

January 12, 2011

To: Members of the Board of Retirement

From: Keith Carson - Chair

Subject: Summary of the January 12, 2011 Investment Committee Meeting

The Investment Committee met on Wednesday, January 12, 2011 at 9:05 a.m. The Committee members present were Dale Amaral, Keith Carson, George Dewey, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer and Catherine Walker – Acting Chief Executive Officer.

ACTION ITEMS

- There were no Action Items for discussion.

INFORMATION ITEMS

1. Review of capital market conditions and ACERA's portfolio asset allocation

- SIS discussed the challenges in the recent investment environment where the U.S. economy is in a recovery stage post the recession. SIS also explained the methodology behind its asset optimization model and its capital market expectations. SIS further presented ACERA's current portfolio asset allocation targets. As of January 2011, SIS projected that the long-term expected total return and total risk for ACERA's target portfolio would be 7.66% and 13.0%, respectively.
- SIS proposed an allocation of 5% to the Real Return Pool asset class. Staff plans to provide an educational session on the Real Return Pool to the Committee in the near future before recommending a new asset allocation structure for ACERA's portfolio.

2. Annual review of ACERA's real estate managers

RREEF - Core and RREEF America REIT II

- Representatives from RREEF presented an outlook for the general real estate market. They also provided an overview of ACERA's investments in RREEF – Core and RREEF America REIT II including the funds' investment strategies, performance, leverage, debt maturities and return expectations. As of 9/30/10, the NAV of the RREEF core account (excluding the Oakland office building) was \$48.2 million. The one-year gross returns of -5.4% underperformed the account's benchmark NPI by 11.2%, whereas the since-inception (4/1/03) gross returns of 8.9% outperformed the account benchmark NPI by 1.8%. As of 9/30/10, the Net Asset Value (NAV) of the Oakland building was \$26.4

million. The one-year gross return of 10.6% outperformed the account benchmark NPI by 4.8% and the since-inception (4/1/03) gross return of 8.2% outperformed the account benchmark NPI by 1.1%. Since its last annual review, the RREEF core account has been managed in compliance with ACERA's reporting requirements.

- As of 9/30/10, the NAV of ACERA's assets in RREEF America REIT II (RAR II), an open-end Stable commingled fund, was \$19.0 million. The one-year gross return of 10.09% outperformed the account benchmark NPI by 3.33% whereas the since-inception (7/1/06) gross return of -3.63% underperformed the account benchmark NPI by 4.86%. The RAR II account has not changed its investment strategy and has been in compliance with ACERA's reporting requirements since inception.

CIM Urban REIT

- Representatives from CIM presented an overview of ACERA's investment in CIM Urban REIT including the fund's investment strategy, performance, leverage, debt maturities, and return expectations. As of 9/30/10, ACERA has funded \$22.5 million of its \$25.0 million commitment to the fund. The fund's one-year gross return of -4.69% underperformed the benchmark NPI + 150 bps by 12.03%, whereas the since-inception (10/13/06) gross return of 3.35% outperformed the benchmark by 2.54%. The NAV of ACERA's account as of 9/30/10 was \$22.5 million. The CIM Urban REIT has not changed its investment strategy and has been in compliance with ACERA's reporting requirements since inception.

AEW Capital Management

- Representatives from AEW Capital Management presented an overview of ACERA's investment in AEW Value Partners II, including the fund's investment strategy, performance, leverage, debt maturities and return expectations. As of 9/30/10, ACERA has funded \$11.8 million of its \$25.0 million commitment to the fund. The fund has generated a one-year gross return of -1.75%, underperforming its benchmark NPI + 150 bps by 9.09%, and a since-inception (4/17/07) gross return of -22.4%, underperforming its benchmark by 20.67%. The NAV of ACERA's account at 9/30/10 was \$5.8 million. AEW Value Partners II has not changed its investment strategy and has been in compliance with ACERA's reporting requirements since inception.

BlackRock Granite Property Fund

- Representatives from BlackRock presented an overview of ACERA's investment in the BlackRock Granite Property Fund including the fund's investment strategy, performance, leverage, liquidity, and return expectations. As of 9/30/10, ACERA has funded the entire commitment of \$50.0 million in the BlackRock Granite Property Fund. The fund's one-year and since-inception (10/1/07) gross returns of 0.07% and -18.39% underperformed the account benchmark NPI by 5.77% and 13.78% respectively. The NAV of ACERA's account in the BlackRock Granite Property Fund was \$24.9 million. The BlackRock Granite account has not changed its investment strategy and has been in compliance with ACERA's reporting requirements since inception.

Heitman Capital Management

- Representatives from Heitman Capital Management presented an overview of ACERA's investment in Heitman Value Partners II, including the fund's investment strategy, performance, leverage, debt maturities and return expectations. As of 9/30/10, ACERA has funded \$9.8 million of its \$25.0 million commitment to the fund. The fund has generated a one-year gross return of 0.24%, underperforming its benchmark of NPI + 150 bps by 7.10%, and a since-inception (2/15/07) gross return of -23.11% for ACERA, underperforming its benchmark by 18.51%. The NAV of the ACERA's account at 9/30/10 was \$5.2 million. Heitman Value Partners II has not changed its investment strategy and has been in compliance with ACERA's reporting requirements since inception.

JPMorgan Strategic Property Fund

- Representatives from JPMorgan presented an overview of ACERA's investment in the JPMorgan Strategic Property Fund (SPF) including SPF's investment strategy, performance, leverage, liquidity and return expectations. As of 9/30/10, ACERA has funded the entire commitment of \$50.0 million in the JPMorgan SPF. SPF's one-year gross return of 5.8% matched the account benchmark NPI whereas the since-inception (12/5/07) gross return of -9.9% underperformed the account benchmark by 3.8%. The NAV of ACERA's account in the JPMorgan SPF was \$36.4 million. The JPMorgan SPF account has not changed its investment strategy and has been in compliance with ACERA's reporting requirements since inception.

3. Proposed Investment Committee Workplan for 2011

- Staff proposed a draft Investment Committee Workplan for 2011 (Workplan). The final Workplan will be included in the February Investment Committee Meeting (ICM) package. However, content of the Workplan is subject to change without prior notice.

4. Oral update on ACERA's currency manager search

- Staff reported that the Request for Information (RFI) was sent to eleven institutional quality currency managers. All RFI candidates for the currency manager search have expressed interest in responding to the RFI. This search is consistent with the time line adopted by the Board in December 2010.

TRUSTEE/PUBLIC INPUT

- Some trustees have suggested that the Committee consider alternate formats or structures to the ICM as it has been very challenging to complete all agenda items for each ICM within the time frame allotted. Staff offered to provide suggestions to the Investment Committee about possible alternate meeting formats at a later date.

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RECOMMENDATION

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

February 9, 2011

ADJOURNMENT

The meeting adjourned at 1:05 p.m.