

June 9, 2010

To: Members of the Board of Retirement

From: Keith Carson - Chair

Subject: Summary of the June 9, 2010 Investment Committee Meeting

The Investment Committee met on Wednesday, June 9, 2010 at 9:07 a.m. The Committee members present were Annette Cain-Darnes, Keith Carson, George Dewey, Elizabeth Rogers, and George Wood. Also present was Alternate Retired members David Safer. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, and Betty Tse – Chief Investment Officer.

ACTION ITEMS

1. Discussion and Possible Motion to Adopt the Amended Real Estate Strategic Plan and the 2010 Investment Plan for ACERA's Real Estate Portfolio
 - ACERA conducts a review of its Real Estate Strategic Plan and investment plan annually. This year, Staff and Townsend made minor changes to Schedule I and II of the Strategic Plan. Specifically, Staff and Townsend 1) added two more columns to provide for additional information on allocation percentages in Schedule I; and 2) sorted the real estate managers' names in alphabetical order in Schedule II.
 - Townsend presented an updated 2009 real estate Investment Plan and the proposed 2010 Investment Plan for ACERA's real estate portfolio. The proposed 2010 real estate Investment Plan will: 1) monitor the funding status of the real estate portfolio and prepare to make a new real estate commitment in 2010 or 2011, 2) rebalance Core/Stable investments consistent with the 2008 and 2009 investment plan, 3) evaluate the NPI benchmark and introduce NCREIF/Townsend fund level indices, and 4) monitor the leverage ratio at both the portfolio and individual fund levels.
 - As of 12/31/09, the market value of ACERA's real estate portfolio was \$255.9 million, representing 5.5% of ACERA's total Fund.
 - After discussion, Mr. George Dewey moved, seconded by Mr. George Wood, to adopt ACERA's amended Real Estate Strategic Plan and the 2010 Investment Plan for ACERA's real estate portfolio. The motion passed unanimously.

INFORMATION ITEMS

1. Annual review of PRISA and PRISA II

- Representatives from Prudential Real Estate Investors presented an overview of the current U.S. economic and real estate market outlook. They also discussed the investment strategies, performances, capital flows, debt maturities and 2010 return expectations of PRISA (a core fund) and PRISA II (a value-added fund).
- As of 12/31/09, PRISA's one-year gross return of -34.2% underperformed the account benchmark NPI by 17.3%. The net asset value of ACERA's PRISA account was \$26.9 million. PRISA has been in compliance with ACERA's reporting requirements since inception.
- As of 12/31/09, PRISA II's one-year gross return of -45.0% underperformed the account benchmark NPI + 150 bps by 29.6%. The net asset value of ACERA's PRISA II account was \$21.2 million. PRISA II has been in compliance with ACERA's reporting requirements since inception.

2. Semi-annual performance review since inception and for the period ending December 31, 2009 -PEARLS

- During the second half of 2009, ACERA made four Private Equity commitments for a total of approximately \$70 million. As of 12/13/09, the total market value of ACERA's PEARLS Portfolio was about \$80.7 million, representing 1.7% of the total Fund.

3. Quarterly report of ACERA's investment manager, consultant, and custodian bank fees for the first quarter of 2010

- In the first quarter of 2010, ACERA paid approximately \$4.1 million in investment manager fees, about 8.57 bps of ACERA's total market value of about \$4.8 billion. ACERA also paid approximately \$299.9K in consultant and custodian fees, about 0.62 bps of ACERA's total market value.

4. Quarterly report on ACERA's Directed Brokerage Program for the first quarter of 2010

- In first the quarter of 2010, the total recaptured dollar amount for ACERA's Directed Brokerage (DB) Program was \$34,095.14. For the quarter, TCW directed the highest percentage (24.10%) of trading volume and Pzena generated the largest directed commission dollar amount (\$16,265.55). CAPIS received the highest total percentage of ACERA's directed trades (62.48%) among all correspondent brokers within the network. The program continues to operate in compliance with ACERA's DB Policy.

5. Quarterly report on Investment Products and Services Introductions (IPSI) Program

- In the first quarter of 2010, Staff received a total of 26 inquiries from prospective investment vendors and met with 19.

6. 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 the Committee on a quarterly basis.

RECOMMENDATION

- The Committee recommends, and I move, that the Board adopt the Amended Real Estate Strategic Plan and the 2010 Investment Plan for ACERA's Real Estate Portfolio.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

A representative of Blaylock Robert Van, LLC informed the Committee that he had difficulty obtaining information from ACERA's Directed Brokerage Program Third-Party Administrator, CAPIS. The Committee directed Staff to follow up with CAPIS regarding this input and provide a status report to the Committee at a later date.

ESTABLISHMENT OF NEXT MEETING DATE

July 14, 2010, 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 11:45 a.m.