



Date: February 13, 2019
To: Members of the Board of Retirement
From: Tarrell Gamble - Vice Chair
Subject: Summary of February 13, 2019 Investment Committee Meeting

The Investment Committee ("Committee") met on Wednesday, February 13, 2019 at 9:32 a.m. The Committee members present were Ophelia Basgal, Keith Carson, Tarrell Gamble, Jaime Godfrey, Henry Levy, 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.

Action Items: Matters for discussion and possible motion by the Committee

1. Discussion of and Possible Motion to Recommend to the Board to Approve an up to \$33 million Investment in Genstar Capital Partners IX as part of ACERA's Private Equity Portfolio – Buyouts
 - Representatives from Genstar Capital Partners presented to the Committee the history, background, and culture of the firm. In addition, their representatives discussed the ongoing investment opportunity set for Genstar Capital Partners IX (Genstar IX) as well as Genstar's focus on a single strategy (Private Equity Middle Market Buyouts) since the inception of the firm in 1988.
 - The Genstar representatives discussed Genstar IX's continued focus within its core expertise in the industry verticals: Financial Services, Healthcare, Industrial Technology, and Software. They emphasized the competitive advantages of having a Strategic Advisory Board made up of past and present industry executive as well as having a focused evaluation process for the CEOs of the underlying portfolio companies.
 - Verus explained that Genstar's prior three funds ranked in the top quartile for returns for their vintage years of 2012, 2015, and 2017 as compared to similar middle-market buyout funds.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Keith Carson, to recommend that the Board Approve an up to \$33 million Investment in Genstar Capital Partners IX as part of ACERA's Private Equity Portfolio – Buyouts pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 7 Yes (Basgal, Carson, Gamble, Godfrey, Levy, Reilly, and Wood) 0 No, and 1 Abstention (Walker).

2. Discussion of and Possible Motion to Recommend to the Board to Approve an up to \$30 million Investment in Taurus Mining Finance Fund No. 2 as part of ACERA's Real Assets Portfolio – Natural Resources
 - Representatives from Taurus provided an overview of its organization, its ownership, its governance structure, and the investment strategy and process related to the Taurus Mining Finance funds. They discussed the UN Principles of Responsible Investing and ESG overlay with the Trustees. The manager confirmed how ESG investing standards are tightly implemented, monitored, and controlled by Taurus in the projects it finances.
 - Taurus responded to the Committee questions regarding the types of mining projects, their historical and current geographic locations, and the types of commodities that are mined. Furthermore, the performance of Taurus's predecessor mining finance funds, Taurus Mining Finance Fund No. 1 (16.2% Net IRR), and Taurus Mining Finance Annex Fund (40.0% Net IRR) were cited.¹ Finally, the terms of the proposed fund were discussed, including a potential carry discount if ACERA invested by the Fund's first close in March, 2019.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Jaime Godfrey, to recommend that the Board Approve an up to \$30 million Investment in Taurus Mining Finance Fund No. 2 as part of ACERA's Real Assets Portfolio – Natural Resources, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 7 Yes (Basgal, Gamble, Godfrey, Levy, Reilly, Walker, and Wood) 0 No, and 0 Abstention.

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

1. 2019 Capital Market Assumptions
 - Representatives from Verus Advisory, Inc. (Verus) discussed the 10-year return and risk assumptions of the Capital Market. Most of the 10-year returns forecasted for equities, fixed income, and other asset classes are expected to increase from the 2018 return forecast.
 - When applying the 2019 Capital Market Assumptions in the context of ACERA, the projected 10 year return for ACERA's portfolio would be approximately 6.5%, with a Standard Deviation of 12.8% for the forecast 10-year period.

¹ Through 12/31/18 for both funds.

2. Investment Committee Workplan for 2019

- Staff presented the Investment Committee Workplan for 2019 (Workplan) and updated the Committee that there would be a real estate recommendation investment in March and two private equity investments recommendation in April. Staff will prioritize the timeliness of the transactions and will update the Workplan on a quarterly basis.

Recommendations:

- The Committee recommends, and I move, that the Board Approve an up to \$33 million Investment in Genstar Capital Partners IX as part of ACERA's Private Equity Portfolio – Buyouts, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Approve an up to \$30 million Investment in Taurus Mining Finance Fund No. 2 as part of ACERA's Real Assets Portfolio – Natural Resources, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

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

ADJOURNMENT

The meeting ended at 12:18 p.m.