



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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November 19, 2014

To: Members of the Board of Retirement

From: George Wood – Vice Chair

Subject: Summary of the November 19, 2014 Investment Committee Meeting

The Investment Committee met on Wednesday, November 19, 2014 at 9:32 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, George Dewey, Liz Koppenhaver, Elizabeth Rogers, Donald White, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were, Vincent Brown – Chief Executive Officer, Kathy Foster, Assistant Chief Executive Officer, Joseph Fletcher – Chief Counsel, Susan Weiss – Associate Counsel, and Betty Tse – Chief Investment Officer.

ACTION ITEMS

1. Review of ACERA's Directed Brokerage (DB) Policy and Possible Motion to Recommend to the Board to Adopt the Amendments to the DB Policy
 - Staff completed its first formal triennial review of ACERA's DB Policy since adoption and proposed amendments to the 2011 DB Policy specifically, updating Appendix I (List of Directed Brokerage Program Participating Investment Managers and Target Percentage of Direction) and Appendix II (List of Correspondent Brokers) to the DB Policy. After brief discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to Adopt the proposed Amendments to the DB Policy.
 - The motion carried 7 yes (Amaral, Cain-Darnes, Dewey, Koppenhaver, Rogers, White, and Wood), 0 no, and 0 abstention.
2. Review of ACERA's Directed Brokerage (DB) Program and Possible Motion to Recommend to the Board to Continue the Program
 - Staff presented its fourth comprehensive review of ACERA's DB Program since inception through 2Q14 and concluded that ACERA achieved all four goals as set forth in the DB Policy. This is the first triennial review since 2011; previous reviews were done annually. In addition, Staff provided the Committee with a cost-benefit analysis which showed a net gain of approximately \$995K (approximately \$133K annually) since inception through 2Q14.
 - A representative from Zeno Consulting Group, LLC (Zeno), ACERA's Transaction Cost Consultant, discussed the firm's analysis on Best Execution practices of participating Investment Managers. Zeno expressed its satisfaction with ACERA's DB Program and

stated that Staff continues to perform extraordinary due diligence work on the Program when compared to its peers.

- After discussion, Mr. George Dewey moved, seconded by Ms. Annette Cain-Darnes, to recommend to the Board to continue the DB Program. The motion passed unanimously.
- The motion carried 7 yes (Amaral, Cain-Darnes, Dewey, Koppenhaver, Rogers, White, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Review of ACERA's Third – Party Directed Brokerage (DB) Administrator – Capital Institutional Services, Inc.

- Staff conducted the fourth service review of ACERA's Third-Party DB Administrator – Capital Institutional Services, Inc. (CAPIS) and concluded that CAPIS fulfilled its roles and responsibilities as set forth in the DB Policy as well as its contractual obligations since inception with ACERA.
- CAPIS described its organization, the current state of securities trading in general, trends in the commission recapture business, and the status of ACERA's commission recapture program. In line with Zeno, CAPIS recommends ACERA continue its DB Program.

2. Review of Bivium Capital Partners, LLC

- Representatives of Bivium presented an overview of their organization, investment strategy, process, and performance. The central focus of the discussion related to the changes Bivium had made to its sub-managers and, as a result, to the portfolio composition during November/December, 2013 and January, 2014 period to potentially enhance future account performance. Among the changes, one new manager experienced higher than expected trading costs which are expected to be transitory. The review found Bivium to be in compliance with ACERA's reporting requirements and ACERA's Emerging Investment Manager Policy.
- For the one-year period ending 09/30/14, the account managed by Bivium returned 15.88% (gross), underperforming its benchmark (Russell 3000 + 100 bps) by 2.89%. Owing to underperformance, Bivium was placed on ACERA's Watchlist and Probation, effective 03/06/14 and 06/04/12, respectively. Bivium said that it expects account performance to improve following recent changes to the account structure and manager composition. Also, Bivium was placed on the Watchlist, effective 08/15/14 owing to organizational change.

3. Review of Trust Company of the West (TCW)

- Representatives from TCW provided updates on its organization, its investment process, philosophy, and performance. TCW has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements.
- TCW's gross return for the one-year period ending 9/30/14 was 12.03%, underperforming its account benchmark (Russell 1000 Growth Index + 200 bps) by 9.46%. TCW was placed on ACERA's Watchlist status effective 12/06/12 due to underperformance. As of 9/30/14, TCW managed approximately \$477.9 million, representing about 7.1% of ACERA's total assets. TCW explained that its recent underperformance can be traced to current market conditions during which defensive (high dividend) stocks have significantly outperformed cyclical (growth) stocks. TCW's investment style of selecting concentrated high growth stocks has lagged the Russell 1000 Growth Index in recent years.

Recommendation

- The Committee recommends, and I move, that the Board Adopt the Proposed Amendments to the Directed Brokerage Policy.
- The Committee recommends, and I move, that the Board Continue the Directed Brokerage Program.

TRUSTEE/PUBLIC INPUT

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

December 10, 2014 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 12:35 p.m.