



**ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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Date: June 16, 2015  
To: Members of the Board of Retirement  
From: George Wood – Chair  
Subject: **Summary of the June 16, 2015 Investment Committee Meeting**

The Investment Committee met on Tuesday, June 16, 2015 at 9:32 a.m. The Committee members present were Dale Amaral, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present was Alternate Retired member David Safer. Members of the Staff present were Margo Allen – Fiscal Services Officer, Kathy Foster – Interim Chief Executive Officer, Joseph Fletcher – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

**ACTION ITEM**

There were no action items for discussion.

**INFORMATION ITEMS**

1. Review and Discussion of Capital Market and ACERA's Portfolio Asset Allocation, including the Active/Passive Study of the Traditional Asset Classes
  - Barry Dennis of Strategic Investment Solutions (SIS), ACERA's general investment consultant, announced the departure of Patrick Thomas and that he would be assuming the lead responsibilities for its relationship with ACERA. Mr. Dennis introduced his supporting team: Teresa Cutter and Stephen Quirk. Mr. Dennis, a co-founder of SIS, worked closely with ACERA's Board from 2000 to 2006.
  - SIS reviewed current capital market conditions and discussed possible changes to ACERA's target asset allocation based on SIS's Capital Market Expectations Process. SIS presented the projected ACERA portfolio return and risk expectations based on the current target as of May 2015. The projected long-term expected total return of ACERA's target portfolio would be 7.4%. While the proposed long-term expected total <sub>risk</sub> is 15.3%. SIS discussed ACERA's new projected alternate target asset allocation which is as follows: US Equity at 27% (down 5%), International Equity at 25% (down 2%), Fixed Income at 15% (no change), Real Estate at 8% (up 2%), PEARLS at 18% (up 3%), and the Real Return Pool at 7% (up 2%).
  - SIS also provided a thorough analysis on ACERA's "Active versus Passive" investments in the three traditional asset classes (U.S. Equity, Int'l. Equity, and Fixed Income). SIS noted the total return characteristics of the portfolio under a classic Plan Management Framework which are attributed as follows; Asset Allocation selection represents about 80-90% of the total return, Manager Structure represents 10-15%, and Manager Selection represents 5-10%. The objective of the named Framework is to diversify the portfolio and control risk. SIS discussed the market environments where active and passive

investment strategies perform well. SIS advised ACERA to continue to be both active and passive and be smart where it is active and passive. In general, ACERA has done well with its active managers across US and International Equities and Fixed Income.

- SIS continued that specifically, active investment management outperforms its benchmark six out of ten years. Nonetheless, ACERA's active managers have not done well in four of the last five years, especially in large cap stocks partially due to the market environments. SIS discussed variations to active and passive management, e.g., factor portfolios. SIS encouraged ACERA to think about these issues and consider addressing them in its policies. SIS commented on the Boards' patience and how this has been beneficial to ACERA's portfolio. Mr. Dennis noted that ACERA may need to add Alpha Managers to enhance future returns, and SIS would continue discuss the Manager Structure after the next Asset Allocation presentation in July.
- In conclusion, SIS agreed and Staff concurred, that they will follow its process and look closely at asset allocation, manager structure, and manager selection within each asset class tentatively starting as soon as next investment committee meeting.

## 2. Review of Baird Advisors

- Baird's gross return for the one-year period ending 4/30/15 was 5.9%, and 5.7% annualized since inception (2001), outperforming its account benchmark (Barclays Capital Aggregate Bond Index) by 1.42% and 0.86%, respectively. Baird has not changed its investment strategy or style and has been in compliance with ACERA's reporting requirements.
- As of 4/30/15, Baird managed about \$540.7 million, representing about 7.7% of ACERA's total assets. The representative from Baird discussed its investment outlook, investment strategy, portfolio characteristics, and the bond market environment.

## 3. Review of Loomis, Sayles & Company, LP

- Loomis Sayles' gross return for one-year period ending 4/30/15 was 6.4%, and 9.3% annualized since inception (2001), outperforming its account benchmark (Barclays Capital Baa Credit Index) by 1.7% and 2.4%, respectively. Loomis Sayles has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements.
- As of 4/30/15, Loomis Sayles managed about \$293.7 million, representing about 4.0% of ACERA's total assets. The representative from Loomis Sayles discussed its investment outlook, investment strategy, portfolio characteristics, and the bond market environment.

## 4. Quarterly Performance Review for the First Quarter of 2015- Equities, Fixed Income, and Real Return Pool

- For 1Q2015, ACERA's Total Fund returned 2.3% (gross), the same as the policy index. For the year ending on March 31, 2015, the Total Fund returned 5.2% (gross) compared to the

policy index of 7.1%. The Total Fund ranked in the 45<sup>th</sup> and 80<sup>th</sup> percentile for the quarter and one year period, respectively.

- For 1Q2015, ACERA's U.S. Equity, International Equity, Fixed Income, and Real Return Pool asset classes returned 1.9%, 4.0%, 1.4%, and -4.9% (gross) compared to their benchmarks 1.8%, 3.6%, 0.8%, and 0.1%, respectively.
- As of 03/31/2015, the market value of the Total Fund was \$6,903,566,099.

**Recommendation**

None

**TRUSTEE/PUBLIC INPUT**

None

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

July 8, 2015 at 9:30 a.m.

**ADJOURNMENT**

The meeting adjourned at 12:17 p.m.