



Date: May 15, 2019
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of May 15, 2019 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, May 15, 2019 at 9:32 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Elizabeth Rodgers and George Wood. Also present was Alternate Retired member, Nancy Reilly. Members of the Staff present were Dave Nelsen – Chief Executive Officer, Kathy Mount – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

Action Items: Matters for discussion and possible motion by the Committee

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an up to \$60 million Investment in Great Hill Equity Partners VII as part of ACERA’s Private Equity Portfolio – Buyouts and Venture Capital
 - Representatives from Great Hill Equity Partners presented to the Committee the history, experience, and culture of the firm. In addition, the representatives discussed Great Hill’s investment strategy and process as well as the ongoing investment opportunity set for Great Hill Equity Partners VII (Great Hill VII). Great Hill also reviewed the performance of certain of its prior Funds in which ACERA invested , - Great Hill IV, Great Hill V and Great Hill VI
 - Verus Advisory, Inc. (Verus) reiterated the importance of strategy diversification within the total Private Equity portfolio, and explained that Great Hill’s differentiated strategy exhibits investment characteristics resembling both more traditional Buyout and Venture Capital funds. In order to accurately attribute the performance of Great Hill VII within the total Private Equity portfolio, the recommended \$60 million allocation will be parsed into the broader sub-asset classes of Buyouts (\$35 million) and Venture Capital (\$25 million).
 - After further discussion, Trustee Basgal moved, seconded by Trustee Amaral, to recommend that the Board approve an up to \$60 million investment in Great Hill Equity Partners VII as part of ACERA’s Private Equity Portfolio – Buyouts and Venture Capital pending completion of legal and investment due diligence and successful contract negotiation.
 - The motion carried with 7 Yes (Amaral, Basal, Godfrey, Koppenhaver, Levy, Rogers, and Wood), 1 No (Gamble), and 0 Abstention.

2. Discussion of and Possible Motion to Recommend to the Board to Adopt Alternative #2 in the Asset — Liability Integration Study
 - Representatives from Verus highlighted the key points from their t Asset Liability Integration Study which was initially presented as an Information Item at the April 2019 Investment Committee meeting. Verus had recommended Alternative #2 as the most appropriate Policy target for ACERA to adopt.
 - Alternative #2 has the same expected return of 6.7% (10- year forecast) as the current ACERA Policy based on Verus' capital market expectations and is a more conservative asset mix in that it has a slightly lower expected return with slightly lower risk (volatility) when compared with Alternative #1.
 - Note that Alternative #1 has a slightly greater allocation to equities versus current policy, whereas Alternative #2 has slightly greater exposure to credit risk compared with current policy. Alternative #2 offers slightly more down-side protection and therefore more effectively than Alternative #1, in minimizing the deterioration of the funded status of the Plan in the event of a global financial crisis-like market event. In Verus' Enterprise Risk Tolerance survey, ACERA's Trustees ranked minimizing deterioration of funded status as one of the most important long term objectives of the ACERA Board
 - After further discussion, Trustee Basgal moved, seconded by Trustee Wood, to recommend that the Board to adopt Alternative #2 in the Asset — Liability Integration Study
 - The motion carried with 6 Yes (Basgal, Godfrey, Koppenhaver, Levy, Rogers, and Wood), 2 No (Amaral and Gamble), and 0 Abstention.

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports

1. Education Session: Timberland

- A representative from Verus provided an overview of the Timberland asset class. The presentation included a summary of Timberland’s return drivers, history, risks, and ESG and other investment considerations. The Committee discussed the inflation and economic sensitivity of the asset class as well as its diversifying characteristics.

2. Real Assets Policy Update: Modification of Index Name in Benchmark Composite

- Staff updated the Committee regarding a changed index in the Real Assets Policy. The natural resources index in the asset class’s composite benchmark shall be modified from the “S&P Global LargeMidCap Natural Resources Index” to the “S&P Global LargeMidCap Commodity and Resources Index”.

Recommendations:

- The Committee recommends, and I move, that Board Approve an up to \$60 million Investment in Great Hill Equity Partners VII as part of ACERA's Private Equity Portfolio – Buyouts and Venture Capital pending completion of legal and investment due diligence and successful contract negotiation.
- The Committee recommends, and I move, that the Board to Adopt Alternative #2 in the Asset — Liability Integration Study

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, June 12, 2019 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 12:05 p.m.