



Alameda County Employees' Retirement Association
BOARD OF RETIREMENT

INVESTMENT COMMITTEE/BOARD MEETING

ACERA MISSION:

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

**Wednesday July 2, 2025
10:30 a.m.**

LOCATION AND TELECONFERENCE		COMMITTEE MEMBERS
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14TH STREET, 10TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574 The public can observe the meeting and offer public comment by using the below Webinar ID and Passcode after clicking on the below link or calling the below call-in number. Link: https://zoom.us/join Call-In: 1 (669) 900-6833 US Webinar ID: 879 6337 8479 Passcode: 699406 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193	GEORGE WOOD CHAIR	ELECTED GENERAL
	TARRELL GAMBLE VICE CHAIR	APPOINTED
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	ROSS CLIPPINGER	ELECTED SAFETY
	HENRY LEVY	TREASURER
	ELIZABETH ROGERS	ELECTED RETIRED
	KELLIE SIMON	ELECTED GENERAL
	STEVEN WILKINSON	APPOINTED
	CYNTHIA BARON	ALTERNATE RETIRED¹
	KEVIN BRYANT	ALTERNATE SAFETY²

¹ The Alternate Retired Member votes in the absence of the Elected Retired Member, or, if the Elected Retired Member is present, then votes if both Elected General members, or the Safety Member and an Elected General member, are absent.

² The Alternate Safety Member votes in the absence of the Elected Safety, either of the two Elected General Members, or both the Retired and Alternate Retired members.

Note regarding accommodations: If you require a reasonable modification or accommodation for a disability, please contact ACERA between 9:00 a.m. and 5:00 p.m. at least 72 hours before the meeting at accommodation@acera.org or at 510-628-3000.

Public comments are limited to four (4) minutes per person in total. The order of items on the agenda is subject to change without notice.

Board and Committee agendas and minutes and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure) are posted online at www.acera.org and also may be inspected at 475 14th Street, 10th Floor, Oakland, CA 94612-1916.

INVESTMENT COMMITTEE/BOARD MEETING

NOTICE and AGENDA Wednesday, July 2, 2025

Call to Order: 10:30 a.m.

Roll Call

Public Input (The Chair allows public input on each agenda item at the time the item is discussed)

Action Items: Matters for discussion and possible motion by the Committee

1. Discussion and Possible Motion to Recommend that the Board Approve the Updated Real Estate Investment Plan

10:35 – 11:05

Aaron Quach, Callan LLC
Avery Robinson, Callan LLC
John Ta, ACERA
Noe Reynoso, ACERA
Betty Tse, ACERA

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports

1. Review of ACERA's Real Estate Policy

11:05 – 11:35

Aaron Quach, Callan LLC
Avery Robinson, Callan LLC
John Ta, ACERA
Noe Reynoso, ACERA
Betty Tse, ACERA

2. Review of the current Public Equity Structure and Possible Restructure of the same – Part 3

11:35 – 12:05

Margaret Belmondo, NEPC
Dan Hennessy, NEPC
Julius Cuaresma, ACERA
Stephen Quirk, ACERA
Betty Tse, ACERA

3. Review of the Absolute Return Policy

12:05 – 12:35

Dan Hennessy, NEPC
Julius Cuaresma, ACERA
Clint Kuboyama, ACERA
Betty Tse, ACERA

Trustee Remarks

Future Discussion Items


None

Establishment of Next Meeting Date

August 6, 2025 at 10:30 a.m.



TO: Members of the Investment Committee

FROM: John Ta, Senior Investment Officer 

DATE: July 2, 2025

SUBJECT: Discussion and Possible Motion to Recommend that the Board Approve the Updated Real Estate Investment Plan

Executive Summary:

Callan has worked closely with Staff to update ACERA's Real Estate (RE) Investment Plan (2025 – 2026). The attached RE Investment Plan provides information on ACERA's real estate portfolio, current market conditions, and modeled pacing projections. Staff and Callan will review the RE Investment Plan annually to adjust as necessary.

Recommendation:

Staff recommends that the Investment Committee accept Callan's proposed RE Investment Plan (2025 – 2026) and motion the same to the Board for approval.

Discussion:

To note, the proposed RE Investment Plan includes portfolio diversification limits that will be slightly modified (e.g., changing Core allocation from $\geq 60\%$ to $\geq 50\%$) if the Board ultimately adopts Staff's and Callan's revisions to ACERA's Real Estate Policy. These policy revisions will be discussed in a separate information item. The slight adjustments in the portfolio limits will not affect the RE Investment Plan.

Attachments:

#1 ACERA Real Estate Investment Plan (2025 – 2026), prepared by Callan



July 2025

**2025 – 2026
Real Estate Investment Plan**

Public Version

Avery Robinson, CAIA
Senior Vice President

Aaron Quach
Vice President

Important Disclosures regarding the use of this document are included at the end of this document. These disclosures are an integral part of this document and should be considered by the user.

Agenda

- ▶ Portfolio Overview
- ▶ Market Highlights
- ▶ Investment Plan Recommendations
- ▶ Policy Modification Recommendations
- ▶ Appendix

Portfolio Objectives Overview

Real Estate Investment Program

- ▶ The ACERA Real Estate portfolio dates back to 1988. The program has evolved from a heavily concentrated, predominately direct, separately managed account-based portfolio, to a well-diversified, commingled fund-based program.
 - The ACERA Real Estate portfolio is anticipated to provide the following benefits over the long term:
 - Lower the overall portfolio risk due to real estate's low correlation with other portfolio asset classes;
 - Generate a stable income stream to assist in meeting cash flow needs;
 - Provide growth through appreciation;
 - Serve as a hedge against inflation;
 - Provide an opportunity to enhance portfolio return through higher total return investments.
- ▶ The real estate program has a current target allocation of 8.2%. As of year-end 2024, the real estate exposure was 6.9%. When including unfunded commitments, this exposure was 8.2%.

ACERA Program Overview

ACERA COMPLIANCE MATRIX (as of December 31, 2024)

Investment Style Allocations	Strategic Constraint / Guideline	Compliance
Core	60% to 100%	Out of Compliance (40%)
Core Plus	0% to 30%	In compliance
Value-Added	0% to 30%	In Compliance
Opportunistic	0% to 15%	In Compliance
Return Targets (Five Year Measurement; Net/Net)	Strategic Constraint / Guideline	Compliance
Core	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance
Core-Plus	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Value-Added	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Opportunistic	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Total Portfolio	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance

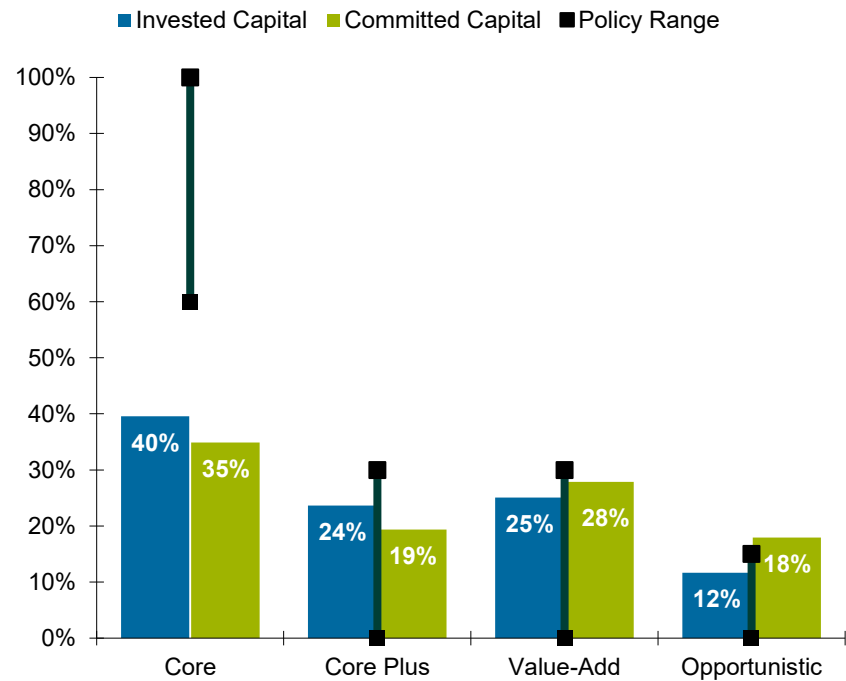
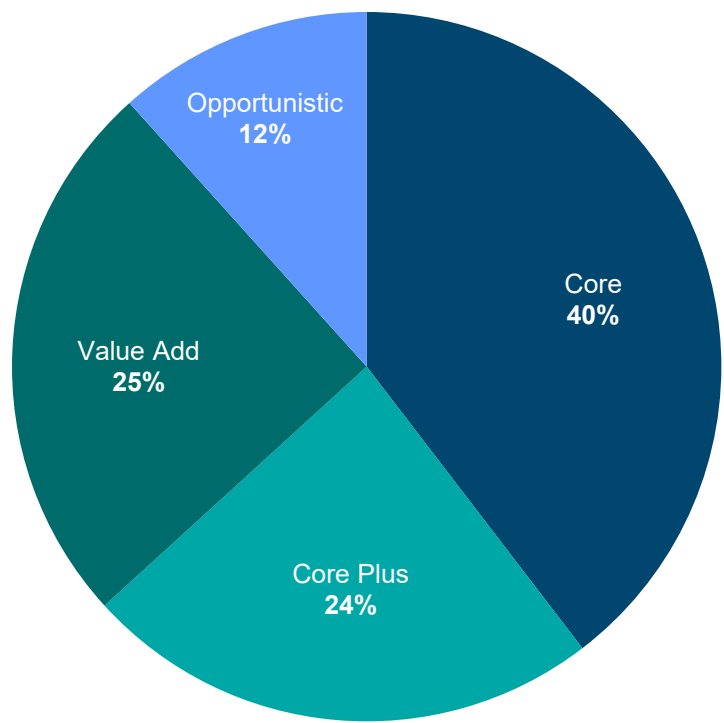
ACERA Program Overview

ACERA COMPLIANCE MATRIX (as of December 31, 2024)

Risk Policies	Strategic Constraint / Guideline	Compliance
Manager/Fund Diversification	No manager may represent more than 35% of ACERA's total real estate target allocation.	In Compliance
Property/Location Diversification	No property type or geographic location should represent more than 40% of program.	Out of Compliance (Industrial 43%)
Leverage	A maximum of 40% leverage for the total portfolio.	In Compliance (39% LTV)
Watch List	A manager will automatically be placed on the Watch List if net of fee performance falls below the performance of the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one-, three-, or five-year rolling returns).	In Compliance

Strategic Diversification (as of December 31, 2024)

Portfolio Overview



ACERA has a predominantly core- and core plus-oriented portfolio with some value-added and opportunistic exposure. Core real estate is currently below its strategic range of 60% to 100%. All other styles, including core plus, value-add, and opportunistic, are within their strategic ranges.

U.S. Private Real Estate Performance: 4Q24

Appreciation returns to positive, outside of office/hotel

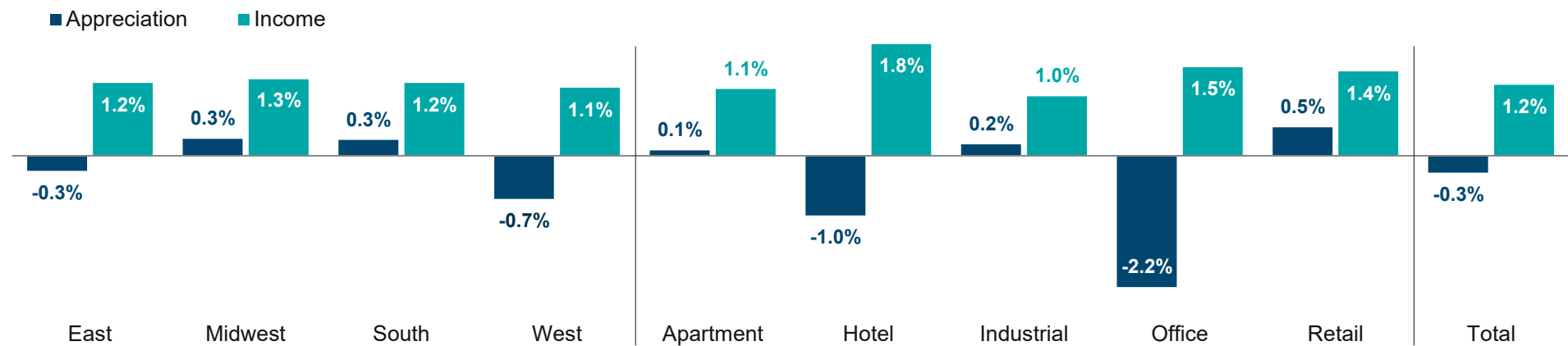
Valuations reflect higher interest rates

- Valuations appear to have bottomed and now reflect higher borrowing costs.
- Income returns were positive across sectors and regions.
- Property sectors were mixed; Office and Hotel experienced negative appreciation, and the remaining sectors had flat or positive appreciation.
- Return dispersion by manager within the ODCE Index was due to the composition of underlying portfolios.

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
NCREIF ODCE	1.0%	-2.3%	-3.1%	2.0%	4.9%
Income	0.8%	3.3%	2.8%	2.9%	3.2%
Appreciation	0.1%	-5.4%	-5.9%	-0.9%	1.7%
NCREIF Property Index	0.9%	0.4%	-0.8%	3.1%	5.7%
Income	1.2%	4.8%	4.3%	4.3%	4.5%
Appreciation	-0.3%	-4.2%	-5.0%	-1.1%	1.1%

Returns are geometrically linked

NCREIF Property Index Quarterly Returns by Region and Property Type



Source: NCREIF; ODCE return is net

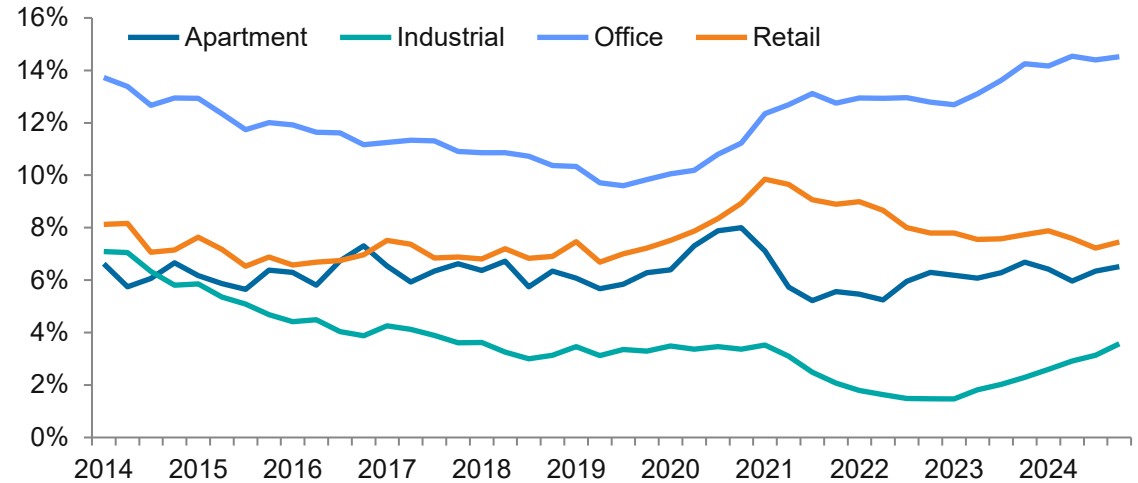
U.S. Private Real Estate Market Trends

Vacancy rates and NOI growth are softening

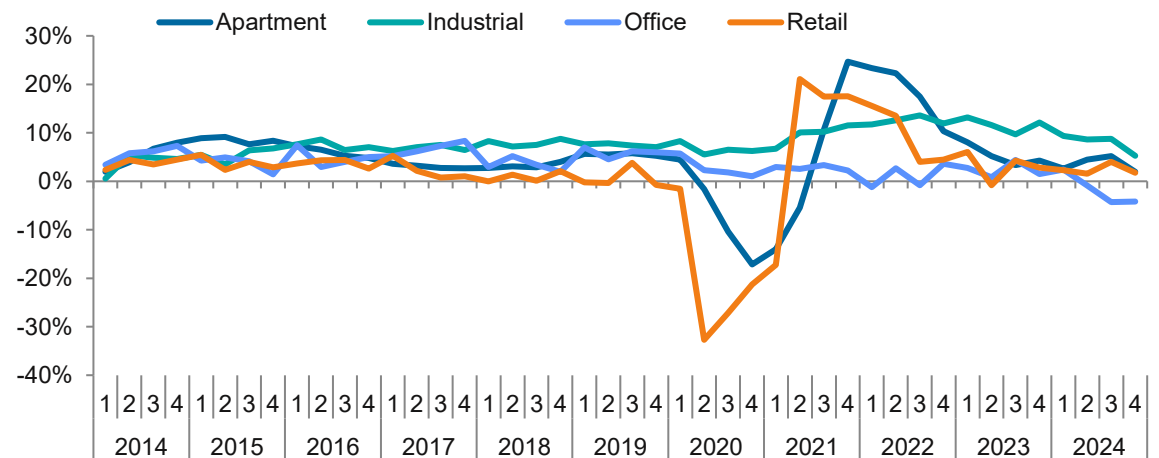
Rising vacancy and lower NOI growth results

- ▶ Vacancy rates increased slightly across all sectors.
- ▶ Vacancy rates are above long-term averages for Apartments, Industrial and Office, but below long-term averages for Retail.
- ▶ Net operating income growth was negative in office for the third quarter in a row. In Apartment, Industrial and Retail, net operating income growth decreased but remained positive.
- ▶ Overall, fundamentals are relatively stronger for Apartments, Industrial, Grocery-Anchored Retail and most alternative sectors when compared to other sectors.

Vacancy by Property Type



NCREIF Property Index Rolling 4-Quarter NOI Growth by Sector

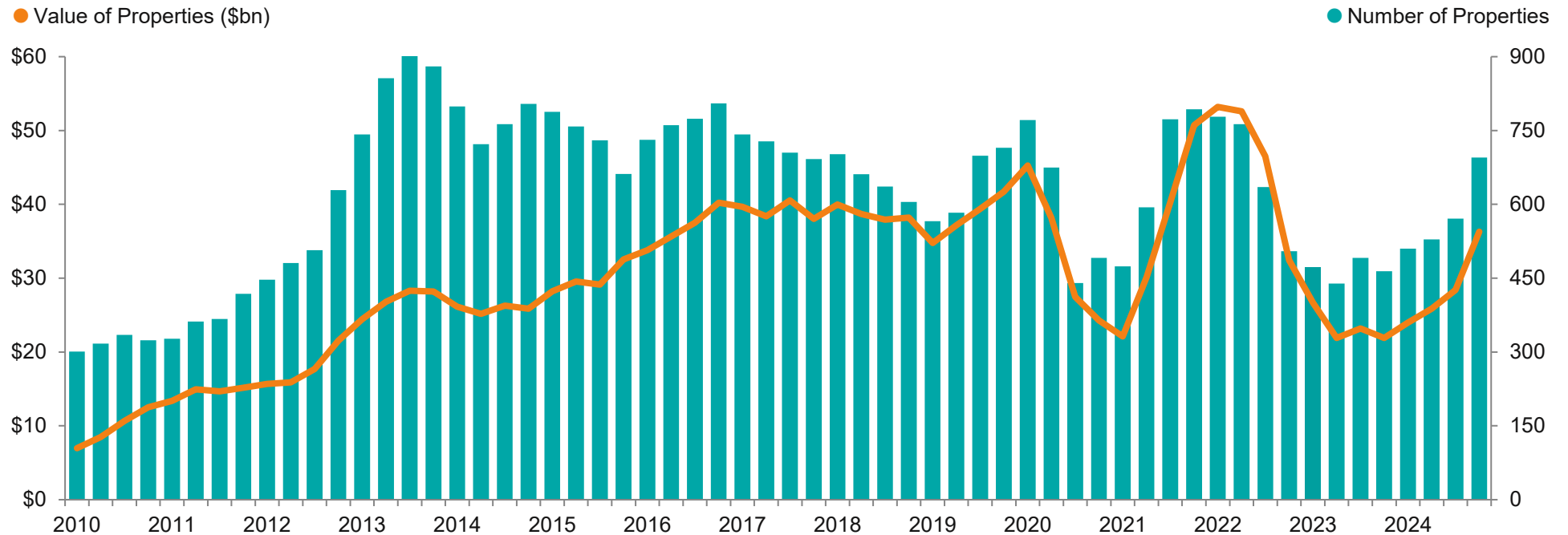


Source: NCREIF

U.S. Private Real Estate Market Trends

Pricing and transaction volumes are increasing after bottoming

NCREIF Property Index Rolling 4-Quarter Transaction Totals



- Transaction volume is increasing on a rolling four-quarter basis yet remains below five-year averages.
- In 4Q24, transaction volume increased on a quarter-over-quarter basis. Transaction volume remains lower compared to 2022.
- The volatile rise in interest rates is the driving force behind the slowdown in transactions. Increasing transactions are driven by increasing confidence in multi-family and industrial values. Valuations have largely adjusted to increased borrowing costs.

Source: NCREIF

Real Estate Market Conditions

Headwinds



Capital Markets: Cost and availability of debt and loan maturities impacting values and transaction activity

Hybrid/Remote Work: Persistent shift in office usage patterns reduces long-term demand and leasing activity

Political and Economic Uncertainty: Post-election policy shifts, geopolitical uncertainty, and recession risks slow decision-making

Tariffs and Trade Risk: Tariff policies and related uncertainty can have a negative impact on industrial, particularly in port markets; retail also may be impacted

Demographic Shifts: Certain sectors could face headwinds due to demographic shifts, such as migration from cities to low-cost suburbs and declining college enrollment

Tailwinds



Constrained New Supply: Elevated interest rates and construction costs are limiting new construction

Aging Population: Aging Baby Boomers driving demand for healthcare, while aging Millennials driving demand for single-family homes for rent

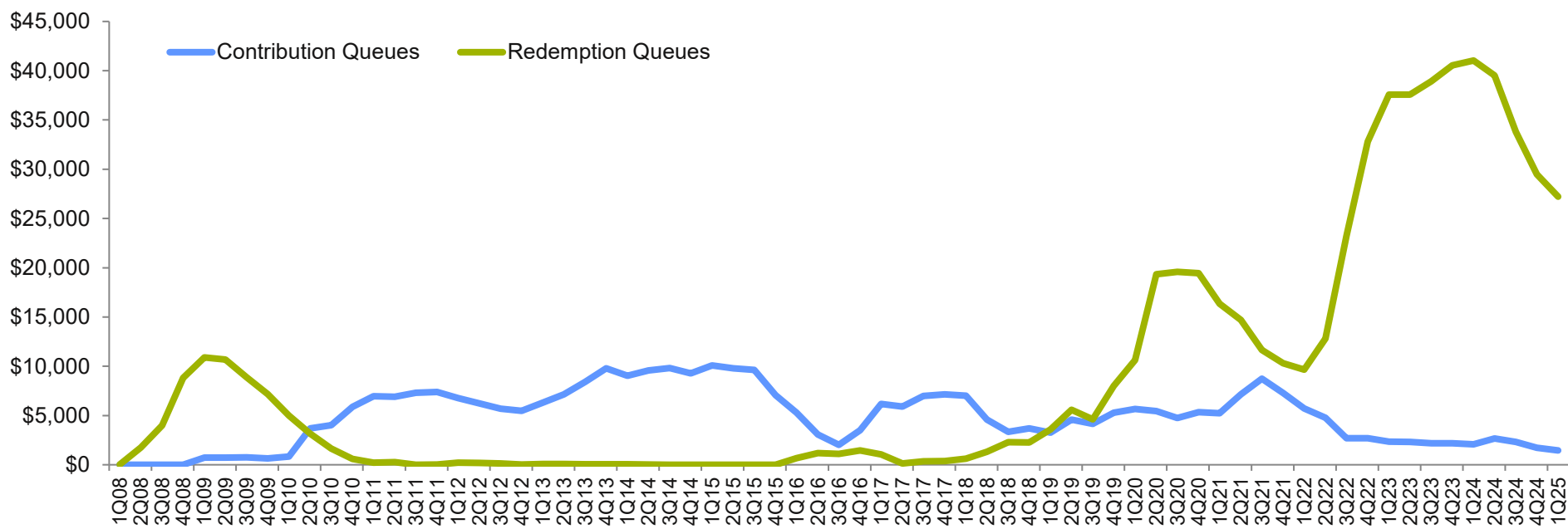
Housing Shortage: Chronic undersupply of housing and broader affordability concerns support strong fundamentals in residential sectors

Industrial Demand: Continued growth in online retail and onshoring/nearshoring is continuing to drive demand for logistics and distribution space

Population Shifts: Job and population growth in lower-cost, business-friendly Sunbelt markets are driving demand

Entry and Exit Queues

Core Fund Contribution/Redemption Queues (\$mm)



- One way to gauge demand is by the amount of capital flowing into core open-end funds.
- Current ODCE redemption queues are approximately 12.0%, with a median queue of 9.5%. Redemption queues are sharply decreasing after having peaked at 19.3% of NAV in 1Q 2024. For historical context, redemption queues in the post-GFC period peaked at approximately 15% of NAV.
- The decline in redemption queues has been driven by a combination of larger redemption payments and rescissions of redemption requests from a handful of funds with large redemption queues. In certain cases, this has been due to loyalty fee programs being instituted.

ACERA Recent Investment Activity (2024 – 1H 2025)

- ▶ There were three individual capital commitments made during 2024 highlighted below. The strategies included core, value-add, and opportunistic funds. There have not been any capital commitments made in 2025 to date.
- ▶ As of December 31, 2024, there was approximately \$125 million in capital that remains to be drawn from these commitments.
- ▶ The portfolio expects the continued liquidation of older funds including CIM Urban REIT and AEW Partners VIII.

Fund	Strategy	Commitment Amount (\$mm)	Commitment Year
PGIM U.S. Real Estate Debt Fund	Core	\$50.0	2024
Heitman Value Partners VI	Value Add	\$50.0	2021
Starwood Distressed Opportunities Fund XIII	Opportunistic	\$50.0	2022

2025 / 2026 Investment Plan Recommendations and Actions

1

Callan recommends that ACERA increase its core position to bring it within the targeted range. This increase should focus on creating a broader diversified portfolio with top performing core managers. This may also include right sizing existing core managers. Net new commitments to the core real estate portfolio totaling approximately \$225 million in 2H 2025 and 1H 2026 will help maintain the real estate allocation target (target 8.2% of total plan) based on the real estate policy and pacing study.

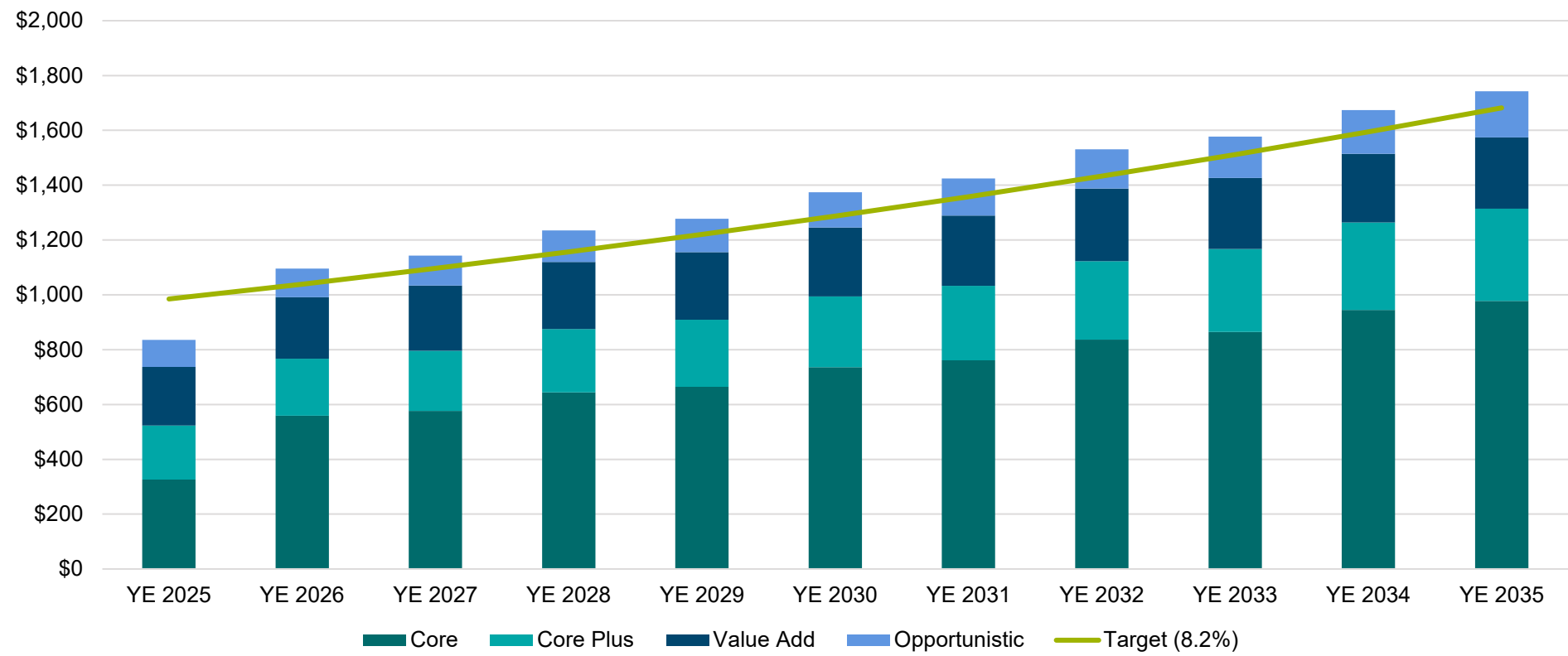
2

Callan recommends that ACERA continue to explore non-core real estate equity and debt investment opportunities in order to achieve and maintain vintage year diversification as the existing fund's return capital. This recommendation is dependent on the availability and quality of non-core funds in the market. Given the existing outstanding commitments, new commitments of \$50 million to \$100 million each year will help achieve and maintain the real estate allocation target based on the pacing study.

3

Callan recommends ACERA continue to seek emerging manager opportunities per the ACERA Emerging Investment Manager Policy (up to 10%). This may include broad, diversified strategies as well as specialized fund opportunities where the manager has a competitive advantage.

Pacing Based on Recommended Commitments



— Based on the recommendation of new commitments to core real estate as well as continued commitments to non-core strategies, the real estate program is forecasted to remain near its 8.2% target.

Callan

Policy Modifications

ACERA Policy Review and Recommendations

Recommendations

- Broaden the core allocation range from 60-100%; to 50-100%.
- Adjust the core-plus allocation range from 0-30%; to 10-40%.
- Other policy language adjustments:
 - Explicitly state the range for real estate equity positions is now 85-100%. (This is a result of the prior real estate policy allowing debt positions up to 15%)
 - Explicitly state the range for real estate domestic fund positions is now 85-100%. (This is a result of the prior real estate policy allowing international fund positions up to 15%)
 - Adjust the language, for when the portfolio concentration limit is out of compliance, that it must be explicitly reported to the board, as opposed to “approved” by the board.
 - Adjust the language, that requires a consultant onsite diligence visit for all recommendations, to upon request.

Important Disclosures

Information contained in this document may include confidential, trade secret and/or proprietary information of Callan and the client. It is incumbent upon the user to maintain such information in strict confidence. Neither this document nor any specific information contained herein is to be used other than by the intended recipient for its intended purpose.

The content of this document is particular to the client and should not be relied upon by any other individual or entity. There can be no assurance that the performance of any account or investment will be comparable to the performance information presented in this document.

Certain information herein has been compiled by Callan from a variety of sources believed to be reliable but for which Callan has not necessarily verified for accuracy or completeness. Information contained herein may not be current. Callan has no obligation to bring current the information contained herein.

Callan's performance, market value, and, if applicable, liability calculations are inherently estimates based on data available at the time each calculation is performed and may later be determined to be incorrect or require subsequent material adjustment due to many variables including, but not limited to, reliance on third party data, differences in calculation methodology, presence of illiquid assets, the timing and magnitude of unrecognized cash flows, and other data/assumptions needed to prepare such estimated calculations. In no event should the performance measurement and reporting services provided by Callan be used in the calculation, deliberation, policy determination, or any other action of the client as it pertains to determining amounts, timing or activity of contribution levels or funding amounts, rebalancing activity, benefit payments, distribution amounts, and/or performance-based fee amounts, unless the client understands and accepts the inherent limitations of Callan's estimated performance, market value, and liability calculations.

Callan's performance measurement service reports estimated returns for a portfolio and compares them against relevant benchmarks and peer groups, as appropriate; such service may also report on historical portfolio holdings, comparing them to holdings of relevant benchmarks and peer groups, as appropriate ("portfolio holdings analysis"). To the extent that Callan's reports include a portfolio holdings analysis, Callan relies entirely on holdings, pricing, characteristics, and risk data provided by third parties including custodian banks, record keepers, pricing services, index providers, and investment managers. Callan reports the performance and holdings data as received and does not attempt to audit or verify the holdings data. Callan is not responsible for the accuracy or completeness of the performance or holdings data received from third parties and such data may not have been verified for accuracy or completeness.

Callan's performance measurement service may report on illiquid asset classes, including, but not limited to, private real estate, private equity, private credit, hedge funds and infrastructure. The final valuation reports, which Callan receives from third parties, for of these types of asset classes may not be available at the time a Callan performance report is issued. As a result, the estimated returns and market values reported for these illiquid asset classes, as well as for any composites including these illiquid asset classes, including any total fund composite prepared, may not reflect final data, and therefore may be subject to revision in future quarters.

The content of this document may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact. The opinions expressed herein may change based upon changes in economic, market, financial and political conditions and other factors. Callan has no obligation to bring current the opinions expressed herein.

The information contained herein may include forward-looking statements regarding future results. The forward-looking statements herein: (i) are best estimations consistent with the information available as of the date hereof and (ii) involve known and unknown risks and uncertainties. Actual results may vary, perhaps materially, from the future results projected in this document. Undue reliance should not be placed on forward-looking statements.

Callan is not responsible for reviewing the risks of individual securities or the compliance/non-compliance of individual security holdings with a client's investment policy guidelines.

This document should not be construed as legal or tax advice on any matter. You should consult with legal and tax advisers before applying any of this information to your particular situation.

Reference to, or inclusion in this document of, any product, service or entity should not necessarily be construed as recommendation, approval, or endorsement of such product, service or entity by Callan. This document is provided in connection with Callan's consulting services and should not be viewed as an advertisement of Callan, or of the strategies or products discussed or referenced herein.

Important Disclosures (continued)

The issues considered and risks highlighted herein are not comprehensive and other risks may exist that the user of this document may deem material regarding the enclosed information. Please see any applicable full performance report or annual communication for other important disclosures.

Unless Callan has been specifically engaged to do so, Callan does not conduct background checks or in-depth due diligence of the operations of any investment manager search candidate or investment vehicle, as may be typically performed in an operational due diligence evaluation assignment and in no event does Callan conduct due diligence beyond what is described in its report to the client.

Any decision made on the basis of this document is sole responsibility of the client, as the intended recipient, and it is incumbent upon the client to make an independent determination of the suitability and consequences of such a decision.

Callan undertakes no obligation to update the information contained herein except as specifically requested by the client.

Past performance is no guarantee of future results.

About Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional investor with creative, customized investment solutions backed by proprietary research, exclusive data, and ongoing education. Today, Callan provides advisory services to institutional investor clients with more than \$3 trillion in total assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisers, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit www.callan.com.

Callan

Corporate Headquarters

One Bush Street
Suite 700
San Francisco, CA 94104

www.callan.com

Regional Offices

Atlanta
Chicago
Denver
New Jersey
Portland





TO: Members of the Investment Committee

FROM: John Ta, Senior Investment Officer 

DATE: July 2, 2025

SUBJECT: Review of ACERA's Real Estate Policy

Executive Summary:

This information item reviews the proposed amendments to ACERA's Real Estate (RE) Policy as recommended by Staff and Callan. A summary of the key changes is provided in this memo. Similar to the amendment process for previous alternative asset class policies this past year, Staff and Callan plan to solicit feedback on the proposed changes before bringing the finalized version of the amended RE Policy for a formal vote.

Background:

ACERA's current Real Estate policy was last updated in Nov 2021. The proposed RE policy amendments are intended to reflect the applicable events since 2021 (e.g., new allocation targets) as well as aligning the policy language with the latest industry standards, legal requirements, and business practices. A redline draft of the RE Policy with the proposed amendments is attached to this memo (Attachment #1). A clean version without redline is also included for ease of reference (Attachment #2)

Discussion:

The language in the RE Policy has been updated and reformatted to mirror the structure of the other alternative asset class policies. The intention is to promote continuity between the alternative asset class policies and reflect the shared objectives and investment approach. All the substantive changes and important, unchanged language are highlighted below:

1. **Reorganization and Rewording of RE Policy Language** – The majority of the existing RE policy language was either revised and/or copied to align with the current structural template of ACERA's other alternative asset policies. One example of this is moving all the roles and responsibility statements scattered in the existing policy into a dedicated "Roles and Responsibilities" section under the current, proposed policy format. This action included removing outdated letterheads, and redundant language and adding standard legal and operational language.
2. **Total Fund Target to Real Estate Changed to 8.2%** - As part of the asset allocation changes approved in July 2024, the target weight to Real Estate has been changed from 9% to 8.2%. The proposed RE policy has been updated to reflect this change (*See p. 4 of Attachment #2*).
3. **Slight Change to Core and Core-Plus Strategy Weightings** – The sub-asset class strategy weighting to Core has been changed (proposed) from at least 60% of the portfolio to at least 50% of the portfolio, and the range for Core-Plus has been changed (proposed) from 0-30% to 0-40% (*See p. 4 of Attachment #2*). This change allows for more flexibility to meet market

opportunities in the Core and Core-Plus space while still maintaining the same risk weightings to non-core strategies (i.e., Value-Add and Opportunistic).

4. **Portfolio Benchmarks Remain Unchanged** – The strategy benchmarks for the Real Estate portfolio remain the same (*See p. 4 of Attachment #2*), as post total asset allocation change since July 2024. We recommend maintaining the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE) benchmark for the total RE portfolio. The lack of a widely accepted RE Debt benchmark prevents the incorporation of a debt component to total RE portfolio benchmark.
5. **Risk Limits Remain Unchanged** – Staff and Callan discussed the risk limits for the RE portfolio and agreed that the limits are still suitable and prudent for the current market environment. Specifically, the leverage limits will stay the same (*see p.6 of Attachment #2*) as well as the limits to strategy type, capital structure, and global regions (*see p.4 of Attachment #2*).
6. **Delegated Authority Limits Remains Unchanged** – The delegated authority limits of up to 5% of total RE commitments for new funds and up to a total of 10% of RE commitments for re-ups remain the same (*see p.7-8 of Attachment #2*). The wording of the delegated authority language was updated to match that of the other alternative asset class policies.
7. **Removal of Watch List Language** – All watch list language was removed to match that of the other alternative asset class policies. We consider real estate to be an alternative asset class like private equity with the same confidentiality provisions. In practice, we monitor all our alternative asset managers in a similar way (e.g., increased monitoring on underperforming managers), so there is effectively no change in process as a result of this language change.

Next Steps:

Staff and Callan will solicit feedback from the IC on the proposed policy changes. A final draft of the amended RE Policy will be presented to the IC for a formal vote at the next investment committee meeting.

Attachments:

- #1 Redlined ACERA Real Estate Policy, prepared by Staff and Callan
- #2 Clean, blackline version of ACERA Real Estate Policy, prepared by Staff and Callan



Alameda County ~~EMPLOYEES~~ Employees'
Retirement Association

~~REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES~~ **ACERA**

REAL ESTATE INVESTMENT POLICY

Amended ~~November 18, 2021~~ TBD

ACERA REAL ESTATE INVESTMENT POLICY

TABLE OF CONTENTS

I.	SCOPE	3
II.	PURPOSE	3
III.	LEGAL AUTHORITY	3
IV.	TYPES OF REAL ESTATE INVESTMENTS	3
V.	STRATEGIC OBJECTIVE OF REAL ESTATE PORTFOLIO	4
VI.	STRATEGIC ALLOCATION TO REAL ESTATE PORTFOLIO	4
VII.	SPECIFIC GUIDELINES FOR REAL ESTATE PORTFOLIO	4
VIII.	ROLES AND RESPONSIBILITIES	6
IX.	DUE DILIGENCE PROCESS FOR REAL ESTATE INVESTMENT SELECTION	9
X.	SPECIFIC PERFORMANCE EVALUATION CRITERIA	11
XI.	MONITORING AND REPORTING	11
XII.	REAL ESTATE INVESTMENT INFORMATION DISCLOSURE POLICY	11
XIII.	TABLE OF AMENDMENT DATES	11
Appendix I – List of Reports Required for Each Investment Recommendation/Approval		12
I.	Scope	1
II.	Purpose	1
III.	Investment Objectives	2
A.	Asset Allocation	2
B.	Return Objectives	2

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

IV. Investment Policies	3
A. Portfolio Composition	3
B. Risk Management	5
1. Defined Roles for Participants	5
2. Investment Structures	5
3. Diversification	7
4. Leverage	8
5. Investment Size	10
6. Valuations	10
C. Discretionary Authority	10
1. Commingled Funds	10

V. Investment Procedures	11
A. Commingled Funds	11
1. Commingled Fund Selection Process	11
B. Separately Managed Accounts	11
1. Control and Monitoring	12
C. Performance Measurement Reports	1012

Schedules

Schedule I – Manager Structure Targets	14
Schedule II –	
Defined Roles of Participants	17

Appendices

Appendix A – Compliance Checklist	21
Appendix BII – Executive Summary – 24 Report Template	13
Appendix III – Compliance Checklist Template for Real Estate Investment Selection	14
Appendix IV – Details of Disclosure Policy for Real Estate Investments	17
Appendix V – Guidelines for Separately Managed Accounts (SMAs)	18

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

I. SCOPE

The Real Estate Investment Guidelines, Policies and Procedures ("~~R/ERE~~ Policy") governs all investments in the Real Estate ("RE") asset class made by Alameda County Employee's Retirement Association ("ACERA").¹ The ~~R/E~~ investments governed under this RE Policy ~~is~~are subject to ~~all provisions of~~ applicable law and the applicable limitations and requirements of ACERA's General Investment Guideline, Policies and Procedures ("General Policy"). If there is any conflict between this ~~R/ERE~~ Policy and ACERA's General Policy pertaining to investments in the Real Estate asset class, this ~~R/ERE~~ Policy prevails. The ACERA Board ("Board") reserves the right to amend, supplement or rescind this ~~R/ERE~~ Policy at any time.

II. PURPOSE

The purpose of this RE Policy is to 1) set forth the real estate investment policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which real estate investment opportunities are to be measured; and 3) serve as a governance review document and to guide ~~to~~ the ongoing oversight of ACERA's Real Estate Portfolio ("~~R/ERE~~ Portfolio") on a consistent basis. ~~The~~ This RE Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee ("Investment Committee"), the ACERA Staff ("~~Staff~~"), the ACERA Real Estate Consultant ("Consultant") and the Real Estate Investment Managers hired by ACERA to manage its assets ("Investment Managers").

It is expected that this RE Policy will be a living document and that changes will be made from time -to -time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

~~ACERA has determined that, over the long term, inclusion of real estate investments should provide the following benefits (in order of relative importance):~~

- ~~• Lower portfolio risk due to low correlation with other portfolio asset classes~~

III. LEGAL AUTHORITY

This RE Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code Sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the ACERA Trust Fund ("Fund").

IV. TYPES OF REAL ESTATE INVESTMENTS

For the purpose of this RE Policy, Real Estate investments may include, but not be limited to equity and debt securities in real estate properties (land and buildings). Real Estate investments may be denominated

¹ See ACERA's Absolute Return Policy, Private Equity Policy and Real Assets Policy for investments in other asset classes.

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

in U.S. dollars or other currencies, and levered to provide additional return. ACERA may consider investing in these assets if and only if the vehicles meet all legal standards and RE Policy requirements.

V. STRATEGIC OBJECTIVE OF THE REAL ESTATE PORTFOLIO

The Board believes the Fund's overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in Real Estate. The strategic objective of such investments is to:

- Generate returns superior to those available in the public equity market to compensate the Fund for the longer term and illiquid commitments associated with RE investments;
- Enhance ACERA's long-term risk adjusted return, provide additional diversification to ACERA's overall investment Fund, and serve as a hedge against inflation;
- Produce a stable, income stream to assist in meeting cash flow needs;
 - ~~Provide growth through appreciation~~
 - ~~Serve as a hedge against inflation~~

- ~~• Provide an opportunity to enhance portfolio return through higher~~Generate total return investments

~~In order to achieve the above benefits, this document establishes the specific investment guidelines, policies and procedures involved in the implementation and oversight of the ACERA real estate program. The investment guidelines define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.~~

~~H. INVESTMENT OBJECTIVES~~

~~A. Asset Allocation~~

~~ACERA has approved a long term asset allocation target of nine percent (9%) for investment in real estate investments.~~

~~B. Return Objectives~~

~~The Board has determined that the primary objective for the real estate asset class will be to provide a source of return that improves the diversification of the overall investment portfolio. Equity real estate investments generally have low correlations to traditional asset classes. The secondary objective for the asset class will be to achieve total returns[‡] that include a large portion attributable to income[‡].~~

- ~~• The Board seeks to achieve total net returns on all real estate investments equivalent to the net returns of the National Council of Real Estate Investment Fiduciaries~~RE Portfolio performance in excess of the NCREIF Fund Index – Open-End Diversified Core Equity Index (“NFI-ODCE” or “ODCE”) ~~as a minimum return for the total portfolio) over rolling five-year~~longer time periods.

[‡]Total return is comprised of two components: income and appreciation. Income is defined as net operating income from real estate after expenses and leverage but before the deduction of capital items (e.g. roof replacement, renovations, etc.). Appreciation / depreciation is defined as an increase or decrease in investment value based on an internal or third party appraisal or mark-to-market.

III. INVESTMENT POLICIES

A. Portfolio Composition

VI. The universe of public and private real estate investment strategies ('styles') can be divided into three primary categories: (1) Core, (2) Core Plus, (3) Value Added, and (4) Opportunistic. For purposes of diversification and because of the size of ACERA's Fund, STRATEGIC ALLOCATION TO REAL ESTATE PORTFOLIO

The target allocation to the RE asset class, as measured by Net Asset Value of the portfolio and not by dollars committed to underlying Investment Managers or funds, is 8.2% of the total Fund. The Real Estate portfolio will have the following portfolio composition ranges:

<u>Strategy Type</u>	<u>Range</u>	<u>Strategy Benchmark</u>
<u>Core</u>	<u>≥50%</u>	<u>NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE)</u>
<u>Core-Plus</u>	<u>10 - 40%</u>	<u>NCREIF Fund Index - Open-End Equity (NFI-OE)</u>
<u>Value-Add</u>	<u>0 - 30%</u>	<u>NCREIF Fund Index - Open-End Equity (NFI-OE)</u>
<u>Opportunistic</u>	<u>0 - 15%</u>	<u>NCREIF Fund Index - Open-End Equity (NFI-OE)</u>
<u>Total RE Portfolio</u>	<u>100%</u>	<u>NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE)</u>

<u>Capital Structure</u>	<u>Range</u>
<u>Equity Investments</u>	<u>≥85%</u>
<u>Debt Investments</u>	<u>0 - 15%</u>
<u>Total RE Portfolio</u>	<u>100%</u>

<u>Global Regions</u>	<u>Range</u>
<u>Domestic</u>	<u>≥85%</u>
<u>International</u>	<u>0 - 15%</u>
<u>Total RE Portfolio</u>	<u>100%</u>

VII. SPECIFIC GUIDELINES FOR REAL ESTATE PORTFOLIO

ACERA will gain exposure to RE investments primarily by hiring external investment managers. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations, sponsored by specialty external investment managers. The portfolio will consist mostly of commingled funds, not Separately Managed Accounts ("SMA") except for maintaining ACERA's Headquarters. The style groups are defined by their respective market risk/return characteristics:

Core Characteristics

- ~~• Institutional quality operating properties that are substantially leased (greater~~

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

than 80%) core quality properties;

Property –

- ~~The RE Portfolio will be diversified through the following strategy types – invested in mainly include office, apartment, retail and industrial;~~
- ~~Total return consists of both income and appreciation with income accounting for 65% or more of the return.~~

~~May generally include the use of leverage up to 50% Loan-to-: Core, Core-Plus, Value-Add, and Opportunistic (see Section IV.B.4.a, “Leverage: Core” for more information VI for range limits).~~

Core-Plus Characteristics

- ~~Institutional quality operating properties that are substantially leased core quality properties;~~
- ~~Strategies may include one or more of the traditional property types (office, apartment, retail, industrial) or niche property types with demonstrated capital demand for disposition;~~
- ~~Total return consists of both income and appreciation with income accounting for 50% or more of the return.~~
- ~~May generally include the use of leverage up to 65% Loan-to-Value. (See Section IV.B.4.b, “Leverage: Core-Plus” for more information).~~

Value Added Characteristics

- ~~Institutional quality properties with identifiable deficiencies such as lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments in order to reach stabilization;~~
- ~~Strategies may include traditional (office, apartment, retail, industrial) or niche property types with demonstrated capital demand for disposition;~~
- ~~Total return consists of capital appreciation with anticipated growing income over time;~~
- ~~May generally include the use of leverage up to 65% Loan to Value. (See Section IV.B.4.c, "Leverage: Value Added" for more information);~~

Opportunistic Characteristics

- ~~Institutional quality properties offering recapitalization, turnaround, development, market arbitrage opportunities or offshore investments;~~
- ~~No property types are excluded, and properties may include business operations (e.g. hotels, congregate care), as well as, office, apartment, retail, and industrial;~~
- ~~Total return is primarily attributable to appreciation.~~
- ~~May generally include the use of leverage up to 80% Loan to Value. (See Section IV.B.4.d, "Leverage: Opportunistic" for more information);~~

With respect to the four style groups, the Board has established the following portfolio composition target[‡]:

Style	Return Benchmarks (Net of Fees)
≥ 60% Core	NCREIF Open-End Diversified Core Equity ("ODCE") Index Capitalization—Weighted (Net of Fees)
<u>0%–30% Core Plus</u>	NCREIF Open-End Equity ("OE") Index
0%–30% Value Added	NCREIF Open-End Equity ("OE") Index
0%–15% Opportunistic	NCREIF OE Index
Total Real Estate Portfolio	NCREIF ODCE Index Capitalization—Weighted (Net of Fees)

[‡] Refer to Schedule II: ACERA's policy index for Real Estate and Benchmarks for Real Estate Managers.

~~All investments will be classified based upon the strategy advocated at inception of the investment.~~

~~B. — Risk Management~~

~~The primary risks associated with real estate investments relate to property type and geographic selection, illiquidity, investment manager risk, portfolio management risk and loss of principal (economic risk). The following policies have been established to prudently manage and mitigate the risks involved in investing in real estate.~~

~~1. — Defined Roles for Participants~~

~~All program participants must comply with ACERA policies, guidelines and contracts in addition to the conditions listed in this document. Additional roles and responsibilities specific to the real estate portfolio are detailed in Appendix A of this document.~~

~~2. — Investment Structure~~

~~ACERA recognizes that, regardless of investment vehicle, real estate is an illiquid asset class. Vehicles that maximize investor control of the assets are preferred, particularly in Core, Core-plus, Value Added, and Opportunistic investments. ACERA also recognizes that the Opportunistic style requires the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.~~

~~ACERA will utilize the following investment structure:~~

~~a) — Commingled Funds¹~~

¹Investments made through a privately placed commingled fund structure or limited partnerships are considered Alternative Investments.

~~Commingled Funds will be utilized for Core, Core-plus, Value-Added and Opportunistic investment strategies.~~

~~The Core investment style is~~ are considered to be less risky (thereby providing lower returns) than higher returning core-plus, value-~~added~~add or opportunistic investments. The lower risk assigned to stabilized investments is due to three primary characteristics: (1) the stability of the income generated;(2) the higher proportion of the total return attributable to income; and (3) the limited use of debt (0% to 50%) usually associated with the style. Because of its high occupancy rates, Core properties are more stable.

~~The Core-Plus: Core-plus investment style is~~ investments are considered to be slightly ~~more risky~~riskier than core, but less risky than higher returning value-added or opportunistic investments. The slightly higher risk assigned to core-plus is due to three primary characteristics: (1) greater specialization in ~~one~~one or more property types, (2) ~~possible more~~potentially higher use of leverage~~used~~, and (3) the stability of the income generated, albeit less than core.

~~The Value-Added and Opportunistic investment styles~~ Value-Add: Value-Add investments seek to provide higher returns with higher risk than the Core or Core-plus components of the portfolio. Value-~~Added~~Add investments depend upon the successful completion of an active management strategy (e.g. rehabilitation) and a timely disposition of the asset(s). Value-~~Added~~Add investments often use higher levels of debt, as compared to Core or Core-plus investments, to further increase total return expectations.

Opportunistic: Opportunistic investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering, non-domestic markets) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion and a significant level of diversification.

~~In order to mitigate the increased risks associated with the style exposure, ACERA~~

The RE Portfolio will ~~make investments in the Value-Added and~~

~~Opportunistic components through the ownership of units or shares of Commingled Fund structures. Any legally permissible vehicle will also be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations. ACERA will invest in Commingled Fund in accordance with the procedures detailed in Section IV. B.~~

~~3. — Diversification~~

~~To minimize the adverse impact of any single style, strategy, manager or investment property, ACERA will seek to diversify its real estate portfolio by diversified across property type, property location, investment style, investment strategy, and manager; and primarily through commingled funds. At the asset class level, the debt investments in real estate cannot account for more than up to 15% of the total allocation.~~

~~Property Types and Location~~

~~Selection of specific Commingled Fund investments will provide enhanced diversification characteristics based on its complimentary strategy/style so as to increase diversification benefits within the real estate portfolio.~~

and region. Exposure to any single property type (i.e.g., office, retail, apartment, industrial) ~~or geographic~~ and any region (e.g., East, Mid-West, West or South in the United States or internationally) will be within a range of zero percent (0%) ~~to forty percent (40%)~~, excluding the Oakland Office Building. Any single property type or region found to be in excess of the range limitations must be approved as an exception by the Committee and Board. At the asset class level, investments in international real estate cannot account for more than up to 15% of the total allocation.

~~Investment Style/Strategy~~

The risk profile of the real estate RE Portfolio will also be managed through the maintenance of the approved style composition (~~≥ 60% Core; 0% 30% Core Plus; 0% 30% Value Added; 0% 15% Opportunistic~~) when allocating diversified across capital.

~~Investment Vehicles/Managers~~

a) ~~—~~ Commingled Fund (“CF”)

~~Diversification by Strategy and Manager structure. Exposure to equity RE investments will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Core, Core-plus, Value-Added and Opportunistic allocation and/or the total portfolio. Commingled Funds will provide reporting which will allow ACERA to monitor its geographic and property type diversification. Commingled Funds are generally categorized into two sub-structures, Open-end and Closed-end. Open-end commingled funds are infinite vehicles which provide liquidity by allowing investor to make capital contributions or redemption requests, typically on a quarterly basis. range from 85% to 100% and exposure to debt RE investments will range from 0% to 15%.~~

~~Closed-end funds are finite vehicles where the timing of contribution requests and capital distributions are at the discretion of the manager. 4. Leverage~~

Any portfolio concentration in excess of the range limitations listed above must be explicitly reported to the Board.

ACERA has approved leverage limits, listed below, in order to maximize returns to the total portfolio with minimum risk. The Board has approved a maximum of forty percent (40%) leverage for the total portfolio. In addition, targets are established for each investment style based on the risk/return profile of the underlying investments. In the event that either the portfolio level and/or style level leverage constraint is breached due to a contraction in market values, the ACERA's Staff and Consultant will notify the Board and make a recommendation for action or exception.

~~a) Core~~

~~Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. Core opportunities accessed through Commingled Funds will have pre-specified leverage limits stated in the offering documents. Core Commingled Fund leverage will generally be limited to 50% at the portfolio level.[‡]~~

~~b) Core Plus~~

~~Investments classified as institutional high quality Core-like opportunities that fall outside of all the Core type fund assets parameters. Core-plus funds can specialize in one or more property~~

[‡] For any single Core SMA asset, such as the Oakland Office Building, third-party debt will be limited to fifty percent (50%) of the market value of the asset.

~~types, geographic regions, with higher levels of debt. Core Plus
Commingled Fund leverage will generally be limited to 65% at the
portfolio level.~~

~~c) Value Added~~

~~Investments classified as Value Added generally provide a higher
proportion of appreciation, as compared to income, than Core and
Core plus assets. Value Added opportunities accessed through
Commingled Funds will have pre-specified leverage limits stated in
the offering documents. Value Added Commingled Fund leverage
will generally be limited to 65% at the portfolio level.~~

~~d) Opportunistic~~

~~Investments classified as Opportunistic investments often utilize
third party debt as an integral part of their total return strategy. Such
investments will be made through Commingled Funds and will
therefore have a specified leverage target or maximum stated in the
offering documents. Opportunistic Commingled Fund leverage will
generally be limited to 80% at the portfolio level.~~

~~A chart depicting the leverage limits is shown below:~~

Strategy (Style) Type	Leverage Limits
Core	≤ 50%
Core-Plus	≤ 65%
Value-Added	≤ 65%
Opportunistic	≤ 80%
Total Real Estate Portfolio	≤ 40%

~~5. Investment Size~~

~~ACERA's investment in any single Commingled Fund may not exceed 20%
of the total net asset value of the Commingled Fund at offering.~~

~~6. Valuations~~

~~This policy does not apply to the Fund's commingled fund investments, where the Fund does not have control over the appraisal policies or implementation of appraisal practices.~~

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's RE Portfolio. The duties and responsibilities of the Board, Investment Committee, Staff, Consultant, and Investment Managers are stated below:

A. Board

The Board shall be responsible for approving the RE Policy that governs the RE Portfolio and approving the investment plan of ACERA's RE Portfolio. The Board, with input from the Investment Committee, shall review this RE Policy to determine whether amendments are necessary. The Board shall also be responsible for reviewing and approving all RE investments with individual commitments exceeding Staff's delegated authority as described in subparagraph C below.

B. Investment Committee

The Investment Committee shall be responsible for the following:

1. Establishing the RE Policy to govern all investments in the RE asset class;
2. Reviewing the RE Policy, evaluating proposals for RE Policy amendments, if any, and making recommendations for approval by the Board;
3. Reviewing and approving the ACERA RE Investment Plan;
4. Reviewing RE investments recommended by Staff and/or Consultant and making recommendations to the Board for adoption if warranted; and
5. Delegation²:
 - a. Delegating to Staff the authority to make final decisions on new proposed RE investments with an individual commitment up to 5% of the target allocation to the total RE Portfolio.

² Investment managers may not appear before the Investment Committee when Staff exercises its delegated authority.

b. Delegating to Staff the authority to make final decisions on proposed “re-up” RE investment commitments. If the Investment Committee is in good standing, an individual commitment in addition to the existing commitments, up to 10% of the target allocation to the total RE Portfolio.

C. Staff

Staff shall be responsible for oversight of ACERA’s RE Portfolio. Staff’s responsibilities shall include, but not be limited to the following:

1. Developing and recommending all necessary changes to the RE Policy with input from Consultant;
2. Developing and maintaining specific procedures, if necessary, to comply with the approved RE Policy with input from Consultant;
3. Developing the investment plan of ACERA’s RE Portfolio and making recommendations to the Committee for adoption with input from Consultant;
4. Delegation³:
 - a. Approving Consultant’s RE investment proposals (new proposals) with each individual commitment up to 5% of the target allocation to the total RE Portfolio upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices I through III).
 - b. Approving Consultant’s RE investment proposals for “re-ups” with existing managers with each individual commitment in addition to the existing commitments⁴, up to 10% of the target allocation to the total RE Portfolio to managers in good standing⁵ upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices I through III).
 - c. When the investment manager or general partner of existing investment vehicles offer related continuation vehicles (aka “continuation funds”), following a thorough evaluation of the investment options related to the continuation vehicle (i.e., subscribing to the continuation vehicle, receiving liquidity, or, in some cases, both), and in alignment with Consultant’s recommendation, approving of investment in continuation vehicles or other related options such as receiving liquidity (i.e., receiving cash proceeds for the investments that are to be transferred into the continuation vehicle).
5. Through the ACERA Investment Products and Services Introduction (IPSI) program, and with

³ Investment manager may not appear before the Investment Committee in circumstances when Staff has exercised its delegated authority.

⁴ Total commitments are calculated net of capital commitments returned.

⁵ An Investment Manager may be considered to be in good standing if there is sufficient comfort with factors including, but not limited to, its organization, strategy, performance, and compliance.

~~the concurrence of the Consultant, recommend highly qualified RE fund investments to the Investment Committee upon completion of a thorough review and due diligence process, providing the required reports to Staff and/or the Investment Committee. (See Appendices I through III);~~

- ~~6. Monitoring the RE Portfolio for performance and compliance with this RE Policy;~~
- ~~7. Monitoring the performance of the underlying Investment Managers and their compliance with a) the investment guidelines set forth in their respective contracts; b) this RE Policy; and c) the applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;~~
- ~~8. Conducting comprehensive annual reviews of ACERA's RE Portfolio and the individual investments in the RE Portfolio;~~
- ~~9. Reporting any manager violations of this RE Policy to the Investment Committee, with appropriate recommendations;~~
- ~~10. Assisting ACERA's Legal Department in contract negotiations for the selected RE investments;~~
- ~~11. Evaluating RE investment opportunities with Consultant's input on an on-going basis; and~~
- ~~12. Evaluating and making recommendations for retention, addition to, and/or termination of Investment Managers.~~

D. Consultant

The Consultant hired by the Board is a fiduciary to ACERA and its Board. Consultant shall independently and continuously monitor and analyze the performance of ACERA's RE Portfolio and make related recommendations to serve the best interests of the plan participants. Consultant shall assist Staff in developing this RE Policy and recommending all necessary changes to the RE Policy. In addition, Consultant shall be responsible for:

1. Analyzing the asset allocation of the RE Portfolio by sub-asset class, implementation vehicle, geography, industry, and vintage year, and making recommendations for reallocation of assets, as appropriate;
2. Developing an investment plan for ACERA's RE Portfolio every 1 to 3 years;
3. Developing a search strategy for highly qualified RE investments and maintaining a robust database containing information on Investment Managers;
4. Recommending highly qualified RE fund investments to Staff and/or the Investment Committee upon completion of a thorough due diligence process and providing the required reports listed in the Appendix I of this RE Policy to Staff and/or the Investment Committee;
5. When continuation vehicles are offered related to existing investment vehicles, and following a thorough evaluation of the related investment options, recommending to Staff which investment option is most suitable for the RE Portfolio.
6. Ongoing monitoring of the investment performance of ACERA's RE Portfolio and individual strategies in the RE Portfolio;
7. Conducting ongoing due diligence on Investment Managers, notifying ACERA of any significant

~~REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES~~
~~developments and adverse events. If applicable, by providing analysis and advice on such issues;~~

~~ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION~~
~~8. Ongoing monitoring of Investment Managers' compliance with a) their respective investment~~
~~guidelines as set forth in their contract; b) this RE Policy; and c) applicable requirements of~~
~~ACERA's General Investment Guidelines, Policies and Procedures;~~

- ~~9. Assisting Staff in contract negotiations for the selected RE investments, as needed;~~
- ~~10. Submitting performance evaluation reports and conducting comprehensive reviews of the RE~~
~~Portfolio and individual Investment Managers semi-annually, to the Investment Committee;~~
- ~~11. Making recommendations for retention or termination of Investment Managers;~~
- ~~12. Attending meetings as needed; and~~
- ~~13. Performing other duties in accordance with the terms of its contract and applicable law.~~

E. Investment Managers

Investment Managers are fiduciaries and shall prudently manage ACERA's assets in the best interest of ACERA and its members. Investment Managers shall abide by all applicable ACERA policies and procedures, and fully comply with applicable law. Investment Managers shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) this RE Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. Investment Managers shall be responsible for all aspects of portfolio management as set forth in their respective contracts with ACERA. They shall also:

1. Communicate with Staff and/or Consultant promptly regarding investment strategy, investment results, and any non-conforming issues, if applicable, that may have significant and/or negative impact on the portfolio;
2. Cooperate fully with Staff, Consultant, ACERA's custodian, and other ACERA vendors concerning requests for information;
3. Submit reports in a timely manner to Staff and Consultant in accordance with their contract terms; and
4. Attend meetings as needed.

IX. DUE DILIGENCE PROCESS FOR REAL ESTATE INVESTMENT SELECTION

ACERA recognizes that a proper due diligence process is essential to control the risks associated with RE investments and therefore, hereby establishes the following due diligence processes for both its Consultant and Staff:

A. Consultant

Consultant shall conduct extensive, documented due diligence before making any RE investment recommendations to Staff and the Investment Committee. Consultant will work closely with Staff in the

~~REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES~~
~~due diligence process, as necessary. For those investments recommended to be included in the ACERA~~
~~Real Estate Investment Fund, the Consultant's requirements shall include, but not be limited to:~~

- ~~1. Assessing the reputation of the individuals who manage the RE investments, consider background checks, internet searches, and in-person meetings or conference calls with these individuals, etc.;~~
- ~~2. Conducting on-site visits to the offices of the Investment Managers as requested;~~
- ~~3. Checking references from other investors that have invested in these RE investments, and, when advisable, from competitors;~~
- ~~4. Determining that the Real Estate investment funds are audited, at least annually, by a reputable and recognized external independent auditing firm;~~
- ~~5. Reviewing Investment Managers investment strategies, policies, operating procedures, and historical performance;~~
- ~~6. Reviewing and understanding the valuation procedures employed by the Investment Managers;~~
- ~~7. Reviewing and understanding the business terms of all operational documents and other related materials for the RE investments under consideration, including but not limited to offering memoranda, subscription agreements, fund policies, due diligence questionnaires, and Forms ADV, if and as available.~~

B. Staff

Staff shall ensure that Consultant has conducted extensive, documented due diligence on all RE investment proposals recommended to Staff and the Investment Committee. Staff shall participate in Consultant's due diligence process when appropriate, shall conduct its own independent due diligence, and shall also be responsible for:

1. Reviewing the comprehensive analysis report prepared by Consultant on its recommended RE investments;
2. Verifying the compliance of each recommended RE investment with the RE Policy, the investment plan for ACERA's RE Portfolio and other applicable investment policies;
3. Discussing all issues related to the recommended RE investments with Consultant and with Investment Managers to gain a thorough understanding of each strategy's primary return drivers, key terms, investment guidelines, and determine the investments suitability for ACERA's RE Portfolio; and
4. Performing independent due diligence regarding the business, economic, and legal aspects of the proposed RE investment and in accordance with the Executive Summary (See Appendix II) and the Compliance Checklist (See Appendix III).
5. Completing Appendices II and III of this document for each proposal.
6. Conducting an on-site due diligence visit to each manager's headquarters office whenever possible; and
7. Arranging presentations of select investment opportunities to the Investment Committee, as applicable.

~~REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES~~
~~X. SPECIFIC PERFORMANCE EVALUATION CRITERIA~~
~~ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION~~

~~When appropriate, specific performance evaluation criteria, including but not limited to benchmarks, will be established for the Investment Managers in their respective contracts with ACERA.~~

~~XI. MONITORING AND REPORTING~~

~~Consultant and Staff will closely monitor and analyze the RE Portfolio so that the strategic objective of the Portfolio can be met.~~

~~Investment Managers shall submit reports to Staff, Consultant, ACERA's custodian, and other ACERA vendors as required in their respective contracts.~~

~~Consultant shall submit all reports to Staff in accordance with its contract terms and the RE Policy.~~

~~Consultant, in conjunction with Staff, shall perform evaluations of ACERA's RE Portfolio and the underlying Investment Managers semi-annually in addition to ongoing cooperation with the Staff. Consultant shall report the findings to Staff and the Investment Committee timely.~~

~~XII. REAL ESTATE INVESTMENT INFORMATION DISCLOSURE POLICY~~

~~ACERA is a public agency subject to state laws, including, without limitation, (a) the California Public Records Act (Cal. Govt. Code §7920.000, et seq.)(the "Public Records Act"), which provides generally that all records relating to a public agency's business are open to public inspection and copying unless exempted under the Public Records Act, (b) the Ralph M. Brown Act (Cal. Govt. Code § 54950 et. seq.)(the "Brown Act"), which provides generally for open meetings for local legislative bodies, and (c) the California Government Code Section 7514.7 ("Cal. Govt. Code § 7514.7") which provides generally that public pension systems in California obtain and publicly disclose certain information regarding fees, expenses and returns from the alternative investment vehicles in which they invest. See Appendix IV for details of the ACERA disclosure policy regarding its RE investments~~

~~XIII. TABLE OF AMENDMENTS DATES~~

~~**Dates to be added**~~

Appendix I

List of Reports Required for Each Investment Recommendation/Approval

<u>Name of Report</u>	<u>Source</u>
<u>Recommendation/Approval memo</u>	<u>Staff</u>
<u>Recommendation/Approval memo</u>	<u>Consultant</u>
<u>Executive Summary of the Fund</u>	<u>Consultant/*Staff</u>
<u>Compliance Checklist</u>	<u>Staff</u>
<u>Comprehensive Due Diligence Report</u> <u>(Available to Trustees upon request due to</u> <u>confidentiality)</u>	<u>Consultant</u>
<u>Manager Pitchbook</u>	<u>Investment Manager</u>

***Note: Staff will provide an abbreviated Executive Summary Report that is available for review upon request by the Trustees.**

Appendix II

Executive Summary Report Template

Fund Name

Section I: General Information

Fund Name; Total AUM of the Firm; Current Target Fund Size; Previous Fund Size; Fund Focus; etc.

Section II: Investment Management

Organization Structure; Management Group; Experience; Personnel Turnover; etc.

Section III: Investment Strategy

Investment Philosophy; Investment Strategy; Investment Process; Investment Objective; etc.

Section IV: Risk Management

Risk Control Methodology; Exit Strategy; etc.

Section V: Investment Rationale

Section VI: Investment Concerns

Section VII: Performance (example)

Benchmark:

Net Returns (%):

<u>Periods Ending Date</u>	<u>YTD</u>	<u>1Year</u>	<u>3Years</u>	<u>5Years</u>	<u>Since Inception</u>
<u>Fund</u>					
<u>Benchmark (see § VII)</u>					
<u>Relative Performance: Account – Benchmark</u>					

Section VIII: Key Terms

Fund Term; Preferred Return; Investment Period; Management Fee; Other Fees; General Partner Carry; GP Commitment; Advisory Board; Clawback; No-Fault Divorce; Key-Person Events; Closing Schedule; Drawdown Schedule; etc.

* List of items to be addressed as appropriate. Data provided by Name as of Date; ICM Date

Appendix III

Compliance Checklist Template for RE Investment/Commitment

Target allocation to Real Estate (RE) Portfolio: 8.2% of the total ACERA Fund -

<u>ACERA's Real Estate Policy</u>	<u>Investment Fund</u>	<u>In Compliance?</u>
1. Permissible Legal Structure		
<u>Any legally permissible vehicle will be allowed including, but not limited to, separate accounts, commingled funds, joint ventures, limited partnerships, corporations, and limited liability companies.</u>	<u>Specific legal structure</u>	<u>Yes, No, or N/A</u>
2. Investment Methods		
<u>Commingled Funds</u> <u>Individual limited partnership funds</u> <u>Primary and/or Secondary</u> <u>Separate accounts</u> <u>Discretionary</u> <u>Separate Accounts</u> <u>REITs/ETFs</u> <u>Co-Investments Fund-of-funds</u> <u>Combination of the above</u>	<u>Specific investment methods</u>	<u>Yes, No, or N/A</u>
3. Investment Characteristics		
<u>RE may include, but not be limited to:</u>	<u>Specific investment type</u>	<u>Yes, No, or N/A</u>
<ul style="list-style-type: none"> • <u>Core (Total Return with expected income, substantially leased)</u> • <u>Core-Plus (specialization of property types)</u> • <u>Value-Add (deficiencies in lease-up, repositioning, or rehabilitation of assets.)</u> • <u>Opportunistic (recapitalization, turnaround, development, market arbitrage opportunities or offshore).</u> 		
<u>RE may include debt real estate (0-15%) in addition to equity real estate (>85%): Level of debt real estate at Fund Level, at asset class</u>	<u>Specific security type</u>	<u>Yes, No, or N/A</u>

ACERS Real Estate Investment Guidelines, Policies and Procedures**In Compliance?****ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION****4. Portfolio Diversification**

Level: Property Types: Office, Multifamily, Retail, Specific investment type Yes, No, or N/A

and Industrial. No property types are excluded, and properties may include business operations (e.g. hotels, senior housing, and storage)

Geography/Diversification (Domestic or International): Geographic Percentage and Property Type Percentage) – within RE Policy Guidelines.

Specific region of investment

Yes, No, or N/A

Domestic: >85%

International: 0-15%

Leverage Limits:

Exposure per fund

Yes, No, or N/A

Core: ≤ 50%

Core-Plus: ≤ 65%

Value-Add: ≤ 65%

Opportunistic: ≤ 80%

5. Return Expectations

Benchmark in Policy (net of all fees): Specific return target Yes, No, or N/A

-

• Core

• Core-Plus

• Value-Added

• Opportunistic

6. Strategic Investment Allocation

RE Portfolio: 8.2% of the total Fund:

Style Limits:

Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the investment fund Yes, No, or N/A

• Core ≥ 50%

• Core-Plus 10% – 40%

• Value-Added 0% - 30%

• Opportunistic 0% - 15%

Capital Structure Limits:

Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the investment fund Yes, No, or N/A

• Equity Real Estate: ≥85%

• Debt Real Estate: 0% – 15%

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES		
Global Region Limits	Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the investment fund	Yes, No, or N/A
<ul style="list-style-type: none"> ADAMS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION Domestic: 85% - 100% International: 0% - 15% 		

7. RE Investment Plan (Year Range)		
Specific Investment Plan	Commitment to Fund	Yes, No, or N/A

APPENDIX IV

Details of Disclosure Policy For Real Estate Investments ("RE Funds")

1. Upon request, ACERA shall disclose (i) the name, address and vintage year of each RE Fund; (ii) the dollar amount of capital committed to each RE Fund by ACERA since inception; (iii) the dollar amount of cash contributions made to each RE Fund by ACERA since inception; (iv) the dollar amount of distributions received by ACERA from each RE Fund on a fiscal yearend basis; (v) the market value of ACERA's investment in each RE Fund on a fiscal yearend basis; (vi) each RE Fund's net internal rate of return ("IRR") since inception; (vii) the investment multiple of each RE Fund since inception; (viii) the dollar amount of total management fees and expenses paid on an annual fiscal yearend basis, by ACERA to each RE Fund; and (ix) the dollar amount of cash profit received by ACERA from each RE Fund on a fiscal yearend basis. (See Cal. Govt. Code § 7928.710(c).)

2. ACERA shall disclose at least once annually in a report presented at a meeting open to the public: (i) the fees and expenses that ACERA pays directly to each RE Fund and, the RE Fund manager or related parties; (ii) ACERA's pro rata share of fees and expenses not included in (i) that are paid from each RE Fund to the RE Fund manager or related parties; (iii) ACERA's pro rata share of carried interest distributed by each RE Fund to the RE Fund manager or related parties; (iv) ACERA's pro rata share of aggregate fees and expenses paid by all of the portfolio companies held by each RE Fund to the RE Fund manager or related parties; (v) the information outlined in Section 1, above, and (vi) the gross and net IRR of each RE Fund, since inception. (See Cal. Govt. Code § 7514.7)

All other records regarding RE Fund investments shall be exempt from disclosure to the fullest extent permitted under applicable law.

Notwithstanding the preceding, or anything else in this RE Policy, ACERA reserves the right to withhold any record when "on the facts of the particular case the public interest served by not disclosing the record clearly outweighs the public interest served by disclosure of the record." (See, Cal. Govt. Code §7922.000). This weighing process contemplates a case-by-case balancing test between competing public interests based on the facts presented as the statute has been interpreted by the courts.⁶

⁶ Michaelis, Montanari & Johnson v Superior Court, 38 Cal.4th 1065, 1071 (2006).

Appendix V

Guidelines for Separately Managed Accounts (SMAs)

Valuations:

For any SMA, such as the Oakland Office Building, ACERA expects an annual valuation in the quarter of the anniversary date of each asset acquisition, ~~the~~ The Fund manager will arrange for valuations for such assets and will provide ACERA with valuations for all properties for which it has asset management responsibilities. Unless specifically directed by ACERA, the valuation will be prepared by a qualified independent third party entity beginning on the third anniversary of ownership and every third year of ownership thereafter. Interim valuations may be conducted by the manager. All materials generated by the independent third party will be copied to ACERA for record keeping. Valuation adjustments made in the interim periods will be documented in a memo to ACERA and retained for record keeping.

~~C. Discretionary Authority~~

~~The Board controls the delegation of discretion. The Policies and Procedures described herein are structured to control investment risk.~~

~~I. Commingled Funds~~

~~Commingled Funds are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in Commingled Fund investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to Commingled Funds extending greater investor rights (e.g. redemptions, termination, and alignment). Investments made in Commingled Funds are monitored for compliance with vehicle documents through quarterly performance measurement procedures.~~

~~IV. INVESTMENT PROCEDURES~~

~~The ACERA Annual Real Estate Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Real Estate Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section IV.A-C.~~

~~A. Commingled Funds~~

~~The following procedures will be utilized in the selection, closing and monitoring of specific Commingled Fund investments.~~

~~*1. Commingled Fund Selection Process*~~

- ~~a) The Consultant will maintain an ongoing review of offerings within the institutional market place and, based on due diligence findings, refer appropriate Commingled Fund investments to Staff.~~
- ~~b) Staff shall review the Consultant recommendations for compliance with agreed upon due diligence procedures for each fund recommendation.~~
- ~~c) Staff shall verify and opine as to the compliance of each recommended fund with the approved R/E Policy and current Investment Plan. (See Compliance Check List, Appendix B)~~
- ~~d) Staff shall arrange presentations to the Committee in order to allow the Committee to recommend a selection to the Board for approval.~~

~~B. Separately Managed Accounts ("SMA")~~

~~The following procedures will be utilized for maintaining and monitoring of SMA, such as the Oakland Office Building.~~

~~*1. Control and Monitoring*~~

Budget and Management Plan:

~~Not less than~~

Within 60 days after the end of the calendar year, each SMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate SMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly distribution projections.

~~Not more than~~

Within 90 days after the end of the calendar year, Staff and Consultant will meet with the Manager—~~personnel~~ directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

~~C. — Performance Measurement Reports~~

~~On a semi-annual basis, the Consultant will prepare a report and evaluation of the real estate portfolio relative to the R/E Policy. The report shall provide such information as may be required by ACERA to evaluate and administer its investments and Managers.~~

~~The content of the report shall include return analysis for both the investment managers and the total portfolio including: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and R/E Policy and Investment Plan compliance.~~

~~Quarterly reports will also provide the ACERA Staff and Board with notification of any manager appearing on the ACERA 'Watch list' for additional oversight and evaluation.~~

~~Watch List Qualification~~

- ~~1. A manager may be placed on the Watch List at any time for material organizational changes or instability. Material organizational changes may~~

include, but are not limited to, key personnel changes, ownership changes or other firm level issues.

2. A manager will automatically be placed on the Watch List if net of fee performance falls below the net of fee performance of the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three or five year rolling returns).

Watch List Removal

1. With respect to material organizational changes, a manager may be removed from the Watch List after a minimum one year period and with satisfaction by and recommendation from the Staff and Consultant. The Staff and Consultant will provide notification to the Board when such changes are made.
2. With respect to performance, any manager placed on the Watch List for underperformance will automatically be eligible for removal from the Watch List once net of fee performance exceeds the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three, or five year rolling returns).

The Consultant shall prepare and forward to ACERA's Staff, a Performance Measurement Report within ninety (90) days following the last day of each quarter pending receipt of all manager supplied data requests.

Schedule I

Manager Structure, Capital Structure, and Location Targets

No manager may represent more than 35% of ACERA's total real estate target allocation. Other guidelines are set forth in the chart below.

Style	Target Allocation within Asset Class
Core Investments	≥ 60%
Core Plus	0%–30%
Value-Added Investments	0%–30%
Opportunistic	0%–15%

Capital Structure/Location	Target Allocation within Asset Class
Equity Real Estate	0%–100%
Debt Real Estate	0%–15%
International Exposure (Equity or Debt)	0%–15%

Schedule II

Defined Roles of Participants

~~The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Investment Committee (“Committee”), Staff, Real Estate Consultant (“Consultant”) and Investment Managers (“Manager” or “Managers”). Set forth below is the delegation of the major responsibilities of each participant.~~

~~Responsibilities of the ACERA Board~~

- ~~• Approves Committee recommendations.~~

~~Responsibilities of the Investment Committee~~

- ~~• Reviews the R/E Policy and the Investment Plan for the real estate program.~~
- ~~• Evaluates the selection and/or termination of Managers and Real Estate Consultants, and recommends such selection and/or termination to the Board for approval.~~
- ~~• Reviews the real estate portfolio quarterly to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.~~
- ~~• Makes recommendations to the Board for approval; and,~~
- ~~• Delegation[†]:~~
 - ~~a. Delegating to Staff the authority to make final decisions on new proposed private real estate investments with an individual commitment up to 5% of the target allocation to the total Real Estate Portfolio.~~
 - ~~b. Delegating to Staff the authority to make final decisions on proposed “re-up” private real estate investments with existing managers in good standing, an individual commitment, in addition to the existing commitment, up to 10% of the target allocation to the total Real Estate Portfolio.~~

~~Responsibilities of the ACERA Staff~~

- ~~• Recommends the R/E Policy and the Investment Plan to the Committee.~~
- ~~• Makes recommendations to the Committee regarding ACERA’s real estate portfolio.~~

~~¹ Investment managers may not appear before the Investment Committee when Staff exercises its delegated authority.~~

- ~~Ensures compliance with the R/E Policy and with contracts by consultants and by managers.~~
- ~~Implements Board and Committee decisions.~~
- ~~Provides day to day oversight of program activities.~~
- ~~Makes recommendations to the Committee regarding the management of the portfolio.~~
- ~~Monitors the organization and performance of managers, and reports any significant discrepancies.~~
- ~~Completes any other activity as directed by the Committee and/or Board.~~
- ~~Delegation:~~
 - a. ~~Approving Consultant's real estate investment proposals (new proposals) with each individual commitment up to 5% of the target allocation to the total RE Portfolio upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices A & B).~~
 - b. ~~Approving Consultant's real estate investment proposals for "re-ups" with existing managers with each individual commitment in addition to the existing commitment, up to 10% of the target allocation to the total RE Portfolio to managers in good standing[†] upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports² (please see Appendices A & B).~~

Responsibilities of the Consultant

- ~~Recommends the R/E Policy and the Investment Plan to the Committee.~~
- ~~Makes recommendations to the Committee regarding ACERA's real estate portfolio.~~
- ~~Brings any non-conforming items or significant issues to the attention of the Staff, Committee and/or Board.~~
- ~~Prepares the R/E Policy (with annual reviews) and Real Estate Investment Plan~~
- ~~Prepares the Annual Real Estate Portfolio Review including the review of annual Budget and Management Plans prepared by Managers in conjunction with Staff.~~

[†] ~~An investment manager may be considered to be in good standing if there is sufficient comfort with factors including,~~

~~REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES~~

~~ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION~~

~~but not limited to, its organization, strategy, performance, and compliance.~~

~~² Investment managers may not appear before the Investment Committee when Staff exercises its delegated authority~~

- ~~Oversees Manager preparation of annual Manager Investment Plans.~~
- ~~Reviews Preliminary Investment Packages (submitted by IMA Managers) for program compliance.~~
- ~~Presents portfolio performance reports (as described in Section IV.C. of this document) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans to the Committee quarterly.~~
- ~~Provides any additional real estate related information (within the agreed upon scope of work) as requested by the Board and ACERA Staff. Responsibilities of the Manager~~
- ~~Provides performance measurement data in form and substance as requested by ACERA or its Consultant.~~
- ~~Promptly reports any non-conforming items or significant issues to the Staff and Consultant.~~
- ~~Provides any additional real estate related information as requested by the Board, ACERA Staff and the Consultant.~~
- ~~Attends ACERA's meetings as requested.~~

~~Separately Managed Account Managers (e.g. Manager of the Oakland Building):~~

- ~~Monitors, manages and disposes of assets on behalf of ACERA.~~
- ~~Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA") and the National Association of Real Estate Investment Managers ("NAREIM") ("Information Standards").~~
- ~~Provides quarterly financial statements and annual reports to Staff and Consultant.~~
- ~~Prepares Manager Investment Plans (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.~~
- ~~Prepares Preliminary Investment Packages (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.~~
- ~~Prepares Budget and Management Plans (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.~~
- ~~Meets with Staff and Consultant for the Annual Real Estate Portfolio Review (as described in Section V.B.1.a of this document).~~

Commingled Fund Managers:

- ~~Adheres to the most recent version of the NCREIF PREA Reporting Standards established jointly by the National Council of Real Estate Investment Fiduciaries (“NCREIF”), the Pension Real Estate Association (“PREA”).~~
- ~~Provides all compliance reports, including quarterly financial statements and annual reports to Staff and Consultant.~~
- ~~Executes and performs its responsibilities under the terms of the investment vehicle documents and contracts.~~
- ~~Provides timely notices for capital contributions and distributions.~~
- ~~Conducts annual portfolio review meetings with the Consultant, Staff, the Committee and/or the Board, and provides timely information to discuss important developments regarding investment and management issues.~~

Appendix A

Compliance Checklist Template for RE Investment/Commitment

~~Target allocation to RE asset class: 9% of the Total Fund~~

RE Policy Investment Fund In Compliance

~~1. Permissible Legal Structures~~

Any legally permissible vehicle will be allowed including, but not limited to, separate accounts, commingled funds, joint ventures, limited partnerships, corporations, and limited liability companies.	<i>Specific legal structure.</i>	<i>Yes, No, or N/A</i>
--	----------------------------------	------------------------

~~2. Investment Methods~~

<p>Commingled Funds</p> <p>Individual limited partnership funds-</p> <p> Primary and/or Secondary-</p> <p> Separate accounts</p> <p> Discretionary-</p> <p>Separate Accounts</p> <p>REITs/ETFs</p> <p>Co-Investments, Fund-of-funds</p> <p>Combination of the above</p>	<p><i>Specific investment methods-</i></p>	<p><i>Yes, No, or N/A</i></p>
--	--	-------------------------------

~~3. Investment Characteristics~~

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RE may include, but not be limited to, <ul style="list-style-type: none">• Core (Total Return with expected income, substantially leased)• Core Plus (specialization of property types)• Value Add (deficiencies in lease up, repositioning, or rehabilitation of assets.)• Opportunistic (recapitalization, turnaround, development, market arbitrage opportunities or offshore);	Specific investment type:	Yes, No, or N/A
		Yes, No, or N/A

RE may include debt real estate in addition to equity real estate: Level of debt real estate at Fund Level, at asset class level:	Specific limit of debt real estate in percentage and dollars terms?	
--	--	--

4. ~~Portfolio Diversification~~

Property Type, Geography, and Other Exposure:		
Property Types: Office, Multifamily, Retail, and Industrial. No property types are excluded, and properties may include business operations (e.g. hotels, senior housing, and public storage)	Specific investment type:	Yes, No, or N/A
Geography/Diversification (Domestic or International): Geographic Percentage and Property Type Percentage) — within R/E Policy Guidelines:	Specific region of investments; Is this a domestic or international fund; specific currency denomination:	Yes, No, or N/A
International Exposure (not to exceed 15% for total portfolio.)	Exposure per fund; total exposure for asset class:	
Debt Exposure (not to exceed 15% for total portfolio.)	Exposure per fund; total exposure for asset class:	Yes, No, or N/A
By vintage year: roughly equal amounts of new funding may be committed in each calendar year with deviations permitted (Closed-end Commingled Funds).	Specific vintage year:	Yes, No, or N/A
		Yes, No, or N/A

RE Policy _____ **Investment Fund** _____ **In Compliance**

5. Return Expectation

Benchmark in Policy (net of all fees): <ul style="list-style-type: none">• Core,• Core Plus,• Value Added,• Opportunistic	Specific return target(s).	Yes, No, or N/A
--	---------------------------------------	----------------------------

6. Strategic Investment Allocations

<u>RE Portfolio: 9% of the total Fund.</u> <ul style="list-style-type: none">• Core \geq 60%• Core Plus 0% - 30%• Value Added 0% - 30%• Opportunistic 0% - 15%	Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the Investment Fund.	Yes, No, or N/A
--	--	----------------------------

RE Investment Plan for YEARS

Approved: DATE _____ **Investment Fund** _____ **In compliance**

Specific Investment Plan.	Commitment to Fund.	Yes, No, or N/A
--------------------------------------	--------------------------------	----------------------------

~~APPENDIX B~~
~~EXECUTIVE SUMMARY~~

~~FUND NAME~~

~~Organization:-~~

~~Investment Strategy:-~~

~~Investment Process:-~~

~~Total Assets under Management:-~~

~~Fund Style:-~~

~~Fund Structure/Inception Date:-~~

~~Fund Target Commitment:-~~

~~ACERA Proposed Investment:-~~

~~Fund Life/Term:-~~

~~Target Return of Fund Life:-~~

~~Platform Gross Returns:-~~

<i>As of DATE</i>	Fund I, Fund II, Fund III, etc.
Vintage	
Capital Commitments (\$ M)	
Gross Value	
Leverage	
% Realized (all 100% invested)	

Gross Levered Returns	
----------------------------------	--

-Realized/Unrealized IRR (current)	
-Realized/Unrealized Equity Multiple (current)	

Target Property Types:-

ACERA's Account Benchmark:-

Leverage Ratio (%):-

Investment Guidelines:

Leverage:

Concentration and investment size:-

Anticipated investment size:

Fees Structure (Management/Incentive):-

Distributions:

Investment Manager:

GP (Sponsor) Commitment:

**Alameda County Employees'
Retirement Association**

ACERA

REAL ESTATE INVESTMENT POLICY

Amended TBD

ACERA REAL ESTATE INVESTMENT POLICY

TABLE OF CONTENTS

I.	SCOPE	3
II.	PURPOSE	3
III.	LEGAL AUTHORITY	3
IV.	TYPES OF REAL ESTATE INVESTMENTS	3
V.	STRATEGIC OBJECTIVE OF REAL ESTATE PORTFOLIO	4
VI.	STRATEGIC ALLOCATION TO REAL ESTATE PORTFOLIO	4
VII.	SPECIFIC GUIDELINES FOR REAL ESTATE PORTFOLIO	4
VIII.	ROLES AND RESPONSIBILITIES	6
IX.	DUE DILIGENCE PROCESS FOR REAL ESTATE INVESTMENT SELECTION	9
X.	SPECIFIC PERFORMANCE EVALUATION CRITERIA	11
XI.	MONITORING AND REPORTING	11
XII.	REAL ESTATE INVESTMENT INFORMATION DISCLOSURE POLICY	11
XIII.	TABLE OF AMENDMENT DATES	11
	Appendix I – List of Reports Required for Each Investment Recommendation/Approval	12
	Appendix II – Executive Summary Report Template	13
	Appendix III – Compliance Checklist Template for Real Estate Investment Selection	14
	Appendix IV – Details of Disclosure Policy for Real Estate Investments	17
	Appendix V – Guidelines for Separately Managed Accounts (SMAs)	18

I. SCOPE

The Real Estate Investment Guidelines, Policies and Procedures (“RE Policy”) governs all investments in the Real Estate (“RE”) asset class made by Alameda County Employee’s Retirement Association (“ACERA”)¹. The investments governed under this RE Policy are subject to applicable law and the applicable limitations and requirements of ACERA’s General Investment Guideline, Policies and Procedures (“General Policy”). If there is any conflict between this RE Policy and ACERA’s General Policy pertaining to investments in the Real Estate asset class, this RE Policy prevails. The ACERA Board (“Board”) reserves the right to amend, supplement or rescind this RE Policy at any time.

II. PURPOSE

The purpose of this RE Policy is to 1) set forth the real estate investment policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which real estate investment opportunities are to be measured; and 3) serve as a review document to guide the ongoing oversight of ACERA’s Real Estate Portfolio (“RE Portfolio”) on a consistent basis. This RE Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee (“Investment Committee”), the ACERA Staff (“Staff”), the ACERA Real Estate Consultant (“Consultant”) and the Real Estate Investment Managers hired by ACERA to manage its assets (“Investment Managers”).

It is expected that this RE Policy will be a living document and that changes will be made from time to time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

III. LEGAL AUTHORITY

This RE Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code Sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the ACERA Trust Fund (“Fund”).

IV. TYPES OF REAL ESTATE INVESTMENTS

For the purpose of this RE Policy, Real Estate investments may include, but not be limited to equity and debt securities in real estate properties (land and buildings). Real Estate investments may be denominated in U.S. dollars or other currencies, and levered to provide additional return. ACERA may consider investing in these assets if and only if the vehicles meet all legal standards and RE Policy requirements.

¹ See ACERA’s Absolute Return Policy, Private Equity Policy and Real Assets Policy for investments in other asset classes

V. STRATEGIC OBJECTIVE OF THE REAL ESTATE PORTFOLIO

The Board believes the Fund's overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in Real Estate. The strategic objective of such investments is to:

- Generate returns superior to those available in the public equity market to compensate the Fund for the longer term and illiquid commitments associated with RE investments;
- Enhance ACERA's long-term risk adjusted return, provide additional diversification to ACERA's overall investment Fund, and serve as a hedge against inflation;
- Produce a stable income stream to assist in meeting cash flow needs;
- Generate total RE Portfolio performance in excess of the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE) over longer time periods.

VI. STRATEGIC ALLOCATION TO REAL ESTATE PORTFOLIO

The target allocation to the RE asset class, as measured by Net Asset Value of the portfolio and not by dollars committed to underlying Investment Managers or funds, is 8.2% of the total Fund. The Real Estate portfolio will have the following portfolio composition ranges:

Strategy Type	Range	Strategy Benchmark
Core	≥50%	NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE)
Core-Plus	10 - 40%	NCREIF Fund Index - Open-End Equity (NFI-OE)
Value-Add	0 - 30%	NCREIF Fund Index - Open-End Equity (NFI-OE)
Opportunistic	0 - 15%	NCREIF Fund Index - Open-End Equity (NFI-OE)
Total RE Portfolio	100%	NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE)

Capital Structure	Range
Equity Investments	≥85%
Debt Investments	0 - 15%
Total RE Portfolio	100%

Global Regions	Range
Domestic	≥85%
International	0 - 15%
Total RE Portfolio	100%

VII. SPECIFIC GUIDELINES FOR REAL ESTATE PORTFOLIO

ACERA will gain exposure to RE investments primarily by hiring external investment managers. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations, sponsored by specialty external investment managers. The portfolio will consist mostly of commingled funds, not Separately Managed Accounts (“SMA”) except for maintaining ACERA's Headquarters.

The RE Portfolio will be diversified through the following strategy types: Core, Core-Plus, Value-Add, and Opportunistic (see Section VI for range limits).

Core: Core investments are considered to be less risky (thereby providing lower returns) than higher returning core-plus, value-add or opportunistic investments. The lower risk assigned to stabilized investments is due to three primary characteristics: (1) the stability of the income generated; (2) the higher proportion of the total return attributable to income; and (3) the limited use of debt (0% to 50%) usually associated with the style. Because of its high occupancy rates, Core properties are more stable.

Core-Plus: Core-plus investments are considered to be slightly riskier than core, but less risky than higher returning value-added or opportunistic investments. The slightly higher risk assigned to core-plus is due to three primary characteristics: (1) greater specialization in one or more property types, (2) potentially higher use of leverage, and (3) the stability of the income generated, albeit less than core.

Value-Add: Value-Add investments seek to provide higher returns with higher risk than the Core or Core-plus components of the portfolio. Value-Add investments depend upon the successful completion of an active management strategy (e.g. rehabilitation) and a timely disposition of the asset(s). Value-Add investments often use higher levels of debt, as compared to Core or Core-plus investments, to further increase total return expectations.

Opportunistic: Opportunistic investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering, non-domestic markets) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion and a significant level of diversification.

The RE Portfolio will also be diversified across property type and region. Exposure to any single property type (e.g., office, retail, apartment, industrial) and any region (e.g., East, Mid-West, West or South in the United States or internationally) will be within a range of 0% to 40%, excluding the Oakland Office Building.

The RE Portfolio will also be diversified across capital structure. Exposure to equity RE investments will range from 85% to 100% and exposure to debt RE investments will range from 0% to 15%.

Any portfolio concentration in excess of the range limitations listed above must be explicitly reported to the Board.

ACERA has approved leverage limits, listed below, in order to maximize returns to the total portfolio with minimum risk. The Board has approved a maximum of forty percent (40%) leverage for the total portfolio. In addition, targets are established for each investment style based on the risk/return profile of the underlying investments. In the event that either the portfolio level and/or style level leverage constraint is breached due to a contraction in market values, the ACERA's Staff and Consultant will notify the Board and make a recommendation for action or exception.

Strategy (Style) Type	Leverage Limits
Core	$\leq 50\%$
Core-Plus	$\leq 65\%$
Value-Added	$\leq 65\%$
Opportunistic	$\leq 80\%$
<hr/>	
Total Real Estate Portfolio	$\leq 40\%$

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's RE Portfolio. The duties and responsibilities of the Board, Investment Committee, Staff, Consultant, and Investment Managers are stated below:

A. Board

The Board shall be responsible for approving the RE Policy that governs the RE Portfolio and approving the investment plan of ACERA's RE Portfolio. The Board, with input from the Investment Committee, shall review this RE Policy to determine whether amendments are necessary. The Board shall also be responsible for reviewing and approving all RE investments with individual commitments exceeding Staff's delegated authority as described in subparagraph C below.

B. Investment Committee

The Investment Committee shall be responsible for the following:

1. Establishing the RE Policy to govern all investments in the RE asset class;
2. Reviewing the RE Policy, evaluating proposals for RE Policy amendments, if any, and making recommendations for approval by the Board;
3. Reviewing and approving the ACERA RE Investment Plan;
4. Reviewing RE investments recommended by Staff and/or Consultant and making recommendations to the Board for adoption if warranted; and
5. Delegation²:
 - a. Delegating to Staff the authority to make final decisions on new proposed RE investments with an individual commitment up to 5% of the target allocation to the total RE Portfolio.
 - b. Delegating to Staff the authority to make final decisions on proposed "re-up" RE

² Investment managers may not appear before the Investment Committee when Staff exercises its delegated authority.

investments with existing managers in good standing, an individual commitment in addition to the existing commitments, up to 10% of the target allocation to the total RE Portfolio.

C. Staff

Staff shall be responsible for oversight of ACERA's RE Portfolio. Staff's responsibilities shall include, but not be limited to the following:

1. Developing and recommending all necessary changes to the RE Policy with input from Consultant;
2. Developing and maintaining specific procedures, if necessary, to comply with the approved RE Policy with input from Consultant;
3. Developing the investment plan of ACERA's RE Portfolio and making recommendations to the Committee for adoption with input from Consultant;
4. Delegation³:
 - a. Approving Consultant's RE investment proposals (new proposals) with each individual commitment up to 5% of the target allocation to the total RE Portfolio upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices I through III).
 - b. Approving Consultant's RE investment proposals for "re-ups" with existing managers with each individual commitment in addition to the existing commitments⁴, up to 10% of the target allocation to the total RE Portfolio to managers in good standing⁵ upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices I through III).
 - c. When the investment manager or general partner of existing investment vehicles offer related continuation vehicles (aka "continuation funds"), following a thorough evaluation of the investment options related to the continuation vehicle (i.e., subscribing to the continuation vehicle, receiving liquidity, or, in some cases, both), and in alignment with Consultant's recommendation, approving of investment in continuation vehicles or other related options such as receiving liquidity (i.e., receiving cash proceeds for the investments that are to be transferred into the continuation vehicle).
5. Through the ACERA Investment Products and Services Introduction (IPSI) program, and with the concurrence of the Consultant, recommend highly qualified RE fund investments to the Investment Committee upon completion of a thorough review and due diligence process,

³ Investment manager may not appear before the Investment Committee in circumstances when Staff has exercised its delegated authority.

⁴ Total commitments are calculated net of capital commitments returned.

⁵ An Investment Manager may be considered to be in good standing if there is sufficient comfort with factors including, but not limited to, its organization, strategy, performance, and compliance.

providing the required reports to Staff and/or the Investment Committee. (See Appendices I through III);

6. Monitoring the RE Portfolio for performance and compliance with this RE Policy;
7. Monitoring the performance of the underlying Investment Managers and their compliance with a) the investment guidelines set forth in their respective contracts; b) this RE Policy; and c) the applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
8. Conducting comprehensive annual reviews of ACERA's RE Portfolio and the individual investments in the RE Portfolio;
9. Reporting any manager violations of this RE Policy to the Investment Committee, with appropriate recommendations;
10. Assisting ACERA's Legal Department in contract negotiations for the selected RE investments;
11. Evaluating RE investment opportunities with Consultant's input on an on-going basis; and
12. Evaluating and making recommendations for retention, addition to, and/or termination of Investment Managers.

D. Consultant

The Consultant hired by the Board is a fiduciary to ACERA and its Board. Consultant shall independently and continuously monitor and analyze the performance of ACERA's RE Portfolio and make related recommendations to serve the best interests of the plan participants. Consultant shall assist Staff in developing this RE Policy and recommending all necessary changes to the RE Policy. In addition, Consultant shall be responsible for:

1. Analyzing the asset allocation of the RE Portfolio by sub-asset class, implementation vehicle, geography, industry, and vintage year, and making recommendations for reallocation of assets, as appropriate;
2. Developing an investment plan for ACERA's RE Portfolio every 1 to 3 years;
3. Developing a search strategy for highly qualified RE investments and maintaining a robust database containing information on Investment Managers;
4. Recommending highly qualified RE fund investments to Staff and/or the Investment Committee upon completion of a thorough due diligence process and providing the required reports listed in the Appendix I of this RE Policy to Staff and/or the Investment Committee;
5. When continuation vehicles are offered related to existing investment vehicles, and following a thorough evaluation of the related investment options, recommending to Staff which investment option is most suitable for the RE Portfolio.
6. Ongoing monitoring of the investment performance of ACERA's RE Portfolio and individual strategies in the RE Portfolio;
7. Conducting ongoing due diligence on Investment Managers, notifying ACERA of any significant developments and adverse events, if applicable, by providing analysis and advice on such issues;
8. Ongoing monitoring of Investment Managers' compliance with a) their respective investment guidelines as set forth in their contract; b) this RE Policy; and c) applicable requirements of

- ACERA's General Investment Guidelines, Policies and Procedures;
9. Assisting Staff in contract negotiations for the selected RE investments, as needed;
 10. Submitting performance evaluation reports and conducting comprehensive reviews of the RE Portfolio and individual Investment Managers semi-annually, to the Investment Committee;
 11. Making recommendations for retention or termination of Investment Managers;
 12. Attending meetings as needed; and
 13. Performing other duties in accordance with the terms of its contract and applicable law.

E. Investment Managers

Investment Managers are fiduciaries and shall prudently manage ACERA's assets in the best interest of ACERA and its members. Investment Managers shall abide by all applicable ACERA policies and procedures, and fully comply with applicable law. Investment Managers shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) this RE Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. Investment Managers shall be responsible for all aspects of portfolio management as set forth in their respective contracts with ACERA. They shall also:

1. Communicate with Staff and/or Consultant promptly regarding investment strategy, investment results, and any non-conforming issues, if applicable, that may have significant and/or negative impact on the portfolio;
2. Cooperate fully with Staff, Consultant, ACERA's custodian, and other ACERA vendors concerning requests for information;
3. Submit reports in a timely manner to Staff and Consultant in accordance with their contract terms; and
4. Attend meetings as needed.

IX. DUE DILIGENCE PROCESS FOR REAL ESTATE INVESTMENT SELECTION

ACERA recognizes that a proper due diligence process is essential to control the risks associated with RE investments and therefore, hereby establishes the following due diligence processes for both its Consultant and Staff:

A. Consultant

Consultant shall conduct extensive, documented due diligence before making any RE investment recommendations to Staff and the Investment Committee. Consultant will work closely with Staff in the due diligence process, as necessary. For those investments recommended to be included in the ACERA RE Portfolio, Consultant's duties shall include, but not be limited to:

1. Assessing the reputation of the individuals who manage the RE investments, consider background checks, internet searches, and in-person meetings or conference calls with these individuals, etc.;
2. Conducting on-site visits to the offices of the Investment Managers as requested;
3. Checking references from other investors that have invested in these RE investments, and, when advisable, from competitors;
4. Determining that the Real Estate investment funds are audited, at least annually, by a reputable and recognized external independent auditing firm;
5. Reviewing Investment Managers investment strategies, policies, operating procedures, and historical performance;
6. Reviewing and understanding the valuation procedures employed by the Investment Managers;
7. Reviewing and understanding the business terms of all operational documents and other related materials for the RE investments under consideration, including but not limited to offering memoranda, subscription agreements, fund policies, due diligence questionnaires, and Forms ADV, if and as available.

B. Staff

Staff shall ensure that Consultant has conducted extensive, documented due diligence on all RE investment proposals recommended to Staff and the Investment Committee. Staff shall participate in Consultant's due diligence process when appropriate, shall conduct its own independent due diligence, and shall also be responsible for:

1. Reviewing the comprehensive analysis report prepared by Consultant on its recommended RE investments;
2. Verifying the compliance of each recommended RE investment with the RE Policy, the investment plan for ACERA's RE Portfolio and other applicable investment policies;
3. Discussing all issues related to the recommended RE investments with Consultant and with Investment Managers to gain a thorough understanding of each strategy's primary return drivers, key terms, investment guidelines, and determine the investments suitability for ACERA's RE Portfolio; and
4. Performing independent due diligence regarding the business, economic, and legal aspects of the proposed RE investment and in accordance with the Executive Summary (See Appendix II) and the Compliance Checklist (See Appendix III).
5. Completing Appendices II and III of this document for each proposal.
6. Conducting an on-site due diligence visit to each manager's headquarters office whenever possible; and
7. Arranging presentations of select investment opportunities to the Investment Committee, as applicable.

X. SPECIFIC PERFORMANCE EVALUATION CRITERIA

When appropriate, specific performance evaluation criteria, including but not limited to benchmarks, will be established for the Investment Managers in their respective contracts with ACERA.

XI. MONITORING AND REPORTING

Consultant and Staff will closely monitor and analyze the RE Portfolio so that the strategic objective of the Portfolio can be met.

Investment Managers shall submit reports to Staff, Consultant, ACERA's custodian, and other ACERA vendors as required in their respective contracts.

Consultant shall submit all reports to Staff in accordance with its contract terms and the RE Policy.

Consultant, in conjunction with Staff, shall perform evaluations of ACERA's RE Portfolio and the underlying Investment Managers semi-annually in addition to ongoing cooperation with the Staff. Consultant shall report the findings to Staff and the Investment Committee timely.

XII. REAL ESTATE INVESTMENT INFORMATION DISCLOSURE POLICY

ACERA is a public agency subject to state laws, including, without limitation, (a) the California Public Records Act (Cal. Govt. Code §7920.000, et seq.)(the "Public Records Act"), which provides generally that all records relating to a public agency's business are open to public inspection and copying unless exempted under the Public Records Act, (b) the Ralph M. Brown Act (Cal. Govt. Code § 54950 et. seq.)(the "Brown Act"), which provides generally for open meetings for local legislative bodies, and (c) the California Government Code Section 7514.7 ("Cal. Govt. Code § 7514.7") which provides generally that public pension systems in California obtain and publicly disclose certain information regarding fees, expenses and returns from the alternative investment vehicles in which they invest. See Appendix IV for details of the ACERA disclosure policy regarding its RE investments

XIII. TABLE OF AMENDMENTS DATES

Dates to be added

Appendix I

List of Reports Required for Each Investment Recommendation/Approval

Name of Report	Source
Recommendation/Approval memo	Staff
Recommendation/Approval memo	Consultant
Executive Summary of the Fund	Consultant/*Staff
Compliance Checklist	Staff
Comprehensive Due Diligence Report (Available to Trustees upon request due to confidentiality)	Consultant
Manager Pitchbook	Investment Manager

***Note: Staff will provide an abbreviated Executive Summary Report that is available for review upon request by the Trustees.**

Appendix II

Executive Summary Report Template

Fund Name

Section I: General Information

Fund Name; Total AUM of the Firm; Current Target Fund Size; Previous Fund Size; Fund Focus; etc.

Section II: Investment Management

Organization Structure; Management Group; Experience; Personnel Turnover; etc.

Section III: Investment Strategy

Investment Philosophy; Investment Strategy; Investment Process; Investment Objective; etc.

Section IV: Risk Management

Risk Control Methodology; Exit Strategy; etc.

Section V: Investment Rationale

Section VI: Investment Concerns

Section VII: Performance (example)

Benchmark:

Net Returns (%):

Periods Ending Date	YTD	1Year	3Years	5Years	Since Inception
Fund					
Benchmark (see § VII)					
Relative Performance: Account – Benchmark					

Section VIII: Key Terms

Fund Term; Preferred Return; Investment Period; Management Fee; Other Fees; General Partner Carry; GP Commitment; Advisory Board; Clawback; No-Fault Divorce; Key-Person Events; Closing Schedule; Drawdown Schedule; etc.

* List of items to be addressed as appropriate. Data provided by Name as of Date; ICM Date

Appendix III

Compliance Checklist Template for RE Investment/Commitment

Target allocation to Real Estate (RE) Portfolio: 8.2% of the total ACERA Fund -

<u>ACERA's Real Estate Policy</u>	<u>Investment Fund</u>	<u>In Compliance?</u>
1. Permissible Legal Structure		
Any legally permissible vehicle will be allowed including, but not limited to, separate accounts, commingled funds, joint ventures, limited partnerships, corporations, and limited liability companies.	<i>Specific legal structure</i>	<i>Yes, No, or N/A</i>
2. Investment Methods		
Commingled Funds Individual limited partnership funds Primary and/or Secondary Separate accounts Discretionary Separate Accounts REITs/ETFs Co-Investments Fund-of-funds Combination of the above	<i>Specific investment methods</i>	<i>Yes, No, or N/A</i>
3. Investment Characteristics		
RE may include, but not be limited to:	<i>Specific investment type</i>	<i>Yes, No, or N/A</i>
<ul style="list-style-type: none"> • Core (Total Return with expected income, substantially leased) • Core-Plus (specialization of property types) • Value-Add (deficiencies in lease-up, repositioning, or rehabilitation of assets.) • Opportunistic (recapitalization, turnaround, development, market arbitrage opportunities or offshore). 		
RE may include debt real estate (0-15%) in addition to equity real estate (≥85%): Level of debt real estate at Fund Level, at asset class level.	<i>Specific security type</i>	<i>Yes, No, or N/A</i>

ACERA's Real Estate Policy**Investment Fund****In Compliance?**

4. Portfolio Diversification		
Property Types: Office, Multifamily, Retail, and Industrial. No property types are excluded, and properties may include business operations (e.g. hotels, senior housing, and storage)	<i>Specific investment type</i>	<i>Yes, No, or N/A</i>
Geography/Diversification (Domestic or International): Geographic Percentage and Property Type Percentage) – within RE Policy Guidelines. Domestic: $\geq 85\%$ International: 0-15%	<i>Specific region of investment</i>	<i>Yes, No, or N/A</i>
Leverage Limits: Core: $\leq 50\%$ Core-Plus: $\leq 65\%$ Value-Add: $\leq 65\%$ Opportunistic: $\leq 80\%$	<i>Exposure per fund</i>	<i>Yes, No, or N/A</i>

5. Return Expectations		
Benchmark in Policy (net of all fees):	<i>Specific return target</i>	<i>Yes, No, or N/A</i>
<ul style="list-style-type: none"> • Core • Core-Plus • Value-Added • Opportunistic 		

6. Strategic Investment Allocation		
RE Portfolio: 8.2% of the total Fund:		
Style Limits: <ul style="list-style-type: none"> • Core $\geq 50\%$ • Core-Plus 10% – 40% • Value-Added 0% - 30% • Opportunistic 0% - 15% 	<i>Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the investment fund</i>	<i>Yes, No, or N/A</i>
Capital Structure Limits: <ul style="list-style-type: none"> • Equity Real Estate: $\geq 85\%$ • Debt Real Estate: 0% – 15% 	<i>Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the investment fund</i>	<i>Yes, No, or N/A</i>

Global Region Limits	<i>Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the investment fund</i>	<i>Yes, No, or N/A</i>
<ul style="list-style-type: none"> • Domestic: 85% - 100% • International: 0% - 15% 		

7. RE Investment Plan (Year Range)		
Specific Investment Plan	<i>Commitment to Fund</i>	<i>Yes, No, or N/A</i>

APPENDIX IV

Details of Disclosure Policy For Real Estate Investments (“RE Funds”)

1. Upon request, ACERA shall disclose (i) the name, address and vintage year of each RE Fund; (ii) the dollar amount of capital committed to each RE Fund by ACERA since inception; (iii) the dollar amount of cash contributions made to each RE Fund by ACERA since inception; (iv) the dollar amount of distributions received by ACERA from each RE Fund on a fiscal yearend basis; (v) the market value of ACERA’s investment in each RE Fund on a fiscal yearend basis; (vi) each RE Fund’s net internal rate of return (“IRR”) since inception; (vii) the investment multiple of each RE Fund since inception; (viii) the dollar amount of total management fees and expenses paid on an annual fiscal yearend basis, by ACERA to each RE Fund; and (ix) the dollar amount of cash profit received by ACERA from each RE Fund on a fiscal yearend basis. (*See* Cal. Govt. Code § 7928.710(c).)

2. ACERA shall disclose at least once annually in a report presented at a meeting open to the public: (i) the fees and expenses that ACERA pays directly to each RE Fund and, the RE Fund manager or related parties; (ii) ACERA’s pro rata share of fees and expenses not included in (i) that are paid from each RE Fund to the RE Fund manager or related parties; (iii) ACERA’s pro rata share of carried interest distributed by each RE Fund to the RE Fund manager or related parties; (iv) ACERA’s pro rata share of aggregate fees and expenses paid by all of the portfolio companies held by each RE Fund to the RE Fund manager or related parties; (v) the information outlined in Section 1, above, and (vi) the gross and net IRR of each RE Fund, since inception. (*See* Cal. Govt. Code § 7514.7)

All other records regarding RE Fund investments shall be exempt from disclosure to the fullest extent permitted under applicable law.

Notwithstanding the preceding, or anything else in this RE Policy, ACERA reserves the right to withhold any record when “on the facts of the particular case the public interest served by not disclosing the record clearly outweighs the public interest served by disclosure of the record.” (*See*, Cal. Govt. Code §7922.000). This weighing process contemplates a case-by-case balancing test between competing public interests based on the facts presented as the statute has been interpreted by the courts.⁶

⁶ *Michaelis, Montanari & Johnson v Superior Court*, 38 Cal.4th 1065, 1071 (2006).

Appendix V

Guidelines for Separately Managed Accounts (SMAs)

Valuations:

For any SMA, such as the Oakland Office Building, ACERA expects an annual valuation in the quarter of the anniversary date of each asset acquisition. The Fund manager will arrange for valuations for such assets and will provide ACERA with valuations for all properties for which it has asset management responsibilities. Unless specifically directed by ACERA, the valuation will be prepared by a qualified independent third party entity beginning on the third anniversary of ownership and every third year of ownership thereafter. Interim valuations may be conducted by the manager. All materials generated by the independent third party will be copied to ACERA for record keeping. Valuation adjustments made in the interim periods will be documented in a memo to ACERA and retained for record keeping.

Budget and Management Plan:

Within 60 days after the end of the calendar year, each SMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate SMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly distribution projections.

Within 90 days after the end of the calendar year, Staff and Consultant will meet with the Manager directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.



To: Members of the Investment Committee

From: Stephen Quirk, Investment Officer *Stephen Quirk*

Date: July 2, 2025

Subject: Review of the current Public Equity Structure and Possible Restructure of the same - Part 3

Background

At the June Investment Committee meeting, Staff reviewed the current Public Equity structure and answered three questions in consideration of a possible restructure to thoughtfully implement the updated Public Equity Policy (48% target to the global MSCI ACWI IMI benchmark as mandated by our Asset Allocation Mix C), to ensure that the structure is fully compatible with the current market environment, and to potentially enhance ACERA's Total Fund performance. The conclusion was that one of the current active managers is high conviction, that the appropriate construction is using global mandates with exceptions for Emerging Markets and Small Cap, and that targeting 2% active risk is appropriate. Thus, Staff designed potential portfolio options based on these three criteria and generated back test results.

Discussion

While there are myriad approaches to achieving Public Equity excess returns, Staff constructed three distinct hypothetical portfolios using a combination of existing and potential mandates that all decreased the current passive allocation and targeted increased tracking error in back tests (see Attachment #1 for details):

- Option 1 employs the current regional specialist mandates at larger allocations.
- Option 2 utilizes global products of the current developed large cap managers.
- Option 3 uses high active risk global mandates sourced from the NEPC Focus Placement List (FPL) if appropriate.

Allocation (%)	Current	Option 1	Option 2	Option 3
Passive	64	20	20	20
US Large Growth	3	20		
Convert to Global			15	
US Large Value	3	20		
Convert to Global			15	
International Large	5	10		
Convert to Global			15	
International Large	5	10		
Convert to Global			15	
Global Core (search)				20
Global Growth (search)				20
Global Value (search)				20
Emerging Growth	5	5	5	5
Emerging Value	5	5	5	5
US Small Cap	5	5	5	5
International Small	5	5	5	5
10-Year Tracking Error (as of 3/31/25)	0.7	1.8	1.3	2.1

While all options have increased excess return expectations, only Option 3 generated 2% active risk and demonstrated superior historical performance consistency. However, increased active management allocations also increase the risk of total plan underperformance. Thus, ensuring the diversification of strategies through disciplined portfolio construction is crucial for controlling active risk and a 2.5% tracking error limit is warranted. Attachment #2 contains a rolling tracking error dispersion analysis which enables risk monitoring. Option 4, which serves as a reference portfolio featuring a NEPC FPL Global Equity Composite Proxy, helps to validate the thesis supporting high conviction global equity mandates.

Conclusion and Next Steps

Staff analyzed the three hypothetical portfolios according to the three restructure criteria:

	Current	Option 1	Option 2	Option 3
More Active Risk		✓	✓	✓
Global Mandates			✓	✓
High Conviction				✓

Because Option 3 satisfies all three criteria, Staff believes that structure is a thoughtful implementation of the updated Public Equity Policy, is fully compatible with the current market environment, and has the potential to enhance ACERA’s Total Fund performance. Rigorous manager selection and diligent risk management are essential for success. The potential restructure implies up to four manager conversions to global or terminations, and up to three global equity searches. Additionally, Staff will ensure that the current Emerging Markets and Small Cap managers are sufficient conviction to validate their inclusions in the new structure. Staff is mindful of the potentially large transitions and with input from NEPC, would implement the new structure methodically.

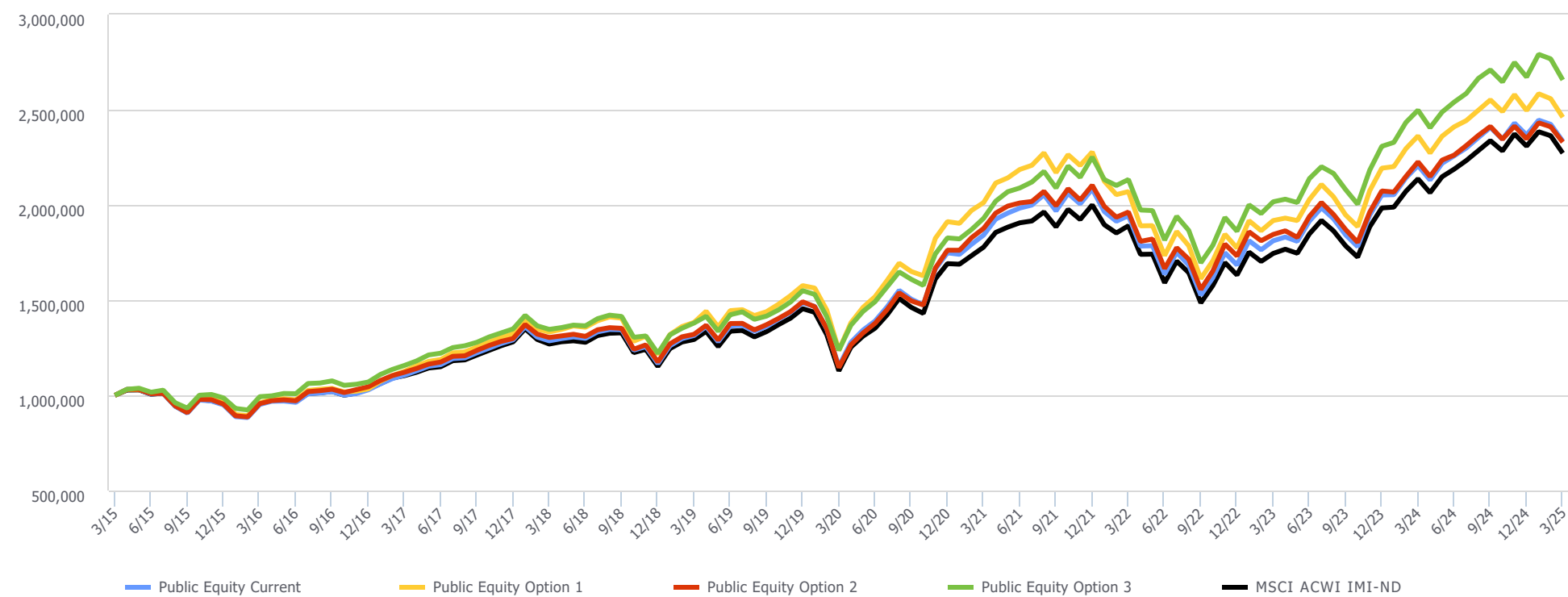
Attachments

- 1. Public Equity Review – prepared by Staff
- 2. Public Equity Review – prepared by NEPC

Public Equity Review

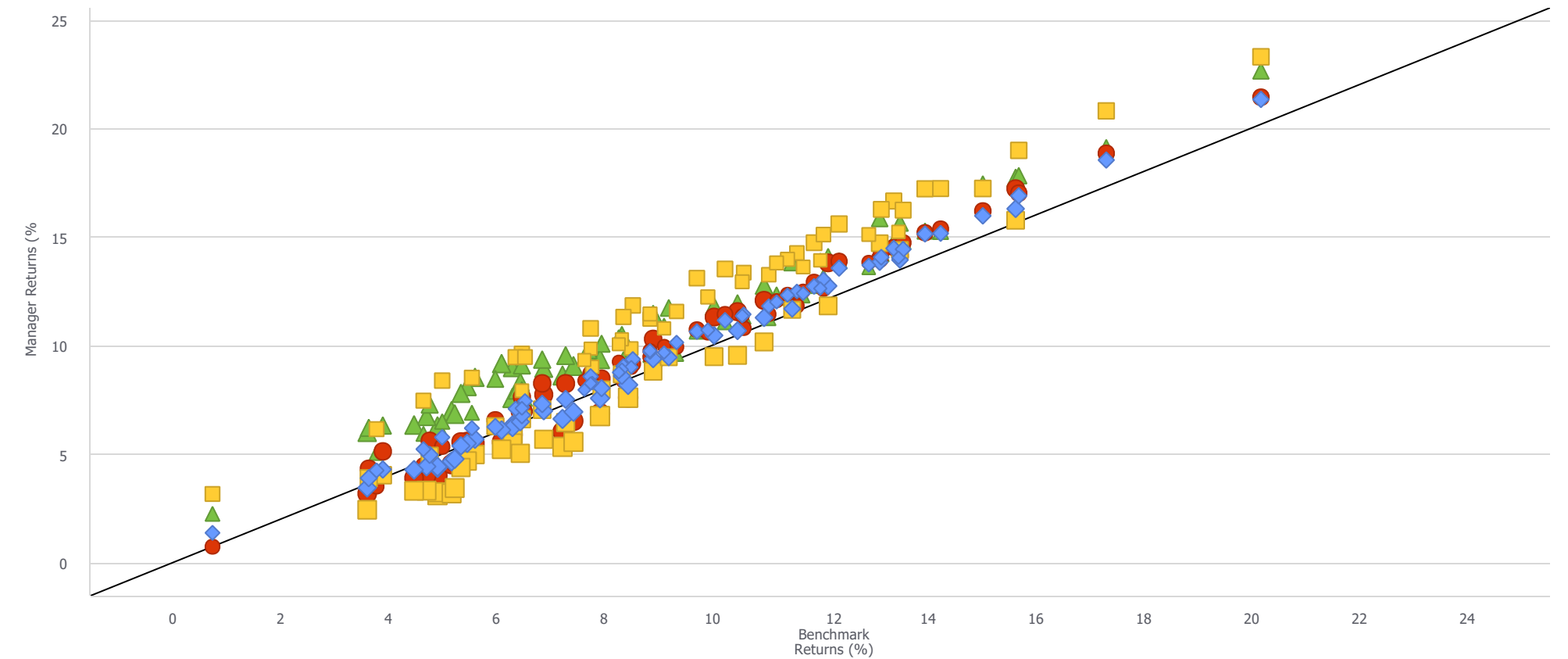
ACERA PE Structure Back Test Results (3/31/15 - 3/31/25)

Growth of \$1,000,000 (Common Time Period)



Firm Name	Returns (%)	Cumulative Returns (%)	Info Ratio	Tracking Error (%)
ACERA PE (Current)	8.85	133.46	0.43	0.69
ACERA PE (Option 1)	9.42	146.03	0.48	1.79
ACERA PE (Option 2)	8.82	132.96	0.21	1.29
ACERA PE (Option 3)	10.26	165.63	0.84	2.05
MSCI Index	8.55	127.17	---	0.00

Manager Consistency (Rolling 3Yr)



	# of Observations	# OutPerform Benchmark	% OutPerform Benchmark
◆ ACERA PE (Current)	85	71	83.5%
■ ACERA PE (Option 1)	85	60	70.6%
● ACERA PE (Option 2)	85	65	76.5%
▲ ACERA PE (Option 3)	85	85	100.0%
--- MSCI ACWI IMI-ND	---	---	---

MSCI ACWI IMI-ND



PUBLIC EQUITY REVIEW

ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

JUNE 2025



PORTFOLIO CONSTRUCTION SUMMARY

Fund	Current	Option 1	Option 2	Option 3	Option 4
ACM Value Equity	3.25%	20.00%	---	---	---
TCW Concentrated Core Equities	3.25%	20.00%	---	---	---
Kennedy Extended Small Cap	3.25%	3.25%	3.25%	3.25%	3.25%
William Blair Small Cap Growth	3.25%	3.25%	3.25%	3.25%	3.25%
Bivium Developed Non-US Equity	5.00%	10.00%	5.00%	---	---
Capital Group International Equity	5.00%	10.00%	---	---	---
Templeton International Small Cap Equity	3.50%	3.50%	3.50%	3.50%	3.50%
ARGA Emerging Markets Equity Strategy	5.00%	5.00%	5.00%	5.00%	5.00%
William Blair Emerging Markets Growth	5.00%	5.00%	5.00%	5.00%	5.00%
Aristotle Global Equity	---	---	15.00%	---	---
Bivium All Cap	---	---	10.00%	---	---
Capital Group New Perspective	---	---	15.00%	---	---
TCW Global Relative Value Dividend Appreciation	---	---	15.00%	---	---
MSCI World Index Fund	63.50%	20.00%	20.00%	20.00%	20.00%
Acadian Global Developed Equity Extension	---	---	---	20.00%	---
Artisan Global Opportunities	---	---	---	20.00%	---
Independent Franchise Partners Global Franchise	---	---	---	20.00%	---
NEPC FPL Global Equity Composite Proxy	---	---	---	---	60.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

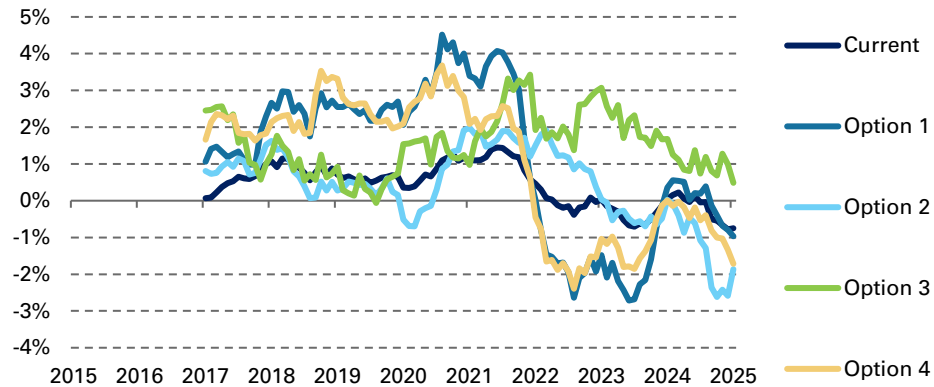
	Current	Option 1	Option 2	Option 3	Option 4
Total Risk and Return					
Annualized Return	8.6%	9.2%	8.6%	10.0%	9.3%
Annualized Standard Deviation	15.1%	15.5%	15.1%	14.4%	15.0%
Sharpe Ratio	0.44	0.47	0.44	0.56	0.49
Active Risk and Return					
Simple Excess Return	0.1%	0.6%	0.1%	1.4%	0.7%
Realized Alpha	0.0%	0.5%	0.0%	1.6%	0.8%
Beta	1.00	1.02	1.00	0.96	0.99
Tracking Error	0.7%	1.8%	1.3%	1.9%	1.6%
Diversification Ratio	5.35	3.38	3.88	3.11	2.51
Information Ratio	0.02	0.28	0.02	0.82	0.50
Style and Size Regression					
Style	Core	Core-Growth	Core	Core	Core-Growth
Size	Large-Cap	Large/Mid-Cap	Large/Mid-Cap	Large-Cap	Large/Mid-Cap
Return Decomposition					
Upside Market Capture	101.2%	104.7%	100.5%	100.7%	101.8%
Downside Market Capture	100.7%	101.7%	100.0%	94.2%	98.5%
Upside Alpha	0.2%	0.9%	0.1%	1.5%	0.9%
Downside Alpha	-0.3%	-0.2%	0.0%	1.4%	0.4%

Performance period: 03/31/2015 – 03/31/2025 for all managers. Benchmark: MSCI ACWI IMI (Net). Portfolio metrics calculated by combining fund statistics at specified weights. All performance is net of fees and sourced from eVestment composites. Realized Alpha represents Jensen's alpha, which measures a fund's excess return over its benchmark, adjusted for beta and the risk-free rate, to evaluate risk-adjusted performance. Diversification Ratio defined as: $\sum(\text{Fund Active Risk} * \text{Fund Weight}) / (\text{Total Portfolio Active Risk})$. Higher numbers represent greater diversification. Information Ratio defined as: Realized Alpha/Tracking Error. "NEPC FPL Global Equity Composite Proxy" represents an equal weight performance composite of all managers on the NEPC Global Equity FPL.

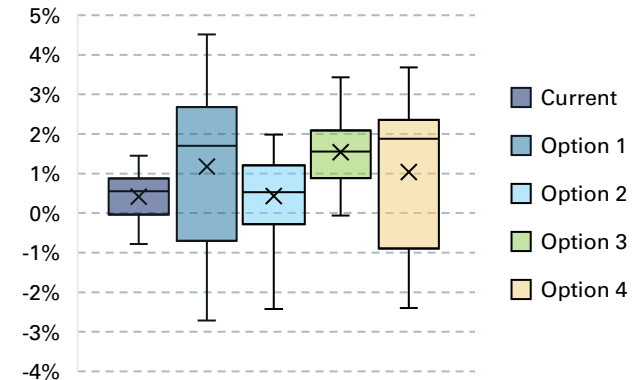
MIX COMPARISON: RISK/RETURN

CURRENT VS NEW MIXES

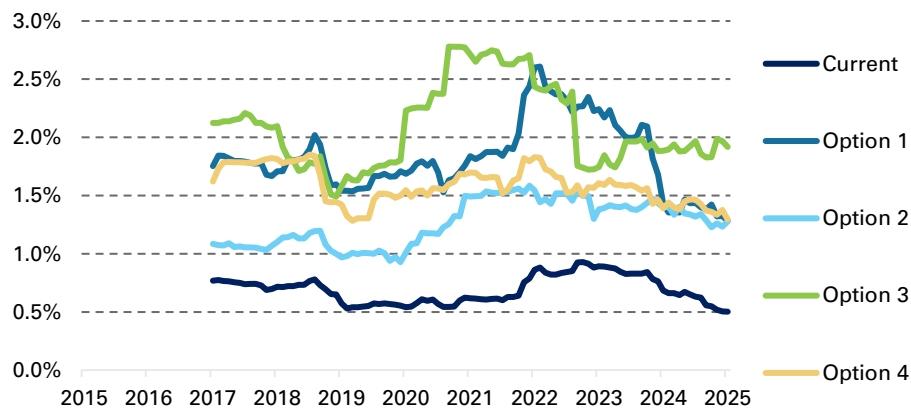
Rolling Excess Returns (2-Year)



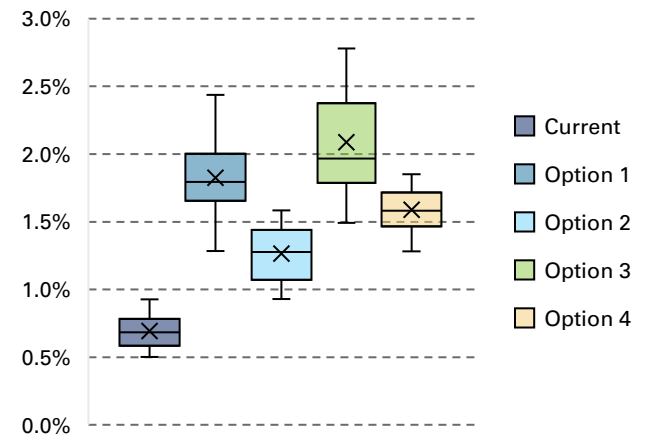
Rolling Excess Returns (2-Year) Dispersion



Rolling Tracking Error (2-Year)



Rolling Tracking Error (2-Year) Dispersion



DISCLAIMERS & DISCLOSURES

- Past performance is no guarantee of future results.
- Returns for pooled funds, e.g. mutual funds and collective investment trusts, are collected from third parties; they are not calculated by NEPC. Returns for separate accounts, with some exceptions, are calculated by NEPC. Returns are reported net of manager fees unless otherwise noted.
- A “since inception” return, if reported, begins with the first full month after funding, although actual inception dates (e.g. the middle of a month) and the timing of cash flows are taken into account in Composite return calculations.
- NEPC’s preferred data source is the plan’s custodian bank or record-keeper. If accurate data cannot be obtained, manager data may be used. Information on market indices and security characteristics is received from additional providers. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within. In addition, some index returns displayed in this report or used in calculation of a policy index, allocation index or other custom benchmark may be preliminary and subject to change.
- All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.
- The opinions presented herein represent the good faith views of NEPC as of the date of this presentation. Fund performance or rankings contained in this report should not be considered a recommendation by NEPC.



TO: Members of the Investment Committee
FROM: Clint Kuboyama, Senior Investment Officer *Clint Kuboyama*
DATE: July 2, 2025
SUBJECT: Review of the Absolute Return Policy

Recommendation:

N/A – This is an Information Item.

Background:

Since the July 2024 adoption of the “Mix C” asset allocation for the Total Fund, the Investment Committee (“IC”) has been reviewing and approving updates to the investment policies of the private markets asset classes (i.e., Private Credit, Private Equity, Real Assets). The changes to these policies have primarily been related to the implementation of the “Mix C” asset allocation and the synching up of the language and content of the investment policies across the private asset classes.

The review and approval process conducted for these investment policy changes have been a two-step endeavor. First, Staff and NEPC have brought our proposed policy changes to the IC for review and discussion as an information item. Next, following the discussion with the IC that occurs when the changes are presented as an information item, Staff and NEPC have brought back the final proposed policy changes as an action item for approvals by the IC and Board.

This information item is the first step in the IC’s review of the proposed changes to the Absolute Return (“AR”) Policy. The major proposed changes to the AR Policy are described below and reflected in a redline of the existing AR Policy provided as “Attachment #1” to this memo.

Discussion/Proposed AR Policy Changes Highlights:

Change in Benchmark: Staff and NEPC are proposing to change the AR asset class benchmark from the HFRI Fund of Funds Composite Index to the HFRI Fund of Funds Conservative Index. The AR Portfolio was designed to beat the HFRI Fund of Funds Composite Index return with a higher Sharpe Ratio (i.e., more return relative to risk/volatility) and less beta and correlation to the equity markets (i.e., MSCI ACWI IMI Index). The 3-year performance characteristics of the AR Portfolio versus the two benchmarks are shown in Table 1 below:

Table 1: Estimated 3-Year Return Characteristics of ACERA's AR Portfolio Versus HFRI Fund of Funds Conservative ("HFRI FOF Conservative") and Composite ("HFRI FOF Composite") Indexes (as of 12/31/24)			
	ACERA AR Portfolio*	HFRI FOF Conservative	HFRI FOF Composite
Correlation to MSCI ACWI IMI	-0.4	0.6	0.8
Beta to MSCI ACWI IMI	-0.1	0.1	0.2
3-Year Annualized Net Return	8.0%	4.0%	3.1%
*Correlation and Beta calculations exclude Blue Owl GP Stakes II (4.1% of the AR Portfolio) because this investment reports results on a quarterly basis unlike the other investments, which report on a monthly basis. Monthly returns were used for these calculations.			

The AR Portfolio has been successful in meeting its goals per its design. However, the proposed change in the AR asset class benchmark reflects a desire to have a benchmark with less correlation with and beta to the equity markets than the existing benchmark (HFRI Fund of Funds Composite Index). By changing the benchmark to the HFRI Fund of Funds Conservative Index, the new benchmark would be more closely aligned with the AR Portfolio's characteristics and would be a little more challenging to outperform. Accordingly, the related changes in the AR Policy redline are shown in Sections IV ("TYPES OF ABSOLUTE RETURN INVESTMENTS"), V ("STRATEGIC OBJECTIVE OF ABSOLUTE RETURN STRATEGIES"), VII ("SPECIFIC GUIDELINES FOR ABSOLUTE RETURN PORTFOLIO"), and X ("SPECIFIC PERFORMANCE EVALUATION CRITERIA"), as well as in Appendix III ("Compliance Checklist Template for Absolute Return Investment Selection").

Change in AR Asset Class Target Weighting and Weighting Ranges: Per the "Mix C" Total Fund asset allocation adopted by the Board in July 2024, the target weighting to the AR asset class has been lowered from 8% to 6%. As a result, this change is reflected across the AR Policy redline. We are also proposing a change to the range of the acceptable market-value weighting of the AR asset class in the Total Fund. Within the existing AR Policy, the target weighting of the AR asset class is 8% with a range of 4% - 10%. We are proposing a target weighting range of +/- 3% from the 6% target weighting (i.e., 3% - 9%). This range would allow sufficient flexibility for overweights to the asset class (as of 12/31/24, its weight was 8.3% of the Total Fund). It would also allow for sufficient underweights to it, particularly if, due to underperformance or any other reason, one of the fund of hedge funds investments (40% asset-class target weighting) was divested from while a replacement was searched for, leaving the AR asset class temporarily well below its target weighting. Within the AR Policy redline, the related proposed changes are found in Section VI ("STRATEGIC ALLOCATION TO ABSOLUTE RETURN PORTFOLIO") and Appendix III ("Compliance Checklist Template for Absolute Return Investment Selection").

Delegated Authority: In the existing Sections VIII-B ("ROLES AND RESPONSIBILITIES-Investment Committee") and VIII-C ("ROLES AND RESPONSIBILITIES-Staff"), the language related to the size of investments that can be made under delegated authority has two, size-limit measures with the lesser measurement ultimately establishing the limit. For example, for new proposed AR investments, an investment commitment can be "up to 5% of the target allocation to the total AR Portfolio or \$25 million (whichever is lesser)." For re-ups with existing managers in good standing, the delegated-authority language in the existing AR Policy states that, "an individual commitment in addition to the existing commitments, up to 10% of the target allocation to the total AR Portfolio or \$50 million (whichever is lesser)."

Staff and NEPC are proposing to eliminate the static limits (i.e., \$25 million for new proposed investments and \$50 million for total commitments for re-ups with existing managers), along with the "whichever is lesser" language such that the delegated authority limits will be 5% and 10% of the target allocation to the AR Portfolio for new investments and total commitments for re-ups with existing managers in good standing, respectively. These proposed changes would allow for the delegated authority limits to move with the Total Fund's (and therefore the asset class's) value. Moreover, having these more flexible, percentage-based, delegated authority limits would also align the language with the delegated authority language in the recently updated Private Credit, Private Equity, and Real Assets Policies. Based on the Total Fund's 12/31/24 value of \$12.01 billion, the 5% and 10% delegated authority limits for new commitments and aggregate commitments with existing managers would equate to \$36 million and \$72 million, respectively. The proposed changes can be found in Sections VIII-B and VIII-C of the redlined AR Policy.

Continuation Funds Related to Existing Funds: The offering of continuation funds related to private funds that are late in their fund life is increasing. In these situations, the investment manager or general partner managing a private fund that is getting close to the end of the fund's term offers limited partners in the private fund the option to: 1) receive liquidity (cash), usually immediately and at a discount to net asset value, for its interest in the fund; 2) roll its interest in the fund into a continuation fund that extends the runway for investment realizations for several years and typically under attractive management-fee and carried-interest terms; or 3) a combination of options #1

and #2. These continuation vehicles can involve transferring into the continuation fund a single asset in the existing fund's portfolio or a fund's entire portfolio. Investors can have a very short timeline (i.e., 10-20 business days) to make a decision. Because of this truncated timeline, it is likely that there won't be enough time to complete investment and legal diligences on the continuation vehicle (and liquidity option) along a timeline that would accommodate IC and Board meetings before a decision is due.

Continuation funds are less likely to occur in the AR asset class versus ACERA's other private asset classes because each of the existing AR investments are in perpetual vehicles. However, proposed language in the AR Policy is added to provide Staff with the authority to make the decision on continuation vehicles related to existing investments if they arise, provided the decision is in-line with the Consultant's recommendation and following sufficient due diligence by Staff and Consultant. Adding this proposed language also synchs up the delegated authority language of the AR Policy with the recently updated Private Credit, Private Equity, and Real Assets Policies. Accordingly, Sections VIII-C ("ROLES AND RESPONSIBILITIES-Staff") and Section VIII-D ("ROLES AND RESPONSIBILITIES-Consultant") have been updated to include proposed delegated-authority language related to continuation vehicles associated with existing funds.

Next Steps:

Following the IC's feedback on the above proposed changes, Staff and NEPC will integrate the feedback into an updated AR Policy redline. We will then bring the finalized proposed changes to the AR Policy back to the IC at the August 6, 2025 IC meeting as an action item. This action item will seek the IC's recommendation to the Board to approve the finalized proposed changes to the AR Policy at the August 21, 2025 Board meeting.

Attachment:

#1 Redlined ACERA Absolute Return Policy, prepared by Staff and NEPC

**Alameda County Employees'
Retirement Association**

ACERA

ABSOLUTE RETURN POLICY

Amended TBD~~July 15, 2021~~

ACERA ABSOLUTE RETURN POLICY

TABLE OF CONTENTS

I.	SCOPE	3
II.	PURPOSE	3
III.	LEGAL AUTHORITY	3
IV.	TYPES OF ABSOLUTE RETURN INVESTMENTS	3
V.	STRATEGIC OBJECTIVE OF ABSOLUTE RETURN STRATEGIES	4
VI.	STRATEGIC ALLOCATIONS TO ABSOLUTE RETURN PORTFOLIO	4
VII.	SPECIFIC GUIDELINES FOR ABSOLUTE RETURN PORTFOLIO	5
VIII.	ROLES AND RESPONSIBILITIES	6
IX.	DUE DILIGENCE PROCESS: ABSOLUTE RETURN INVESTMENT SELECTION	9
X.	SPECIFIC PERFORMANCE EVALUATION CRITERIA	10
XI.	MONITORING AND REPORTING	10
XII.	ABSOLUTE RETURN INVESTMENT INFORMATION DISCLOSURE POLICY	10
XIII.	TABLE OF AMENDMENT DATES	11
	Appendix I – List of Reports Required for Each Investment Recommendation/Approval	12
	Appendix II – Executive Summary Report Template	13
	Appendix III – Compliance Checklist Template for Absolute Return Investment Selection	14
	Appendix IV – Details of Disclosure Policy For Absolute Return Investments (“AR Funds”)	17

I. SCOPE

This Absolute Return Policy (“AR Policy”) governs all investments in the Absolute Return asset class made by Alameda County Employees’ Retirement Association (“ACERA”).¹ The investments governed under this AR Policy ~~were previously governed by the PEARLS Policy which was established on September 18, 2008, and~~ are subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures². If there is any conflict between this AR Policy and ACERA’s General Investment Guidelines, Policies and Procedures pertaining to investments in the Absolute Return Asset Class, ~~this~~ AR Policy ~~controls~~ prevails. The ACERA Board (“Board”) reserves the right to amend, supplement, or rescind this AR Policy at any time.

II. PURPOSE

The purpose of this AR Policy is to 1) set forth the Absolute Return policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which Absolute Return investment opportunities are to be measured; and 3) ~~serve as a review document to provide guidance for~~ the ongoing oversight of ACERA’s Absolute Return Portfolio (“AR Portfolio”) ~~on a consistent basis~~. The AR Policy also defines ~~the~~ roles and responsibilities of the Board, the ACERA Investment Committee (“Investment Committee”), the ACERA Staff (“Staff”), the ACERA Absolute Return Consultant (“Consultant”), and the Absolute Return Investment Managers hired by ACERA to manage its assets (“Investment Managers”).

It is expected that this AR Policy will be a living document and that changes will be made from time-to-time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

III. LEGAL AUTHORITY

This AR Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the ACERA Trust Fund (“Fund”).

IV. TYPES OF ABSOLUTE RETURN INVESTMENTS

For ~~purpose of~~ this AR Policy, Absolute Return strategies are defined as non-traditional investments which are intended to generate a return stream that has a low correlation to equity markets. ~~Such~~ These investments are generally expected to have a correlation to the equity markets at a level of 0.5 or less, and are expected to provide downside protection in falling equity markets. Further, these investments in aggregate should not have a correlation to the equity markets that exceeds the

¹ See ACERA’s Private Equity Investment Policy, Real Estate Policy, Private Credit Policy, and Real Assets Policy for investments in other asset classes.

² Absolute Return investments were governed by the PEARLS Policy from the establishment of the PEARLS Policy on September 18, 2008 until the Absolute Return Policy was instituted on September 21, 2017.

HFRI³ Fund of Funds ~~Conservative~~~~Composite~~ Index.⁴ Eligible Absolute Return investments include fund of hedge funds⁵; and other alternatives/opportunistic strategies. These investments are privately placed investments.

ACERA may consider investing in these assets if, and only if, the vehicles meet all standards ~~set forth in this~~ ~~pursuant to the~~ AR Policy. Absolute Return investments may be denominated in U.S. dollars or other currencies.

V. STRATEGIC OBJECTIVE OF ABSOLUTE RETURN STRATEGIES

The Board believes the Fund's overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in Absolute Return strategies. The strategic objective of such investments is to: 1) generate superior returns commensurate with risk taken using strategies that have a low correlation to the equity markets; 2) enhance ACERA's long-term, risk-adjusted return and provide additional diversification to ACERA's overall investment Fund; and, 3) generate total AR Portfolio returns at or above the HFRI Fund of Funds ~~Conservative~~~~Composite~~ Index (net of all fees and expenses).

VI. STRATEGIC ALLOCATION TO ABSOLUTE RETURN PORTFOLIO

The long-term target allocation to the AR Portfolio, as measured by the Net Asset Value of the portfolio and not by dollars committed to the underlying Investment managers or funds, is ~~68%~~ of the Total Fund. The allocation to the AR ~~P~~portfolio can range from ~~34.0%~~ to ~~940.0%~~, with exposure to the sub-asset classes as follows:

Portfolio	Long-Term Target Allocations	Min./Max. Ranges
Absolute Return Portfolio	68.0%	34.0% to 940.0%
- Fund of Hedge Funds	80%	50% to 100%
- Other Alternatives/ Opportunistic	20%	0% to 50%
Total	68.0%	34.0% to 940.0%

³ HFRI stands for Hedge Fund Research, Inc.

⁴ Fund of (Hedge) Funds invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of (Hedge) Funds manager has discretion ~~to choose in choosing in which the investment~~ strategies ~~to invest~~ for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or ~~to with~~ numerous managers in multiple strategies. The minimum investment in a Fund of (Hedge) Funds may be lower than an investment in an individual hedge fund or managed account. ~~Using a Fund of (Hedge) Funds strategy, an The investor can has the advantage of establish~~ diversification among managers and styles with significantly less capital than ~~in direct investments investing~~ with separate managers. ~~Source is: www.hedgefundresearch.com/hfri-indices-index-descriptions~~

⁵ Structures customized to ACERA's objectives, such as custom fund of hedge funds (aka hedge fund of ones), are preferred all else being equal.

Portfolio construction will be designed to produce a diversified mix of total returns, subject to the guidelines and constraints outlined under each sub-category [in Section VII](#) below. As with any investment, invested capital may incur losses of all or part of the capital invested, [however](#), it is expected that a diversified AR Portfolio will produce a positive return commensurate with risks taken through the harnessing of return sources that are generally uncorrelated to the equity markets over the long term (typically full market cycle). Risks associated with this Portfolio include, but are not limited to, leverage, shorting, frequent trading, lack of transparency, and lower liquidity compared to long-only investments in public markets. The risks associated with the AR Portfolio will be viewed within the context of the entire Fund. ACERA may take on over- and under-weights to sub-asset classes within the AR Portfolio to improve its risk/return posture based upon an assessment of the relative attractiveness of all available opportunities.

VII. SPECIFIC GUIDELINES FOR ABSOLUTE RETURN PORTFOLIO

ACERA will gain exposure to Absolute Return investments by hiring external ~~I~~investment ~~M~~managers either directly or through a fund-of-hedge-funds vehicle. [Overall](#), it is expected that the AR Portfolio will produce returns approximately equal to or greater than the HFRI Fund of Funds ~~Conservative Composite~~ Index over a market cycle, net of all fees and expenses. It is furthermore expected that the pattern of the returns generated across the AR Portfolio will provide additional diversification, i.e., exhibit a low correlation to the equity markets, the Private Equity Portfolio and the rest of the ACERA investment portfolio.

At the AR Portfolio level, the maximum that can be invested in an individual strategy (fund) is 25% of the target allocation to the AR Portfolio, and the maximum that can be invested with a given manager is 50% of the target allocation to the AR ~~P~~portfolio. Descriptions of subcategories of the AR Portfolio and their guideline constraints are listed below:

1. Fund-of-Hedge-Funds (FOHF) Strategies

Description: Investment in a diversified portfolio of hedge funds, with oversight and asset allocation determined by a [FOHF fund-of-hedge-funds](#) manager. The focus of this AR Policy's FOHF strategies is on maximizing alpha across different asset classes and investment strategies. These portfolios are not typically constrained to an individual asset class, but are intended to augment total return to the ~~Fundplan~~ by utilizing proprietary strategies. These may include, but are not limited to: long/short equity, event driven, convertible arbitrage, equity market neutral, fixed income arbitrage, macro, and other hedge fund strategies. ACERA's AR Portfolio will utilize [FOHF investments fund of hedge funds](#) whose fees are better aligned with investor interests (lower fee options).

Investment Constraints: Individual FOHF investments have a target allocation of 40% of the ~~target value of the~~ AR Portfolio [value](#) but can range in size between 10% and 50%.

2. Other Alternative Investments/Opportunistic

Description: Other Alternative Investments/Opportunistic include a wide range of innovative, uncorrelated, and/or non-traditional investments that generally fall outside of ACERA's ~~other previously identified~~ asset classes (i.e. ~~global domestic~~ equities, ~~private equity, international equities,~~ fixed income, ~~private credit,~~ real estate, real assets, and cash). The unique attributes of these investments should contribute to the achievement of the overall return and diversification objectives of the AR Portfolio. Because the AR Portfolio is intended to respond opportunistically to attractive prospects as they arise, not all potential investments can be identified at present. The investment categories of Other Alternative Investments/Opportunistic include, but are not limited to, currency, interests in equity or revenues of ~~I~~investment ~~M~~managers, and other "best ideas" uncorrelated approaches, etc.

Investment Constraints: Investment constraints are subject to the specific investment selected. Maximum strategy/manager positions are targeted to be smaller than for fund-of-hedge-funds strategies within the AR Portfolio, but can individually range up to 25% of the target value of the AR Portfolio.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's AR Portfolio. The duties and responsibilities of the Board, Investment Committee, Staff, Consultant, and Investment Managers are stated below:

A. Board

The Board shall be responsible for approving the AR Policy that governs the AR Portfolio and for approving the investment plans of ACERA's AR Portfolio. The Board, with input from the Investment Committee, shall review this AR Policy to determine whether amendments are necessary. The Board shall also be responsible for reviewing and approving all AR investments with individual commitments exceeding Staff's delegated authority as described in subparagraph C below.

B. Investment Committee

The Investment Committee shall be responsible for the following:

1. Establishing the AR Policy to govern all investments in the Absolute Return asset class;
2. Reviewing the AR Policy, evaluating proposals for the AR Policy amendments, if any, and making recommendations for approval by the Board;
3. Reviewing and approving the investment plan of ACERA's ~~AR Portfolio every 1 to 3~~ years;
4. Reviewing Absolute Return investments recommended by Staff and/or Consultant and making recommendations to the Board for adoption; and
5. Delegation⁶:

⁶ Investment manager may not appear before the Investment Committee in circumstance when Staff has exercised its delegated authority.

- a. Delegating to Staff the authority to make final decisions on new proposed Absolute Return investments with an individual commitment up to 5% of the target allocation to the total AR Portfolio ~~or \$25 million (whichever is lesser)~~.
- b. Delegating to Staff the authority to make final decisions on proposed “re-up” Absolute Return investments with existing managers in good standing, ~~on~~ an individual commitments in addition to the existing commitments within AR Portfolio, up to 10% of the target allocation to the total AR Portfolio, ~~or \$50 million (whichever is lesser)~~.

C. Staff

Staff shall be responsible for oversight and administration of ACERA’s AR Portfolio. Staff’s responsibilities shall include, but not be limited to, the following:

1. Developing and recommending ~~all~~ necessary changes to the AR Policy, with input from Consultant;
2. Developing and maintaining ~~any specific~~ procedures needed, ~~if necessary~~, to comply with the ~~approved~~ AR Policy, with input from Consultant;
3. Developing ~~the~~ investment plans ~~for~~ ACERA’s AR Portfolio and submitting making recommendations such planst to the Investment Committee for adoption, with recommendations and input from Consultant;
4. Delegation⁷:
 - a. Approving Consultant’s Absolute Return investment proposals (new proposals) with each individual commitment up to 5% of the target allocation to the total AR Portfolio ~~or \$25 million (whichever is lesser)~~ upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee ~~all~~ required reports (please see Appendices I through III).
 - b. Approving Consultant’s Absolute Return investment proposals for “re-ups” with existing managers with each individual commitment in addition to the existing commitments within the AR Portfolio, up to 10% of the target allocation to the total AR Portfolio ~~or \$50 million (whichever is lesser)~~ to ~~M~~managers in good standing⁸ upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices I through III).
 - c. When the investment manager or general partner of existing investment vehicles offer related continuation vehicles (aka “continuation funds”), following a thorough evaluation of the investment options related to the continuation vehicle (i.e., subscribing to the continuation vehicle, receiving liquidity, or, in some cases, both), and in alignment with Consultant’s recommendation, approving of investment in continuation vehicles or other related options such as receiving liquidity (i.e., receiving cash proceeds for the investments that are to be transferred into the continuation vehicle);

⁷ Investment manager may not appear before the Investment Committee in circumstances when Staff has exercised its delegated authority

⁸ An investment manager will may be considered to be in good standing if there is sufficient comfort with factors including, but not limited to, its organization, strategy, performance, and compliance.

- ~~b.~~
5. Through the Investment Products and Services Introduction (IPSI) program of ACERA, and with the concurrence of the Consultant, recommend highly qualified AR investments to the Investment Committee or approve investments under delegated authority upon completion of a thorough ~~review and the~~ due diligence process and the requisite reporting, and providing the required reports listed in the Appendix I of this AR Policy to Staff and/or the Investment Committee. (Please see Appendices I through III);
 6. Monitoring the AR Portfolio for performance and compliance with the AR Policy;
 7. Monitoring the performance of the underlying Investment Managers and their compliance with a) the investment guidelines as set forth in their respective contracts; b) this AR Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
 8. Conducting comprehensive reviews of ACERA's ~~AR~~ Portfolio and the individual investments in the Portfolio;
 9. Reporting to the Investment Committee any violations of the AR Policy with appropriate recommendations;
 10. Assisting ACERA's legal department in contract negotiations with the selected Investment Managers;
 11. Evaluating Absolute Return investment opportunities, with Consultant's input, on an on-going basis; and
 12. Evaluating and making recommendations for retention, additions to, and termination of Investment Managers.

D. Consultant

The Consultant hired by the Board is a fiduciary to ACERA and its Board. Consultant shall independently and continuously monitor and analyze the performance of ACERA's AR Portfolio and make related recommendations to serve the best interests of the ~~Fundplan participants.~~ Consultant shall assist Staff in developing the AR Policy and recommending all necessary changes to the AR Policy. In addition, Consultant shall be responsible for:

1. Analyzing the asset allocation of the ~~AR~~ Portfolio by type, implementation vehicle, and underlying strategies, and making recommendations for reallocation of assets, as appropriate;
2. Developing an investment plan for ACERA's AR Portfolio every 1 to 3 years;
3. Developing a search strategy for highly qualified Absolute Return investments and maintaining a robust database containing information on Investment Managers;
4. Recommending highly qualified Absolute Return fund investments to Staff and/or the Investment Committee upon completion of a thorough due diligence process and providing the required reports listed in the Appendix I of this ~~AR~~ Policy to Staff and/or the Investment Committee;
5. When continuation vehicles are offered related to existing investment vehicles, and following a thorough evaluation of the related investment options, recommending to Staff which investment option is most suitable for the AR Portfolio;
- ~~4.~~
- 5.6. Ongoing monitoring of the investment performance of ACERA's ~~AR~~ Portfolio and individual investments in the AR Portfolio;

- 6.7. Conducting ongoing due diligence on Investment Managers, notifying ACERA of any significant developments and adverse events and providing analysis and advice on such issues;
- 7.8. Ongoing monitoring of Investment Managers' compliance with a) their respective investment guidelines as set forth in their contract; b) this -AR Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
- 8.9. Assisting Staff in contract negotiations with the selected Investment Managers, as needed;
- 9.10. Submitting performance evaluation reports and conducting comprehensive reviews of the AR Portfolio ~~and individual Investment Managers~~ semi-annually with the Investment Committee and on individual Investment Managers, and when appropriate, quarterly to the Investment Committee;
- 10.11. Making recommendations for retention or termination of Investment Managers;
- 11.12. Attending Investment Committee and Board meetings as needed; and
- 12.13. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

E. Investment Managers

Investment Managers are fiduciaries and shall prudently manage ACERA's assets in the best interests of ACERA and its members. Investment Managers shall abide by all applicable policies and procedures established by ACERA and fully comply with applicable law. Investment Managers shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) this AR Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. Investment Managers shall be responsible for all aspects of portfolio management as set forth in their respective contracts with ACERA. They shall also:

- 1. Communicate with Staff and/or Consultant promptly regarding investment strategy, investment results, and any non-conforming issues that may have significant and/or negative impact on the portfolio;
- 2. Cooperate fully with Staff, Consultant, ACERA's custodian, and other ACERA vendors concerning requests for information;
- 3. Submit reports to Staff and Consultant in accordance with their contract terms; and
- 4. Attend meetings as needed.

IX. DUE DILIGENCE PROCESS: ABSOLUTE RETURN INVESTMENT SELECTION

ACERA recognizes that a proper due diligence process is essential to control the risks associated with AR investments and, therefore, hereby establishes the following due diligence processes for both its Consultant and Staff:

A. Consultant

Consultant shall conduct extensive, documented due diligence before making any Absolute Return investment recommendations to Staff and the Investment Committee. Consultant shall work closely with ~~involve~~ Staff in the due diligence process, as need~~ed~~ecessary. For those

investments recommended to be included in the ACERA AR Portfolio, ~~When appropriate,~~
Consultant's duties shall include, but not be limited to:

1. Assessing the reputation of the individuals who manage the ~~—~~Absolute Return investments, consider background checks, internet searches, and in-person meetings or conference calls with these individuals, etc.;
2. Conducting on-site visits to the offices of the Investment Managers;
3. Checking references ~~when appropriate~~ from other investors that have invested in these Absolute Return investments, and, when advisable, from competitors;
4. ~~Having Determining that~~ the ~~—~~Absolute Return investment funds ~~are~~ audited, at least annually, by a reputable and nationally recognized external independent auditing firm;
5. Reviewing Investment Managers' investment strategies, policies, operating procedures, and historical performance;
6. Analyzing the attribution of historical returns and the main return drivers of each strategy, as well as analyzing the suitability of each investment for ACERA's AR Portfolio.
7. Reviewing and understanding the business terms of all operational documents~~legal agreements~~ and other related documents for the ~~—~~Absolute Return investments under consideration, such as the offering memorandum, operational ~~legal~~ agreements, and Forms ADV;
8. ~~Reviewing the investments for potential exposure to Unrelated Business Taxable Income (UBTI); and~~
9. Assessing what exit strategies exist to liquidate existing investments owing to poor performance or other threat to the investment (e.g. fraud and weak fund accounting procedures). ~~and, if necessary, to avoid future investments in similar funds.~~

B. Staff

Staff shall ensure that Consultant has conducted extensive, documented due diligence on all Absolute Return investment proposals recommended to Staff and the Investment Committee. Staff shall participate in Consultant's due diligence process as ~~when~~ appropriate, shall conduct its own independent due diligence, and shall also be responsible for:

1. Reviewing the comprehensive analysis report prepared by Consultant on its recommended Absolute Return investments;
2. Verifying the compliance of each recommended ~~—~~Absolute Return investment with the AR Policy, the ~~—~~investment plans for ACERA's AR Portfolio and other applicable investment policies;
3. Discussing all issues related to the recommended Absolute Return investments with Consultant and with Investment Managers to gain a thorough understanding of each strategy's primary return drivers, key terms, and investment guidelines, and determine the investment's suitability for ACERA's AR Portfolio;
4. Performing independent due diligence regarding the business, economic, and legal aspects of the proposed AR investment and in accordance with the Executive Summary (Appendix II) and the Compliance Checklist (Appendix III);
5. Completing Appendices II and III of this AR Policy document for each proposal;

6. Conducting an on-site due diligence visit to each manager's headquarters office whenever possible; and
7. Arranging presentations of select investment opportunities to the Investment Committee, as ~~applicable described under Section VIII.C.4.~~

X. SPECIFIC PERFORMANCE EVALUATION CRITERIA

~~When appropriate, the specific performance evaluation criteria, including but not limited to benchmarks, for Investment Managers will be established in the investment agreements between ACERA and individual Investment Managers.~~

Performance of the AR Portfolio, net of all fees and expenses, will be measured against the HFRI Fund of Funds Conservative Index.

XI. MONITORING AND REPORTING

Consultant and Staff will closely monitor and analyze the AR Portfolio so that the strategic objective of the Portfolio can be met.

Investment Managers shall submit all financial reportings to Staff, Consultant, ACERA's custodian, and other ACERA vendors in accordance with their respective contracts.

~~Consultant shall submit all reports to Staff in accordance with its contract terms and the AR Policy.~~

Consultant, in conjunction with Staff, shall perform evaluations of ACERA's AR Portfolio and the underlying Investment Managers semi-annually ~~and, when appropriate, quarterly~~. Consultant shall report the findings to Staff and the Investment Committee. Consultant shall submit monitoring reports to Staff in accordance with its contract terms and the AR Policy.

XII. ABSOLUTE RETURN INVESTMENT INFORMATION DISCLOSURE POLICY

ACERA is a public agency subject to state laws, including, without limitation, (a) the California Public Records Act (Cal. Govt. Code § ~~7920.0006250~~, *et seq.*)(the "Public Records Act"), which provides generally that all records relating to a public agency's business are open to public inspection and copying unless exempted under the Public Records Act, (b) the Ralph M. Brown Act (Cal. Govt. Code § 54950 *et seq.*)(the "Brown Act"), which provides generally for open meetings for local legislative bodies, and (c) the California Government Code Section 7514.7 (the Fee Disclosure Act"~~"Cal. Govt. Code § 7514.7"~~) which provides generally that public pension systems in California obtain and publicly disclose certain information regarding fees, expenses and returns from the alternative investment vehicles in which they invest. (See Appendix IV for details of the ACERA disclosure policy regarding its Absolute Return investments.)

XIII. TABLE OF AMENDMENT DATES

September 21, 2017
July 15, 2021

Appendix I

List of Reports Required for Each Investment Recommendation/Approval

Name of Report	Source
Recommendation/Approval memo	Staff
Recommendation/Approval memo	Consultant
Executive Summary of the Fund	Consultant/*Staff
Compliance Checklist	Staff
Comprehensive Due Diligence Report (available to Trustees upon request)	Consultant
Manager Pitchbook	Investment Manager

***Note: Staff will provide an abbreviated Executive Summary Report that is available for review upon request by the Trustees.**

Appendix II

Executive Summary Report Template

Fund Name

Section I: General Information

Fund Name; Total AUM of the Firm; Total AUM in Strategy; Strategy Vehicles available; Fund Focus; etc.

Section II: Investment Management

Organization Structure; Management Group; Experience; Personnel Turnover; etc.

Section III: Investment Strategy

Investment Philosophy; Investment Strategy; Investment Process; Investment Objective; Key Investment Return Drivers; etc.

Section IV: Risk Management

Risk Control Methodology; Exit Strategy; etc.

Section V: Investment Rationale

Section VI: Investment Concerns

Section VII: Performance (example)

Benchmark:

Net Returns (%):

Periods Ending Date	YTD	1Year	3Years	5Years	Since Inception
Fund					
Benchmark					
Relative Performance: Account – Benchmark					

Section VIII: Key Terms

Fund Terms; Incentive Fees; -Management Fees; Other Fees; Capacity (if relevant); Lock Ups; Redemption Provisions; etc. ~~*List of items to be addressed as appropriate. Data provided by Name as of Date; ICM Date~~

Appendix III

Compliance Checklist Template for Absolute Return Investment Selection

Target allocation to Absolute Return Portfolio: **68.0%** of the total Fund

A. Policy for Absolute Return Portfolio Compliance

Fund Name

In

1. Permissible Legal Structures

Any legally permissible vehicle including, but not limited to, joint ventures, limited partnerships, and limited liability corporations, for strategies eligible in the AR Policy.	<i>Specific legal structure.</i>	<i>Yes, No or N/A</i>
--	----------------------------------	-----------------------

2. Investment Methods

Separate accounts / Commingled funds Fund of hedge funds Other Alternatives/Opportunistic	<i>Specific investment methods.</i>	<i>Yes, No or N/A</i>
---	-------------------------------------	-----------------------

3. Investment Characteristics

Absolute Return Investments may include, but not be limited to, fund of hedge funds, direct hedge funds that meet the AR Policy's criteria, and other alternatives/opportunistic investments.	<i>Specific investment type.</i>	<i>Yes, No or N/A</i>
<u>Fund of Hedge Funds</u> : Investment in a diversified portfolio of hedge funds, with oversight and asset allocation determined by a fund-of-hedge-funds manager. Focus is on maximizing alpha across different asset classes and investment strategies, including but not limited to, long/short equity, event driven, convertible arbitrage, relative value, market neutral, fixed income arbitrage, macro, and other strategies.	<i>Specific investment characteristics.</i>	<i>Yes, No or N/A</i>
<u>Other Alternatives/Opportunistic</u> : a wide range of innovative, uncorrelated and/or non-traditional investments that fall outside of <u>ACERA's other previously identified</u>		

asset classes and contribute to the overall return and diversification of the Alternatives Portfolio. Includes currency, interest in equity and revenue of managers, and other uncorrelated approaches.		
Alternatives may be denominated in U.S. dollars or other currencies.	<i>Specific currency denomination.</i>	<i>Yes, No or N/A</i>

4. Return Expectation

<u>At the AR Portfolio Level, the</u> HFRI Fund of Funds ConservativeComposite Index (net of all fees and expenses) over a market cycle	<i>Specific return target.</i>	<i>Yes, No, or N/A</i>
--	--------------------------------	------------------------

5. Investment Correlation to Equities

Absolute-Return Portfolio: In aggregate, the Alternatives Portfolio is expected to have a return correlation to equities of ≤ 0.5 , on average, and should not have a correlation to equities that exceeds that of the HFRI <u>Fund of Funds ConservativeFOF-Composite</u> Index.	<i>Does the addition of this investment cause the aggregate correlation of the Absolute Return Portfolio to have a return correlation to equities of ≤ 0.5 or a correlation to equities that exceeds that of the HFRI <u>Fund of Funds ConservativeFOF-Composite</u> Index?</i>	<i>Yes, No, or N/A</i>
--	---	------------------------

6. Investment Allocations

Absolute-Return Portfolio: range 34%-910.0% of the total Fund. <u>FOHF</u> : target 80%; range 50%-100%. <u>Other Alternatives/Opportunistic</u> : target 20%; range 0%-50%.	<i>Actual allocations to the Absolute-Return Portfolio and the underlying portfolios including specific commitment to the Investment Manager.</i>	<i>Yes, No, or N/A</i>
--	--	------------------------

7. Investment Constraints

FOHF Investments: Target 40% of the target value of the AR Portfolio; range 10%- 50%.	<i>Specific commitment to the Investment Manager.</i>	<i>Yes, No or N/A</i>
Other Alternative Investments/Opportunistic Investments:		

Maximum 25% of the target value of the AR Portfolio.		
--	--	--

B. Absolute Return Investment Plan for *YEARS*

Approved: *DATE*

Fund Name

In Compliance

Specific Investment Plan	<i>Specific commitment to the Investment Manager.</i>	<i>Yes, No or N/A</i>
--------------------------	---	-----------------------

APPENDIX IV

Details of Disclosure Policy For Absolute Return Investments (“AR Funds”)

1. Upon request, ACERA shall disclose : (i) the name, address and vintage year of each AR Fund; (ii) the dollar amount of capital committed to each AR Fund by ACERA since inception; (iii) the dollar amount of cash contributions made to each AR Fund by ACERA since inception; (iv) the dollar amount of distributions received by ACERA from each AR Fund on a fiscal yearend basis; (v) the market value of ACERA’s investment in each AR Fund on a fiscal yearend basis; (vi) each AR Fund’s net internal rate of return (“IRR”) since inception; (vii) the investment multiple of each AR Fund since inception; (viii) the dollar amount of total management fees and expenses paid on an annual fiscal yearend basis, by ACERA to each AR Fund; and (ix) the dollar amount of cash profit received by ACERA from the AR Fund on a fiscal yearend basis. (*See* Cal. Govt. Code § 7928.710(c)~~6254.26(b)~~.)

2. ACERA shall disclose at least once annually in a report presented at a meeting open to the public : (i) the fees and expenses that ACERA pays directly to the AR Fund, the AR Fund manager or related parties; (ii) ACERA’s pro rata share of fees and expenses not included in (i) that are paid from the AR Fund to the AR Fund manager or related parties; (iii) ACERA’s pro rata share of carried interest distributed by the AR Fund to the AR Fund manager or related parties; (iv) ACERA’s pro rata share of aggregate fees and expenses paid by all of the portfolio companies held by the AR Fund to the AR Fund manager or related parties; (v) the information outlined in Section 1, above, and (vi) the gross and net IRR of the AR Fund, since inception. (*See* Cal. Govt. Code § 7514.7.)

All other records regarding such Absolute Return investments shall be exempt from disclosure to the fullest extent permitted under applicable law.

Notwithstanding the preceding, or anything else in this Policy, ACERA reserves the right to withhold any record when “on the facts of the particular case the public interest served by not disclosing the record clearly outweighs the public interest served by disclosure of the record.” (*See* Cal. Govt. Code § 7922.000~~6255(a)~~.) This weighing process contemplates a case-by-case balancing test between competing public interests based on the facts presented as the statute has been interpreted by the courts.⁹

⁹ *Michaelis, Montanari & Johnson v Superior Court*, 38 Cal.4th 1065, 1071 (2006).