



Date: October 11, 2017
To: Members of the Board of Retirement
From: George Wood – Vice Chair
Subject: **Summary of October 11, 2017 Investment Committee Meeting**

The Investment Committee (“Committee” or “IC”) met on Wednesday, October 11, 2017 at 9:44 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Nancy Reilly, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Dave Nelsen – Chief Executive Officer, Kathy Foster – Asst. 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

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA’s Private Equity Investment Portfolio - Buyouts
 - A representative from Bernhard Capital Partners (BCP) presented to the Committee the history, background, and culture of the firm, as well as the opportunity set, investment team, and strategies of BCP Fund II (Fund).
 - The BCP representatives stated the Fund will focus on providing support services in the infrastructure, industrial, and energy sectors utilizing about eight platform companies. The use of leverage in the Fund (e.g. 2.5x to 3.0x) is expected to be lower than industry average, and was discussed by the BCP representatives as a driver of reducing risk and providing superior risk adjusted returns. The trustees asked questions of the BCP representative about the sourcing of the deals, the types of services that would be furnished by the Fund’s portfolio companies and the track records of the Firm.
 - No vote was taken on the matter because not all trustees had received the BCP materials in their DropBox distributions. Action on this matter will be taken at the Board of Retirement Meeting under the New Business portion of the Board Meeting which is scheduled on October 19, 2017.
2. Discussion of and Possible Motion to Recommend to Board to Terminate an Absolute Return manager in accordance with the Absolute Return (AR) Policy
 - A representative from Verus Inc. presented to the Committee the history and background of EnTrustPermal Fixed Income Holdings Institutional (Fund) in addition to the strategy and performance of the Fund. Verus highlighted the recent significant organizational change, performance, substantial loss of assets under management (AUM), in addition to the Fund’s relatively higher correlation than what is called for under ACERA’s newly-approved Absolute Return (AR) Policy.
 - The Committee invited EnTrustPermal representatives who were present in the audience to voice their thoughts on the proposed redemption. The representatives described the

inception-to-date performance of the Fund vs. LIBOR + 400 bps (former benchmark) and the HFRI FOF Composite Index (current benchmark), and then offered to create a customized strategy for ACERA that will meet its new goals in the AR Policy. EnTrust Permal thanked the trustees and staff for the opportunity to appear and speak at the Investment Committee Meeting, as well as, manage a portion of ACERA's Total Fund.

- After further discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Nancy Reilly, to recommend to the Board to Terminate the Absolute Return manager in accordance with the AR Policy. Staff confirmed that this account would be redeemed in full compliance with the Investment Policies and Contract.
 - The motion carried with 7 yes (Amaral, Cain-Darnes, Carson, Gamble, Reilly, Rogers, and Wood), 0 no, and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board to Change to a New Asset Class within ACERA's Emerging Investment Manager Program (EIM Program)
- A Representative from Verus Inc. reviewed ACERA's Emerging Investment Manager Program ("EIM Program") and its role in the ACERA Portfolio. The representative also discussed the lackluster results of the current EIM program within the current market environment. Specifically, Verus presented data showing that the International Equity asset class is less efficient and has greater dispersion; and therefore, has greater potential for adding alpha than All Cap U.S. Equity (the current mandate). Verus concluded that changing the asset class mandate from U.S. Equity to International Equity would enhance the EIM Program and increase the potential for adding value.
 - After further discussion, Ms. Elizabeth Rogers moved, seconded by Mr. Dale Amaral, to recommend to the Board to change the mandate from the All Cap U.S. Equity asset class to International Equity asset class within ACERA's Emerging Investment Manager Program (EIM Program).
 - The motion carried with 7 yes (Amaral, Cain-Darnes, Carson, Gamble, Reilly, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Review of Bivium Capital Partners, LLC

- Representatives from Bivium provided updates on its organization, its investment process, philosophy, and performance. Since the last review in August 2016, Bivium has not changed its investment strategy or style and has been in compliance with ACERA's reporting requirements. Bivium explained that recent sub-manager changes were made, primarily, to achieve better performance.
- For the one-year period ending 6/30/17, the account managed by Bivium returned 21.4% (gross), outperforming its benchmark (Russell 3000 + 100 bps) by 1.9%. For the five-year period ending 6/30/17, the account managed by Bivium returned 13.8% (gross),

underperforming its benchmark by 2.0%. Owing to underperformance, Bivium had been on ACERA's Watchlist and Probation status, since 3/06/12 and 6/04/12, respectively.

- Bivium stated that the market environment in recent years has proven difficult for active managers to outperform the benchmark. Bivium stated that, in general, new investment firm formations are down significantly, and the firms that are forming are typically non-U.S. strategies. Bivium also stated that they managed \$1.2 billion in assets, including the All Cap U.S. Equity (about 25% of AUM) strategy.

Recommendations:

- The Committee recommends, and I move, that the Board adopt an Investment in ACERA's Private Equity Investment Portfolio – Buyouts.
- The Committee recommends, and I move, that the Board terminate an Absolute Return manager in accordance with the Absolute Return (AR) Policy.
- The Committee recommends, and I move, that the Board change to a new asset class within ACERA's Emerging Investment Manager Program (EIM Program).

TRUSTEE/PUBLIC INPUT

- Betty Tse, with the approval of the Chair and the Vice-Chair, informed the Committee that the November Investment Committee meeting has been cancelled due to scheduling conflicts of multiple Trustees (e.g. SACRS, Board Offsite, etc. pre scheduled in November).
- Betty Tse also announced to the Trustees that in light of the overwhelming responses to the Emerging Markets Manager Search, Staff will be sending out letters to all proposers next week and notify them of their status.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, December 6, 2017 at 1:00 p.m.