

REAL ESTATE INVESTMENT CONSULTING SERVICES AGREEMENT

BETWEEN

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

AND

[CONSULTANT]

Dated: _____, 2014

TABLE OF CONTENTS

	Page
1. Definitions; Gender and Number.....	2
2. Appointment as Consultant.....	4
3. Description of Services.....	4
4. Standard of Care; Limitations on Authority.....	4
5. Performance of Consulting Services.....	4
6. Authorized ACERA Personnel.....	5
7. Compensation for Services.....	5
8. Seminars and Training Programs.....	6
9. Term.....	6
10. Termination for ACERA’s Convenience.....	6
11. Termination by ACERA for Default.....	6
12. Termination for Consultant’s Convenience.....	7
13. Termination by Consultant for Default.....	8
14. Force Majeure.....	8
15. Rights, Remedies and Responsibilities upon Termination.....	8
16. Indemnification.....	9
17. Mechanics of Indemnity.....	10
18. Insurance.....	10
19. Consultant’s Representations, Warranties and Covenants.....	11
20. ACERA’s Representations Warranties and Covenants.....	14
21. Compliance with Legal Requirements.....	14
22. Assurance of Compliance with Civil Rights Laws.....	14
23. Nondiscrimination in Employment.....	14
24. Replacement of Consultant’s Agents.....	14
25. Record Retention and Inspection.....	14
26. Confidentiality.....	15
27. Audit Settlement.....	15
28. No Third Party Beneficiary.....	16
29. Dispute Resolution.....	16

TABLE OF CONTENTS

	Page
30. Notices	16
31. Attorneys' Fees	16
32. Section Headings: Interpretation.....	16
33. Entire Agreement: Exhibits, Schedules and Appendices.....	17
34. Severability	17
35. Waiver.....	17
36. Amendments in Writing.....	17
37. Governing Law and Venue	17
38. Assignment and Delegation	18
39. Execution in Counterparts.....	18

Exhibits

- A. Statement of Services
- B. List of ACERA Authorized Personnel
- C. Alameda County Employees' Retirement Association Conflict of Interest Policy and Code (Amended September 19, 2013)
- D. Consultant Conflict of Interest Policy [**TO BE ATTACHED**]
- E. Form ADV [**TO BE ATTACHED**]
- F. (1) Alameda County Employees' Retirement Association Investment Guidelines, Policies and Procedures (Amended May 20, 2013)
(2) Alameda County Employees' Retirement Association Strategic Plan Objectives, Policies and Procedures (Amended September 11, 2013)

**REAL ESTATE INVESTMENT CONSULTING SERVICES AGREEMENT
BETWEEN
THE ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
AND
[CONSULTANT]**

This REAL ESTATE INVESTMENT CONSULTING SERVICES AGREEMENT (“Agreement”) is entered into and effective as of _____, 2014 by and between the ALAMEDA COUNTY EMPLOYEES RETIREMENT ASSOCIATION (“ACERA”) and [CONSULTANT] (“Consultant”).

RECITALS

WHEREAS, pursuant to California Government Code Section 31595 and related provisions of law, the Board of Retirement of ACERA has exclusive control of the investment of ACERA’s retirement fund and may, in its discretion, delegate the authority to manage, supervise and evaluate the real estate investment assets of the retirement fund when prudent in the informed opinion of the Board;

WHEREAS, the Board must execute its duties with respect to ACERA’s retirement fund with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with like matters would use in conducting an enterprise of like character and like aims;

WHEREAS, the Board must diversify the assets of ACERA’s retirement system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so;

WHEREAS, the Board has determined that to execute its duties according to such standards it is in the best interests of ACERA, its members, and beneficiaries to engage a competent, knowledgeable and professional consultant to provide real estate investment consulting services;

WHEREAS, the Board issued a request for proposals (RFP) with respect to such real estate investment consulting services, and as a result of the competitive selection process in connection with such RFP the Board has selected Consultant to perform such services in accordance with the terms and conditions of this Agreement;

WHEREAS, Consultant represents that it possesses the qualifications, skills and resources necessary to advise the Board in performing the duties identified in this Agreement;

NOW, THEREFORE, in consideration of the above stated recitals, the mutual promises, covenants, representations and conditions contained herein, and the mutual benefits to be derived therefrom, ACERA and Consultant agree as follows:

AGREEMENT

1. **Definitions; Gender and Number.** For purposes of this Agreement, capitalized terms shall have the meanings set forth in this Section 1. In this Agreement, unless the context otherwise requires, the masculine, feminine and neuter genders and the singular and plural include one another.

“ACERA” means the Alameda County Employees’ Retirement Association, an independent public pension fund established under the authority of the County Employees Retirement Law of 1937 (California Government Code Sections 31450 *et seq.*).

“ACERA Records” has the meaning set forth in Section 25 herein.

“Agents” means any of Consultant’s employees, agents, or representatives providing services in connection with this Agreement.

“Agreement” means this Real Estate Investment Consulting Services Agreement entered into by and between ACERA and Consultant.

“Authorized Persons” has the meaning set forth in Section 6 herein.

“Board” means the nine-member Board of Retirement, which controls and directs the investment of the retirement funds managed by ACERA.

“Claims” shall have the meaning set forth in Section 5 herein.

“Change of Control” means (a) the consummation of a merger or consolidation of an entity with or into another entity or any other reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity’s securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons or entities who were not stockholders or members of the disappearing entity immediately prior to such merger, consolidation or other reorganization; or (b) the sale, transfer or other disposition of all or substantially all of an entity’s assets. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the entity’s incorporation or to create a holding entity that will be owned in substantially the same proportions by the persons or entities who held the entity’s securities immediately before such transaction.

“Confidential Information” has the meaning set forth in Section 26 herein.

“Consultant” means [CONSULTANT].

“Consulting Services” means those services listed in Exhibit A, Statement of Services.

“Disclosure Statement” has the meaning set forth in Section 19(m) herein.

“Effective Termination Date” means the date on which work under this Agreement will formally cease, as specified in any Notice of Termination delivered by one party to the other.

“Event of Default by ACERA” has the meaning set forth in Section 13 herein.

“Event of Default by Consultant” has the meaning set forth in Section 11 herein.

“Fed Funds Rate” means the average federal funds rate as published daily in the Wall Street Journal, which rate shall be used to calculate any interest required to be paid under this Agreement.

“Initial Term” has the meaning set forth in Section 9 herein.

“Investment and Strategic Plans” means ACERA’s Investment Guidelines, Policies and Procedures and Strategic Plan Objectives, Policies and Procedures, current versions of which are attached as Exhibit F. ACERA may update and revise the Investment and Strategic Plans at any time and from time to time, and upon such update and/or revision being made publicly available, such updated Investment and Strategic Plan(s) shall replace Exhibit F, in whole or in part, as applicable.

“Legal Requirements” means all foreign, international, federal, state, regional, county, and local laws, regulations, ordinances, registrations, filings, approvals, authorizations, consents and examinations which may apply to Consultant or ACERA in relation to their performance under this Agreement.

“Notice of Claim” has the meaning set forth in Section 16 herein.

“Notice of Termination for Convenience” means a notice delivered by one party to the other when the notifying party wishes to terminate this Agreement for its convenience.

“Notice of Termination for Default” means a notice delivered by one party to the other when the notifying party wishes to terminate this Agreement due to a default by the other party.

“Renewal Term” has the meaning set forth in Section 9 herein.

“Responsible Persons” means [Identify Key Persons based on Proposal], and any other person or persons who replace or are in addition to such persons and who has been approved in writing by ACERA.

“Retainer Fee” means a fixed annual fee of [Insert per Proposal] payable quarterly in arrears that ACERA has agreed to pay for all services listed on Exhibit A, Statement of Services.

“Standard of Care” has the meaning set forth in Section 4 herein.

“Statement of Services” means the manner and form of the real estate investment consulting services to be provided by Consultant, a copy of which is attached hereto as Exhibit A.

“Termination Invoice” means the final invoice itemizing Consultant’s prorated fees for the relevant billing period, which Consultant shall submit to ACERA no later than thirty (30) days following the Effective Termination Date.

“Transition Period” means a period of up to ninety (90) days following the Effective Termination Date during which period, at the election of ACERA, Consultant continues to perform the Consulting Services required under this Agreement in order to facilitate an orderly transition of the real estate investment consulting services to a successor.

2. **Appointment as Consultant.** Subject to the terms, conditions and covenants of this Agreement, ACERA hereby appoints Consultant to provide the Consulting Services. Consultant hereby accepts such appointment and agrees to execute its duties according to the terms, conditions and standards set forth in this Agreement.

3. **Description of Services.** Consultant shall provide to ACERA the real estate investment consulting services described in the Statement of Services, attached hereto as Exhibit A, according to the terms, conditions and standards set forth herein, including but not limited to compliance with the Investment and Strategic Plans. Consultant agrees that should it perform work outside the scope of the Consulting Services, which may be amended from time to time, such work shall be deemed a gratuitous effort by Consultant and Consultant shall have no claim against ACERA for any compensation for such work.

4. **Standard of Care; Limitations on Authority.**

a. **Standard of Care.** Consultant acknowledges that it will have access to ACERA’s Confidential Information and strategic goals and is appointed to a position of utmost trust and confidence and therefore is a fiduciary under this Agreement and is bound by all of the obligations of a fiduciary. As such, Consultant shall discharge each of its duties and exercise each of its powers under this Agreement with the competence, care, skill, prudence and diligence under the circumstances then prevailing in the investment consulting industry and which a prudent person acting in a like capacity and familiar with real estate investment consulting for United States employee public pension funds would use in the conduct of a like enterprise with like aims, in conformance with the California Constitution, Article 16, Section 17 and California Government Code Section 31595 (“Standard of Care”). Consultant shall cause any and all of its Agents, including but not limited to the Responsible Persons, to exercise the same Standard of Care. Consultant warrants that it will not delegate its fiduciary responsibilities under this Agreement.

b. **Limitations on Authority.** Neither the Consultant, Agents nor Responsible Persons shall enter into any agreement nor incur any obligations on ACERA’s behalf, or commit ACERA in any manner without ACERA’s prior written consent, which may be granted or withheld in ACERA’s reasonable discretion.

5. **Performance of Consulting Services.**

a. **Independent Contractor Status.** In performing under this Agreement, Consultant shall be deemed at all times to be an independent contractor. This Agreement is not intended, and shall not be construed, to create the relationship of agent, servant, employee, partnership, joint venture, or association as between Consultant and ACERA. Nothing in this Agreement shall cause ACERA to be responsible for any action, omission or inaction of Consultant. It is understood by the parties that no duty on the part of ACERA shall arise to pay any sums on

behalf of or for the benefit of Consultant relating to withholding taxes, unemployment compensation insurance, disability insurance, Social Security contributions or any other similar amounts or contributions customarily payable by virtue of an employment relationship. Consultant shall be responsible for all such obligations described in the preceding sentence, and shall be responsible for making any required reports or disclosures to federal, state or local taxing authorities regarding Consultant's income and expenses. Consultant shall defend, indemnify and save harmless ACERA, its directors, officers, agents, employees, and assigns from any and all liabilities, costs, damages, losses, claims, penalties, actions, proceedings, suits, investigations, demands, assessments, judgements and expenses (including, without limitation, all attorney's fees and costs) (collectively, "Claims") arising from Consultant's failure to make such payments and reports in a timely and proper fashion.

b. **Responsible Persons.** Consultant acknowledges and agrees that in entering into this Agreement ACERA has relied upon Consultant's representations and promises to assign those persons designated herein as the Responsible Persons to the performance of the Consulting Services. Consultant shall not change the Responsible Persons ("Change of Responsible Person") without the prior written consent of ACERA. For purposes of this Section 5, any material decrease in the availability, duties, responsibilities or services performed by a Responsible Person shall constitute a Change of Responsible Person.

6. **Authorized ACERA Personnel.** Attached as Exhibit B is a list of authorized persons who are permitted to advise, inform and direct Consultant on ACERA's behalf ("Authorized Persons"). Except as authorized in writing in advance by ACERA's Chief Investment Officer or Chief Executive Officer, Consultant shall not furnish any information related to the services it provides under this Agreement to any ACERA employee, representative or other person not specifically named on the then current list of Authorized Persons.

Any changes to the list of Authorized Persons shall be made in writing to Consultant and signed by ACERA's Chief Executive Officer or designee and shall be incorporated in the Agreement as an amendment to Exhibit B without the necessity of written approval of Consultant, notwithstanding Section 36 herein. Until notified of any such change, Consultant may rely on and act upon instructions and notices received from an Authorized Person identified on the then current list furnished by ACERA. If Consultant receives instructions or notices from a source other than an Authorized Person, Consultant shall not comply with them and shall immediately notify ACERA's Chief Investment Officer in writing of such unauthorized instructions or notices.

7. **Compensation for Services.**

a. **Retainer Fee.** ACERA shall pay Consultant the Retainer Fee for the Consulting Services performed under this Agreement pursuant to Exhibit A, Statement of Services. The Retainer Fee shall include any and all direct expenses and any and all overhead or indirect expenses incurred by Consultant in performing these services, including, but not limited to, travel expenses, costs of production of reports, telephone and fax expenses.

b. **Invoices.** Consultant shall submit to ACERA a quarterly invoice within thirty (30) calendar days of the close of the quarter. Each invoice shall be in the amount of [INSERT

AMOUNT FROM PROPOSAL] and shall represent the fee for a full quarter of Services. If Consultant provides less than a full quarter of Services, the Retainer Fee shall be prorated on a daily basis based on the actual number of days of Services provided in proportion to the actual number of days in such quarter. Consultant shall not be entitled to be paid compensation in advance of services rendered.

c. **Annual Renewals.** For any automatic renewal of this Agreement following the Initial Term or any Renewal Term, the Retainer Fee shall remain the same as that which applies to the then current one year term, provided, however, at least one-hundred eighty (180) days prior to the expiration of the then current term, either party may give written notice to the other that the notifying party desires to renegotiate the Retainer Fee. Any renegotiated Retainer Fee shall be set forth in a written amendment to this Agreement pursuant to the requirements of Section 36 below. If the parties are unable to agree to an amended Retainer Fee by at least ninety (90) days prior to the expiration of the then current term, ACERA may, at its sole option, terminate this Agreement for convenience pursuant to Section 10 below. If such termination occurs, ACERA may elect to require Consultant to continue to provide the Consulting Services for the Transition Period, in accordance with Section 15 below.

d. **Payment Does Not Imply Acceptance of Services.** The making of any payment by ACERA, or the acceptance thereof by Consultant, shall in no way lessen the liability of Consultant to replace unsatisfactory Consulting Services, although the unsatisfactory character of such Consulting Services may not have been apparent or detected at the time such payment was made. Consulting Services that do not conform to the requirements of this Agreement may be rejected by ACERA and in such case must be replaced by Consultant without delay.

8. **Seminars and Training Programs.** In the event Consultant conducts seminars, training sessions or similar events, which are generally made available to Consultant's U.S. based consulting clients, ACERA shall be invited to attend upon the same terms and conditions as such other clients. At ACERA's election, all Authorized Persons and members of ACERA's Board of Retirement shall be permitted to attend such seminars, training sessions or similar events.

9. **Term.** The term of this Agreement shall commence on the date first set forth above and shall continue for an initial period of three (3) year (the "Initial Term"). After the Initial Term, it shall automatically renew for successive one-year terms (each, a "Renewal Term"), unless terminated by ACERA pursuant to the provisions of Sections 10 or 11 below, or by Consultant pursuant to the provisions of Sections 12 or 13 below.

10. **Termination for ACERA's Convenience.** ACERA may terminate this Agreement without cause and for any reason whatsoever, at any time by delivering to Consultant a written Notice of Termination for Convenience specifying the Effective Termination Date. The Effective Termination Date shall be no earlier than thirty (30) calendar days after such Notice of Termination for Convenience is delivered to Consultant. In no event shall ACERA's termination of this Agreement under this Section 10 be deemed a waiver of ACERA's rights or remedies against Consultant for damages resulting from any default by Consultant, which default occurred prior to the Effective Termination Date, regardless of whether the default was discovered after the Effective Termination Date.

11. **Termination by ACERA for Default.** Upon the occurrence of an Event of Default (as defined below) by Consultant, ACERA may immediately terminate this Agreement by delivering to Consultant a written Notice of Termination for Default, which specifies the Effective Termination Date. For purposes of this Section 11, an “Event of Default by Consultant” shall mean any one, or more, of the following:

a. If Consultant fails to perform or cause to be performed the Consulting Services and subsequently fails to cure such default within ten (10) calendar days (or such longer period as ACERA may authorize in writing) after receiving notice from ACERA of such default;

b. If Consultant defaults, breaches or violates any provision of this Agreement, other than as set forth in Section 11(a) above, and fails to cure such default, breach or violation, at Consultant’s sole expense, within five (5) calendar days (or such longer period as ACERA may authorize in writing) after receipt of written notice from ACERA of such default, breach or violation;

c. If there is a willful Change of Responsible Persons which has not been authorized by ACERA (i.e. involuntary termination) and Consultant fails to cure such default within five (5) days of receipt of notice from ACERA of such default;

d. Without notice or opportunity to cure, if Consultant fails to perform according to this Agreement following receipt of more than two (2) prior notices and failure to cure pursuant to paragraphs (a), (b) or (c) of this Section 11; or

e. Without notice or opportunity to cure if Consultant (i) breaches any of the warranties, representations or covenants contained in Section 19 below; (ii) files any petition or action for relief under any bankruptcy, moratorium, receivership, insolvency, reorganization, or other similar debtor relief law from time to time in effect affecting the rights of creditors generally; (iii) there is a petition for bankruptcy filed against the Consultant by any of the Consultant’s creditors; (iv) has appointed, a custodian, receiver, trustee (or other similar official) to take possession, custody or control of any material part of the properties or assets of Consultant, or Consultant makes a general assignment for the benefit of creditors or any material portion of Consultant’s assets is attached, executed upon or judicially seized in any manner; (v) is indicted or criminally charged, or is found civilly or criminally liable by a trial court, jury or administrative body in connection with any matter involving breach of trust, breach of fiduciary duty, fraud, theft, securities law violations, bankruptcy law violations or any act or omission involving moral turpitude; or (vi) attempts or purports to assign this Agreement or any portion hereof, or any of its rights or obligations hereunder, without obtaining ACERA’s prior written consent; (vii) loses any license or permit required by any Legal Requirement; or (viii) fails to procure or maintain the insurance policies described in Section 18 below.

If ACERA terminates this Agreement for default pursuant to this Section 11, ACERA shall be entitled to recover from Consultant all damages resulting from such default subject to proof. Nothing contained in this Section 11 shall limit or affect ACERA’s right to terminate this Agreement for convenience at any time, pursuant to Section 10 above, or limit its rights and remedies for such default and breach.

12. **Termination for Consultant's Convenience.** Consultant may terminate this Agreement without cause at any time after the Initial Term by delivering to ACERA a written Notice of Termination for Convenience specifying the Effective Termination Date. The Effective Termination Date shall be no earlier than ninety (90) days after the Notice of Termination for Convenience is delivered to ACERA unless otherwise agreed in writing by ACERA. During this 90 –day period, Consultant shall continue to provide all services as provided in this Agreement. In no event shall Consultant's termination of this Agreement under this Section 12 be deemed a limitation or waiver of Consultant's rights or remedies against ACERA for damages resulting from any default by ACERA, which occurred prior to the Effective Termination Date. Nothing contained herein shall in any way limit ACERA's right to terminate this Agreement pursuant to Sections 10 or 11 above.

13. **Termination by Consultant for Default.** Upon the occurrence of an Event of Default by ACERA, Consultant may terminate this Agreement by delivering to ACERA a written Notice of Termination for Default which specifies the Effective Termination Date, provided, however, that the Effective Termination Date shall not under any circumstance be earlier than the expiration of all cure periods specified below and shall not limit the obligations of Consultant to ACERA during the Transition Period pursuant to Section 15 below. For purposes of this Section 13, the term "Event of Default by ACERA" shall mean the following:

a. If ACERA fails to perform any of its obligations under this Agreement and fails to cure such default, breach or violation within ninety (90) calendar days of receiving Consultant's written notice of such default, or

b. Without notice or cure if ACERA breaches any of the warranties, representations or covenants contained in Section 20 below.

14. **Force Majeure.** Neither Consultant nor ACERA shall be terminated for default, pursuant to Sections 11 or 13 above, if Consultant's or ACERA's failure to perform under this Agreement arises solely from causes beyond the reasonable control of the other party, the effects of which could not be reasonably anticipated or diminished with reasonable prudence and without the fault or negligence of such party. Such causes may include, but are not restricted to, acts of God or of the public enemy, acts of any foreign, international, federal or state government (including all subdivisions thereof) in such government's sovereign capacity, fires, floods and earthquakes.

15. **Rights, Remedies and Responsibilities upon Termination.** In the event of any termination of this Agreement, all of the terms and conditions herein shall continue to apply through the Effective Termination Date and through any Transition Period. The following provisions shall also apply to any termination of this Agreement:

a. **Post-Termination Responsibilities.** If either party terminates this Agreement, and unless otherwise expressly directed by ACERA, Consultant shall, subject to any Transition Period and Consultant's obligations under paragraph (d) of this Section 15, take all necessary steps to stop services under this Agreement on the Effective Termination Date.

b. Termination Invoice. Consultant shall submit to ACERA, in the form and with any reasonable certifications as may be prescribed by ACERA, Consultant's Termination Invoice. The Termination Invoice shall prorate the then-current Retainer Fee, on a daily basis, for work actually performed but for which Consultant has not been compensated up to the Effective Termination Date. Upon Consultant's failure to submit its Termination Invoice within the time allowed, ACERA may determine, on the basis of information available to it, the amount, if any, due to Consultant and such determination shall be deemed final. Subject to the provisions of paragraph (c) below, after ACERA has made such determination, or after Consultant has submitted its Termination Invoice, ACERA shall authorize payment to Consultant. In the event of a dispute over the Retainer Fee due Consultant for Consulting Services performed after any Notice of Termination is issued, ACERA's good faith determination shall be final and binding on the parties hereto.

c. Payment Withheld for Default. Payment for Consulting Services, which ACERA received prior to any default, breach or violation, will be determined according to the provisions of paragraph (b) above. Payment for Consulting Services provided during any cure period shall only be due and owing if and after Consultant has timely cured the default, breach or violation, to the satisfaction of ACERA. No payment for Consulting Services provided during any cure period shall be due and owing if Consultant has failed to timely cure the default, breach or violation, to the satisfaction of ACERA.

d. Good Faith Transfer. Upon any termination of this Agreement by either party and to the extent requested in writing by ACERA in its sole discretion, Consultant shall continue to serve as real estate investment consultant hereunder and shall be paid a Retainer Fee in the amount then in effect until the services provided hereunder are transferred or until otherwise terminated by ACERA. Consultant shall cooperate with ACERA to effect a smooth and orderly transition of the Consulting Services and shall transfer all applicable ACERA Records within thirty (30) days after any Effective Termination Date of this Agreement. Upon termination of this Agreement, Consultant shall retain all copies of ACERA Records according to the record retention provisions set forth in Section 25 below or as otherwise directed in writing by ACERA.

e. Cumulative Nature of Rights and Remedies. The rights and remedies of the parties provided by this Section 15 are not exclusive, but cumulative and in addition to any other rights and remedies provided by law, in equity or under any of the provisions of this Agreement.

16. Indemnification.

a. To the fullest extent permitted by law, Consultant shall indemnify and save harmless ACERA and its directors, officers, agents, employees and assigns from, and, if requested, shall defend them against any and all Claims thereof (1) arising directly or indirectly from any breach of any representation or warranty made by Consultant in this Agreement, (2) arising directly or indirectly from any breach of any covenant, agreement or obligation of Consultant contained in this Agreement, including without limitation breach of fiduciary duty, breach of the Standard of Care, breach of trust or breach of confidentiality, (3) arising directly or indirectly from any (i) bad faith, (ii) negligence, (iii) willful misconduct or (iv) improper or unethical practice in violation of law by Consultant or its agents or (4) for injury to or death of a person, including employees of Consultant or loss of or damage to property, arising directly or

indirectly from Consultant's performance of this Agreement, including, but not limited to, Consultant's use of facilities or equipment provided by ACERA or others, regardless of the negligence of, and regardless of whether liability without fault is imposed or sought to be imposed on ACERA, except, in the case of subsection (4) of this Section 16, where such loss, damage, injury, liability or claim is the result of the active negligence or willful misconduct of ACERA and is not contributed to by any act of, or by any omission to perform some duty imposed on Consultant, its subcontractors or either's agent or employee. The foregoing indemnities shall include, without limitation, reasonable fees of attorneys, consultants and experts and related costs and ACERA's costs of investigating any claims against ACERA. In addition to Consultant's obligation to indemnify ACERA, Consultant specifically acknowledges and agrees that it has an immediate and independent obligation to defend ACERA from any claim which actually or potentially falls within this indemnification provision, even if the allegations are or may be groundless, false or fraudulent, which obligation arises at the time such claim is tendered to Consultant by ACERA and continues at all times thereafter. Consultant shall indemnify and hold ACERA harmless from all loss and liability, including attorneys' fees, court costs and all other litigation expenses for any infringement of the patent rights, copyright, trade secret or any other proprietary right or trademark, and all other intellectual property claims of any person or persons in consequence of the use by ACERA, or any of its officers or agents, of articles or services to be supplied in the performance of this Agreement.

b. ACERA shall promptly, and in any event within thirty (30) days after acquiring knowledge of any Claims, give written notice to Consultant of the relevant Claim ("Notice of Claim") and notice of whether ACERA elects for Consultant to defend ACERA. If ACERA so notifies Consultant, Consultant shall, at its own expense, promptly defend, contest or otherwise protect ACERA against any Claims.

c. In the event that Consultant shall undertake to compromise or defend any Claim, Consultant shall notify ACERA promptly, and in any event within thirty (30) days after the receipt of the Notice of Claim, of its intention to do so. If Consultant undertakes the defense of such Claim, ACERA shall have the right to participate in the defense of the Claim at its sole expense. Consultant shall not enter into a settlement that may affect ACERA's rights or interest without ACERA's prior written approval. Consultant shall have the right to control the defense of any such Claim unless it is relieved of its liability hereunder with respect to such defense by ACERA. ACERA shall cooperate in said defense, including without limitation, the services of any ACERA employees who are familiar with the transactions out of which any such Claim may have arisen.

d. In the event that Consultant, after receiving a timely Notice of Claim, fails to take timely action to defend the same, ACERA shall have the right to defend such Claim by counsel of its own choosing but at the cost and expense of Consultant. In the event that ACERA defends a Claim, it shall not compromise or settle any such Claim without the written consent of Consultant, such consent not to be unreasonably withheld or delayed.

e. Survival. This Section 16 shall survive any termination of this Agreement.

17. **Ownership of Results; Works for Hire.**

a. **Ownership of Results.** Any interest of Consultant or its subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by Consultant or its subcontractors in connection with the Consulting Services shall become the property of and will be transmitted to ACERA in a useable format (including electronic format) upon demand by ACERA; provided, however, Consultant may retain and use copies for reference and as documentation of its experience and capabilities. ACERA shall have the unrestricted authority to publish, disclose, distribute or otherwise use in whole or in part any reports, data or other materials prepared under this Agreement, crediting Consultant as the source.

b. **Works for Hire.** If, in connection with services performed under this Agreement, Consultant or its subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works are the property of ACERA. If it is ever determined that any works created by Consultant or its subcontractors under this Agreement are not works for hire under U.S. law, Consultant hereby assigns all copyrights to such works to ACERA, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the prior written approval of ACERA, Consultant may retain and use copies of such works for reference and as documentation of its experience and capabilities.

18. **Insurance.** Without limiting Consultant's indemnity obligations under Section 16 above, for the duration of this Agreement, Consultant shall maintain at its own expense the insurance policies described in this Section 18 to cover Consultant's business activities. Such insurance shall be provided by insurer(s) rated A-, Class XII or better by A.M. Best & Company, or otherwise approved in writing by ACERA. On or before the commencement date of this Agreement, and annually thereafter, evidence of such insurance shall be provided to ACERA, which may be in the form of a Certificate of Insurance. Such certificate shall describe the nature, amount and term of the insurance provided. In addition, Consultant shall provide to ACERA at least thirty (30) days advance written notice of any material modification or termination of any policy of insurance. Failure by Consultant to procure or maintain the insurance described in this Section 18 shall constitute a material breach upon which ACERA may immediately terminate this Agreement for default without opportunity to cure, pursuant to Section 11 above.

a. **Commercial General Liability.** Consultant shall provide and maintain a Commercial General Liability insurance policy, which names ACERA as additional insured. Such policy shall cover liability for bodily injury and property damage arising out of Consultant's business activities and shall include, without limitation, endorsements for Premises-Operations, Products/Completed Operations, Contractual, Broad Form Property Damage and Personal Injury coverages with a limit of at least Two Million Dollars (\$2,000,000) per occurrence and an annual aggregate of at least Five Million Dollars (\$5,000,000).

b. **Workers' Compensation.** Consultant shall bear sole responsibility and liability for furnishing Workers' Compensation benefits to Consultant's employees for injuries arising

from or related to any services provided to ACERA under this Agreement. Consultant shall provide and maintain a program of Workers' Compensation and Employer's Liability insurance, in an amount and form to meet all applicable statutory requirements, to cover all of Consultant's employees.

c. Automotive Liability. Consultant shall provide and maintain an Automobile Liability Policy with a combined single limit of One Million Dollars (\$1,000,000).

d. Errors and Omissions. Consultant shall provide and maintain an Errors and Omissions Policy covering liability arising from or relating to any error or omission by Consultant or its Agents in performing under this Agreement with a per occurrence limit of at least Ten Million Dollars (\$10,000,000) and an annual aggregate of at least Ten Million Dollars (\$10,000,000).

19. **Consultant's Representations, Warranties and Covenants.** Consultant acknowledges, represents, warrants, covenants and agrees that:

a. Authorization. Consultant has completed, obtained and performed all registrations, authorizations, licenses, consents or examinations required by any government or government agency regarding any Consulting Services to be performed by Consultant pursuant to this Agreement. This Agreement has been duly authorized, validly executed and delivered by Consultant and constitutes the legal, valid and binding agreements and obligations of Consultant, enforceable against Consultant in accordance with its terms, except insofar as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar limitations on creditors' rights generally and general principles of equity. Consultant is not subject to or obligated under any law, rule or regulation of any governmental authority, or any order, injunction or decree, or any agreement, that would be breached or violated by Consultant's execution, delivery or performance of this Agreement.

b. Quality of Services. The Consulting Services, which Consultant provides or is required to provide in all respects hereunder, shall meet the requirements and standards set forth in this Agreement including the Standard of Care. Consultant shall promptly correct any errors or omissions in providing such Consulting Services, all at its own expense. Nothing contained herein shall limit or prevent ACERA from proceeding pursuant to Sections 10 or 11 above.

c. Contingent Fees. No person or selling agency has been employed or retained to solicit or secure this Agreement under any agreement or understanding for compensation, whether as a commission, percentage, brokerage, or contingent fee, or otherwise except bona fide employees of Consultant. In the event of any breach or violation of this warranty, ACERA shall have the right to immediately terminate this Agreement for default and, in ACERA's sole discretion, to deduct from Consultant's compensation under this Agreement, or otherwise recover, the full amount of such compensation, commission, percentage, brokerage or contingent fee.

d. Gratuities. No gratuities in the form of gifts, entertainment or otherwise, were offered or given by Consultant to any officer, fiduciary, agent or employee of ACERA or the County of Alameda. Consultant covenants that no such gratuities will be offered or given to any

such person with a view toward securing any favorable determination concerning the acquisition, performance and/or continuation of this Agreement.

e. Conflicts of Interest With Persons Related to ACERA. Consultant acknowledges that all ACERA Trustees, and pertinent ACERA staff are bound by the conflict of interest prohibitions and reporting requirements set forth in Government Code Sections 87100 *et seq.* concerning gifts, by the provisions of the Levine Act, Government Code Sections 84300 *et seq.* concerning campaign contributions, by the provisions of Government Code Sections 1090 *et seq.* prohibiting any financial interest in an ACERA contract and/or by the ACERA Conflict of Interest Policy, a copy of which is appended hereto as Exhibit C. Consultant hereby acknowledges receipt of and hereby agrees to ACERA's Conflict of Interest Policy and shall not cause or contribute to a breach or violation of such policy. No ACERA employee or fiduciary whose position with ACERA enables such person to influence the award of this Agreement or any competing agreement, and no spouse or economic dependent of such person, is or will be employed or compensated in any capacity by Consultant. No such ACERA employee or fiduciary or spouse or economic dependent of such employee or fiduciary does or will have any direct or indirect financial interest in this Agreement. Consultant shall immediately advise ACERA if any member of the ACERA Board or key staff or any elected or appointed official of Alameda County, or any person claiming to represent or have influence with the Board or with any member of the Board contacts Consultant with respect to a financial transaction or solicitation which is not solely on behalf of ACERA's business with Consultant. In order that all Board members and pertinent ACERA staff are able to participate in matters coming before the Board and to avoid conflicts of interest, Consultant agrees that it will not make any political contributions, gifts, reimbursement of expenses or provide any other personal or financial benefit or take any action or make any offer to any ACERA Board member or staff member that would result in a violation of the provisions of any of the foregoing Government Code Sections and/or the ACERA Conflict of Interest Policy. Invitations to educational conferences, and similar events including travel and accommodations, as referenced in Section 8 above, shall be made to the entire Board or ACERA and not directed to individual Board members or staff. The Board will determine whether to accept such invitations and will be solely responsible for selection of Board member, staff member, or other individual who will attend or otherwise participate on behalf of ACERA. Except as set forth in Section 8, all costs or expenses related to the conference or event, including travel and accommodations, will be paid by ACERA. Consultant shall deliver to ACERA on or before March 30th of each year, the Fair Political Policies Commission Form 700.

f. Conflicts of Interest Arising From Other Business Activities. Consultant represents and warrants that it has implemented appropriate procedures, attached as Exhibit D, necessary to assure that no actual conflict of interest arises during the term of this Agreement, and that Consultant shall at all times properly discharge its duty of loyalty owed to ACERA as a result of Consultant acting as a fiduciary for ACERA. Consultant shall inform ACERA in writing of any change in these procedures not less than five (5) days prior to the effective date of any such change. Consultant shall not establish any financial interest, whether by indirect investment, affiliation, investment or otherwise with any real property advisor or manager that is evaluated or recommended by Consultant without advance written notice and consent in writing from ACERA. Consultant shall provide ACERA with an appropriate party within Consultant's organization to provide ACERA with information about any business relationship between

Consultant and any of Consultant's affiliates and any real estate advisor or manager or real estate investment recommended by Consultant. Consultant shall notify ACERA of all recommendations and advice given by Consultant to any affiliate of Consultant concerning or in any way related to an investment manager or real estate investment currently retained or owned by ACERA. Such notice shall be transmitted by telephone call to ACERA's Chief Investment Officer, followed by written confirmation promptly but in no event later than the same time as other clients of Consultant are notified. Prior to ACERA acting on any direct or indirect investment opportunity that arose due to the Consulting Services, Consultant shall disclose to ACERA in writing whether Consultant or, to Consultant's best knowledge, any of the principals or investment professionals of Consultant has also invested in such opportunity. ACERA may choose to take or reject such investment opportunity at its sole discretion in the event Consultant, its principals or its investment staff have invested in such opportunity. Consultant covenants and warrants that it has an ongoing duty to notify ACERA if Consultant or any of its principals or investment professionals intend to make direct or indirect investments where ACERA is also an investor, and Consultant shall not make and shall not permit its principals or investment staff to make such direct or indirect investments within the written approval of ACERA, which may be granted or withheld in its sole discretion but that ACERA will provide promptly.

g. Audits and Financial Reports. Consultant shall provide ACERA's Chief Investment Officer or designee an opportunity to examine a copy of its annual unaudited financial statement at Consultant's offices upon three (3) business days' advance notice. This statement shall be deemed confidential and produced, disclosed or disseminated to third parties by ACERA only upon receipt of a valid court order to do so, or unless ACERA is otherwise required by law to disclose or disseminate such financial statement.

h. Changes. Consultant shall notify ACERA in writing within three (3) business days of any of the following changes: (1) Consultant becomes aware that any of its representations, warranties and covenants set forth in this Agreement cease to be true at any time during the term of this Agreement; (2) there is any Change in Control of Consultant; or (3) Consultant becomes aware of any other material change in Consultant's business organization, including without limitation, the filing for bankruptcy relief.

i. Investigations and Complaints. To the extent not prohibited by applicable law, Consultant shall promptly advise ACERA, in writing, of any non-routine investigation, examination, complaint, disciplinary action or other proceeding involving Consultant, any of its subsidiaries or affiliates, any of Consultant's Agents, or any investment professional employed by Consultant who has performed any Consulting Services in the twenty four (24) months preceding such actions, which is commenced by: (1) the Securities and Exchange Commission of the United States, (2) the New York Stock Exchange, (3) the American Stock Exchange, (4) the National Association of Securities Dealers, (5) any Attorney General of any State in the United States, (6) any State or U.S. government department or agency, or (7) any other governmental agency within or outside the United States regulating securities, real estate, real estate brokers, or real estate agents or consultants.

j. Registered Investment Advisor. Consultant hereby represents that it is a registered investment adviser under the Investment Advisers Act of 1940. Consultant shall

immediately notify ACERA if at any time during the term of this Agreement it is not so registered or if its registration is suspended.

k. Qualified Professional Asset Manager. Consultant hereby represents that it is a “Qualified Professional Asset Manager” as such term is defined by the U.S. Department of Labor under the Employee Retirement Income Security Act of 1974, as amended, and that Consultant shall maintain that status as long as this Agreement is in effect.

l. Consultant’s Agents. The Responsible Persons or the Agents of Consultant who will be responsible for performing under this Agreement are individuals who are duly qualified to perform the Consulting Services and experienced in the performance of the various functions contemplated by this Agreement and have not been convicted of any crime or found liable in a civil or administrative proceeding or pleaded no contest, or agreed to any consent decree with respect to any matter involving breach of trust, breach of fiduciary duty, fraud, theft, securities law violations, bankruptcy law violations or any act or omission involving moral turpitude.

m. Disclosure Statement. Consultant represents that it has delivered to ACERA at least five (5) business days prior to the execution of this Agreement, Consultant’s current Securities and Exchange Commission Form ADV, Parts 1 and 2 (“Disclosure Statement”), a copy of which is attached hereto as Exhibit E. ACERA acknowledges that it has received such Disclosure Statement at least five (5) business days prior to the execution of this Agreement. Consultant warrants that it will provide to ACERA copies of the annual Disclosure Statement and any amendments to the Disclosure Statement filed with the U.S. Securities and Exchange Commission within thirty (30) days of such filing.

n. Intellectual Property. Consultant represents that has all appropriate rights to any materials subject to patents, copyright, trademark, trade secret or similar laws or rules and warrants that, in the event the Consulting Services require the use of any such materials, Consultant shall obtain all necessary rights to use such materials.

Consultant understands that ACERA has relied upon the foregoing acknowledgments, representations, warranties, covenants and agreements and that the same constitutes a material inducement to ACERA’s decision to enter into this Agreement.

20. ACERA’s Representations Warranties and Covenants. ACERA represents, warrants, and covenants that this Agreement has been duly authorized, validly executed and delivered by ACERA and constitutes the legal, valid and binding agreements and obligations of ACERA enforceable against ACERA in accordance with its terms. ACERA is not subject to or obligated under any law, rule or regulation of any governmental authority, or any order, injunction or decree, or any agreement that would be breached or violated by the execution, delivery or performance of this Agreement by ACERA. ACERA understands that Consultant has relied upon the foregoing acknowledgment, representations, warranties, covenants and agreements and that the same constitutes a material inducement to Consultant’s decision to enter into this Agreement.

21. **Compliance with Legal Requirements.** In performing under this Agreement, Consultant and ACERA agree to comply with all Legal Requirements, and all provisions required thereby to be included in this Agreement are hereby incorporated by reference.
22. **Assurance of Compliance with Civil Rights Laws.** Consultant hereby assures ACERA that at all times during the term of this Agreement Consultant shall comply with Subchapter V1 of the Civil Rights Act of 1964, (42 U.S. Code Sections 2000(e) through 2000(e)(17)), to the end that no person shall, on grounds of race, creed, color, sex, or national origin be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this Agreement or under any project, program, or activity undertaken pursuant to this Agreement.
23. **Nondiscrimination in Employment.** Consultant shall take all necessary action to ensure that its job applicants are employed, and that its employees are treated during employment, without regard to their race, color, religion, sex, age, marital status, sexual orientation, disability, medical condition, ancestry or national origin. For purposes of this Section 23, the term “employment” shall include, but not be limited to the following: employment, upgrading, promotion, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.
24. **Replacement of Consultant’s Agents.** Upon request by ACERA, Consultant shall replace any Responsible Person or Agent assigned to perform services under this Agreement who ACERA determines in its sole discretion, is unable to effectively perform the Consulting Services as required by this Agreement.
25. **Record Retention and Inspection.**
- a. **Record Maintenance.** Consultant shall keep and maintain all records related to ACERA, including but not limited to any pertinent transaction, activity, time sheets, cost, billing, accounting and financial records, proprietary data, electronic recordings, and any other records created in connection with this Agreement or the performance of the Consulting Services (“ACERA Records”). Consultant shall keep and maintain ACERA Records for no less than seven (7) years following the termination of this Agreement at which time they will become subject to Consultant’s normal retention policy.
- b. **Record Review and Audit.** Consultant agrees that ACERA or any duly authorized representative of ACERA shall have access to and the right to examine, audit, excerpt, copy or transcribe any ACERA Records at any time during the term of this Agreement, or for as long as the records are retained pursuant to Consultant’s normal retention policy. At ACERA’s request, and on reasonable notice, Consultant shall make such records available for review during normal business hours at Consultant’s closest business office to ACERA. Consultant shall make the persons responsible for creating and maintaining ACERA Records available to ACERA during such review for the purpose of responding to ACERA’s inquiries provided they are still employed.
26. **Confidentiality.**
- a. **Confidential Information.** Consultant shall treat, and cause its accountants, attorneys, employees, Agents and other representatives to treat, as confidential all documents and

information relating to ACERA (“Confidential Information”) furnished by ACERA in connection with the transactions contemplated hereby and shall not release any such Confidential Information from its immediate control without the prior written consent of ACERA. However, if such Confidential Information (i) becomes generally available to the public other than as a result of a disclosure by Consultant, (ii) becomes lawfully available to Consultant on a non-confidential basis from a third party which is not under an obligation of confidentiality with respect thereto, or (iii) consists of information independently developed by Consultant, it shall not be Confidential Information. In the event Consultant, Responsible Persons or any of representatives or Agents of Consultant is requested or required by any federal, state, local or foreign governmental or regulatory entity (or any department, agency, authority or political subdivision thereof) to disclose any Confidential Information supplied to it in the course of its dealings hereunder, Consultant will provide ACERA with prompt notice of any such request or requirement so that ACERA may seek an appropriate protective order from a court of competent jurisdiction. If no such protective order has been obtained and Consultant or any of its agents is, in the reasonable opinion of its counsel, compelled to disclose any Confidential Information, Consultant may disclose such Confidential Information, provided that notice of such intended disclosure first be given to ACERA.

b. Third Parties. Nothing in this Agreement shall be construed as prohibiting Consultant from disclosing Confidential Information to third parties engaged by Consultant to assist Consultant in its obligations under this Agreement, provided ACERA approves of the third party engagement (which approval shall not be unreasonably withheld), and such third party agrees in writing to be bound by the terms of this Section 26 for the benefit of ACERA.

c. Other Confidential Data. Consultant shall maintain the confidentiality of all ACERA Records. Consultant shall indemnify, defend and hold harmless ACERA and its directors, members, employees, officers, representatives, assigns and agents from and against any Claims arising from or relating to the unauthorized disclosure of any ACERA records by Consultant or its Responsible Persons or Agents.

d. Survival. This Section 26 shall survive the termination of this Agreement.

27. Audit Settlement. If an error that is directly or indirectly related to the Consulting Services is discovered as a result of an audit performed by ACERA, or if Consultant becomes aware of any error affecting ACERA through any other means, Consultant shall promptly correct such error by crediting or debiting ACERA in the appropriate amount. If any such error is greater than five percent (5%), regardless of whether it was discovered by ACERA or Consultant, Consultant shall pay any and all fees incurred by ACERA in conducting such audit and damages pursuant to Section 16 above.

28. No Third Party Beneficiary. Subject to Section 26(b) above, all of the understandings, agreements, representations and warranties contained herein are solely for the benefit of ACERA and Consultant and there are no other parties who are intended to be benefited, in any way whatsoever by this Agreement.

29. Dispute Resolution. All disputes arising under or relating to this Agreement which are not resolved by Consultant and ACERA, shall be resolved by binding arbitration in Alameda

County, California under the Commercial Arbitration Rules of the American Arbitration Association then existing. Judgment on the arbitration award may be entered in any court having jurisdiction over the subject matter of the controversy. The arbitrator shall be selected by the parties and shall be a person experienced with real estate investments. In the event the parties cannot agree on an arbitrator, each of the parties shall select one (1) arbitrator and the two (2) arbitrators shall select the arbitrator. The parties agree that the prevailing party to any binding arbitration shall be entitled to its reasonable attorneys' fees and related legal costs. Both parties hereto agree that, the existence of a dispute notwithstanding, each will continue without delay to carry out all responsibilities under this Agreement, which are not affected by the dispute.

30. **Notices.** All notices, requests, demands or other communications required or desired to be given hereunder or under any law now or hereafter in effect shall be in writing. Such notices shall be deemed to have been given if delivered by facsimile with telephone confirmation of receipt, or by overnight courier, or if mailed by first class registered or certified mail, postage prepaid, and addressed as follows (or to such other address as either party from time to time may specify in writing to the other party in accordance with this notice provision):

If to ACERA:

If to Consultant:

Betty Tse
Chief Investments Officer
ACERA
475 14th Street, Suite 1000
Oakland, CA 94612
Telephone: (510) 628-3000
Facsimile: (510) 287-5412
Email: allinvestments@acera.org

31. **Attorneys' Fees.** Subject to the dispute resolution provisions of Section 29 above, if either or both of the parties initiate any litigation or alternative dispute resolution process to enforce or interpret any of the provisions of this Agreement, then the non-prevailing party shall pay to the prevailing party all reasonable costs and expenses incurred therein by the prevailing party, including, without limitation, reasonable attorneys' fees and court costs. These expenses shall be in addition to any other relief to which the successful party may be entitled and shall be included in and as part of the judgment or decision rendered in such litigation or alternative dispute resolution process.

32. **Section Headings: Interpretation.** Caption and paragraph headings used in this Agreement are for convenience and reference only and shall not affect in any way the meaning, construction or interpretation of this Agreement. Each party hereto and its counsel have participated fully and equally in the review and negotiation of this Agreement. Each party hereto agrees that neither party, nor its counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions hereof. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in interpreting this Agreement. The language in all parts of this Agreement shall in all cases be construed according to its fair meaning and not strictly for or against any party hereto.

33. **Entire Agreement: Exhibits, Schedules and Appendices.** This Agreement, together with any and all Exhibits, Schedules and Appendices attached hereto, contains the entire and

exclusive Agreement between the parties hereto and supersedes all previous oral and written agreements or understandings, and all contemporaneous oral and written negotiations, commitments, understandings and communications between the parties, relating to the subject matter of this Agreement. The Exhibits, Schedules and Appendices attached hereto are incorporated in and made a part of this Agreement by reference.

If any conflicts, inconsistencies or ambiguities should arise between or among this Agreement and the incorporated documents, the following precedence shall be used to interpret the requirements of this Agreement:

- (1) The terms of this Agreement;
- (2) The terms of the Exhibits according to the order in which they appear.

34. **Severability.** If any provision of this Agreement is held by any court to be invalid, void or unenforceable, in whole or in part, the other provisions shall remain unaffected and shall continue in full force and effect.

35. **Waiver.** The waiver of any breach of any provision of this Agreement by either party shall not constitute a waiver of any preceding or subsequent breach of such provision or of any other provision of this Agreement. The failure or delay of either party to exercise any right given to the party under this Agreement shall not constitute a waiver of such right, nor shall any partial exercise of any right given hereunder preclude further exercise of such right.

36. **Amendments in Writing.** At any time prior to the termination of this Agreement, but only by mutual written agreement executed by the Chairman of ACERA's Board of Retirement and a duly authorized officer of Consultant, the parties hereto may: (a) extend the time for performing any of the conditions, covenants, rights, obligations or other acts of the parties required herein; (b) waive the performance of any of the conditions, covenants, rights, obligations or other acts of the parties required herein; or (c) amend or supplement any of the provisions of this Agreement. The parties shall meet and confer in good faith on any modification of this Agreement that may become necessary to make its provisions consistent with any investment policy of ACERA, or any foreign, international, federal, state, county or local statute, rule, regulation or ordinance which governs any aspect of this Agreement.

37. **Governing Law and Venue.** This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California without regard to principles of conflicts of laws. Should either party initiate a lawsuit or other dispute resolution proceeding over any matter relating to or arising out of this Agreement, such lawsuit or other proceeding shall be filed and conducted in the County of Alameda, State of California.

38. **Assignment and Delegation.** Neither Consultant nor ACERA may assign any of its rights or delegate any of its duties hereunder without the other party's prior written consent, which consent may be granted or withheld in such other party's sole discretion. Any assignment of rights or delegation of duties under this Agreement, to which the parties hereto agree in writing, shall bind and inure to the benefit of the successors in interest of ACERA and Consultant.

39. **Limitation on Liability of ACERA.** ACERA's payment obligations under this Agreement shall be limited to payment of the compensation provided in Section 7 herein. Notwithstanding any other provision of this Agreement, in no event shall ACERA be liable, regardless of whether any claim is based on contract or tort, for any special, consequential, indirect or incidental damages, including but not limited to, lost profits, arising out of or in connection with this Agreement or the Consulting Services.

40. **Execution in Counterparts.** This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Board of Retirement of ACERA has caused this Agreement to be executed on behalf of ACERA and Consultant has caused this Agreement to be executed by its duly authorized officer as of the date first above written.

**ALAMEDA COUNTY EMPLOYEES [CONSULTANT]
RETIREMENT ASSOCIATION**

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

EXHIBIT A

EXHIBIT A

STATEMENT OF SERVICES

This STATEMENT OF SERVICES is subject to the terms and conditions set forth in the REAL ESTATE CONSULTING AGREEMENT entered into as of _____, 2015, by and between Alameda County Employees' Retirement Association (Client) and _____ (Consultant).

Despite anything in this Agreement to the contrary, Services will include all services that are customarily provided by real estate investment consultants, as reasonably determined by ACERA and as may change during the Initial Term and any Renewal Term due to changes in customary services. Although all items on the following list are to be deemed included in Services, the list is intended to be merely illustrative and not all-inclusive.

1. General

1.1 Initial Projects.

Review of Client's current real estate portfolio in the context of the Real Estate Strategic Plan: Objectives, Policies and Procedures, strategy, asset allocation, manager structure and risk/return objectives including but not limited to the following:

- (1) Review of Client's current Real Estate Investment Plan.
- (2) Review Individual Managers' Investment Criteria.
- (3) Meet with staff of Client to assess Client's real estate goals and objectives.
- (4) Review portfolio characteristics for diversification and risk.
- (5) Gather and maintain historical performance data for each individual investment position and property.
- (6) Meet with each fund/account manager to review the budget and management plans for the current fiscal year.
- (7) Review manager contracts and fee schedules and calculations.
- (8) Recommend revisions to the existing program as warranted.

1.2 Strategic Plan.

Consultant shall prepare, monitor and maintain a Strategic Plan for the Portfolio. The Strategic Plan shall at a minimum set forth the long term objectives for the real estate portfolio (the "Objectives"), risk management policies and procedures ("Policies"), and investment and asset management procedures ("Procedures").

Consultant will review the Real Estate Strategic Plan: Objectives, Policies and Procedures annually and recommend any changes necessary or appropriate in light of changes in the market or the Portfolio. The terms “advisor” and “manager” are used interchangeably herein and are not meant to convey any particular meaning as to the advisor’s or manager’s level of authority over Client’s assets, it being understood that such level of authority and the identity of Client assets affected shall be the subject of an agreement to be entered into by and between Client and each such advisor or manager.

1.3 Investment Plans.

Consultant shall prepare a Real Estate Investment Plan for the Portfolio outlining the steps required to bring the existing real estate portfolio into compliance with the objectives and policies established in the Strategic Plan. Recommended actions in the Investment Plan may include: a) manager searches; b) acquisition and disposition analyses; c) workout analyses; d) development of investment criteria; e) fees and expenses analyses; and f) establishment of asset management guidelines.

Consultant will update the Investment Plan annually, at a minimum (or more frequently as warranted by market conditions).

- 1.4 Provide investment research and publications on real estate market conditions and opportunities.
- 1.5. Provide educational and/or training sessions on real estate investing to the Investment Committee and Client as requested.
- 1.6. Consultant shall attend Client’s monthly Investment Committee meetings between 8 and 12 times during the year.
- 1.7 Consultant shall attend Client’s monthly Board meetings and other meetings as needed.
- 1.8 Present the performance of the real estate investment program to the Investment Committee (currently on a quarterly basis) within 45 days of the close of each quarter. The Board retains the rights to change the frequency of performance reporting.
- 1.9 Conduct special projects or other activities as requested by the Investment Committee and/or Client.
- 1.10 Coordinate and communicate with the broader ACERA organization and other ACERA consultants and advisors as appropriate to ensure effective administration of the real estate investment program.
- 1.11 Consultant shall be proactive with regard to investment recommendations and ideas, and shall advise the Investment Committee and staff of Client on questions

or issues that arise in the course of administering the real estate portfolio on strategic issues related to objectives, policy and benchmarks.

- 1.12 Consultant shall advise Client of new investment vehicles and techniques of major changes in existing practices within the industry and upon request prepare comprehensive analysis and recommendations concerning these activities for Client.
- 1.13 Consultant shall assist Client with developing, reviewing and maintaining the compliance of: a) its real estate investment policy and guidelines; and b) its investment agreements with individual managers.
- 1.14 Consultant shall assist Client to ascertain the reasonableness of the fee structures charged by individual managers as well as the accuracy of the calculations of individual managers' investment management fees.
- 1.15 Consultant shall be responsive to Client's requests and concerns on a daily basis and be prepared to provide comprehensive research, analysis and accurate reports to Client on a timely basis.

2. Investment Sourcing and Selection

- 2.1. Develop a structured, on-going process to screen the global universe of available real estate investments, primarily in the U.S. (for both open and closed end real estate investment funds), and identify those opportunities which are consistent with ACERA's real estate policy and real estate strategic investment plan.
- 2.2. Evaluate prospective investments, including those that may be sourced by Client. If appropriate, engage in comprehensive due diligence that may include general partner property and/or site visits, plus background and reference checking. Staff of Client often participates in onsite due diligence.
- 2.3. Present investment recommendation reports to the Investment Committee and staff of Client along with all necessary supporting details and analysis.
- 2.4. Provide assistance to Client and the Board's legal counsel to negotiate, in the best interests of ACERA, relevant fees and investment terms. The Board acknowledges that the Consultant is not providing any legal advice or consultation; the Board shall look solely to its legal counsel for such advice or consultation.

3. Portfolio Management and Performance Measurement

- 3.1. Provide on-going monitoring and regular updates/assessments of relevant operational and/or strategic changes with investment managers, including, but not limited to, performance, organization, ownership, investment products, and disclosure issues. The Board shall retain the exclusive right to engage or terminate funds/managers.

- 3.3. Notify the Board of any identified material issues that may impact investment performance and recommend a course of action to enhance returns or mitigate risk.
- 3.4. Assist and advise client with breaches or violations of fund contracts and side letter provisions, and fund dissolutions as may arise, in a timely manner.
- 3.5. Maintain information on portfolio exposure, including vintage years, strategies (core, value, and opportunistic), property types, geographic diversification, and leverage by fund.
- 3.6. Maintain historical information, including all cash flow, net asset values, commitments (total, funded, and unfunded), fee payments, cost basis and returns on each investment.
- 3.7. Calculate performance metrics including IRR and multiple calculations measured against performance benchmarks.
- 3.8. Consultant shall measure the performance of Client's aggregate and individual manager real estate portfolio on a quarterly basis against Client's established investment objectives and policies, institutional real estate performance benchmarks and peer performance. Portfolio return calculation will include individual property returns for separate accounts.
- 3.9. Prepare quarterly performance reports for Client's real estate portfolio. The reports shall include, at a minimum: market overview and outlook, allocation breakdown by geography, strategy, property type and leverage, update on each fund, listing of each fund by strategy, date of commitment to each fund, commitment amount to each fund, drawdown amounts by fund, outstanding commitment by fund, distribution amounts by fund, fund net asset values, and IRR and multiples of each fund, plus all fees (e.g. management, incentive, etc.) and expenses by fund.

Consultant will include in each quarterly report a narrative of each of Client's real estate investments relative to its anticipated performance, current market conditions, competitive environment, identify material issues and the compliance of the portfolio which may impact the investment's performance and recommend a course of action to enhance returns and/or mitigate risk.

Within forty-five (45) days of the close of each calendar quarter and seventy-five (75) days of the close of each calendar year, Consultant shall prepare and present to Client a quarterly and annual report respectively. Reporting period is subject to manager reporting. The report shall measure performance of Client's real estate assets against investment objectives and performance benchmarks adopted by Client as part of its Strategic Plan.

- 3.9. Provide assistance with appropriate information to satisfy public information requests or public reporting requirements.

- 3.10 Review and maintain information related to capital calls and distribution notices.
- 3.10 To the extent possible, Consultant shall observe the guidelines, policies and procedures set forth in the ACERA's Investment Guidelines, Policies and Procedures, and Real Estate Investment Guidelines, Policies and Procedures attached hereto as F, and incorporated by this reference.

EXHIBIT B

EXHIBIT B

LIST OF ACERA AUTHORIZED PERSONNEL - ACERA

Alameda County Employees' Retirement Association, ("ACERA") hereby certifies that the persons whose names appear below are authorized to act on behalf of ACERA, including the authorization to give Proper Instructions, with respect to the Agreement between ACERA and [CONSULTANT] ("Consultant") effective _____, 2014. ACERA further certifies that the true signature of each such person is set below, and that Consultant may rely upon this certificate until such time as it receives another certificate bearing a later date.

Vincent P. Brown, ACERA Chief Executive Officer

Kathy Foster, ACERA Asst. Chief Executive Officer

Betty Tse, ACERA Chief Investment Officer

Margaret Allen, ACERA Fiscal Services Officer

Attested To:

By: _____

Vincent P. Brown, ACERA Chief Executive Officer

Dated: _____

EXHIBIT C



CONFLICT OF INTEREST POLICY

I. PURPOSE

The purpose of the ACERA *Conflict of Interest Policy* is to provide ACERA Trustees and Staff with guidelines for carrying out their fiduciary duties and mitigating the risk of an actual or perceived conflict of interest arising. At a minimum, a conflict of interest for purposes of this policy is defined as any matter that reasonably could be expected to interfere or be perceived to be interfering with a Trustee's or Staff's obligation to discharge their duties with respect to the system solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries. The Board hereby incorporates by reference the terms of Section 18730, Title 2, Division 6, of the California Code of Regulations.

II. DEFINITIONS

- A. The definitions contained in the Political Reform Act of 1974 (Act), regulations of the Fair Political Practices Commission (2 Cal. Code of Regs., secs. 18100, et seq.), and any amendments to the Act or regulations are incorporated by reference into this conflict of interest policy.
- B. **Officials Who Manage Public Investments.** The persons holding the positions listed below manage public investments and will file a statement of economic interests pursuant to Government Code, section 87200:
1. Each ACERA Trustee and Alternate Trustee
 2. Chief Executive Officer
 3. Chief Investment Officer
- C. **Designated Employees.** Pursuant to Government Code, section 82019, the persons holding the following positions are Designated Employees. It has been determined that these persons make or participate in the making of decisions which may foreseeably have a material effect on financial interests:
1. Assistant Chief Executive Officers
 2. Fiscal Services Officer
 3. Chief Counsel

4. Associate Counsel
 5. Human Resources Officer
 6. Project & Information Services Manager
 7. Chief of Internal Audit
 8. Senior Investment Officer
 9. Investment Officer
 10. Consultants
- D.** Disclosure Categories. Designated employees are required to make full disclosure meaning they are required to disclose all investments, interests in real property, sources of income and business positions.
- E.** Consultants. Only those consultants who perform one or more of the following functions shall be required to complete and file Conflict of Interest/Form 700 Statement of Economic Interests with the Legal Department:
1. Making a governmental decision;
 2. Serve in Staff capacity and participate in making a governmental decision; or
 3. Serve in Staff capacity and perform the same or substantially all the same duties that would otherwise be performed by an individual holding a designated position in the agency's *Conflict of Interest Code*.

A more detailed description of the functions listed above can be found in 2 California Code of Regulations, sections 18701(a)(2)(A) and 18702.2.

III. ASSUMPTIONS

- A.** With respect to ACERA activities, the duty of an ACERA Trustee or Staff member to ACERA's participants and beneficiaries shall take precedence over any other duty.
- B.** An issue that may be perceived to create a conflict of interest poses as great a risk to ACERA as an actual conflict of interest. Accordingly, perceived conflicts should be treated as actual conflicts of interest under this policy.
- C.** Safeguarding the trust of plan beneficiaries is paramount. Conflicts of interest, bribes, gifts or favors that subordinate Trustees or Staff to private gains are unacceptable.
- D.** It is not possible to identify and address in a policy all of the methods by which Trustees or Staff may manage beneficiaries' assets in ways that benefit them or third

- parties rather than beneficiaries. A policy therefore should consist of general guidelines and principles that will provide Trustees and Staff with direction in most situations that may arise.
- E. In situations where the law or policy is not clear, the best interests of beneficiaries must be served. Trustees and Staff should err on the side of good judgment.
 - F. When interacting with existing or potential service providers, there is a need for Trustees and Staff to establish and maintain an independent relationship to ensure that Trustees and Staff can remain objective when conducting the affairs of ACERA.

IV. POLICY GUIDELINES

- A. A member of the Board of Trustees or Staff of ACERA shall not:
 - 1. Accept or solicit any gift, favor, or service, except as provided herein, that may reasonably tend to influence or be perceived to influence the individual in the discharge of his/her official duties or that the individual knows, or should know, is being offered with the intent to influence the individual's official conduct. In such situations, however, Trustees and Staff must conduct themselves in accordance with applicable legislation regarding disclosure, gift value limits, etc.
 - 2. Accept other employment or engage in a business or professional activity that the individual might reasonably expect would require or induce him/her to disclose confidential information acquired by reason of his/her official position;
 - 3. Accept other employment or compensation that could reasonably be expected to impair the individual's independence of judgment in the performance of their official duties;
 - 4. Make personal investments that could reasonably be expected to create a substantial conflict between the individual's private interests and the interests of the plan participants and the beneficiaries of the Plan;
 - 5. Intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the individual's official powers or for having performed their official duties in favor of another;

6. Transact any business in the individual's official capacity with any entity or person in which he/she has an economic interest;
 7. Appear before the Board while acting as an advocate for himself/herself or any other person, group, or entity, without fully disclosing his/her relationship and excusing himself or herself from the Board deliberations and voting procedure;
 8. Represent any business entity before the Board or senior management in return for any form of compensation;
 9. Represent, directly or indirectly, any business entity in any action or proceeding against the interests of ACERA, or in any litigation in which the Plan is a party;
 10. Use one's official position to secure a special privilege or exemption for oneself or others that would not reasonably have been anticipated and found acceptable by the Board in approving its conflict of interest policy;
 11. Use one's official position to secure confidential ACERA information for any purpose other than the exercise of official duties; and
 12. Intentionally or knowingly disclose any confidential information gained by one's position concerning the property, operations, policies, or affairs of ACERA, or use confidential information for pecuniary gain.
- B.** When the ACERA Board is in, or about to enter into, the process of selecting a vendor, the Board, Staff and individual Trustees shall not accept social invitations, gifts, favors or services from vendors where it is reasonably foreseeable that the vendor is, or may reasonably be expected to be, a candidate in the selection process.
- C.** When a real or perceived conflict of interest exists, as defined herein, Trustees and Staff shall fully disclose said conflict and abstain from participating in Board deliberations concerning the matter and abstain from voting on the matter, except to the extent their participation is legally required for the decision to be made as allowed by 2 Cal. Code of Regs., sec. 18730 (i.e., rule of necessity).
- D.** Invitations to Trustees or Staff, other than those covered in Section IV.A.1. above, that were made to them in their official ACERA capacities, or that may be perceived to have been made to them in their official ACERA capacities, to attend or participate in

conferences or travel, etc., shall be presented to the Board Chair (if Trustee) or to the Chief Executive Officer (if Staff) for their respective approval. Invitations by SACRS or CALAPRS shall be excluded from this requirement.

- E. In order to facilitate compliance with the provisions of this policy, Trustees and Staff, when interacting with existing or potential service providers, may pay for their own meals, beverages, or entertainment, and in turn shall be reimbursed for said expenditures by ACERA. Receipts shall be obtained when ordinarily given and claims shall be submitted to the Chief Executive Officer for reimbursement.
- F. In order to facilitate compliance with the provisions of this Policy, the ACERA Legal Department will maintain and deliver to Board Trustees a quarterly report, and make available upon request, a report of the individuals and entities with whom ACERA is contracting with for services, so as to assist the Trustees and Staff with disclosure and/or recusal obligations relating to their own economic interests, including those of their immediate family members.

V. CONFLICT OF INTEREST/FORM 700 STATEMENT OF ECONOMIC INTERESTS

- A. Designated employees shall complete and file Conflict of Interest/Form 700 Statement of Economic Interests with the Legal Department as follows:
 - 1. **Initial Statements.** Each person already in a position when it is designated by an amendment to the *Conflict of Interest Code* for ACERA shall file an initial statement within 30 days after the effective date of the amendment.
 - 2. **Assuming Office Statements.** All persons assuming designated positions after the effective date of the *Conflict of Interest Code* for ACERA shall file statements within 30 days after assuming the designated positions.
 - 3. **Annual Statements.** All officials who manage public investments shall file statements no later than March 1. All Designated Employees shall file statements no later than April 1.
 - 4. **Leaving Office Statements.** All persons who leave designated positions shall file statements within 30 days after leaving office.

B. Contents of and Period Covered by Statements of Economic Interests.

- 1. Contents of Initial Statements.** Initial statements shall disclose any reportable investments, interests in real property and business positions held on the effective date of the *Conflict of Interest Code* for ACERA and income received during the 12 months prior to the effective date of the *Conflict of Interest Code* for ACERA.
- 2. Contents of Assuming Office Statements.** Assuming office statements shall disclose any reportable investments, interests in real property and business positions held on the date of assuming office and income received during the 12 months prior to the date of assuming office or the date of being appointed or nominated, respectively.
- 3. Contents of Annual Statements.** Annual statements shall disclose any reportable investments, interests in real property, income and business positions held or received during the previous calendar year provided, however, that the period covered by an employee's first annual statement shall begin on the effective date of the *Conflict of Interest Code* for ACERA or the date of assuming office whichever is later.
- 4. Contents of Leaving Office Statements.** Leaving office statements shall disclose reportable investments, interests in real property, income and business positions held or received during the period between the closing date of the last statement filed and the date of leaving office.

VI. BIENNIAL ETHICS TRAINING

Under Government Code, sections 53234 et seq., all local agency officials, including ACERA Trustees, must receive at least two hours of training in general ethics principles and ethics laws relevant to his or her public service every two years. Each Trustee shall attend ethics training before January 1, 2007, as required by Government Code, section 53235.1. Thereafter, each Trustee shall attend ethics training at least once every two (2) years. New Trustees shall attend ethics training no later than one year from the first day of service with ACERA.

The ACERA Legal Department will maintain records indicating the date ethics training was completed and the entity that provided the training.

VII. POLICY REVIEW

The Governance Committee shall review this policy at least every two (2) years to ensure that it remains relevant and appropriate.

VIII. POLICY HISTORY

- A. The Board adopted this policy on November 18, 1999.
- B. The Board reviewed and adopted this policy, with revisions, on August 15, 2002.
- C. The Board reviewed and adopted this policy, with revisions, on August 16, 2007.
- D. The Board reviewed and adopted this policy, without revisions, on August 20, 2009.
- E. The Board reviewed and adopted this policy, with revisions, on June 17, 2010.
- F. The Board reviewed and adopted this policy, without revisions, on April 19, 2012.
- G. The Board reviewed and adopted this policy, with revisions, on September 19, 2013.



**CONFLICT OF INTEREST CODE FOR THE
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

The Conflict of Interest Code is promulgated under the authority of the Political Reform Act, Government Code, sections 81000, et seq., which requires all state and local government agencies to adopt and promulgate conflict of interest codes. Title 2, California Code of Regulations, section 18730, as adopted by the Fair Political Practices Commission contains the terms of a standard conflict of interest code; which may be incorporated by reference and may be amended by the Fair Political Practices Commission after public notice and hearing to conform to amendments in the Political Reform Act.

Therefore, the terms of 2 Cal. Code of Regs., sec. 18730, and any amendments to it duly adopted by the Fair Political Practices Commission, are hereby incorporated by reference and, along with the attached Appendix A and B in which employees are designated and disclosure categories are set forth, constitute the Conflict of Interest Code of the Alameda County Employees' Retirement Association.

Designated employees shall file their statements of economic interests with Angela Bradford, Legal Department, ACERA, who will make the statements available for public inspection and reproduction (Gov. Code, sec. 81008).

APPENDIX A
DISCLOSURE CATEGORIES

1. Persons in this category must disclose all investments and business positions in business entities, sources of income and interests in real property.

2. Persons in this category must disclose investments and business positions in business entities, sources of income and interests in real property which provide or directly support or in the future may likely provide or directly support, the provisions of services, supplies, materials, machinery, or equipment to ACERA.

APPENDIX B

DESIGNATED POSITIONS, OFFICIALS AND CONSULTANTS

I DESIGNATED POSITIONS

<u>Position</u>	<u>Disclosure Category</u>
Assistant Chief Executive Officers	1 and 2
Fiscal Services Officer	1 and 2
Chief Counsel	1 and 2
Benefits Manager	1 and 2
Associate Counsel	1 and 2
Project & Information Services Manager	1 and 2
Human Resources Officer	1 and 2
Chief of Internal Audit	1 and 2
Senior Investment Officer	1 and 2
Investment Officer	1 and 2
Consultants*	(Reference note below.)

II. OFFICIALS WHO MANAGE PUBLIC INVESTMENTS

It has been determined that the positions listed below manage public investments and will file a statement of economic interests pursuant to Gov. Code, sec. 87200:

Each ACERA Trustee
Chief Executive Officer
Chief Investment Officer

III. CONSULTANTS

* Only those consultants who perform one or more of the following functions shall be required to complete and file Conflict of Interest/Form 700 Statement of Economic Interests with the Legal Department:

- A. Making a governmental decision;
- B. Serve in staff capacity and participate in making a governmental decision; or
- C. Serve in staff capacity and perform the same or substantially all the same duties that would otherwise be performed by an individual holding a designated position in the agency's Conflict of Interest Code.

Consultants shall be included in the list of designated employees and shall disclose pursuant to the broadest disclosure category, which is category 1, in the Code subject to the following limitation:

The Chief Executive Officer may determine in writing that a particular consultant, although a “designated position,” is hired to perform a range of duties that are limited in scope and thus is not required to fully comply with the disclosure requirements described in the section. Such written determination shall include a description of the consultant’s duties and, based upon that description, a statement of the extent of disclosure requirements. The Chief Executive Officer’s determination is a public record and shall be retained for public inspection in the same manner and location as this Conflict of Interest Code.

EXHIBIT D

[TO BE ATTACHED]

CONSULTANT

CONFLICT OF INTEREST POLICY

EXHIBIT E

[TO BE ATTACHED]

CONSULTANT

FORM ADV

EXHIBIT F

**Alameda County Employees'
Retirement Association**

ACERA

**GENERAL INVESTMENT GUIDELINES, POLICIES
AND PROCEDURES**

AMENDED May 20, 2013

ACERA
GENERAL INVESTMENT GUIDELINES, POLICIES AND
PROCEDURES
2013

TABLE OF CONTENTS

<u>SECTIONS</u>	<u>PAGE</u>
I. Mission and Purpose	1
II. Constitutional Requirements	1
III. Roles and Principal Duties	3
IV. Investment Philosophy	4
V. Asset Allocation and Rebalancing	4
VI. Investment Strategy and Manager Structure	5
VII. Eligible Asset Categories	7
VIII. Asset Categories Objectives	8
IX. Allocation of Cash Flow	10
X. Prohibited Investments	10
XI. Directed Brokerage	10
XII. Derivative Instrument Usage	10
XIII. Selection of Investment Managers	11
XIV. Emerging Investment Managers	11
XV. Authority of Investment Managers	11
XVI. Investment Guidelines for the Managed Accounts	12

<u>SECTIONS</u>	<u>PAGE</u>
XVII. Investment Manager Specifications	13
XVIII. Manager Monitoring Procedure	14
XIX. Contract Review Process	16
Schedule IA– Asset Allocation Targets	23
Schedule IB – Manager Structure Targets	24
Schedule IC – Asset Allocation Portfolio Rebalancing	25
Schedule IIA – Watchlist/Probation Criteria for Underperformance	26
Schedule IIB – Performance Criteria for Watchlist/Probation Removal	28
Schedule III – Policy Index for Total Fund and Benchmarks for Asset Classes and Investment Managers	30
Schedule IV – Manager Termination Checklist	32
Schedule V – Compliance Schedule	33
Schedule VI – Investment Philosophy ¹	36
Schedule VII – Charter of ACERA’s Investment Committee of the Board	44
Schedule VIII – Table of Amendment Dates	46
Addendum – Real Return Pool Policy	48

¹ Prepared for ACERA by Cortex Consulting; adopted by the Board of ACERA on March 8, 2000; revised in May, 2013.

ACERA
GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

SECTION I: MISSION AND PURPOSE

The Alameda County Employees' Retirement Association (ACERA) exists for the purposes of providing accurate, timely benefits to its members and their beneficiaries and defraying reasonable expenses of administration.

The Board of Retirement (the Board), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the Fund), hereby establishes the following "General Investment Guidelines, Policies and Procedures" (the Policy) for the investment of ACERA's assets. The Board reserves the right to amend, supplement, or rescind this Policy at any time.

The Board is directed by law and given discretion to prudently invest the retirement plan assets. The purpose of this statement of Policy is to assist ACERA in effectively supervising said investments and to encourage effective communication between ACERA and its investment managers (Manager(s)) and investment consultants (Consultant(s)).

ACERA's investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis and to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

SECTION II: CONSTITUTIONAL REQUIREMENTS

Article 16 §17 of the California State Constitution provides in pertinent part as follows:

"Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all the following:

- a. The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

- b. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits, to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.
- c. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- d. The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.
- e. The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.
- f. With regard to the retirement board of a public pension or retirement system which includes in its composition elected employee members, the number, terms, and method of selection or removal of members of the retirement board which were required by law or otherwise in effect on July 1, 1991, shall not be changed, amended, or modified by the Legislature unless the change, amendment, or modification enacted by the Legislature is ratified by a majority vote of the electors of the jurisdiction in which the participants of the system are or were, prior to retirement, employed.
- g. The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section.
- h. As used in this section, the term "retirement board" shall mean the board of administration, board of trustees, board of directors, or other governing body or board of a public employees' pension or retirement system; provided, however, that the term "retirement board" shall not be interpreted to mean or include a governing body or board created after July 1, 1991 which does not administer pension or retirement benefits, or the elected legislative body of a jurisdiction which employs participants in a public employees' pension or retirement system."

SECTION III: ROLES AND PRINCIPAL DUTIES

The Fund investments shall be prudently planned, implemented, managed, monitored and guarded. The Board, Investment Committee (Committee), Investment Staff (Staff), Consultant, Custodian Bank (Custodian), and Manager shall coordinate this process. See the defined roles and principal duties of the above-mentioned parties below:

- A. THE BOARD shall review and approve Committee recommendations. The Board also reviews, adopts and monitors all investment policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund.
- B. THE COMMITTEE shall identify issues pertinent to the effective investment and administration of the Fund and initiate analysis of such issues by Staff, Consultant or Managers. It also reviews Staff's and Consultant's recommendations regarding all investment policies and investment Fund management. The Committee provides recommendations to the Board for adoption, oversees implementation, and monitors the investment programs in accordance with all applicable laws and Board-established policies, guidelines and procedures. Refer to Schedule VII – Charter of ACERA's Investment Committee of the Board for detailed Committee responsibilities.
- C. STAFF shall oversee the Fund's investment program activities, implement the Board/Committee's decisions, make recommendations to the Committee regarding Fund management, and recommend investment-related policies and procedures to the Committee. Additionally, Staff monitors the performance and compliance of Managers in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as "Specific Investment Guidelines"² set out in the investment agreement between ACERA and each Manager (Agreement or Contract). Staff also facilitates the Committee meetings and completes activity as directed by the Board/Committee.
- D. CONSULTANT shall review, analyze and evaluate the Fund's effectiveness and efficiency and make fund management related recommendations. Consultant assists Staff in implementing the Board/Committee's decisions and developing all investment-related policies. Consultant's responsibilities are detailed in the service agreement between ACERA and Consultant.
- E. CUSTODIAN shall provide custody of ACERA's investment assets. Custodian's responsibilities are detailed in the service agreement between ACERA and Custodian.
- F. MANAGER shall prudently manage its Managed Account (defined in Section VII – Eligible Asset Categories) in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as Specific Investment Guidelines. Manager's responsibilities are detailed in the Agreement.

² Includes the Objectives/Guidelines of all comingled funds.

SECTION IV: INVESTMENT PHILOSOPHY

The following is a summary of ACERA's investment philosophy. For the complete statement, please refer to Schedule VI of this document, "ACERA Investment Philosophy."

The Board believes that its investment policies, in aggregate, are the most important determinants of its investment success. Compliance with investment policies should, therefore, be monitored rigorously. The Board also believes that performance of the total portfolio, individual asset classes, and Managers should be monitored and compared to appropriate, predetermined benchmarks.

The Board believes that prudent management of risk is a central element of the investment function and that diversification among asset classes will reduce risk and enhance returns of the overall investment portfolio in the long term.

The Board believes that market efficiency and opportunities vary among asset classes and may change over extended periods of time; therefore, the Board believes that ACERA's portfolio management strategies should adapt over time to reflect the changing nature of capital markets.

The Board's primary goals in managing the Fund are

1. To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;
2. To comply with all applicable fiduciary standards; and
3. To add marginal value that will help reduce the costs of the plan and/or to increase benefits for the beneficiaries.

The Board believes that, to achieve its goals, ACERA must invest the necessary resources to build and maintain an appropriate organizational infrastructure.

SECTION V: ASSET ALLOCATION AND REBALANCING

Asset allocation targets, a function of the returns and risks from various asset classes and the nature of the plan's liabilities, are set forth in Schedule I. A goal of asset allocation is balancing asset growth versus liability growth considering time horizons, liabilities and risk tolerance. ACERA's objective is to conduct an asset/liability study once every five (5) years and an asset allocation study once every three (3) years or more often if necessary.

Rebalancing is the risk control process of returning an allocation back to the desired target level after having drifted away from its targeted position. Equal probability bands, as defined by standard deviation factors, shall be used to define the acceptable ranges around the asset allocation targets as set forth in Schedule IA. The objective of rebalancing is to enhance the risk-adjusted performance of the asset allocation structure.

Staff shall be responsible for maintaining the relative weights of asset classes and allocations within the acceptable rebalancing ranges. Should an asset class or allocation fall outside its

target range, Staff shall rebalance the asset class or allocation back to the target weights as specified in the asset allocation targets in Schedule IA.

Staff shall:

1. Monitor the portfolio;
2. Determine whether or not any asset category is out of balance with its target asset allocation in excess of the specified tolerance range;
3. Determine whether or not any Manager within each asset category is out of balance with its target allocation in excess of the specified tolerance range;
4. And, if this is determined, either
 - (a) instruct the relevant Managers to redirect cash income (interest coupon and dividends) in concert with an evaluation of pending commitments and other cash flows (employer and employee contributions), in order to bring the allocation(s) back to the adopted strategic target; and/or
 - (b) instruct the relevant Managers to liquidate or acquire the appropriate dollar value of securities to reach the target and reallocate the cash thus generated or required to the other category(s) or Manager(s), as necessary.

Staff shall report to the Board on a regular basis the status of the Fund with respect to how categories are tracking relative to their allowable ranges, as well as any actions taken to rebalance the portfolio.

SECTION VI: INVESTMENT STRATEGY AND MANAGER STRUCTURE

A. U.S. EQUITY will be structured to capture exposure to the broad U.S. equity market as represented by the Russell 3000 Index. Passively managed (index) portfolios will be used in portions of the markets that are reasonably efficient. These portfolios are intended to provide broadly diversified market exposure with controlled (market) risk and minimal cost.

Actively managed portfolios will be used when the Board determines that a Manager possesses special skills or abilities that enable that Manager to capture excess returns relative to the market, adjusted for risk and fees; or to exploit specialty markets that provide enhanced return with acceptable risk.

A great part of the Russell 3000 Index, on a market value basis, is comprised of large-cap stocks. The Board has adopted a policy of obtaining overall exposure to this segment of the market via passively managed indexed products. In addition, some active Managers have been employed to enhance overall portfolio return on a risk- and fee-adjusted basis.

The remainder of the Russell 3000 Index is comprised of small to mid-cap companies. Some opportunities for active management enhancement exist in these securities due to market inefficiencies. ACERA will attempt to capture these opportunities through a mix of Managers who have the special skills required to identify smaller companies that may be undervalued or possess substantial growth potential.

The U.S. equity portfolio shall be allocated among the various styles and Managers. The U.S. equity asset allocation and manager structure targets are outlined in Schedules IA and IB.

- B. INTERNATIONAL EQUITY represents an opportunity to diversify risk and capture enhanced returns within markets generally less efficient than the U.S. domestic equity market. 100% of the international equity portion of the Fund will be invested in actively managed portfolios.

The international equity portfolio shall be allocated among the various styles and Managers. The international equity asset allocation and manager structure targets are outlined in Schedules IA and IB.

- C. FIXED INCOME represents a means of reducing overall portfolio risk and capturing incremental returns either domestically or globally. Inefficiencies in the pricing and trading of fixed income securities create opportunities to add value through active management. 100% of the fixed income portion of the portfolio will be invested in actively managed portfolios.

The fixed income portfolio shall be allocated among the various styles and Managers. The fixed income asset allocation and manager structure targets are outlined in Schedules IA and IB.

- D. REAL ESTATE will be used as a means for diversifying the portfolio and capturing additional returns due to the low correlation between returns on real estate and financial assets. Due to the illiquid nature of real estate assets, distinctions between active and passive management are not applicable. Detailed information regarding real estate investments is included in ACERA's "Real Estate Strategic Plan," which is maintained as a separate document.

The real estate portfolio shall be allocated among the various styles and Managers. The real estate portfolio asset allocation target is outlined in Schedules IA and IB.

- E. PRIVATE EQUITY AND ALTERNATIVES represents a means of further diversifying the portfolio and generating returns superior to those available in the public equity market to compensate the Fund for the long term and illiquid commitments associated with such investments. Due to the absence of an appropriate index for private equity and alternatives investments, distinctions between active and passive management are not applicable.

The private equity and alternatives portfolio shall be allocated among the various sub-categories and Managers. The private equity and alternatives total portfolio asset allocation target is outlined in Schedules IA and IB. Specific details on the strategic allocation to the private equity and alternatives investment portfolio are outlined in ACERA's "Private Equity and Alternatives Return Leading Strategies Policy (PEARLS Policy)" which is maintained as a separate document.

- F. REAL RETURN POOL investments are expected to produce positive returns with a goal of protecting the Fund against unexpected U.S. inflation and increasing U.S. inflation expectations.

The real return pool portfolio shall be allocated among the specific types of Managers. The real return pool total portfolio allocation target is outlined in Schedules IA and IB. See the Addendum for additional detail.

In aggregate, investments in non U.S. markets across all asset classes shall not exceed 45% of the market value of the total Fund.

SECTION VII: ELIGIBLE ASSET CATEGORIES

The Fund shall hold assets in categories established by the Board. Any asset category may be held in direct form, in pooled/commingled form, or in both. Asset categories managed by one or more “Qualified Investment Managers” are called “Managed Accounts or Funds.” Eligible asset categories are listed and defined below.

- A. CASH AND CASH EQUIVALENT shall consist of, but not be limited to, cash, short term (12 months or less) interest bearing investments of high quality such as U.S. Treasury issues, insured certificates of deposit of U.S. banks (fixed and/or variable), commercial paper rated A-1, P-1 or both, or other instruments of equal or better quality, and money market funds available through the Custodian.
- B. U.S. EQUITY shall consist of, but not be limited to, common stocks and other securities which are convertible into common stocks, and ADRs (American Depository Receipts), as well as cash (per “A” above) and fixed income (per “D” below) when used as temporary substitutes for common stocks.
- C. INTERNATIONAL EQUITY shall consist of, but not be limited to, common stocks and other securities convertible into common stocks of companies domiciled outside of the U.S., GDRs (Global Depository Receipts), IDRs (International Depository Receipts) and other depository receipts as well as cash/cash equivalents (per “A” above) and fixed income (per “D” below), domestic or international, which are being used as temporary substitutes for common stock.
- D. FIXED INCOME shall consist of investments in, but not be limited to, U.S. taxable bonds, debentures, notes and other evidences of debt. Fixed income may also include, but not be limited to, non-dollar denominated bonds issued by corporations or governments domiciled outside of the U.S. Other eligible investments shall include cash/cash equivalents (per “A” above), convertible bonds, and preferred stock.
- E. REAL ESTATE shall consist of investments in real estate and equity real estate through the use of commingled or direct investments. Detailed information about real estate investments is included in ACERA’s “Real Estate Strategic Plan,” which is maintained as a separate document.

- F. PRIVATE EQUITY AND ALTERNATIVES shall consist of investments including, but not limited to, venture capital, corporate buyouts, debt-related and special situations, absolute return strategies, and other non-traditional and uncorrelated investments. Private equity and alternatives investments may be denominated in U.S. dollars or other currencies. Detailed information about private equity and alternatives investments is included in ACERA's "PEARLS Policy" which is maintained as a separate document.
- G. REAL RETURN POOL shall consist of investments including, but not be limited to, commodities, TIPS, Inflation Break-evens, and REITs. All Real Return Pool investments/strategies are Alternative Investments. See the Addendum for additional detail.

In aggregate, non U.S. currency exposure (net) across all asset classes shall not exceed 45% of the market value of the total Fund.

SECTION VIII: ASSET CATEGORIES OBJECTIVES

The general objective of the Board is to preserve capital and to earn a return from appreciation and income, as described herein:

1. To ensure the integrity of ACERA's actuarial funding plan, one minimum return objective for the Fund shall be the current actuarial interest assumption rate plus 25 basis points per year over a full market cycle. Returns shall be calculated net of all fees (both administrative and investment fees).
2. To ensure that ACERA's assets grow appropriately to match salary increases which directly impact benefit levels, an additional minimum return objective for the Fund over a full market cycle (up to five (5) years) shall also be 400 basis points (4.00%) per year over the national Core Consumer Price Index, published by the U.S. Department of Commerce. Returns shall be calculated gross of investment management fees.
3. To ensure that ACERA's external investment manager structure, in the aggregate, is performing satisfactorily, an additional minimum return objective for the Fund over a market cycle (up to five (5) years) shall be to achieve annualized investment returns equivalent to the Fund's Policy Index on a gross of investment management fees basis.

The objectives of each asset category are

A. CASH AND CASH EQUIVALENT

1. An annualized rate of return in excess of 90-Day U.S. Treasury bills, and
2. An annualized rate of return within the upper one half of a universe of like short-term funds.

B. U.S. EQUITY

1. An annualized rate of return in excess of the annualized U.S. equity market returns as measured by the Russell 3000 Index, and

2. An annualized rate of return within the upper 33rd percentile of the InvestorForce database or similar database of the annualized returns of diversified domestic equity portfolios.

C. INTERNATIONAL EQUITY

1. An annualized rate of return in excess of the Morgan Stanley Capital International All Country World Investable Market Index Ex U.S. (MSCI ACWI Ex U.S. IMI), and
2. An annualized rate of return within the top quartile of the InvestorForce database or similar database of the annualized returns of diversified international equity portfolios.

D. FIXED INCOME

1. An annualized rate of return in excess of the Barclay's Aggregate Bond Index, Citigroup World Government Bond Ex. U.S. and Barclay's High Yield Index in a ratio of 75/15/10, and
2. A rate of return within the top quartile of the InvestorForce database or similar database of the performance of diversified fixed income portfolios.

E. REAL ESTATE

1. Total Net Return – equivalent to the National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity (NFI ODCE) as a minimum return for the total portfolio over rolling five-year periods, and
2. Income Return – Income, which is defined as cash distributed to ACERA , should comprise generally 50% of the total expected return over rolling five-year periods for all Core (as defined in ACERA's "Real Estate Strategic Plan") products.

F. PRIVATE EQUITY AND ALTERNATIVES

1. An annualized rate of return in excess of the Russell 3000 Index plus 100 basis points net of all fees and expenses over a full market cycle. Please refer to ACERA's PEARLS Policy, which is maintained as a separate document, for detailed information.

G. REAL RETURN POOL

1. An annualized rate of return in excess of the Core Consumer Price Index plus 300 basis points (3.00%). See the Addendum for additional detail.

In addition, objectives that reflect a particular investment strategy or style employed by an individual Manager shall be outlined in the Specific Investment Guidelines attached to the Manager's Contract.

SECTION IX: ALLOCATION OF CASH FLOW

Cash flow not needed for benefit payments or administrative expenses shall be allocated to Managed Accounts in a ratio that best funds the overall targeted asset allocation as reflected in Schedules IA and IB.

If cash flow is insufficient for the payment of benefits or to cover administrative expenses, then Managed Accounts shall be debited in a ratio that best satisfies the target allocation shown in Schedules IA and IB. Such debits, if necessary, will be carried out as needed and with timely notice to Managers to facilitate effective funds transitions and performance measurement.

For all planned investments which may not need to be funded immediately, a reserve may be budgeted and invested in appropriate accounts in accordance with the asset allocation targets until such moneys are required. Alternatively, Managed Accounts within “overfunded” asset classes may be called upon to provide the required moneys.

SECTION X: PROHIBITED INVESTMENTS

Managers shall exercise prudent expert standards in defining prohibited investments. For example, prohibited investments include, but are not limited to, securities issued by the County of Alameda or any agency thereof.

SECTION XI: DIRECTED BROKERAGE

ACERA has established an open Directed Brokerage (DB) Program designed to maximize the recapture of brokerage commissions by enforcement of the target percentages of direction. ACERA’s DB Program is governed by ACERA’s DB Policy, which is maintained as a separate document.

The strategic objective of the DB Program is to take advantage of the industry-accepted recapture of a portion of trade commissions paid to brokers. The primary goals of the DB Program are to 1) recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) construct the percentage of trades subject to recapture so as to allow investment managers to have access to the research they need; 3) seek “Best Execution” through third-party administration and outside consultant monitoring; and 4) encourage local and emerging broker participation through the use of an open correspondent network program.

SECTION XII: DERIVATIVE INSTRUMENT USAGE

Exposure to risk by use of derivative instruments must be consistent with ACERA’s overall investment policy as well as an individual Manager’s Specific Investment Guidelines. In general, derivatives shall not be used to establish a leveraged position (i.e., offsetting Cash positions must be maintained against all delayed settlement transactions). Should there be any conflict between an individual Manager’s Specific Investment Guidelines and this Policy statement regarding the use of derivative instruments, the Specific Investment Guidelines shall control.

SECTION XIII: SELECTION OF INVESTMENT MANAGERS

The Investment Committee shall direct Staff and/or a Consultant to initiate searches for Managers. Staff and/or the Consultant shall research for qualified candidates and present a list of finalists to the Investment Committee for its approval. Upon approval of the list, the finalists shall be interviewed by Staff and the Consultant (if applicable). Staff and the Consultant (if applicable) shall evaluate the interviews, rank the finalists, and make a recommendation to the Investment Committee to hire one or more firms attaining the highest rankings in a publicly noticed meeting at which no less than five (5) Investment Committee members shall be present. It is possible that none of the firms will be recommended for hire.

The above-mentioned procedures are developed for the convenience and benefit of ACERA, and shall not bind ACERA or invalidate the selection of a Manager, if different processes are used subsequent to the promulgation of this Policy. ACERA recognizes that some investments by their nature present unique opportunities and there may not be suitable competitors for a unique investment opportunity. ACERA also recognizes that due to inherent features of some investments, time constraints may require ACERA to use a different investment manager selection process.

SECTION XIV: EMERGING INVESTMENT MANAGERS

The Board has established the ACERA Emerging Investment Manager Policy (EM Policy), which is maintained as a separate document. The purpose of the EM Policy is to establish a framework for the development and administration of ACERA's Emerging Investment Manager Program (EM Program), consistent with the Board's fiduciary responsibilities in the investment of the Fund. The EM Policy states that the initial investment of the EM Program is not to exceed 1% of the total Fund.

The strategic objective of the EM Program is to add incremental value to the Fund through the hiring of the most talented Emerging Investment Managers (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 the State of 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.

SECTION XV: AUTHORITY OF INVESTMENT MANAGERS

Subject to the laws of the United States and the State of California, and to the terms and conditions of this Policy, Managers shall have full discretion to direct the purchase, exchange, sale and reinvestment of the assets of the Managed Accounts. The Board expects that Managers will recommend changes to this Policy when any part of this Policy appears to be at variance with overall market and economic conditions.

Managers shall place orders to buy and sell securities and, by notice to the Custodian, shall cause the Custodian to deliver and receive securities on behalf of the Fund. Managers shall, upon Board inquiry, report placement of ACERA brokerage activities such that the Board shall be assured commissions were placed for the sole and exclusive benefit of the Fund.

Separate account Managers shall not vote proxies. Proxies shall be voted by ACERA, via a proxy voting service vendor, in accordance with “ACERA Proxy Voting Guidelines and Procedures” which is maintained as a separate document.

Securities lending shall be performed under the oversight of Staff, in accordance with Board-established procedures.

SECTION XVI: INVESTMENT GUIDELINES FOR THE MANAGED ACCOUNTS

Individual Manager discretion shall be governed by the Investment Guidelines for the Managed Accounts as well as the Specific Investment Guidelines for each Manager. Should there be any conflict between the Specific Investment Guidelines of an individual Manager and the Investment Guidelines for the Managed Accounts, the Specific Investment Guidelines shall prevail.

A. GENERAL

1. All investments shall comply with all applicable laws of the U.S. and the State of California governing the investment of pension trusts.
2. All securities transactions shall be executed by reputable broker/dealers, banks, or the Custodian, and shall be on a best-price and best-execution basis, and shall be reported to ACERA as is called for elsewhere in this Policy.
3. All Managers shall refrain from investing in a tobacco producer investment opportunity when, in their expert opinion, an alternative non-tobacco producer investment opportunity is available that will satisfy the same ACERA portfolio guidelines, instructions and objectives for risk, return and diversification.

B. EQUITY

Managers have full discretion to invest solely in readily marketable and diversified equity securities subject to the following:

1. For Managed Accounts, no more than 10% of the value (at time of purchase) of the account shall be invested in the securities of a single issuer.
2. ACERA shall not hold more than 10% of the equity securities of any issuer.
3. Equity securities shall possess value and quality corroborated by generally accepted techniques and standards of fundamental securities analysis.
4. Assets in a Managed Account not invested in equity securities shall be kept with interest in appropriate money market instruments, including any money market fund available through the Custodian.

5. A Managed Account shall be subject to ACERA's Policy statement on the use of derivatives in Section XII.
6. All Managers shall endeavor to be fully invested in stocks at all times unless they have received specific authorization to the contrary from the Board. Cash holdings, as defined in this Policy, shall generally not exceed 5% of the portfolio on a market value basis.

C. FIXED INCOME

Managers have full discretion to invest solely in readily marketable and diversified securities including, but not limited to

1. Obligations of the U.S. and/or eligible foreign government treasuries.
2. Obligations guaranteed by agencies of the U.S. and/or eligible foreign governments.
3. Insured certificates of deposit and banker's acceptances of credit worthy banks.
4. Corporate and other evidences of debt. At least 80% of this debt must be rated by Moody's Investor's Services or by Standard & Poors Corporation.
5. Commercial paper and banker's acceptances of issuers rated P-1 by Moody's Investor's Service or A-1 by Standard & Poors Corporation.
6. Excepting direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible governments, no account shall hold more than 5%, at cost, of the obligations of any single issuer.
7. Excepting direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible governments, no security shall comprise more than 5% of the account, as determined at the time of purchase.
8. A Managed Account shall be subject to ACERA's Policy on the use of derivatives as stated in Section XII.

SECTION XVII: INVESTMENT MANAGER SPECIFICATIONS

- A. Managers must be registered as investment advisers under the Investment Adviser's Act of 1940, a bank (as defined in that Act) or an insurance company qualified to perform investment management services under state law in more than one state, including the State of California. Unless an exception is granted by the Board, by accepting appointment as ACERA's Managers, Managers shall acknowledge that they are "Plan Fiduciaries" and "Qualified Investment Managers" as defined by the Employees' Retirement Income Security Act (ERISA) of 1974 (see or reference United States Code Title 29 Section 1001 et. seq.).
- B. Managers shall maintain fiduciary insurance in the amount of 10% of the total assets managed in the ACERA account or \$25 million, whichever is higher, unless the Contract specifies otherwise.
- C. Managers shall promptly notify ACERA of changes that occur in any of the following:
 1. The investment strategy used in managing the subject product.
 2. The key personnel involved in managing ACERA's account.
 3. The ownership, key personnel, or organizational structure of the Manager's company.

4. The Manager company's financial condition.
 5. The number of clients invested in the subject product and firm wide.
 6. The market value of the total assets managed in the subject product and firm-wide.
- D. Managers shall promptly notify ACERA if they are subject to censure or disciplinary action by a regulatory agency.
- E. Managers shall provide to ACERA all required documents and reports as set forth in Schedule V – ACERA's Compliance Schedule.
- F. Managers shall not make contributions, provide gifts, reimbursements of expenses or provide personal benefits exceeding \$440.00³ in the aggregate within any 12-month period to any Trustee, fiduciary, employee or Consultant of ACERA. Donations of educational conferences and similar events and benefits, including travel, meals and accommodations will be made to ACERA and not directed to individuals. The Board will determine whether to accept any donations and will be solely responsible for selection of the Trustee, Staff, or other individual, who will attend or otherwise participate on behalf of ACERA.

SECTION XVIII: MANAGER MONITORING PROCEDURE

The Board has contracted with a number of external Managers to invest ACERA assets in the capital markets. As part of the Board's fiduciary duties to prudently select, monitor and supervise these Managers, the Board has adopted this Procedure. The intent of this Procedure is to notify Managers of the standards by which they will be evaluated and to establish a structure which the Investment Committee and the Board can use to monitor the performance of the Managers.

Managers will be monitored to:

1. Evaluate how well they achieve their investment objectives.
2. Ensure that they adhere to their established investment approach/style and do not attempt to index returns to preserve stellar performance or take extraordinary risk to overcome poor performance.
3. Identify issues or trends that have the potential to result in losses to the Fund.
4. Alert the Board when Managers are not performing to expectations so that appropriate remedial action can be taken.

Managers will be evaluated on the basis of the following: performance, style integrity, organizational stability, compliance, client service, and fees described in greater detail below.

A. PERFORMANCE

On a monthly basis Staff will monitor Manager holdings, activity, and performance.

On a quarterly basis Staff and/or a Consultant will furnish the Investment Committee and/or Board with an in-depth evaluation of each Manager which will include a comparison of the

³ Updated annually by the California Fair Political Practices Commission.

Manager to its Contract benchmark and a peer universe of Managers using a similar investment style. This report shall include an analysis of the sources of Managers' returns (stock selection, industry selection, asset allocation, etc.) and shall identify which decisions enhanced or diminished performance.

On a quarterly basis, trading costs will be evaluated in terms of commissions paid and execution of trades. Staff and/or Consultants shall furnish a report to the Investment Committee and/or Board regarding trading costs on an annual basis.

B. STYLE INTEGRITY

Each Manager will be analyzed at least annually to ensure that the Manager is continuing to invest the portfolio in the style for which it was originally hired. Style integrity is essential to maintain the Board's asset allocation policy. Any significant deviation in style will result in the overall portfolio having a different characteristic, in some measure, from the broad market which is represented by the Russell 3000 Index. Significant variations in the portfolio characteristics from the style anticipated in the management Contract may indicate a change in its investment style.

This review also provides the Investment Committee and/or Board an opportunity to evaluate the Manager's continuing "fit" with the goals of the overall Fund. By monitoring the Manager style integrity, the Investment Committee and/or Board can assure that its Manager mix takes advantage of opportunities to increase diversification through lower correlation of returns among individual Managers.

C. ORGANIZATIONAL STABILITY

Managers' organizations will be monitored to ensure continuity of the intellectual and philosophical processes that went into developing the particular investment approach contracted for by ACERA. In addition, Managers will be monitored for business risk, quality of staff, departures of key investment personnel, change in ownership or acquisition, and potential conflicts of interest.

It is ACERA's intent that its portfolio comprises no more than 25% of the Manager's total assets under management (AUM)⁴ at any time. Therefore, ACERA will monitor the Managers' assets, firm-wide, as well as in the subject product.

D. COMPLIANCE

Managers will be monitored to ensure they are adhering to federal and state laws regarding securities and the management of investment portfolios, trading, and pension investments; ethical practices of the investment professions; the Contract governing their relationship with ACERA; this Policy; and any other written directives issued by ACERA.

⁴ ACERA defines total AUM as the total market value of assets a Manager manages on behalf of investors under discretionary management where the client delegates responsibility to the Manager.

Each ACERA Contract will specify which investment vehicles a Manager is authorized to use, which markets the Manager is authorized to transact business in and any limitations within a market (small or large capitalization, value or growth orientation). The assets in each Manager's portfolio shall be reviewed monthly to ensure compliance with Contract guidelines.

All required documents and reports, set forth in Schedule V, must be submitted in a timely manner and in the format specified by ACERA, unless otherwise agreed to.

Managers must provide prior notification and justification for failure to comply with rules, regulations, Contract provisions, deadlines or other directives. Managers must provide a time frame for curing any deficiencies. Staff shall evaluate each incident on a case-by-case basis and determine whether an exception may be granted.

E. CLIENT SERVICE

Managers are required to comply with routine portfolio investment guidelines and reporting deadlines and are also expected to cooperate with special requests for information. ACERA will establish reasonable time frames for all requests and reporting and will provide feedback to all external Managers regarding the perceived quality of their client service.

F. FEES

Managers are expected to charge ACERA investment management fees no greater than the fees charged for other clients with a similar investment style, investment objective, and account type, size and services. Should a Manager enter into a more favorable fee schedule with a similar client, the manager is expected to modify ACERA's fee schedule to reflect the more favorable terms.

ACERA Staff will endeavor to meet with each Manager at least twice a year by telephone or in person to review performance and other issues.

SECTION XIX: CONTRACT REVIEW PROCESS

If during the course of regular monitoring, ACERA determines that a Manager's performance, style integrity, organizational stability, compliance, client service, and/or fees have reached to unacceptable levels, ACERA may, at its discretion, subject the Manager to ACERA's Contract Review Process. As part of the Board's fiduciary duties to prudently select, monitor and supervise their Managers, the Board has approved this process. The purpose of this process is to ensure as little disruption as possible in the event that concerns or problems arise with respect to a Manager's performance. The Board does not confer any additional rights or protections to its Managers by the promulgation of this Policy and/or this process.

There are generally three stages of review: Watchlist, Probation, and Termination (described below). ACERA reserves the right to terminate an investment management contract at any time, with or without thirty (30) calendar days notice, for any reason, and without resort to this Contract Review Process.

The Contract Review Process may result in one or more of the following:

1. Placement on Watchlist or Probation status
2. Movement from one stage of review to another, or removal from the Contract Review Process
3. Reduction of Assets Under Management
4. Revision of investment Contract guidelines for that Manager
5. Re-negotiation of fees
6. Termination of a Manager's Contract
7. Any other actions deemed appropriate by the Board

Each situation is unique Action by the Board will vary depending on the type of Manager, the style/strategy, and the deficiency involved. The following describes the Contract Review Process:

A. INITIAL REVIEW

Prior to a Manager being considered for Watchlist, Probation or Termination, ACERA may take the following steps:

1. Analysis

Staff will conduct in-depth analyses of the perceived deficiency to verify that a deficiency exists, form an initial assessment of the severity of the deficiency, and make an initial determination of possible causes.

2. Discussion with the Manager

Staff will contact the Manager to discuss the situation and the results of Staff's analysis.

3. Consultant Input

ACERA may seek the services of Consultant to provide additional assessment and advice regarding the situation, depending on the severity of the deficiency.

All phases of account compliance may be reviewed during this step, in addition to the specific issue that originated the Review Process.

B. FORMAL ACTION

After completing the Initial Review, Staff may recommend to the Investment Committee and/or Board that the Manager be either placed on Watchlist or Probation or, in certain cases, Terminated. The Committee and/or Board will approve or reject the recommendation. However, if a Manager's deficiency satisfies the criteria as listed under Watchlist and Probation in this Review Process, Staff may place a Manager on Watchlist or Probation without the Committee and/or Board's prior approval. In that case, Staff will be required to report to the Committee on

the action taken in this Review Process as soon as possible. The specific criteria for determining which stage of Contract Review to recommend is outlined later in this Policy section and summarized in tabular form in Schedule II.

Upon approval of a Watchlist or Probation recommendation:

1. Staff will notify the Manager of the Board's decision and will provide the Manager with a statement of concerns which outlines the areas which need improvement.
2. The Manager will be asked to respond in writing with an explanation of the issues and a proposed action plan to resolve the issues within thirty (30) calendar days of receipt of the statement of concerns.
3. Staff, a Consultant and the Manager will collectively draft a Plan of Action. The plan will identify the specific steps to be taken to correct the problem; the time frames for further review; and what additional monitoring may be required.

At the end of the time period specified in the Plan of Action, the Manager will be evaluated and one of the following actions may be taken:

- (a) Removal from Contract Review: if the Manager successfully resolves the issues/deficiencies and demonstrates continued success in all other areas of its relationship with ACERA.
- (b) Movement from Probation to Watchlist: if the Manager has satisfied all or most of the issues/deficiencies that caused it to be placed on Probation, yet Staff continues to have concerns about the Manager. If circumstances warrant, a Manager may also be moved from Watchlist to Probation at any time during the Contract Review Process.
- (c) Extension of Contract Review: a Manager may be given additional time to satisfy the conditions of its Plan of Action if reasonable progress is being made. Extensions may also be granted if unfavorable market conditions or high costs make reallocation of assets inadvisable.
- (d) Termination: if the Manager has not satisfactorily resolved the issues/deficiencies, Staff may recommend termination as described below. Termination may be recommended at any time during the Contract Review Process if circumstances warrant.

WATCHLIST

Watchlist status indicates an increased level of concern, but does not indicate major deficiencies. Managers may be placed on ACERA's Watchlist for one or more reasons stated below. The Watchlist period is typically one year. Staff shall conduct a comprehensive evaluation of the Manager at the end of the one-year Watchlist status period to determine whether the Manager may be removed from Watchlist status. Any of the following may result in a Watchlist status:

a. UNDERPERFORMANCE

Please refer to Schedule IIA for specific Watchlist criteria for each Manager. A Manager may be removed from ACERA's Watchlist if the Manager's performance has improved to a level where all applicable specific performance criteria as set forth in Schedule IIB of this Policy have been met.

b. STYLE DEVIATION

Managers are expected to adhere to the style of investment management for which they were originally hired. Changes in portfolio characteristics or style drift may lead to a Watchlist status.

c. ORGANIZATIONAL CHANGE

1. New Ownership

Even relatively benign ownership changes, which impact personnel key to ACERA's portfolio management may be cause for a Watchlist status.

2. Turnover

Significant turnover or reassignment in top management, portfolio Managers, research or trading staff, or marketing personnel may warrant Watchlist status.

3. Reorganization

Changes which signal management deterioration, departures or reassignment of key investment personnel, a change in ownership that increases risk to ACERA's investments, or hasty, uncontrolled growth in the firm with potential to disrupt the investment team hired for management of ACERA's account will mandate Watchlist status.

4. Assets Under Management (AUM)

If the market value of ACERA's portfolio rises above 25% of the Manager's total AUM, Watchlist status may be warranted.

d. NON-COMPLIANCE

1. Contracts and Other Agreements

Managers are expected to comply with the investment management Contract, investment guidelines, or other directives. Non- or partial compliance may result in a Watchlist status.

2. Reporting

Staff will contact Managers to request past due reports. If the Manager's reports are consistently delinquent, the payment of fees may be delayed. If a Manager cannot comply with reporting deadlines, ACERA should be given prior notification. If warranted, a variance may be allowed. Managers are expected to resolve reporting problems immediately upon notification by ACERA. Repeated delinquency in reporting may result in a Watchlist status.

e. POOR CLIENT SERVICE

If a Manager is uncooperative and demonstrates a poor client service attitude, Watchlist status is appropriate. Managers are expected to resolve client service issues immediately upon notification by ACERA.

f. HIGH FEES

Watchlist status may be appropriate if a Manager

1. Charges ACERA unreasonably high fees relative to what it charges its other clients with a similar investment style, investment objective, and account type, size and service, and/or
2. Charges ACERA unreasonably high fees relative to the current market fee rate.

PROBATION

Probation indicates a level of serious deficiency and signals a need for closer contact with the firm. Probation necessitates a cautious, observant relationship with the Manager.

Managers may be placed on Probation with or without first being placed on Watchlist status for one or more reasons stated below. The probation period is typically one year. Staff shall conduct a comprehensive evaluation of the Manager at the end of the one-year Probation period to determine whether the Manager may be removed from Probation status.

The following may result in Probation:

a. UNDERPERFORMANCE

Please refer to Schedule IIA for specific Probation criteria for each Manager. A Manager may be removed from ACERA's Probation if its performance has improved to a level where all applicable specific performance criteria as set forth in Schedule IIB of this Policy have been met.

b. STYLE DEVIATION

Probation may be warranted when a Manager's portfolio characteristics are significantly different from its contractually specified style. In general, a Manager will be placed on Probation after four or more consecutive quarters of deviating from its style benchmark. In effect, if the Manager is no longer the same Manager that was retained for ACERA's account, Probation and perhaps even Termination is appropriate.

c. ORGANIZATIONAL CHANGE

Changes in ownership, organizational assignments, departures of key investment personnel, a change in ownership that poses substantial risk to ACERA's investments, or turnover that have the potential to seriously disrupt or destroy the investment management team that was hired to manage the ACERA account may result in Probation or Termination. When key personnel, such as top management, portfolio Managers, research and trading staff are no longer available for use on the ACERA portfolio and do not appear to be replaced or replaceable, Probation and perhaps even Termination is appropriate.

d. NON-COMPLIANCE

If a Manager does not comply with securities laws, industry regulations, standards of professional conduct or contractual provisions, Probation is appropriate. Certain circumstances may warrant Termination.

e. POOR CLIENT SERVICE

Failure to correct any issues that previously resulted in the Watchlist status shall result in Probation. Managers will generally be given one calendar quarter to resolve client service issues.

f. HIGH FEES

Failure to reduce unreasonably high investment management fees shall result in Probation.

TERMINATION

Upon determining that the Manager has not made adequate improvement in the areas outlined in the Plan of Action, Staff may recommend to the Investment Committee and/or Board that the Manager be terminated. Prior to making the final decision to terminate the Manager, the Investment Committee may invite the Manager to make a presentation at the meeting in which the Termination recommendation is to be discussed. Staff will have analyzed the liquidity of the Manager's portfolio and will have a recommendation and plan for disposition of the assets.

Upon the Investment Committee's decision to terminate, Staff will notify the relevant ACERA Staff regarding this decision (See Section IV). All outstanding issues between the Manager and ACERA's Master Custodian, brokers, Consultant, or other parties shall be resolved prior to closing out the Contract. The Manager Termination checklist is attached as Schedule IV.

The Contract Review Process described in this Policy does not provide any additional rights or protections to Managers, beyond what is provided in the contract. The Board reserves the right to terminate an investment management contract without resort to the Contract Review Process, at any time, with or without thirty (30) calendar days notice, for any reason or no reason.

In the event of an emergency or crisis, such as an imminent, foreseeable threat to a Managed Account within the Fund, the following procedure shall be followed to protect the portfolio (with the advice and assistance of the appropriate ACERA consultant(s)):

- (a) Staff shall make a concerted attempt to arrange a special meeting (in person and/or by telephone) of the Board to consider and to resolve the matter.
- (b) If (a) is not practicable within the time necessary to protect the portfolio, the Board delegates temporary authority to the Board Chair (and/or Vice Chair) and the Committee Chair (and/or Vice Chair) to consider and to resolve the matter.

The temporary authority delegated under subsection (b) shall be strictly limited to the matter itself and any related actions that may be necessary and appropriate. Under subsection (b), at least two (2) persons of the four persons identified would be required to consider and resolve the matter. The temporary delegated authority shall be as full and complete as the Board's authority which means that Managed Accounts and funds may be terminated and/or redeemed.

Staff and the consultants shall prepare and submit a full report on any and all actions taken under this section for presentation at the next scheduled Investment Committee meeting.

SCHEDULE IA
ACERA
ASSET ALLOCATION TARGETS⁵

<u>Asset Class</u>	<u>Target Allocation %</u>
U.S. Equities	32
U.S. Large Cap	26
U.S. Small Cap	6
International Equities	27
Fixed Income	15
Real Estate	6
Private Equity and Alternatives	15
Real Return Pool	5
Cash	0

⁵ The target asset allocation to each asset class was adopted by the Board in September 2012.

SCHEDULE IB

ACERA

MANAGER STRUCTURE TARGETS

<u>Managers</u>		<u>Target Allocation %</u>	
		<u>Within</u>	
		<u>Asset Class</u>	<u>Total Fund</u>
U.S. Equity			
Large Cap (Core Index)	Mellon Capital	44.5	14.2
Large Cap (Growth)	Trust Company of the West	17.5	5.6
Large Cap (Value)	Pzena	17.5	5.6
Small Cap (Growth)	Next Century Growth	6.5	2.1
Micro Cap (Growth)	Next Century Growth	2.5	0.8
Small Cap (Value)	Kennedy Capital	9.0	2.9
All Cap	Bivium	2.5	0.8
International Equity			
Core Non-U.S. Equity (Growth)	Capital Guardian	40.0	10.8
Core Non-U.S. Equity (Value)	Mondrian	30.0	8.1
Core Non-U.S. Equity (Quantitative)	AQR	20.0	5.4
Core Non-U.S. Equity (Small Cap)	Franklin Templeton	10.0	2.7
Fixed Income			
Enhanced Index	Baird	50.0	7.5
Aggressive Core Plus	Loomis Sayles	25.0	3.8
Global Bond	Brandywine	25.0	3.8
Real Estate ⁶			6.0
Private Equity and Alternatives ⁶			15.0
Real Return Pool			5.0
Cash			0.0

⁶ ACERA's real estate, private equity, and alternative manager structure targets are specified in ACERA's "Real Estate Strategic Plan" and "PEARLS Policy," respectively.

SCHEDULE IC

ACERA

ASSET ALLOCATION PORTFOLIO REBALANCING

The objective of rebalancing is to control risk and enhance the risk-adjusted return of the asset allocation strategy. For purposes of enhancing the risk-adjusted return of the asset allocation structure, the relative deviation of any liquid sub asset class away from its target weight (or liquidity-adjusted target weight) shall be no more than plus or minus 1.80 standard deviation factors of each allocation's expected volatility, relative to the other allocations in the asset mix. This standard deviation factor shall be used to define the range of allowable deviation from Policy target asset allocations. If any sub asset class reaches its allowable deviation from its target allocation, all sub asset classes will be evaluated.

The actual reallocation will be at the discretion of Staff (with oversight by the rebalancing Consultant) after reviewing the following: the relative magnitude of deviation from target for all other sub asset classes; the available cash liquidity of sub asset classes that could be used to fund rebalancing; pending cash flows (employer and employee contributions, or proceeds from a terminated Manager's portfolio); pending liquidity windows with commingled investment pools; pending investment commitments (real estate transactions and/or new funding commitments); and pending interest coupon and dividend cash flows.

Asset allocation and rebalancing status reports, and any rebalancing activity taken toward attaining the objective of the rebalancing program will be reported to the Board quarterly.

Significant modifications to the asset allocation strategy shall be cause to review the appropriateness of maintaining this rebalancing parameter or revising it to a parameter more suitable to the revised asset allocation structure.

SCHEDULE IIA

ACERA

Watchlist/Probation Criteria for Underperformance⁷

Watchlist Criteria	Probation Criteria
U.S. Equity	U.S. Equity
<ul style="list-style-type: none"> • Large Cap Core Index: negative tracking error exceeds 5 bps on an annualized basis in any 1 year period. • Large Cap (Growth/Value): cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. 	<ul style="list-style-type: none"> • Large Cap Core Index: negative tracking error exceeds 5 bps on an annualized basis in any period greater than 1 year, or negative tracking error exceeds 10 bps for any 2 consecutive quarters. • Large Cap (Growth/Value): cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

⁷ If the Fund history is less than 5 years, ACERA will use a rolling 3 year period.

Watchlist Criteria	Probation Criteria
<p style="text-align: center;">International Equity</p> <ul style="list-style-type: none"> • Core Non-U.S. Equity (growth/ value/ quant/ small cap): cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below median for 2 consecutive quarters in a cumulative 5year rolling period. 	<p style="text-align: center;">International Equity</p> <ul style="list-style-type: none"> • Core Non-U.S. Equity (growth/value/quant/small cap): cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below median for 3 or more consecutive quarters in a cumulative 5 year rolling period.
<p style="text-align: center;">Fixed Income</p> <ul style="list-style-type: none"> • Aggressive Core Plus: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager’s peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. 	<p style="text-align: center;">Fixed Income</p> <ul style="list-style-type: none"> • Aggressive Core Plus: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return is below the benchmark for 3 more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 more consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager’s peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

SCHEDULE IIB

ACERA

Performance Criteria for Watchlist/Probation Removal ⁸

Watchlist Removal	Probation Removal
U.S. Equity	U.S. Equity
<ul style="list-style-type: none"> • Large Cap Core Index: negative tracking error falls below 5 bps on an annualized basis in any 1 year period. • Large Cap (Growth/Value): cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. 	<ul style="list-style-type: none"> • Large Cap Core Index: negative tracking error falls below 5 bps on an annualized basis in any period greater than 1 year, and negative tracking error falls below 10 bps for any 2 consecutive quarters. • Large Cap (Growth/Value): cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

⁸ If the Fund history with a Manager is less than 5 years, ACERA will use a rolling 3 year period. ACERA reserves the right not to remove a Manager from its Watchlist/Probation status even though the Manager may qualify for removal based on the Performance Criteria for Watchlist/Probation Removal.

Watchlist Removal	Probation Removal
<p data-bbox="337 262 620 300" style="text-align: center;">International Equity</p> <ul data-bbox="191 342 774 573" style="list-style-type: none"> • Core Non-U.S. Equity (growth/value/quant./small cap): cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. 	<p data-bbox="971 262 1253 300" style="text-align: center;">International Equity</p> <ul data-bbox="800 342 1435 541" style="list-style-type: none"> • Core Non-U.S. Equity (growth/value/quant./small cap): cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.
<p data-bbox="386 611 571 648" style="text-align: center;">Fixed Income</p> <ul data-bbox="191 684 774 1356" style="list-style-type: none"> • Aggressive Core Plus: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager’s peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. 	<p data-bbox="1019 611 1205 648" style="text-align: center;">Fixed Income</p> <ul data-bbox="800 684 1435 1289" style="list-style-type: none"> • Aggressive Core Plus: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager’s peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

SCHEDULE III

ACERA

POLICY INDEX FOR TOTAL FUND AND BENCHMARKS FOR ASSET CLASSES AND INVESTMENT MANAGERS

POLICY INDEX FOR TOTAL FUND

32% Russell 3000/ 11.25% Barclay's Aggregate/ 2.25% Citigroup World Government Bond Ex. U.S./ 1.50% Barclay's High Yield/ 27% MSCI All Country World Index Ex U.S. IMI/ 6% ODCE /15% Russell 3000 + 100 basis points (net)/5% Core CPI + 300 basis points.

BENCHMARKS FOR ASSET CLASSES

<u>Asset Class</u>	<u>Benchmark</u>
U.S. Equity	Russell 3000
International Equity	MSCI ACWI Ex. U.S. IMI
Fixed Income	Barclay's Aggregate /Citigroup World Government Bond Ex U.S./ Barclay's High Yield in the ratio of 75/15/10
Real Estate	NCREIF ODCE
Private Equity and Alternatives	Russell 3000 + 100 basis points (net)
Real Return Pool	Core CPI + 300 basis points

SCHEDULE III (cont.)

ACERA

POLICY INDEX FOR TOTAL FUND AND BENCHMARKS FOR ASSET CLASSES AND INVESTMENT MANAGERS

BENCHMARKS FOR INVESTMENT MANAGERS⁹

<u>Manager</u>	<u>Benchmark</u>
U.S. Equity	
Bivium	Russell 3000 + 200 bps
Kennedy Capital	Russell 2000 Value + 250 bps
Mellon Capital	S&P 500
Next Century Growth (small growth)	Russell 2000 Growth +250 bps
Next Century Growth (micro growth)	Russell Microcap Growth + 250 bps
Pzena	Russell 1000 Value + 200 bps
Trust Company of the West	Russell 1000 Growth + 250 bps
International Equity	
AQR	MSCI ACWI Ex U.S.
Capital Guardian	MSCI ACWI Ex U.S.
Franklin Templeton	MSCI ACWI Ex U.S. Small Cap
Mondrian	MSCI ACWI Ex U.S.
Fixed Income	
Baird	Barclay's Aggregate Index
Brandywine (Global Bond)	Citigroup World Gov. Bond Index
Loomis Sayles (Boston)	Barclay's Baa Credit Index
Real Estate ¹⁰	NFI ODCE
Private Equity and Alternatives ¹¹	Russell 3000 + 100 bps
Real Return Pool	Core CPI + 300 bps

⁹ Individual Manager's Contract contains more specific information about each Manager's benchmark.

¹⁰ Benchmarks for real estate Managers are specified in ACERA's "Real Estate Strategic Plan."

¹¹ Benchmarks for Private Equity and Alternatives Managers are specified in ACERA's "PEARLS Policy" and/or individual Manager's Contract.

SCHEDULE IV

ACERA

MANAGER TERMINATION CHECKLIST

This checklist is used to ensure that all details are covered when terminating investment management services.

- 1) Officially notify the Manager in question of the Board's decision to terminate.
- 2) Establish a plan of action for reallocating assets from the terminated portfolio; transfer assets to other portfolios or prepare for liquidation.
- 3) Review department files and logs to identify any outstanding issues.
- 4) Notify ACERA Administration, Fiscal Services Department, Legal Counsel, Consultant, Custodian and any other vendors of the termination. Identify and resolve all outstanding issues with these parties.
- 5) Have Manager and Custodian review and sign off on monthly market values and performance figures produced during the Contract period.
- 6) Hold payment of last invoice until all issues are resolved.
- 7) Retain terminated Manager files in the ACERA office for a minimum of one year; then send to ACERA archives.
- 8) Hold terminated Manager files in ACERA archives in accordance with the ACERA Record Retention Policy and Schedule or applicable securities laws and accounting practice.

SCHEDULE V¹²

ACERA

Compliance Schedule

REQUEST

DUE DATE

MONTHLY

Soft Dollar Commission Report (if applicable) (Submit each month regardless of activity.)	By the 20 th calendar day of the month following the reported month
Broker Commission Report (Submit each month regardless of activity.)	By the 20 th calendar day of the month following the reported month
Accounting Report/Portfolio Valuation (Provide transaction data – buys/sells, a portfolio listing including cost and market values, and performance returns.)	By the 20 th calendar day of the month following the reported month
Derivative Report (if applicable) (Submit each month regardless of whether any derivative instruments were used.)	By the 20 th calendar day of the month following the reported month
Confirmation that monthly reconciliation with Custodian is performed. (Reconciliation should include market values, transactions, and performance.)	By the 20 th calendar day of the month following the reported month
ACERA overall compliance checklist	By the 20 th calendar day of the month following the reported month

¹² This schedule is designed for all investment Managers of ACERA. However, Managers may be required to provide additional compliance reports based on their individual Investment Agreements with ACERA. Should there be any conflict between individual Investment Agreements with ACERA and ACERA's "General Guidelines, Policies and Procedures," the individual Investment Management Agreements shall prevail.

REQUEST

DUE DATE

QUARTERLY

Fee Billings (Provide all pertinent backup documentation for fee calculations)	Within 30 calendar days following the end of the quarter
Confirmation of compliance with limitations on investment vehicles and investment markets ¹³	Within 30 calendar days following the end of the quarter
Confirmation of compliance with % limitations on cash holdings, on equity investment and on fixed-income investment ¹³	Within 30 calendar days following the end of the quarter
Confirmation that ACERA's assets under management do not exceed 25% of the Total assets under management firm-wide	Within 30 calendar days following the end of the quarter
Market and Portfolio Analyses and Commentaries	Within 45 calendar days following the end of the quarter

Additional requirements applicable to Real Estate Program

Operations Report/Financial Statements	Within 60 calendar days following the end of the quarter
Preliminary Investment Packages (Applicable to Individually Managed Account)	Within 30 calendar days following the completion of the report, if applicable
Valuation Adjustments Memo (Applicable to Individually Managed Account)	Within 90 calendar days following the anniversary date of asset acquisition
Property Valuation Report (Applicable to Individually Managed Account)	Within 90 calendar days following the anniversary date of asset acquisition

¹³ Detailed information can be found in "Specific Investment Guideline" section of each Manager's Investment Contract.

REQUEST

DUE DATE

ANNUAL

Annual Performance Fee Billing (if applicable)
(Provide all backup documentation/
reconciliation sign-offs.)

Within 30 calendar days following the
end of the performance fee
period

Organization Chart

Within 30 calendar days following the
end of the year or as soon as updated,
whichever is earlier

Fidelity Bond/
Errors and Omissions Insurance
(Submit an original certificate.)

Within 30 calendar days of renewal

Audited Financial Statements

Within 90 calendar days following the
end of the year

Form ADV, Parts 1 and 2A and 2B (Brochures)
(as applicable)

Within 30 calendar days of filing

Statement or Summary of Code of Ethics

Within 30 calendar days of any
change

SEC Examination Reports

Within 30 calendar days of receipt

Fair Political Policies Commission Form 700

On or before March 31st of each year

Placement Agent Policy Update

Within 30 calendar days, provide an
update of any change to the information
included in the most recently filed
Placement Agent Information
Disclosure Form.

Additional requirements applicable to Real Estate Program

Tactical Plans/Management Investment Plans¹⁴
(applicable to Individually Managed Account)

Within 30 calendar days of completion

Asset Management and Budget Plan¹⁴
(applicable to Individually Managed Account)

Within 30 calendar days prior to fiscal
year end

Audited Financial Statement for ACERA's Fund
(applicable to Individually Managed Account)

Within 90 calendar days following the
end of the year

¹⁴ Seven copies of this report shall be submitted to Staff.

SCHEDULE VI

ACERA

INVESTMENT PHILOSOPHY (REVISED MAY 2013)

This document describes the investment philosophy of the Alameda County Employees' Retirement Association (ACERA). Its purpose is to enunciate the basic principles and beliefs that underlie ACERA's investment policy and impact the overall management of the pension Fund. The Investment Philosophy (Philosophy) is designed to complement rather than replace the specific investment policies of ACERA. It is expected that ACERA's approach to investments, as reflected in its policies and strategies, will be consistent with the Philosophy over time. Though the Philosophy allows significant flexibility, it also raises some constraints or implications. Where these were deemed to be significant, they have been explicitly identified and labeled as *Implications*.

Future Boards may choose to amend the investment Philosophy, as their experiences and circumstances will almost certainly differ. The initial document and any subsequent changes will provide staff, advisors and future trustees with a frame of reference to help them understand how the investment program has evolved as well as the rationale behind its design. Future Boards may modify the Philosophy as their experiences and circumstances suggest is prudent.

The major sections of the Philosophy are:

1. Mission
2. Risk Management
3. Diversification
4. Market Efficiency
5. Organizational Infrastructure and Communications
6. Performance Monitoring and Time Horizon

1. MISSION

- a) The Board's primary goals in managing the Fund are:
 - i) To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;

- ii) To comply with all applicable fiduciary standards; and
- iii) To add value, where feasible, that will help reduce the costs of the plan, increase benefits, or both.

2. RISK MANAGEMENT

- a) The Board believes that prudent management of risk is a central element of the investment function.
- b) Though there are numerous risks involved in the management of a pension investment program, ACERA believes that the following warrant particular attention:
 - i) ***Funding-related Risk*** - The risk that the funds available in the Plan will be insufficient to pay the promised benefits, both vested and supplemental, or that contribution volatility will be unacceptably high. The primary methods for managing funding risk include regularly conducting integrated asset/liability studies, and establishing appropriate and prudent investment and funding policies.
 - 0.1 In managing the relationship between assets and liabilities, the approved asset allocation of the Fund should provide an adequate level of certainty of meeting the projected liabilities of the Plan over a time period, as determined by the actuary.
 - ii) ***Benchmark-related Risk*** – The risk that the investment benchmarks adopted by the Fund are inappropriate, or that the aggregate of the individual Manager benchmarks within an asset class do not adequately reflect the benchmark for the asset class as a whole. The latter risk is a specific risk generally referred to as *benchmark misfit risk (i.e. style risk)*. Inappropriate benchmarks or excessive benchmark misfit risk could result in investment performance different than expected and could adversely impact decisions concerning the hiring or firing of investment managers.
 - 0.1 The primary methods for effectively managing benchmark-related risk are
 - (a) regular review of the Fund’s benchmarks; and
 - (b) regular measurement and monitoring of misfit risk using proper methodologies.

iii) **Manager Risk** - The risk of aberrant performance on the part of individual investment Managers, and the related active management risk for asset classes as a whole.

0.1 The primary methods for mitigating Manager risk are:

- (a) Prudent processes for selecting and monitoring investment Managers;
- (b) Competent internal investment Staff;
- (c) Effective investment consulting support; and
- (d) Clear communication to investment Managers of ACERA's objectives, expectations, and investment time horizons.

0.2 The primary method for mitigating active management risk for asset classes include:

- (a) Establishment of appropriate asset class benchmarks;
- (b) Careful monitoring of asset class performance relative to the benchmarks; and
- (c) Prudent use of passive management.

iv) **Fortitude Risk** - The risk that the Board or Staff will fail to exercise the patience, judgment, or fortitude required to support long-term policies and strategies for the investment and funding program.

0.1 The keys to managing fortitude risk are believed to include:

- (a) Effective orientation and education with respect to institutional investing and actuarial science; and
- (b) A commitment to continually refining, confirming, and communicating the investment philosophy and funding policy of the Association.

3. DIVERSIFICATION

- a) ACERA acknowledges the basic tenets of modern portfolio theory, which suggest that diversification, or combining assets that are not perfectly correlated with each other, will reduce the long-term volatility of the overall portfolio.
- b) It is generally desirable however to avoid overly complex asset structures, provided the allocation selected can reasonably be expected to meet the objectives of the Plan. ACERA believes that the benefits of diversification must be weighed against the costs

involved, which may include fees, liquidity, complexity, communication, internal staff resources and expertise and trustee knowledge and effort.

- c) The following asset classes are appropriate candidates for inclusion in its portfolio:
 - i) Domestic equity
 - ii) International equity (including emerging markets)
 - iii) Fixed income, including high yield fixed income and international fixed income
 - iv) Real estate
 - v) Private Equity and Alternatives
 - vi) Real Return Pool

Implications

- A systematic methodology for re-balancing the investment portfolio is required to ensure proper implementation and adequate risk control concerning ACERA's asset allocation.
- Adding or deleting asset classes or investment Managers should be considered in light of the impact such decisions are likely to have on the general complexity and cost structure of the portfolio, as well as ACERA's ability to prudently achieve its investment and funding goals over the long run.

4. MARKET EFFICIENCY

- a) ACERA does not believe in the viability of active management strategies that rely on market timing.
- b) ACERA does not believe in the viability of management strategies that call for over weighting or under weighting styles or sectors within an asset class; i.e., benchmark misfit risk will not generate long-term alpha. Accordingly, ACERA generally believes that it should maintain exposures within an asset class (such as style or capitalization weightings) that are consistent with the broad benchmark for the asset class as a whole.
- c) ACERA does believe that market efficiency varies among asset classes, creating opportunities for successful active management strategies based on securities selection.
- d) Asset classes that can be demonstrated to be efficient should be managed passively in order to reduce active management risk and lower the costs of managing the portfolio.

- e) For inefficient asset classes, ACERA believes that it has the ability and a duty to prudently exploit such inefficiencies through active securities selection strategies.

Implications

- ACERA should be conscious of any subtle forms of market timing that may arise in the course of managing the Fund, or that may be implicit in investment strategies presented to ACERA for inclusion in the investment program.
- ACERA must determine appropriate methodologies for determining whether an asset class is efficient or presents appropriate opportunities, thus providing insight to the Board on the use of particular strategies.

5. ORGANIZATIONAL INFRASTRUCTURE AND COMMUNICATIONS

- a) ACERA believes that, in order for the investment program to achieve its goals, ACERA must invest the necessary resources to build and maintain an appropriate organizational infrastructure, key elements of which include:

- i) A competent, internal investment staff comprised of a sufficient number of investment professionals possessing appropriate leadership, technical, and administrative skills.

0.1 Attracting a competent staff. ACERA recognizes that it competes with the private sector. It must therefore continually strive to create a total work environment that is challenging, rewarding, and competitive.

- ii) A strong relationship with outside general investment Consultant(s) who are able to provide ACERA with the following:

0.1 A high degree of investment expertise;

0.2 Innovative and proactive advice and counsel;

0.3 Strong research support; and

0.4 Strong reporting capabilities.

- iii) A broad-based information gathering and reporting system to present well-researched, relevant and timely data in a manner that is easily understood and that supports rigorous and consistent monitoring of critical investment activities.
 - iv) An open channel of communication among the Board, management, and ACERA's external investment professionals.
- b) By providing the Board with timely, accurate, and thorough information, the organizational infrastructure will give the Board the high level of comfort it needs to set policy, make investment decisions, oversee the performance of the investment program, and maintain the fortitude necessary to support its investment philosophy, policies, and strategies.

Implications

- ACERA must determine what constitutes an appropriate internal investment staff structure, given the nature of the current investment program.
- ACERA must, over time, take concrete steps toward creating a work environment that will allow the Association to attract and retain needed staff.
- ACERA must recognize that developing the organizational infrastructure it needs – staffing, consulting support, information systems, and communication channels cannot be achieved overnight, but rather will require an ongoing commitment of time and resources.

6. PERFORMANCE MONITORING AND TIME HORIZON

- a) ACERA holds the following basic beliefs concerning performance monitoring practices and methodologies:
- i) The various investment policies of the Fund, in the aggregate, are the most important determinants of investment success; compliance with investment policies should, therefore, be monitored rigorously;
 - ii) The performance of the total portfolio, individual asset classes, and investment Managers should be compared to appropriate, predetermined benchmarks;

- iii) Peer comparisons are an additional valid tool in assessing individual Manager performance (supplementing the use of benchmarks), given that ACERA aims to select superior Managers within particular investment styles or mandates. Peer comparisons, or performance rankings, are also valid tools for measuring the performance of asset class portfolios; and
 - iv) Peer group comparisons may not be an appropriate means of assessing the performance of the total Fund, given that sponsors have different objectives and risk tolerance levels, and therefore may have different asset allocation policies.
 - v) Benchmark misfit risk, or the risk that the aggregate of individual investment Manager benchmarks in an asset class do not adequately reflect the benchmark for the asset class as a whole, should be explicitly measured on a regular basis.
 - vi) Investment Managers are generally hired to fulfill a specific role in a portfolio. Accordingly, ACERA believes it is important that ACERA monitor the extent to which Managers comply with their stated style and mandates.
- b) ACERA believes that successful funding and investment decisions require a long-term perspective on the part of the Board and management:
- i) It is the intention of the Retirement Board that commitments to asset classes and investment strategies should involve long time horizons that may include more than one business cycle (3-5 years each). Relatively illiquid asset classes may require even longer time horizons.
 - ii) The Board acknowledges that commitments to individual investment Managers also require a long time horizon of at least one business cycle (3-5 years).
 - iii) ACERA believes that proper reporting and monitoring systems; and clear communication among Consultants, management, investment Managers and the Board will enable the Board to maintain the necessary long term perspective on all investment decisions.

Implications

- Assessing the investment performance relative to appropriate, pre-determined, benchmarks is as applicable to the total portfolio and to individual asset classes as it is for individual investment Managers and, therefore, warrants a commensurate share of the Board's time and attention.
- The Board will spend relatively little time assessing the performance of the Fund relative to that of comparable pension funds.
- ACERA will need either to develop in-house capabilities to measure benchmark-related risk regularly or to purchase such capabilities from external investment Consultants.
- ACERA will monitor all investment Managers to ensure they are complying with their stated investment style, regardless of whether they are performing well or poorly. Strongly performing Managers who are found not to be following their stated styles will be carefully scrutinized and may be subject to disciplinary action.
- ACERA will monitor all investment providers to ensure compliance with ACERA's "General Investment Guidelines, Policies and Procedures."

SCHEDULE VII

CHARTER OF ACERA'S INVESTMENT COMMITTEE OF THE BOARD

To identify issues pertinent to the effective management of the investment portfolio, initiate analysis of such issues by management or consultants, review all policy recommendations by staff and consultants, provide recommendations to the Board for adoption, and oversee the implementation of the investment program. Specific responsibilities include:

1. The Investment Committee shall review recommendations of staff and consultants and in turn provide its own recommendations to the Board on all investment policies, including investment philosophy, requiring Board approval. Said policies shall normally be contained in, or appended to, the *ACERA General Investment Guidelines, Policies and Procedures*.
2. The Investment Committee shall review and recommend additional policies for the Board's approval as requested by the Board and in accordance with the Policy Development Process.
3. The Investment Committee shall review recommendations of staff and consultants and in turn provide its own recommendation for Board approval on the following matters:
 - a) Appointment of Investment Managers;
 - b) Appointment of the Investment Consultants;
 - c) Appointment of the Custodian Bank.
4. The Investment Committee shall monitor the investment program of ACERA in accordance with all relevant policies of the Board. In general, the Investment Committee shall monitor:
 - a) Compliance with and continued appropriateness of all ACERA investment policies;
 - b) Progress towards achievement of investment goals;
 - c) Progress towards implementation of the ACERA budget and Business Plan with respect to investments; and
 - d) Cost effectiveness of the ACERA investment program.
5. In accordance with the provisions of the Open Meeting Law, the Investment Committee shall allow adequate opportunity for input from the public and shall respond to such input in a manner that reflects the Committee members' fiduciary duties as trustees of the Plan.

Frequency of Meetings

The Investment Committee shall generally meet monthly on the second Wednesday of the month, but may meet more or less frequently as required.

Committee Composition

The Investment Committee shall be composed of all Board members, one of whom shall serve as Committee Chair. Alternate members shall serve on the Investment Committee as provided by law.

Staff Contact

The Chief Executive Officer shall appoint a staff person to serve as a staff contact to the Investment Committee.

SCHEDULE VIII

ACERA

TABLE OF AMENDMENT DATES

AMENDING RESOLUTIONS

Jun. 27, 1985	Jun. 10, 1993
Oct. 10, 1985	Jul. 8, 1993
Jan. 9, 1986	Nov. 18, 1993
Jan. 16, 1986	May. 14, 1994
Mar. 13, 1986	Aug. 18, 1994
May. 22, 1986	Nov. 20, 1994
Sep. 11, 1986	Feb. 16, 1995
Oct. 9, 1986	May. 18, 1995
Nov. 20, 1986	Jan. 16, 1997
May. 14, 1987	Aug. 20, 1998
Aug. 13, 1987	May 20, 1999
Oct. 8, 1987	Jan. 31, 2000
Apr. 21, 1988	Apr. 19, 2001
Jul. 28, 1988	Jul. 18, 2002
Jan. 29, 1989(4)	Feb. 21, 2003
Apr. 13, 1989(5)	Feb. 19, 2004
May. 18, 1989	Feb. 17, 2005
Jul. 13, 1989	Jul. 20, 2006
Aug. 10, 1989	Jun. 21, 2007
Nov. 16, 1989(2)	Sep. 18, 2008
Jul. 11, 1991	May 20, 2013
Jun. 11, 1992	

ADDENDUM

Real Return Pool

I. SCOPE

In April 2011,¹⁵ the ACERA Board of Retirement adopted the establishment of a Real Return Pool Asset Class with a target allocation of 5% of the total Fund. This Addendum is an integral part of the Policy. If there is any conflict between this Addendum and the Policy pertaining to investments in the Real Return Pool asset class, this Addendum prevails.

II. DEFINITION

Real Return Pool investments consist of Real Assets that are expected to produce positive returns with a bias toward periods of unexpected U.S. inflation and increasing U.S. inflation expectations. The strategy is 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 absolute returns by under- and over-weighting the strategic risk target of the various inflation sensitive instruments and securities. Instruments and securities employed include, but are not limited to, commodity futures and swaps on commodity futures, global exchange-traded equities issued by publicly held corporations in natural resource related sectors, publicly-traded real estate investment trusts (“REITs”), treasury inflation protected securities (TIPS) and currency forwards. It is expected that the Real Return Pool portfolio will also consist of short positions in equity index futures and currency forwards used to hedge partially the equity exposure of the portfolio. Limited leverage and short positions are employed to build certain hedging and long investment positions in the Real Return Pool portfolio. All Real Return Pool investments/strategies are Alternative Investments.

¹⁵ ACERA Investment Committee, April 13, 2011; ACERA Board of Retirement, April 22, 2011.

III. PURPOSE/OBJECTIVE

Real Return Pool investments are principally intended to hedge against inflation, provide significant real returns during periods of unexpected or rising U.S. inflation, and provide long-term protection of purchasing power. Real Return Pool Assets are expected to exhibit low correlations to equity or fixed income assets and thus provide an additional diversifying benefit to the overall ACERA portfolio.

IV. INVESTMENT PARAMETERS/DIVERSIFICATION

The Real Return Pool will invest in a broad, diverse set of inflation-hedging and return-seeking instruments. The Real Return Pool portfolio should generally provide return and risk above bonds but below equity, with generally low correlations to both asset categories.

V. TARGET ALLOCATION

The target allocation to the Real Return Pool Asset Class is 5% of the total Fund.

<u>Class</u>	<u>Target</u>	<u>Range</u>
Commodities	40%	30-50%
Other Inflation Hedging Assets	60%	50-70%

It is expected that the Real Return Pool assets will be managed on a discretionary basis by investment managers under specific investment guidelines which are consistent with the intent of this Addendum.

VI. INVESTMENTS

Real Return Pool investments include, but are not limited to, the following:

1. Commodities
2. Treasury Inflation Protected Securities (TIPS), Inflation Break-evens
3. Developed and Emerging Market Currencies
4. Natural Resources Related Equities
5. Gold, Other Precious Metals
6. Publicly-traded Real Estate Investment Trusts (REIT's)
7. Hard Assets
8. Farmland, Timber
9. Publicly-traded Energy Master Limited Partnerships (MLP's)
10. Infrastructure
11. Other Inflation-Hedging Assets

VII. BENCHMARK

Core Consumer Price Index Plus 300 Basis Points Annualized



**ALAMEDA COUNTY
EMPLOYEES RETIREMENT ASSOCIATION**

**REAL ESTATE STRATEGIC PLAN
OBJECTIVES, POLICIES AND PROCEDURES**

Approved September 11, 2013

The Townsend Group

Cleveland San Francisco London Hong Kong

TABLE OF CONTENTS

I.	Scope	1
II.	Purpose	1
III.	Investment Objectives	2
	A. Asset Allocation	2
	B. Return Objectives.....	2
IV.	Investment Policies	2
	A. Portfolio Composition	2
	B. Risk Management	4
	1. <i>Defined Roles for Participants</i>	4
	2. <i>Investment Structures</i>	4
	3. <i>Diversification</i>	5
	4. <i>Leverage</i>	6
	5. <i>Investment Size</i>	7
	6. <i>Valuations</i>	7
	C. Discretionary Authority	8
	1. <i>Individually Managed Accounts</i>	8
	2. <i>Commingled Funds</i>	8
V.	Investment Procedures	8
	A. Individually Managed Accounts	8
	1. <i>Manager Selection Process</i>	9
	2. <i>Investment</i>	9
	3. <i>Control and Monitoring</i>	9
	B. Commingled Funds	10
	1. <i>Commingled Fund Selection Process</i>	10
	C. Performance Measurement Reports	11
Schedules		
	Schedule I—Manager Structure Targets.....	13
	Schedule II—Policy Index for Real Estate and Benchmark for Real Estate Managers	14
Appendices		
	Appendix A – Defined Roles of Participants.....	15

I. SCOPE

The Real Estate Strategic Plan: Objectives, Policies and Procedures ("R/E Policy") governs all investments in the Real Estate asset class made by Alameda County Employee's Retirement Association ("ACERA"). The R/E Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA's General Investment Guideline, Policies and Procedures ("General Policy"). If there is any conflict between this R/E Policy and ACERA's General Policy pertaining to investments in the Real Estate asset class, this R/E Policy prevails. The ACERA Board ("Board") reserves the right to amend, supplement or rescind this R/E Policy at any time.

II. PURPOSE

The purpose of this Policy is to 1) set forth the real estate investment policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which real estate investment opportunities are to be measured; and 3) serve as a governance document and guide to the ongoing oversight of ACERA's Real Estate Portfolio ("R/E Portfolio") on a consistent basis. The Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee ("Investment Committee"), the ACERA Staff ("Staff"), the ACERA Real Estate Consultant ("Consultant") and the Real Estate Investment Managers hired by ACERA to manage its assets ("Investment Managers").

It is expected that this 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.

ACERA has determined that, over the long term, inclusion of equity real estate investments should provide the following benefits (in order of relative importance):

- Lower portfolio risk due to low correlation with other portfolio asset classes
- Generate a stable, predictable income stream to assist in meeting cash flow needs
- Provide growth through appreciation
- Serve as a hedge against unanticipated inflation
- Provide an opportunity to enhance portfolio return through higher total return investments

In order to achieve the above benefits, this document establishes the specific objectives, policies and procedures involved in the implementation and oversight of the Association's real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and

oversight of said policies.

III. INVESTMENT OBJECTIVES

A. Asset Allocation

ACERA has approved a long-term asset allocation target of six percent (6%) for investment in equity real estate investments.

B. Return Objectives

The Board has determined that the primary objective for the real estate asset class will be to provide a source of return that improves the diversification of the overall investment portfolio, as real estate investments generally have low or negative correlations to traditional asset classes. The secondary objective for the asset class will be to achieve total returns¹ that are predominantly attributable to income¹.

The Board seeks to achieve total net returns equivalent to the net returns of the National Council of Real Estate Investment Fiduciaries Fund Index Open-End Diversified Core Equity Index ("NFI-ODCE" or "ODCE") as a minimum return for the total portfolio over rolling five-year periods.

IV. INVESTMENT POLICIES

A. Portfolio Composition

The universe of private equity real estate investment strategies ('styles') can be divided into three primary categories: (1) Core, (2) Value-Added, and (3) Opportunistic. The style groups are defined by their respective market risk/return characteristics:

Core Characteristics

- Operating and substantially leased (greater than 80%) core quality properties;
- Property types include office, apartment, retail, industrial;

¹ Total return is comprised of two components: income and appreciation. Income is defined as operating income from real estate after expenses and leverage but before the deduction of capital items (e.g. roof replacement, renovations, etc). Investment managers maintain control over the timing and amount of income that is distributed to Limited Partners in the form of cash, but it is reasonable to expect at least 50% of reported income will be distributed as cash. Appreciation / depreciation is defined as an increase or decrease in investment value based on an internal or third party appraisal or mark-to-market.

- Total return is primarily attributable to income; (generally 50% of total return);
- 0% to 50% leverage.

Value-Added Characteristics

- Institutional quality properties with identifiable deficiencies such as lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments in order to reach stabilization;
- Strategies may include traditional (office, apartment, retail, industrial) or niche property types with demonstrated capital demand for disposition;
- Total return is attributable to a balance between income and appreciation;
- May include the use of leverage up to 65% Loan-to-Value.

Opportunistic Characteristics

- Properties or real estate companies offering recapitalization, turnaround, development, market arbitrage opportunities or offshore investments;
- No property types are excluded, and properties may include business operations (e.g. hotels, congregare care), as well as, office, apartment, retail, and industrial;
- Total return is primarily attributable to appreciation.

With respect to the three style groups, the Board has established the following portfolio composition target¹:

Style	Return Benchmarks (Net of Fees)
> 70% Core	ODCE
0% - 30% Value-Added	NCREIF Open-End Diversified Value Index ("ODVE")
0% - 15% Opportunistic	NCREIF/Townsend Opportunistic Funds Index

All investments will be classified based upon the strategy advocated at inception of the investment.

¹ Refer to Schedule II: ACERA's policy index for Real Estate and Benchmarks for Real Estate Managers.

B. Risk Management

The primary risks associated with equity real estate investments relate to property type and geographic selection, illiquidity, investment manager risk, portfolio management risk and loss of principal. The following policies have been established to prudently manage and mitigate the risks involved in investing in equity real estate.

1. *Defined Roles for Participants*

All program participants must comply with ACERA policies, guidelines and contracts in addition to the conditions listed in this Strategic Plan. Additional roles and responsibilities specific to the real estate portfolio are detailed in Appendix A of this document.

2. *Investment Structures*

ACERA recognizes that, regardless of investment vehicle, real estate is an illiquid asset class. Vehicles that maximize investor control of the assets are preferred, particularly in Core and Value-Added investments. ACERA also recognizes that the Opportunistic style requires the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

ACERA will utilize the following investment structures:

a) Individually Managed Accounts

The Core investment style is considered to be less risky (thereby providing lower returns) than higher returning investments. The lower risk assigned to stabilized investments is due to three primary characteristics: (1) the level and predictability of the income generated; (2) the higher proportion of the total return attributable to income; and (3) the limited use of debt (0% to 50%) usually associated with the style.

For the Core component, the ACERA portfolio may purchase assets on a wholly owned basis through Individually Managed Account ("IMA") or Commingled Funds ("CF(s)").

b) Commingled Funds

The Value-Added and Opportunistic investment styles seek to provide higher returns with higher risk than the Core component of the portfolio. Value-Added

investments depend upon the successful completion of an active management strategy and a timely disposition of the asset(s). Value-Added investments often use higher levels of debt, as compared to Core investments, to further increase total return expectations. Opportunistic investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering, non-domestic markets) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion and a significant level of diversification.

In order to mitigate the increased risks associated with the style exposure, ACERA will make investments in the Value-Added and Opportunistic components through the ownership of units or shares of CF structures. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations. The Association will invest in CFs in accordance with the procedures detailed in Section IV. B.

3. *Diversification*

To minimize the adverse impact of any single style, strategy, manager or investment property, the Association will seek to diversify its equity real estate portfolio by property type, property location, investment style, investment strategy, and manager.

Property Types and Location

Exposure to any single property type (i.e. office, retail, apartment, industrial) or geographic region (East, Mid-West, West or South) will be within a range of zero percent (0%) to forty percent (40%), excluding the Oakland Office Building. Any single property type or region found to be in excess of forty percent (40%) of the **total** real estate portfolio target must be approved as an exception by the Committee and Board.

Each IMA portfolio will be monitored through the use of annual Manager Investment Plans. Managers will be allowed to target the property type and locations each firm believes are most likely to provide the best risk adjusted returns based on their supporting research findings. However, any single property type or geographic region found to be in excess of the forty percent (40%) limit will be excluded from the ensuing years potential investments unless specifically approved by the Committee and Board.

Selection of specific CF investments will provide enhanced diversification characteristics based on its complimentary strategy/style so as to increase diversification benefits within the real estate portfolio.

Investment Style/Strategy

The risk profile of the real estate portfolio will be managed through the maintenance of the approved style composition (\geq 70% Core; 0%-30% Value-Added; 0%-15% Opportunistic) when allocating capital.

Investment Vehicles/Managers

a) Individually Managed Accounts (“IMA”)

Historical data indicates that there are low or negative correlations between different manager organizations. As such, when investing through IMA’s, ACERA will implement a multiple IMA manager program in order to minimize volatility. Diversification across the **aggregate** IMA portfolio will be primary; diversification within a single IMA portfolio will be secondary.

b) Commingled Fund (“CF”)

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Value-Added and Opportunistic allocation and/or the total portfolio. CFs will provide reporting which will allow the Association to monitor its geographic and property type diversification.

4. *Leverage*

The Association has approved leverage limits in order to maximize returns to the total portfolio with minimum risk. The Board has approved a maximum of forty percent (40%) leverage for the total portfolio. In addition, targets are established for each investment style based on the risk/return profile of the underlying investments. At no time shall the origination of leverage exceed the established limits on a loan-to-value basis. In the event that either the portfolio level and/or style level leverage constraint is breached due to a contraction in market values, the Association’s Staff and Consultant will notify the Board and make a recommendation for action or exception.

a) Core

b) Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at

relatively low risk to enhance return. Core opportunities accessed through CFs will have pre-specified leverage limits stated in the offering documents. Core CF leverage will generally be limited to 40% at the portfolio level. For any single Core IMA asset, third-party debt will be limited to fifty percent (50%) of the market value of the asset, must provide positive debt-service coverage, be non-recourse and add a minimum of three basis points (3 bps) of additional return to the unleveraged internal rate of return for each one percent (1%) leverage. Property specific debt will be monitored through the Manager Investment Plans and Preliminary Investment Packages. Value-Added

Investments classified as Value-Added generally provide a higher proportion of appreciation, as compared to income, than Core assets. Value-Added opportunities accessed through CFs will have pre-specified leverage limits stated in the offering documents. Value-Added CF leverage will generally be limited to 65% at the portfolio level. For any single Value-Added IMA asset, third-party debt will be limited to fifty percent (50%) of the market value of the asset, must provide positive debt-service coverage, be non-recourse and add a minimum of three basis points (3 bps) of additional return to the unleveraged internal rate of return for each one percent (1%) leverage. Property specific debt will be monitored through the Manager Investment Plans and Preliminary Investment Packages.

c) Opportunistic

Investments classified as Opportunistic investments often utilize third-party debt as an integral part of their total return strategy. Such investments will be made through CFs and will therefore have a specified leverage target or maximum stated in the offering documents.

5. *Investment Size*

The IMA manager(s) will maintain a minimum, equity investment of five (\$5) million for any single asset so as to ensure that assets are of institutional quality. The preference is for larger assets except where property type limits total value (e.g. individual industrial assets). At no time shall the net investment amount in a single property within an IMA account exceed ten percent (10%) of the net investment value of the total ACERA targeted real estate portfolio. The Association's investment in any single CF may not exceed 20% of the total net asset value of the CF at offering.

6. *Valuations*

Annually, in the quarter of the anniversary date of each asset acquisition, the

Manager will arrange for valuations for such assets and will provide ACERA with valuations for all properties for which it has asset management responsibilities. Unless specifically directed by ACERA, the valuation will be prepared by a qualified independent third party entity (MAI) beginning on the third anniversary of ownership and every third year of ownership thereafter. Interim valuations may be conducted by the manager. This policy does not apply to the Fund's commingled fund investments, where the Fund does not have control over the appraisal policies or implementation of appraisal practices.

All materials generated by the independent third party will be copied to ACERA for record keeping. Valuation adjustments made in the interim periods will be documented in a memo to ACERA and retained for record keeping.

C. Discretionary Authority

The Board controls the delegation of discretion. The Policies and Procedures described herein are structured to control investment risk.

1. *Individually Managed Accounts*

The Association will utilize established procedures for the evaluation of the performance, acquisition, management and disposition of wholly owned assets.

2. *Commingled Funds*

CFs are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in CF investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to CFs extending greater investor rights (eg. redemptions, termination, and alignment). Investments made in CFs are monitored for compliance with vehicle documents through quarterly performance measurement procedures.

V. INVESTMENT PROCEDURES

The ACERA Annual Real Estate Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Real Estate Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section III.A-C.

A. Individually Managed Accounts

The following procedures will be utilized for selection of IMA Managers if requested by the Board.

1. *Manager Selection Process*

- a) Working with Staff, the Consultant shall establish qualification criteria consistent with the purpose of the search.
- b) Working with Staff, the Consultant shall establish evaluation areas, desired levels of competency and respective weightings for evaluation factors.
- c) Working with Staff, the Consultant may prepare a Request for Proposal (RFP) to further define Manager capabilities specific to the candidates and the evaluation factors previously defined.
- d) When appropriate, the RFP shall be published and/or forwarded to the Manager candidates.
- e) Working with Staff, the Consultant shall review and evaluate RFP responses, identify material issues related to each candidate, including proposed fee structures.
- f) Investment Committee ("Committee") shall select finalists for interview/formal presentations based on the recommendation of Staff and Consultant.
- g) Committee recommends the Manager selection to the Board for approval.

2. *Investment*

- a) **Manager Investment Plan**
Each IMA Manager shall prepare an annual Manager Investment Plan, which sets forth the investment criteria for said Manager's allocation including the reinvestment of proceeds from sales or refinancings. The investment criteria shall be consistent with the approved Strategic Plan and Investment Plan.
- b) **Preliminary Investment Package**
Prior to making an investment, the Manager shall provide a Preliminary Investment Package to Staff and Consultant. The preliminary package shall include a compliance analysis of the investment relative to the currently approved Manager Investment Plan and the ACERA Strategic Plan and Investment Plan, including a projected hold/sell analysis for the proposed asset. Additional materials to be included are: a locator map, photograph, site plan, a

financial summary including cash flow projections, metropolitan market overview, no less than a five year lease expiration schedule, and a list of major tenants.

3. *Control and Monitoring*

a) Budget and Management Plan

Not less than 60 days after the end of the calendar year, each IMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate IMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly distribution projections.

Not more than 90 days after the end of the calendar year, Staff and Consultant will meet with the Manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

b) Annual Disposition Review

IMA Managers shall provide an annual disposition analysis of each asset under management. The disposition analysis shall include hold/sell scenarios over long and short-term periods and incorporate an opportunity cost analysis. In addition, the Manager will provide a discussion of the current condition of the market in which each asset is located.

The Annual Disposition Review shall be included in the Budget and Management Plan.

B. Commingled Funds

The following procedures will be utilized in the selection, closing and monitoring of specific CF investments.

1. *CF Selection Process*

- a) The Consultant will maintain an ongoing review of offerings within the institutional market place and, based on due diligence findings, refer appropriate CF investments to Staff.
- b) Staff shall review the Consultant recommendations for compliance with agreed upon due diligence procedures for each fund recommendation.
- c) Staff shall verify and opine as to the compliance of each recommended fund with the approved Strategic and Investment Plans.
- d) Staff shall arrange presentations to the Committee in order to allow the Committee to recommend a selection to the Board for approval.

C. Performance Measurement Reports

On a quarterly basis, the Consultant will prepare a report and evaluation of the real estate portfolio relative to the Strategic Plan. The evaluation shall provide such information as may be required by the Association to understand and administer its investments and Managers.

The content of the report shall include return analysis for both the investment managers and the total portfolio including: income, appreciation, gross and net returns for the portfolio and each manager, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and Strategic Plan and Investment Plan compliance.

Quarterly reports will also provide the ACERA Staff and Board with notification of any manager appearing on the ACERA 'Watch list' for additional oversight and evaluation.

Watch List Qualification

- 1. A manager may be placed on the Watch List at any time for material organizational changes or instability. Material organizational changes may include, but are not limited to, key personnel changes, ownership changes or other firm level issues.
- 2. A manager will automatically be placed on the Watch List if net of fee performance falls below the net of fee performance of the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three or five year rolling returns).

Watch List Removal

- 1. With respect to material organizational changes, a manager may be removed from the Watch List after a minimum one year period and with satisfaction by and

recommendation from the Staff and Consultant. The Staff and Consultant will provide notification to the Board when such changes are made.

2. With respect to performance, any manager placed on the Watch List for underperformance will automatically be eligible for removal from the Watch List once net of fee performance exceeds the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three, or five year rolling returns).

The Consultant shall prepare and forward to the Association's Staff, a Performance Measurement Report within ninety (90) days following the last day of each quarter pending receipt of all manager supplied data requests.

Schedule I

Manager Structure Targets

No manager may represent more than 35% of ACERA's total real estate target allocation. Other guidelines are set forth in the chart below.

Style	Target Allocation within Asset Class
Core Investments	70%
Value-Added Investments	30%

Schedule II

Policy Index for Real Estate and Benchmarks for Real Estate Managers

POLICY INDEX FOR REAL ESTATE PORTFOLIO

RETURN BENCHMARKS FOR REAL ESTATE MANAGER

Style	BENCHMARK (Net of Fees)
Core Investments	NCREIF Open-End Core Diversified Equity Index ("ODCE")
ACERA Oakland Building Portfolio	ODCE
Clarion Lion Industrial Trust ¹	ODCE
Heitman America Realty Trust (HART) ¹	ODCE
Jamestown Premier Property Fund	ODCE
JP Morgan Strategic Property Fund	ODCE
PRISA	ODCE
RREEF Core Separate Account (Takeover) ²	ODCE
UBS Trumbull Property Fund ¹	ODCE
Value-Added Investments	NCREIF Open-End Value Diversified Equity Index ("ODVE")
AEW Value Investors II	ODVE
CIM Urban REIT	ODVE
CIM VI-2 (Urban REIT)	ODVE
Heitman Value Partners II	ODVE
JP Morgan Alternative Property Fund ²	ODVE
PRISA II	ODVE
PRISA III ³	ODVE

1 Approved by ACERA in 2012.

2 Funds will be removed from the ACERA Portfolio upon full liquidation due to redemption and/or wind-down.

3 Approved by ACERA in 2013.

Appendix A

The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Investment Committee ("Committee"), Staff, Real Estate Consultant ("Consultant") and Investment Managers ("Manager" or "Managers"). Set forth below is the delegation of the major responsibilities of each participant.

Responsibilities of the ACERA Board

- Approves Committee recommendations.

Responsibilities of the Investment Committee

- Reviews the Strategic Plan (Objectives, Policies and Procedures) and the Investment Plan for the real estate program.
- Reviews annual Manager Investment Plans ("MIP").
- Evaluates the selection and/or termination of Managers and Real Estate Consultants, and recommends such selection and/or termination to the Board for approval.
- Conducts the Annual Real Estate Portfolio Review.
- Reviews the real estate portfolio to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.
- Makes recommendations to the Board for approval.

Responsibilities of the ACERA Staff

- Recommends the Strategic Plan and the Investment Plan to the Committee.
- Ensures compliance with investment policies, objectives and procedures and with contracts by consultants and by managers.
- Implements Board and Committee decisions.
- Provides day-to-day oversight of program activities.
- Makes recommendations to the Committee regarding the management of the portfolio.
- Monitors the performance of managers.
- Completes any other activity as directed by the Committee and/or Board.

Responsibilities of the Consultant

- Recommends the Strategic Plan and the Investment Plan to the Committee.
- Makes recommendations to the Committee regarding ACERA's real estate portfolio.
- Brings any non-conforming items or significant issues to the attention of the Staff, Committee and/or Board.

- Prepares the Strategic Plan (with annual reviews) and Real Estate Investment Plan and, in conjunction with Staff, presents the Plans to the Committee for review no later than May 31st of the Plan year.
- Prepares the Annual Real Estate Portfolio Review including the review of annual Budget and Management Plans prepared by Managers and, in conjunction with Staff, recommends approval to the Committee.
- Oversees Manager preparation of annual Manager Investment Plans, and, in conjunction with Staff, presents Plans to the Committee.
- Reviews Preliminary Investment Packages (submitted by IMA Managers) for program compliance.
- Presents portfolio performance reports (as described in Section IV.C. of this document) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans to the Committee quarterly.
- Provides any additional real estate related information (within the agreed upon scope of work) as requested by the Board and ACERA Staff.

Responsibilities of the Manager

- Provides performance measurement data in form and substance as requested by the Association or its Consultant.
- Promptly reports any non-conforming items or significant issues to the Staff or Consultant.
- Provides any additional real estate related information as requested by the Board, ACERA Staff and the Consultant.
- Attends ACERA's meetings as requested.

Individually Managed Account Managers:

- Acquires, manages and disposes of assets on behalf of ACERA.
- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA") and the National Association of Real Estate Investment Managers ("NAREIM") ("Information Standards").
- Provides quarterly financial statements and annual reports to Staff and Consultant.
- Prepares Manager Investment Plans (as described in Section IV.A.2a of this document) to be submitted to Staff and Consultant.
- Prepares Preliminary Investment Packages (as described in Section IV.A.2b of this document) to be submitted to Staff and Consultant.
- Prepares Budget and Management Plans (as described in Section IV.A.3a of this document) to be submitted to Staff and Consultant.

- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review (as described in Section IV.A.3b of this document).
- Prepares an Annual Disposition Review (as described in Section IV.A.3c of this document).

Commingled Fund Managers:

- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA") and the National Association of Real Estate Investment Managers ("NAREIM") ("Information Standards").
- Provides all compliance reports, including quarterly financial statements and annual reports to Staff and Consultant.
- Executes and performs its responsibilities under the terms of the investment vehicle documents.
- Provides timely notices for capital contributions and distributions.
- Conducts annual portfolio review meetings with the Consult, Staff, the Committee and/or the Board, and provides timely information to discuss important developments regarding investment and management issues.