



Date: January 9, 2019  
To: Members of the Board of Retirement  
From: Elizabeth Rogers - Chair  
Subject: Summary of January 9, 2019 Investment Committee Meeting

The Investment Committee ("Committee") met on Wednesday, January 9, 2019 at 9:30 a.m. The Committee members present were Dale Amaral, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Retired member, Nancy Reilly, and Alternate Safety member, Darryl Walker. 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.

1. Interview of the Finalists for ACERA's U.S. Small Cap Growth Manager Search – Domestic Equities and Possible Motion by the Investment Committee to Recommend one Finalist to the Board
  - Staff and Verus Representatives explained to the Trustees the changes in scores for the four finalists after the on-site visits and why William Blair was recommended for the mandate as a better fit for ACERA's U.S. Small Cap Growth Equity allocation.
  - Staff and Verus representatives discussed the relative merits of the two proposed finalists – Kayne Anderson Rudnick (KAR) and William Blair. Both investment management companies have well-thought out investment philosophies and operational processes, with the experience and resources to support the strategy. Staff briefly compared the highlights of each company, e.g., number of holdings, annual turnover, tracking error, information ratio, upside/downside capture ratios, performance, and fees.
  - Representatives from Kayne Anderson Rudnick presented their firm's overview, and discussed their Small Cap Sustainable Growth strategy with the Committee. Included in this discussion were the strategy's investment philosophy and process including risk management. KAR's performance is very stable relative to the Small Cap Growth Index and has substantially outperformed this index over many time periods discussed. Topics of discussion also included the strategy's current overweight to Technology and underweight to Healthcare, the strategy's current AUM, use of ESG considerations in the investment process, and lessons learned from their underperforming investments.
  - Representatives from William Blair presented their firm's overview, and discussed their Small Cap Growth strategy with the Committee. Included in this discussion were the strategy's investment philosophy and process and risk management. In addition, the three different types of investment characteristics the manager utilizes were discussed – Traditional Quality Growth, Fallen Quality Growth, and Undiscovered Quality Growth. The main characteristics of the strategy include higher growth stocks relative to the index but with cheaper prices, less momentum, and greater exposures to smaller market-cap companies. William Blair answered

the Committee's questions about lessons learned from their outperforming and underperforming investments, as well as the use of ESG considerations in their investment process.

- After further discussion, Mr. George Wood moved, seconded by Mr. Dale Amaral, to recommend to the Board to select William Blair as ACERA's U.S. Small Cap Growth Manager – Domestic Equities pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
- The motion carried with 5 Yes (Amaral, Gamble, Koppenhaver, Rogers, and Wood), 1 No (Levy), and 1 Abstention (Godfrey).

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

1. Discussion on Asset – Liability Introduction and Enterprise Risk Tolerance

- Representatives from Verus discussed the upcoming Asset Liability Study (AL Study) that they will be conducting. The AL Study will allow Verus to model the appropriate asset allocation for the fund and determine the policy index. Trustees will receive a questionnaire which will help Verus determine their concerns and risk appetite preferences, and which will help mold the asset allocation and the manager structure of the Total Fund.

2. Proposed Investment Committee Workplan for 2019

- Staff offered the proposed Investment Committee Workplan for 2019 (Workplan) and highlighted examples of various high-level discussion items in the workplan.

**Recommendations:**

- The Committee recommends, and I move, that the Board Approve William Blair as ACERA's U.S. Small Cap Growth Manager – Domestic Equities pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

**TRUSTEE/PUBLIC INPUT**

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, February 13, 2019 at 9:30 a.m.

**ADJOURNMENT**

The meeting ended at 12:09 p.m.