

May 18, 2011

To: Members of the Board of Retirement

From: Annette Cain-Darnes – Vice Chair

**Subject: Summary of the May 18, 2011 Investment Committee Meeting**

The Investment Committee met on Wednesday, May 18, 2011 at 9:18 a.m. The Committee members present were Annette Cain-Darnes, Elizabeth Rogers, Donald White and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer and Catherine Walker – Acting Chief Executive Officer.

### **ACTION ITEMS**

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

1. Discussion of ACERA's Currency Manager Search and Possible Motion to Adopt a Short List for the Search
  - Staff and SIS presented the process used independently to evaluate and rank the eleven Request For Information (RFI) responses to ACERA's currency manager search. Applying the Board-adopted Evaluation Matrix, Staff and SIS agreed to the same top three ranking managers who have demonstrated over-all excellence in their respective evaluations as the short-listed candidates for this search. The top three candidates (in alphabetical order) are: First Quadrant, L.P. (First Quadrant), FX Concepts, L.L.C., (FX Concepts), and Lee Overlay Partners, Ltd. (Lee Overlay Partners).
  - After discussion, Ms. Elizabeth Rogers moved, seconded by Mr. George Wood, to adopt First Quadrant, FX Concepts, and Lee Overlay Partners as the short-listed candidates for ACERA's currency manager search, and for Staff to conduct on-site visits to these managers. The motion passed unanimously.
  
2. Discussion of and Possible Motion to Adopt an Investment in PEARLS – Venture Capital
  - Upon completion of all investment due diligence in accordance with ACERA's Private Equity and Alternatives Return Leading Strategy (PEARLS) Policy and with the 2010 Investment Plan for the PEARLS Portfolio, SIS recommended and Staff concurred with, a \$15.0 million commitment to Khosla Ventures IV, L.P., pending completion of legal due diligence. This is the second Venture Capital investment recommendation projected in the in 2010 Investment Plan.
  - SIS presented an overview and relevant updates of Khosla Ventures' funds to the Committee.

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- After discussion, Ms. Elizabeth Rogers moved, seconded by Mr. George Wood, to adopt the recommendation of a \$15.0 million commitment to Khosla Ventures IV, L.P. pending completion of legal due diligence. The motion passed unanimously.
3. Discussion of and Possible Motion to Adopt the Amended Real Estate Strategic Plan and the 2011 Investment Plan for ACERA's Real Estate Portfolio
- Owing to lack of: 1) Comparisons between NCREIF Property Index (NPI) and Open-End Diversified Core Equity Index (ODCE) in the context of evaluating performance of ACERA's Real Estate managers; and 2) a quorum of the Investment Committee, the Committee decided to defer any further action with respect to the proposed Amended Real Estate Strategic Plan and the 2011 Investment Plan until additional pertinent information is made available to the Committee.
  - Townsend and Staff agreed to re-schedule this item for the next Investment Committee meeting.

### **Information Items:**

1. Report on ACERA's current Real Estate Portfolio and Risk Analysis
- Townsend presented a report on ACERA's real estate portfolio. They discussed general Real Estate market conditions and their expectations, significant events in 2010, and their risk assessment for each of ACERA's real estate portfolio managers. With a risk ranking system of Category 1 (least risk) to Category 4 (highest risk), all ACERA's real estate managers are classified in the lower risk categories of either 1 or 2.
2. Annual review of NCG Small Cap Growth and Ultra Growth
- Next Century Growth (NCG) Small Cap account's one-year gross return ending 3/31/11 was 39.3%, outperforming its benchmark (Russell 2000 Growth + 250 bps) by 5.5%. As of 3/31/11, the market value of NCG Small Cap account was about \$195.0 million, representing about 3.6% of ACERA's total Fund.
  - NCG Ultra account's one-year gross return ending 3/31/11 was 39.4%, outperforming its benchmark (Russell Microcap Growth + 250 bps) by 5.3%. As of 3/31/11, the market value of NCG Ultra account was approximately \$75.0 million, representing about 1.4% of ACERA's total Fund.
  - NCG reviewed the portfolio positions, performances, investment processes for both Small Cap Growth and Ultra accounts, as well as current economic conditions and outlook. For the past year, both NCG accounts did not change their investment strategies or style, and were in compliance with ACERA's reporting requirements.
3. Report on ACERA's rebalancing activities – April 2011
- ACERA completed two rebalancing transfers totaling approximately \$84.7 million in April 2011. The objective of the rebalancing transfers was to harvest profits from well-

performing accounts (NCG and NCG Ultra) that exceeded their target allocations and to capitalize return potential of relatively undervalued accounts (Baird, Brandywine and Mellon) through realignment towards the target allocation percentages of the asset classes and the investment managers.

4. Oral Status report on funding ACERA's new International Small Cap Equity Manager – Franklin Templeton Investments
  - Staff reported that the funding of the commingled pool trust managed by Franklin Templeton Investments was completed on April 20<sup>th</sup>, 2011.

#### **RECOMMENDATION**

The Committee recommends, and I move, that the Board adopt First Quadrant, L.P., FX Concepts, L.L.C., and Lee Overlay Partners, Ltd. as the short-listed candidates for ACERA's currency manager search and for Staff to conduct on-site visits to these managers.

The Committee recommends, and I move, that the Board adopt the recommendation of a \$15.0 million commitment to Khosla Ventures IV, L.P. pending completion of legal due diligence.

#### **FUTURE DISCUSSION ITEMS**

None

#### **TRUSTEE/PUBLIC INPUT**

None

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

June 8, 2011 at 9:00 a.m.

#### **ADJOURNMENT**

The meeting adjourned at 11:42 a.m.