



Date: June 13, 2018
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of June 13, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, June 13, 2018 at 9:31a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Tarrell Gamble (remote location), Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker and Alternate Retired member Nancy Reilly. Members of the Staff present were Kathy Mount – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer (CIO).

Before the meeting was called to order, the Chairwoman Rogers announced to the public that Trustee Gamble would be participating via telephone from a remote location listed on the agenda. She asked all presenters to identify themselves, and reminded staff to conduct roll call votes of all voting trustees in accordance with the Brown Act. Trustee Gamble confirmed that the agenda had been posted in a public setting for 72-hours as required by law, and that he was the only participant at the remote location.

ACTION ITEMS

1. Interview of the Finalists for ACERA’s Emerging Markets Manager Search – International Equities – and Possible Motion to Recommend one Finalist to the Board
 - Staff and representatives of Verus presented to the Committee findings from their on-site due diligence, which included updated scores for the two finalists, Newton and UBS. Staff stated that the site visits in London and Singapore had added new insights which resulted in the rescoring of the candidates. Updated performance data through March 31 combined with and a better knowledge of geographic location, depth of research, and stock selection approaches resulted in an increase to UBS’s score by 7.0 points (from 86.3 to 93.3) and a decrease in Newton’s score by 2.3 points (from 91.9 to 89.6). Staff and Verus confirmed that both Newton and UBS are well-qualified to manage this mandate of \$210 million.
 - Representatives from Newton provided an overview of the firm’s culture, investment team, philosophy, process, and risk management. Newton is a wholly owned subsidiary of BNY Mellon, a publicly-traded company (NYSE: BK). Newton manages approximately \$70 billion in AUM and is located in London, UK. Their Global Emerging Markets equity strategy was formed in May 2011 and the team manages approximately \$3.3 billion in AUM in this strategy as of March 31, 2018. The Newton team discussed its emphasis on Environmental, Social & Governance (ESG) factors and provided examples of how these factors are incorporated into its investment process. Newton’s Global Emerging Markets strategy has outperformed the MSCI Emerging Markets Index by 1.1% and 3.6% on an annualized 3-year and 5-year basis (gross of fees), as of March 31, 2018.

- Representatives from UBS provided an overview of the firm's values, investment team, philosophy, process, and risk management. UBS Asset Management is a wholly-owned subsidiary of UBS Group AG, a publicly-traded company (NYSE: UBS), and manages approximately \$800 billion in AUM firm-wide. The Emerging Markets Equity HALO (High Alpha Long-term Opportunity) strategy was formed in August 2008 and manages approximately \$4.9 billion in AUM. The team is headquartered in Singapore. The representatives provided investment examples of its "best ideas" approach, and discussed how it incorporates a company's ESG evaluation into the investment process using its quality and risk assessment checklist. UBS's EM Equity HALO strategy has outperformed the MSCI Emerging Markets Index by 6.1% and 3.9% on an annualized 3-year and 5-year basis (gross of fees), as of March 31, 2018.
 - During their discussion after the interview, Trustees identified a few factors important to their decision-making process: *e.g.* (1) the appearance of Newton's CEO at the interview so that the Trustees could understand the future direction of the company, and (2) the emphasis of governance (as related to ESG) in Newton's ongoing evaluation of companies.
 - After further discussion, Ms. Ophelia Basgal moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board that it approve Newton Investment Management as ACERA's Emerging Markets – International Equities manager pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 5 yes (Amaral, Basgal, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend that the Board Approve an up to \$34 million Investment in the CapVest Equity Partners IV as part of ACERA's Private Equity Portfolio – Buyout
- Representatives from CapVest presented to the Committee the history, background, and culture of the firm. In addition, the representatives discussed the current investment opportunity set and its investment strategy which is focused on control and middle-market buyout opportunities that present buying companies and building them through follow-on acquisitions. CapVest also discussed the success of its strategy based on its prior fund's performance.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Dale Amaral, to recommend to the Board that it approve an up to \$34 million (€27 million commitment) investment in CapVest Equity Partners IV as part of ACERA's Private Equity Portfolio – Buyout pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 5 yes (Amaral, Basgal, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

3. Discussion of and Possible Motion to Recommend that the Board approve an 18-month Extension of the Custody Contract with State Street Bank and Trust Company
 - Staff requested an 18-month extension to the State Street Bank (SSB) Custody Contract based on the eight reasons stated in the staff memo. Some examples of these reasons were discussed in the meeting such as: (1) to minimize disruption to ACERA's ongoing business, and (2) to maintain many aspects of SSB's services such as performance analytics which continued to be in compliance.
 - After further discussion, Ms. Ophelia Basgal moved, seconded by Mr. George Wood, to recommend to the Board to Approve an 18-month Extension of the Custody Contract with State Street Bank and Trust Company
 - The motion carried with 5 yes (Amaral, Basgal, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Quarterly Performance Review for the First Quarter of 2018 – Equities and Fixed Income
 - For 1Q2018, ACERA's Total Fund returned 0.91% gross (0.87% net of fees)¹, compared to the Policy Index return of 0.0%. For the year ending 03/31/2018, the Total Fund returned 14.0% gross (13.7% net of fees) compared to the Policy Index of 12.6%. The Total Fund's results ranked in the top 10th and 3rd percentile for the quarter and one year periods, respectively.
 - As of 03/31/2018, the market value of the Total Fund was \$8,125,417,975.
2. Semiannual Performance Review for the Period Ending December 31, 2017 – Private Equities
 - Verus provided a brief overview of the Private Equity Program through December 31, 2017. As of that date, the Private Equity Portfolio had a total market value of \$463.6 million. This reported market value represents 5.7% of the Total Fund in comparison to the 9.0% asset allocation target for Private Equity. For the one-year period ending December 31, 2017, ACERA's Private Equity Portfolio returned 14.1% vs. the Thomson Reuters C|A Global All Private Equity Benchmark return of 19.5%
 - Total commitments (active and inactive) in the Private Equity Program, as of 12/31/2017², aggregated \$1,008.8 million or 12.4% of its class target. The Private Equity Portfolio has produced 15.3% (net) IRR since its inception in 2008, including all inactive funds.

¹ Net of fees reflects management fees that were paid in this quarter.

² The Total Fund Market Value as of December 31, 2017 was \$8,108,480,756.

3. Semiannual Performance Review for the Period Ending December 31, 2017 – Absolute Return

- Verus provided a brief overview of the Absolute Return Program through December 31, 2017. As of that date, the Absolute Return Portfolio had a total market value of \$303.7 million. This reported market value represents 3.7% of the Total Fund as compared to the 9.0% asset allocation target for Absolute Return. For the one-year period ending December 31, 2017, ACERA's Absolute Return Portfolio returned 3.2% vs. the HFRI Fund of Funds Composite Index Benchmark of 7.8%
- Total commitments in the Absolute Return Program, as of 12/31/2017, aggregated \$332.4 million. The Absolute Return Portfolio has produced 4.2% (net) time-weighted return since its inception in 2011, including redeemed fund results.

4. Semiannual Performance Review for the Period Ending December 31, 2017 – Real Assets

- Verus provided a brief overview of the Real Assets program as of December 31, 2017. As of that date, the Real Assets asset class had a total market value of \$300.0 million; representing about 3.7% of ACERA's Total Fund (class target is 5.0%). For the one-year period ending December 31, 2017, ACERA's Real Assets Portfolio returned -0.1% vs. the blended S&P Global Natural Resources/S&P Global Infrastructure/Bloomberg Commodities Benchmark of 18.6%.³
- Total commitments to the Real Assets Portfolio, as of 12/31/2017 were \$456.7 million (5.6%). Since inception through the period ending 12/31/2017, the Real Assets asset class has returned -5.2% (net) IRR.

5. Quarterly Performance Review for the First Quarter of 2018 – Real Estate

- ACERA's Real Estate portfolio, including the Oakland Building, returned 2.26% gross (1.95% net) for 1Q2018 and 10.14% gross (8.99% net) for the 1-year period ending 03/31/2018 versus the NCREIF-ODCE benchmark of 2.20% gross (1.97% net) and 8.07% gross (7.11% net), respectively.
- As of 03/31/2018, the market value of ACERA's real estate portfolio was \$523.5 million comprising 6.4% of the Total Fund (class target is 8.0%).

Recommendations:

- The Committee recommends, and I move, that the Board approve Newton Investment Management as ACERA's Emerging Markets – International Equities Fund manager pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

³ The weak Real Assets Portfolio return resulted from losses in the Sheridan Production Partners II Fund.

- The Committee recommends, and I move, that the Board Approve an up to \$34 million (€27 million) Investment in CapVest Equity Partners IV as part of ACERA's Private Equity Portfolio – Buyout pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Approve an 18-month Extension of the Custody Contract with State Street Bank and Trust Company.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, July 11, 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 12:50 p.m.