



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: January 13, 2016
To: Members of the Board of Retirement
From: George Wood – Chair
Subject: Summary of January 13, 2016 Investment Committee Meeting

The Investment Committee met on Wednesday, January 13, 2016 at 9:32 a.m. The Committee members present were Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Members of the Staff present were Margo Allen – Fiscal Services Officer, Joseph Fletcher – Chief Counsel, Kathy Foster – Interim Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

ACTION ITEM

1. Discussion of and Possible Motion to Recommend to the Board to Adopt the Amended ACERA Real Estate Investment Guidelines, Policies and Procedures
 - Staff and Callan recommended updating the current Policy to: 1) reflect the current conditions of ACERA's Real Estate Portfolio; 2) incorporate decisions the Board made since the last review; and 3) improve the language of the Policy for clarity and consistency. Material changes made included (1) increasing the Real Estate Asset Allocation to 8% from 6%, (2) emphasizing Commingled Funds by minimizing governance language for separately managed accounts, and (3) specifying a leverage limit characteristic for the Opportunistic sub-asset class to generally include the use of leverage up to 80% Loan-to-Value.
 - After discussion, Mr. Tarrell Gamble moved, seconded by Mr. Keith Carson, to recommend to the Board to adopt the amended ACERA Real Estate Investment Guidelines, Policies and Procedures.
 - The motion carried with 5 yes (Cain-Darnes, Carson, Gamble, Koppenhaver, and Wood), 0 no, and 0 abstention.

2. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2016 – 2017 Investment Plan for ACERA's Real Estate Asset Class
 - Staff and Callan presented the 2016 – 2017 Investment Plan for ACERA's real estate portfolio. Callan recommended that ACERA commit: 1) up to \$125 million to Core/Core-Plus before year-end 2016 and 2) up to \$125 million to Value-Added strategies with \$75 million in 2017 and \$50 million in 2018 to fulfill the increased target recently adopted for the asset class.
 - After discussion, Mr. Tarrell Gamble moved, seconded by Ms. Annette Cain-Darnes, to recommend to the Board to adopt the 2016 – 2017 Investment Plan for ACERA's Real Estate Asset Class.

- The motion carried with 6 yes (Cain-Darnes, Carson, Gamble, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Review and Discussion of Capital Market Conditions 2016

- Barry Dennis from Verus Advisory, Inc. (formerly known as SIS) reviewed the current capital market conditions, ACERA's overall positions, its long term (10-15 year) forecast for capital market returns, and reiterated its expectations of lower returns (single digits) as all asset classes seem to be settling into a lower return regime. He said that U.S. Economic growth had not decelerated unlike the rest of the world's economies. One reason for the strength of the economy is that U.S. industries are operating profitability but more so owing to cost cutting rather than to top line growth. He also re-affirmed the asset allocation targets for the ACERA Fund adopted by the Board in September 2015. The implementation of the newly adopted asset allocation has been methodically gradual and slow to encompass the review of the possible changes in new manager structures for some of the asset classes in the portfolio. Lastly, Verus asked for any further input regarding the proposed alternatives for the equity manager structures discussed at the December 9, 2015 ICM.
- He offered the Investment Committee education sessions on portable alpha, direct lending and smart beta topics.

2. Review of Trust Company of the West (Traditional – Large Cap Growth Manager)

- Craig Blum from TCW provided updates on its organization and investment process. Its ownership structure has not changed nor has its investment process. Craig also discussed its sixteen-year relationship with ACERA.
- He reviewed the investment performance of ACERA's account and noted that TCW had correctly anticipated that its relative performance would improve once the Federal Reserve's quantitative easing program ended and no longer propped up the entire equity market. Craig also noted that without such unconventional monetary stimulus, companies with superior growth prospects, such as the high quality growth companies that TCW focuses on, would be rewarded. He also discussed the benefits of TCW's active management approach versus a "passive" or "smart beta" management alternative.
- TCW's gross return for the one-year period ending 11/30/15 was 13.46%, outperforming its account benchmark (Russell 1000 Growth Index + 200 bps) by 5.34%, and 6.78% annualized since inception outperforming the account benchmark by 75 basis points.

3. Proposed Investment Committee Workplan for 2016

- Staff offered the proposed Investment Committee Workplan for 2016 (Workplan) and highlighted examples of items in the workplan (e.g, the RFP for General Investment Consultant in April 2016) to illustrate the various projects included. Several Trustees

reminded staff to pace these projects in accordance with the resources available to Staff. The committee members will forward any comments to Staff and the revised Workplan will be included in the February Investment Committee meeting package.

Recommendations

- The Committee recommends, and I move, that the Board Adopt the Amended ACERA Real Estate Investment Guidelines, Policies and Procedures.
- The Committee recommends, and I move, that the Board adopt the 2016 – 2017 Investment Plan for ACERA’s Real Estate Asset Class.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

February 10, 2016 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 11:36 a.m.