



Date: December 6, 2017  
To: Members of the Board of Retirement  
From: Annette Cain-Darnes –Chair  
**Subject: Summary of December 6, 2017 Investment Committee Meeting**

The Investment Committee (“Committee”) met on Wednesday, December 6, 2017 at 1:00p.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Dave Nelsen – Chief Executive Officer, Kathy Foster – Asst. Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, Kathy Mount – Chief Counsel, and Betty Tse – Chief Investment Officer (CIO).

**Action Item: Matters for discussion and possible motion by the Committee**

1. Discussion of and Possible Motion to Recommend to the Board to Approve the Finalists for ACERA’s General Investment Consultant Search
  - Staff presented the recommendation to approve three finalists for the General Investment Consultant Search. A Trustee asked why only three General Investment Consultants (“Consultants”) were selected as Finalists, when the final scores of the top 4 candidates (RV Kuhns) were so close. Staff responded that they have selected the top three scoring Consultants for additional review and evaluation and would return to the Committee for additional guidance, if necessary. Staff’s recommendation includes the following:
    - (1) Meketa Investment Group, Inc.
    - (2) NEPC, LLC
    - (3) Verus Advisory, Inc.
  - After further discussion, Mr. George Wood moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to approve the Finalists for ACERA’s General Investment Consultant Search
  - The motion carried with 7 yes (Amaral, Basgal, Cain-Darnes, Carson, Gamble, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA’s Absolute Return Asset Class – Other Alternatives/Opportunistic
  - Representatives from Blackstone discussed the firm’s major business lines, how these business lines are involved in supporting the Blackstone Strategic Opportunity Fund (“BSOF”), BSOF’s investment process, and its return and risk objectives. The representatives also discussed the global opportunities available to BSOF, its ability to invest in all major asset classes across the liquidity spectrum, and its active hedging program, which limits the Fund’s exposure to market risks. Finally, the representatives highlighted the Fund’s defensive nature, diversifying return profile, low return correlation to traditional asset classes, and relatively high risk-adjusted returns.

- After further discussion, Mr. George Wood moved, seconded by Ms. Elizabeth Rogers, to recommend to the Board to Adopt an up to \$80 million Investment in BSOF for ACERA's Absolute Return Asset Class pending completion of legal due diligence, background investigations, and successful contract negotiation.
  - The motion carried with 6 yes (Basgal, Cain-Darnes, Koppenhaver, Rogers, Walker and Wood), 1 no (Gamble), and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA's Real Assets Asset Class – Infrastructure
- Representatives from I Squared Capital ("Firm") presented to the Committee the history, background, and culture of the Firm. The representatives also discussed the opportunity set, investment team, and general strategy of ISQ Global Infrastructure Fund II. In addition, the representatives discussed the Firm's proprietary risk model and how it is used to compare infrastructure assets with different financial, operational, and policy characteristics. The model is an integral part of the Firm's risk management system.
  - After further discussion, Ms. Liz Koppenhaver moved, seconded by Ms. Elizabeth Rogers, to recommend to the Board to Adopt an up to \$40 million Investment in ISQ Global Infrastructure Fund II for ACERA's Real Assets Asset Class pending completion of legal due diligence, background investigations, and successful contract negotiation.
  - The motion carried with 5 yes (Basgal, Cain-Darnes, Koppenhaver, Rogers, and Walker), 0 no, and 0 abstention.

### **INFORMATION ITEMS**

1. Quarterly Performance Review for the Third Quarter of 2017 – Equities and Fixed Income
- For 3Q2017, ACERA's Total Fund returned 4.2% gross (4.2% net of fees), compared to the Policy Index return of 4.5%. For the year ending 9/30/2017, the Total Fund returned 15.5% gross (15.2% net of fees) compared to the Policy Index of 15.3%. The Total Fund's results ranked in the top 7<sup>th</sup> and 4<sup>th</sup> percentile for the quarter and one year periods, respectively.
  - As of 09/30/2017, the market value of the Total Fund was \$7,827,753,145.
2. Quarterly Performance Review for the Third Quarter of 2017 – Real Estate
- ACERA's real estate portfolio, including the Oakland Building, returned 1.75% gross (1.50% net) for 3Q2017 and 9.03% gross (7.96% net) for the 1-year period ending 9/30/2017 versus the NCREIF-ODCE benchmark of 1.87% gross (1.64% net) and 7.66% gross (6.70% net), respectively.
  - As of 9/30/2017, the market value of ACERA's real estate portfolio was \$519.2 million.
3. Semiannual Performance Review for the Period ending June 30, 2017 – PEARLS

- Verus provided a brief overview of the PEARLS program through June 30, 2017. As of that date, the PEARLS Portfolio had a total market value of \$766.3 million, with \$449.4 million in Private Equity and \$316.8 million in Alternatives. This reported market value represents 10.1% of the Total Fund in comparison to the 18.0% asset allocation target for PEARLS.
- Total commitments to the PEARLS program, as of 06/30/2017<sup>1</sup>, were \$1.2 billion (16.4%), including \$895.1 million towards Private Equity and \$344.8 million to Alternatives. The PEARLS portfolio has produced +11.5% IRR since inception, including all inactive funds.

4. Semiannual Performance Review for the Period ending June 30, 2017 – Real Assets

- Verus provided a brief overview of the Real Assets program as of June 30, 2017. As of that date, the Real Assets asset class had a total market value of \$269.5 million; representing about 3.6% of ACERA's Total Fund (class target is 5.0%). Total commitments to the Real Assets Portfolio, as of 6/30/2017 were \$421.7 million (5.6%). Since inception through the period ending 06/30/2017, the Real Assets asset class returned -6.8% (net) IRR.

5. CA Gov. Code § 7514.7 Information Report

- To meet this new annual reporting requirement, Staff shared the construct of this information item and briefly discussed §7514.7. The attachments included California government codes § 7514.7 and § 6254.26, as well as charts disclosing the required fee reporting.

**Recommendations:**

- The Committee recommends, and I move, that the Board Approve the Finalists for ACERA's General Investment Consultant Search. The Finalists are: Meketa Investment Group, Inc., NEPC, LLC, and Verus Advisory, Inc. Staff will conduct further due diligence, including site visits to all three Consultants' headquarters.
- The Committee recommends, and I move, that the Board Adopt an up to \$80 million Investment in Blackstone Strategic Opportunity Fund for ACERA's Absolute Return Asset Class pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Adopt an up to \$40 million Investment in ISQ Global Infrastructure Fund II for ACERA's Real Assets Asset Class pending completion of legal due diligence, background investigations, and successful contract negotiation.

**TRUSTEE/PUBLIC INPUT**

None

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, January 10, 2018 at 9:30 a.m.

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<sup>1</sup> The Total Fund Market Value as of June 30, 2017 was \$7,558,634,864.