

August 10, 2011

To: Members of the Board of Retirement

From: Dale Amaral – Chair

Subject: Summary of the August 10, 2011 Investment Committee Meeting

The Investment Committee met on Wednesday, August 10, 2011 at 9:03 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, George Dewey, Liz Koppenhaver, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Vincent Brown – Chief Executive Officer, Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer, and Catherine Walker – Assistant Chief Executive Officer.

ACTION ITEMS

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

1. Discussion of and Possible Motion to Recommend to the Board to Adopt the Amended ACERA's Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy
 - Staff proposed to amend the PEARLS Policy to reflect the current conditions of the portfolio, to incorporate decisions made by the Board since the last review of the PEARLS Policy, and to improve the style of the PEARLS Policy for consistency and clarity. Proposed changes included:
 - a. Remove the language of "Commodities" to incorporate the revised asset allocation adopted by the Board on April 21, 2011; however, the sub-asset class of "Commodities" will be managed within the PEARLS Policy until the implementation of a new Real Return Pool Policy, estimated to be completed later this year.
 - b. Revise benchmarks to adjust for the removal of "Commodities" and to reflect current market conditions: (i) Modify the benchmark for the aggregate PEARLS portfolio to the Russell 3000 Index plus 100 basis points (net of all fees and expenses); (ii) Adopt LIBOR plus 400 basis points for the aggregate of Absolute Return Strategies (net of all fees and expenses) and LIBOR plus 600 basis points for the aggregate of Other Alternative Investments (net of all fees and expenses).
 - c. Define more clearly Staff's delegated authority, including elimination of the proposed chart under Section VIII, C, Item 4.
 - After discussing the proposed benchmarks, investment limits, and Staff's delegated authority, the Committee made certain suggestions to clarify the language of the proposed amendments in investment limits and in staff's delegated authority, including elimination of the chart mentioned above.

- After discussion, Mr. George Dewey moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to adopt the amended ACERA's PEARLS Policy, including the changes discussed and agreed-upon during the meeting. The motion passed unanimously.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2011 Investment Plan for ACERA's PEARLS Portfolio
- SIS prepared and proposed the 2011 Investment Plan for ACERA's PEARLS Portfolio. The 2011 Investment Plan outlines the target allocations of the PEARLS Portfolio and the annual progression towards the target allocations with an emphasis on the commitments projected to be made in 2011 and 2012 within the PEARLS Portfolio.
 - After discussion, Mr. George Dewey moved, seconded by Ms. Annette Cain-Darnes, to recommend to the Board to adopt the 2011 Investment Plan for ACERA's PEARLS Portfolio. The motion passed unanimously.
3. Interview of Finalists for ACERA's Currency Manager Search and Possible Motion to Recommend One for Adoption to the Board
- At its May 18, 2011 meeting, the Board selected Adrian Lee & Partners, First Quadrant, L.P. (First Quadrant), and FX Concepts, LLC (FX Concepts) as the short-listed candidates for ACERA's Currency Manager Search. Based upon the information Staff gathered from the on-site visits as well as the candidates' responses to ACERA's RFI, Staff completed its assessments of the top three finalists through a comparative analysis format that is similar to that used for prior traditional manager searches. Staff concurs with SIS's assessment that First Quadrant should be dropped from consideration as one of the Finalists owing to the on-going concerns regarding an existing National Futures Association (NFA) complaint associated with First Quadrant.

Adrian Lee & Partners

- London, U.K.-based Adrian Lee & Partners was established in 1999. The founders of the firm pioneered currency management products at JPMorgan Investment Management, Inc. and currently own approximately 90% of the firm. A major strategy differentiator for this manager is the incorporation of subjective forecasts of future currency movements into its currency models which include both fundamental research and quantitative analysis.
- Representatives from Adrian Lee & Partners presented their market outlook and their investment processes, such as forecast signal generation, portfolio construction, and trading.

FX Concepts

- New York City, NY-based FX Concepts has been managing currencies for institutional investors since 1988. The Firm employs a sizeable and experienced research team which is one of the Firm's distinctive advantages. FX Concepts also actively encourages employee ownership with 65% of its employees participating. Such an initiative further aligns employees' interests with those of clients.
- Representatives from FX Concepts provided an overview of their organization, corporate culture, and explained their investment processes from forecast signals to portfolio construction and risk management.
- After discussion, Mr. George Dewey moved, seconded by Ms. Liz Koppenhaver, to recommend that the Board adopt Staff's recommendation of a \$25.0 million allocation to FX Concepts, LLC as ACERA's Currency Manager upon successful completion of legal due diligence and contract negotiation. The motion passed unanimously.

Information Items:

- There are no information items.

RECOMMENDATIONS

- The Committee recommends, and I move that the Board adopt the amended ACERA Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy with suggestions recommended by the Committee.
- The Committee recommends, and I move that the Board adopt the 2011 Investment Plan for ACERA's PEARLS Portfolio.
- The Committee recommends, and I move, that the Board adopt Staff's recommendation of a \$25.0 million allocation to FX Concepts, LLC as ACERA's Currency Manager upon successful completion of legal due diligence and contract negotiation.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

None

ESTABLISHMENT OF NEXT MEETING DATE

September 14, 2011 at 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 12:15 p.m.