



Date: August 9, 2017
To: Members of the Board of Retirement
From: Annette Cain-Darnes - Chair
Subject: **Summary of August 9, 2017 Investment Committee Meeting**

The Investment Committee (“Committee” or “IC”) met on Wednesday, August 9, 2017 at 9:33 a.m. The Committee members present were Annette Cain-Darnes, Tarrell Gamble, Liz Koppenhaver, Henry Levy, and George Wood. Also present were Alternate member Nancy Reilly and Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, Kathy Mount – Chief Counsel, and Betty Tse – Chief Investment Officer (CIO).

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

Prior to the discussion of Action Items #1 and #2 the Committee, Verus representatives, and the CIO discussed a draft overview of the August 2017 Verus Private Equity & 2017 Outlook (preview). The Committee discussed the trends in performance and its historical relative outperformance to other asset classes, making it very attractive to investors. Other topics discussed included: the current rich valuations, the amount of money that has flowed into this asset class, and the high level of “dry powder” available in the market. Verus will provide additional information in its final draft, including a trend of returns for years after 2005.

1. Discussion of and Possible Motion to Recommend to the Board to Adopt a New and Separate Private Equity Investment Policy
 - In concurrence with the general investment consultant, Staff recommended separating the PEARLS policy into two distinct policies allowing for more relevant benchmarking and specific monitoring of the assets in the private equity and the absolute return asset classes. This action item recommended a new Private Equity Investment Policy (PE Policy) as a stand-alone policy.
 - Accordingly, the IC discussed the proposed PE Policy and some of the additional changes in the language they would like to see made. For example:
 - Consider revising or footnoting the language in the legal sections.
 - Consider adding benchmarks related to sub-asset classes, since Cambridge Associates (C|A) offers sub-asset class indices.
 - Consider increasing Staff’s delegated authority in the origination of recommendations, specifically those that are existing managers in good standing.
 - Updating Staff Roles and Responsibilities to reflect the current duties performed, and consider making staff roles related to investment sourcing and due diligence similar to those of the Consultant.

- At the conclusion of the discussion, the Trustees made no motion but asked Staff to bring the proposed PE Investment Policy back to the IC after the recommended changes were incorporated.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt a New and Separate Absolute Return Policy
- Representatives from Verus Advisory Inc. highlighted the reasons why the new and separate Absolute Return Policy (AR Policy) was created, similar to that for the PE Policy. With the AR asset class now at 9%, the asset class has reached a target allocation size to justify a separate asset class and policy. Additionally, updating the specific categories of sub-asset classes and the types of investments to be used in the AR Policy, including “Alternative Premia”, “Funds of Hedge Funds”, and “Other Alternatives/Opportunistic”.
 - The Policy was further discussed by the IC, concluding that changes parallel to the changes envisioned for the PE Policy be made for this AR Policy.
 - At the conclusion of the discussion, the Trustees made no motion but asked Staff to bring the proposed AR Policy back to the IC after the recommended changes were incorporated.

INFORMATION ITEMS

1. Review of EnTrustPermal Asset Management Fixed Income Holdings
- Staff stated several concerns with EnTrustPermal Fixed Income Holdings (Fund) managed by EnTrustPermal, most notably the loss of AUM, weak performance, and very high total annual fees, especially since the merger between EnTrust and Permal a little over one year ago.
 - Representatives from EnTrustPermal provided updates on its recent organizational change, its investment strategy, philosophy, risk management and results of ACERA's investment. They mentioned that one of the major changes, since the Entrust and Permal merger, was the change to the salespersons' compensation from a salary plus commission-based compensation scheme to a 100% commission-based compensation scheme, a change which led to the departure of some of Permal's salespersons'. However, EnTrustPermal confirmed that Portfolio Managers are not compensated based on commissions.
 - As of June 30, 2017, the Fund's AUM was at \$124.4 million and it returned an annualized 4.24% (net of all fees) since inception, April 2012.
2. Update on State Street Bank Custody Agreement Extension
- Staff informed the Trustees that the Custody Agreement with State Street Bank had been extended for a one-year period, from August 1, 2017 to August 7, 2018 with the same favorable terms.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

September 13, 2017 at 9:30 a.m.