

March 10, 2010

To: Members of the Board of Retirement

From: George Dewey – Vice Chair

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

The Investment Committee met on Wednesday, March 10, 2010 at 9:05 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, George Dewey, Donald White and George Wood. Also present were Alternate Retired member Dave Safer and Alternate Safety member 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 Adopt i) the Amendments to ACERA's Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy and ii) the 2010 Investment Plan for ACERA's PEARLS Portfolio
 - Staff proposed to replace “quarterly” with “semi-annually” in Sections VIII and XI of ACERA's PEARLS Policy to reflect the current practice with respect to the performance evaluations and reporting of ACERA's PEARLS portfolio.
 - After discussion, Mr. Dale Amaral moved, seconded by Mr. George Wood, to adopt the original language, without amendments, in ACERA's PEARLS Policy. The motion passed unanimously.
 - SIS also prepared and proposed the 2010 Investment Plan for ACERA's PEARLS Portfolio. The 2010 Investment Plan outlines the target allocations of the PEARLS Portfolio and the annual progression towards the target allocations with an emphasis on the commitments that are projected to be made in 2010 within the PEARLS Portfolio.
 - After discussion, Mr. George Wood moved, seconded by Mr. Dale Amaral, to adopt the 2010 Investment Plan for ACERA's PEARLS Portfolio. The motion passed unanimously.
2. Discussion and Possible Motion to Adopt the Recommendation to Increase ACERA's Investment in Gresham Tangible Asset Program Fund
 - In accordance with the 2009 PEARLS Investment Plan and upon completion of all investment due diligence, SIS and Staff recommended an additional investment of \$30

million (the 2nd of three tranches) in Gresham's TAP Fund as part of ACERA's Commodities portfolio.

- The TAP Fund invests in a long-only, unleveraged, and well-diversified basket of U.S. dollar-denominated futures contracts of tangible commodities traded on U.S. and non-U.S. exchanges. Since its inception with ACERA through December 31, 2009, the TAP Fund has returned 27.56 (net), outperforming the DJ-UBS commodity index by 1.57%. The market value of ACERA's TAP Fund was \$38.3 million at the end of 2009.
 - A representative from Gresham provided an overview of the firm and the investment team. He explained the diversification and liquidity benefits of commodity investments in institutional portfolios. He also reviewed the investment process and strategy of the TAP Fund.
 - After discussion Mr. Dave Safer moved, seconded by Mr. Dale Amaral to adopt the recommendation of an additional \$30 million investment in Gresham's TAP Fund.
3. Discussion and Possible Motion to Adopt the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's International Small Cap Equity Manager Search
- At its February 2010 meeting, the Board authorized a search for ACERA's international small cap equity manager. To implement the Board's decision, SIS, working closely with Staff, has developed the proposed timeline, search criteria, and evaluation matrix. According to the proposed timeline, the international small cap equity manager search is estimated to be completed in September 2010.
 - After discussion, Mr. Donald White moved, seconded by Ms. Annette Cain-Darnes, to adopt the proposed timeline, search criteria, and evaluation matrix for ACERA's international small cap equity manager search. The motion passed unanimously.

INFORMATION ITEMS

1. Quarterly performance review for the fourth quarter of 2009 – equities and fixed income

Representatives of SIS presented the following information:

- ACERA's total Fund returned 3.9% in the fourth quarter of 2009 and was ranked in the upper 15th percentile among public funds greater than \$100 million. The Fund outperformed its Policy Index and the median public fund by 0.2% and 0.5%, respectively. For calendar year ending 12/31/09, the total Fund returned 26.6% and was ranked in the upper 9th percentile.
- Longer term, the total Fund's three- and five-year gross returns of -1.4% and 3.6% trailed the Policy Index by 1.4% and 0.8% and ranked in the 51st and 36th percentiles. The market value of the total Fund as of 12/31/09 was \$4,672,148,731.

2. Quarterly performance review for the fourth quarter of 2009 – real estate

Representatives from the Townsend Group presented the following information:

- ACERA's real estate portfolio returned -2.8% in the fourth quarter of 2009, underperforming its benchmark NPI of -2.1% by 0.7%. For the calendar year ending 12/31/09, the Real Estate portfolio returned -27.7% trailing the NPI by 10.9%.
- Longer term, the three- and five-year gross returns of -8.9% and 1.4% underperformed the benchmark by 5.5% and 3.4%, respectively. As of 12/31/09, the total market value of ACERA's real estate portfolio was about \$256.0 million, approximately 5.5% of ACERA's total Fund.

3. Quarterly report of ACERA's investment manager, consultant, and custodian fees for the fourth quarter of 2009

Staff provided the Committee with the following report:

- In the fourth quarter of 2009, ACERA paid approximately \$4.14 million in investment manager fees, about 8.87 bps of ACERA's total market value of about \$4.67 billion. ACERA also paid \$336,354.00 in consultant and custodian fees, about 0.72 bps of ACERA's total market value.

4. Quarterly report on ACERA's Directed Brokerage Program for the fourth quarter of 2009

Staff provided the Committee with the following report:

- In fourth quarter of 2009, the total recaptured dollar amount for ACERA's Directed Brokerage (DB) Program was \$45,702.46. The program continues to operate in compliance with ACERA's DB Policy.

5. Quarterly report on Investment Products and Services Introductions (IPSI) Program

Staff provided the Committee with the following report:

- In the fourth quarter of 2009, Staff received a total of 20 inquiries from prospective investment vendors and met with 7 of them.

RECOMMENDATION:

- The Committee recommends, and I moved that the Board adopt i) the original language, without amendments, in ACERA's Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy and ii) the 2010 Investment Plan for ACERA's PEARLS Portfolio.
- The Committee recommends, and I moved that the Board adopt the recommendation of an additional \$30 million investment in Gresham's Tangible Asset Program (TAP) Fund.

- The Committee recommends, and I move, that the Board adopt the proposed timeline, search criteria, and evaluation matrix for ACERA's international small cap equity manager search.

FUTURE DISCUSSION ITEMS

None.

TRUSTEE/PUBLIC INPUT

None.

ESTABLISHMENT OF NEXT MEETING DATE

April 14, 2010, 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 11:38 a.m.