



Date: November 7, 2018
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of November 7, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, November 7, 2018 at 9:34 a.m. The Committee members present were Ophelia Basgal, Tarrell Gamble, Jaime Godfrey, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker and Alternate Retired member Nancy Reilly. Members of the Staff present were Dave Nelsen, Chief Executive Officer; Kathy Mount, Chief Counsel; and Betty Tse, Chief Investment Officer.

ACTION ITEMS

1. Discussion of and Possible Motion to Recommend to the Board:

- i) To approve a total investment of up to \$400 million (from ii and iii below) into the following three (3) State Street Global Advisors (SSgA) funds, as follows: (1) State Street Bloomberg Roll Select Commodity Index Non-Lending Fund (up to \$60 Million or 15%); (2) State Street S&P Global Infrastructure Index Non-Lending Common Trust Fund (up to \$140 Million or 35%); and (3) State Street S&P Global LargeMidCap Natural Resources Index Non-Lending Fund (up to \$200 Million or 50%) as part of ACERA’s Real Assets Portfolio’s – Liquid Pool (Liquid Pool);
 - ii) To fully redeem ACERA’s investments in AQR Customized Real Return Offshore, Gresham eTAP, and Gresham TAP Funds for a combined redemption of (up to \$300 million) and infuse the entire redemption proceeds into the Real Assets Portfolio’s Liquid Pool;
 - iii) To increase the Real Assets Portfolio to its approved 5% allocation of the Total Fund by rebalancing monies, as needed, from the Equities and Fixed Income asset classes (up to \$100 million) and infusing the entire amount into the Liquid Pool
- Representatives of State Street Global Advisors (SSgA), a wholly-owned subsidiary of State Street Bank and Trust Company, presented to the Committee the history, background, and culture of SSgA, as well as the ongoing opportunity set, investment team, AUM, scope, and strategy of SSgA’s indexing business. The representatives noted that SSgA is currently providing similar Real Assets indexing services to two other California counties.
 - The representatives discussed the elements of Real Assets index composition including the rationale for using the Bloomberg Roll Select Commodity Index vs. the Bloomberg

Commodity Index to allow for selection among all available forward futures contracts to enhance performance. SSgA will also invest in the S&P Global LargeMidCap Natural Resources Index over the S&P Global Natural Resources Index to broaden exposure to global materials, energy, and agriculture equities thereby reducing exposure to predominantly large, integrated oil companies. All three proposed Liquid Pool components provide potential hedges against inflation thereby improving diversification, and lowering correlation with other traditional asset classes.

- Responding to a trustee question, Verus explained that, among the several institutional index providers examined, SSgA was the only one that had an existing capability to provide the custom strategy required for ACERA's Real Assets Liquid Pool.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Darryl Walker, to recommend to the Board that it:
 - Approve a total investment of up to \$400 million (from ii and iii below) into the following three (3) State Street Global Advisors (SSgA) funds, as follows: (1) State Street Bloomberg Roll Select Commodity Index Non-Lending Fund (up to \$60 Million or 15%); (2) State Street S&P Global Infrastructure Index Non-Lending Common Trust Fund (up to \$140 Million or 35%); and (3) State Street S&P Global LargeMidCap Natural Resources Index Non-Lending Fund (up to \$200 Million or 50%) as part of ACERA's Real Assets Portfolio's – Liquid Pool (Liquid Pool);
 - Approve fully redeeming ACERA's investments in AQR Customized Real Return Offshore, Gresham eTAP, and Gresham TAP Funds for a combined redemption of (up to \$300 million) and infuse the entire redemption proceeds into the Real Assets Portfolio's Liquid Pool;
 - Approve increasing the Real Assets Portfolio to its approved 5% allocation of the Total Fund by rebalancing monies, as needed, from the Equities and Fixed Income asset classes (up to \$100 million) and infusing the entire amount into the Liquid Pool.
 - All approvals are pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 8 yes (Basgal, Gamble, Godfrey, Levy, Reilly, Rogers, Walker, and Wood), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend to the Board to Approve an up to \$40 Million Investment in EQT Infrastructure IV in ACERA's Real Assets Portfolio – Infrastructure
- Representatives of EQT Partners presented to the Committee the history, background, and culture of the firm, as well as the ongoing opportunity set, investment team, and strategy

of EQT Infrastructure IV (EQT IV). The representatives noted that ACERA is currently invested in one other EQT fund (EQT Credit Opportunities III Fund (2016)).

- The representatives discussed EQT IV's strategy of focusing on infrastructure assets in the transportation and logistics sectors. The strategy has remained the same throughout all the predecessor funds, and the strategy has performed well since inception. Through June 30, 2018, EQT I, II, and III have produced IRR's of 17%, 22%, and 45%, net of fees, respectively.
- Verus explained that EQT's prior three infrastructure funds ranked in the top quartile for returns for their vintage years of 2008, 2013, and 2016 as compared to Global Buyout Funds of similar vintage. Verus compared EQT fund results against similar infrastructure funds in its own database and found that EQT consistently ranks as the top performing infrastructure manager.
- After discussion, Mr. George Wood moved, seconded by Mr. Jaime Godfrey, to recommend that the Board Approve an up to \$40 Million Investment in EQT Infrastructure IV in ACERA's Real Assets Portfolio – Infrastructure, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
- The motion carried with 8 yes (Basgal, Gamble, Godfrey, Levy, Reilly, Rogers, Walker, and Wood), 0 no, and 0 abstention.

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports

1. Discussion of Proposed Revisions To ACERA's Real Estate Investment Guidelines, Policies and Procedures
 - Seeking input from the Committee, Staff and representatives from Callan discussed the proposed changes to the real estate policy. Staff and Callan suggested adding the flexibility of debt real estate and international real estate to reflect the current investments of the real estate asset class and provide for greater diversification, but within defined limits. Furthermore, Staff and Callan also recommended adding a compliance checklist for private real estate placements.
 - Representatives from Callan provided an in-depth education regarding debt real estate and international real estate to the ACERA real estate portfolio and explained the rationale and potential advantages and further diversification of adding these additional investment types.

- The Committee inquired about how emerging investment managers for real estate fit into the policy, and separately, suggested that the Real Estate performance management report be changed to semi-annual from quarterly.
- Staff and Callan will return with an Action Item in the next couple of months to make a formal recommendation.

Recommendations:

- The Committee recommends, and I move, that the Board
 - i. Approve a total investment of up to \$400 million (from ii and iii below) into the following three (3) State Street Global Advisors (SSgA) funds, as follows: (1) State Street Bloomberg Roll Select Commodity Index Non-Lending Fund (up to \$60 Million or 15%); (2) State Street S&P Global Infrastructure Index Non-Lending Common Trust Fund (up to \$140 Million or 35%); and (3) State Street S&P Global LargeMidCap Natural Resources Index Non-Lending Fund (up to \$200 Million or 50%) as part of ACERA's Real Assets Portfolio's – Liquid Pool (Liquid Pool);
 - ii. Fully redeem ACERA's investments in AQR Customized Real Return Offshore, Gresham eTAP, and Gresham TAP Funds for a combined redemption of (up to \$300 million) and infuse the entire redemption proceeds into the Real Assets Portfolio's Liquid Pool;
 - iii. Increase the Real Assets Portfolio to its approved 5% allocation of the Total Fund by rebalancing monies, as needed, from the Equities and Fixed Income asset classes (up to \$100 million) and infusing the entire amount into the Liquid Pool.

All approvals are pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

- The Committee recommends, and I move, that the Board Approve an up to \$40 Million Investment in EQT Infrastructure IV in ACERA's Real Assets Portfolio – Infrastructure, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

Betty Tse, Chief Investment Officer, updated the Committee on the current status of the Small Cap Growth Search. Staff and Verus finished the due diligence site visits and found that one of the four managers is resource-constrained in terms of its organization and team.

With the consent from the Committee, Staff may bring fewer than four candidates to present in the interview at the December 12 Investment Committee Meeting.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, December 12, 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 11:59 a.m.