

**Alameda County Employees'
Retirement Association**

ACERA

EMERGING INVESTMENT MANAGER POLICY

March 15, 2007

ACERA EMERGING INVESTMENT MANAGER POLICY

TABLE OF CONTENTS

I.	SCOPE	3
II.	PURPOSE	3
III.	LEGAL AUTHORITY	3
IV.	DEFINITION OF EMERGING INVESTMENT MANAGERS	3
V.	EMERGING INVESTMENT MANAGER PROGRAM	3
VI.	STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM	4
VII.	STANDARDS FOR EMERGING INVESTMENT MANAGERS	4
VIII.	ROLES AND RESPONSIBILITIES	5
IX.	PERFORMANCE EVALUATION CRITERIA	7
X.	MONITORING AND REPORTING	7
XI.	QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS	8
XII.	EFFECTIVE DATE	8

I. SCOPE

This Emerging Investment Manager Policy (“EM Policy”) governs the Emerging Investment Manager Program (“EM Program”) of Alameda County Employees’ Retirement Association (“ACERA”) and shall apply to any asset classes of ACERA’s Trust Fund (“Fund”) other than the real estate asset class. The EM Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures. The ACERA Board (“Board”) reserves the right to amend, supplement or rescind this EM Policy at any time.

II. PURPOSE

The purpose of this EM Policy is to establish a framework for the development and administration of ACERA’s EM Program, consistent with the Board’s fiduciary responsibilities in investment of the Fund.

III. LEGAL AUTHORITY

This EM Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the Fund.

IV. DEFINITION OF EMERGING INVESTMENT MANAGERS

For purpose of this EM Policy, ACERA defines emerging investment managers (“EMs”) as investment managers who have total assets under management of less than \$2 billion, and, in addition, may have more limited time in business and/or a more limited track record in the specific products under consideration than would ordinarily be required in ACERA’s standard institutional investment manager search process.

V. EMERGING INVESTMENT MANAGER PROGRAM

ACERA’s EM Program is an investment program, developed and managed in accordance with this EM Policy. The EM Program is designed to identify investment firms with the potential to add value to ACERA’s portfolio that would not be identified in ACERA’s standard institutional investment manager search process. Studies have shown that some smaller investment firms may be able to generate superior performance due to increased market flexibility associated with smaller asset bases.

A. Investment Vehicles

ACERA plans to utilize Individual Mandates (direct-hired EMs) and/or Manager-of-Managers (“MOMs”) for the EM Program. Both investment vehicles will be investigated and analyzed for suitability considering the specific characteristics of ACERA’s portfolio. It is possible that different asset classes may employ different investment vehicles.

B. Size

During the initial stage of the EM Program implementation at ACERA, no more than 1% of the total ACERA portfolio may be allocated to the EM Program. This total allocation percentage may be changed in future years as the EM Program implementation matures. The Board will determine the EM Program size based on recommendations from the Investment Committee with input from ACERA Staff (“Staff”) and ACERA’s investment consultants (“Consultants”).

C. Asset Class Coverage

The following asset classes may be initially included in ACERA’s EM Program: U.S. Equities, International Equities, and U.S. Fixed Income. For each asset class, the target asset allocation to the EM Program will be determined by the Board based on recommendations from the Investment Committee with input from Staff and Consultants.

VI. STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM

The strategic objective of the EM Program is to add incremental value to the Fund through the hiring of the most talented EMs to manage ACERA’s assets.

The primary goals of the EM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund return performance through the EM Program; 3) identify superior EMs and/or investment opportunities in California and Alameda County that are equal to or superior to comparable available investments; and 4) further diversify the Fund’s overall investment program, so as to enhance risk-adjusted returns of the Fund.

ACERA may consider an EM investment when the assigned Consultants, after due diligence and investigation, have determined that:

- 1) The risk and return characteristics of the EM investment are no less favorable than comparable non-EM opportunities available; and
- 2) The EM investment is in compliance with this Policy.

VII. STANDARDS FOR EMERGING INVESTMENT MANAGERS

All investment managers selected through the EM Program shall comply with and be subject to any and all performance-related and other standards, requirements, and expectations set forth in ACERA’s General Investment Guidelines, Policies and Procedures, other than requirements regarding criteria for inclusion in ACERA’s standard institutional investment managers search process.

All investment managers selected through the EM Program shall also comply with and be subject to any and all other ACERA Board policies, procedures and guidelines that pertain to investment managers, including without limitation, obligations regarding disclosure by investment managers of actual or potential conflicts of interest, as well as any and all other obligations imposed on ACERA’s investment managers by State and Federal law.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's EM Program. The duties and responsibilities of the Board, Investment Committee, Staff, Consultants, ACERA's fiduciary counsel ("Fiduciary Counsel") and EMs/MOMs in relation to the EM Program are stated below:

A. Board

The Board shall be responsible for approving the EM Policy that governs the EM Program and approving the implementation of the EM Program at ACERA. The Board, with input from the Investment Committee, shall review this EM Policy annually to determine whether modifications are necessary. The Board shall also be responsible for retention and termination of EMs and/or MOMs.

B. Investment Committee

The Investment Committee shall monitor compliance of ACERA's EM Program with this EM Policy. It shall evaluate proposals for EM Policy modifications, as needed, and make recommendations for consideration by the Board. The Investment Committee shall review the EM Policy annually and make recommendations to the Board with respect to retention and termination of EMs and/or MOMs.

C. Staff

Staff shall be responsible for oversight of the EM Program. Staff's responsibilities shall include, but not be limited to the following:

1. Developing and maintaining specific procedures, as approved by the Investment Committee, subject to periodic reviews by and updates to the Board, to comply with the approved EM Policy;
2. Developing and recommending changes to the EM Policy;
3. Implementing the EM Policy and managing the EM Program;
4. Monitoring the EM Program compliance with the EM Policy;
5. Monitoring EMs' and/or MOMs' compliance with a) the investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
6. Conducting comprehensive annual reviews of the EM Program and the individual EMs and/or MOMs;
7. Reporting to the Investment Committee any violations of the EM Policy with explanations and recommendations;
8. Initiating searches for EMs and/or MOMs;
9. Assisting ACERA's legal department in contract negotiations with EMs and/or MOMs;
10. Evaluating EM opportunities with Consultants' input and making recommendations to the Investment Committee; and
11. Evaluating and making recommendations for retention and termination of EMs and/or MOMs.

D. Consultants

1. General Investment Consultant

General Investment Consultant hired by the Board is a fiduciary to ACERA and its Board. General Investment Consultant shall independently and continuously monitor and analyze the effectiveness of ACERA's EM Program and make related recommendations in order to serve the best interests of the plan participants. General Investment Consultant shall also assist Staff in crafting the EM Policy and implementing the EM Program. In addition, General Investment Consultant shall be responsible for:

- a. Ongoing monitoring of the performance of ACERA's EMs and/or MOMs;
- b. Monitoring EMs' and/or MOMs' compliance with a) their respective investment guidelines as set forth in their contract; b) this EM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
- c. Assisting Staff in EM and/or MOM searches and contract negotiations;
- d. Submitting performance evaluation reports and conducting comprehensive reviews of the EMs and/or MOMs quarterly to the Investment Committee in conjunction with the regular quarterly performance report and review;
- e. Making recommendations for retention or termination of EMs and/or MOMs;
- f. Attending meetings as needed; and
- g. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

2. Specialty Investment Consultant

Should the Board, with input from the Investment Committee, decide to hire a Specialty Investment Consultant specializing in EM programs, this specialty Consultant will be subject to the same expectations and bear the same responsibilities as stated in Section VIII(D)(1) above.

E. Fiduciary Counsel

Fiduciary Counsel hired by the Board through ACERA's General Counsel in accordance with ACERA's Fiduciary Counsel Retention Policy is a fiduciary to ACERA and its Board. Fiduciary Counsel shall provide legal, but not investment, advice to the Board, Investment Committee and Staff regarding all aspects of ACERA's EM Policy, as requested. Fiduciary Counsel shall also provide legal, but not investment, advice on ACERA's EM Program upon request.

F. Emerging Investment Managers

EMs are fiduciaries and shall prudently manage ACERA's assets in the best interest of ACERA and its members. EMs shall abide by all of ACERA's policies and procedures, and fully comply with applicable law. EMs shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. EMs shall be responsible for all aspects of portfolio management as set forth in their respective contracts with ACERA. EMs shall also:

1. Communicate with Staff and/or MOMs as needed regarding investment strategy and investment results;
2. Cooperate fully with Staff, Consultants, ACERA's custodian and/or MOMs concerning requests for information;
3. Submit reports to MOMs, Staff and Consultants in accordance with their contract terms; and
4. Attend meetings as needed.

G. Manager-of-Managers

MOMs are fiduciaries and shall prudently manage ACERA's assets in the best interest of ACERA and its members. MOMs shall abide by all of ACERA's policies and procedures, and fully comply with applicable law. MOMs are responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. MOMs shall also:

1. Maintain a comprehensive database of emerging investment managers and continuously conduct due diligence evaluation of prospective EMs;
2. Construct a diversified portfolio of EMs based on the objectives and benchmarks established by the MOM fund;
3. Have the authority to retain and terminate EMs based on the evaluation criteria established by the MOM fund;
4. Monitor and report on the performance of the individual EMs in the MOM fund and the MOM fund itself; and
5. Attend meetings as needed.

IX. PERFORMANCE EVALUATION CRITERIA

The specific performance evaluation criteria for EMs and/or MOMs will be established in the investment agreements between ACERA and individual EMs and/or MOMs.

X. MONITORING AND REPORTING

Consultants and Staff will closely monitor and analyze the EM Program to ensure compliance with the EM Program's strategic objective and goals.

EMs and/or MOMs are required to submit all reports to Staff in accordance with their respective contracts and applicable requirements set forth in the Schedule V of ACERA General Investment Guidelines, Policies and Procedures.

Consultants are required to submit all reports to Staff in accordance with their contract terms.

Staff, in conjunction with Consultants will perform comprehensive evaluations of ACERA's EM Program, the EMs and/or MOMs annually, and will report the findings to the Investment Committee.

XI. QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS

ACERA seeks to retain the most talented EMs to manage ACERA's assets. The specific qualifications of EMs and/or MOMs, consistent with the Strategic Objective and Goals of the EM Program, will be determined by the Board at the time of the search for EMs and/or MOMs with input and recommendations from Staff and Consultants.

Staff and Consultants will conduct a comprehensive due diligence review process for each EM and/or MOM. The specific search criteria and due diligence procedures for EMs and MOMs will be established by the Board, consistent with the Strategic Objective and Goals of the EM Program, at the time of the search with input and recommendations from Staff and Consultants.

XII. EFFECTIVE DATE

This Policy shall become effective upon adoption by the Board, but shall not be implemented by Staff until the Board also has approved the EM Program contemplated by this EM Policy.