

February 10, 2010

To: Members of the Board of Retirement

From: Keith Carson - Chair

Subject: Summary of the February 10, 2010 Investment Committee Meeting

The Investment Committee met on Wednesday, February 10, 2010 at 9:01 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, George Dewey, Elizabeth Rogers, Donald White and George Wood. Also present was Alternate Safety members David Safer and Darryl Walker. Members of the Staff present were Charles F. Conrad – Chief Executive Officer, Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer and Catherine Walker – Assistant Chief Executive Officer

ACTION ITEMS

1. Discussion and Possible Motion to i) Adopt a New Benchmark for ACERA's International Equity Asset Class and ii) Authorize a Search for an International Small Cap Equity Manager
 - SIS and Staff highlighted the differences between the current benchmark, the Morgan Stanley Capital International Barra All Country World Excluding US Index (MSCI ACWI ex-US), and the proposed benchmark, the Morgan Stanley Capital International Barra All Country World Excluding US Index Investable Market Index (MSCI ACWI ex-US IMI). The primary difference between the two indices is the inclusion of non-US small cap equity stocks in the MSCI ACWI ex-US IMI. Both SIS and Staff indicated that the MSCI ACWI ex-US IMI represents the most appropriate benchmark for ACERA's international equity asset class given ACERA's newly adopted 10% international equity small cap allocation to the said asset class. Each international equity manager of ACERA will continue to be evaluated against their current benchmark.
 - In order to implement to retain a dedicated international small cap equity manager, Staff and SIS recommended a formal RFP search for ACERA's international small cap equity manager.
 - After discussion, Mr. George Dewey moved, seconded by Ms. Elizabeth Rogers to i) adopt the MSCI ACWI ex-US IMI as the new benchmark for ACERA's international equity asset class and ii) authorize a search for an international small cap equity manager.

INFORMATION ITEMS

1. Annual review of ACERA's international equity managers

- AQR's one year gross return ending 12/31/09 was 47.9%, outperforming its benchmark MSCI ACWI ex-US of 41.5% by 6.4%. AQR attributed its outperformance to their active emerging market strategy. Since inception (11/9/07) AQR has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. As of 2/5/10, AQR managed about \$277 million, representing about 5.1% of ACERA's total assets.
 - AQR presented its organizational structure, investment philosophy, and process. AQR implements a long-only quantitative strategy which combines bottom-up security selection with top-down country and currency selections implemented in a disciplined, risk-controlled manner.
 - Capital Guardian's one-year gross return ending 12/31/09 was 37.5%, underperforming its benchmark MSCI ACWI ex-US of 41.5% by 4.0%. For the past year, Capital Guardian did not change its investment strategy or style, and was in compliance with ACERA's reporting requirements. As of 2/5/10, Capital Guardian managed about \$530 million, representing about 12.0% of ACERA's total assets.
 - Capital Guardian discussed their recent organizational changes. They presented an overview of their organization and the performance of ACERA's account. In addition, Capital Guardian discussed the economic and market conditions of various international markets including Asia Pacific, Europe and the emerging markets and concluded with their market outlook.
 - Mondrian's one-year gross return ending 12/31/09 was 31.1%, underperforming its benchmark MSCI ACWI ex-US of 41.5% by 10.4%. For the past year, Mondrian did not change its investment strategy or style, and was in compliance with ACERA's reporting requirements. As of 2/5/10, Mondrian managed about \$392 million, representing about 8.8% of ACERA's total assets.
 - Mondrian presented an overview of their organization and summarized their investment philosophy, performance, and investment strategy. Mondrian attributed the portfolio's relative underperformance to their currency selection, country allocation, and stock selection. Mondrian stated that ACERA's portfolio is very defensive, i.e., it generally outperforms the benchmark in down markets and trails the benchmark in up markets.
2. Oral status report on ACERA's U.S. small cap value equity manager search
- Staff reported that all 10 candidates have responded to ACERA's RFPs. Staff and SIS are in the process of reviewing the RFP responses independently in accordance with the adopted evaluation matrix for the U.S. small cap value equity manager search. Staff and SIS plan to recommend the finalists upon completion of the evaluation of the RFP responses in March 2010.

RECOMMENDATION

- The Committee recommends, and I move, that the Board: i) adopt the Morgan Stanley Capital International Barra All Country World Excluding US Index Investable Market Index (MSCI ACWI ex-US IMI) as the new benchmark for ACERA's international equity asset class and ii) authorize a search for an international small cap equity manager.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

None

ESTABLISHMENT OF NEXT MEETING DATE

March 10, 2010, 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 11:35 a.m.