

**Alameda County Employees'
Retirement Association**

ACERA

REAL ASSETS POLICY

Amended March 17, 2016

ACERA REAL ASSETS POLICY

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Real Assets Policy

I. SCOPE

This Real Assets Policy (“RA Policy” or “Policy”) governs all investments in the Real Assets (“RA”) asset class made by Alameda County Employees’ Retirement Association (“ACERA”). Established in April, 2011, previously set out as an addendum to the General Investment Guidelines, Policies and Procedures, the RA Policy is subject to all provisions of applicable law and applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures. If there is any conflict between this RA Policy and ACERA’s General Investment Guidelines, Policies and Procedures pertaining to investments in the RA asset class, the Policy prevails. The ACERA Board (Board) reserves the right to amend, supplement, and/or rescind the Policy at any time.

II. PURPOSE

The purpose of the Policy is to:

1. Set forth the RA investment policies and guidelines which are deemed to be appropriate and prudent;
2. Establish criteria against which RA investment opportunities are to be measured; and
3. Serve as a review document to guide the ongoing oversight of ACERA’s Real Assets Portfolio on a consistent basis.

The Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee (IC), the ACERA Staff (Staff), the ACERA RA Consultant (Consultant), and the RA Investment Managers hired by ACERA to manage its assets (Managers).

It is expected that the Policy will be a living document and that changes will be made from time-to-time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

RA investments are principally intended to provide:

1. An attractive risk-adjusted return over a full market cycle, typically 5-8 years;
2. Protection against U.S. inflation and trending inflation, especially during periods of unexpected inflation;
3. Long-term protection for purchasing power;
4. Low correlations to equity and fixed income assets;
5. Additional alpha and diversity to the ACERA portfolio.

The RA asset class is designed to produce returns and to, secondly, protect against U.S. inflation.

III. LEGAL AUTHORITY

The 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 ACERA Trust Fund (“Fund”).

IV. TYPES OF REAL ASSETS INVESTMENTS

RA investments consist of assets that exhibit positive correlation to inflation and positive returns over the long run. These investments will be targeted to perform during periods of unexpected U.S. inflation and increasing U.S. inflation expectations. The strategy is to be implemented using a diverse set of exposures to inflation-sensitive instruments; hedges intended to reduce various risk exposures; and active strategies intended to provide additional sources of returns through active management. Instruments and securities employed include, but are not limited to, commodity futures and options and swaps on commodity futures, global exchange-traded equities issued by publicly held entities in natural resource related sectors, infrastructure, publicly-traded real estate investment trusts (REITs), treasury inflation protected securities (TIPS) and currency forwards. In addition, the RA will invest in private limited partnerships and secondaries in sectors with inflation sensitive assets including, but not limited to, energy, mining, infrastructure, timberland, and farmland. In some cases, the RA portfolio will also implement short positions in equity index futures and currency forwards used to partially hedge the equity exposure of the underlying investments. Limited leverage may be utilized to combine short positions and long investment positions to build certain hedging strategies in the RA portfolio.

All RA investments/strategies made through privately-placed funds are considered Alternative Investments.

RA Investments include, but are not limited to, the following:

1. Commodities
(includes, but is not limited to:
 - a. Gold and precious metals,
 - b. Oil and agriculture commodities)
2. Natural Resources
(includes, but is not limited to:
 - a. Privately-placed Energy Funds and Energy Master Limited Partnerships (MLPs),
 - b. Privately-placed Mining Funds,
 - c. Farmland and Timber,
 - d. Publicly-traded Natural Resources Equities)
3. Infrastructure
(includes, but is not limited to:
 - a. Privately-placed Infrastructure Funds,
 - b. Publicly-traded Infrastructure Equities)
4. Other Real Assets
(includes, but is not limited to:
 - a. Developed and Emerging Market Currencies,
 - b. TIPS and Inflation Break-evens,
 - c. Publicly-traded Real Estate Investment Trusts (REITs),
 - d. Other Inflation sensitive assets)

V. STRATEGIC OBJECTIVE OF REAL ASSETS STRATEGIES

The RA will invest in a broad, diverse set of inflation-sensitive and return-seeking instruments. The RA portfolio is expected to provide return and risk above bonds but below equity, with generally low correlations to both asset categories. The Board believes the Fund's overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in real assets.

VI. STRATEGIC ALLOCATIONS TO REAL ASSETS

The target allocation to the Real Assets asset class is 5.0% of the total Fund. The strategic allocations to the RA Portfolio, as measured by actual dollars invested and not by dollars committed to underlying Investment Managers of Funds, are as follows:

<u>Sub-asset classes</u>	<u>Target Allocations</u>	<u>Min./Max. Ranges</u>
Commodities	15%	0-25%
Natural Resources	50%	0-60%
Infrastructure	35%	0-45%
Other Real Assets	0%	0-20%

It is expected that the RA portfolio will be managed on a discretionary basis by investment managers, who are evaluated and monitored by Staff and Consultant. All investment managers will adhere to specific investment guidelines and contracts which are generally consistent with the intent of the Policy. Portfolio construction will be designed to produce a diversified mix of returns, subject to the guidelines outlined under each sub-category. While specific investments may incur losses of all or part of the capital invested, it is expected that a diversified RA Portfolio will produce a positive return with risk characteristics between public equities and fixed income. Diversifiable risks associated with this Portfolio may include, but not limited to, position in the capital structure, inflation and unexpected inflation, the timing and amounts of cash flows, the size of the individual investments, and their sensitivities to business cycles. The risks associated with RA investments will be viewed within the context of the entire Fund. ACERA may take on over and under weights to sub-asset classes within the RA Portfolio to improve its risk/return posture based upon an assessment of the relative attractiveness of all available opportunities. As commitments and investments are expected to be made over time, the Portfolio is designed to reach its target allocations in 5-8 years, subject to availability of quality managers.

VII. SPECIFIC GUIDELINES FOR REAL ASSETS PORTFOLIO

ACERA will gain exposure to RA investments by hiring external investment managers either directly or through participation in secondary RA markets. Typically, the Fund will subscribe to limited partnership vehicles sponsored by specialty external investment managers. It is expected that the RA Portfolio will produce approximately 130 basis points above the custom blended benchmark net of all fees and expenses over a 5-8 year period (full market cycle).

The RA Portfolio is to be implemented and diversified over five to eight years as follows:

By sub-asset class: Among natural resources, infrastructure, commodities, and other similar investments. Please see chart in Section VI.

By vintage year: Roughly equal amounts of new funding will be committed in each calendar year, with deviations permitted to accommodate market opportunities and to facilitate initial entry into the asset class.

By Investment Fund: No more than twenty (20) percent of the Fund's total five (5) percent target allocation to the RA Portfolio may be committed to any one investment vehicle.

By geography: Through investments/commitments to funds located in or outside of North America.

By industry sector: As a result of the diversified investments/commitments outlined above, it is expected that the RA Portfolio will be generally diversified by sector/industry.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's RA Portfolio. The duties and responsibilities of the Board, IC, Staff, Consultant, and Managers are stated below:

A. Board

The Board shall be responsible for approving the Policy and the annual investment plan that govern the RA Portfolio. From time-to-time the Board, with input from the IC, shall review the Policy to determine whether amendments are necessary. The Board shall also be responsible for reviewing and approving all RA commitments/investments that are recommended by the IC, Staff, and Consultant.

B. Investment Committee

The IC shall be responsible for the following:

1. Recommending to the Board for approval a Policy to govern all investments in or commitments to the RA asset class;
2. Reviewing the Policy, evaluating proposals for amendments, if any, and making recommendations to the Board for approval;
3. Reviewing and approving the annual Investment Plans for ACERA's RA Portfolio;
4. Reviewing RA investments/commitments recommended by Staff and Consultant and recommending them to the Board for approval.

C. Staff

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

1. Developing and recommending all necessary changes to the Policy with input from Consultant;
2. Developing and maintaining specific procedures, if necessary, to comply with the approved Policy with input from Consultant;
3. Developing the annual investment plan of ACERA's RA Portfolio and making recommendations to the IC for adoption with input from Consultant;
4. Reviewing, conducting due diligence, and, if satisfied, recommending RA investment/commitment proposals to the IC. Staff and Consultant shall provide the IC all required reports (see Appendix I on Page 11);
5. Monitoring the RA Portfolio for performance and compliance with the Policy;
6. Monitoring the performance of the underlying Managers and their compliance with a) the investment guidelines as set forth in their respective contracts; b) the Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;

7. Conducting comprehensive semi-annual reviews of ACERA's RA Portfolio and the individual investments in the Portfolio;
8. Reporting to the IC any violations of the Policy with appropriate recommendations;
9. Assisting ACERA's legal department in contract negotiations with the selected Managers;
10. Evaluating RA investment opportunities with Consultant's input on an ongoing basis; and
11. Evaluating and making recommendations for retention and termination of Managers.

D. Consultant

Consultant hired by the Board is a fiduciary to ACERA and its Board. Consultant shall independently and continuously monitor and analyze the performance of ACERA's RA Portfolio and make related recommendations to serve the best interests of the plan beneficiaries. Consultant shall assist Staff in developing the Policy and recommending all necessary changes to the Policy. In addition, Consultant shall be responsible for:

1. Analyzing the asset allocation of the RA Portfolio by type, implementation vehicle, geography, industry, and vintage year, and making recommendations for reallocation of assets, as appropriate;
2. Developing an investment plan for ACERA's RA Portfolio annually;
3. Developing a search strategy for highly qualified RA investments and maintaining a robust database containing information on qualifying Managers;
4. Recommending highly qualified investments to Staff and/or the Investment Committee upon completion of a thorough due diligence process and providing the required reports (See Appendix I on Page 11) to Staff and/or the IC;
5. Ongoing monitoring of the investment performance of ACERA's RA Portfolio and individual investments in the Portfolio;
6. Conducting ongoing due diligence on Managers, notifying ACERA of any significant developments and adverse events and providing analysis and advice on such issues;
7. Monitoring Managers' compliance with a) their respective investment guidelines as set forth in their contracts; b) the Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
8. Assisting Staff in contract negotiations with the selected Managers;
9. Submitting performance evaluation reports and conducting comprehensive reviews of the RA Portfolio and individual Managers semi-annually, and when appropriate, quarterly to the IC;
10. Making recommendations for retention or termination of Managers;
11. Attending IC and Board meetings as needed; and
12. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

E. Managers

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

1. Communicate with Staff and/or Consultant promptly regarding investment strategy, investment results, and any compliance issues that may have significant and/or negative impact on the portfolio;
2. Cooperate fully with Staff, Consultant, ACERA's custodian, and other ACERA vendors concerning requests for information;
3. Submit reports to Staff and Consultant in accordance with their contract terms; and
4. Attend meetings as needed.

IX. DUE DILIGENCE PROCESS FOR REAL ASSETS SELECTION

ACERA recognizes that a proper due diligence process is essential to control the risks associated with RA investments and, therefore, hereby establishes the following due diligence processes for both its Consultant and Staff:

A. Consultant

Consultant shall conduct extensive, documented due diligence before making any RA investment recommendations to Staff and the IC. Consultant shall involve Staff in the due diligence process when appropriate. Consultant shall be responsible for, but not be limited to, the following:

1. Assessing the reputation of the individuals who manage the RA investments. Consider background checks, internet searches, and in-person meetings with these individuals, etc.;
2. Conducting on-site visits to the offices of the Managers;
3. Checking references from other investors that have invested in these RA investments, and, when advisable, from competitors;
4. Determining that the RA investment funds are audited, at least annually, by a reputable and recognized external auditing firm;
5. Reviewing Managers' investment strategies, policies, operating procedures, and historical performances;
6. Reviewing and understanding the valuation procedures employed by the Managers;
7. Reviewing business terms of all legal agreements and other related documents for the RA investments under consideration, such as offering memorandum, legal agreements, managers' internal compliance policies and procedures, and SEC Forms ADV;
8. Assessing what exit strategies are available to avoid future investments in or liquidate exiting investments from strategies exhibiting poor performance; and
9. Reviewing the investments for potential exposure to Unrelated Business Taxable Income (UBTI).

B. Staff

Staff shall ensure that Consultant has conducted extensive, documented due diligence on all RA investment proposals recommended to Staff and the IC. Staff shall participate in Consultant's due diligence process when appropriate and shall also be responsible for:

1. Review the comprehensive analysis report prepared by Consultant on its recommended RA investments;
2. Conduct independent internal due diligence on the recommended investment, including, but not limited to: meeting with Managers and their proposed management teams, performing background checks on related parties, review of the offering materials and proposed investment contracts, and attending onsite diligence meetings at the Managers' offices.

3. Verify the appropriateness of each recommended RA investment with consideration to the Policy, the investment plan for ACERA’s RA Portfolio and other applicable investment policies;
4. Discuss all issues related to the recommended RA investments with Consultant and if necessary, with the Managers; and
5. Arrange presentations to the IC for all recommended RA investments to allow the IC to make recommendations to the Board for approval.

X. PERFORMANCE EVALUATION CRITERIA

When appropriate, the specific performance evaluation criteria, including, but not limited to benchmarks, for Managers will be established in the investment agreements between ACERA and individual Managers.

Performance of the RA portfolio will be measured against the following blended benchmark:

Custom Blended Benchmark will consist of the following indices:

S&P Global Natural Resources Index	50%
S&P Global Infrastructure Index	35%
Bloomberg Commodity Index	15%

Individual managers will be measured against their respective benchmarks.

XI. MONITORING AND REPORTING

Consultant and Staff will monitor and analyze the RA Portfolio closely so that the strategic objective(s) of the Portfolio can be met.

Managers shall submit all reports to Staff, Consultant, ACERA’s custodian, and other ACERA vendors in accordance with their respective contracts and the Policy.

Consultant shall submit all reports to Staff in accordance with its contract terms and the Policy.

Consultant, in conjunction with Staff, shall perform evaluations of ACERA’s RA Portfolio and the underlying Managers semi-annually and, when appropriate, more frequently. Consultant shall report the findings to Staff and the IC.

XII. REAL ASSETS INFORMATION DISCLOSURE POLICY

ACERA is a public agency subject to the California Public Records Act (Cal. Gov. Code §6250 *et seq.*), which provides generally that all records relating to a public agency’s business are open to public inspection, disclosure and copying, unless specifically exempted. The investment of the ACERA Fund is a matter of legitimate public interest; however, the Legislature has determined that the public interest requires that certain information regarding privately-placed funds remain exempt from disclosure. (Cal. Gov. Code §6254.26.) Therefore, regarding RA investments, it shall be the policy of ACERA to disclose only those records described in California Government Code Section 6254.26, subdivision (b). Specifically, ACERA will disclose the following categories of documents:

1. The name, address, and vintage year of each RA investment;

2. The dollar amount of the commitment made to each RA investment vehicle by ACERA since inception;
3. The dollar amount of cash contributions made by ACERA to each RA investment vehicle since inception;
4. The dollar amount, on a fiscal year-end basis, of cash distributions received by ACERA from each RA investment vehicle;
5. The dollar amount, on a fiscal year-end basis, of cash distributions received by ACERA plus remaining value of fund assets (or interest in) attributable to ACERA's investment in each RA investment vehicle;
6. The net internal rate of return of each RA investment vehicle since inception;
7. The investment multiple of each RA investment vehicle since inception;
8. The dollar amount of the total management fees and costs paid on an annual fiscal year-end basis, by ACERA to each RA investment vehicle; and
9. The dollar amount of cash profit received by ACERA from each RA investment vehicle on a fiscal year-end basis.

All other records regarding such RA investments shall be exempt from disclosure to the fullest extent permitted under applicable law. Notwithstanding the preceding, ACERA reserves the right to withhold any record on the basis that the public interest in disclosure is clearly outweighed by the public interest in withholding the record (Cal. Gov. Code §6255).

Appendix I

List of Reports Required for Each Investment Recommendation/Approval

Name of Report	Source
Recommendation/Approval memo	Staff
Recommendation/Approval memo	Consultant
Executive Summary of the Fund	Consultant and Staff
Compliance Checklist	Staff
Comprehensive Due Diligence Report (Available to Trustees upon request owing to confidentiality)	Consultant
Manager Pitchbook	Manager

Appendix II

Executive Summary Report Template

Fund Name

Section I: General Information

May include the following: Fund Name; Total AUM of the Firm; Current Target Fund Size; Previous Fund Size; Fund Focus; etc.

Section II: Investment Management

May include the following: Organizational Structure; Management Group; Experience; Personnel Turnover; etc.

Section III: Investment Strategy

May include the following: Investment Philosophy; Investment Strategy; Investment Process; Investment Objective; etc.

Section IV: Risk Management

May include the following: Risk Control Methodology; Exit Strategy; etc.

Section V: Investment Rationale

Section VI: Investment Concerns

Section VII: Performance (example)

Benchmark:

Net Returns (%):

Periods Ending Date	YTD	1Year	3Years	5Years	Since Inception
Fund					
Benchmark					
Relative Performance: Account – Benchmark					

Section VIII: Key Terms

May include the following: Fund Term; Preferred Return; Investment Period; Management Fee; Other Fees; Fee Discounts; General Partner Carry; GP Commitment; Advisory Board; Clawbacks; No-Fault Divorce; Key-Person Events; Closing Schedule; Drawdown Schedule; etc.

Appendix III

Compliance Checklist Template for RA Investment/Commitment

Target allocation to RA asset class: 5% of the total Fund

RA Policy

Investment Fund

In Compliance

1. Permissible Legal Structures

Any legally permissible vehicle will be allowed including, but not limited to, separate accounts, commingled funds, joint ventures, limited partnerships, corporations, and limited liability companies.	<i>Specific legal structure.</i>	<i>Yes, No, or N/A</i>
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2. Investment Methods

Individual limited partnership funds Primary and/or Secondary Separate accounts Discretionary Separate Accounts Commingled Funds ETF's Fund-of-funds Direct investments/Co-Investments Combination of the above	<i>Specific investment methods.</i>	<i>Yes, No, or N/A</i>
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3. Investment Characteristics

RA may include, but not be limited to, commodities, energy, mining, timberland, farmland (natural resources), infrastructure, renewables, and debt-related / special situations.	<i>Specific investment type.</i>	<i>Yes, No, or N/A</i>
<u>Commodities</u> : typically futures, options on futures, and/or swaps on exchange-traded commodity instruments. <u>Natural Resources</u> : typically purchase assets/companies in the energy, mining, timberland, and/or farmland industries. <u>Infrastructure</u> : typically purchase privately-held assets and/or companies in the infrastructure sector <u>Other Real Assets</u> : investments include debt-like instruments, sub-industry investments (e.g. renewables) or any asset which exhibits an inflation protection component with an attractive risk/return characteristic.	<i>Specific investment characteristics.</i>	<i>Yes, No, or N/A</i>
RA Investments may be denominated in USD or other currencies.	<i>Specific currency denomination.</i>	<i>Yes, No, or N/A</i>

RA Policy**Investment Fund****In Compliance****4. Portfolio Diversification**

<u>By sub-asset class</u> : among commodities natural resources, infrastructure, and debt-related/special situations.	<i>Specific investment type.</i>	<i>Yes, No, or N/A</i>
<u>By vintage year</u> : roughly equal amounts of new funding may be committed in each calendar year with deviations permitted.	<i>Specific vintage year.</i>	<i>Yes, No, or N/A</i>
<u>By Investment Fund</u> : <=20% of the target allocation to total RA may be committed to any one investment vehicle.	<i>Specific commitments to the Investment Fund.</i>	<i>Yes, No, or N/A</i>
<u>By geography</u> : commitments to funds located and/or investing both inside and outside of the U.S.	<i>Specific location.</i>	<i>Yes, No, or N/A</i>
<u>By industry sector</u> : commitments within the RA Portfolio will be generally diversified by sector/industry.	<i>Specific sector/industry.</i>	<i>Yes, No, or N/A</i>

5. Return Expectation

Custom Benchmark or Blend (see Primary Benchmark in Policy) (net of all fees) in aggregate. See Real Assets Policy, Section X.	<i>Specific return target(s).</i>	<i>Yes, No, or N/A</i>
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6. Investment Allocations

<u>RA Portfolio</u> : range 0%-5% of the total Fund. <u>Commodities</u> : target 15%; range 0%-25% <u>Natural Resources</u> : target 50%; range 0%-60%. <u>Infrastructure</u> : target 35%; range 0%-45%. <u>Other Real Assets</u> : target 0%; range 0%-20%.	<i>Expected allocations to the RA Portfolio and to the underlying portfolios including specific commitment to the Investment Fund.</i>	<i>Yes, No, or N/A</i>
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RA Investment Plan for YEARS**Approved: DATE****Investment Fund****In compliance**

Specific Investment Plan.	<i>Specific commitment to the Investment Fund.</i>	<i>Yes, No, or N/A</i>
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