



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: October 14, 2015
To: Members of the Board of Retirement
From: George Wood – Chair
Subject: Summary of the October 14, 2015 Investment Committee Meeting

The Investment Committee met on Wednesday, October 14, 2015 at 9:40 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Chief Counsel – Joseph Fletcher, Interim Chief Executive Officer – Kathy Foster, Chief of Internal Audit – Harsh Jadhav, and Chief Investment Officer – Betty Tse.

ACTION ITEMS

1. Discussion of and Possible Motion to Recommend to the Board to Adopt a new Real Return Pool Manager Structure
 - Representatives from SIS and Staff presented and recommended changing the manager structure within the Real Return Pool (RRP) with a current asset allocation target of 5% for the named asset class. The current RRP asset class's manager structure was adopted by the Board in 2012. The named structure allocated 40% to commodities and 60% to other inflation hedging assets. The recommendation is based on 1) evolving capital markets, 2) the need to diversify the manager structure in order to invest in a more diversified, risk-adjusted manner that is sensitive to inflation and generates alpha. SIS recommended incorporating public and private natural resources, public and private infrastructure; as well as commodities and liquid investments. Specifically, the proposed structure is 35% Liquid Pool, 40% Private Natural Resources, and 25% Private Infrastructure.
 - The Committee discussed several factors including possible types of investments within each sub-asset category, private versus public markets, inflation expectations, and an appropriate benchmark blended to match the underlying investments.
 - At the conclusion of the discussion, Ms. Caine-Darnes moved, seconded by Mr. Amaral, to adopt the recommendation as presented by SIS and Staff to change the Real Return Pool Manager Structure and Benchmark.
 - The motion carried with 6 yes (Amaral, Cain-Darnes, Carson, Gamble, Rogers, and Wood), 0 no, and 0 abstention.

2. Review of ACERA's Private Equity and Alternatives Return Leading Strategic Policy (PEARLS Policy) and Possible Motion to Recommend to the Board to Adopt an Amended PEARLS Policy
 - Representatives from SIS and Staff presented the Amended ACERA's PEARLS Policy, which provided an update to the PEARLS target allocation to 18% from 15% (approved by the Board on August 20, 2015) The corresponding Target Allocations and Minimum

and Maximum Ranges for the Private Equity and Alternatives Portfolio were also adjusted.

- Staff, working closely with SIS, reviews the PEARLS Policy annually, and makes all necessary changes to: 1) reflect the current conditions of the PEARLS Portfolio, 2) incorporate decisions that the Board has made since the last review of the PEARLS Policy; and 3) improve the style of the PEARLS Policy for consistency and clarity.
- After discussion, Ms. Rogers moved, seconded by Ms. Cain-Darnes, to recommend to the Board to adopt the proposed changes to the PEARLS Policy, subject to the correction on page 5 changing the target allocation reference under “By Investment Manager” to 9.0% vs 7.5%.
- The motion carried with 6 yes (Amaral, Cain-Darnes, Carson, Gamble, Rogers, and Wood), 0 no, and 0 abstention.

3. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2016 – 2017 Investment Plan for ACERA’s PEARLS Asset Class

- SIS presented the 2016 – 2017 Investment Plan for ACERA’s PEARLS Portfolio. The 2016 – 2017 Investment Plan outlines the new target allocations of the PEARLS Portfolio and the annual progression toward the target allocations with an emphasis on the commitments projected to be made in 2016 and 2017 within the PEARLS Portfolio. It is expected that the PEARLS target allocation of 18% will be reached by the end of 2018.
- After discussion, Mr. Gamble moved, seconded by Ms. Cain-Darnes, to recommend to the Board to adopt the 2016 – 2017 Investment Plan for ACERA’s PEARLS Portfolio.
- The motion carried with 6 yes (Amaral, Cain-Darnes, Carson, Gamble, Rogers, and Wood), 0 no, and 0 abstention.

4. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in PEARLS – Buyouts and Venture Capital

- Representatives from Warburg Pincus, presented the investment strategy, goals and objectives of the Warburg Pincus Private Equity XII, L.P. (“WP XII” or “Fund”). The representatives also presented the investment process of and risk management method used by of the Fund.
- After discussion, Mr. Gamble moved, seconded by Mr. Cain-Darnes, to recommend to the Board to adopt an up to \$50 million commitment to the Fund, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The motion carried with 6 yes (Amaral, Cain-Darnes, Carson, Gamble, Rogers, and Wood), 0 no, and 0 abstention.

5. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in PEARLS – Debt Related/Special Situations

- On August 12, 2015, Staff recommended to the Board an up to \$40.0 million commitment to Catalyst V as part of the Debt-Related/Special Situations allocation in the

PEARLS program. This \$40.0 million commitment was approved by the Board on August 20, 2015.

- Upon receipt of a recommendation from Strategic Investment Solutions, Inc. (“SIS”) for an additional \$10 million USD commitment to Catalyst V, Staff concurred with SIS’s recommendation for an additional investment of \$10 million USD to Catalyst V as part of the Debt-Related/Special Situations PEARLS allocation.
- After discussion, Ms. Rogers moved, seconded by Ms. Cain-Darnes, to recommend to the Board to adopt an additional investment of \$10 million commitment to the Fund.
- The motion carried with 6 yes (Amaral, Cain-Darnes, Carson, Gamble, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEM

1. Report on the meeting date of the November 2015 Investment Committee Meeting

- ACERA’s monthly Investment Committee meeting (ICM) is regularly scheduled on the second Wednesday of each month. However, the second Wednesday in November (November 11, 2015) coincides with Veterans Day which is an official County Holiday. Staff proposes to postponed the November ICM to Thursday, November 12 at 9:30 a.m.

Recommendation

- The Committee recommends, and I move, that the Board adopt the new Real Return Pool Manager Structure as presented by SIS and Staff.
- The Committee recommends, and I move, that the Board adopt an Amended PEARLS Policy subject to the correction on page 5 changing the target allocation reference under “By Investment Manager” to 9.0% vs 7.5%..
- The Committee recommends, and I move, that the Board adopt the 2016 – 2017 Investment Plan for ACERA’s PEARLS Asset Class.
- The Committee recommends, and I move, that the Board adopt up to \$50 million commitment to Warburg Pincus XII. pending completion of legal due diligence, background investigations and successful contract negotiation.
- The Committee recommends, and I move, that the Board adopt an additional investment of \$10 million commitment to the Catalyst V, for a total commitment of \$50 million.

TRUSTEE/PUBLIC INPUT

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

November 12, 2015 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 11:46 a.m.