



Date: February 14, 2018
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of February 14, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, February 14, at 9:30 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker and Alternate Retired member Nancy Reilly. Members of the Staff present were Dave Nelsen – Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, Kathy Mount – Chief Counsel, and Betty Tse – Chief Investment Officer (CIO).

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

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an up to \$170 million Investment in the AQR Global Stock Selection (GSS) Institutional Fund, L.P. as a part of ACERA’s Absolute Return Portfolio – Other Alternatives/Opportunistic
 - Representatives from AQR provided an overview of the Firm and its systematic fundamental investment approach. They also provided an overview of the Global Stock Selection Team, their investment strategy, and their multiple step process. These multiple steps include: determine strategy risk allocations; select investment universe for each strategy; evaluate attractiveness of the stocks; portfolio construction; trading and rebalancing. AQR also presented their net of fees return since inception in 2000.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Henry Levy, to recommend to the Board to Adopt an up to \$170 million Investment in AQR Global Stock Selection (GSS) Institutional Fund, L.P. as part of ACERA’s Absolute Return Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 9 yes (Amaral, Basgal, Cain-Darnes, Carson, Gamble, Koppenhaver, Levy, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. 2018 Capital Market Assumptions
 - Representatives from Verus Advisory, Inc. (Verus) discussed the 10-year return and risk assumptions. Most of the 10-year returns forecasted for equities, fixed income, and other

asset classes are expected to decline from previous forecasts. Verus' presentation also included 10-year forecast for various assets in the public and private markets.

- When applying the Capital Market Assumptions in the context of ACERA, the projected return for ACERA's portfolio would be approximately 6.1%, down from 6.6% in 2017, with a Standard Deviation of 13.2% for the forecast 10-year period.
- Verus indicated that these Capital Market Assumptions are updated at least once a year. Inflation is forecasted to be 2.1% for the 10-year period. They also confirmed that ACERA's current asset allocation is valid, and that there is no need for a revision.

2. Review of Capital Group

- Representatives from Capital Group discussed its organization, investment philosophy, investment strategy, portfolio characteristics, performance, and return attribution.
- For the year ending December 31, 2017, the International All Countries Equity account returned 37.6% net of fees, outperforming the benchmark (MSCI ACWI ex US) by 10.4%. Since the inception of the ACERA relationship with Capital Group in December 1990, the account has returned 8.5% net of fees, outperforming the benchmark by an annualized 2.1%.
- Effective October 1, 2016 and with Board approval, Staff negotiated a new management fee schedule which included a lower management base fee and a performance fee for excess returns.

3. Review of Mondrian Investment Partners

- Representatives from Mondrian Investment Partners provided an overview of the Firm and described the strategy's conservative, dividend-oriented investment philosophy and process. The representatives discussed the downside protection of the strategy and the drivers of its recent investment performance.
- Mondrian discussed the strategy's diversified portfolio and expected returns. In addition, Mondrian also targets specific opportunities in its investable universe.
- For the year ending December 31, 2017, the Mondrian account was up 23.1% net of fees underperforming the benchmark (MSCI ACWI ex US) by 4.1%. Since the inception of the ACERA relationship with Mondrian (2013), the account has returned 7.5% net of fees, outperforming the benchmark by an annualized 0.4%.

4. Proposed Investment Committee Workplan for 2018

- Staff offered the proposed Investment Committee Workplan for 2018 (Workplan) and highlighted examples of various educational items in the workplan.

Recommendations:

- The Committee recommends, and I move, that the Board Adopt an up to \$170 million Investment in AQR Global Stock Selection (GSS) Institutional Fund, L.P. as part of ACERA's Absolute Return Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, March 14, 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 11.58 a.m.