



Date: May 9, 2018  
To: Members of the Board of Retirement  
From: Elizabeth Rogers – Chair  
**Subject: Summary of May 9, 2018 Investment Committee Meeting**

The Investment Committee (“Committee”) met on Wednesday, May 9, 2018 at 9:33a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker. Members of the Staff present were Dave Nelsen – Chief Executive Officer, Kathy Foster – Asst. Chief Executive Officer, Kathy Mount – Chief Counsel, Margo Allen – Fiscal Services Officer and Betty Tse – Chief Investment Officer (CIO).

Before the Committee Chair called the meeting to order, David Nelsen announced that the ICM agenda was not properly posted on ACERA’s website within the 72-hour requirement of the Brown Act. Therefore, the Committee would not be able to take action today. The one action item on today’s agenda would be treated as an information item and, as new business at the Board Meeting on May 24, 2018.

### **INFORMATION ITEMS**

1. Informational presentation related to a possible investment of \$170 m in the CFM Institutional Systematic Diversified Fund as part of ACERA’s Absolute Return Portfolio – Alternative Premia Strategies
  - Staff and representatives of Verus stated that the goals of investing in Alternative Premia strategies were to seek hedge fund like returns (mid-single digit returns) at a lower cost and higher liquidity. At the same time, the named strategies are expected to mitigate the equity risk in the portfolio.
  - Representatives from CFM discussed the firm’s organization, quantitative pedigree, institutional client base, strong ties to academia (CFM staff members teach at universities and/or publish scholarly articles in peer-reviewed professional journals), alignment of interests with investors (CFM managers and staff members will be investing in the strategy alongside ACERA), technological systems (CFM has invested over \$150 million in such systems), and entrepreneurial, team-oriented culture.
  - Representatives from CFM also provided an overview of the fund’s strategy, including its overall objectives (e.g., low correlation to bond and equity markets and a 0.8 Sharpe Ratio (net of fees)), sub-strategies (e.g., long-term trend following, equity market neutral, risk premia, and universal value), securities traded within each sub-strategy (virtually all exchange-traded securities, futures, options, and indices globally) and risk management (two internal risk management teams).

- The Chair inquired about what could go wrong with these particular investments. The Representatives from CFM answered that there may be operational or strategic risks associated with these types of investments, *e.g.*, a strategy could stop working in an untested market environment or a communication line to an exchange could be cut.

2. Report on ACERA's U.S. Small Cap Growth Manager Search – Domestic Equities

- Verus and Staff outlined the plan to prepare a focused-list approach for ACERA's U.S. Small Cap Growth equity manager instead of a RFP approach. This mandate was approved by the Board in May 2017 for approximately \$130 million. Staff anticipates presenting the Proposed Timeline, Minimum Qualifications and Evaluation Matrix at the June 13 ICM as an action item.
- Some Trustees expressed concerns about missing potential viable candidates, but were assured that, through ACERA's due diligence process, Verus and Staff would be able to present suitable candidates.

3. Update on Transition Management – Domestic Equities

- Staff provided the committee with the final update on restructuring the U.S. equity asset class. The explicit commission costs were approximately \$246,000. Staff and Verus were satisfied with the process and results provided by the Blackrock transition team.

**TRUSTEE/PUBLIC INPUT**

None

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, June 13, 2018 at 9:30 a.m.

**ADJOURNMENT**

The meeting ended at 11:03am.