

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY MEETING

OCTOBER 8, 2018

AGENDA

PLACE: Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME: 9:00 a.m.

Members of the public may comment on any item under the Board's jurisdiction by filling out a speaker form and presenting it to the Clerk. Unless otherwise directed by the Chair, comments related to items on the agenda will be heard when the Board considers that item. Comments related to items not on the agenda will generally be heard at the time designated for Public Comment.

ITEM:

- | | | |
|-------------|--|--------------------|
| I. | <u>CALL TO ORDER</u> | Master
Page No. |
| II. | <u>APPROVAL OF AGENDA</u> | 1 – 3 |
| III. | <u>APPROVAL OF MINUTES</u> | |
| | A. Business Meeting and Board Retreat of September 24, 2018. | 4 – 10 |
| IV. | <u>RECEIVE AND FILE PENDING DISABILITY APPLICATION STATUS REPORT</u> | 11 – 46 |
| V. | <u>APPLICATIONS FOR DISABILITY RETIREMENT</u> | |
| | A. Application for Service-connected Disability Retirement - Young, Gary T.;
Case No. 17-011. | 47 – 192 |
| | 1. Application for Service-connected Disability Retirement, filed June 21,
2017. | |
| | 2. Medical Analysis and Recommendation, including Supporting Medical
Documentation, submitted by County of Ventura, Risk Management, in
support of the Application for Service-connected Disability Retirement,
dated September 21, 2018. | |
| | 3. Hearing Notice, dated September 25, 2018. | |

**BOARD OF RETIREMENT
DISABILITY MEETING****OCTOBER 8, 2018****AGENDA
PAGE 2****V. APPLICATIONS FOR DISABILITY RETIREMENT (continued)**

- B. Application for Service-connected Disability Retirement - Grant, Jacqueline (Jackie).; Case No. 17-024. 193 – 284
1. Application for Service-connected Disability Retirement, filed November 16, 2017.
 2. Medical Analysis and Recommendation, including Supporting Medical Documentation, submitted by County of Ventura, Risk Management, in support of the Application for Service-connected Disability Retirement, dated September 24, 2018.
 3. Hearing Notice, dated September 25, 2018.

VI. OLD BUSINESS

- A. Employer-Filed Disability Retirement Application.
RECOMMENDED ACTION: Receive and File.
1. Staff Letter. 285
 2. Application Form. 286 – 291

VII. NEW BUSINESS

- A. Request for Authorization to Conduct On-Site Due Diligence Visits to Prudential and Harbourvest.
RECOMMENDED ACTION: Approve.
1. Staff Letter by C.I.O., Dan Gallagher. 292
- B. Recommendation for Authorization for Accounting Manager, Karen Scanlan and Sr. Accountant, Nida Williams to Attend the CALAPRS Intermediate Course in Retirement Plan Administration, Glendale, CA, October 17 - 19, 2018.
Recommended Action: Approve.
1. Staff Letter by C.F.O., Henry Solis. 293
 2. CALAPRS Intermediate Course in Retirement Plan Admin. Agenda. 294

VIII. INFORMATIONAL

- A. Article, "Tough Year for Globalists". 295 – 300

IX. PUBLIC COMMENT**X. STAFF COMMENT**

**BOARD OF RETIREMENT
DISABILITY MEETING**

OCTOBER 8, 2018

**AGENDA
PAGE 3**

- XI. BOARD MEMBER COMMENT**
- XII. ADJOURNMENT**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BOARD RETREAT & BUSINESS MEETING

SEPTEMBER 24, 2018

MINUTES

TRUSTEES
PRESENT: William W. Wilson, Vice Chair, Public Member
Steven Hintz, Treasurer-Tax Collector
Robert Bianchi, Public Member
Craig Winter, General Employee Member
Maeve Fox, General Employee Member
Arthur E. Goulet, Retiree Member
Will Hoag, Alternate Retiree Member
Ed McCombs, Alternate Public Member

TRUSTEES
ABSENT: Peter Foy, Public Member
Mike Sedell, Public Member
Chris Johnston, Safety Employee Member

STAFF
PRESENT: Linda Webb, Retirement Administrator
Lori Nemiroff, County Counsel
Henry Solis, Chief Investment Officer
Dan Gallagher, Chief Investment Officer
Julie Stallings, Chief Operations Officer
Shalini Nunna, Retirement Benefits Manager
Vickie Williams, Retirement Benefits Manager
Karen Scanlan, Accounting Manager I
Josiah Vencel, Communications Officer
Chris Ayala, Program Assistant

PLACE: Crowne Plaza Ventura Beach
Bayview Room
560 E. Harbor Blvd.
Ventura, CA 93001

TIME: 9:00 a.m.

BOARD OF RETIREMENT SEPTEMBER 24, 2018
BOARD RETREAT & BUSINESS MEETING

MINUTES
PAGE 2

ITEM:

I. INTRODUCTION & APPROVAL OF AGENDA

Vice-Chair Wilson called the Board Retreat & Business Meeting of September 24, 2018, to order at 9:00 a.m.

Trustee Bianchi suggested a correction to agenda items, III.F. and III.G. He said that the two items should state that the Fiscal Year was 2018-19, instead of 2017-18.

After discussion by the Board, the following motion was made:

MOTION: Approve with Corrections.

Moved by Bianchi, seconded by McCombs.

Vote: Motion carried

Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Foy, Johnston, Sedell

Abstain:

Following the vote on this item, the Board advanced to agenda item III., "Consent Agenda".

II. APPROVAL OF MINUTES

A. Disability Minutes of September 10, 2018.

After discussion by the Board, the following motion was made:

MOTION: Approve.

Moved by Bianchi, seconded by Fox.

Trustee Goulet submitted the following corrections to the minutes: Master Page 8, last line should insert, "indicated" after "Ms. Welch"; on Master Page 11, second sentence of second paragraph, "Ms. Welch" should be possessive; Master Page 13, second sentence of first paragraph should read, "suggestions did **not** proceed past the draft stage".

Following discussion by the Board, Trustee Bianchi withdrew his motion. The following motion was made:

MOTION: Approve as Amended.

Moved by Fox, seconded by Winter.

Vote: Motion carried

Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Foy, Johnston, Sedell

Abstain:

Following the vote on this item, the Board returned to agenda item I., because the approval of the agenda had been overlooked.

III. CONSENT AGENDA

- A. Approve Regular and Deferred Retirements and Survivors Continuances for the Month of July 2018.
- B. Approve Regular and Deferred Retirements and Survivors Continuances for the Month of August 2018.
- C. Receive and File Report of Checks Disbursed in July 2018.
- D. Receive and File Report of Checks Disbursed in August 2018.
- E. Receive and File Budget Summary for FY 2017-18 Month Ending June 30, 2018 (Final).
- F. Receive and File Budget Summary for FY 2018-19 Month Ending July 31, 2018.
- G. Receive and File Budget Summary for FY 2018-19 Month Ending August 31, 2018.
- H. Receive and File Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Schedule of Investments and Cash Equivalents, and Schedule of Investment Management Fees for the Period Ending June 30, 2018.
- I. Receive and File Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and Schedule of Investments and Cash Equivalents for the Period Ending July 31, 2018.
- J. Receive and File Statement of Reserves as of June 30, 2018.

MOTION: Receive and File.

Moved by Goulet, seconded by Bianchi.

Vote: Motion carried

Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Foy, Johnston, Sedell

Abstain:

IV. PRESENTATION: “DISRUPTIVE INNOVATION: BIG IDEAS OF 2018”

Catherine D. Wood, CEO/CIO, Ark Investment Management LLC.

9:15 a.m. to 10:15 a.m.

Mr. Gallagher introduced Ms. Catherine Wood, CEO and CIO of Ark Investment Management LLC, to the Board as the day’s first speaker.

After the presentation by Ms. Wood , the Board took a break at 10:15 a.m.

BOARD OF RETIREMENT SEPTEMBER 24, 2018
BOARD RETREAT & BUSINESS MEETING

MINUTES
PAGE 4

The Board returned from break at 10:30 a.m.

V. PRESENTATION: “MY DATA IS BIGGER THAN YOURS”

Bryan Kelly, Vice-President, AQR Global Alternative Premia Group.
10:30 a.m. to 11:30 a.m.

Mr. Gallagher introduced Dr. Bryan Kelly, Professor of Finance from Yale University, Vice-President of AQR Global Alternative Premia Group.

After the presentation by Dr. Kelly, the Board took a break at 11:30 a.m.

The Board then went to lunch at 11:45 a.m.

VI. LUNCH PRESENTATION: “GAVIN SCOTT: THE AGE OF EXODUS”

Gavin Scott, Novelist, Broadcaster, Writer.
Lunch from 11:45 a.m. to 1:00 p.m. for Trustees, Staff and Speakers.
Speaker to begin at 12:15 p.m.

Mr. Gallagher introduced Mr. Gavin Scott, Novelist, Broadcaster, and Writer.

After the presentation by Mr. Scott, the Board took a break at 1:00 p.m.

The Board returned from break at 1:10 a.m.

VII. PRESENTATION: “BOARD & STAFF ROLES & RESPONSIBILITIES FOLLOWING AB 1291: CHARTING A PATH FORWARD” - TO BE PROVIDED.

Ashley Dunning, Partner, Nossaman LLP.
1:30 p.m. – 2:15 p.m.

Ms. Webb introduced Ms. Dunning, Partner at Nossaman LLP.

After discussion by the Board, the following motion was made:

MOTION: For Staff to Provide a List of Action Items Based on the Presentation from Ms. Dunning to Bring Back to the Board for Review.

Moved by Fox, seconded by Bianchi.

Vote: Motion carried

Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Foy, Johnston, Sedell

Abstain:

VIII. NEW BUSINESS

A. SACRS Fall Voting Proxy.

1. Staff Letter.

BOARD OF RETIREMENT SEPTEMBER 24, 2018
BOARD RETREAT & BUSINESS MEETING

MINUTES
PAGE 5

Ms. Webb reminded the Board that the next item was traditional delegate designation in advance of SACRS 2018 Fall Conference.

Vice-Chair Wilson appointed Trustee Hoag to serve as the voting delegate, with Retirement Administrator, Linda Webb as the alternate voting delegate.

- B. Recommendation to Authorization for C.I.O., Dan Gallagher to Attend 2018 ILPA Summit in New York, NY, November 6 – 8, 2018.

RECOMMENDED ACTION: Approve.

- 1. Staff Letter.
- 2. 2018 ILPA Summit Agenda.

MOTION: Approve.

Moved by Bianchi, seconded by Fox.

Vote: Motion carried

Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Foy, Johnston, Sedell

Abstain:

- C. Report on Due Diligence Visit to Sprucegrove Submitted by Trustee Hoag, and CIO Dan Gallagher.

RECOMMENDED ACTION: Receive and file.

- D. Report on Due Diligence Visit to Hexavest Submitted by Trustee Hoag, and CIO Dan Gallagher.

RECOMMENDED ACTION: Receive and file.

MOTION: Receive and File the Due Diligence Reports for Sprucegrove and Hexavest.

Moved by Goulet, seconded by Winter.

Vote: Motion carried

Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Foy, Johnston, Sedell

Abstain:

IX. INVESTMENT INFORMATION

NEPC – Allan Martin and Tony Ferrara.

VCERA – Dan Gallagher, Chief Investment Officer.

- A. Performance Report Quarter Ending June 30, 2018.

RECOMMENDED ACTION: Receive and file.

- B. Preliminary Performance Report Month Ending July 31, 2018.

RECOMMENDED ACTION: Receive and file.

BOARD OF RETIREMENT SEPTEMBER 24, 2018
BOARD RETREAT & BUSINESS MEETING

MINUTES
PAGE 6

- C. Preliminary Performance Report Month Ending August 31, 2018.
RECOMMENDED ACTION: Receive and file.

After discussion by the Board, staff, and consultant, the following motion was made:

MOTION: Receive and File Performance Report for Quarter Ending June 30, 2018 and Preliminary Performance Reports for Month Ending July 31st and August 31st, 2018.

Moved by Bianchi, seconded by Fox.

Vote: Motion carried
Yes: Bianchi, Fox, Goulet, McCombs, Wilson, Winter
No: -
Absent: Foy, Johnston, Sedell
Abstain:

Trustee Bianchi left at 2:30 p.m., after the vote on this item.

X. INFORMATIONAL

- A. CALAPRS Trustees' Roundtable.
- B. 10th Annual NEPC, LLC Public Fund Workshop.
- C. Western Asset Client Seminar for 2018.
- D. Response from Tortoise Regarding the Article, "California Jury Finds Plains Guilty in 2015 Oil Spill".

XI. PUBLIC COMMENT

The Board received Public Comment from Michael Pineschi from Unite Here as well as Vikas Mohite, and Gopi Alaparathi, employees of the Baltimore Marriott Waterfront Hotel, who were advocating for the employees of the Baltimore Marriott Waterfront hotel. They requested that the Board urge UBS to come to an amicable labor agreement with the employees of the hotel.

Trustee Winter asked if the Board could send some kind of correspondence to UBS to urge them to seek a labor agreement with the employees of the Baltimore Marriott Waterfront hotel.

Mr. Gallagher said that he had spoken to UBS regarding this issue, and had asked them to see if they could resolve the issue with the employees.

Trustee Winter then asked Mr. Pineschi to keep Mr. Gallagher informed so that he could keep the Board informed of the matter.

XII. STAFF COMMENT

**BOARD OF RETIREMENT
BOARD RETREAT & BUSINESS MEETING**

**MINUTES
PAGE 7**

Ms. Webb updated the Board regarding office location negotiations. She informed the Board that Mr. Towner's Civil Service Commission hearing started that day. She then said that the Board may recall that when staff had submitted the Business Plan for 2018, it included a supplemental risk assessment that described the large backlog of data corrections at the Auditor-Controllers Office. She said that she had recently met with the Auditor-Controller and his staff to stress the need for a plan to address the backlog and to request assigned resources to work directly on the issue. The Auditor-Controller's Office indicated that they are willing to develop a plan to work with VCERA to resolve the matter.

XIII. BOARD MEMBER COMMENT

Trustee Goulet said that he would like to move that the Board adjourn in memory of former Board member, Judy Michaels, who had recently passed away.

MOTION: To Adjourn the Board Meeting in Memory of Former Board of Retirement Trustee, Judy Michaels.

Moved by Goulet, seconded by Winter.

Vote: Motion carried

Yes: Fox, Goulet, McCombs, Wilson, Winter

No: -

Absent: Bianchi, Foy, Johnston, Sedell

Abstain:

XIV. ADJOURNMENT

At 2:48 p.m., Vice-Chair Wilson adjourned the meeting in memory of former Trustee, Judy Michaels.

Respectfully submitted,



LINDA WEBB, Retirement Administrator

Approved,

WILLIAM WILSON, Vice-Chairman



October 8, 2018

Board of Retirement
Ventura County Employees' Retirement Association
1190 S. Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: Employer-Filed Application for Disability Retirement

Dear Board Members:

Under CERL Government Code Section 31721,

"A member may be retired for disability upon the application of the member, the head of the office or department in which he is or was last employed, the board or its agents, or any other person his behalf, except that any employer may not separate because of disability a member otherwise eligible to retire for disability but shall apply for disability retirement of any eligible member believed to be disabled, unless the member waives the right to retire for disability and elects to withdraw contributions or to permit contributions to remain in the fund with rights to service retirement as provided in Article 9 (commencing with Section 31700)."

The County of Ventura has identified circumstances in which it is necessary for the employer to file an application for disability retirement on behalf of a member. Staff designed the attached *Employer-Filed Application for Disability Retirement* for this specific purpose, and met with County Risk Management to discuss the process for employer-filed applications.

VCERA staff will be pleased to respond to any questions you may have at the October 8, 2018 disability meeting.

Sincerely,

Linda Webb
Retirement Administrator



VCERA
VENTURA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

1190 SOUTH VICTORIA AVENUE, SUITE 200
VENTURA, CA 93003
PHONE: (805) 339-4250
FAX: (805) 339-4269
WWW.VCERA.ORG

EMPLOYER-FILED APPLICATION FOR DISABILITY RETIREMENT

(Complete all pages. If more space is required, attach additional sheets of paper.)

Retirement Use Only: Case No.: _____ Date Filed: _____

Employee Information:

Name: _____ Employee ID: _____
(First, Middle, Last)

Other names used during employment: _____

Address: _____
(Street, Apt. No., City, State, Zip)

Home Phone No.: (_____) _____ Work Phone No.: (_____) _____

Cell Phone No.: (_____) _____ Email: _____

Age: _____ Sex: _____ Birth Date: _____

Currently Married or registered as a Domestic Partner? Yes No

If Yes, Date of Marriage/Registration: _____

Spouse/Domestic Partner Name: _____

Spouse/Domestic Partner Date of Birth: _____

Birth Dates of Children Under 18 Years of Age:

Name:

Date of Birth:

Position for which permanently incapacitated: _____

Department Name: _____ Location: _____

Years of Service: _____ Last Day Worked: _____

Employer is filing:

- Nonservice-connected Disability Retirement
- Service-connected Disability Retirement
- Disability Reassignment

Is there another position that they would be able to perform with the Employer that would not result in a loss of income to the employee? (Permanent Accommodation)

Yes No

- Service-connected Reassignment**
Government Code Section 31725.65 allows retired members with service-connected disabilities to return to work, through a re-employment plan, in a new position they are capable of performing. Should the member opt to return to work in a lower-paying position, VCERA will pay the member a supplemental disability allowance representing the difference between the new, lesser-paying position and the previous higher-paying position, up to the amount of the approved disability benefit. **Applies only to those members who were incapacitated for the performance of their duties on or after January 1, 2004, and who are eligible for a Service-connected Disability Retirement. ***
- Nonservice-connected Reassignment**
Government Code Section 31725.5 allows retired members with nonservice-connected disabilities to return to work, through a re-employment plan, in a new position they are capable of performing. Should the member opt to return to work in a lower-paying position, VCERA will pay the member a supplemental reassignment allowance representing the difference between the new, lesser-paying position and the previous higher-paying position, up to the amount of the approved disability benefit. Applies to members eligible for a Nonservice-connected Disability Retirement. Note: If you have applied for a Service-connected Disability Retirement, and the Board of Retirement finds you are permanently incapacitated for the performance of your duties, but that the disability is not work-related, the Board may grant you a Nonservice-connected Disability Retirement, provided you have the required five (5) or more years of retirement service credit, regardless of age.

* Government Code 31725.6 applies to members who were incapacitated for the performance of their duties prior to January 1, 2004.

9. (a) Did the job or job environment aggravate or accelerate a pre-existing injury or illness?

Yes No

(b) If yes, what is the nature of the pre-existing injury or illness?

(c) Provide the date of the original occurrence of the injury or onset of the illness:

10. Does the employee have any work restrictions? Yes No

If Yes: Temporary Permanent

Who issued the restrictions?

Worker's Compensation Doctor _____

Employee Health Services _____

Other _____

Please attach a copy of the work restrictions.

11. Include any information you wish the Board of Retirement to consider in determining the employee's disability.

12. Please list the name and telephone number of the employee's last supervisor.

Name: _____

Work Location: _____

Work Address: _____

Phone Number: _____

If this individual supervised the employee for less than one year, please list the name and telephone number of their prior supervisor.

Name: _____

Work Location: _____

Work Address: _____

Phone Number: _____

I declare, under penalty of perjury, that to the best of my knowledge the foregoing is true and correct.

Executed on _____ in _____, California.
(Date) (City)

Authorized Employer Signature

Employer's Email Address

Title

Phone No.



October 8, 2018

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: REQUEST FOR AUTHORIZATION TO CONDUCT ON-SITE DUE DILIGENCE VISITS TO PRUDENTIAL AND HARBOURVEST

Dear Board Members:

Due diligence visits to VCERA investment advisors Prudential in Madison, New Jersey, and Harbourvest in Boston, MA are tentatively scheduled for November 29th and 30th, respectively.

The estimated cost per traveler is approximately \$1,800, including airfare, hotel, meals and other related expenses.

Staff requests designation/confirmation of trustee and CIO attendance and approval of corresponding costs subject to final scheduling confirmation, so travel arrangements may be completed.

Respectfully submitted,

Dan Gallagher
Chief Investment Officer



October 8, 2018

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: AUTHORIZATION FOR FISCAL STAFF KAREN SCANLAN AND NIDA WILLIAMS TO ATTEND CALAPRS INTERMEDIATE COURSE IN RETIREMENT PLAN ADMINISTRATION OCTOBER 17-19, 2018, IN GLENDALE, CALIFORNIA

Dear Board Members:

Pursuant to Education & Travel Policy, Staff recommends and requests authorization for Karen Scanlan and Nida Williams, fiscal staff, to attend CALAPRS Intermediate Course in Retirement Plan Administration October 17-19, 2018, in Glendale, California. The estimated cost to attend is approximately \$2,000, including, registration, hotel, meals and other related expenses. Funds were included in the adopted budget for this request.

VCERA staff will be pleased to respond to any questions you may have on this matter at the October 8, 2018 disability meeting.

Sincerely,

Linda Webb
Retirement Administrator



INTERMEDIATE COURSE
in Retirement Plan Administration

HILTON LOS ANGELES NORTH/GLENDALE
100 W GLENOAKS BLVD, GLENDALE, CA 91202

AGENDA

FIRST DAY AGENDA
WEDNESDAY, OCTOBER 17, 2018

12 NOON	BUFFET LUNCH FOR ALL PARTICIPANTS
1:00 – 1:30 PM	WELCOME AND INTRODUCTION
1:30 – 4:00 PM	RETIREMENT BENEFITS <i>Speaker: Kathy Foster, Assistant CEO</i> <i>Alameda County Employees' Retirement Association</i>
4:00 – 4:30 PM	NETWORKING BREAK
4:30 – 5:30 PM	CASE STUDY - MIXER <i>Hosted by CALAPRS</i>

SECOND DAY AGENDA
THURSDAY, OCTOBER 18, 2018

7:30 AM	BUFFET BREAKFAST
8:15 – 8:30 AM	FOLLOW-UP QUESTIONS & COMMENTS FROM PREVIOUS DAY
8:30 – 10:15 AM	RETIREMENT PLAN ADMINISTRATION <i>Speaker: Lita Payne, Assistant General Manager</i> <i>Los Angeles City Employees' Retirement System</i>
10:15 – 10:30 AM	NETWORKING BREAK
10:30 – 12 Noon	PENSION FUNDING & ACTUARIAL VALUATION <i>Speaker: Ann Harper, Consulting Actuary, Cheiron</i>
12 Noon – 1:00 PM	LUNCH – NETWORKING OPPORTUNITY
1:00 – 1:30 PM	FOLLOW-UP QUESTIONS & COMMENTS FROM MORNING DISCUSSIONS
1:30 – 2:45 PM	INVESTMENT ISSUES (ASSETS) <i>Speakers: Jonathan Grabel CEO & TBA</i> <i>Los Angeles County Employees' Retirement Association</i>
2:45 – 3:00 PM	NETWORKING BREAK
3:00 – 4:30 PM	FIDUCIARY DUTY <i>Speaker: Thomas Webster, Deputy Director (Retired)</i> <i>San Jose Department of Retirement Services</i>

THIRD DAY AGENDA
FRIDAY, OCTOBER 19, 2018

7:30 AM	BUFFET BREAKFAST
8:30 – 9:00 AM	FOLLOW-UP QUESTIONS AND COMMENTS FROM PREVIOUS DAY'S DISCUSSIONS
9:00 – 12:00 AM	GROUP BREAKOUT <ul style="list-style-type: none">➤ Groups will rejoin and discuss answers to the case study presented at the Mixer keeping in mind the impact of lessons learned in the various sessions.➤ Open Forum➤ Questions➤ Overall Course Evaluation➤ Presentation of Certificates
12:00 – 1:00	NETWORKING LUNCH
1:00 PM	COURSE CONCLUDES

TOUGH YEAR FOR GLOBALISTS

U.S. markets continue to outperform their international counterparts in 2018, with the performance gap widest on record. Cambiar examines what could turn the tide.

Capital Concentration Into Dollar Assets Means 2018 is a Tough Year for Globalists

We are providing an update to current global equity market conditions as of mid-September, and why we believe they are unfolding in the manner that they are. The goal is to help investors make thoughtful decisions as current processes continue to develop.

Extending back to mid-2014, U.S. stocks have roundly trounced international alternatives. The S&P 500 Index has returned 60% (cumulative), vs. 10% for the MSCI EAFE Index. The discrepancy has become particularly extreme in 2018, with U.S. stocks posting a 9% gain through August, vs. -4% for the EAFE. Bull markets and bear markets have generally been positively correlated within global equities – but not this one. The performance gap over the last several years represents the widest on record. It has not paid to be a globalist in 2018, nor to any great extent in the current decade, for that matter.



We believe there are three major factors leading to this discrepancy:

- Better U.S. corporate earnings growth,
- An out of sync global interest rate regime leading to capital concentration in U.S. dollar assets (such as stocks), and
- Financial pressure on Emerging Markets as a consequence of capital concentration into the dollar/capital flight from EMs.

Realistically, we don't see these primary factors shifting decisively in a different direction between now and year-end. However, we believe there is a reasonable case to be made that this narrative shifts in 2019+.

There have been various forms of capital concentration in the post-GFC time period. Examples include a preference for Emerging Market stocks during the early recovery from the 2009 depths, to "risk-off" time periods when defensive stocks ruled and yields collapsed (in 2011-'12 and again in 2015-'16 when there were negative yields to maturity on up to \$14 trillion of bonds). Then there was the pro-cyclical, synchronized global expansion in 2016-17 to what is now an out-of-phase period of dollar strength in 2018. In each case, investors have sought concentration in specific locales within the capital markets spectrum, at the same time avoiding

key uncertainties. As the saying goes, markets hate uncertainty more than anything else, and for global investors, markets hate currency instability/uncertainties to boot. The dollar and the U.S. corporate earnings growth story predominate current investor focus, making it difficult for other stories to see the light of day, particularly with a layer of currency uncertainty thrown on top. The currency instability is more an Emerging Markets issue, as we see the Euro and Yen more likely to appreciate versus the dollar over a multi-year time horizon. But probably not this year.

It is possible that the narrative shifts to one not nearly as favorable to U.S. stocks – which discount a lot of optimism about the future or that the increasingly elevated extent of indexation of U.S. stocks has exaggerated all the good. The pressure on EM currencies and economies impacts the earning capacities of U.S. and international-domiciled multinationals, something that has not really been reflected in the performance dichotomy. It's possible that the markets' capacity to smile past Trump trade rhetoric may suddenly end, taking U.S. returns lower. International markets have been for sale all year, and at some point, you run out of sellers. Maybe the trade talk ends in a big bro-hug about a week after mid-term elections. All of the above is no more than loose speculation, but worth considering.

More realistically, abatement of the strong dollar squeeze on EM fundamentals and the related capital concentration into dollar assets may begin to ebb or reverse in 2019, should the Fed relent from its current rate-hike path and policy events evolve constructively abroad. Global investors are essentially playing to be well positioned into the coming year at this point.

What Turns This Around?

It's axiomatic, but bear markets sow the seeds of the next bull markets because valuations compress irrationally. Values abound in the late phases of a bear market because the selling becomes reflexive and unthoughtful, leading to diamonds on the street, waiting to be picked up by investors with a modicum of patience and risk tolerance. In their later stages, the pessimism becomes abject and without clear drivers.



BRIAN M. BARISH, CFA

Brian Barish is the President and CIO at Cambiar Investors and is responsible for the oversight of all investment functions...

We see elements of this mindset in current (2H2018) discussions with clients. “Why bother with international, I should have put all my money in the U.S.”, has become an increasingly common discussion. That is more or less the tone you would expect when valuations have become abjectly cheap and devoid of expectations, with investors reflexively selling international positions to concentrate more capital in near-term winners. Today's international markets are reminiscent of broader global market conditions in late 2011-2012, when valuations were compressed for just about everything – from tech to banks to industrials to durable goods, particularly after a sharp correction in stock prices in mid-2011. The rationales at the time tended to be vague macro negatives – the U.S. had lost its AAA rating from S&P, the Eurozone had a small rogue indebted state on its hands (Greece) and several large undercapitalized banks,

the U.S. had an unresolved “fiscal cliff” of expiring tax brackets and incentives poised to jump absent legislative action, and business confidence was poor. None of these issues had very clear timeframes to resolution (or consequences for business valuation). If you could wind the clock back, it would have paid to be aggressive and buy the weakness and the daily negative headlines. But – much uncertainty as to when you would be rewarded.

Today’s catalogue of issues is a bit different from market anxieties of the 2011-12 time frame. Features of the Eurozone remain unresolved, such as Brexit talks and Italian budgets, and importantly the ECB still has yet to lift off from 0% interest rates. These factors *ought* to be resolved some time in 2019, if not sooner. Internal demand growth in Europe and Japan remain structurally slow, leaving their companies rather hostage to global growth rates, and EM financial challenges don’t help. We view the relative earnings growth superiority of U.S. companies as uniquely benefiting from the end-2017 tax cuts. Statistically, most companies’ earnings growth rates will have to come down in 2019. Nonetheless, financial flows have followed the growth. The U.S. technology sector has become enormous in terms of global capitalization, and ebullient tech sentiment further polarizes returns – as tech and internet valuations remain at the forefront of investor interests.

Earnings
(S&P 500 vs MSCI EAFE)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e
	Pre-GFC Peak	Market Bust											
Earnings													
S&P 500	98.6	68.8	95.2	100.7	156.4	113.7	111.5	113.9	124.1	121.9	141.9	158.4	176.4
MSCI EAFE	150.5	94.1	127.2	122.5	121.2	117.0	103.4	98.9	130.7	130.0	130.0	143.4	143.4
Growth %													
S&P 500					5.8%	5.9%	-4.5%	-2.0%	2.2%	8.0%	30.8%	10.2%	10.2%
MSCI EAFE					1.7%	1.0%	-3.8%	-11.4%	-6.4%	17.2%	6.2%	7.8%	7.8%
Recovery from 2007 Top													
S&P 500											+0.2%	32.8%	124.5%
MSCI EAFE											17.9%	22.0%	6.2%
Price/Earnings													
S&P 500											13.4x	17.9x	18.3x
MSCI EAFE											14.9x	13.9x	12.9x

Source: Bloomberg

We believe the superior growth rate of U.S. corporate earnings will slow as the 2018 corporate cuts reach their anniversary. To wit, S&P 500 index earnings have grown from \$100 in 2012 to \$124 in 2017 (+24% or ~5% annually), and then accelerating to \$162 in 2018e (per Bloomberg composite estimates). That is 30% growth *this year*. Lower tax rates form the bulk of this growth. The chances of reversion back to single-digit growth levels in 2019+ are quite plausible, and would be consistent with the 2011-2017 time period. Current consensus forecasts call for double-digit earnings growth into 2019 and beyond; this seems a stretch. Meanwhile, EAFE earnings have shown little consistency – declining from \$122 in 2012 to a low of \$98 in 2016, before rising back to the \$138 level for 2018e. The EAFE earned about \$120 in 2008, 2010, and 2011 as well. A stronger and more confident Europe (see below) could finally see some sustained earnings growth after a long slog bumping along at a rate first achieved *in 2005*.

Looking Forward to Key 2019 Events

As the calendar turns into 2019, we see three critical “macro” events that may shape returns.

First, the U.S. Federal Reserve may pause rate hikes beyond the two (anticipated) increases slated for the rest of 2018, or flirt with a yield curve inversion by pressing rate increases. A pause would be cathartic for international money flows, while an inversion may at least

challenge the global preference for dollars given the ominous financial signal it portends. The Fed is generally expected to raise interest rates to the 2.5% level by December. Given the behavior at the longer end of the curve, which has had a difficult time pushing above the 3.0% level, and based on Fed Chairman Powell's recent Jackson Hole commentary, rate increases beyond the 2.5% may exceed "neutral" monetary policy. A move to 2.75% or 3.0% may very well invert the yield curve, particularly as the Fed balance sheet is also shrinking at this time.

Second, the ECB should begin the process of exiting from QE (slated for December 2018) and normalizing its interest rate regime in 2019. Success on this front would bolster the value of the currency as well as business confidence, along with ending (or at least mitigating) the capital concentration in dollar assets. On a trade-weighted basis, the Euro (about \$1.15 currently) is generally viewed as an undervalued currency, with fair value closer to the \$1.25-1.30 level. But given the interest rate differentials and a difficult-to-quash "what-if" question about bond yields and fiscal sustainability in weaker European countries, it probably continues to trade cheap. The Fed messaged "gradualism" and "data dependency" as it exited QE and ZIRP in 2015-17 to assuage market psychology with good effect. The ECB needs to message its new rules of the road as it stops buying sovereign bonds in massive quantities, probably messaging something similar along with "European Unity" of some form. We can only speculate what the exit plan may be – credit rating-based yield spread caps on weaker sovereigns versus the strongest countries seems like a good idea to us – but maybe they have a different plan. ECB President Mario Draghi will step down in late 2019 after a heroic stint, and legacy at this juncture matters. A better Euro as an alternative reserve currency to the dollar matters a great deal. Alongside European monetary normalization, we expect the terms of the U.K.'s Brexit "deal" to be solidified within the next 12 months, tidying up another key uncertainty for the markets.

Tighter U.S. monetary policy is a particularly difficult pill to swallow in Emerging Market economies. A stronger Euro would partially neutralize the strong dollar tourniquet that afflicts EM financial conditions. The dollar's status as the dominant global reserve currency is amplified by current conditions, where it is the only major reserve currency with a positive short-term interest rate. As this rate has headed higher in 2018, funding stresses in weaker Emerging Markets have quickly erupted. Emerging markets have greatly benefited from low prevailing rates in reserve currencies. With most industrial products and commodities priced in dollars, a higher dollar on the back of higher U.S. rates creates double pressure on emerging economies in terms of import costs and financing. It is worth pointing out that U.S. interest rates were not "normal" until 2018, having remained below 1% up to the latter part of 2017. We would contend that Emerging Market financial stability will remain the largest question mark into 2019, as competitive-yield pressure from the U.S. and Europe could just make matters worse.

Last, China finds ways to grow – World demand depends little on Argentina or Turkey, but depends considerably on China. To date, China cut individual tax rates and has let its currency slip a little versus the dollar, while tightening up the exits by which dollars can leak out of the country. In 2009, China enacted aggressive fiscal and monetary stimulus plans to offset the GFC-induced global recession. These measures worked in aggregate, although much of the spending was widely acknowledged as having questionable merit. We currently anticipate a more targeted approach to stimulus, with higher value-added industries getting priority. China's growth has slowed from the early 2010s to today, and we expect it will continue to

slow. However, the country's move up the value-added curve to greater prosperity is clear on a broad basis. In short, we would not underestimate these guys.

Conclusion

Beating a drum as to the merits of a true global asset allocation have become difficult, given the spectacular success of U.S. stocks in the decade of the 2010s. However, the virtues of asset allocation and diversification remain, despite the increased skepticism that is inevitable when returns have polarized in one direction or another. Contrary arguments suggest a "this time is different" conclusion, often a dangerous one to reach. The U.S. economy has more than fully recovered from the depths of the Great Recession, while other major Developed Market economies remain well below potential output. This set of factors has become all the more acute for market returns as the U.S. has normalized its monetary policy amidst full employment conditions. There are a number of reasons to believe that recoveries in international markets may gain steam in 2019-20 alongside international monetary conditions, while the ongoing success of U.S. equities may comparatively run on a bit less steam in the coming years.

DISCLOSURES

Certain information contained in this communication constitute "forward-looking statements", which are based on Cambiar's beliefs, as well as certain assumptions concerning future events, using information currently available to Cambiar. Due to market risk and uncertainties, actual events, results, or performance may differ materially from that reflected or contemplated in such forward-looking statements. The information provided is not intended to be, and should not be construed as, investment, legal or tax advice. Nothing contained herein shall be construed as a recommendation or endorsement to buy or sell any security, investment or portfolio allocation.

Any characteristics included are for illustrative purposes and accordingly, no assumptions or comparisons should be made based upon these ratios. Statistics are based upon third-party sources that are deemed to be reliable, however, Cambiar does not guarantee its accuracy or completeness.

As with any investments, there are risks to be considered. Past performance is no indication of future results. All material is provided for informational purposes only and there is no guarantee that the opinions expressed herein will be valid beyond the date of this blog.