



Date: March 14, 2018  
To: Members of the Board of Retirement  
From: George Wood – Vice-Chair

**Subject: Summary of March 14, 2018 Investment Committee Meeting**

The Investment Committee (“Committee”) met on Wednesday, March 14 at 9:33 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Tarrell Gamble, Liz Koppenhaver, Henry Levy, 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 Grant Hughs – Senior Investment Officer.

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

1. Discussion of and Possible Motion to Recommend to the Board that it make an additional investment of \$20 million in the Clarion Lion Industrial Fund (LIT) Fund as part of ACERA’s Real Estate Portfolio – Core
  - A representative from Clarion Partners provided updated information on its organization, strategy, philosophy, processes, performance review and objectives, and the value proposition of the Industrial sector of the real estate market. There was additional discussion of the current placement of the industrial sector in the real estate cycle, as well as, the outlook for industrial real estate. This would be the second re-up to LIT (ACERA made its initial investment of \$10 million in 2012, with an additional investment of \$25 million in 2016). The proposed additional \$20 million investment would bring ACERA’s total LIT investment up to \$55 million. A manager in good standing, LIT has been one of the top performers among ACERA’s Core funds in the real estate portfolio, with net returns as of 12/31/2017 of 13.2%, 14.5%, and 14.7% in the 1 Year, 3 Year, and 5 Year (annualized) time periods respectively.
  - After discussion, Ms. Ophelia Basgal moved, seconded by Ms. Annette Cain-Darnes, to recommend that the Board adopt an additional investment of \$20 million in the Clarion Partners’ Lion Industrial Trust Fund, pending completion of legal and investment due diligence and successful contract negotiation.
  - The motion carried with 8 yes (Basgal, Cain-Darnes, Gamble, Koppenhaver, Levy, Reilly, Walker, and Wood), 0 no, and 0 abstention.

2. Discussion of and Possible Motion to Recommend to the Board that it make an additional investment of \$20 million in the Heitman Value Partners IV, L.P. Fund as part of ACERA's Real Estate Portfolio – Value Added
  - A representative from Heitman Real Estate presented to the Committee the history, background, and culture of the firm, as well as the ongoing opportunity set, investment team and strategy of the Heitman Value Partners IV, L.P. Fund (HVP IV). In September 2017, ACERA invested \$10 million in HVP IV at a discounted management fee rate. ACERA is now presented with the same discounted fee rate for this \$20 million investment.
  - The representative provided an update on HVP IV's strategy related to income-orientation, defensive characteristics, long-term demographics-driven opportunity, and its successful partnerships with its operating partners. Although no capital has been called, the representative discussed HVP IV's currently seeded investments as well as the future potential investments.
  - After further discussion, Mr. Tarrell Gamble moved not to adopt an additional investment of \$20.0 million in HVP IV. There was no second to this motion. Therefore, the motion failed.
  - After further discussion, Ms. Ophelia Basgal moved, seconded by Ms. Liz Koppenhaver, to recommend that the Board adopt an additional investment of \$20.0 million in HVP IV, bringing ACERA's total commitment in HVP IV to \$30 million, pending completion of legal and investment due diligence and successful contract negotiation.
  - The motion carried with 7 yes (Basgal, Cain-Darnes, Koppenhaver, Levy, Reilly, Walker, and Wood), 1 no (Gamble), and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board to Adopt a combined total investment of up to \$10 million in Khosla Ventures VI, L.P. and Khosla Ventures Seed D, L.P. as part of ACERA's Private Equities Portfolio – Venture Capital
  - In accordance with investment due diligence procedures and the ACERA Private Equity Investment Policy, Verus and Staff recommended a total combined investment of up to \$10 million commitment to Khosla Ventures VI, L.P. (KV VI) and KV Seed D, L.P. (KV Seed D), as part of the Venture Capital allocation in ACERA's Private Equities portfolio, pending completion of legal due diligence, background checks, and successful contract negotiation.

- After further discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Ophelia Basgal, to recommend that the Board Adopt a combined total investment of up to \$10 million in Khosla Ventures VI, L.P. and Khosla Ventures Seed D, L.P. as part of ACERA's Private Equities Portfolio, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
- The motion carried with 7 yes (Amaral, Basgal, Cain-Darnes, Gamble, Koppenhaver, Levy, and Wood), 0 no, and 0 abstention.

### **INFORMATION ITEMS**

#### 1. Review of State Street Bank and Trust Company

- Staff presented an update on State Street Bank (SSB) custodial services and contract term expiration to the Committee. The contract will expire in August of 2018. At an upcoming ICM meeting, Staff intends to make recommendations to the Committee regarding the disposition of SSB and recommend next steps regarding the expiring contract. Since the April 11, 2017 ICM, Staff stated that it was less than satisfied with the level of SSB services in certain core service areas.
- The Committee discussed and provided Staff with some options to consider. The Committee's role is at the governance and policy level; Staff manages the operations of the agency.

#### 2. Quarterly Performance Review for the Fourth Quarter of 2017 – Equities and Fixed Income

- For 4Q2017, ACERA's Total Fund returned 4.3% gross (4.3% net of fees), compared to the Policy Index return of 4.2%. For the year ending 12/31/2017, the Total Fund returned 19.5% gross (19.2% net of fees) compared to the Policy Index of 18.6%. The Total Fund's results ranked in the top 6<sup>th</sup> and 3<sup>rd</sup> percentile for the quarter and one year periods, respectively.
- As of 12/31/2017, the market value of the Total Fund was \$8,108,480,756.

#### 3. Quarterly Performance Review for the Fourth Quarter of 2017 – Real Estate

- ACERA's real estate portfolio, including the Oakland Building, returned 2.39% gross (2.15% net) for 4Q2017 and 9.65% gross (8.58% net) for the 1-year period ending 12/31/2017 versus the NCREIF-ODCE benchmark of 2.07% gross (1.85% net) and 7.62% gross (6.66% net), respectively.
- As of 12/31/2017, the market value of ACERA's real estate portfolio was \$520.8 million.

#### 4. Oral Update on Implementation of New Manager Structure – Domestic Equity

- Staff provided the Committee with an update on the transition management of the U.S. Equity asset class manager structure. ACERA signed the IMA and transition management agreement with BlackRock on 2/14/2018 and is now working operationally to transition the U.S. Equity manager structure on 3/12/2018. The transition is expected to be completed by month-end.

### **Recommendations:**

- The Committee recommends, and I move, that the Board make an additional investment of \$20 million in the Clarion Partners' Lion Industrial Trust Fund as part of ACERA's Real Estate Portfolio – Core, pending completion of legal due diligence and successful contract negotiations.
- The Committee recommends, and I move, that the Board make an additional investment of \$20 million in the Heitman Value Partners IV, L.P. Fund as part of ACERA's Real Estate Portfolio – Value Added, pending completion of legal due diligence and successful contract negotiations.
- The Committee recommends, and I move, that the Board Adopt a combined total investment of up to \$10 million in Khosla Ventures VI, L.P. and Khosla Ventures Seed D, L.P. as part of ACERA's Private Equities Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiations.

### **TRUSTEE/PUBLIC INPUT**

The Senior Investment Officer and the representative from Verus mentioned the possibility of a London-based private equity-buyout manager visit to the Committee. Staff informed the Committee about the intention to travel internationally; Vice-Chair Wood stated that Staff should inform the Board of Trustees.

### **FUTURE DISCUSSION ITEMS**

None

### **ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, April 11, 2018 at 9:30 a.m.

### **ADJOURNMENT**

The meeting ended at 12:00 p.m.