

October 13, 2010

To: Members of the Board of Retirement

From: George Dewey- Vice Chair

**Subject: Summary of the October 13, 2010 Investment Committee Meeting**

The Investment Committee met on Wednesday, October 13, 2010 at 9:07 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, George Dewey, Liz Koppenhaver, Elizabeth Rogers, and Donald White. Also present were Alternate Retired member Dave Safer and Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer and Catherine Walker – Acting Chief Executive Officer.

### **ACTION ITEMS**

1. Review and discussion of ACERA's Fixed Income Manager Structure and Possible Motion to Adopt a New Fixed Income Manager Structure
  - Upon completion of ACERA's total fixed income manager study, SIS concluded that ACERA's current fixed income portfolio has been highly successful over time. SIS however, recommended increasing the global exposure to Brandywine by 5% to 25% from the core portfolio managed by Baird Advisors.
  - After discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Darryl Walker, to adopt ACERA's new Fixed Income manager structure (specifically, 50% Enhanced Index - Baird, 25% Aggressive Core Plus - Loomis Sayles and 25% Global Bond - Brandywine Global) to increase the global bond exposure in ACERA's fixed income portfolio by reducing the enhanced index core exposure by 5%. The motion passed unanimously.

### **INFORMATION ITEMS**

1. Annual Review of Pzena Investment Management
  - Pzena's one-year gross return ending 8/31/10 was 1.9%, underperforming its account benchmark (Russell 1000 Value index + 200 bps) by 5.0%. Pzena has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements since its inception with ACERA. Pzena was placed on ACERA's Watchlist status effective 9/2/09 and then elevated to ACERA's Probation status effective 12/1/09 due to underperformance. As of 9/30/10, Pzena managed about \$379.5 million, representing approximately 8.1% of ACERA's total assets.

- Representatives from Pzena discussed its long-term value investment philosophy, investment strategy and portfolio characteristics. They also stressed one material change they have implemented to their stock selection process as a result of their recent study – to avoid stocks that have high volatilities with no apparent reasons.

2. Annual Review of Trust Company of the West (TCW)

- TCW's gross return for the one-year period ending 8/31/10 was 7.7%, underperforming its account benchmark (Russell 1000 Growth Index + 250 bps) by 1.1%. TCW has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. TCW was placed on ACERA's Watchlist status effective 6/5/07 due to underperformance and then elevated to ACERA's Probation status effective 2/20/08 due to organizational change. As of 9/30/10, TCW managed approximately \$381.3 million, representing about 8.1% of ACERA's total assets.
- Representatives from TCW provided updates on its organization and discussed the portfolio characteristics, investment philosophy and strategy. Mr. Craig Blum, the Portfolio Manager for the Concentrated Core Strategy that ACERA invests in, informed the Committee that he has signed another three-year contract with TCW effective January 1<sup>st</sup>, 2010.

3. Annual review of Brandywine Global Investment Management, LLC (Global Fixed Income)

- Brandywine's gross return for one-year period ending 8/31/10 was 15.0%, outperforming its account benchmark (Citigroup World Government Bond Index) by 10.1%. Brandywine has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. Brandywine was placed on Probation status effective 3/2/10 due to underperformance. As of 9/30/10, Brandywine managed about \$269.7 million, representing about 5.7% of ACERA's total assets.
- Representatives from Brandywine discussed its investment outlook, investment strategy and portfolio characteristics. They also mentioned their capability and track record to actively manage the foreign currency exposure in their portfolio positions.

4. Annual review of Loomis, Sayles & Company, LP

- Loomis Sayles' gross return for one-year period ending 8/31/10 was 20.3%, outperforming its account benchmark (Barclays Capital Baa Credit Index) by 4.8%. Loomis Sayles has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. As of 9/30/10, Loomis Sayles managed about \$326.9 million, representing about 6.9% of ACERA's total assets.
- A representative from Loomis Sayles discussed its investment outlook, investment strategy and portfolio characteristics. The representative also informed the Committee that going forward, the portfolio is likely to have increased exposure to global securities as well as to High Yields.

5. Annual review of Baird Advisors

- Baird Advisors' gross return for one-year period ending 8/31/10 was 13.9%, outperforming the account benchmark (Barclays Capital Aggregate Bond Index) by 4.7%. Baird has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. Baird Advisors was placed on Probation status effective 9/16/08 due to underperformance. As of 9/30/10, Baird managed about \$651.1 million, representing about 13.8% of ACERA's total assets.
- Representatives from Baird Advisors presented its investment outlook, investment strategy and portfolio characteristics. The representative also discussed the existing Mortgage Backed Security (MBS) positions in the portfolio as well as its security selection process for these instruments.

6. Discussion of currency as an appropriate investment vehicle in the Private Equity and Alternatives Return Leading Strategies (PEARLS) portfolio

- SIS provided background materials and gave a brief educational session on currency as a potential investment vehicle for the Other Alternative – Absolute Return bucket within ACERA's PEARLS portfolio. SIS indicated that the use of currency could provide additional returns to the ACERA portfolio.
- SIS plans to invite selected currency managers for the Committee's review in the near future.

7. Report on the meeting date of November 2010 Investment Committee Meeting

- Staff reported the rescheduling of ACERA's monthly Investment Committee Meeting to Wednesday, November 3, 2010 at 1:00 p.m. after the Operations Committee Meeting and Retirees Committee Meeting which are scheduled for 9:00 a.m. and 10:30 a.m., respectively.

**TRUSTEE/PUBLIC INPUT**

**RECOMMENDATION**

- The Committee recommends, and I move, that the Board adopt ACERA's new Fixed Income manager structure (specifically, 50% Enhanced Index - Baird, 25% Aggressive Core Plus - Loomis Sayles and 25% Global Bond - Brandywine Global) to increase the global bond exposure in ACERA's fixed income portfolio by reducing the enhanced index core exposure by 5%.

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**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

November 3, 2010

**ADJOURNMENT**

The meeting adjourned at 12:35 p.m.