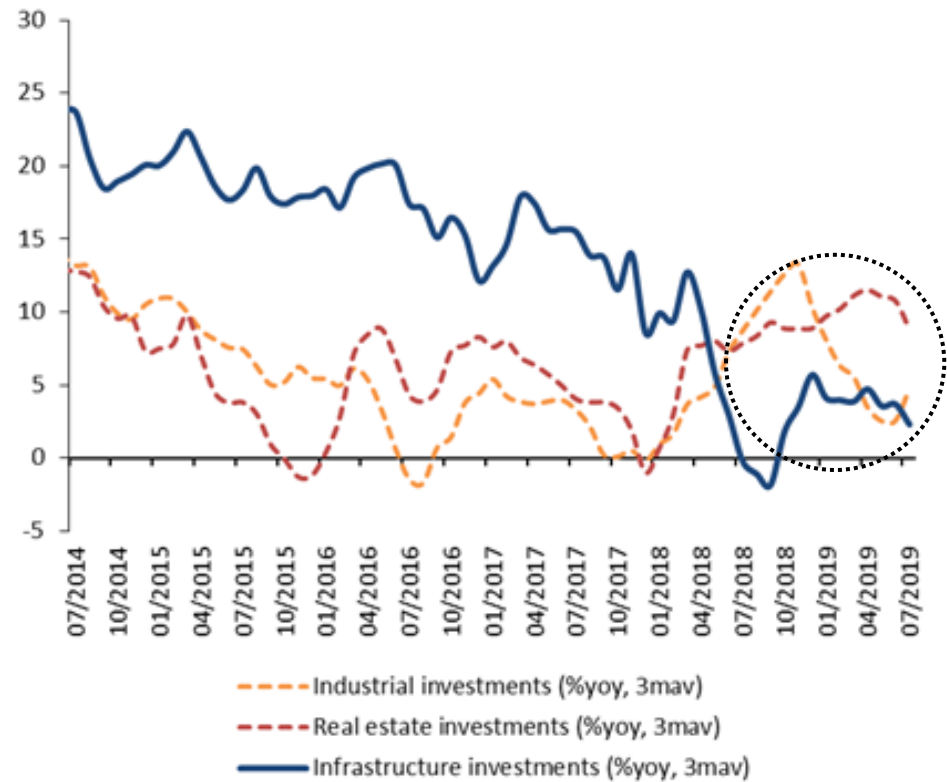


China: Fiscal policy support leading to pick up in infrastructure investments

The surge in special local government bond issuance...



...has helped support a rebound in infrastructure investments











Appendix



Revenue exposure by country

Revenue exposure by country of Russell 1000

Total LTM Revenue \$13,024.9B

		% of Total Revenue	% Change (Y/Y)
	United States	63.0	-0.5
	Mainland China	5.8	6.8
	Japan	2.7	-4.4
	United Kingdom	2.4	6.5
	Germany	2.3	4.2
	Canada	1.9	4.0
	France	1.4	7.7
	India	1.2	4.3

China A-Shares: Valuations still attractive, below historical average levels

MSCI China A Onshore – Forward 12 Month P/E Ratio

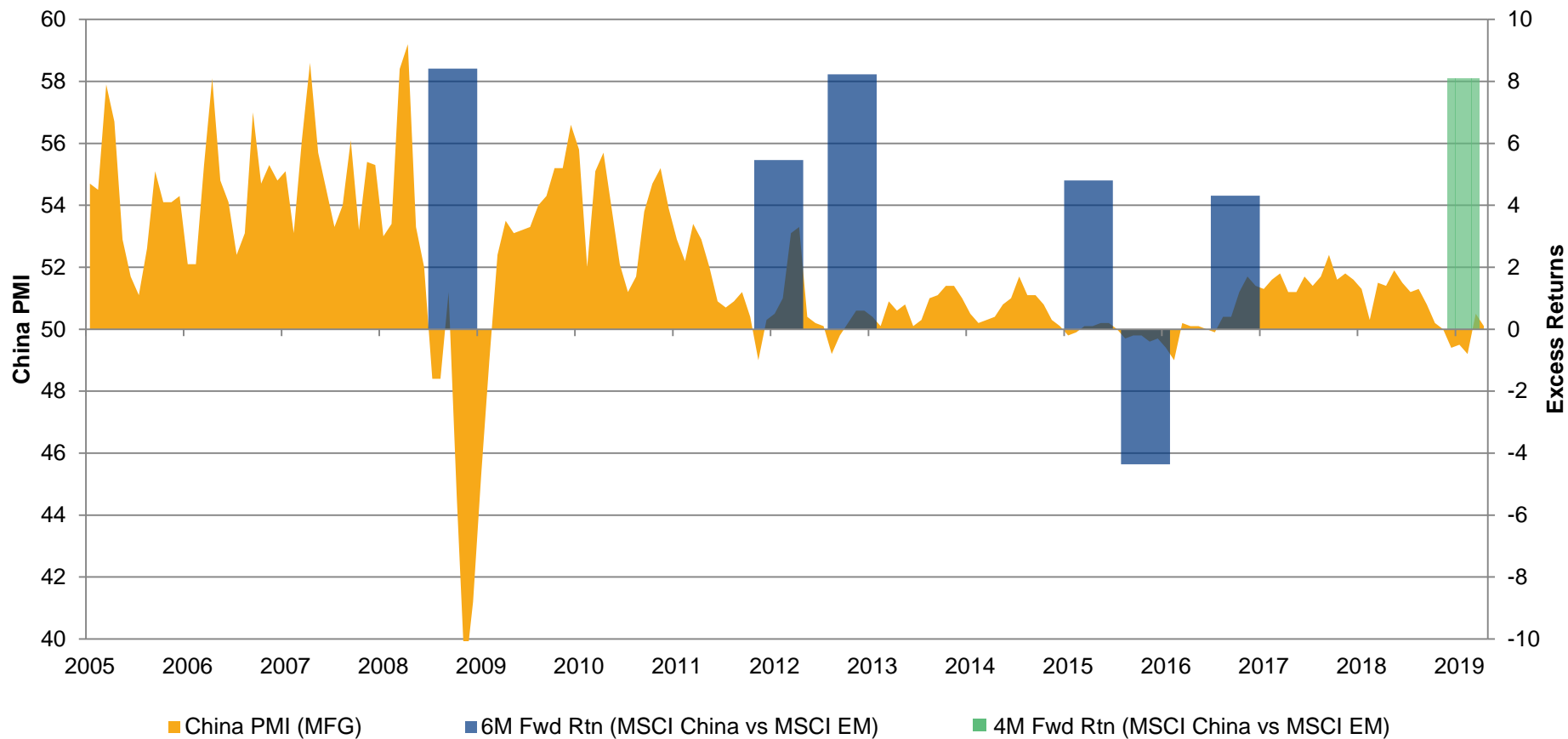


MSCI China A Onshore – Price to Book Ratio



China PMI below 50 proceeded by positive forward returns

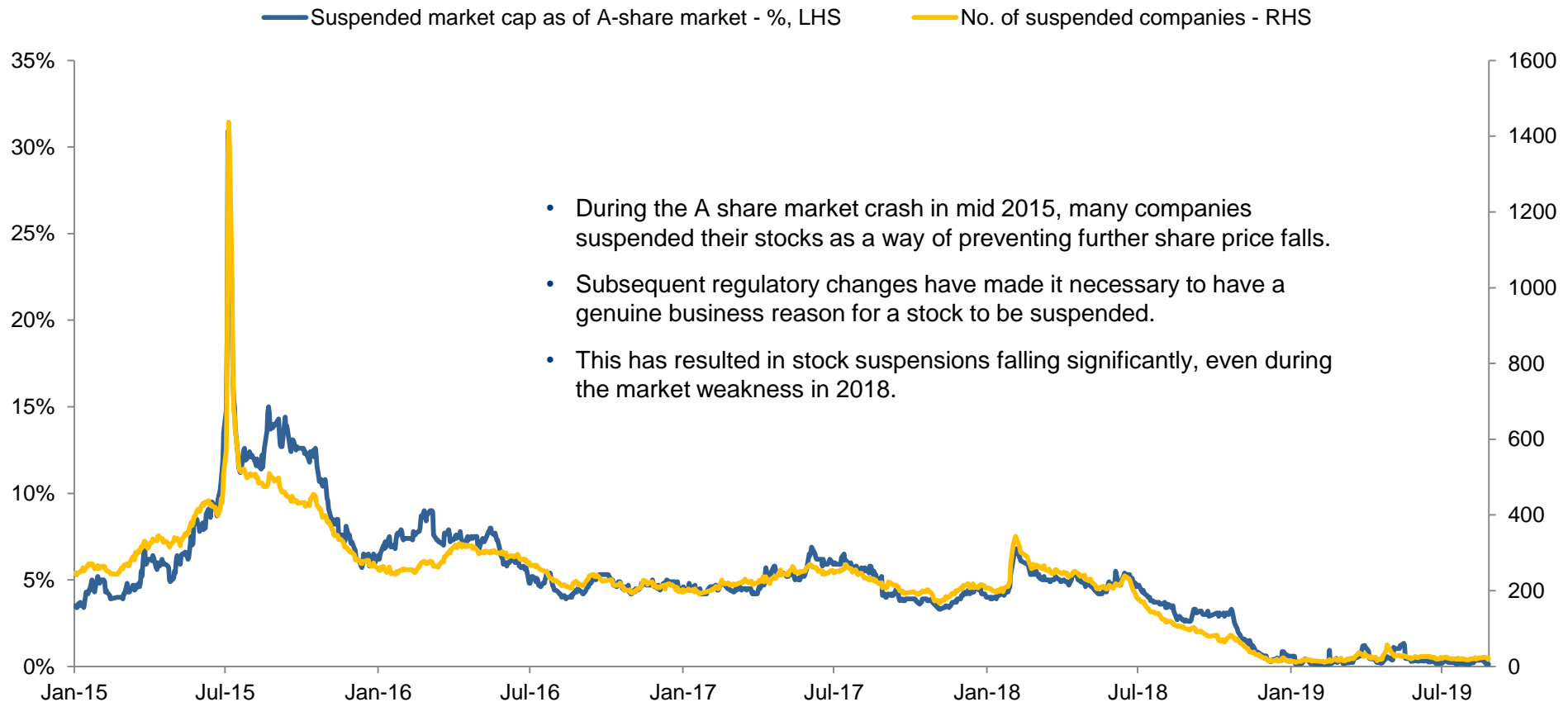
China manufacturing PMI vs forward excess return (<50 PMI Only)



Source: FactSet; Allianz Global Investors. As of April 30, 2019.

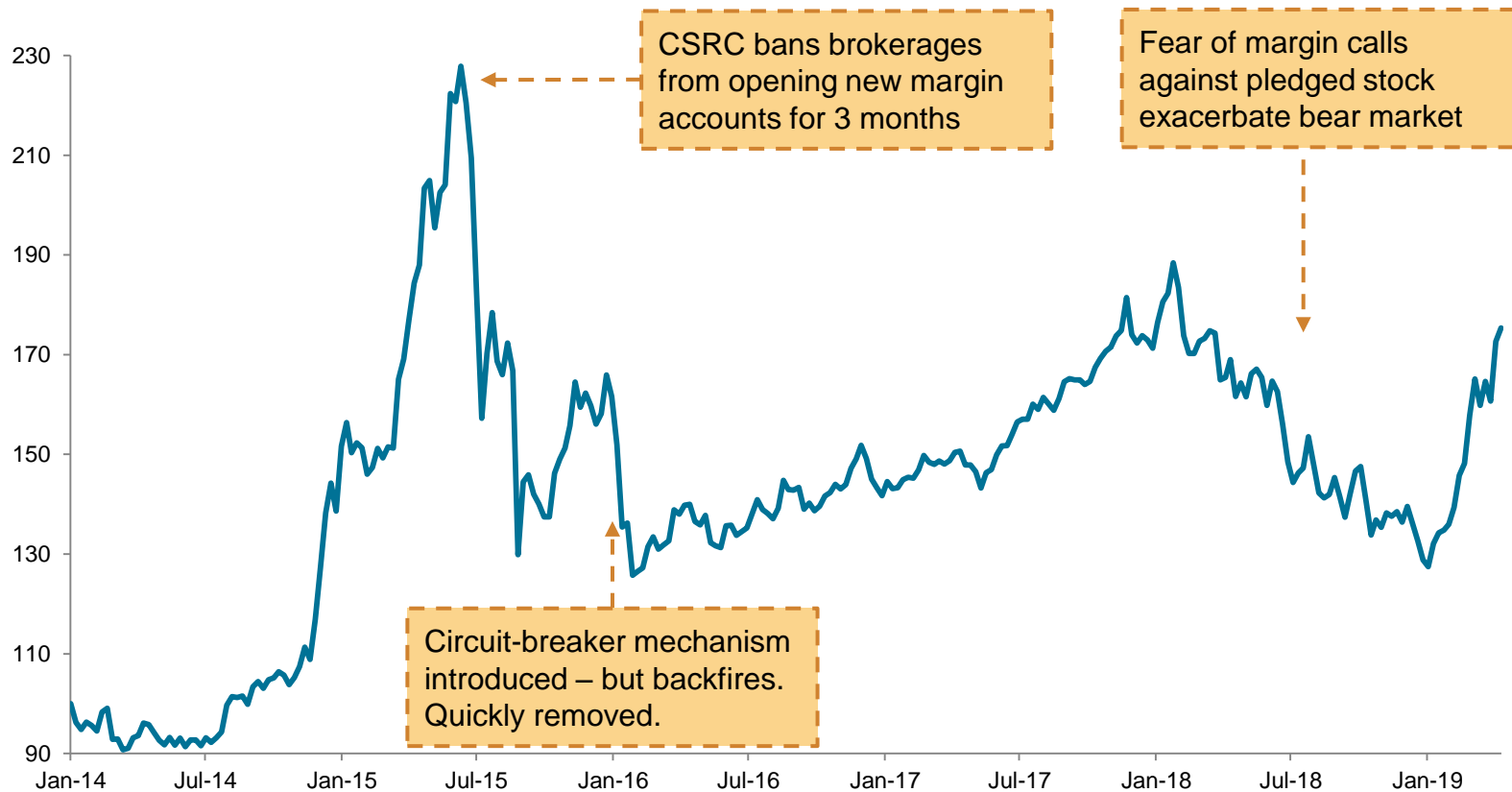
Notable improvement in market structure

China A-Shares - historical level of stock suspensions



Regulators frequently intervene to manage market volatility and sentiment

CSI 300 Index

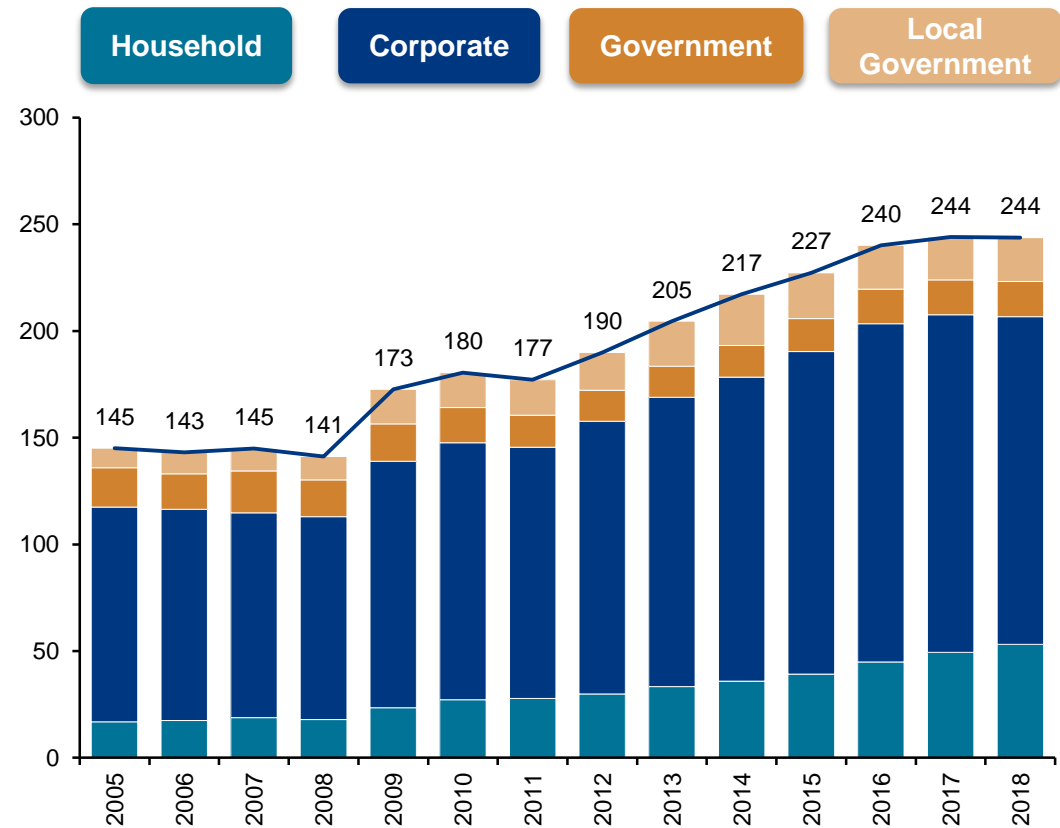


Deleveraging policy has been a key driver of market direction

Off-balance sheet financing (YoY % change)



Debt to GDP growth by sector (%)



Active is:

Allianz Global Investors



Alameda County Employees' Retirement Association

475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612

Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event

Friday, November 1, 2019

8:00 a.m. to 3:00 p.m.

Scott's Jack London Square

#2 Broadway - Jack London Square, Oakland, CA 94607

Links between Firm Diversity and Fund Performance

11:45 a.m. – 12:45 p.m.



Prof. David DANIELS

Assistant Professor

✉ ddaniels@ust.hk

- [CV](#)

Academic qualifications

- Ph.D. Stanford University, Business Administration
- M.A. Stanford University, Economics
- A.B. Harvard University

ACADEMIC AND PROFESSIONAL EXPERIENCE

- The Hong Kong University of Science and Technology, Department of Management, Assistant Professor, July 2017 - present.

HONORS AND AWARDS

- National Science Foundation Graduate Research Fellowship
- 2017. Best Student Paper Award (nominated), Academy of Management.
 - Zlatev, J. J., Daniels, D. P., Kim, H., and Neale, M.A. 2017. Default neglect in attempts at social influence. *Proceedings of the National Academy of Sciences*.
- 2017. Student Paper Award, Society for Personality and Social Psychology Preconference on Judgment and Decision Making.
 - Zlatev, J. J., Daniels, D. P., Kim, H., and Neale, M.A. 2017. Default neglect in attempts at social influence. *Proceedings of the National Academy of Sciences*.
- 2014. Student Travel Award, Society for Personality and Social Psychology Preconference on Judgment and Decision Making.
 - Daniels, D. P., Nakashima, N., and Halevy, N. *Perceived choice sets in strategic interactions*.
- 2014. Research Paper Competition, Runner-Up Award, MIT Sloan Sports Analytics Conference.
 - Green, E. and Daniels, D. P. *Bayesian msnocr*.

HKUST Business School Presentation
Materials by Assistant Prof. David
Daniels re: Links between Firm
Diversity and Performance Will Be
Available ***After*** ACERA's November 1,
2019 Board Off-Site.



Alameda County Employees' Retirement Association

475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612

Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event

Friday, November 1, 2019

8:00 a.m. to 3:00 p.m.

Scott's Jack London Square

#2 Broadway - Jack London Square, Oakland, CA 94607

New Actuarial Standard of Practice

12:45 – 01:45 p.m.

Paul Angelo, FCA, MAAA, FSA, EA Senior Vice President & Actuary, Segal Consulting CCA Member Since 1985

Contact Information

Segal Consulting
180 Howard Street
Suite 1100
San Francisco, CA 94105-6147
US

Phone: 415-263-8273
Email: pangelo@segalco.com



Mr. Angelo is a Senior Vice President and Actuary in Segal's San Francisco office. He has over 35 years of experience in the design, valuation and administration of large defined benefit plans, including corporate, governmental, Taft-Hartley and other collectively bargained plans. Mr. Angelo currently serves as valuation actuary for sixteen major California county and city retirement systems and associations, as well as the University of California Retirement Systems. His assignments for these systems have included funding policy design and review, analysis of pension reform proposals and consulting to bargaining parties on benefit design. Mr. Angelo is a former member of the GASB Postemployment Benefits Accounting and Financial Reporting Task Force and currently serves on the California Actuarial Advisory Panel, as well as the Committee on Retirement and Benefits Administration of the Government Finance Officers Association (GFOA CORBA). Mr. Angelo has a BS in Mathematics from the University of Notre Dame and an MA in Mathematics from Harvard University. He also holds a Master of Actuarial Science degree from the University of Michigan Graduate School of Business Administration. Mr. Angelo is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, a Fellow of the Conference of Consulting Actuaries and an ERISA Enrolled Actuary. Mr. Angelo is active in several national actuarial organizations. He currently serves as Chair of the Public Plans Community of the Conference of Consulting Actuaries and as head of the Public Plans Section of the Conference's Annual Meeting Committee. Mr. Angelo is active in the American Academy of Actuaries Pension Practice Council and has served as chair of its Public Plans Subcommittee. He is a past Chair of the Pension Section Council of the Society of Actuaries and is a current member of the Society's Social Insurance & Public Finance Section Council. In 2012, Mr. Angelo was named the Most Valuable Volunteer by the Conference of Consulting Actuaries. Mr. Angelo is an active speaker on retirement topics. He has made frequent presentations to both California and national associations of public retirement systems. Recent presentation topics include new developments in funding policy guidance and practice, and the ongoing debate regarding financial economics and public sector plans. Mr. Angelo is also a frequent speaker on public pension topics and financial economics at conferences sponsored by the American Academy of Actuaries, the Conference of Consulting Actuaries and the Society of Actuaries. In May 2013, Mr. Angelo wrote and presented a paper, "Understanding the Valuation of Public Pension Liabilities: Expected Cost versus Market Price," for the American Enterprise Institute. That paper was updated and reprinted in the January 2016 issue of "In the Public Interest", the newsletter of the Society's Social Insurance & Public Finance Section. He has also authored papers on public pension funding in California's Public Retirement Journal.

ACERA 2019 Board Off-Site Event

What is an MVL and Why Should I Care?: Proposed Revisions to ASOP No. 4

**Scott's Jack London Square, Oakland
Friday November 1, 2019**

Paul Angelo, FSA

Segal Consulting

San Francisco

5601800v1

Proposed revisions to Actuarial Standards of Practice (ASOPs)

- Exposure Drafts (ED) issued April 18, 2018
 - ASOP 4 – Measuring/Determining Pension Obligations and Contributions
 - Applicable to ALL pension plans, not just public sector
 - Comments to Actuarial Standards Board (ASB) were due July 31, 2018
- Based on Pension Task Force report, February 2016
 - July 2014 Request for Comments Public Pension Plan Funding
 - ASB appoints a Pension Task Force (PTF) to review responses
 - July 2015 Hearing on Public Pension Plan Issues
 - But ED changes would apply to all pension valuations
- Related topic: ASOP 51 on risk Assessment and Disclosure
 - Effective with 12/31/2018 or 6/30/2018 valuations

ASOP 4 and the “Market Pricing” Issue

- Big change proposed in ASOP 4 ED:
Every funding valuation will be required to include (disclose) what is commonly called a “Market Value of Liability”
 - Recharacterized as an “**Investment Risk Defeasement Measure**” (IRDM)
- Latest battle in the ongoing pension valuation controversy
 - The Level Cost Model
 - Discount rate: expected return on assets
 - Cost method: level cost based on projected benefits
 - Based on established funding practices
 - The Market Pricing Model (so called “MVL” or “economic value”)
 - Discount rate: market yields on low risk bonds
 - Cost method: increasing cost based on accrued benefits
 - Based on “financial economics”, called “MV ABO”
- So first, some context and history

The Players – and their acronyms

- AAA – American Academy of Actuaries
 - AAA PPC – Pension Practice Council
 - AAA PPSC – Public Plans Subcommittee
- CCA – Conference of Consulting Actuaries
 - CCA PPC – Public Plans Community
- SOA – Society of Actuaries
 - BRP – “Blue Ribbon Panel” of the Society of Actuaries
 - SI&PF – Social Insurance & Public Finance Section
- PFTF – Pension Finance Task Force (joint AAA and SOA)
- ASB – Actuarial Standards Board
 - PTF – Pension Task Force of the Actuarial Standards Board
- GASB – Governmental Accounting Standards Board

Brief History of Market Pricing Model for Corporate Pension Plans

- Originally, ERISA minimum funding was only level-cost model
 - IRC Sec. 412, from 1976 to 1987
- Market pricing for corporate plans arrives in 1987
 - “Current Liability” under OBRA 1987 for funding
 - Also “ABO” under FAS 87 for expensing
- For funding, dual regime lasts for 20 years
 - With RPA 1994, market pricing model starts to take over
- In 2003, “the Great Controversy” (SOA Vancouver) advocated strict market pricing for corporate pension funding
- Finally, PPA 2006 eliminates level cost funding for corporates
 - Target Liability is a strict MV ABO (discount rate relaxed in 2012)
 - PFTF publishes (Corporate) Pension Actuary’s Guide to FE

“Market Pricing” controversy comes to Public Plans

- Should public pension plans disclose a Market Pricing type measure using a “(default) risk free” discount rate?
 - PFTF starts developing their case in late 2006
- AAA committees, May 2007 – Sept 2008
 - “Round Table” public conference, New York, January 2008
 - AAA Public Interest Committee (PIC) hearing, DC, Sept. 2008
- Public Interest Committee recommendations to AAA Board
 - “It is in the public interest ... to disclose consistent measures of the economic value of plan liabilities.”
 - AAA Board should request the ASB to adopt appropriate ASOPs
 - PIC does not recommend statement by Board supporting MVL disclosures by public pension plans.
- June 2009: CCA establishes Public Plans Committee

Action shifts to the GASB

- GASB and staff fully aware of market pricing controversy
- GASB's Postemployment Benefits Project
 - April 2008: Added to Current Agenda
 - March 2009: GASB issues "Invitation to Comment"
 - Clearly weighing Level Cost vs Market Pricing models
 - June 2010: GASB issues "Preliminary Views" (PV)
 - July 2011: GASB issues two Exposure Drafts
 - August 2012: GASB releases final statements 67 and 68
- Unequivocal endorsement of Level Cost Model for accounting and financial reporting
 - Discount rate based on expected return (if plan has assets)
 - Entry Age cost method

Meanwhile back at the ASB

- Reviewing the two key ASOPs for pension funding
 - ASOP 4: Measuring Pension Obligations
 - ASOP 27: Selecting Economic Assumptions
 - Last revised September 2007

	ASOP 4	ASOP 27
January 2011	Discussion Draft	1 st Exposure Draft
January 2012	1 st Exposure Draft	2 nd Exposure Draft
December 2012	2 nd Exposure Draft	Working Draft
Dec. / Sept. 2013	Revised ASOP	Revised ASOP

New ASOP 4 and ASOP 27

- The ASOP 4 Discussion Draft defined a “Market-Consistent” present value (MCPV)
 - As requested by the AAA PIC and AAA Board
 - Comments argued that MCPV is a type of measure, not a single measure
- Final ASOPs 4 and 27 instead stress “**purpose of the measurement**”
 - ASOP 4: “when measuring pension obligations and determining periodic costs or contributions”
 - ASOP 27: “as a primary factor in selecting a discount rate”
- Note “Market-Consistent Measurements” and “market value assessments” are included as a possible purpose
 - Financial Economists call it the “Solvency Liability” (AKA Solvency Value)
 - Purpose is to “work” in a financial economics model
 - i.e., to be consistent with financial economic principles

Enter the SOA Blue Ribbon Panel

➤ Announced April 2013

- Heavy representation of Market Pricing advocates on Panel
- Online survey, individual interviews

➤ Report released February 2014

- Detailed disclosure recommendations, including:
 - Plan liability and normal cost calculated at the risk-free rate
 - Undiscounted cash flows on an accrued (earned-to-date) basis
 - However, MV ABO not recommended for disclosure
- “The Panel urges the ASB to require the financial and risk measures outlined above be disclosed in actuarial reports.”

What about the Level Cost Model?

- Renewed focus on funding policy
 - Actuarial cost method
 - Asset smoothing method
 - UAAL amortization policy (Unfunded Actuarial Accrued Liability)
- New GASB standards separate accounting cost (expense) and funding cost (contributions)
 - No longer look to GASB for funding policy guidelines
 - No more “Annual Required Contribution” (ARC)
 - New GASB standards include an “Actuarially Determined Contribution” (ADC) but it is neither required nor defined
 - Resulting policy guidance void inviting discussion

Recent Guidance on Funding Policies and Practices

- Academy of Actuaries Public Plans Subcommittee
 - Issue Brief on Objectives and Principles issued Feb. 2014
- Society of Actuaries “Blue Ribbon Panel Report”, Feb. 2014
- Conference of Consulting Actuaries Public Plans Community (CCA PPC)
 - **Actuarial Funding Policies and Practices “White Paper” issued Oct. 2014**
 - Similar to earlier California Actuarial Advisory Panel (CAAP)
- Government Finance Officers Association (GFOA) Best Practices (BP)
 - March 2013 BP: Core Elements of Pension Funding Policy
 - Much less detailed but consistent with CCA PPC White Paper

Recent ASB Activity on Public Pension Plans

- The ASB was heavily influenced by the SOA Blue Ribbon Panel
 - Despite just completing thorough review of ASOPs 4 and 27
- July 2014 Request for Comments on ASOPs and Public Pension Plan Funding and Accounting
 - Referenced revised ASOPs and recent funding policy guidance
 - ASB appoints a Pension Task Force (PTF) to address the volume of proposals received (55 letters, over 200 pages of commentary)
 - July 2015 Hearing on Public Pension Plan Issues
- Pension Task Force report February 2016
 - “Suggestions” include MVL disclosure, called “Solvency Value”
 - Also suggestions on assumptions and funding policy
- ASB issues three Exposure Drafts (EDs) April 18, 2018
 - ASOPs 4 , 27 (again!) and 35 (demographic assumptions)

Around the same time...

ASOP 51 – Risk Assessment and Disclosure

- Official name: “Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions”
 - Effective for work products with a measurement date on or after Nov. 1, 2018
 - That is, either December 31, 2018 or June 30 2019 valuations
- Fully deliberative development process for ASOP 51

	ASOP 51	Comments Due
December 2014	1 st Exposure Draft	May 29, 2015
June 2016	2 nd Exposure Draft	Dec. 31, 2016
September 2017	New ASOP issued	

- Substantial revisions between 1st and 2nd exposure drafts
 - Removed required quantitative risk analysis for “large plans”

Steps the Actuary Will Need to Take

- **Identify and assess risks** that may affect the plan's future financial conditions
- Recommend a **more detailed assessment** if actuary believes it would be beneficial to intended users
- Calculate and disclose **plan maturity measures**
- Identify and disclose **historical values of actuarial measurements** that are significant in understanding plan risks
- Prepare actuarial communication

**ACERA's First
Comprehensive Risk
Assessment Report
presented in May 2019**



What does ASOP 51 say about Market Pricing?

- If used, numerical risk assessment methods may include
 - scenario tests, sensitivity tests, stochastic modeling, stress tests,
 - and a comparison of an actuarial present value using a discount rate derived from minimal-risk investments **to a corresponding actuarial present value from the funding valuation** or pricing valuation.
- This is not the MVL/IRDM
 - Risk free discount rate but using a level cost liability measure
 - This seems like a fine point but shows up later on

ASOP 4 Exposure Draft on “MVL” Disclosure

§3.11 Investment Risk Defeasement Measure -- If the actuary is performing a funding valuation, **the actuary should calculate and disclose an obligation measure to reflect the cost of effectively defeasing the investment risk of the plan.** The actuary should calculate the investment risk defeasement measure using the following:

- a. **benefits accrued as of the measurement date;**
- b. the unit credit actuarial cost method;
- c. **discount rates consistent with market yields** for a hypothetical bond portfolio whose cash flows reasonably match the pattern of benefits expected to be paid in the future. For this purpose, the actuary should use either of the following:
 1. U.S. Treasury yields; or
 2. rates at which the pension obligation can be effectively settled. The actuary may use yields of fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency.

ASOP 4 Exposure Draft on “MVL” Disclosure

- What does this mean!?
- Every funding valuation will be required to include (disclose) what is commonly called a “Market Value of Liability”
 - Discount rate based on current bond yields
 - Not the expected return as used for funding
 - Liability measured as the present value of accrued benefits
 - Not the level cost of projected benefits as used for funding
- This would “resolve” the 10+ year controversy between financial economists and public pension actuaries
 - Reference article: “Understanding the Valuation of Public Pension Liabilities: Expected Cost versus Market Price”
- In ASOP 4 ED the “MVL” measure is recharacterized as the “Investment Risk Defeasement Measure” (IRDM)
 - “an obligation measure to reflect the cost of effectively defeasing the investment risk of the plan”

Comments on Proposed IRDM/MVL Disclosure Requirement

- ASOP 4 ED gives no further justification for disclosing IRDM
 - But we can look to Pension Task Force Report (PTF Report)
- ASB PTF Report says disclosure of a market-based “solvency value” measurement:
 - provides a measure of the cost of reducing the risk that the traditional actuarial liability will be insufficient collateral for the obligation,
 - provides information about the amount of investment risk being taken; shows the amount of investment income in excess of that provided by low-risk investments that the principal expects to receive
- So this measures the cost to eliminate investment risk, or the savings from taking investment risk, but not the possible results of investment risk
 - Quantifies risk aversion, not risk management
 - For consequences of taking risk, see ASOP 51 stress and scenario tests

Comments on Proposed IRDM/MVL Disclosure Requirement

- If the IRDM/MVL is an essential measure of risk, why wasn't it required under ASOP 51?
 - ASOP 51 did not require any quantitative risk assessment
 - The only risk-free-rate measure mentioned would use same cost method as for funding, not an accrued benefit value
- Current ASOPs 4 and 27 say selection of discount rate and cost method depend on the “purpose of the measurement”
 - For a plan that cannot actually settle accrued benefits at market rates, what is the purpose of this measure?
 - As already seen, it's not really useful as a measure of risk
- ASOP 1 (the mother of all ASOPs) says:
 - “The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Generally, ASOPs are not narrowly prescriptive and neither dictate a single approach nor mandate a particular outcome.”

Comments on Proposed IRDM/MVL Disclosure Requirement

➤ Risk of Misuse of Market Pricing Disclosure

- Market pricing proponents have a well-established practice of describing MV ABO as the only true measure of pension cost
 - Proponents of other measures are either ignorant or deceitful
- Typical example: David Crane, “It’s the Lie That Gets You” [medium.com, 3/4/2017]

Notice how CalPERS is choosing to value liabilities at the same rate as it expects to earn on assets. ...

As Nixon said, it’s the lie that gets you. CalPERS’s lies harm citizens.

By linking discount rates to investment return assumptions, CalPERS and its sister pension fund, CalSTRS, are being untruthful. The lies get exposed when citizens get hit with pension deficits.

Actuarial Code of Conduct – Precept 8

- PRECEPT 8. An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.
 - ANNOTATION 8-1. An Actuarial Communication prepared by an Actuary may be used by another party in a way that may influence the actions of a third party. The Actuary should recognize the risks of misquotation, misinterpretation, or other misuse of the Actuarial Communication and should therefore take reasonable steps to present the Actuarial Communication clearly and fairly and to include, as appropriate, limitations on the distribution and utilization of the Actuarial Communication.
- What if no amount of clearly presented “limitations on utilization” will prevent the IRDM/MVL from being (mis)interpreted to other parties as the “true cost” of the benefit?

What is the ASB Really After Here?

- Accrued benefit measures using a risk free discount rate can serve three purposes:
 1. It is the Financial Economists' "Solvency Value" required for their model
 - Think of this as a theoretical settlement value
 2. It could be the actual "walk away clear" settlement value offered by a plan
 - CalPERS (and some CERL systems) withdrawal value for agencies
 3. It shows what the plan would cost if invested in low risk assets
 - But only if you use the same cost method as used for funding
- The PTF report acknowledged all three purposes
- The ASOP 4 ED cites only one of these purposes
 - That purpose alone does not justify having the ASOP go from being principles based to being narrowly prescriptive.
- Finally, what do we do if this passes?
 - Let's talk about that...

Complying with an Actuarial Standard of Practice

- Every ASOP has the same structure:
 - Section 1: Purpose, Scope, Cross Reference and Effective Date
 - Section 2: Definitions
 - Section 3: Analysis of Issues and Recommended Practices (the “guidance”)
 - Section 4: Communications and Disclosures
- ASOP 1, Introductory ASOP, Section 4, Compliance with the ASOPs
 - 4.5 The ASOPs make specific provision for those situations where the actuary is required to or deems it appropriate to deviate from one or more provisions of an ASOP. **It is not a breach of an ASOP to deviate from one or more of its provisions** if the actuary does so in the manner described in the ASOP, including **making the disclosures related to the deviation** as required in such ASOP and in ASOP No. 41.
- ASOP 41, Actuarial Communications, Section 4
 - 4.4 Deviation from the Guidance of an ASOP — If, in the actuary’s professional judgment, the actuary has deviated materially from the guidance set forth in an applicable ASOP, ... **the actuary can still comply with that ASOP by providing an appropriate statement in the actuarial communication with respect to the nature, rationale, and effect of such deviation.**

Current Status and Possible Responses

- ASB is working on a second exposure draft for ASOP 4
 - It will likely contain some sort of risk-free rate based disclosure requirement
 - ASB could allow flexibility on which measure to use:
 - Could require accrued benefit measure – like MVL (and proposed IRDM)
 - Could allow use of some measure already in the valuation – as in ASOP 51
 - » Risk free discount rate but using level cost liability measure
 - » Answers a real question: What would ongoing plan funding liability be if plan actually invested in low risk bonds?
- Response to new exposure draft and to final standard depends on
 - Whether accrued benefit IRDM is required
 - Whether level cost liability IRDM is allowed

Links to related resources

- **Understanding the Valuation of Public Pension Liabilities: Expected Cost versus Market Price”**
 - Society of Actuaries Social Insurance and Public Finance Section newsletter “In the Public Interest”, Issue 12, January 2016
 - <https://www.soa.org/sections/social-ins-pub-fin/social-ins-pub-fin-newsletter/>
- **Actuarial Funding Policies and Practices for Public Pension Plans**
 - Conference of Consulting Actuaries Public Plans Community “White Paper” issued October 2014
 - http://www.ccactuaries.org/Portals/0/pdf/CCA_PPC_White_Paper_on_Public_Pension_Funding_Policy.pdf
- **Report of the Pension Task Force of the Actuarial Standards Board**
 - February 29, 2016
 - <http://www.actuarialstandardsboard.org/wp-content/uploads/2016/06/PensionTaskForceReport.pdf>



Alameda County Employees' Retirement Association

475 – 14th Street, Suite 1000, 10th Floor, Oakland, CA 94612

Phone: (510) 628-3000 Fax: (510) 287-5412

Board Offsite Event

Friday, November 1, 2019

8:00 a.m. to 3:00 p.m.

Scott's Jack London Square

#2 Broadway - Jack London Square, Oakland, CA 94607

Governance – Trends and Best Practices

02:00 – 03:00 p.m.

Tom Iannucci, MBA

Tom Iannucci is President of Cortex Applied Research. Since joining Cortex in 1991, he has worked to establish Cortex as an innovative and highly regarded advisory firm to institutional funds of all types and sizes. He has devoted his efforts to:

- Governance and Board Effectiveness
- Strategic Planning
- Board Education and
- Investment Consultant/OCIO Searches.

Tom has advised many public retirement systems and corporate pension plans in both the U.S. and Canada. He is a regular speaker at conferences across North America and has co-written various papers on board governance. He has served as a volunteer board member for the Integrative Management Challenge, an under-graduate business program at the Rotman School of Management, University of Toronto.

Tom holds a Bachelors of Commerce degree from the University of Toronto and a MBA from York University in Toronto.

(416) 967-0252 x223

tiannucci@cortexconsulting.com

GOVERNANCE BEST PRACTICES

Prepared by

Tom Iannucci, Cortex Applied Research

For:

Alameda County Employees' Retirement Association

November 1, 2019

Agenda

- General governance background
- A model of governance
- *High performance* boards

General Governance Concepts

Pension Governance Defined

The *system* of policies and structures established by plan sponsors and retirement boards to guide decision-making and oversight of a retirement system, all with the goals of fulfilling the terms of the trust, satisfying fiduciary duties to members, and achieving strong performance.

Big “G” vs. Small “g”

- Big “G” Governance:
 - Typically within the control of the plan sponsor or the Legislature:
 - Board composition
 - Board authority

- Small “g” governance:
 - Typically within control of the retirement board:
 - Committee structure
 - Roles of board, board officers, committees, and staff
 - Investment, governance, and other policies
 - Planning practices

Importance of Good Governance Practices

- Support integrity of the System:
 - Promote fiduciary duties of loyalty and prudence
 - Help protect trustees and management
- Create value for stakeholders (*governance alpha*):
 - Member service quality
 - Investment performance
 - Risk management
 - Information to stakeholders

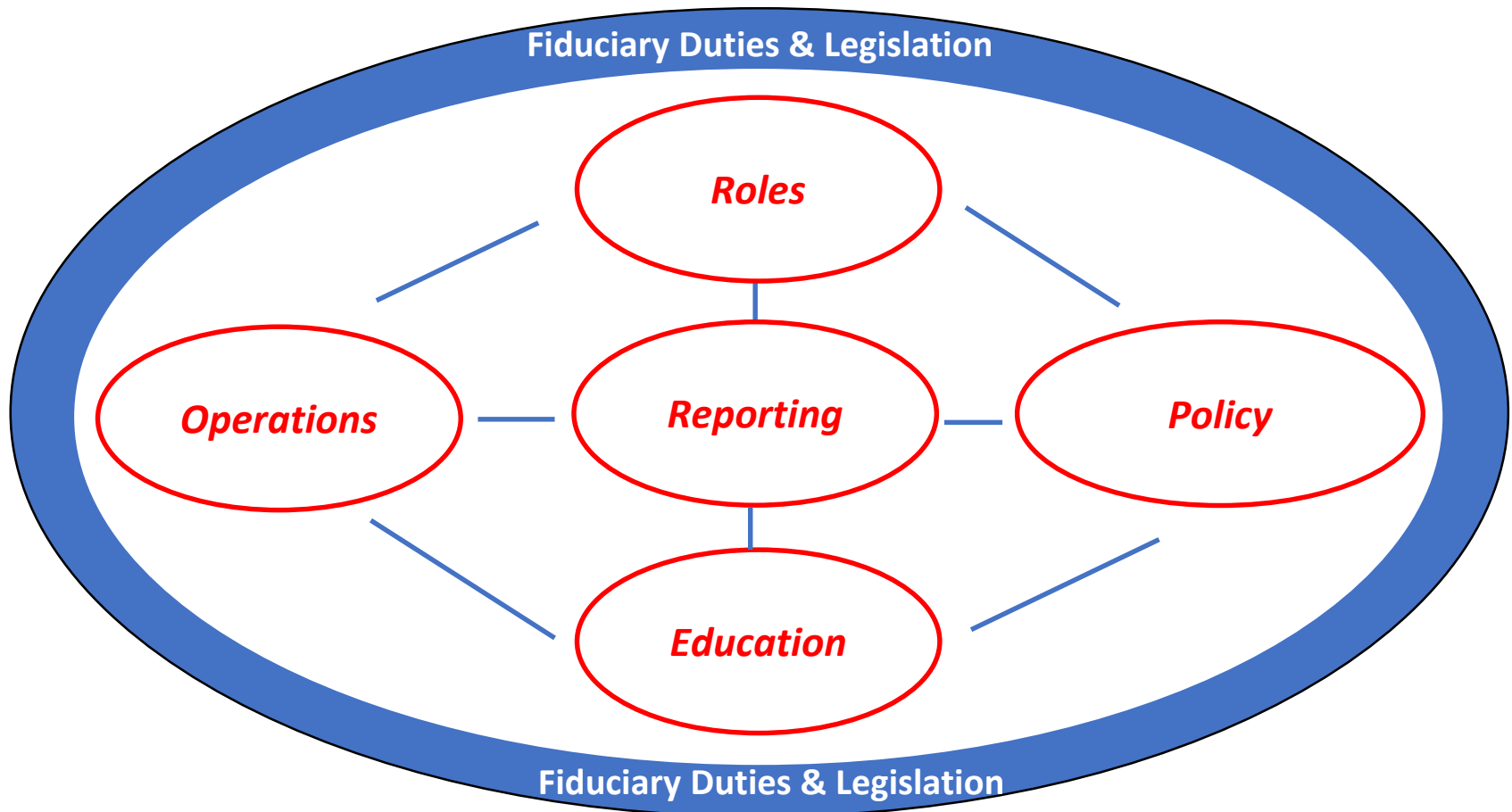
Governance Alpha

- 2017 study of 35 US public plans found plans with stronger governance practices outperformed poorly governed plans from an investment perspective by nearly 2 to 1 over a 5-year period.
- Average investment performance:

Top quintile funds (FEQ):	7.22%
Bottom quintile funds (FEQ):	3.74%

Source: Merker, Christopher Kinne, "Asset Owner Governance and Fiduciary Effectiveness: The Case of Public Pension Plans" (2017). *Dissertations (2009 -)*. 713.

A Model of Governance



Fiduciary Duties

1. Loyalty to interests of beneficiaries as a group:
 - *Administrative* decisions must be made in the best interests of members and beneficiaries
 - Fiduciaries cannot profit personally

2. Prudence
 - Acting with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Roles & Responsibilities

- Establishing clear, sound roles for all parties is crucial to good governance:
 - Board/officers/committees/management/ advisors

- Principles:
 - Clarity (documentation)
 - Separation of duties (policy/strategy/operations/oversight)
 - One cannot make the widgets and oversee the widget-making process at the same time
 - Allocation of duties to reflect time and knowledge
 - Linking accountability and authority

“The board sets policy and management implements policy”

... is a bit simplistic.

Board Role

Policy/Strategy

- Establish/confirm direction of organization in all key areas (Mission, goals, objectives)
- Approve roles and responsibilities
- Ensure necessary organizational infrastructure
- Identify major risks and approve corresponding policies to manage them

Oversight

- Establish system of reporting to the board
- Monitor performance and compliance
- Constructively challenge and evaluate the Retirement Administrator & hold him/her accountable

Operations

- Hire, evaluate, direct, terminate the Retirement Administrator

CEO Role

Policy

- Support the Board's policy role:
 - Policy/strategy needs; analysis of alternatives; recommendations

Execute

- Execute plans; implement policies; achieve performance and other objectives

Oversight

- In-depth day-to-day monitoring of the operations
 - Risk monitoring and compliance
 - Performance

Policy Framework

- A key risk management tool for the board
- Allows the board to effectively influence/ control the organization without micro-managing:
- Key to efficient and effective decision-making:
 - Generic rather than unique solutions
 - Reduces the need to “re-invent the wheel”
 - Facilitates continuous improvement
- Should be living documents, reviewed periodically, and not cast in stone.

Board Education Practices

- Board composition is beyond the board's control.
- Boards can however control:
 - The board's own education and orientation practices
 - Use of advisors/staff
- Education policy:
 - Education topics/scope
 - Education plan
 - Orientation and continuing education
 - Regular/systematic delivery
 - Needs assessment
 - Flexibility and variety of delivery methods

Board Operations

How a board gets its work done in meetings:

- Board officers
- Committee structure
- Meeting frequency
- Meeting agendas and packets
- Rules of order
- Minutes
- Etc.

Reporting & Monitoring

- The glue that holds the governance model together
- Routine and special reporting:
 - Are we complying with policies, procedures, and legislation?
 - Are delegates acting in accordance with terms of delegation?
 - Are we making progress on our plans and commitments?
 - Are we achieving our goals and objectives?
 - Can we understand and attribute the causes/sources of performance

Performance Evaluation

Thoughtful evaluation processes:

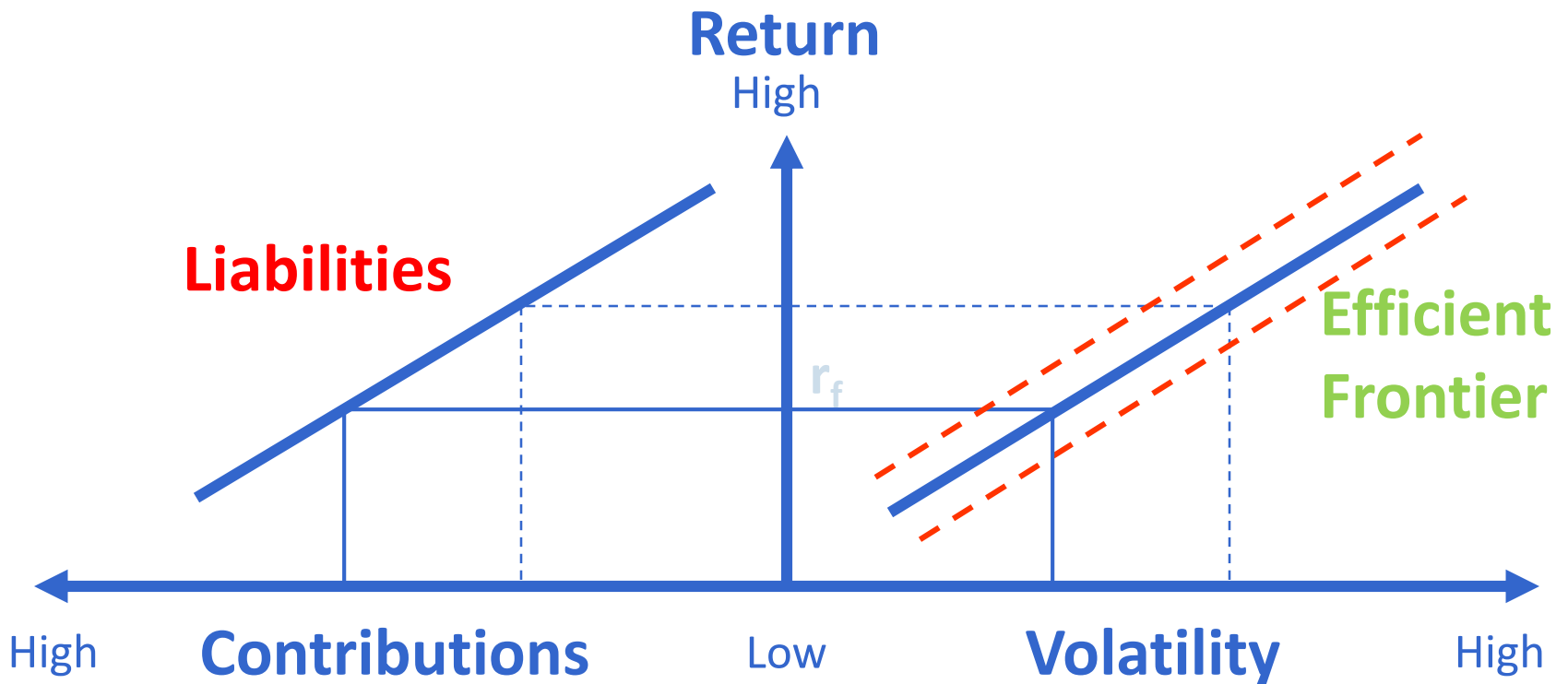
- CEO evaluation
- Senior management evaluation
- Board self-evaluation

High Performance Boards

High Performing Boards

1. Knowledgeable and experienced
2. Focused on the *important but not urgent*:
 - Policy and risk management
 - Strategy and planning
 - Organizational infrastructure (people, systems, resources, etc.)
3. They delegate to the extent possible:
 - Distinct/meaningful roles for the board and management
4. They deliberate effectively

They Understand the Business



Source: "Managing Risk, Return, and Pension Plan Profitability",
John Ilkiw, Canadian Investment Review, Spring 1989

Important vs Urgent...

<p>(A) Important & Not Urgent</p>	<p>(B) Important & Urgent</p>
<p>(C) Not Important & Urgent</p>	<p>(D) Not Important & Not Urgent</p>

Strategy & Strategic Planning

- Trustees increasingly indicate they wish to operate at a *strategic level*.
- Academic and professional literature suggests that most strategic planning exercises don't involve a lot of *strategy*.
- Public plans struggle with strategic planning:
 - Difficult to apply traditional strategic planning to public plans
 - Consultants often make strategic planning overly complicated
- But strategic planning can be valuable and does not have to be as complicated or as labor-intensive as many make it out to be.

Focus on Strategy

Key choices about how we will position the organization in the *marketplace*:

- What are our broad aspirations and concrete goals against which we will measure progress?
- Where will we play?
- How will we win? (How will we position the organization?)
- What key capabilities must be in place to win?
- What priorities must we focus on?

Playing to Win: How Strategy Really Works; Roger Martin

Other Types of Planning

- Succession plans
- Board education plans
- Internal audit plans
- Member communications plans

Organizational Infrastructure

The conditions for excellence:

- a) Establish the right management team
- b) Provide clear direction, goals, and benchmarks
- c) Ensure appropriate authority; i.e. delegate
- d) Ensure necessary resources and incentives
- e) Ensure clear accountability
- f) Clear and constructive evaluation/feedback

Delegation

- Trustees are often uncomfortable delegating, but:
 - Delegation is *not inconsistent* with fiduciary duty
 - In many cases, fiduciary duty *requires* delegation
- Proper delegation requires that fiduciaries:
 - Select the delegate
 - Set parameters of delegation
 - Supervise/oversee delegate

I urge any investment committee I sit on to concentrate on providing good governance and not getting involved in management. As trustees, we don't know enough about the specifics to make any operational decisions because management in investment management is an all day, every day responsibility. It can't be done with three to five meetings per year lasting two to three hours at a time. That may be plenty of time for policy thinking and for evaluating the strength of an organization, but nowhere near enough time to do management. So, it is important to recognize that and stay out of the kitchen.

Charlie Ellis

Deliberating Effectively

- Constructive debate and deliberations
 - Do all board members attend and come prepared?
 - Are discussions productive or repetitive?
 - Do all board members engage/contribute?
 - Can ideas/concerns be raised and discussed
 - Do we “disagree agreeably”?
 - Do we achieve closure efficiently?
 - Do we accept the will of the Board or continually revisit past decisions?
- Do we self-police effectively?
 - Effective confrontation? Or none at all?

Avoid Destroying Value

- Lack of discipline (regularly switching strategies)
- Performance chasing
- Failures in risk management

Chasing Managers & Destroying Value ...

Goyal and Wahal analyzed hiring and firing decisions made by approximately 3,700 plan sponsors, representing public and corporate pension plans, unions, foundations and endowments. Managers that were hired had outperformed their benchmarks by 2.91% over the three years before being hired. However, over the following three years the managers on average underperformed their benchmarks by 0.47% per year when adjusted for management fees and transition costs. Plan sponsors often proceeded to fire managers who had underperformed in favor of other recent top performers, only to repeat the cycle again. The study concluded: *“In light of such large transaction costs and positive opportunity costs, our results suggest that the termination and selection of investment managers is an exercise that is costly to plan beneficiaries.”*

Source: “The Selection & Termination of Investment Management Firms by Plan Sponsors”; Goyal & Wahal, 2008

Important vs Urgent...

<p>(A) Important & Not Urgent</p>	<p>(B) Important & Urgent</p>
<p>(C) Not Important & Urgent</p>	<p>(D) Not Important & Not Urgent</p>

Thank You ...

Further Questions & Discussion
