



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: June 8, 2016
To: Members of the Board of Retirement
From: George Wood–Chair
Subject: Summary of June 8, 2016 Investment Committee Meeting

The Investment Committee met on Wednesday, June 8, 2016 at 9:36 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were David Nelsen – Chief Executive Officer, Kathy Foster – Asst. Chief Executive Officer, Margo Allen – Fiscal Services Officer, Victoria Arruda – Human Resources Officer, Joseph Fletcher – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

ACTION ITEMS

1. Discussion of and Possible Motion to Recommend to the Board to Adopt a New International Equity Manager Structure (Part 2)
 - Regarding ACERA's International Equity Manager Structure asset class, representatives from Verus reminded the Committee of its previous recommendation made in the May ICM. The named recommendation of Alternative #2 stated: 40% passive, 40% large cap quantitative, 10% small cap and 10% Emerging Markets. Verus talked about the importance of adding a passive index component to the asset class and maintaining diversification, given the committee's sensitivity to investment return and risk. To that end, Verus indicated that it was comfortable with a more incremental approach of recommending Alternative #1 which stated: 20% passive, 20% large cap growth, 20% large cap value, 20% large cap quantitative, 10% small cap and 10% Emerging Markets. Staff concurs with Verus recommendation to move to a more passive approach, incrementally.
 - Representatives from Capital Group presented to the trustees 1) the viability of active management and 2) a proposed new fee structure (including an incentive performance fee) for Committee members to consider.
 - Representatives from Mondrian presented its track record and success at outperforming the MSCI ACWI ex-US and the ACWI ex-US IMI Value Index. Mondrian is the only active manager in the Int'l Equities asset class currently not on ACERA's Watchlist/Probation status.
 - Committee members discussed the importance being proactive in the difficult global markets including the need to be enabled by policies that allow the Committee to act quickly with respect to the contract review process as described by ACERA's Policy.
 - After discussion, Ms. Liz Koppenhaver moved, seconded by Annette Cain-Darnes, to recommend to the Board to adopt Alternative #1 for the new International Equity Manager

Structure. Alternative #1 changes the manager structure for International Equity to (1) 20% passive developed market index non US Equity, (2) 20% large cap value non-US Equity, (3) 20% large cap growth non-US Equity, (4) 20% large cap core quantitative (no change), (5) 10% small cap non-US Equity (no change), and (6) 10% in a newly-established sub-asset class for Emerging Markets. Within a year; Staff and Verus will update the Committee of the implementation status of Alternative #1 and, if necessary, will recommend further action.

- The motion was carried with 6 yes (Amaral, Basgal, Cain-Darnes, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEM

1. Quarterly Performance Review for the First Quarter of 2016 – Equities and Fixed Income

- For 1Q2016, ACERA's Total Fund gross returned 0.2% (gross) compared to the policy index return of 1.4%. For the year ending 3/31/2016, the Total Fund return was -1.7% (gross) compared to the Policy Index of -0.5%. The Total Fund ranked in the 96th and 69th percentiles for the quarter and one year periods, respectively.
- For 1Q2016, ACERA's U.S. Equity, International Equity, , and Fixed Income asset classes returned -2.5%, 0.8%, and 4.4% (gross) compared to their benchmarks 1.0%, -0.1%, and 4.0%, respectively. On a 1-year basis, these asset classes returned -3.3%, -6.9%, and 0.7%, respectively.
- U.S. Equity accounted for 32.0% of the Total Fund, International Equity 28.0%, and Fixed Income 16.7%. As of 3/31/2016, the market value of the Total Fund was \$6,621,249,973.

2. Quarterly Performance Review for the First Quarter of 2016 – Real Estate

- ACERA's real estate portfolio returned net 1.8% for Q1 2016 and 15.6% for the 1-year period ending 3/31/2016 compared to the NCREIF-ODCE benchmark of 2.0% and 12.6%, respectively.
- The total market value of ACERA's real estate portfolio was \$487.6 million; approximately 7.4% of ACERA's total Fund.

3. Semi – Annual Performance Review for the Period Ending December 31, 2015 – PEARLS

- As of 12/31/2015 the Private Equity and Alternatives Return Leading Strategies Portfolio ("PEARLS") had a total market value of \$793.8 million, with \$450.4 million in Private Equity and \$343.3 million in Alternatives.

- The PEARLS portfolio has produced 11.6% IRR since inception, including all inactive funds. Private Equity investments, averaging 2.9 years, produced 14.8%; and the Alternatives portfolio, now averaging 2.1 years, produced 6.2%.
 - ACERA made two new investments to Private Equity in the second half of 2015, a re-up to Warburg Pincus for \$43 million (in the Warburg Pincus Fund XII) and a \$50 million commitment to a new debt-related Fund, Catalyst Fund V. In Alternatives, \$100 million commitment was invested with Lighthouse Partners in the Lighthouse Alpha Fund.
4. Semi – Annual Performance Review for the Period Ending December 31, 2015 – REAL ASSETS
- As of 12/31/2015, the Real Assets had a total market value of \$235,279,483; approximately 3.5% of ACERA’s Total Fund. Gross return for the Real Assets class was -17.8% one year trailing period.

Recommendations

- The Committee recommends, and I move, that the Board adopt Alternative #1 for the New International Equity Manager Structure. The new manager structure for International Equity will be changed to (1) 20% passive developed market index non-US Equity, (2) 20% large cap value non-US Equity, (3) 20% large cap growth non-US Equity, (4) 20% large cap core quantitative (no change), (5) 10% small cap non-US Equity (no change), and (6) 10% in a newly-established sub-asset class for Emerging Markets.

TRUSTEE/PUBLIC INPUT

- Staff announced that over the course of the year, Staff will bring to the Committee a series of RFPs to carry out the recent manager structure changes as approved by the Board.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

July 13, 2016 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 12:07 p.m.