



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, August 14, 2019
9:30 a.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 TH STREET, 10 TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574	ELIZABETH ROGERS, CHAIR	ELECTED GENERAL
	TARRELL GAMBLE, VICE CHAIR	APPOINTED
	DALE AMARAL	ELECTED SAFETY
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	JAIME GODFREY	APPOINTED
	LIZ KOPPENHAVER	ELECTED RETIRED
	HENRY LEVY	TREASURER
	GEORGE WOOD	ELECTED GENERAL
	NANCY REILLY	ALTERNATE RETIRED ¹
	DARRYL L. WALKER	ALTERNATE SAFETY ²

Should a quorum of the Board attend this meeting, this meeting shall be deemed a joint meeting of the Board and Committee. The order of agenda items is subject to change without notice. Board and Committee agendas and minutes are available online at www.acera.org.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

¹ 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 Elected Safety Member and an Elected General Member, are absent.

² Alternate Safety Member (Votes in the absence of (1) the Elected Safety, (2) either of the two Elected General Members, or (3) both the Retired and Alternate Retired Members).

INVESTMENT COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 2 of 2 – Wednesday, August 14, 2019

Call to Order: 9:30 a.m.

Public Input (Time Limit: 4 minutes per speaker)

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

1. Discussion of and Possible Motion to Adopt the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's U.S. Large Cap Value Manager Search

9:30 – 10:00 Margaret Jadallah, Verus Advisory Inc.
Thomas Taylor, 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 the Emerging Investment Manager Policy

Margaret Jadallah, Verus Advisory Inc.
Thomas Taylor, ACERA
Betty Tse, ACERA

Adjournment into Closed Session

1. Consider the Purchase or Sale of a Particular, Specific Pension Fund Investment (CA Gov. Code §§ 54956.81 and 6254.26.)

Reconvene into Open Session to Report on Action Taken in Closed Session

Trustee Remarks

Future Discussion Items

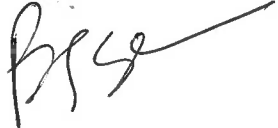
Establishment of Next Meeting Date

September 11, 2019 at 9:30 a.m.



To: Members of the Investment Committee

Date: August 14, 2019

From: Betty Tse, Chief Investment Officer 

Subject: Discussion of and Possible Motion to Adopt the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's U.S. Large Cap Value Manager Search

Recommendation

Staff recommends using a focus-list approach to search for a U.S. Large Cap Value manager and, within this framework, the use of the proposed timeline, search criteria (minimum qualifications), and evaluation matrix to create a short list of candidates for ACERA's U.S. Large Cap Value manager search.

Background

At its June 12, 2019 meeting, the Investment Committee reviewed the U.S. Large Cap Value manager¹ Pzena Investment Management, LLC (Pzena). At the July 10, 2019 ICM, the Committee reviewed the U.S. Large Cap Growth manager, Trust Company of the West.

After both reviews, Verus, Staff and the Committee discussed maintaining the existing allocations to active large cap value and large cap growth within the U.S. Equity asset class; and ACERA would consider initiating a search for a suitable large cap value manager to pair with the large cap growth manager.

Discussion

Verus and Staff again recommend a focus-list approach to select qualified candidates for the named search. Staff and Verus will facilitate a screening process using mutually agreed upon criteria², as well as, meet the minimum qualifications. We plan to issue a questionnaire to these selected candidates, including ACERA's incumbent large cap value manager. The managers who wish to participate in this search will submit proposals to ACERA. Staff and Verus will then analyze these proposals and create a short list of finalists to present to the Investment Committee. Similar to recent searches, Staff, with the concurrence of Verus, recommends the following Timeline, Minimum Qualifications, and Evaluation Matrix for the Investment Committee's review and comment. (Please see Attachments #1, #2, and #3.)

¹ The manager structure for ACERA's large cap value allocation is 5%, or approximately \$125 million, of the U.S. equity asset class.

² Verus and Staff will screen the large cap value universe of the eVestment Alliance database, including managers who have come through ACERA's IPSI program—if any, to create a focus list. The screens will include: 1) rolling 3/5-year performance covering more than 5 calendar years of performance; 2) upper-half peer group ranking for consistency beating the benchmark and risk-adjusted returns over 3- and 5- year periods; 4) 5-year Information and Sharpe ratios over median; and 5) the product AUM must be a minimum of \$500 million or more.

Attachments:

1. Proposed Timeline for ACERA's U.S. Large Cap Value Manager Search – Prepared By Staff
2. Minimum Qualifications for ACERA's U.S. Large Cap Value Manager Search – Prepared By Staff
3. Evaluation Matrix for ACERA's U.S. Large Cap Value Manager Search – Prepared By Staff
4. Verus Advisory, Inc. Memo

Attachment I

ACERA – U.S. LARGE CAP VALUE MANAGER SEARCH

Proposed Timeline

ⁱ Step	Activity	Tentative Deadline	Status
1.	Work with Verus to develop Timeline, Search Criteria, and Evaluation Matrix	8/14/2019	In Process
2.	Work with Verus to develop Screening Methodology to establish a Focus List of Candidates	8/14/2019	In Process
3.	Timeline, Minimum Qualifications, and Evaluation Matrix to the Investment Committee and the Board as an Action Item for approval	8/14/2019	In Process
4.	Finalize the Focus List of Candidates	8/31/2019	In Process
5.	Prepare Questionnaire and Scope of Services	8/31/2019	Yet to Start
6.	Send RFP Questionnaire to Focus List of Candidates	9/15/2019	Yet to Start
7.	Proposal submission deadline	10/18/2019	Yet to Start
8.	ACERA and Verus evaluation of proposals. Tabulate responses to RFP Questionnaire and prepare Summary Report. Follow up with bidding firms for further information or clarification as necessary.	11/30/2019	Yet to Start
9.	Recommend Qualified List of Candidates to the Investment Committee and the Board for approval	1/08/2020 ICM 1/16/2020 Board	Yet to Start
10.	Perform due diligence and on-site visits with finalist(s) selected	2/28/2020	Yet to Start
11.	Present finalist(s) to the Investment Committee for interviews and recommendation to the Board to select the U.S. Large Cap Value Fund manager	4/8/2020 ICM 4/16/2020 Board	Yet to Start

ⁱ Deadlines are subject to change based upon time and resources required to complete the evaluation process.

Attachment II

ACERA – U.S. LARGE CAP VALUE MANAGER SEARCH

Minimum Qualifications

1. The Firm must agree to act as a fiduciary to ACERA.
2. The Firm must be registered as an investment adviser under the Investment Advisers Act of 1940, a bank (as defined in that Act) or an insurance company qualified to perform investment management services under state law in more than one state, including the State of California.
3. ACERA's investment portfolio (or account) should not comprise more than 25% of the Firm's total assets under management at any time in accordance with the General Investment Guidelines, Policies and Procedures.
4. The Firm must be directly responsible for the management of the account, and all personnel responsible for the account must be employees of the Firm or a legal joint venture partner.
5. The Firm must have a minimum five-year, continuous performance history managing the U.S Large Cap Value product for institutional investors by the existing portfolio manager or portfolio manager team. The performance history must be real time (i.e. not simulated or back-tested) and in compliance with CFA Institute (CFAI) Global Investment Performance Standards (GIPS).
6. The U.S Large Cap Value product must be benchmarked against the Russell 1000 Value Index.
7. The Firm must be able to provide monthly GIPS-compliant performance reports to ACERA, its General Consultant, and its Custodian Bank.
8. The Firm must be able to provide a minimum of weekly liquidity.
9. The Firm should carry the following minimum insurance coverage or should apply for it by contract execution¹:
 - a. Commercial General Liability – \$4,000,000
 - b. Crime Coverage
 - i. Employee Dishonesty Coverage - \$10,000,000
 - ii. Computer Theft Coverage - \$1,000,000
 - c. Error and Omissions (Professional Liability) - \$10,000,000
 - d. Fiduciary Liability - \$25,000,000, or 10% of the total assets managed in the ACERA account, whichever is higher, unless the proposed contract specifies otherwise
 - e. Workers' Compensation and Employer's Liability - \$1,000,000
10. Attend ACERA's Investment Committee Meetings as needed.
11. The Firm must be willing to allow ACERA to review the latest 3-5 years of the firm's audited financial statements. In-office reviews are acceptable.
12. Once selected by ACERA as the finalist Firm, the Firm must consent to a background investigation of the investment management firm and key individuals.

¹ Subject to change upon final contract negotiation.

Attachment III

ACERA – U.S. LARGE CAP VALUE MANAGER SEARCH

Recommended Evaluation Matrix

The following is the proposed evaluation matrix for a U.S. Large Cap Value manager search.

- | | |
|--|------------------|
| A. Organization | 25 Points |
| <ul style="list-style-type: none">1. History2. Ownership, Organization, and Staffing3. Compliance4. Client Service | |
| B. Investment Team | 30 Points |
| <ul style="list-style-type: none">1. Strategy<ul style="list-style-type: none">i. Philosophyii. Process2. Experience3. Research Capabilities4. Trading/Operations5. Other Resources | |
| C. Performance and Risk | 35 Points |
| <ul style="list-style-type: none">1. Consistency Beating Benchmark2. Peer Group Ranking3. Risk (to benchmark/tracking error, upside/downside)4. Risk-Adjusted Returns5. Risk Management | |
| D. Proposed Fee Schedule/Structure | 10 Points |

Memorandum

To: Alameda County Employees' Retirement Association
From: Verus
Date: August 14, 2019
RE: Introduction to Proposed Large Cap Value Search

Executive Summary

In June and July 2019, the ACERA Investment Committee reviewed the large cap active strategies. Pzena Investment Management presented their Large Cap Value strategy in the June 2019 meeting, and TCW presented their Large Cap Growth strategy in July. Subsequent to the reviews, Verus and Staff discussed each of the strategies with the Investment Committee. In July, the Investment Committee approved a search for a possible U.S. Large Cap Value replacement.

This memo provides an overview of the search criteria, timeline and evaluation matrix that we plan on using for the Large Cap Value search. Minimum qualifications, and search criteria will be very similar to other ACERA manager searches and in accordance with the Plan's policies and procedures.

Search Criteria

Verus and Staff propose that ACERA uses pre-approved quantitative and qualitative criteria to develop a focused list of Large Cap Value managers on which to perform detailed due diligence. Recently, ACERA conducted a small cap growth search utilizing this approach. This approach allows us to focus our efforts on a select few candidates to issue questionnaires, instead of reviewing a significant number of RFPs which can delay the process of finding a suitable manager.

Similar to the recent emerging markets equity and small cap growth search, we will be conducting an initial screen using criteria that considers returns, risk-adjusted returns, and risk measures over longer time periods and relative to the relevant benchmark (Russell 1000 Value Index) and peer group (eVestment Alliance Large Cap Value). Assets under management will also be screened to ensure that ACERA wouldn't be an outsized client of the manager. The intent of the screen will be to cull the full universe of approximately 425 managers to a subset that of Large Cap Value managers which have consistently provided outperformance versus the benchmark and their peers over longer time periods. Our proposed search criteria includes a confirmation of the manager's large cap value style. Relative performance measures include information ratio, Sharpe Ratio, and batting average. Long-term performance will be reviewed over rolling 3 and 5-year periods versus the Russell 1000 Value Index and the eVestment

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Alliance U.S. Large Cap Value peer group. Additional screens will include a product asset screen to ensure that the strategies have enough assets such that ACERA would not be a large percentage of product assets (pose business risk). The screens should result in a list of approximately 20-30 candidates who will receive a questionnaire. Verus and Staff will also include the incumbent manager, Pzena Investment Management, despite this manager not having consistent outperformance and, thus, not passing all performance screens. Those managers who respond to the questionnaire will be fully vetted for the ACERA mandate.

Staff and Verus will compare managers that have met the agreed upon quantitative screening criteria and qualitatively assess the managers considering the strength of the organization, investment team, performance and risk characteristics and reasonableness of fees. As stated above a workable list of competitive managers will receive a questionnaire for further due diligence.

Timeline

Staff has included (Staff Attachment 1) a reasonable timeline which gives enough time for the managers to respond and for Verus and Staff to perform a thorough review and on-site with the finalist managers.


Evaluation Matrix

Similar to the recent searches, the evaluation matrix (Staff Attachment 3) for the Large Cap Value candidates in the focused search will include a full assessment of the manager's organization, investment team, performance and risk and competitiveness of fees. Verus and Staff will compare relative rankings with the end goal of having a joint recommendation to the Investment Committee.

Recommendation

Verus and Staff are seeking approval to continue with the large cap value search using the search criteria, minimum qualifications, evaluation matrix, and timeline outlined in this memo and the Staff memo.



TO: Members of the Investment Committee
FROM: Betty Tse, Chief Investment Officer 
DATE: August 14, 2019
SUBJECT: Review of Emerging Investment Manager Policy

Recommendation

No recommendation. This is an information item.

Background

In March 2007, the Board established and adopted ACERA's Emerging Investment Manager Policy ("EIM Policy"). Accordingly, this policy established 1% allocation (of the Total Fund) and subsequently hired Bivium –U.S. Equity¹ to manage the mandate. The last amended change to the EIM Policy" was 1/17/2013.

Discussion

The strategic objective of the EIM program is to add incremental value to the Total Fund through the hiring of the most talented emerging investment managers to manage ACERA's assets. Verus and Staff believe expanding the number of asset classes in the EIM Policy will enhance potential of the EIM program to increase its value. Highlights of the proposed revisions to the EIM Policy are as follows:

- Adding the following asset classes to the EIM Policy: Real Estate, Real Assets, and Private Equity. (See Section IV. Definition of Emerging Investment Managers, p3.)
- Increasing the allocation size to "up to 5%" of the Total Fund over the next 10-years. (See Section V (B) Emerging Investment Manager Program - Size, p4.)
- Investment managers selected for the EIM program will also be subject to the General Investment Guidelines Policies and Procedures, the Real Estate Investment Policy, the Real Assets Investment Policy, and the PE Investment Policy. (See Section I, Scope, p3; Section VII, Standards for Emerging Investment Managers, p5.)
- Lastly, Staff recommends using the acronym of EIM versus EM so as to not confuse with the Emerging Markets (equity or debt markets.)

Conclusion

Institutional emerging investment managers are not limited to the traditional asset classes; there are several asset classes ACERA could potentially and additionally benefit from by broadening the scope of asset classes of this policy. Increasing the size allocation to "up-to-5%" will help incorporate these opportunities. Staff and Verus have worked together to exemplify possible changes to enhance the current policy. Based on today's discussion, Staff and Verus will bring specific recommendations to the named policy in the near future.

Attachment

1. ACERA's Emerging Investment Manager Program Policy
2. Verus's Overview of Emerging Investment Manager Policy proposed changes.

¹ In 2008, ACERA funded roughly \$52 million to ACERA's All Cap U.S. Equity Manager-of-Managers account with Bivium Capital Partners, LLC ("Bivium"). Subsequently, on 10/11/2017, the Board changed Bivium's mandate to an international equity portfolio. Since October 2017, the Bivium account has grown from \$76.55 million to \$83.58 million.

**Alameda County Employees'
Retirement Association**

ACERA

EMERGING INVESTMENT MANAGER POLICY

**Amended
September 19,
2019**

ACERA EMERGING INVESTMENT MANAGER POLICY

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I. SCOPE

This Emerging Investment Manager Policy (“EIM Policy”) governs the Emerging Investment Manager Program (“EIM Program”) of Alameda County Employees’ Retirement Association (“ACERA”) and shall apply to any asset classes of ACERA’s Pension Fund (“Fund”) other than private credit and absolute return. The EIM Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures. The ACERA Board (“Board”) reserves the right to amend, supplement, or rescind this EIM Policy at any time.

II. PURPOSE

The purpose of this EIM Policy is to establish a framework for the ongoing development and administration of ACERA’s EIM Program, consistent with the Board’s fiduciary responsibilities in investment of the Fund.

III. LEGAL AUTHORITY

This EIM 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 Fund.

IV. DEFINITION OF EMERGING INVESTMENT MANAGERS

For the purpose of this EIM Policy, ACERA defines emerging investment managers (“EIMs”) in traditional asset classes (public equities, public fixed income) as investment managers who have total assets under management of less than \$5.0 billion, and, in addition, may have more limited time in business and/or a more limited track record in the specific products under consideration than would ordinarily be required in ACERA’s standard institutional investment manager search process. Private markets EIM funds (private equity, private real assets, and private real estate) are defined as first or second time institutional funds raised by the GP firm. For real estate, EIM funds are defined as first or second time institutional funds or those with less than \$5.0 billion in firm AUM. Manager-of-Managers (MOMs) in the public markets can be utilized to gain exposure to EIMs, subject to diligence justifying their potential net-of-fee performance on par with direct, competitive alternatives and consideration of cost.

While total assets and length of track record are often more limited in the EIM universe, eligible EIM managers for the ACERA portfolio must have established institutional experience as demonstrated through the prior experience of the firm’s key investment professionals and/or track record from a prior organization.

V. EMERGING INVESTMENT MANAGER PROGRAM

ACERA’s EIM Program is an investment program, developed and managed in accordance with this EIM Policy. The EIM Program is designed to identify investment firms with the potential to add value to ACERA’s portfolio that may not be identified in ACERA’s standard institutional investment manager search process. Based on market studies, ACERA believes that some smaller investment firms may be able to generate superior performance

due to increased market flexibility associated with smaller asset bases.

A. Investment Vehicles

ACERA can utilize Individual Mandates (directly-hired EIMs) and/or Manager-of-Managers (“MOMs”) mandates for the EIM Program. Both investment vehicle types will be considered based on the suitability of the specific characteristics of ACERA’s portfolio needs..

B. Size

During the initial stage of the EIM Program implementation at ACERA, 1.0% of the Total Fund was allocated to the EIM Program. This total allocation percentage will be measured on an annual basis by total EIM exposure and by asset class. 1.0% will be a minimum goal for Total Fund allocation with the intent that EIM allocation will grow incrementally over time. The targeted goal for future investments, which will be revisited periodically, is up to 5% of Total Fund allocation to be achieved within 10 years. Allocation to EIM managers is a function of the identification of compelling opportunities across asset classes. The Board will review the EIM Program size and will consider recommendations from the Investment Committee with input from ACERA Staff (“Staff”) and ACERA’s investment consultants (“Consultants”) in conjunction with ongoing manager due diligence.

C. Asset Class Coverage

The following asset classes may be included in ACERA’s EIM Program in conjunction with ongoing due diligence: public markets equities, public markets fixed income, private equity, private real assets, and private real estate as defined in Section IV. EIM managers will be determined on a case-by-case basis and as a function of highly competitive offerings in the market that coincide with ACERA’s search needs.

VI. STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM

The strategic objective of the EIM Program is to add incremental value to the Total Fund through the hiring of the most talented EIMs to manage ACERA’s assets.

The primary goals of the EIM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund performance through the EIM Program; 3) identify superior EIMs and/or investment opportunities that are equal to or superior to comparable available non-EIM investments; and 4) further diversify the Fund’s overall investment program, to enhance the risk-adjusted returns of the Fund. As part of the program, ACERA seeks to identify competitive EIM managers in California and Alameda County for inclusion in the portfolio,

ACERA may consider an EIM investment when the assigned Consultants, after due diligence and investigation, have determined that:

- 1) The risk and return characteristics of the EIM investment are no less favorable

- than comparable non-EIM opportunities available;
- 2) The EIM investment is in compliance with this EIM Policy; and
 - 3) Administrative time (associated with typically smaller size allocations) has been considered with EIM opportunity sizing aligned with ACERA resource constraints.

VII. STANDARDS FOR EMERGING INVESTMENT MANAGERS

All investment managers selected through the EIM Program shall comply with and be subject to any and all performance-related and other standards, requirements, and expectations set forth in ACERA's General Investment Guidelines, Policies and Procedures and other asset class policies, other than requirements regarding minimum size and length of track record criteria for inclusion in many of ACERA's standard institutional investment managers search processes. It is ACERA's intent that an EIM investment comprises no more than 25% of a manager's total assets under management. Any exception to this guideline will be made on a case by case basis, if warranted.

All investment managers selected through the EIM Program shall also comply with and be subject to any and all other ACERA Board policies, procedures and guidelines that pertain to investment managers, including without limitation, obligations regarding disclosure by investment managers of actual or potential conflicts of interest, as well as any and all other obligations imposed on ACERA's investment managers by State and Federal law.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's EIM Program. The duties and responsibilities of the Board, Investment Committee, Staff, Consultants, ACERA's fiduciary counsel ("Fiduciary Counsel") and directly-hired EIMs/MOMs in relation to the EIM Program are stated below:

A. Board

The Board shall be responsible for approving the EIM Policy that governs the EIM Program and approving the implementation of the EIM Program at ACERA. The Board, with input from the Investment Committee, shall review this EIM Policy annually or as needed to determine whether modifications are necessary. The Board shall also be responsible for retention and termination of directly-hired EIMs and/or MOMs.

B. Investment Committee

The Investment Committee shall monitor compliance of ACERA's EIM Program with this EIM Policy. It shall evaluate proposals for EIM Policy modifications, as needed, and make recommendations for consideration by the Board. The Investment Committee shall review the EIM Policy annually or as needed and make recommendations to the Board with respect to retention and termination of directly-hired EIMs and/or MOMs.

C. Staff

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

1. Developing and maintaining specific procedures, subject to the Board's approval, to comply with the approved EIM Policy;
2. Developing and recommending changes to the EIM Policy;
3. Implementing the EIM Policy and managing the EIM Program;
4. Initiating searches for directly-hired EIMs and/or MOMs and/or reviewing EIM candidates within other ACERA searches;
5. Monitoring directly-hired EIMs' and/or MOMs' compliance with a) the investment guidelines as set forth in their respective contracts; b) the EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
6. Conducting comprehensive reviews of the EIM Program and/or the directly-hired EIMs and/or MOMs;
7. Reporting to the Investment Committee any violations of the EIM Policy with explanations and recommendations;
8. Assisting ACERA's legal department in contract negotiations with directly-hired EIMs and/or MOMs;
9. Evaluating EIM opportunities with Consultants' input and making recommendations to the Investment Committee; and
10. Evaluating and making recommendations for retention or termination of directly-hired EIMs and/or MOMs.

D. Consultants

1. Investment Consultants (General and Specialty Asset Class Consultants)

General and Specialty Asset Class Investment Consultants hired by the Board are fiduciaries to ACERA and its Board. These Investment Consultants shall independently and continuously monitor and analyze the effectiveness of ACERA's EIM Program and make related recommendations to serve the best interests of the plan participants. Investment Consultants shall also assist Staff in crafting the EIM Policy and implementing the EIM Program. In addition, Investment Consultants shall be responsible for:

- a. Ongoing monitoring of the performance of ACERA's directly-hired EIMs and/or MOMs;
- b. Monitoring directly-hired EIMs' and/or MOMs' compliance with a) their respective investment guidelines as set forth in their contract; b) this EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
- c. Assisting Staff in directly-hired EIM and/or MOM searches, including the due diligence of EIM candidates within other ACERA manager searches where appropriate, and contract negotiations;
- d. Submitting performance evaluation reports and conducting comprehensive reviews of the directly-hired EIMs and/or MOMs quarterly to the Investment Committee in conjunction with the regular quarterly performance report and review;
- e. Making recommendations for retention or termination of directly-hired EIMs and/or MOMs;

- f. Attending meetings as needed; and
- g. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

2. Specialty Investment Consultant

Should the Board, with input from the Investment Committee, decide to hire a Specialty Investment Consultant specializing in EIM programs, this specialty Consultant will be subject to the same expectations and bear the same responsibilities as stated in Section VIII (D) (1) above.

E. Fiduciary Counsel

Fiduciary Counsel hired by the Board through ACERA's Chief Counsel in accordance with ACERA's Fiduciary Counsel Retention Policy is a fiduciary to ACERA and its Board. Fiduciary Counsel shall provide legal, but not investment, advice to the Board, Investment Committee and Staff regarding all aspects of ACERA's EIM Policy, as requested. Fiduciary Counsel shall also provide legal, but not investment, advice on ACERA's EIM Program upon request.

F. Emerging Investment Managers

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

- 1. Communicate with Staff and/or MOMs as needed regarding investment strategy and investment results;
- 2. Cooperate fully with Staff, Consultants, ACERA's custodian, and/or MOMs concerning requests for information;
- 3. Submit reports to MOMs, Staff, and Consultants in accordance with their contract terms; and
- 4. Attend meetings as needed.

G. Manager-of-Managers

MOMs are fiduciaries to ACERA and shall prudently manage ACERA's assets in the best interest of ACERA and its members. MOMs shall abide by all of ACERA's policies and procedures, and fully comply with applicable law. MOMs are responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. It is expected that MOMs shall also:

- 1. Maintain a comprehensive and current database of emerging investment managers and continuously conduct due diligence evaluation of prospective EIMs;

2. Construct a diversified portfolio of EIMs based on the objectives and benchmarks established by the MOM ;
3. Retain or terminate EIMs based on the evaluation criteria established by the MOM;
4. Graduate EIMs based on the criteria established by Section XII (B) of this EIM Policy.
5. Monitor and report on the performance of each underlying EIM manager in the MOM portfolio and the MOM itself in accordance with the terms of its contract with ACERA; and
6. Attend meetings as needed.

These expectations are subject to the underlying strategy of the MOM and may not always be applicable. Any exceptions to these criteria will be fully vetted for appropriateness by Consultant and Staff.

IX. PERFORMANCE EVALUATION CRITERIA

The specific performance evaluation criteria for directly-hired EIMs, and/or MOMs will be established in the investment agreements between ACERA and individual directly-hired EIMs and/or MOMs.

The Board, Investment Committee, Staff, and Consultants will evaluate MOMs based on the performance of the total MOM itself and not based on the performance of each underlying EIM manager in the MOM portfolio.

X. MONITORING AND REPORTING

Consultants and Staff will closely monitor and analyze the EIM Program to ensure compliance with the EIM Program's strategic objective and goals. In addition to compliance monitoring, Consultants and Staff will measure EIM exposure in total and by asset class annually and provide a report to ACERA's Investment Committee.

Directly-hired EIMs and/or, MOMs are required to submit all reports to Staff in accordance with their respective contracts and applicable requirements set forth in the Schedule V of ACERA General Investment Guidelines, Policies and Procedures.

Consultants are required to submit all reports to Staff in accordance with their contract terms.

Staff, in conjunction with Consultants will perform comprehensive evaluations of ACERA's EIM Program, the directly-hired EIMs and/or MOMs annually, or as needed, and will report the findings to the Investment Committee.

XI. QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS

ACERA seeks to retain the most talented EIMs to manage ACERA's assets. The specific qualifications of directly-hired EIMs and/or, MOMs , consistent with the Strategic Objective

and Goals of the EIM Program, will be determined by the Board at the time of the search for directly-hired EIMs and/or MOMs with input and recommendations from Staff and Consultants. In addition, EIMs, as defined by ACERA's EIM Policy, may be included in ongoing ACERA searches subject to the criteria for said searches.

Staff and Consultants will conduct a comprehensive due diligence review process for each directly-hired EIM and/or MOM. The specific search criteria and due diligence procedures for directly-hired EIMs and MOMs will be established by the Board, consistent with the Strategic Objective and Goals of the EIM Program and each applicable asset class, at the time of the search with input and recommendations from Staff and Consultants.

XII. EMERGING INVESTMENT MANAGER GRADUATION

A. Directly-Hired EIM Mandates

If a directly-hired, traditional-assets EIM's firm-wide total assets under management have exceeded \$10.0 billion dollars for four consecutive quarters, and, in addition, the directly-hired EIM has been in business and/or has a track record in the specific product under consideration for more than five years, a comprehensive evaluation of the EIM shall be conducted by Staff and Consultants. Based on the evaluation, Staff and Consultants shall determine if the directly-hired EIM should or should not be graduated from the EIM Program in accordance with ACERA's EIM Policy. The Investment Committee, with recommendations from Staff and Consultants, may recommend to the Board to graduate the EIM into a larger mandate in conjunction with ACERA's search needs, terminate the directly-hired EIM, or continue to retain the directly-hired EIM in ACERA's EIM Program.

B. Manager-of-Managers (MOMs) Mandates

MOM shall determine whether or not an underlying EIM should be graduated in accordance with the MOMs own graduation policy and ACERA's EIM Policy. A report on any underlying EIM graduation shall be provided to Staff and Consultants within three months after such graduation has occurred. This is subject to the underlying strategy of the MOM and may not always be applicable. If not applicable, reasons for exceptions will be provided to Staff and Consultant as part of the EIM monitoring process.

XIII. EFFECTIVE DATE

This Policy became effective upon its initial adoption by the Board on March 15, 2007. Any amended Policy shall become effective upon its adoption by the Board.

XIV. TABLE OF AMENDMENT DATES

March 15, 2007
November 19, 2009
December 16, 2010
January 17, 2013
September 19, 2019

Memorandum

To: Alameda County Employees' Retirement Association
From: Verus
Date: August 14, 2019
RE: Overview of Emerging Investment Manager Policy proposed changes

Executive Summary

ACERA's Emerging Investment Manager Policy (EIM Policy) was initially drafted in March 2007 and was last amended in January 2013. At the request of ACERA's Investment Committee, Verus and Staff, with input from Callan, have reviewed the policy and proposed changes to it considering the evolving emerging manager landscape and the stated desire of the ICM to potentially increase the size and scope of ACERA's emerging manager program. This memo outlines the material proposed changes to the EIM Policy which are also highlighted in the attached document.

It is important to note that this is an informational agenda item. Verus and Staff are seeking input on these proposed changes with the goal of bringing back the policy as an action item at a future date.

Changes to Definitions

Verus and Staff are proposing definitional changes to ACERA's emerging manager policy in the following areas:

- Change acronym for the Emerging Investment Manager Policy to EIM Policy (from EM Policy). This provides better clarity and differentiation from emerging markets which is also commonly referred to as EM.
- Expand the eligible emerging market asset class universe from public markets only to include private equity, private real assets and private real estate. Private markets emerging managers will be defined as first- and second-time institutional funds.
- Change the firm AUM eligibility for public markets emerging managers at purchase from <\$2 billion in total AUM to <\$5 billion total AUM. Increase the firm asset level at which to consider graduation from \$3 billion to \$10 billion. This is in recognition that the size of the markets has grown significantly since ACERA's EIM Policy was initially instituted.

- Raise ACERA's 1% target allocation to emerging managers to a 5% target goal as a percentage of the total fund. The proposed change allows for 10 years to achieve this goal to give ample time to find compelling emerging managers.

Enhanced Language

Verus and Staff have enhanced language in two areas of the EIM Policy:

- Where manager-of-managers (MOMs) are considered, the MOMs must be competitive with direct manager alternatives from both a performance and cost perspective. This language is more explicit than in the existing policy.
- In the implementation and sizing of emerging manager allocations, administrative time will be considered. ACERA's staff resources are limited and, for that reason, the number of managers that ACERA can properly monitor is finite.

Enhanced Search Activity (Potentially)

Verus and Staff anticipate that there would be increased search activity that includes emerging managers with the proposed changes. Emerging managers would be incorporated into future manager searches across asset classes on an ongoing basis, where appropriate, as opposed to only participating in dedicated emerging manager searches.

Reporting and Monitoring

Verus and Staff have added proposed reporting requirements to the EIM Policy to measure emerging manager exposure at the total fund and asset class levels annually. The annual report would be presented to ACERA's Investment Committee. Success or failure towards long term goals can be measured in this way.

We solicit your input on these proposed changes so that we can edit as appropriate and bring back an optimal EIM Policy for your consideration as an action item. The complete EIM Policy with highlighted edits is attached.