



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: July 8, 2015
To: Members of the Board of Retirement
From: George Wood – Chair
Subject: Summary of the July 8, 2015 Investment Committee Meeting

The Investment Committee met on Wednesday, July 8, 2015 at 9:34 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, Donald White, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Interim Chief Executive Officer, Joseph Fletcher – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

ACTION ITEM

1. Review and Discussion of ACERA's Portfolio Asset Allocation, and Possible Motion to Recommend to the Board to Adopt the Amended Target Asset Allocation for ACERA
 - Representatives from Strategic Investment Solutions (SIS), ACERA's general investment consultant, provided an overview of the Fund's current and proposed asset allocation and highlighted the return and risk expectations going forward, as well as, the statistical correlation among the asset classes. SIS explained that Risk represented the standard deviation of returns, and that it was recommending "taking off" Equity risk and distributing it among the Private Equity and Alternatives Return Leading Strategies (PEARLS), Real Return Pool, and Real Estate asset classes. The Investment Committee was provided a chart giving the historical target asset allocations annually since 2007.
 - No action was taken. The Committee asked SIS to provide several alternative asset allocation target mixes for its consideration before it decided to amend the existing asset allocation targets for the Fund. The Chair invited the Committee members to provide feedback on SIS's proposed Asset Allocation Targets which he will share with SIS and Staff for additional review before the next Committee meeting.

INFORMATION ITEMS

1. Semi – Annual Performance Review for the Period Ending December 31, 2014 – PEARLS
 - As of December 31, 2014, the PEARLS program had a total market value of \$613.4 million, with \$376.9 million in Private Equity and \$236.5 million in Alternatives. With a weighted average investment age of 2.3 years, the PEARLS portfolio has produced a +12.7% IRR since inception, including all inactive funds. The PEARLS portfolio component funds are now mature enough for the IRR metric to reflect a meaningful measure of performance although we note that investments in Private Equity typically take more time to mature fully prior to their full exit and return of capital to investors. Chief Investment Officer, Betty Tse, pointed out that PEARLS was the best performing asset class for 2014 with a gross IRR exceeding 16%.

- As of December 31, 2014, the PEARLS program had total commitments of \$866.5 million which represents 12.8 % of the Total Fund.
 - ACERA made two new commitments to Private Equity funds in the second half of 2014; both are re-ups to existing fund managers, \$18 million to ABRY Partners VIII and \$20.0 million to ABRY Advanced Securities III. In the Alternatives Portfolio, ACERA committed \$40.0 million to Dyal II in the second half of 2014.
2. Review of Fixed Income Manager (Traditional): Brandywine Global Investment Management, LLC
- Brandywine's Adam Spector introduced Gregory Zavoyna, Senior Relationship Manager, to the Committee. Greg will help Adam service the ACERA account going forward.
 - For the year-to-date period ending 4/30/15, Brandywine's gross return was -0.11%, outperforming the account benchmark (Citigroup World Government Bond Index) by 1.34%. For the one-year period ending 4/30/15, Brandywine's return was 1.10%, outperforming its account benchmark by 6.60%. Brandywine has not changed its investment strategy or style and has been in compliance with ACERA's reporting requirements.
 - As of 4/30/15, Brandywine managed about \$279.8 million, representing about 4.0% of ACERA's total assets. Representatives from Brandywine discussed the investment outlook, investment strategy, portfolio characteristics and the bond market environment.
3. Review of Real Return Pool Manager (Alternative): Gresham Investment Management, LLC
- A representative from Gresham Investment Management (Gresham), described the firm's history, strategy, philosophy, risk management, outlook, and results of ACERA's investments in the Tangible Asset Program (TAP) and the Enhanced Tangible Asset Program (ETAP). In each case and for every period indicated in the ICM Executive Summary prepared by Staff, the two investments beat the Bloomberg Commodity Index (BCOM), the benchmark for the two programs,
 - As of March 31, 2015, the market values for ACERA's interests in the Gresham TAP and ETAP Funds were \$60.5 million and \$46.5 million, respectively. Gresham's TAP and ETAP Programs have gross annualized returns of 0.9% and -7.6%, respectively, since their inceptions with ACERA.
 - Responding to Committee member questions, the representative addressed prudent diversification of a portfolio showing how the asset class returns of commodities and equities were inversely correlated during early and late expansion stages of the business cycle (Gresham slides, p. 45). The representative also described recent market and political developments which may portend increases in energy demand and energy futures contract prices.
4. Status Report regarding State Street Bank's Wells Notice
- A representative from State Street Bank (SSB) addressed the Committee regarding the recent Wells Notice SSB received from the S.E.C. ACERA was advised of the issuance

of a Wells Notice by SSB on June 18, 2015. The representative shared the status of the S.E.C.'s investigation regarding SSB's past solicitations of asset servicing business (back office custody services) by using lobbyists and consultants. Since 2012, the bank ceased using lobbyists and consultants, and markets its custody business internally. Wells Notices do not necessarily mean the S.E.C. will take enforcement action, but gives SSB the opportunity to review and respond to the notice.

- Committee members shared their concerns regarding the Wells Notice, which SSB addressed. At the conclusion, Staff assured the Committee that it would continue to monitor developments closely to update the Committee timely.

Recommendation

TRUSTEE/PUBLIC INPUT

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

August 12, 2015 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 12:17 p.m.