

May 19, 2010

To: Members of the Board of Retirement

From: Keith Carson - Chair

Subject: Summary of the May 19, 2010 Investment Committee Meeting

The Investment Committee met on Wednesday, May 19, 2010 at 9:03 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, George Dewey, Liz Koppenhaver, Elizabeth Rogers, Donald White and George Wood. Also present were Alternate Safety members David Safer and 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 – Assistant Chief Executive Officer

ACTION ITEMS

1. Discussion of ACERA's U.S. Small Cap Value Equity Manager Search and Possible Motion to Adopt a Short List for the Search
 - Staff and SIS presented the approach/process used to independently evaluate and rank the ten Request For Proposal (RFP) responses to ACERA's U.S. small cap value equity manager search. Applying the Board-adopted Evaluation Matrix, Staff and SIS agreed on the same top three ranking managers who have demonstrated over-all excellence in both Staff's and SIS' evaluations as the short-listed candidates for this search. The top three candidates (in alphabetical order) are: Ceredex Value Advisors LLC, Kennedy Capital Management, and Robeco Investment Management.
 - The Committee suggested that Staff and SIS 1) select a fourth candidate in case one of the top three candidates falls short of expectations after the initial site visits; and 2) recommend three finalists to the Committee for its interview and selection. Staff and SIS agreed that Perkins Investment Management would be the fourth candidate for the site visit because it was ranked No. 4 on both Staff's and SIS' evaluations.
 - After discussion, Mr. George Dewey moved, seconded by Ms. Annette Cain-Darnes, to adopt Ceredex Value Advisors LLC, Kennedy Capital Management, Inc., Perkins Investment Management and Robeco Investment Management as the short-listed candidates for ACERA's U.S. small cap value equity manager search. Upon completion of the site visits to these four candidates, Staff and SIS will recommend three finalists to the Committee for its interview and selection. The motion passed unanimously.
2. Discussion and Possible Motion to Adopt ACERA's Placement Agent Disclosure Policy
 - Robert Gaumer, Chief Counsel of ACERA, stated that Assembly Bill 1584 was passed by the Legislature and signed into law. This bill added Government Code sections 7513.85, 7513.9

and 7513.95 which require that California public pension plans develop and implement a policy requiring the disclosure of payments to placement agents in connection with pension plan investments in or through external managers. Mr. Gaumer presented the proposed ACERA's Placement Agent Disclosure Policy.

- After discussion, Ms. Elizabeth Rogers moved, seconded by Mr. George Dewey to adopt ACERA's Placement Agent Disclosure Policy with a minor modification. The motion passed unanimously.

3. Discussion and Possible Motion to Adopt an Investment in a Private Equity Fund – Buyouts

- Upon completion of all due diligence procedures, in accordance with ACERA's Private Equity and Alternatives Return Leading Strategy (PEARLS) Policy and the 2010 Investment Plan for ACERA's PEARLS Portfolio, Staff concurs with SIS' recommendation to invest \$30.0 million in Avista Capital Partners II, LP pending completion of legal due diligence review. This investment is part of the Buyout allocation in ACERA's PEARLS Portfolio and is the first Buyout investment recommendation in 2010.
- Representatives from Avista Capital Partners II, LP presented an overview of its organization, investment strategy, process and the updated performance of its funds to the Committee.
- After discussion, Ms. Elizabeth Rogers moved, seconded by Mr. George Wood, to adopt the recommendation of a \$30.0 million commitment to Avista Capital Partners II, LP. The motion passed with 7 yes and 1 abstention.

INFORMATION ITEMS

1. Annual review of Next Century Growth Investors, LLC Small Cap Growth and Ultra

- Next Century Growth (NCG) Small Cap account's one-year gross return ending 3/31/10 was 7.56%, under-performing its benchmark (Russell 2000 Growth + 250 bps) by -0.7%. As of 3/31/10, the market value of NCG Small Cap account was about \$141 million, representing about 2.9% of ACERA's total Fund.
- NCG Ultra account's one-year gross return ending 3/31/10 was 10.6%, outperforming its benchmark (Russell 2000 Growth + 250 bps) by 2.3%. As of 3/31/10, the market value of NCG Ultra account was approximately \$54 million, representing about 1.1% of ACERA's total Fund.
- For the past year, NCG (Small Cap and Ultra) did not change its investment strategy or style, and was in compliance with ACERA's reporting requirements. NCG reviewed the portfolio positions, performances, disciplined investment process, and current economic condition. NCG recommended a new benchmark (Russell Micro Cap Growth + 250 bps) for NCG Ultra. Both Staff and SIS concur with this recommendation.

2. Report on the annual review of ACERA's Proxy Voting Guidelines and Procedures

- Annually, Staff reviews ACERA's Proxy Voting Guidelines and Procedures (Proxy Guidelines) with assistance from ACERA's proxy voting consultant, RiskMetrics/ISS. Upon completion of a thorough review of the Proxy Guidelines this year, Staff believes that our current Proxy Guidelines reflect current trends and best practices in the field of corporate governance. Therefore, Staff proposes no amendments to the Proxy Guidelines.

3. Report on ACERA's Proxy Voting activities for 2009

- During 2009, RiskMetrics cast a total of 11,419 votes on behalf of ACERA. Compared to the 9,643 total votes cast in 2008, the total votes cast in 2009 were higher because Bivium had a full year history as a separate account.
- The two most common issues on ballots in 2009 were 1) "Elect Directors" in the category of Directors Related, and 2) "Ratify Auditors" in the category of Routine Business. The combined total of these two issues represented 31% of all issues voted in 2009. The two most commonly occurring issues for which ACERA voted against company management were 1) "Elect Directors" in the category of Directors Related, and 2) "Appoint Internal Statutory Auditor" in the category of Directors Related. These two issues represented 41% of all votes against management in 2009.

4. Update on ACERA's International Small Cap Equity manager search

- Staff and SIS independently created a long list of candidates for the International Small Cap equity manager search by applying the search criteria adopted by the Board at its March 2010 meeting. Staff and SIS will work together to shorten the current list of eight candidates by applying additional qualitative and quantitative criteria. In accordance with the search timeline, the RFP was sent out to these eight candidates on April 15, 2010.

5. Investment Committee Workplan for 2010

- Staff has distributed a copy of the Investment Committee Workplan (Workplan) for the year 2010. This Workplan is subject to change without prior notice. An updated Workplan will be provided to you on a quarterly basis.

RECOMMENDATION

- The Committee recommends, and I move, that the Board adopt Ceredex Value Advisors LLC, Kennedy Capital Management, Inc., Perkins Investment Management, and Robeco Investment Management as the short-listed candidates for ACERA's U.S. small cap value equity manager search. Upon completion of the site visits to these four candidates, Staff and SIS will recommend three finalists to the Committee for its interview and selection.
- The Committee recommends, and I move, that the Board adopt the recommendation of a \$30.0 million commitment in Avista Capital Partners II, LP.

- The Committee recommends, and I move, that the Board adopt ACERA's Placement Agent Disclosure Policy with a minor modification.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

None

ESTABLISHMENT OF NEXT MEETING DATE

June 9, 2010, 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 12:02 p.m.