



Date: May 10, 2017
To: Members of the Board of Retirement
From: Annette Cain-Darnes - Chair
Subject: Summary of May 10, 2017 Investment Committee Meeting

The Investment Committee met on Wednesday, May 10, 2017 at 9:33 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Liz Koppenhaver, 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.

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

1. Review and discussion of Next Century Growth (Small Cap) and Possible Motion to Recommend to the Board to Authorize a Search for a U.S. Small Cap Growth Manager
 - Representatives from Next Century Growth (NCG) presented its organization, history, performance, and projections for the short and long term. The representatives discussed with Trustees the recent economic environment and how it impacted the performance of NCG, while giving examples of what's happening in the current environment that are expected to have a positive effect on the named account.
 - According to NCG, their most recent year to date performance numbers as of May 5, 2017 was 14.63%, relative to the R2000 growth index of 7.30%. However, as of March 31, 2017, NCG Small Cap portfolio underperformed its benchmark, the Russell 2000 Growth + 250, by 9.15%, 8.51%, and 4.62% gross of fees for the time periods 1 Year, 5 Years, and 10 years, respectively.
 - Staff and Verus recommended that the Committee authorize a search for a U.S. Small Cap Growth Equity manager for ACERA based upon the rationale stated in their respective memos. When the Workplan permits, Staff will present to the Board a proposed Search Methodology, Timeline, Search Criteria, and Evaluation Matrix.
 - After further discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Dale Amaral, to recommend to the Board to authorize a Search for a U.S. Small Cap Equity Growth Manager.
 - The motion carried with 7 yes (Amaral, Basgal, Cain-Darnes, Gamble, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Review of the U.S. Equity Manager Structure
 - Representatives from Verus led the Committee in a discussion about the active management environment. It has been more than a year ago that Verus proposed and the Board adopted the



current U.S. Equity Manager Structure and stated they would bring the topic back to the Investment Committee.

- In seeking input from the Committee, Verus suggested the Committee may want to increase its allocation to large cap passive, as well as adjusting the allocations to the small cap sub-asset category in favor of large cap passive.
- The Committee inquired about investment processes and provided some individual comments. The Committee also asked Verus to work with Staff to make any appropriate recommendations regarding potential changes to the U.S. Equity Manager Structure for the Committee to entertain.

2. Review of ACERA's Emerging Investment Manager Structure and Implementation

- Verus representatives presented a review of ACERA's Emerging Investment Manager (EIM) Program and its structure, which are in compliance with the EIM Policy. Verus and Staff discussed ACERA's current implementation of the Emerging Investment Manager Program and suggested possible considerations to include exposure to less efficient asset classes. For example, U.S. Small Cap equities and International equities.
- The Committee provided some individual comments, and instructed Verus and Staff to make any appropriate recommendations to potentially enhance the EIM structure, consistent with the spirit of the EIM Policy.

Recommendations

- The Committee recommends, and I move, that the Board authorize a Search for a U.S. Small Cap Equity Growth Manager.

TRUSTEE/PUBLIC INPUT

Dave Nelsen, ACERA's Chief Executive Officer, introduced Henry Levy, the recently appointed Treasurer of Alameda County.

Betty Tse, ACERA's Chief Investment Officer informed the Committee that NEA 16 had approved the preferred full allocation of \$15m as ACERA's commitment.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

June 14, 2017 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 12:00 p.m.