

November 3, 2010

To: Members of the Board of Retirement

From: Keith Carson - Chair

Subject: Summary of the November 3, 2010 Investment Committee Meeting

The Investment Committee met on Wednesday, November 3, 2010 at 1:33 p.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, George Dewey, Liz Koppenhaver, Elizabeth Rogers and George Wood. Also present were Alternate Retired member David 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. Interview of the Three Finalists for ACERA's International Small Cap Equity Manager Search and Possible Motion to Recommend One of the Three to the Full Board
 - At its September 2010 meeting, the Board selected American Century Investments, Franklin Templeton, Pyramis Global Advisors, and William Blair & Company as the short-listed candidates for ACERA's International Small Cap Equity manager search. After completion of the on-site visits to all four short-listed candidates, Staff and SIS prepared their standardized evaluation matrices with added insights and observations gained from these visits. Both Staff and SIS agreed to: 1) eliminate American Century Investments from the final candidate list due to the departure of the Portfolio Manager (PM) for its International Small Cap product under consideration in 2008; its limited track record with the current PM; a number of analysts working on the product with a less than two-year tenure with the firm, and 2) select Franklin Templeton, Pyramis and William Blair & Company as the final candidates for the Committee's interview and consideration.

Following are highlights from each of the three finalists' interviews with Staff and SIS:

Franklin Templeton

- Franklin Templeton's Global Equity Group is based in Ft. Lauderdale, FL and is responsible for the management of the strategy under consideration. It has highly experienced investment professionals with an average tenure of eleven years with the organization and eighteen years in the financial industry.
- Representatives from Franklin Templeton provided an overview of their firm, explained the investment philosophy, process, investment team and research capability. They presented Templeton's target portfolio characteristics as well as

performance which consistently outperformed its 1-, 3- and 5-year net annualized returns over its benchmark as of 9/30/2010.

Pyramis

- Pyramis, located in Smithfield, RI, is an institutional asset management arm of Fidelity Investments. Pyramis has an unusually large international analyst team which also serves the entire Fidelity organization and this team is one of Pyramis's distinctive and competitive advantages.
- Representatives from Pyramis presented the ownership structure of the firm, explained their investment philosophy and process, and highlighted the investment team, research capability and performance. They also named the other '37 Act Counties on its client roster

William Blair

- William Blair, based in Chicago, IL, has been a 100% active-employee owned firm for 75 years. The portfolio management team is highly stable with only one departure in the past five years. The analyst team members have opportunities to become partners and to receive equity ownership in the firm.
- Representatives from William Blair & Company reviewed their organization, their investment strategy (which was co-founded by the lead Portfolio Manager of the product under consideration), research team, stock selection process, portfolio characteristics and performance.
- After discussion, Ms. Elizabeth Rogers moved, seconded by Mr. George Dewey, to retain Franklin Templeton Investments as ACERA's new International Small Cap Equity manager. The motion passed unanimously.

INFORMATION ITEMS

1. Annual review of Bivium Capital Partners

- Bivium's one-year gross return ending 9/30/10 was 11.1%, underperforming its benchmark Russell 3000 + 200 bps by 1.9%. As of 9/30/10, Bivium managed about \$55.4 million, representing approximately 1.2% of ACERA's total Fund. Bivium has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements since its inception with ACERA. Bivium was placed on ACERA's Watchlist due to organizational change effective 6/17/10 as two of the three founders of the firm left the firm due to extenuating personal circumstances.
- Representatives of Bivium presented an overview of their organization, investment strategy, and process, together with updates of their organizational changes to the Committee. They also inquired about ACERA's graduation policy for the emerging manager program. Staff responded that it would consider the said graduation policy in the next review of ACERA's Emerging Investment Manager Policy (EM Policy).

2. Oral status report on the implementation of the agreed-upon actions resulting from the review of ACERA's Directed Brokerage Program at the September 8, 2010 Investment Committee meeting
 - Staff updated the Committee on its progress on the agreed-upon actions.

RECOMMENDATION

- The Committee recommends, and I move, that the Board retain Franklin Templeton Investments as ACERA's new International Small Cap Equity manager.

FUTURE DISCUSSION ITEMS

TRUSTEE/PUBLIC INPUT

A representative of Blaylock Robert Van, LLC informed the Committee that he was interested in obtaining contact information for the investment managers participating in ACERA's Directed Brokerage (DB) Program. Staff responded that it will work with ACERA's DB participating investment managers and CAPIS, ACERA's DB Program administrator, to make the information available to all interested brokers.

ESTABLISHMENT OF NEXT MEETING DATE

December 8, 2010 at 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 5:25 p.m.