



**ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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Date: April 13, 2016  
To: Members of the Board of Retirement  
From: Keith Carson – Vice Chair  
**Subject: Summary of April 13, 2016 Investment Committee Meeting**

The Investment Committee met on Wednesday, April 13, 2016 at 9:34 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Elizabeth Rogers, and Donald White. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were David Nelsen – Chief Executive Officer, Joseph Fletcher – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

The order of the agenda items was changed due to a lack of quorum at the beginning and end of the Investment Committee meeting. The order of the minutes follows the order of the meeting not the original agenda.

**INFORMATION ITEM**

1. Status update on concluding the Due Diligence Process of Verus Advisory, Inc.'s merger with Strategic Investment Solutions (SIS)
  - Staff prepared a report updating the Committee on the results of its due diligence process of Verus Advisory, Inc.'s (Verus) merger with SIS. Staff concluded: (a) that the merger caused no disruption to the processes of nor adverse impact on the personnel based in the San Francisco office, (b) that the audited financial statements showed that the Verus companies were financially sound during 2011 through 2014, while the audited financial statements for 2015 are not available at this time. (c) that the Verus Business Plan reflected a reasonable extension of its existing and planned core business lines; and that all Verus reference checks proved satisfactory.
  - In the course of its investigation, Staff identified certain issues which require ongoing monitoring of the Verus companies --- future audited financial statements, concentration of revenues, concentration of ownership, and the ratio of non-discretionary consulting services revenues to OCIO (discretionary) consulting services revenues.
  - Staff also reported that it has scheduled the formal Request for Proposals (RFP) for the General Investment Consultant search on the Investment Committee Workplan, as an information item, for the September 14, 2016 Investment Committee meeting.

**ACTION ITEMS**

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA's PEARLS Portfolio – Debt-Related/Special Situations

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- A representative from Oak Hill Advisors presented to the Committee the history, background, philosophy, strategy, process, investment team, and investment returns of the Manager's funds. The Representative also discussed the Manager's information advantage, its focus on investment risk and downside protection, the Fund's integrated multi-strategy global investment approach, and other characteristics of Oak Hill Advisors Strategic Credit Fund II.
  - After discussion, Mr. Dale Amaral moved, seconded by Mr. Donald White, to recommend to the Board to adopt an up to \$50.0 million commitment to Oak Hill Advisors Strategic Credit Fund II, pending completion of legal due diligence, background investigations, and successful contract negotiation.
  - The motion was carried with 7 yes (Amaral, Basgal, Carson, Gamble, Rogers, Walker, and White), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA's Real Estate Portfolio
- 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 a discussion about the ownership structure of the company, with Clarion Partners' being acquired by Legg Mason Global Asset Management. Callan Associates, ACERA's real estate consultant, was not overly concerned with the acquisition, and staff concurred. 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 a re-up to one of ACERA's current investment managers. Since ACERA's initial investment in 2012, Lion Industrial Trust (LIT) has been one of the top performers among other Core funds in the real estate portfolio, with net returns of 16.1% and 15.3% in the 1 Year and 3 Year (annualized) time periods respectively.
  - After discussion, Mr. Don White moved, seconded by Ms. Ophelia Basgal, to recommend to the Board to adopt an additional investment of \$25.0 million in the Clarion Partners' Lion Industrial Trust, pending completion of legal due diligence, background investigations, and successful contract negotiation.
  - The motion carried with 6 yes (Amaral, Basgal, Gamble, Rogers, Walker, and White), 0 no, and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board to Adopt a new U.S. Equity Manager Structure
- Staff has concluded that the U.S. equity manager structure is not flawed, and staff is comfortable with maintaining the current U.S. equity manager structure; however there has

been a lack of consistency in selecting performing managers, especially net of fees. To introduce more control and consistency, Staff concurs with Verus recommendation to move to a more passive approach, especially in the large cap equities, will provide more consistency with large cap market performance net of fees. There is a risk that by moving to a more passive investment approach, ACERA will potentially give up some upside in investment returns. The decision whether or not to use active management should be based significantly around ACERA's sensitivity to investment return and risk, fortitude, and the propensities of the ACERA Board.

- Verus representatives Barry Dennis and Stephen Quirk presented the recommendation to amend the manager structure for the U.S. Equity asset class. Two proposals were presented 1) to increase the passive component of large cap core index up to 70.0% and 2) to increase the passive component of large cap core index up to 90%. Verus recommends proposal #1 which will have an incremental change to increase the passive component of large cap core index to a range of 65.0%-75.0% from 44.5%; and reduce the large cap growth and value managed accounts to a range of 8.0%-12.0% each from 17.5%; and reduce small cap growth and value managed accounts to a range of 4.0%-6.0% each from 9.0%.
  - No motion was made by the Committee which had lost its quorum at the end of the presentation. Therefore, the Committee decided to include this matter as an action item on April 21, 2016 Board meeting.
4. Discussion of and Possible Motion to Recommend to the Board to Adopt an Amended ACERA Proxy Voting Guidelines and Procedures
- This item will be rescheduled to the May 18, 2016 Investment Committee meeting.
5. Discussion and Possible Motion to Reinvest Proceeds from Property Sales by Jamestown Premiere Property Fund
- This item will be rescheduled to the May 18, 2016 Investment Committee meeting.

#### **INFORMATION ITEM**

2. Report on the meeting date of the May 2016 Investment Committee Meeting
- ACERA's monthly Investment Committee meeting (ICM) is regularly scheduled on the second Wednesday of each month. However, the second Wednesday in May (May 11, 2016) coincides with SACRS Conference. Staff proposes to postpone the May ICM to Wednesday, May 18 at 9:30 a.m.

**Recommendations**

- The Committee recommends, and I move, that the Board Adopt an up to \$50.0 million commitment to Oak Hill Advisors Strategic Credit Fund II, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board adopt an additional investment of \$25.0 million in the Clarion Partners' Lion Industrial Trust, pending completion of legal due diligence, background investigations, and successful contract negotiation.

**TRUSTEE/PUBLIC INPUT**

Staff provided the Committee with an update on the recent steps taken to implement the new asset allocation targets. With the recommendation of the general consultant and the rebalancing consultant, Staff, working with transition manager Russell Investments, trued-up and rebalanced the U.S. Equity asset class. In this first step, for the domestic asset class, approximately \$191 million was withdrawn from the actively managed accounts and moved to the large cap core index account. These will be reflected in the next Quarterly Rebalancing and Cash Analysis Report in June 2016. After the Committee/Board reviews and possibly adopts new management structures for the U.S. Equity, International Equity, and Fixed Income asset classes, Staff will continue with its second step in the implementation of the new asset allocation targets.

Chief Investment Officer Betty Tse acknowledged and welcomed David Nelsen, ACERA's new Chief Executive Officer.

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

May 18, 2016 at 9:30 a.m.

**ADJOURNMENT**

The meeting adjourned at 11:43 a.m.