



Date: December 12, 2018  
To: Members of the Board of Retirement  
From: Liz Koppenhaver  
Subject: Summary of December 12, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, December 12, 2018 at 9:33 a.m. The Committee members present were Ophelia Basgal, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Henry Levy, and Elizabeth Rogers. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Harsh Jadhav – Chief of Internal Audit, Kathy Mount, Chief Counsel; and Betty Tse, Chief Investment Officer.

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an Amended ACERA Real Estate Investment Guidelines, Policies and Procedures
  - This item was presented as an information item at the last Investment Committee Meeting on November 7, 2018. Staff and ACERA’s Real Estate Investment Consultant Callan Associates (“Callan”) recommended adding debt real estate and international real estate into the policy to reflect the flexibility allowed in some of the current real estate investments and to provide greater diversification, but within defined limits. Both Debt Real Estate and International Real Estate are each limited to 15 percent of the real estate asset allocation. Staff and Callan also added a compliance checklist for private real estate placements.
  - After further discussion, Ms. Ophelia Basgal moved, seconded by Mr. Keith Carson, to recommend to the Board to Adopt an Amended ACERA Real Estate Investment Guidelines, Policies and Procedures.
  - The motion carried with 6 yes (Basgal, Carson, Koppenhaver, Levy, Rogers, and Walker), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2019 – 2020 Investment Plan for ACERA’s Real Estate Asset Class
  - Avery Robinson of Callan presented the 2019-2020 Real Estate Investment Plan. He provided a portfolio overview, a market overview, and certain investment plan recommendations. In all categories ACERA is in compliance for return targets, investment style allocation, and risk policies. Given the Total Fund’s market value as of 3Q2018, Callan recommends that ACERA commit \$100 million to Core/Core-Plus strategies before the end of 2Q2019. Callan also recommends that ACERA commit \$75 million to Value-Added/Opportunistic strategies –with approximately \$25 million to be committed before Mid-Year 2019, and an additional \$50 million by year end 2019.

- After further discussion, Ms. Ophelia Basgal moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to Adopt the 2019 – 2020 Investment Plan for ACERA’s Real Estate Asset Class.
- The motion carried with 6 yes (Basgal, Carson, Koppenhaver, Levy, Rogers, and Walker), 0 no, and 0 abstention.

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

1. Update on ACERA’s U.S. Equity Small Cap Growth Manager Search – Domestic Equities

- Staff and Verus discussed their findings from the on-site visits to the U.S. Equity Small Cap Growth Managers (Domestic Equities), the changes in finalist scores after the site visits, and the reasons behind their suggestion to reduce the finalist list from four managers to two. The relative merits of the two proposed finalists – Virtus/KAR and William Blair – were discussed, along with the issues related to the two managers – Granahan and Pier Capital - that were not proposed to move forward as finalists. Examples of the issues discussed included performance attribution, sector weightings, tracking error, investment process, and manager resources.
- After further discussion, the Trustees concurred with Staff and Verus’s suggestion to reduce the finalist list to the two managers, Virtus/KAR and William Blair, who will present at the January 2019 ICM as the final candidates for ACERA’s U.S. Equity Small Cap Growth Manager Search.

2. CA Gov Code § 7514.7 Alternative Investment Vehicles Information Report

- Staff presented the information required by California Government Code Section 7514.7. The two charts presented were: 1) Section 7514.7 which discloses certain fees and expense (and is mandatory for all contracts entered into after January 1, 2017) and 2) Section 6254.26 which provides performance data and other information for all Alternative Investment Vehicles. The charts were made available to the public during the meeting.

3. Semiannual Performance Review for the Period Ending June 30, 2018 – Private Equity

- Verus provided a brief overview of the Private Equity Program through June 30, 2018. As of that date, the Private Equity Portfolio had a total market value of \$500.8 million. This reported market value represents 6.2% of the Total Fund<sup>1</sup> in comparison to the 9.0% asset allocation target for Private Equity. For the one-year period and since inception periods ending June 30, 2018, ACERA’s Private Equity Portfolio returned 18.1% and 15.6% vs.

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<sup>1</sup> The Total Fund Market Value as of June 30, 2018 was \$8,103,814,742.

the Thomson Reuters C|A Global All Private Equity Benchmark which returned 18.8% and 14.0%, respectively.

- As of 6/30/2018, total commitments in the Private Equity Program aggregated \$1,105.1 million or 13.6% of its class target.

#### 4. Semiannual Performance Review for the Period Ending June 30, 2018 – Absolute Return

- Verus provided a brief overview of the Absolute Return (AR) Program through June 30, 2018. As of that date, the AR Portfolio had a total market value of \$597.7 million, representing 7.4% of ACERA's Total Fund (class target is 9.0%). For the one-year period ending June 30, 2018, ACERA's AR Portfolio returned 1.4% versus the HFRI Fund of Funds Composite Index Benchmark of 5.2%.
- As of 6/30/2018, total commitments to the AR Program aggregated approximately \$669.7 million or 8.3% of its class target. The AR Portfolio has returned an estimated 3.8% return (net) since inception.

#### 5. Semiannual Performance Review for the Period Ending June 30, 2018 – Real Assets

- Verus provided a brief overview of the Real Assets Program as of June 30, 2018. As of that date, the Real Assets Asset Class had a total market value of \$318.9 million; representing about 3.9% of ACERA's Total Fund (class target is 5.0%). For the one-year period ending June 30, 2018, ACERA's Real Assets Portfolio returned 11.3% vs. the blended S&P Global Natural Resources/S&P Global Infrastructure/Bloomberg Commodities Benchmark of 13.8%.
- As of 6/30/2018, total commitments to the Real Assets Portfolio, was \$496.7 million or 6.1% of its class target. Since inception through the period ending 06/30/2018, the Real Assets Asset Class returned -3.9% (net).

#### 6. Quarterly Performance Review for the Third Quarter of 2018 – Real Estate

- The representative from Callan presented the 3Q2018 Portfolio Measurement Report. As of 9/30/2018, ACERA's Real Estate portfolio (including the Oakland building) returned 1.8% (net) for 3Q2018 and up 8.7% (net) for 1-year period ending 9/30/2018 versus the NCREIF-ODCE benchmark of 1.9% (net) and 7.7% (net), respectively.
- As of 09/30/2018, the market value of ACERA's real estate portfolio was \$555.9 million comprising 6.7% of the Total Fund<sup>2</sup> (class target is 8.0%). ACERA's Funded & Committed level to Core is 74.6% and to Non-Core 25.4%.

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<sup>2</sup> The Total Fund Market Value as of September 30, 2018 was \$8,278,112.157.

**Recommendations:**

- The Committee recommends, and I move, that the Board Adopt an Amended ACERA Real Estate Investment Guidelines, Policies and Procedures
- The Committee recommends, and I move, that the Board Adopt the 2019 – 2020 Investment Plan for ACERA’s Real Estate Asset Class

**TRUSTEE/PUBLIC INPUT**

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, January 9, 2019 at 9:30 a.m.

**ADJOURNMENT**

The meeting ended at 11:40 a.m.