



Date: June 12, 2019  
To: Members of the Board of Retirement  
From: Elizabeth Rogers – Chair  
Subject: Summary of June 12, 2019 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, June 12, 2019 at 9:34 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Tarrell Gamble, Jaime Godfrey and Elizabeth Rogers. Also present were Alternate Safety Member, Darryl Walker and Alternate Retired member, Nancy Reilly. Members of the Staff present were 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 \$33 million Investment in Altas Partners Holdings II as part of ACERA’s Private Equity Portfolio – Buyouts
  - The founder of Altas Partners, Andrew Sheiner, outlined the firm’s history, culture, and collective private equity experience to the Committee. In addition, Mr. Sheiner discussed Altas’ general investment strategy and process as well as the specific investment opportunity set for Altas Partners Holdings II (the “Fund”). The Fund’s strategy is to target high quality businesses and have a flexible holding period in order to maximize value. The Fund will be extremely discerning and make only one or two investments per year during the investment period.
  - After discussion, Trustee Basgal moved, seconded by Trustee Amaral, to recommend that the Board approve an up to \$33 million investment in Altas Partners Holdings II as part of ACERA’s Private Equity Portfolio – Buyouts pending completion of legal and investment due diligence and successful contract negotiation.
  - The motion carried with 5 Yes (Amaral, Basgal, Gamble, Reilly, and Rogers), 1 No (Godfrey), and 1 (Walker) Abstention.

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

1. Review of Pzena Investment Management, LLC (Traditional Manager – Large Cap Value)
  - William Lipsey and John Flynn from Pzena Investment Management, LLC discussed the firm’s long-term, deep value investment philosophy, investment strategy, portfolio

characteristics, and performance. Staff review found Pzena to be in compliance with ACERA's reporting requirements, but noted the manager's ongoing underperformance relative to the account benchmark.

- As of 3/31/2019, Pzena's 5-year net return was 6.64%, underperforming its account benchmark (Russell 1000 Value) by 1.08%. The value of ACERA's U.S. equity large cap value account was \$165,287,966. Staff and Verus will continue to discuss possible options for this investment citing its correlation with the Large Cap Growth Manager.

2. Semiannual Performance Review for the Period Ending March 31, 2019 – Equities and Fixed Income

- For the 6-month period ending 3/31/2019, ACERA's Total Fund returned -0.34% net, compared to the Policy Index return of -0.59%. For the year ending 3/31/2019, the Total Fund returned 2.54% compared to the Policy Index of 2.93%. The Total Fund's results ranked in the 68<sup>th</sup> and 80<sup>th</sup> percentile for the semi-annual and one year periods, respectively.
- As of 3/31/2019, the market value of the Total Fund was \$8,168,347,056.

3. Semiannual Performance Review for the Period Ending March 31, 2019 – Absolute Return

- Staff and Verus provided a brief overview of the Absolute Return (AR) Portfolio through March 31, 2019. As of that date, the AR Portfolio had a total market value of \$703 million, representing 8.6% of ACERA's Total Fund (class target is 9.0%). For the one-year period ending March 31, 2019, ACERA's AR Portfolio returned -2.9% versus the HFRI Fund of Funds Composite Index Benchmark return of 0.15%.

4. Semiannual Performance Review for the Period Ending December 31, 2018 – Private Equity

- Verus provided a brief overview of the Private Equity Program through December 31, 2018. As of that date, the Private Equity Portfolio had a total market value of \$519.8 million with a remaining unfunded commitment of \$540.1 million. The reported market value represents 6.8% of the Total Fund as of December 31, 2018 (approximately \$7.6 billion) in comparison to the 9.0% asset allocation target for Private Equity. For the one-year and since inception periods ending December 31, 2018, ACERA's Private Equity Portfolio returned 11.3% and 14.8% vs. the Thomson Reuters C|A Global All Private Equity Benchmark which returned 11.2% and 13.45%, respectively.

5. Semiannual Performance Review for the Period Ending December 31, 2018 – Real Assets

- Verus provided a brief overview of the Real Assets Program as of December 31, 2018. As of that date, the Real Assets Asset Class had a total market value of \$284 million; representing about 3.7% of ACERA's Total Fund (class target is 5.0%). For the one-year

period ending December 31, 2018, ACERA's Real Assets Portfolio returned -10.3% vs. its blended benchmark (50% S&P Global Large Mid Cap Commodity and Resources Index/35% S&P Global Infrastructure Index/15% Bloomberg Commodity Index) return of -11.14%.

- As of December 31, 2018, total commitments to the Real Assets Portfolio, were as \$531.7 million or 7.0% of its class target.

6. Semiannual Performance Review for the Period Ending March 31, 2019 – Real Estate

- Callan presented the semi-annual Portfolio Measurement Report as of 12/31/2018. ACERA's Real Estate portfolio (excluding the Oakland building) returned 3.85% (net) for 2Q2018 and 1.74% (Net) for the quarter ending 3/31/19. For the year ending 3/31/19, our Real Estate portfolio had outperformed its benchmark by 1.16% and valued at \$575 Million.

**TRUSTEE/PUBLIC INPUT**

None

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, July 10, 2019 at 9:30 a.m.

**Adjournment into Closed Session**

Cal. Govt. Code section 54956.81 – Consider the purchase or sale of a specific pension fund investment, and Govt. Code section 54957.1(d) (4) – Anticipated litigation (1 matter)

**Reconvene into Open Session to Report on Action Taken in Closed Session**

The Committee reconvened into open session at 12:29 p.m. and announced that no action was taken.

**ADJOURNMENT**

The meeting ended at 12:30 p.m.