

December 8, 2010

To: Members of the Board of Retirement

From: Keith Carson - Chair

Subject: Summary of the December 8, 2010 Investment Committee Meeting

The Investment Committee met on Wednesday, December 8, 2010 at 9:07 a.m. The Committee members present were Dale Amaral, Keith Carson, George Dewey, Liz Koppenhaver, Elizabeth Rogers, Donald White 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. Discussion and Possible Motion to Adopt the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's Currency Manager Search
 - SIS, in conjunction with Investment Staff, has prepared a proposed timeline, search criteria, and evaluation matrix for ACERA's Currency Manager search. SIS and Staff addressed concerns raised by Trustees regarding the appropriate search process for this type of manager.
 - After discussion, Ms. Elizabeth Rogers moved, seconded by Mr. George Wood, to adopt the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's Currency Manager search. The motion passed unanimously.
2. Review of ACERA's Emerging Investment Manager Policy (EM Policy) and Possible Motion to Adopt an Amended EM Policy
 - Staff completed its second review of ACERA's EM Policy since adoption and made the following notable proposed changes: 1) Establish graduation policy language for the Emerging Investment Manager (EM) Program and 2) Clarify roles and responsibilities of all the participants in the EM Program.
 - After discussion and agreement on simplification of Section VIII (C) Roles and Responsibilities of Staff (p. 5) and on two changes to Section XII (B) Emerging Investment Manager Graduation for Manager-of-Managers Mandates (p. 8), Ms. Liz Koppenhaver moved, seconded by Ms. Elizabeth Rogers to adopt an amended EM Policy with minor modifications. The motion passed unanimously.

INFORMATION ITEMS

1. Annual review of Mellon Capital Management

Representatives from Mellon Capital Management presented the following information:

- An overview of ACERA's investment in Mellon's EB Daily Valued Stock Index Fund, a fund replicating the S&P 500 Index, and of Mellon's organization and performance.
- Mellon's one-year gross return ending 10/31/10 was 16.59%, outperforming its account benchmark (S&P 500 Index) by 0.07%. The same period's net return was 16.58%, outperforming by 0.06%. For the past year, Mellon did not change its investment strategy or style, and was in compliance with ACERA's reporting requirements. As of 10/31/10, Mellon managed about \$764.0 million for ACERA, representing roughly 15.8% of the total Fund.

2. Quarterly performance review for the third quarter of 2010 – equities and fixed income

Representatives of SIS presented the following information:

- ACERA's total Fund returned 10.5% in the third quarter of 2010 and was ranked in the upper 6th percentile among public funds greater than \$100 million. The Fund matched its Policy Index of 10.5% but outperformed the median public fund by 1.9%. Longer term, the three-year gross return of -2.3% (61st percentile) underperformed its Policy Index by 1.1% and five-year gross return of 3.9% (43rd percentile) underperformed its Policy Index by 0.7%. The market value of the total Fund as of 9/30/10 was \$4,889,656,643.

3. Quarterly performance review for the third quarter of 2010 – real estate

Representatives from The Townsend Group presented the following information:

- ACERA's real estate portfolio returned 3.8% in the third quarter of 2010, underperforming its benchmark NPI of 3.9% by 0.1%. Longer term, the three-year and five-year gross returns of -10.0% and 0.4% underperformed the benchmark by 5.4% and 3.3%, respectively. As of 9/30/10, the total market value of ACERA's real estate portfolio was about \$255.0 million, approximately 5.2% of ACERA's total Fund.

4. Semi-annual performance review for the period ending June 30, 2010 – PEARLS

Representatives from SIS presented the following information:

- ACERA's PEARLS portfolio produced a 14.42% IRR. In the first half of 2010, ACERA made one new Private Equity commitment and one Alternative follow-on infusion for a total of \$60.0 million. As of 6/30/10 the total market value of ACERA's PEARLS Portfolio was about \$112.5 million, representing 2.5% of the total fund.

5. Status report on the completion of asset transition from the Brandywine Small Cap Value account to the Kennedy Small Cap Value account

SIS and Staff provided the Committee with the following report:

- ACERA's Domestic Small Cap Value transition commenced, as planned, on September 21, 2010 and traded through October 1, 2010 (9 business days) when Kennedy Small Cap Value began investing. The total trading costs were 0.98% (the implementation shortfall). The largest of these costs was opportunity cost, or the timing cost of the transition due to tracking error between buys and sells.

6. Quarterly report of ACERA's investment manager, consultant, and custodian bank fees for the third quarter of 2010

Staff provided the Committee with the following report:

- In the third quarter of 2010, ACERA paid approximately \$4.32 million in investment manager fees, about 8.84 bps of ACERA's total market value of about \$4.89 billion. ACERA also paid approximately \$289,000 in consultant and custodian fees, about 0.59 bps of ACERA's total market value.

7. Quarterly report on ACERA's Directed Brokerage (DB) Program for the third quarter of 2010

- In the third quarter of 2010, the total recaptured dollar amount for ACERA's Directed Brokerage (DB) Program was \$46,573.99. For the quarter, Pzena directed the highest percentage (23.55%) of trading volume and Pzena generated the largest directed commission dollar amount (\$20,847.20). CAPIS received the highest total percentage of ACERA's directed trades (47.91%) among all correspondent brokers within the network. The program continues to operate in compliance with ACERA's DB Policy.
- Staff informed the Committee that the ACERA website had been updated with contact information of all DB-participating investment managers and pertinent consultants.

8. Quarterly report on ACERA's securities lending activities for the third quarter of 2010

Staff provided the Committee with the following report:

- In the third quarter of 2010, ACERA's consolidated earnings from Securities Lending activities was \$508,866. The U.S. Equity program generated the highest earnings (\$296,099). As of September 30, 2010, the market value of securities on loan was \$468,653,537. Goldman Sachs & Co. was the largest borrower of ACERA's securities (34.9%).

9. Quarterly report on Investment Products and Services Introduction (IPSI) for the third quarter of 2010

Staff provided the Committee with the following report:

- In the third quarter of 2010, Staff received a total of 43 inquiries from prospective investment vendors and met with eight.

10. Updated Investment Committee Workplan for 2010

Staff provided the Committee with the following report:

- Staff has distributed a copy of the updated Investment Committee Workplan (Workplan) for the year 2010.

TRUSTEE/PUBLIC INPUT

RECOMMENDATION

- The Committee recommends, and I move, that the Board adopt the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's Currency Manager search.
- The Committee recommends, and I move, that the Board adopt the amended ACERA's Emerging Investment Manager Policy with minor modifications.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

January 12, 2011

ADJOURNMENT

The meeting adjourned at 12:04 p.m.