

March 9, 2011

To: Members of the Board of Retirement

From: Dale Amaral - Chair

Subject: Summary of the March 9, 2011 Investment Committee Meeting

The Investment Committee met on Wednesday, March 9, 2011 at 9:07 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, George Dewey, Elizabeth Rogers, George Wood. Also present were Alternate Retired member David Safer and 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

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

1. Discussion of and possible motion to adopt an investment in PEARLS – Buyouts
 - Upon completion of investment due diligence procedures, in accordance with ACERA's Private Equity and Alternatives Return Leading Strategy (PEARLS) Policy and the 2010 Investment Plan for ACERA's PEARLS Portfolio, Staff concurs with SIS's recommendation of a \$12.5 million commitment in ABRY Partners VII, L.P. pending completion of legal due diligence and background checks. This investment is part of the Buyout allocation in ACERA's PEARLS Portfolio and is the second Buyout investment recommendation in 2010-2011.
 - A representative from ABRY presented an overview of its organization, investment strategy, investment process and criteria, as well as the past performance to the Committee.
 - After discussion, Mr. George Dewey moved, seconded by Ms. Annette Cain-Darnes, to adopt the recommendation of a \$12.5 million commitment to ABRY Partners VII, L.P. pending completion of legal due diligence and background checks. The motion passed unanimously.
2. Discussion of and possible motion to adopt an investment in PEARLS – Debt-Related/Special Situations
 - Upon completion of investment due diligence procedures, in accordance with ACERA's Private Equity and Alternatives Return Leading Strategy (PEARLS) Policy and the 2010 Investment Plan for ACERA's PEARLS Portfolio, Staff concurs with SIS's recommendation of a \$25.0 million commitment to ABRY Advanced Securities Fund II,

L.P. pending completion of legal due diligence and background checks. This investment is part of the Debt-Related/Special Situation allocation in ACERA's PEARLS Portfolio and is the second Debt-Related/Special Situation investment recommendation in 2010-2011.

- A representative from ABRY presented an overview of its organization, investment strategy, process, and implementation to the Committee.
- After discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Elizabeth Rogers, to adopt the recommendation of a \$25.0 million commitment to ABRY Advanced Securities Fund II, L.P. pending completion of legal due diligence and background checks. The motion passed unanimously.

3. Discussion of and Possible Motion to Adopt the Amended ACERA Placement Agent Disclosure Policy

- Robert Gaumer, ACERA Chief Counsel presented the amended ACERA Placement Agent Disclosure Policy for review and consideration. The Amended Policy expands the definition of a "Placement Agent" at Section III.D., so as to comply with the new requirements of CA Gov. Code Section 7513.8 (revised with the passage of Assembly Bill 1743).
- After discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Elizabeth Rogers, to adopt the amended ACERA Placement Agent Disclosure Policy. The motion passed unanimously.

Information Items:

1. Education: Hedge Funds (Part II)

- Continuing with the education session provided by SIS at the February 2011 Investment Committee meeting, SIS presented an overview of hedge fund strategies, structures, fees and liquidity terms, as well as the pros and cons of hedge funds, and funds of hedge funds. SIS stated that ACERA will benefit from instant diversification without taxing its resources if it pursues the hedge fund of funds structure initially.

2. Quarterly performance review for the fourth quarter of 2010 – equities and fixed income

- ACERA's total Fund returned 7.2% in the fourth quarter of 2010 and was ranked in the upper 11th percentile among public funds greater than \$100.0 million. For the year ended 12/31/2010 ACERA's total Fund returned 14.5% and was ranked in the upper 25th percentile in the same universe. The Fund matched its Policy Index and outperformed the median public fund by 1.2%. Longer term, the three- and five-year gross returns of 0.3% and 4.7% trailed the Policy Index by 1.0% and 0.8% and ranked in the 54th and 42st percentiles, respectively. The market value of the total Fund as of 12/31/10 was \$5,212,856,490.00.

3. Quarterly performance review for the fourth quarter of 2010 – real estate

- ACERA's real estate portfolio returned 4.2% in the fourth quarter of 2010, underperforming its benchmark NPI of 0.4%. Longer term, the three- and five-year gross returns of -10.1% and -0.8% underperformed the benchmark by 5.9% and 4.3%, respectively. As of 12/31/10, the total market value of ACERA's real estate portfolio was about \$277 million, representing approximately 5.3% of ACERA's total Fund.

The reports for the following information items #4 - #8 were distributed for the March 9, 2011 Investment Committee Meeting (ICM). Going forward and with the consent from the Investment Committee, Staff will remove these routine quarterly reports from the ICM agenda; however, these reports will continue to be distributed to the Committee on the same schedule.

4. Quarterly report of ACERA's investment manager, consultant, and custodian bank fees for the fourth quarter of 2010
5. Quarterly report on ACERA's securities lending activities for the fourth quarter of 2010
6. Quarterly report on ACERA's Directed Brokerage Program for the fourth quarter of 2010
7. Quarterly report on Investment Products and Services Introduction (IPSI) for the fourth quarter of 2010
8. Updated Investment Committee Workplan 2011

RECOMMENDATION

The Committee recommends, and I move, that the Board adopt the recommendation of a \$12.5 million commitment in ABRY Partners VII, L.P. pending completion of legal due diligence and background checks.

The Committee recommends, and I move, that the Board adopt the recommendation of a \$25.0 million commitment in ABRY Advanced Securities Fund II, L.P. pending completion of legal due diligence and background checks.

The Committee recommends, and I move, that the Board adopt the amended ACERA Placement Agent Disclosure Policy.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

None

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ESTABLISHMENT OF NEXT MEETING DATE

April 13, 2011, 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 12:18 p.m.