MEETING DATE

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AGENDA ITEM

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Memorandum

Date: August 3, 2011

To: CCCERA Board of Retirement

From: Cary Hally, Retirement CIO

Subject: Goldman Sachs Opportunistic Credit Portfolio

Recommendation

We recommend the Board authorize staff to begin an orderly liquidation of the Opportunistic Credit portfolio managed by Goldman Sachs Asset Management (GSAM), and to transition the proceeds into the high yield fixed income portfolio managed by Allianz Global Investors.

Overview

In mid-2009 the Board created a market opportunity allocation of up to 5% of the Total Fund to take advantage of current unique opportunities in the markets. The return target for these investments was expected to exceed the actuarial return target over a four to five year period. In late 2009 the Board followed recommendations from staff and consultant to make a $60 million investment with GSAM to manage a credit opportunity portfolio. The return expectation for this mandate was to exceed 10%. This portfolio was funded in late February 2010, and was funded with a reduction in domestic fixed income allocations. For performance measurement purposes the account inception date is March 1, 2010.

To date the portfolio has exceeded expectations and performed very strong. For the one year period ending June 30, 2011, the portfolio returned 12.3%, and the cumulative return since inception return is 16.7% (12.3% annualized for the 16 month period). As mentioned this portfolio was funded from CCCERA's domestic fixed income allocation. For comparison the one year return ending June 30, 2011 for the Barclays US Aggregate Index is 3.9%, and the cumulative return from March 1, 2010 through June 30, 2011 for the Index is 7.2% (5.5% annualized). The market value for the portfolio at the end of July 2011 is approximately $67.8 million.

Since the account's inception we have continually been monitoring its progress and have had numerous conversations with GSAM. Recently we have noticed the account has become more concentrated in a couple sectors. In discussion with GSAM, this is the result of keeping the same return expectations and less attractive returns available in other sectors in the market. To increase diversification, GSAM would propose lowering the return expectations which would enable them to diversify into other credit opportunities. Given that this mandate was not contemplated to be a permanent investment, we would propose that the Board direct staff to begin to prudently liquidate a very successful investment.

If the decision is to liquidate this portfolio, we would recommend the Board invest the proceeds in the high yield portfolio managed by Allianz Global Investors. In June of 2011 the Board adopted new asset allocation targets which resulted in the allocation to high yield bonds increasing from 3% to 5%. Recently we rebalanced high yield fixed income to the old target of 3%. Over coming months we will be working on developing new manager targets to enable implementation of the new asset allocation targets. Transferring the assets from the GSAM portfolio into the Allianz portfolio begins the process of implementing the new target for high yield and invests the assets in a portfolio with a high current yield. An alternative to this would be to transfer the assets into the core plus fixed income portfolios managed GSAM, Lord Abbett and PIMCO.

The following chart illustrates $60 million invested in the GSAM portfolio versus the Barclay US Aggregate Index, assuming no asset withdrawals.