



Date: April 12, 2017
To: Members of the Board of Retirement
From: Annette Cain-Darnes - Chair

Subject: Summary of April 12, 2017 Investment Committee Meeting

The Investment Committee met on Wednesday, April 12, 2017 at 9:34 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes (Chair), Keith Carson, Tarrell Gamble, Greg Lawson, Elizabeth Rogers, and George Wood. Also present were Alternate member Nancy Reilly and Alternate Safety member Darryl Walker. Members of the Staff present were David Nelsen – Chief Executive Officer, Margo Allen – Fiscal Services Officer, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, and Susan Weiss – Associate Counsel.

The order of the minutes follows the order of the meeting not the original agenda.

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

1. Review of Nominal, Risk-Adjusted, and Relative Long Term Performances of the Total Fund and Asset Classes
 - Verus representatives discussed the overall health of ACERA's portfolio since 1992, in comparison to the Policy Index and the peer universe data which represents U.S. pension funds in excess of \$1 billion dollars. No peer comparison was made for PEARLS (18% target), Real Estate (8% target) and Real Assets (5% target). According to Verus, ACERA's Portfolio has scored an A-/B+ grade for its performance since 1992.
 - Observations of ACERA's Total Fund were as follows:
 - Generally very good over the longer term (25 year) periods. The returns are top-quartile or better vs. peer universe funds. In the short to intermediate (1 – 10 years) returns have not been as strong as the long term returns, when compared to the Policy Index.
 - The U.S. Equity asset class (graded C) has detracted the Fund's overall performance, while the International Equity (graded A) and Fixed Income (graded A) Asset Classes have contributed to the overall performance.
 - As takeaways, Verus representatives recommended reviewing the U.S. Equity manager structure again; examining ACERA's Rebalancing policy and procedures. Verus representatives also recommended that an Asset-Liability study be done in 2018.

ACTION ITEMS: Matters for discussion and possible motion by the Committee

1. Discussion of and Possible Motion to Recommend to the Board to Approve the Finalists for ACERA's Passive Index Manager Search – U.S. and International Equities Asset Classes

- Staff, Verus, and the Committee members discussed the five vendors that responded to the Passive Index Manager Search RFP, which were Blackrock, Mellon, Northern Trust, Rhumblin, and State Street Global Advisors.
- Staff's recommendation of finalists includes the following Passive Index Managers for further review and evaluation by Investment Staff and Verus:

For US Equity (Russell 1000 Index):

- BlackRock Inc.
- Northern Trust Investment, Inc.
- State Street Global Advisors

For International Equity (MSCI World ex-US Index)

- Blackrock Inc.
- Northern Trust Investment, Inc.
- Staff presented to the Committee about Mellon's (ACERA's incumbent passive index manager) declining AUM of their domestic passive investment product in an increasingly robust passive index management environment, resulting in Staff's recommendation of not including Mellon as a finalist for this search.
- Trustee inquired about a notable difference between Verus's and Staff's scoring regarding fees. Staff and Verus agreed to reconcile and document material differences for future manager searches for the Committee's reference.
- After further discussion, Mr. George Wood moved, seconded by Ms. Elizabeth Rogers, to recommend to the Board to approve the Finalists for ACERA's Passive Index Manager Search – U.S. and International Equities Asset Classes
- The motion carried with 9 yes (Amaral, Basgal, Cain-Darnes, Carson, Gamble, Lawson, Reilly, Rogers, and Wood), 0 no and 0 abstention.

2. Discussion of and Possible Motion to Recommend that the Board Authorize Staff to Negotiate an Extension of the Custody Contract with State Street Bank and Trust Company

- Staff and Investment Committee members discussed the status of State Street Bank and Trust Company's (SSB) custodial services for ACERA. To date, SSB has improved its service since its last review and is in compliance with the terms of its contract.

- The Trustees discussed the possibility of obtaining additional information using Requests for Information (RFI's) from other banks which offer comprehensive custodial services, or from peers who also use SSB's Custodial Services to assure that SSB's fees are reasonable. Staff agreed to provide additional information to the Trustees later to answer their questions in this regard. Staff also explained that this recommendation is merely to allow negotiations to proceed.
- After further discussion, Ms. Ophelia Basgal moved, seconded by Mr. Dale Amaral, to recommend to the Board to authorize Staff to negotiate an extension of the Custody Contract with State Street Bank and Trust Company.
- The motion carried 9 yes (Amaral, Basgal, Cain-Darnes, Carson, Gamble, Lawson, Reilly, Rogers, and Wood), 0 no, and 0 abstention.

Recommendation:

- The Committee recommends, and I move, that the Board approve the Finalists for ACERA's Passive Index Manager Search – U.S. and International Equities Asset Classes.
- The Committee recommends, and I move, that the Board authorize Staff to negotiate an extension of the Custody Contract with State Street Bank and Trust Company.

TRUSTEE/PUBLIC INPUT

Betty Tse (CIO) welcomed Linda Barbarao, REAC's new president, to the Investment Committee.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

May 10, 2017 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 11:04 a.m.