

**Alameda County Employees'  
Retirement Association**

**ACERA**

**GENERAL INVESTMENT GUIDELINES, POLICIES  
AND PROCEDURES**

**AMENDED September 20, 2018**

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**PROCEDURES**  
**2018**

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<sup>1</sup> Prepared for ACERA by Cortex Consulting; adopted by the Board of ACERA on March 8, 2000; revised in May, 2013.

# **ACERA**

## **GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES**

### **SECTION I: MISSION AND PURPOSE**

The Alameda County Employees' Retirement Association (ACERA) exists for the purposes of providing accurate, timely benefits to its members and their beneficiaries and defraying reasonable expenses of administration.

The Board of Retirement (the Board), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the Fund), hereby establishes the following "General Investment Guidelines, Policies and Procedures" (the Policy) for the investment of ACERA's assets. The Board reserves the right to amend, supplement, or rescind this Policy at any time.

The Board is directed by law and given discretion to prudently invest the Fund's assets. The purpose of this statement of Policy is to assist ACERA in effectively supervising the Fund and to encourage effective communication between ACERA and its investment managers (Manager(s)) and investment consultants (Consultant(s)).

### **SECTION II: CONSTITUTIONAL REQUIREMENTS**

Article 16 §17 of the California State Constitution provides in pertinent part as follows:

"Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all the following:

- a. The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.
- b. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits, to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

- c. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- d. The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.
- e. The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.
- f. With regard to the retirement board of a public pension or retirement system which includes in its composition elected employee members, the number, terms, and method of selection or removal of members of the retirement board which were required by law or otherwise in effect on July 1, 1991, shall not be changed, amended, or modified by the Legislature unless the change, amendment, or modification enacted by the Legislature is ratified by a majority vote of the electors of the jurisdiction in which the participants of the system are or were, prior to retirement, employed.
- g. The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section.
- h. As used in this section, the term “retirement board” shall mean the board of administration, board of trustees, board of directors, or other governing body or board of a public employees’ pension or retirement system; provided, however, that the term “retirement board” shall not be interpreted to mean or include a governing body or board created after July 1, 1991 which does not administer pension or retirement benefits, or the elected legislative body of a jurisdiction which employs participants in a public employees’ pension or retirement system.”

### **SECTION III: ROLES AND PRINCIPAL DUTIES**

The Fund investments shall be prudently planned, implemented, managed, monitored and guarded. The Board, Investment Committee (Committee), Investment Staff (Staff), Consultant, Custodian Bank (Custodian), and Manager shall coordinate this process. See the defined roles and principal duties of the above-mentioned parties below:

- A. THE BOARD shall review and approve Committee recommendations. The Board also reviews, adopts and monitors all investment policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund.
- B. THE COMMITTEE shall identify issues pertinent to the effective investment and administration of the Fund and initiate analysis of such issues by Staff, Consultant or Managers. It also reviews Staff's and Consultant's recommendations regarding all investment policies and investment Fund management. The Committee provides recommendations to the Board for adoption, oversees implementation, and monitors the investment programs in accordance with all applicable laws and Board-established policies, guidelines and procedures. Refer to Schedule VII – Charter of ACERA's Investment Committee of the Board for detailed Committee responsibilities.
- C. STAFF shall oversee the Fund's investment program activities, implement the Board/Committee's decisions, make recommendations to the Committee regarding Fund management, and recommend investment-related policies and procedures to the Committee. Additionally, Staff monitors the performance and compliance of Managers in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as "Specific Investment Guidelines"<sup>2</sup> set out in the investment agreement between ACERA and each Manager (Agreement or Contract). Staff also facilitates the Committee meetings and completes activity as directed by the Board/Committee.
- D. CONSULTANT shall review, analyze and evaluate the Fund's effectiveness and efficiency and make fund management related recommendations. Consultant assists Staff in implementing the Board/Committee's decisions and developing all investment-related policies. Consultant's responsibilities are detailed in the service agreement between ACERA and Consultant.
- E. CUSTODIAN shall provide custody of ACERA's investment assets. Custodian's responsibilities are detailed in the service agreement between ACERA and Custodian.
- F. MANAGER shall prudently manage its Managed Account (defined in Section VII – Eligible Asset Categories) in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as Specific Investment Guidelines. Manager's responsibilities are detailed in the Agreement.

#### **SECTION IV: INVESTMENT PHILOSOPHY**

The following is a summary of ACERA's investment philosophy. For the complete statement, please refer to Schedule VI of this document, "ACERA Investment Philosophy."

The Board believes that its investment policies, in aggregate, are the most important determinants of its investment success. Compliance with investment policies should, therefore, be monitored

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<sup>2</sup> Includes the Objectives/Guidelines of all comingled funds.

rigorously. The Board also believes that performance of the total portfolio, individual asset classes, and Managers should be monitored and compared to appropriate, predetermined benchmarks.

The Board believes that prudent management of risk is a central element of the investment function and that diversification among asset classes will reduce risk and enhance returns of the overall investment portfolio in the long term. Further, the Board believes that strategic asset allocation has the greatest impact on long-term investment returns and volatility.

The Board believes that market efficiency and opportunities vary among asset classes and may change over extended periods of time; therefore, the Board believes that ACERA's portfolio management strategies should adapt over time to reflect the changing nature of capital markets.

The Board's primary goals in managing the Fund are

1. To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;
2. To comply with all applicable fiduciary standards; and
3. To add marginal value that will help reduce the costs of the plan and/or to increase benefits for the beneficiaries.

The Board believes that, to achieve its goals, ACERA must invest the necessary resources to build and maintain an appropriate organizational infrastructure.

## **SECTION V: ASSET ALLOCATION AND REBALANCING**

Asset allocation targets, a function of the returns and risks from various asset classes and the nature of the plan's liabilities, are set forth in Schedule I. A goal of asset allocation is balancing asset growth versus liability growth considering time horizons, liabilities and risk tolerance. ACERA's objective is to conduct an asset/liability study once every five (5) years and an asset allocation study once every three (3) years or more often if necessary.

Rebalancing is the process of returning an allocation back to the desired target level after having drifted away from its targeted position. ACERA will maintain a disciplined methodology to rebalance back to its asset allocation targets as set forth in Schedule IA. The objective of rebalancing is to enhance the risk-adjusted performance of the asset allocation structure.

Staff shall be responsible for maintaining the relative weights of asset classes and allocations within the acceptable rebalancing ranges. Should an asset class or allocation fall outside its target range, Staff shall rebalance the asset class or allocation back to the target weights as specified in the asset allocation targets in Schedule IA.

Staff shall:

1. Monitor the Fund's asset allocation;
2. Determine whether or not any asset category is out of balance with its target asset allocation in excess of the specified tolerance range;

3. Determine whether or not any Manager within each asset category is out of balance with its target allocation in excess of the specified tolerance range;
4. And, if this is determined, either
  - (a) instruct the relevant Managers to redirect cash income (interest coupon and dividends) in concert with an evaluation of pending commitments and other cash flows (employer and employee contributions), in order to bring the allocation(s) back to the adopted strategic target; and/or
  - (b) instruct the relevant Managers to liquidate or acquire the appropriate dollar value of securities to reach the target and reallocate the cash thus generated or required to the other category(s) or Manager(s), as necessary.

Staff shall report to the Board on a regular basis the status of the Fund with respect to how categories are tracking relative to their allowable ranges, as well as any actions taken to rebalance the portfolio.

## **SECTION VI: PROGRAM INVESTMENT GOALS**

The goal of ACERA's investment program is to seek to provide alpha to the Fund in a risk aware framework such that ACERA's benefit costs do not become a burden upon future generations of members, participating employers, and taxpayers. Other goals include:

1. Diversify the Fund's assets as its main defense against large market drawdowns, while maintaining reasonable risk exposure to meet return requirements.
2. Preserve a degree of liquidity ample to meet benefit payments and capital calls, without incurring substantial transaction costs of illiquid holdings.
3. Achieve net-of-fee returns in excess of policy benchmarks at the Fund and asset class levels over rolling five-year periods.
4. Achieve returns at or above ACERA's actuarial rate of return over complete market cycles measured over rolling five-year periods.
5. Achieve risk-adjusted, net-of-fee returns at the Fund level that rank in the top half of a competitive, institutional peer group.

## **SECTION VII: INVESTMENT STRATEGY AND MANAGER STRUCTURE**

A. U.S. EQUITY will be structured to capture exposure to the broad U.S. equity market as represented by the Russell 3000 Index. Passively managed (index) portfolios will be used in portions of the markets that are reasonably efficient and in managing Manager expenses (e.g. Domestic Large Cap Equities). These portfolios are intended to provide broadly diversified market exposure with controlled (market) risk and minimal cost.

Actively managed portfolios will be used when the Board determines that a Manager possesses special skills or abilities that enable that Manager to capture excess returns relative to the market, adjusted for risk and fees; or to exploit specialty markets that provide enhanced return with acceptable risk.

A great part of the Russell 3000 Index, on a market value basis, is comprised of large-cap stocks. The Board has adopted a policy of obtaining overall exposure to this segment of the market via passively managed indexed products. In addition, some active Managers have been employed to enhance overall portfolio return on a risk- and fee-adjusted basis.

The remainder of the Russell 3000 Index is comprised of small to mid-cap companies. Some opportunities for active management enhancement exist in these securities due to market inefficiencies. ACERA will attempt to capture these opportunities through a mix of Managers who have the special skills required to identify smaller companies that may be undervalued or possess substantial growth potential.

The U.S. equity portfolio shall be allocated among the various styles and Managers. The U.S. equity asset allocation and manager structure targets are outlined in Schedules IA and IB.

- B. INTERNATIONAL EQUITY represents an opportunity to diversify risk and capture enhanced returns within markets generally less efficient than the U.S. domestic equity market. Passively managed (index) portfolios will be used in portions of the markets that are reasonably efficient. Actively managed portfolios will be used when the Board determines that a Manager possesses special skills or abilities that enable that Manager to capture excess returns relative to the market, adjusted for risk and fees; or to exploit specialty markets that provide enhanced return with acceptable risk.

The international equity portfolio shall be allocated among the various styles and Managers. The international equity asset allocation and manager structure targets are outlined in Schedules IA and IB.

- C. FIXED INCOME represents a means of reducing overall portfolio risk and capturing incremental returns either domestically or globally. Inefficiencies in the pricing and trading of fixed income securities create opportunities to add value through active management. 100% of the fixed income portion of the portfolio will be invested in actively managed portfolios.

The fixed income portfolio shall be allocated among the various styles and Managers. The fixed income asset allocation and manager structure targets are outlined in Schedules IA and IB.

- D. REAL ESTATE represents a means for diversifying the portfolio and lowering correlations to traditional asset classes. Owing to the illiquid nature of real estate assets, distinctions between active and passive management are not applicable. Detailed information regarding real estate investments is included in ACERA's "Real Estate Guidelines, Policies and Procedures," which is maintained as a separate document.

The real estate portfolio shall consist primarily of commingled funds and will be diversified among the various property types and categories (Core, Value-Added and Opportunistic) and Investment Managers. The real estate portfolio asset allocation target is outlined in Schedules IA and IB.

- E. PRIVATE EQUITY (“PE”) investments represent a means of generating returns superior to those available in the public equity market to compensate the Fund for the long term, illiquid commitments. The Private Equity portfolio is intended to enhance ACERA’s overall returns on a risk-adjusted basis.

The private equity portfolios shall be allocated among the various sub-categories and Managers. The private equity portfolios’ asset allocation targets are outlined in Schedules IA and IB. Specific details on the strategic allocation to the private equity investment portfolios are outlined in ACERA’s Private Equity Investment Policy, which is maintained as a separate document.

- F. ABSOLUTE RETURN (“AR”) strategies represent a means where the Fund’s overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in AR strategies, which have a low correlation to equity markets. The Absolute Return portfolio shall be allocated among the various sub-categories and Managers.

The absolute return portfolio’s asset allocation targets are outlined in Schedules IA and IB. Specific details on the strategic allocation to the absolute return investment portfolio are outlined in ACERA’s Absolute Return Policy, which is maintained as a separate document.

- G. REAL ASSETS (“RA”) investments consist of assets that exhibit positive correlation to inflation and positive returns over the long run.

The RA portfolio shall be allocated among the specific types of Managers. The real assets total portfolio allocation target is outlined in Schedules IA and IB. Detailed information regarding real assets investments is included in ACERA’s Real Assets Policy which is maintained as a separate document.

## **SECTION VIII: ELIGIBLE ASSET CATEGORIES**

The Fund shall hold assets in categories established by the Board. Any asset category may be held in direct form, in pooled/commingled form, or in both. Asset categories managed by one or more “Qualified Investment Managers” are called “Managed Accounts or Funds.” Eligible asset categories are listed and defined below.

- A. CASH AND CASH EQUIVALENT shall consist of, but not be limited to, cash, short term (12 months or less) interest bearing investments of high quality such as U.S. Treasury issues, insured certificates of deposit of U.S. banks (fixed and/or variable), commercial paper rated A-1, P-1 or both, or other instruments of equal or better quality, and money market funds available through the Custodian.
- B. U.S. EQUITY shall consist of, but not be limited to, common stocks and other securities which are convertible into common stocks, and ADRs (American Depository Receipts), as well as

cash (per “A” above) and fixed income (per “D” below) when used as temporary substitutes for common stocks.

- C. INTERNATIONAL EQUITY shall consist of, but not be limited to, common stocks and other securities convertible into common stocks of companies domiciled outside of the U.S., GDRs (Global Depository Receipts), IDRs (International Depository Receipts) and other depository receipts as well as cash/cash equivalents (per “A” above) and fixed income (per “D” below), domestic or international, which are being used as temporary substitutes for common stock.
- D. FIXED INCOME shall consist of investments in, but not be limited to, U.S. taxable bonds, debentures, notes and other evidences of debt. Fixed income may also include, but not be limited to, non-dollar denominated bonds issued by corporations or governments domiciled outside of the U.S. Other eligible investments shall include cash/cash equivalents (per “A” above), convertible bonds, and preferred stock.
- E. REAL ESTATE shall consist of investments in real estate and equity real estate through the use of commingled or direct investments. Detailed information about real estate investments is included in ACERA’s “Real Estate Guidelines, Policies and Procedures,” which is maintained as a separate document.
- F. PRIVATE EQUITY investments shall consist of investments including venture capital, corporate buyouts, debt-related and special situations,. Private equity investments may be denominated in U.S. dollars or other currencies. Detailed information about private equity investments is included in ACERA’s “Private Equity Investment Policy” which is maintained as a separate document.
- G. ABSOLUTE RETURN shall consist of investments which are intended to generate a return stream that has a low correlation to equity markets. Eligible Absolute Return investments include alternative premia<sup>3</sup> strategies, hedge fund-of-funds, and other alternatives/opportunistic strategies. These investments are privately-placed investments. Absolute return investments may be denominated in U.S. dollars or other currencies. Detailed information about absolute return investments is included in ACERA’s “Absolute Return Policy” which is maintained as a separate document.
- H. REAL ASSETS investments shall consist of, but not be limited to, commodities, natural resources, and infrastructure investments. In addition, the RA portfolio will invest in private limited partnerships and secondaries in sectors with inflation sensitive assets. Detailed information regarding Real Assets investments is included in ACERA’s Real Assets Policy which is maintained as a separate document

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<sup>3</sup> Alternative premia are empirically-tested, sources of return that can be systematically harvested through dynamic strategies. They can be thought of as returns that underlie “classic” hedge fund strategies (hedge fund risk premia) or the returns from “classic” styles (style premia), such as value, momentum, and carry.

## **SECTION IX: ASSET CATEGORIES' OBJECTIVES**

The objectives of each asset category are:

### **A. CASH AND CASH EQUIVALENT**

1. An annualized rate of return in excess of 90-Day U.S. Treasury Bills, and
2. An annualized rate of return within the upper one half of a universe of like short-term funds.

### **B. U.S. EQUITY**

1. An annualized rate of return in excess of the annualized U.S. equity market returns as measured by the Russell 3000 Index.
2. An annualized rate of return within the upper 33<sup>rd</sup> percentile of the InvestorForce database or similar database of the annualized returns of diversified domestic equity portfolios over the short to intermediate term which should result in a top quartile return over longer periods of time.

### **C. INTERNATIONAL EQUITY**

1. An annualized rate of return in excess of the Morgan Stanley Capital International All Country World Investable Market Index Ex U.S. (MSCI ACWI Ex U.S. IMI).
2. An annualized rate of return within the upper 33<sup>rd</sup> percentile of the InvestorForce database or similar database of the annualized returns of diversified international equity portfolios over the short to intermediate term which should result in a top quartile return over longer periods of time.

### **D. FIXED INCOME**

1. An annualized rate of return in excess of the Barclay's Aggregate Bond Index, Citigroup World Government Bond Ex. U.S. and Barclay's High Yield Index in a ratio of 75/15/10.
2. An annualized rate of return within the upper 33<sup>rd</sup> percentile of the InvestorForce database or similar database of the annualized returns of diversified international equity portfolios over the short to intermediate term which should result in a top quartile return over longer periods of time.

### **E. REAL ESTATE**

1. Total Net Return – equivalent to the National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity Index (NFI ODCE) as a minimum return for the total portfolio over rolling five-year periods, and
2. Income Return – Please refer to ACERA's "Real Estate Guidelines, Policies and Procedures", which is maintained as a separate document, for detailed information.

## F. PRIVATE EQUITY

1. For Private Equity: An annualized rate of return in excess of the Thomson Reuters C|A Global All Private Equity Benchmark net of all fees and expenses over a full market cycle. Please refer to ACERA's Private Equity Investment Policy, which is maintained as a separate document, for detailed information.

## G. ABSOLUTE RETURN

1. Generate total AR Portfolio returns at or above the HFRI Fund of Funds Composite Index (net of all fees and expenses). Please refer to ACERA's Absolute Return Policy, which is maintained as a separate document, for detailed information.

## H. REAL ASSETS

1. The performance of the Real Assets portfolio will be measured against the following blended benchmark: S&P Global Natural Resources Index, S&P Global Infrastructure Index, and Bloomberg Commodity Index in the ratio of 50/35/15. Please refer to ACERA's Real Assets Policy, which is maintained as a separate document, for detailed information.

In addition, objectives that reflect a particular investment strategy or style employed by an individual Manager shall be outlined in the Specific Investment Guidelines attached to the Manager's Contract.

## **SECTION X: ALLOCATION OF CASH FLOW**

Cash flow not needed for benefit payments or administrative expenses shall be allocated to Managed Accounts in a ratio that best funds the overall targeted asset allocation as reflected in Schedules IA and IB.

If cash flow is insufficient for the payment of benefits or to cover administrative expenses, then Managed Accounts shall be debited in a ratio that best satisfies the target allocation shown in Schedules IA and IB. Such debits, if necessary, will be carried out as needed and with timely notice to Managers to facilitate effective funds transitions and performance measurement.

For all planned investments which may not need to be funded immediately, a reserve may be budgeted and invested in appropriate accounts in accordance with the asset allocation targets until such moneys are required. Alternatively, Managed Accounts within “overfunded” asset classes may be called upon to provide the required moneys.

## **SECTION XI: PROHIBITED INVESTMENTS**

Managers shall exercise prudent person standards in defining prohibited investments. For example, prohibited investments include, but are not limited to, securities issued by the County of Alameda or any agency thereof.

## **SECTION XII: DIRECTED BROKERAGE**

ACERA has established an open Directed Brokerage (DB) Program designed to maximize the recapture of brokerage commissions by enforcement of the target percentages of direction. ACERA’s DB Program is governed by ACERA’s DB Policy, which is maintained as a separate document.

The strategic objective of the DB Program is to take advantage of the industry-accepted recapture of a portion of trade commissions paid to brokers. The primary goals of the DB Program are to 1) recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) construct the percentage of trades subject to recapture so as to allow Managers to have access to the research they need; 3) seek “Best Execution” through third-party administration and outside consultant monitoring; and 4) encourage local and emerging broker participation through the use of an open correspondent network program.

## **SECTION XIII: DERIVATIVES INVESTMENT CRITERIA**

Exposure to risk by use of derivative instruments must be consistent with ACERA’s overall investment policy as well as an individual Manager’s Specific Investment Guidelines. The Derivatives Investment Criteria (See Schedule II) allows ACERA’s separate account managers to exercise prudent professional judgement in alignment with their investment mandates, while minimizing the possibility of adverse implications for the Fund. In general, derivatives shall not be used to establish a leveraged position (i.e., offsetting Cash positions must be maintained against all delayed settlement transactions). Should there be any conflict between an individual Manager’s

Specific Investment Guidelines and this Policy statement regarding the use of derivative instruments, the Specific Investment Guidelines shall control.

#### **SECTION XIV: SELECTION OF MANAGERS**

The Investment Committee shall direct Staff and/or a Consultant to initiate searches for Managers. Staff and/or the Consultant shall research for qualified candidates and present a list of finalists to the Investment Committee for its approval. Upon approval of the list, the finalists shall be interviewed by Staff and the Consultant (if applicable). Staff and the Consultant (if applicable) shall evaluate the interviews, rank the finalists, and make a recommendation to the Investment Committee to hire one or more firms attaining the highest rankings in a publicly noticed meeting at which no less than five (5) Investment Committee members shall be present. It is possible that none of the firms will be recommended for hire.

The above-mentioned procedures are developed for the convenience and benefit of ACERA, and shall not bind ACERA or invalidate the selection of a Manager, if different processes are used subsequent to the promulgation of this Policy. ACERA recognizes that some investments by their nature present unique opportunities and there may not be suitable competitors for a unique investment opportunity. ACERA also recognizes that due to inherent features of some investments, time constraints may require ACERA to use a different investment manager selection process.

#### **SECTION XV: EMERGING INVESTMENT MANAGERS**

The Board has established the ACERA Emerging Investment Manager Policy (EIM Policy), which is maintained as a separate document. The purpose of the EIM Policy is to establish a framework for the development and administration of ACERA's Emerging Investment Manager Program (EIM Program), consistent with the Board's fiduciary responsibilities in the investment of the Fund. The EIM Policy states that the initial investment of the EIM Program is not to exceed 1% of the total Fund.

The strategic objective of the EIM Program is to add incremental value to the Fund through the hiring of the most talented Emerging Investment Managers (EIMs) to manage ACERA's assets.

The primary goals of the EIM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund return performance through the EIM Program; 3) identify superior EMs and/or investment opportunities in the State of California and Alameda County that are equal to or superior to comparable available investments; and 4) further diversify the Fund's overall investment program, so as to enhance risk-adjusted returns of the Fund.

#### **SECTION XVI: AUTHORITY OF MANAGERS**

Subject to the laws of the United States and the State of California, and to the terms and conditions of this Policy, Managers shall have full discretion to direct the purchase, exchange, sale and reinvestment of the assets of the Managed Accounts. The Board expects that Managers will

recommend changes to this Policy when any part of this Policy appears to be at variance with overall market and economic conditions.

Managers shall place orders to buy and sell securities and, by notice to the Custodian, shall cause the Custodian to deliver and receive securities on behalf of the Fund. Managers shall, upon Board inquiry, report placement of ACERA brokerage activities such that the Board shall be assured commissions were placed for the sole and exclusive benefit of the Fund.

Separate account Managers shall not vote proxies. Proxies shall be voted by ACERA, via a proxy voting service vendor, in accordance with “ACERA Proxy Voting Guidelines and Procedures” which is maintained as a separate document.

Securities lending shall be performed under the oversight of Staff, in accordance with Board-established procedures.

## **SECTION XVII: INVESTMENT GUIDELINES FOR THE MANAGED ACCOUNTS**

Individual Manager discretion shall be governed by the Investment Guidelines for the Managed Accounts as well as the Specific Investment Guidelines for each Manager. Should there be any conflict between the Specific Investment Guidelines of an individual Manager and the Investment Guidelines for the Managed Accounts, the Specific Investment Guidelines shall prevail.

### **A. GENERAL**

1. All investments shall comply with all applicable laws of the U.S. and the State of California governing the investment of pension trusts.
2. All securities transactions shall be executed by reputable broker/dealers, banks, or the Custodian, and shall be on a best-price and best-execution basis, and shall be reported to ACERA as is called for elsewhere in this Policy.
3. All Managers shall refrain from investing in a tobacco producer investment opportunity when, in their expert opinion, an alternative non-tobacco producer investment opportunity is available that will satisfy the same ACERA portfolio guidelines, instructions and objectives for risk, return and diversification.

### **B. EQUITY**

Managers have full discretion to invest solely in readily marketable and diversified equity securities subject to the following:

1. For Managed Accounts, no more than 10% of the value (at time of purchase) of the account shall be invested in the securities of a single issuer.
2. ACERA shall not hold more than 10% of the equity securities of any issuer.
3. Equity securities shall possess value and quality corroborated by generally accepted techniques and standards of fundamental securities analysis.

4. Assets in a Managed Account not invested in equity securities shall be kept with interest in appropriate money market instruments, including any money market fund available through the Custodian.
5. A Managed Account shall be subject to ACERA's Policy statement on the use of derivatives in Section XIII.
6. All Managers shall endeavor to be fully invested in stocks at all times unless they have received specific authorization to the contrary from the Board. Cash holdings, as defined in this Policy, shall generally not exceed 5% of the Fund on a market value basis.

### C. FIXED INCOME

Managers have full discretion to invest solely in readily marketable and diversified securities including, but not limited to

1. Obligations of the U.S. and/or eligible foreign government treasuries.
2. Obligations guaranteed by agencies of the U.S. and/or eligible foreign governments.
3. Insured certificates of deposit and banker's acceptances of credit worthy banks.
4. Corporate and other evidences of debt. At least 80% of this debt must be rated by Moody's Investor's Services or by Standard & Poors Corporation.
5. Commercial paper and banker's acceptances of issuers rated P-1 by Moody's Investor's Service or A-1 by Standard & Poors Corporation.
6. Excepting direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible governments, no account shall hold more than 5%, at cost, of the obligations of any single issuer.
7. Excepting direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible governments, no security shall comprise more than 5% of the account, as determined at the time of purchase.
8. A Managed Account shall be subject to ACERA's Policy on the use of derivatives as stated in Section XIII.

### **SECTION XVIII: MANAGER SPECIFICATIONS**

- A. Managers must be registered as investment advisers under the Investment Adviser's Act of 1940, a bank (as defined in that Act) or an insurance company qualified to perform investment management services under state law in more than one state, including the State of California. Unless an exception is granted by the Board, by accepting appointment as ACERA's Managers, Managers shall acknowledge that they are "Plan Fiduciaries" and "Qualified Investment Managers" as defined by the Employees' Retirement Income Security Act (ERISA) of 1974 (see or reference United States Code Title 29 Section 1001 et. seq.).
- B. Managers shall maintain fiduciary insurance in the amount of 10% of the total assets managed in the ACERA account or \$25 million, whichever is higher, unless the Contract specifies otherwise.
- C. Managers shall promptly notify ACERA of changes that occur in any of the following:

1. The investment strategy used in managing the subject product.
  2. The key personnel involved in managing ACERA's account.
  3. The ownership, key personnel, or organizational structure of the Manager's company.
  4. The Manager company's financial condition.
  5. The number of clients invested in the subject product and firm wide.
  6. The market value of the total assets managed in the subject product and firm-wide.
- D. Managers shall promptly notify ACERA if they are subject to censure or disciplinary action by a regulatory agency.
- E. Managers shall provide to ACERA all required documents and reports as set forth in Schedule V – ACERA's Compliance Schedule.
- F. Managers shall not make contributions or provide gifts, reimbursements or personal benefits exceeding \$470.00<sup>4</sup> in the aggregate within any 12-month period to any Trustee, fiduciary, employee or Consultant of ACERA. Invitations to educational conferences and similar events(including offers of travel, meals and/or accommodations) shall be made to ACERA and not directed to individuals. The Board will determine whether to accept such invitations and will be solely responsible for selection of the Trustee, Staff, or other individual, who will attend or otherwise participate on behalf of ACERA.

## **SECTION XIX: MANAGER MONITORING PROCEDURE**

The Board has contracted with a number of external Managers to invest ACERA assets in the capital markets. As part of the Board's fiduciary duties to prudently select, monitor and supervise these Managers, the Board has adopted this Procedure. The intent of this Procedure is to notify Managers of the standards by which they will be evaluated and to establish a structure which the Investment Committee and the Board can use to monitor the performance of the Managers.

Managers will be monitored to:

1. Evaluate how well they achieve their investment objectives.
2. Ensure that they adhere to their established investment approach/style and do not attempt to index returns to preserve stellar performance or take extraordinary risk to overcome poor performance.
3. Identify issues or trends that have the potential to result in intermediate and long-term capital losses to the Fund.
4. Alert the Board when Managers are not performing to expectations so that appropriate remedial action can be taken.

Managers will be evaluated on the basis of the following: performance, style integrity, organizational stability, compliance, client service, and fees described in greater detail below.

### **A. PERFORMANCE**

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<sup>4</sup> Updated annually by the California Fair Political Practices Commission.

On a monthly basis Staff will monitor Manager holdings, activity, and performance.

On a semi-annual basis Staff and/or a Consultant will furnish the Investment Committee and/or Board with an in-depth evaluation of each Manager which will include a comparison of the Manager to its Contract benchmark and a peer universe of Managers using a similar investment style. This report shall include an analysis of the sources of Managers' returns and risks and provide attribution for both, identifying which decisions enhanced or diminished performance.

On a semi-annual basis, trading costs will be evaluated in terms of commissions paid and execution of trades. Staff and/or Consultants shall furnish a report to the Investment Committee and/or Board regarding trading costs on an annual basis.

## B. STYLE INTEGRITY

Each Manager will be analyzed every two years to ensure that the Manager is continuing to invest the portfolio in the style for which it was originally hired. Style integrity is essential to maintain the Board's asset allocation policy. Any significant deviation in style will result in the overall Fund having a different characteristic, in some measure, from the broad market and underlying indexes that comprise ACERA's policy index. Significant variations in the portfolio characteristics from the style anticipated in the management Contract may indicate a change in its investment style.

This review also provides the Investment Committee and/or Board an opportunity to evaluate the Manager's continuing "fit" with the goals of the overall Fund. By monitoring the Manager style integrity, the Investment Committee and/or Board can assure that its Manager mix takes advantage of opportunities to increase diversification through lower correlation of returns and differentiated approaches among individual Managers.

## C. ORGANIZATIONAL STABILITY

Managers' organizations will be monitored to ensure continuity of the intellectual and philosophical processes that went into developing the particular investment approach contracted for by ACERA. In addition, Managers will be monitored for business risk, quality of staff, departures of key investment personnel, change in ownership or acquisition, and potential conflicts of interest.

It is ACERA's intent that its portfolio comprises no more than 25% of the Manager's total assets under management (AUM)<sup>5</sup> at any time. Therefore, ACERA will monitor the Managers' assets, firm-wide, as well as in the subject product.

## D. COMPLIANCE

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<sup>5</sup> ACERA defines total AUM as the total market value of assets a Manager manages on behalf of investors under discretionary management where the client delegates responsibility to the Manager.

Managers will be monitored to ensure they are adhering to federal and state laws regarding securities and the management of investment portfolios, trading, and pension investments; ethical practices of the investment professions; the Contract governing their relationship with ACERA; this Policy; and any other written directives issued by ACERA.

Each ACERA Contract will specify which investment vehicles a Manager is authorized to use, which markets the Manager is authorized to transact business in and any limitations within a market (small or large capitalization, value or growth orientation). The assets in each Manager's portfolio shall be reviewed monthly to ensure compliance with Contract guidelines.

All required documents and reports, set forth in Schedule V, must be submitted in a timely manner and in the format specified by ACERA, unless otherwise agreed to.

Managers must provide Staff with prior notification and justification for failure to comply with rules, regulations, Contract provisions, deadlines or other directives. Managers must provide a time frame for curing any deficiencies. Staff shall evaluate each incident on a case-by-case basis and determine whether an exception may be granted.

#### E. CLIENT SERVICE

Managers are required to comply with routine portfolio investment guidelines and reporting deadlines and are also expected to cooperate with special requests for information. ACERA will establish reasonable time frames for all requests and reporting and will provide feedback to all external Managers regarding the perceived quality of their client service.

#### F. FEES

Managers are expected to charge ACERA investment management fees no greater than the fees charged for other clients with a similar investment style, investment objective, and account type, size and services. Should a Manager enter into a more favorable fee schedule with a similar client, the manager is expected to modify ACERA's fee schedule to reflect the more favorable terms.

ACERA Staff will endeavor to meet with each Manager at least twice a year by telephone or in person to review performance and other issues.

### **SECTION XX: MANAGER WATCHLIST PROCESS**

#### A. PLACEMENT ON WATCHLIST

ACERA recognizes that Managers may be reviewed for the Manager Watchlist Process and/or removed from the Fund from time to time for a variety of reasons. ACERA has established a Watchlist Process through which managers with deficiencies, as determined by Staff and Consultant, will be placed. Short term under-performance alone will not necessarily result in an

initiation of the Manager Watchlist Process. Typical examples of reasons leading to placement on the Watchlist may include:

- 1) Insufficient net of fee, longer-term returns versus the benchmark and peer group,
- 2) Changes to style and/or the risk profile of the portfolio,
- 3) Organizational instability,
- 4) The loss of key investment professionals,
- 5) Significant asset loss,
- 6) Violations of the Manager's Investment Management Agreements with ACERA.
- 7) Poor client service.

Investment Staff and Consultants determine whether to subject a Manager to a Manager Watchlist Process. Decisions to add or remove an investment manager to/from the Watchlist will be less rules-based and more a function of analyzing both quantitative and qualitative factors related to the investment manager. Investment manager additions and removals from the Watchlist will be communicated to ACERA's Investment Committee and Board semi-annually.

Managers on the Watchlist will be subject to enhanced scrutiny and are subject to termination upon Board approval of Staff/Consultant's recommendation. Enhanced Scrutiny on a Manager on Watchlist may include conducting a Service Review by the Investment Committee, and may include site visits as part of the due diligence.

The Manager Watchlist process may result in one or more of the following:

1. Reduction of Assets Under Management
2. Revision of investment Contract guidelines for that Manager
3. Re-negotiation of fees
4. Termination of a Manager's Contract
5. Any other actions deemed appropriate by the Board

Each situation is unique. Action by the Board will vary depending on the type of Manager, the style/strategy, and the deficiency involved.

ACERA reserves the right to terminate an investment manager at any time, with or without thirty (30) calendar days' notice, for any reason, and without the manager being placed on Watchlist.

## **B. REMOVAL FROM WATCHLIST**

A manager may be removed from the Watchlist with satisfaction by and recommendation from the Staff and Consultant.

## **C. TERMINATION**

Upon determining that the Manager has not made adequate improvement in the areas outlined in the Manager Watchlist Process (Reference Section XX), Staff may recommend to the Investment Committee and/or Board that the Manager be terminated. Prior to making the final decision to

terminate the Manager, the Investment Committee may invite the Manager to make a presentation at the meeting in which the Termination recommendation is to be discussed. Staff will have analyzed the liquidity of the Manager's portfolio and will have a recommendation and plan for disposition of the assets.

Upon the Investment Committee's decision to terminate, Staff will notify the relevant ACERA Manager regarding this decision (See Schedule IV). All outstanding issues between the Manager and ACERA's Master Custodian, brokers, Consultant, or other parties shall be resolved prior to closing out the Contract. The Manager Termination checklist is attached as Schedule IV.

The Manager Watchlist Process described in this Policy does not provide any additional rights or protections to Managers, beyond what is provided in the contract. The Board reserves the right to terminate an investment management contract without resort to the Manager Watchlist Process, at any time, with or without thirty (30) calendar days' notice, for any reason or no reason.

In the event of an emergency or crisis, such as an imminent, foreseeable threat to a Managed Account within the Fund, the following procedure shall be followed to protect the portfolio (with the advice and assistance of the appropriate ACERA consultant(s)):

- (a) Staff shall make a concerted attempt to arrange a special meeting (in person and/or by telephone) of the Board to consider and to resolve the matter.
- (b) If (a) is not practicable within the time necessary to protect the portfolio, the Board delegates temporary authority to the Board Chair (and/or Vice Chair) and the Committee Chair (and/or Vice Chair) to consider and to resolve the matter.

The temporary authority delegated under subsection (b) shall be strictly limited to the matter itself and any related actions that may be necessary and appropriate. Under subsection (b), at least two (2) persons of the four persons identified would be required to consider and resolve the matter. The temporary delegated authority shall be as full and complete as the Board's authority which means that Managed Accounts and funds may be terminated and/or redeemed.

Staff and the consultants shall prepare and submit a full report on any and all actions taken under this section for presentation at the next scheduled Investment Committee meeting.

**SCHEDULE IA**

**ACERA**

**ASSET ALLOCATION TARGETS<sup>6</sup>**

<b><u>Asset Class</u></b>	<b><u>Target Allocation %</u></b>
U.S. Equity	25
International Equity	25
Fixed Income	16
Real Estate	8
Private Equity	8
Absolute Return	9
Real Assets	5
Private Credit	4
Cash	<u>0</u>
TOTAL	<u>100</u>

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<sup>6</sup> The target asset allocation to each asset class was adopted by the Board on May 16, 2019.

## SCHEDULE IB

### ACERA MANAGER STRUCTURE TARGETS

<u>Managers</u>	<u>Target Allocation % Within</u>	
	<u>Asset Class</u>	<u>Total Fund</u>
U.S. Equity		
Large Cap (Core Index)	BlackRock	80.0
Large Cap (Growth)	T C W	5.0
Large Cap (Value) <sup>7</sup>	Pzena <sup>7</sup>	5.0
Small Cap (Growth)	William Blair	5.0
Small Cap (Value)	Kennedy Capital	5.0
International Equity		
MSCI All World	BlackRock	20.0
Large Cap(Growth)	Capital Group	18.7
Large Cap (Value)	Mondrian	18.7
Large Cap (Quantitative)	AQR	18.7
Non-U.S. Equity (Small Cap)	Franklin Templeton	10.0
Non-U.S. Equity (Emerging Markets Manager)	Newton	10.0
International Equities EIM Mandate	Bivium	4.0
Fixed Income		
Enhanced Index	Baird	50.0
Aggressive Core Plus	Loomis Sayles	25.0
Global Bond	Brandywine	25.0
Real Estate <sup>8</sup>		8.0
Private Equity <sup>8</sup>		8.0
Absolute Return <sup>8</sup>		9.0
Real Assets <sup>8</sup>		5.1
Private Credit <sup>8</sup>		4.0
Cash		0.0

<sup>7</sup> Large Cap (Value) RFP Search in process.

<sup>8</sup>ACERA's real estate, private equity, absolute return, real assets and private credit manager structure targets are specified in ACERA's "Real Estate Guidelines, Policies and Procedures, Private Equity Investment Policy, Absolute Return Policy, Real Assets Policy and Private Credit Policy," respectively.



## **SCHEDULE IC**

### **ACERA**

#### **ASSET ALLOCATION PORTFOLIO REBALANCING**

The objective of rebalancing is to control risk and enhance the risk-adjusted return of the asset allocation strategy. For purposes of enhancing the risk-adjusted return of the asset allocation structure, the relative deviation of any liquid sub asset class away from its target weight (or liquidity-adjusted target weight) shall be no more than plus or minus 2.20 standard deviation factors of each allocation's expected volatility, relative to the other allocations in the asset mix. This standard deviation factor shall be used to define the range of allowable deviation from Policy target asset allocations. If any sub asset class reaches its allowable deviation from its target allocation, all sub asset classes will be evaluated.

The actual reallocation will be at the discretion of Staff (with oversight by the rebalancing Consultant) after reviewing the following: the relative magnitude of deviation from target for all other sub asset classes; the available cash liquidity of sub asset classes that could be used to fund rebalancing; pending cash flows (employer and employee contributions, or proceeds from a terminated Manager's portfolio); pending liquidity windows with commingled investment pools; pending investment commitments (real estate transactions and/or new funding commitments); and pending interest coupon and dividend cash flows.

Asset allocation and rebalancing status reports, and any rebalancing activity taken toward attaining the objective of the rebalancing program will be reported to the Board quarterly.

Significant modifications to the asset allocation strategy shall be cause to review the appropriateness of maintaining this rebalancing parameter or revising it to a parameter more suitable to the revised asset allocation structure.

## **SCHEDULE II**

### **Derivatives Investment Criteria**

#### **1) Introduction**

There is a need to allow ACERA's separate account managers to evaluate new securities and introduce them into their portfolios, for both risk and return purposes, and as relevant to their respective investment mandates. These criteria allow ACERA's separate account managers to exercise reasonable investment freedom, while minimizing the possibility of adverse implications for the Fund.

#### **2) Derivative Definition**

A 'derivative' commonly is defined as a financial instrument whose performance is derived, at least in part, from the performance of one or more underlying assets (such as a security, index of securities, or currency).

#### **3) Types of Securities Included or Excluded**

Since the derivative sector of the market is likely to experience change over time, provisions must be made for the general characteristics of a derivative security, its evaluation and monitoring. Therefore, it is appropriate not to attempt to list all of the derivative securities that are covered by this Policy. Instead, what will be explicitly stated is the investment process that governs derivative investments and the evaluation and monitoring requirements required by this Policy.

#### **4) Approach to Policy**

Derivative instruments must be evaluated in accordance with the following section entitled Derivative Investment Process. If the instrument meets these provisions and the spirit of this Policy, the manager may establish a prudent position in the instrument. However, the manager must be able to demonstrate the appropriateness of such an investment in light of the Policy and the manager's specific mandate.

#### **5) Counter-Party Evaluation**

When entering into a non-exchange traded derivative investment, the manager must fully evaluate the other side of the derivative transaction—the counter-parties to the trade. Owing to the possibility of counter-party default, managers must evaluate the risks associated with the counter-party as if an investment were being made in the traditional securities issued by the counter-party.

Furthermore, the manager must monitor individual investment and total portfolio exposure to counter-parties. Individual counter-party exposures must be diversified and not overly concentrated such that there is undue counter-party risk in the Fund.

## **6) Purposes for Derivatives**

Acceptable investment purposes for the use of derivatives follow:

- a. Futures, options, and forward currency contracts (over-the-counter or exchange-traded) to assist investment managers in mitigating and/or extending portfolio risks.
- b. Substitute for an existing, traditional investment. In certain circumstances it may be cheaper, quicker, or easier to invest in a derivative instrument rather than transacting in the cash or traditional security market (e.g., a single stock futures contract or a total return swap).
- c. Provide investment value to the portfolio, while being consistent with ACERA's asset class investment policies.
- d. Obtain investment exposures that fit with the manager's investment strategy and the governing Investment Management Guidelines, but could not be made through traditional investment securities (e.g., credit default swaps).

Given that one or more of these investment purposes are achieved, it is the responsibility of the manager to explain and demonstrate how derivative investments impact specific strategy/account risk and the overall Fund.

If a manager develops an investment purpose other than those listed above which he/she feels is legitimate and consistent with the spirit of the governing Investment Management Guidelines, this purpose must be explained in writing to Staff and communicated to the Investment Committee/Board.

## **7) Risk Analyses and Monitoring of Derivatives**

The investment managers are required to test and measure derivative investment sensitivities to changes in key risk factors. These risk factors include extreme changes in interest rates, price volatility, liquidity, and credit quality. These risk factors will be assessed prior to initial investment and on an ongoing basis while in the Fund.

## **8) Derivative Investment Process**

Investment managers are expected to consider the following issues before purchasing any derivative instrument:

- a. Determine if the purpose for investing in a derivative security is consistent with one or more of the purposes in the previous section entitled Purposes for Derivatives.
- b. Evaluate, at a minimum, the counter-party risk and the risks stated in the Risk Analysis and Monitoring section of the derivatives criteria.
- c. Evaluate the derivative in a comparably thorough manner as the firm would any other traditional investment opportunity.

## **9) Reporting Requirements**

It is the responsibility of ACERA's investment managers to certify and demonstrate that their portfolios/accounts comply with the Policy, the applicable asset class policy, and the criteria that apply specifically to derivative instruments. ACERA's investment managers will provide the following minimum monitoring information on all derivative instruments:

- a. A general statement from the investment manager that its portfolio/account is in compliance with this Derivatives Investment Criteria.
- b. When stating the market value of the derivative(s) exposure, the manager will specify the security pricing sources used. The pricing source must be an exchange-listed price.
- c. A statement of the risks (credit risk—an evaluation of potential counter-party default on obligations, market risk—percent of portfolio invested in derivatives, and any other relevant risks) associated with the derivative instruments.
- d. Potential adverse impact on market values if extreme adverse market movements occur.
- e. A statement regarding the liquidity of the derivative instruments.
- f. Summary comments and the manager's list of approved counter-parties, ratings, and a statement regarding any changes to this list.

An overall statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

## SCHEDULE III

### ACERA

#### POLICY INDEX FOR TOTAL FUND AND BENCHMARKS FOR ASSET CLASSES AND MANAGERS

##### POLICY INDEX FOR TOTAL FUND

28% Russell 3000/ 26% MSCI All Country World Index Ex U.S. IMI/ 11.25% Bloomberg Barclay's Aggregate/ 2.25% Citigroup World Government Bond Ex. U.S./ 1.5% Bloomberg Barclay's High Yield/ 8% NCREIF ODCE/ 9% Thomson Reuters C|A Global All Private Equity Benchmark/ 9% HFRI FOF Composite Index/ 2.5% of S&P Global Natural Resources/ 1.75% of S&P Global Infrastructure Index/ 0.75% Bloomberg Commodities Index

##### BENCHMARKS FOR ASSET CLASSES\*

<u>Asset Class</u>	<u>Benchmark</u>
U.S. Equity	Russell 3000
International Equity	MSCI ACWI Ex. U.S. IMI
Fixed Income	Bloomberg Barclay's Aggregate /Citigroup World Government Bond Ex U.S./Bloomberg Barclay's High Yield in the ratio of 75/15/10
Real Estate	NCREIF ODCE
Private Equity	Thompson Reuters C A Global All Private Equity Benchmark
Absolute Return	HFRI Fund of Funds Composite Index
Real Assets	S&P Global LargeMidCap Commodity & Resources Index/S&P Global Infrastructure Index/Bloomberg Commodities Index in the ratio of 50/35/15
Private Credit	S&P/LSTA (Loan Syndications and Trading Association) U.S. Leveraged Loan 1000 Index + 175 basis points

\*Benchmarks are net of all Fees

## SCHEDULE III (cont.)

### ACERA

#### POLICY INDEX FOR TOTAL FUND AND BENCHMARKS FOR ASSET CLASSES AND MANAGERS

##### BENCHMARKS FOR MANAGERS<sup>9</sup>

<u>Manager</u>	<u>Benchmark</u>
U.S. Equity	
BlackRock	Russell 1000
Kennedy Capital	Russell 2000 Value
William Blair	Russell 2000 Growth
Pzena	Russell 1000 Value
Trust Company of the West	Russell 1000 Growth
International Equity	
AQR	MSCI ACWI Ex U.S.
BlackRock	MSCI World Ex U.S.
Capital Group	MSCI ACWI Ex U.S.
Franklin Templeton	MSCI ACWI Ex U.S. Small Cap
Mondrian	MSCI ACWI Ex U.S.
RFP in Process (Newton)	MSCI Emerging Markets
Bivium <sup>10</sup>	MSCI ACWI Ex U.S.
Fixed Income	
Baird	Bloomberg Barclay's Aggregate Index
Brandywine (Global Bond)	Citigroup World Gov. Bond Index
Loomis Sayles (Boston)	Bloomberg Barclay's Baa Credit Index
Real Estate <sup>11</sup>	NFI ODCE
Private Equity <sup>11</sup>	Thomson Reuters C A Global All Private Equity Benchmark
Absolute Return <sup>11</sup>	HFRI Fund of Funds Composite Index
Real Assets <sup>11</sup>	S&P Global LargeMidCap Commodity & Resources Index/S&P Global Infra- structure Index/Bloomberg Commodity Index in the ratio of 50/35/15
Private Credit <sup>11</sup>	S&P/LSTA (Loan Syndications and Trading Association) U.S. Leveraged Loan 1000 Index + 175 basis points

<sup>9</sup> Individual Manager's Contract contains more specific information about each Manager's benchmark.

<sup>10</sup> Bivium would have a 1% allocation to the Total Fund per the Emerging Investment Manager Policy (EIM).

<sup>11</sup> ACERA's real estate, private equity, absolute return, and real assets benchmarks are specified in ACERA's "Real Estate Guidelines, Policies and Procedures, Private Equity Investment Policy, Absolute Return Policy, Real Assets Policy and Private Credit Policy" respectively.

## **SCHEDULE IV**

### **ACERA**

#### **MANAGER TERMINATION CHECKLIST**

This checklist is used to ensure that all details are covered when terminating investment management services.

- 1) Officially notify the Manager in question of the Board's decision to terminate.
- 2) Establish a plan of action for reallocating assets from the terminated portfolio; transfer assets to other portfolios or prepare for liquidation.
- 3) Review department files and logs to identify any outstanding issues.
- 4) Notify ACERA Administration, Fiscal Services Department, Legal Counsel, Consultant, Custodian and any other vendors of the termination. Identify and resolve all outstanding issues with these parties.
- 5) Have Manager and Custodian review and sign off on monthly market values and performance figures produced during the Contract period.
- 6) Hold payment of last invoice until all issues are resolved.
- 7) Retain terminated Manager files in the ACERA office for a minimum of one year; then send to ACERA archives.
- 8) Hold terminated Manager files in ACERA archives in accordance with the ACERA Record Retention Policy and Schedule or applicable securities laws and accounting practice.

## SCHEDULE V<sup>12</sup>

### ACERA

#### COMPLIANCE SCHEDULE

##### REQUEST

##### DUE DATE

##### MONTHLY

Soft Dollar Commission Report (if applicable) (Submit each month regardless of activity.)	By the 20 <sup>th</sup> calendar day of the month following the reported month
Broker Commission Report (Submit each month regardless of activity.)	By the 20 <sup>th</sup> calendar day of the month following the reported month
Accounting Report/Portfolio Valuation (Provide transaction data – buys/sells, a portfolio listing including cost and market values, and performance returns.)	By the 20 <sup>th</sup> calendar day of the month following the reported month
Derivative Report (if applicable) (Submit each month regardless of whether any derivative instruments were used.)	By the 20 <sup>th</sup> calendar day of the month following the reported month
Confirmation that monthly reconciliation with Custodian is performed. (Reconciliation should include market values, transactions, and performance.)	By the 20 <sup>th</sup> calendar day of the month following the reported month
ACERA overall compliance checklist	By the 20 <sup>th</sup> calendar day of the month following the reported month

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<sup>12</sup> This schedule is designed for all investment Managers of ACERA. However, Managers may be required to provide additional compliance reports based on their individual Investment Agreements with ACERA. Should there be any conflict between individual Investment Agreements with ACERA and ACERA's "General Guidelines, Policies and Procedures," the individual Investment Management Agreements shall prevail.

**REQUEST**

**DUE DATE**

**QUARTERLY**

Fee Billings (Provide all pertinent backup documentation for fee calculations)	Within 30 calendar days following the end of the quarter
Confirmation of compliance with limitations on investment vehicles and investment markets <sup>13</sup>	Within 30 calendar days following the end of the quarter
Confirmation of compliance with % limitations on cash holdings, on equity investment and on fixed-income investment <sup>13</sup>	Within 30 calendar days following the end of the quarter
Confirmation that ACERA's assets under management do not exceed 25% of the Total assets under management firm-wide	Within 30 calendar days following the end of the quarter
Market and Portfolio Analyses and Commentaries	Within 45 calendar days following the end of the quarter

**Additional requirements applicable to Real Estate Program**

Operations Report/Financial Statements	Within 60 calendar days following the end of the quarter
Preliminary Investment Packages (Applicable to Individually Managed Account)	Within 30 calendar days following the completion of the report, if applicable
Valuation Adjustments Memo (Applicable to Individually Managed Account)	Within 90 calendar days following the anniversary date of asset acquisition
Property Valuation Report (Applicable to Individually Managed Account)	Within 90 calendar days following the anniversary date of asset acquisition

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<sup>13</sup> Detailed information can be found in "Specific Investment Guideline" section of each Manager's Investment Contract.

**REQUEST**

**DUE DATE**

**ANNUAL**

Annual Performance Fee Billing (if applicable)  
(Provide all backup documentation/  
reconciliation sign-offs.)

Within 30 calendar days following the  
end of the performance fee  
period

Organization Chart

Within 30 calendar days following the  
end of the year or as soon as updated,  
whichever is earlier

Fidelity Bond/  
Errors and Omissions Insurance  
(Submit an original certificate.)

Within 30 calendar days of renewal

Audited Financial Statements

Within 90 calendar days following the  
end of the year

Form ADV, Parts 1 and 2A and 2B (Brochures)  
(as applicable)

Within 30 calendar days of filing

Statement or Summary of Code of Ethics

Within 30 calendar days of any  
change

SEC Examination Reports

Within 30 calendar days of receipt

Fair Political Policies Commission Form 700

On or before March 31<sup>st</sup> of each year

Placement Agent Policy Update

Within 30 calendar days, provide an  
update of any change to the information  
included in the most recently filed  
Placement Agent Information  
Disclosure Form.

**Additional requirements applicable to Real Estate Program**

Tactical Plans/Management Investment Plans<sup>14</sup>  
(applicable to Individually Managed Account)

Within 30 calendar days of completion

Asset Management and Budget Plan<sup>14</sup>  
(applicable to Individually Managed Account)

Within 30 calendar days prior to fiscal  
year end

Audited Financial Statement for ACERA's Fund  
(applicable to Individually Managed Account)

Within 90 calendar days following the  
end of the year

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<sup>14</sup> Seven copies of this report shall be submitted to Staff.

## SCHEDULE VI

### ACERA

#### INVESTMENT PHILOSOPHY (REVISED MAY 2013)

This document describes the investment philosophy of the Alameda County Employees' Retirement Association (ACERA). Its purpose is to enunciate the basic principles and beliefs that underlie ACERA's investment policy and impact the overall management of the pension Fund. The Investment Philosophy (Philosophy) is designed to complement rather than replace the specific investment policies of ACERA. It is expected that ACERA's approach to investments, as reflected in its policies and strategies, will be consistent with the Philosophy over time. Though the Philosophy allows significant flexibility, it also raises some constraints or implications. Where these were deemed to be significant, they have been explicitly identified and labeled as *Implications*.

Future Boards may choose to amend the investment Philosophy, as their experiences and circumstances will almost certainly differ. The initial document and any subsequent changes will provide staff, advisors and future trustees with a frame of reference to help them understand how the investment program has evolved as well as the rationale behind its design. Future Boards may modify the Philosophy as their experiences and circumstances suggest is prudent.

The major sections of the Philosophy are:

1. Mission
2. Risk Management
3. Diversification
4. Market Efficiency
5. Organizational Infrastructure and Communications
6. Performance Monitoring and Time Horizon

#### **1. MISSION**

- a) The Board's primary goals in managing the Fund are:
  - i) To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;

- ii) To comply with all applicable fiduciary standards; and
- iii) To add value, where feasible, that will help reduce the costs of the plan, increase benefits, or both.

## 2. RISK MANAGEMENT

- a) The Board believes that prudent management of risk is a central element of the investment function.
- b) Though there are numerous risks involved in the management of a pension investment program, ACERA believes that the following warrant particular attention:
  - i) **Funding-related Risk** - The risk that the funds available in the Plan will be insufficient to pay the promised benefits, both vested and supplemental, or that contribution volatility will be unacceptably high. The primary methods for managing funding risk include regularly conducting integrated asset/liability studies, and establishing appropriate and prudent investment and funding policies.
    - 0.1 In managing the relationship between assets and liabilities, the approved asset allocation of the Fund should provide an adequate level of certainty of meeting the projected liabilities of the Plan over a time period, as determined by the actuary.
  - ii) **Benchmark-related Risk** – The risk that the investment benchmarks adopted by the Fund are inappropriate, or that the aggregate of the individual Manager benchmarks within an asset class do not adequately reflect the benchmark for the asset class as a whole. The latter risk is a specific risk generally referred to as *benchmark misfit risk (i.e. style risk)*. Inappropriate benchmarks or excessive benchmark misfit risk could result in investment performance different than expected and could adversely impact decisions concerning the hiring or firing of investment managers.
    - 0.1 The primary methods for effectively managing benchmark-related risk are
      - (a) regular review of the Fund’s benchmarks; and
      - (b) regular measurement and monitoring of misfit risk using proper methodologies.
  - iii) **Manager Risk** - The risk of aberrant performance on the part of individual investment Managers, and the related active management risk for asset classes as a whole.
    - 0.1 The primary methods for mitigating Manager risk are:

- (a) Prudent processes for selecting and monitoring investment Managers;
- (b) Competent internal investment Staff;
- (c) Effective investment consulting support; and
- (d) Clear communication to investment Managers of ACERA's objectives, expectations, and investment time horizons.

0.2 The primary method for mitigating active management risk for asset classes include:

- (a) Establishment of appropriate asset class benchmarks;
- (b) Careful monitoring of asset class performance relative to the benchmarks; and
- (c) Prudent use of passive management.

iv) **Fortitude Risk** - The risk that the Board or Staff will fail to exercise the patience, judgment, or fortitude required to support long-term policies and strategies for the investment and funding program.

0.1 The keys to managing fortitude risk are believed to include:

- (a) Effective orientation and education with respect to institutional investing and actuarial science; and
- (b) A commitment to continually refining, confirming, and communicating the investment philosophy and funding policy of the Association.

### **3. DIVERSIFICATION**

- a) ACERA acknowledges the basic tenets of modern portfolio theory, which suggest that diversification, or combining assets that are not perfectly correlated with each other, will reduce the long-term volatility of the overall portfolio.
- b) It is generally desirable however to avoid overly complex asset structures, provided the allocation selected can reasonably be expected to meet the objectives of the Plan. ACERA believes that the benefits of diversification must be weighed against the costs involved, which may include fees, liquidity, complexity, communication, internal staff resources and expertise and trustee knowledge and effort.
- c) The following asset classes are appropriate candidates for inclusion in its portfolio:
  - i) Domestic equity
  - ii) International equity (including emerging markets)

- iii) Fixed income, including high yield fixed income and international fixed income
- iv) Real estate
- v) Private Equity
- vi) Absolute Return
- vii) Real Assets

#### Implications

- A systematic methodology for re-balancing the investment portfolio is required to ensure proper implementation and adequate risk control concerning ACERA's asset allocation.
- Adding or deleting asset classes or investment Managers should be considered in light of the impact such decisions are likely to have on the general complexity and cost structure of the portfolio, as well as ACERA's ability to prudently achieve its investment and funding goals over the long run.

#### **4. MARKET EFFICIENCY**

- a) ACERA does not believe in the viability of active management strategies that rely on market timing.
- b) ACERA does not believe in the viability of management strategies that call for over weighting or under weighting styles or sectors within an asset class; i.e., benchmark misfit risk will not generate long-term alpha. Accordingly, ACERA generally believes that it should maintain exposures within an asset class (such as style or capitalization weightings) that are consistent with the broad benchmark for the asset class as a whole.
- c) ACERA does believe that market efficiency varies among asset classes, creating opportunities for successful active management strategies based on securities selection.
- d) Asset classes that can be demonstrated to be efficient should be managed passively in order to reduce active management risk and lower the costs of managing the portfolio.
- e) For inefficient asset classes, ACERA believes that it has the ability and a duty to prudently exploit such inefficiencies through active securities selection strategies.

## Implications

- ACERA should be conscious of any subtle forms of market timing that may arise in the course of managing the Fund, or that may be implicit in investment strategies presented to ACERA for inclusion in the investment program.
- ACERA must determine appropriate methodologies for determining whether an asset class is efficient or presents appropriate opportunities, thus providing insight to the Board on the use of particular strategies.

## **5. ORGANIZATIONAL INFRASTRUCTURE AND COMMUNICATIONS**

a) ACERA believes that, in order for the investment program to achieve its goals, ACERA must invest the necessary resources to build and maintain an appropriate organizational infrastructure, key elements of which include:

i) A competent, internal investment staff comprised of a sufficient number of investment professionals possessing appropriate leadership, technical, and administrative skills.

0.1 Attracting a competent staff. ACERA recognizes that it competes with the private sector. It must therefore continually strive to create a total work environment that is challenging, rewarding, and competitive.

ii) A strong relationship with outside general investment Consultant(s) who are able to provide ACERA with the following:

0.1 A high degree of investment expertise;

0.2 Innovative and proactive advice and counsel;

0.3 Strong research support; and

0.4 Strong reporting capabilities.

iii) A broad-based information gathering and reporting system to present well- researched, relevant and timely data in a manner that is easily understood and that supports rigorous and consistent monitoring of critical investment activities.

- iv) An open channel of communication among the Board, management, and ACERA's external investment professionals.
- b) By providing the Board with timely, accurate, and thorough information, the organizational infrastructure will give the Board the high level of comfort it needs to set policy, make investment decisions, oversee the performance of the investment program, and maintain the fortitude necessary to support its investment philosophy, policies, and strategies.

### Implications

- ACERA must determine what constitutes an appropriate internal investment staff structure, given the nature of the current investment program.
- ACERA must, over time, take concrete steps toward creating a work environment that will allow the Association to attract and retain needed staff.
- ACERA must recognize that developing the organizational infrastructure it needs – staffing, consulting support, information systems, and communication channels cannot be achieved overnight, but rather will require an ongoing commitment of time and resources.

## **6. PERFORMANCE MONITORING AND TIME HORIZON**

- a) ACERA holds the following basic beliefs concerning performance monitoring practices and methodologies:
  - i) The various investment policies of the Fund, in the aggregate, are the most important determinants of investment success; compliance with investment policies should, therefore, be monitored rigorously;
  - ii) The performance of the total portfolio, individual asset classes, and investment Managers should be compared to appropriate, predetermined benchmarks;
  - iii) Peer comparisons are an additional valid tool in assessing individual Manager performance (supplementing the use of benchmarks), given that ACERA aims to select superior Managers within particular investment styles or mandates. Peer comparisons,

or performance rankings, are also valid tools for measuring the performance of asset class portfolios; and

- iv) Peer group comparisons may not be an appropriate means of assessing the performance of the total Fund, given that sponsors have different objectives and risk tolerance levels, and therefore may have different asset allocation policies.
  - v) Benchmark misfit risk, or the risk that the aggregate of individual investment Manager benchmarks in an asset class do not adequately reflect the benchmark for the asset class as a whole, should be explicitly measured on a regular basis.
  - vi) Investment Managers are generally hired to fulfill a specific role in a portfolio. Accordingly, ACERA believes it is important that ACERA monitor the extent to which Managers comply with their stated style and mandates.
- b) ACERA believes that successful funding and investment decisions require a long-term perspective on the part of the Board and management:
- i) It is the intention of the Retirement Board that commitments to asset classes and investment strategies should involve long time horizons that may include more than one business cycle (3-5 years each). Relatively illiquid asset classes may require even longer time horizons.
  - ii) The Board acknowledges that commitments to individual investment Managers also require a long time horizon of at least one business cycle (3-5 years).
  - iii) ACERA believes that proper reporting and monitoring systems; and clear communication among Consultants, management, investment Managers and the Board will enable the Board to maintain the necessary long term perspective on all investment decisions.

### Implications

- Assessing the investment performance relative to appropriate, pre-determined, benchmarks is as applicable to the total portfolio and to individual asset classes as it is for individual

investment Managers and, therefore, warrants a commensurate share of the Board's time and attention.

- The Board will spend relatively little time assessing the performance of the Fund relative to that of comparable pension funds.
- ACERA will need either to develop in-house capabilities to measure benchmark-related risk regularly or to purchase such capabilities from external investment Consultants.
- ACERA will monitor all investment Managers to ensure they are complying with their stated investment style, regardless of whether they are performing well or poorly. Strongly performing Managers who are found not to be following their stated styles will be carefully scrutinized and may be subject to disciplinary action.
- ACERA will monitor all investment providers to ensure compliance with ACERA's "General Investment Guidelines, Policies and Procedures."

## **SCHEDULE VII**

### **CHARTER OF ACERA'S INVESTMENT COMMITTEE OF THE BOARD**

To identify issues pertinent to the effective management of the investment portfolio, initiate analysis of such issues by management or consultants, review all policy recommendations by staff and consultants, provide recommendations to the Board for adoption, and oversee the implementation of the investment program. Specific responsibilities include:

1. The Investment Committee shall review recommendations of staff and consultants and in turn provide its own recommendations to the Board on all investment policies, including investment philosophy, requiring Board approval. Said policies shall normally be contained in, or appended to, the *ACERA General Investment Guidelines, Policies and Procedures*.
2. The Investment Committee shall review and recommend additional policies for the Board's approval as requested by the Board and in accordance with the Policy Development Process.
3. The Investment Committee shall review recommendations of staff and consultants and in turn provide its own recommendation for Board approval on the following matters:
  - a) Appointment of Investment Managers;
  - b) Appointment of the Investment Consultants;
  - c) Appointment of the Custodian Bank.
4. The Investment Committee shall monitor the investment program of ACERA in accordance with all relevant policies of the Board. In general, the Investment Committee shall monitor:
  - a) Compliance with and continued appropriateness of all ACERA investment policies;
  - b) Progress towards achievement of investment goals;
  - c) Progress towards implementation of the ACERA budget and Business Plan with respect to investments; and
  - d) Cost effectiveness of the ACERA investment program.
5. In accordance with the provisions of the Open Meeting Law, the Investment Committee shall allow adequate opportunity for input from the public and shall respond to such input in a manner that reflects the Committee members' fiduciary duties as trustees of the Plan.

#### **Frequency of Meetings**

The Investment Committee shall generally meet monthly on the second Wednesday of the month, but may meet more or less frequently as required.

### **Committee Composition**

The Investment Committee shall be composed of all Board members, one of whom shall serve as Committee Chair. Alternate members shall serve on the Investment Committee as provided by law.

### **Staff Contact**

The Chief Investment Officer shall serve as a staff contact to the Investment Committee.

## SCHEDULE VIII

### ACERA

#### TABLE OF AMENDMENT DATES

##### AMENDING RESOLUTIONS

Jun. 27, 1985	Jan. 31, 2000*
Oct. 10, 1985	Apr. 19, 2001
Jan. 9, 1986	Jul. 18, 2002
Jan. 16, 1986	Feb. 21, 2003
Mar. 13, 1986	Feb. 19, 2004
May 22, 1986	Feb. 17, 2005
Sep. 11, 1986	Jul. 20, 2006
Oct. 9, 1986	Jun. 21, 2007
Nov. 20, 1986	Sep. 18, 2008
May 14, 1987	May 20, 2013
Aug. 13, 1987	Sep 20, 2018
Oct. 8, 1987	
Apr. 21, 1988	
Jul. 28, 1988	
Jan. 29, 1989(4)	
Apr. 13, 1989(5)	
May 18, 1989	
Jul. 13, 1989	
Aug. 10, 1989	
Nov. 16, 1989(2)	
Jul. 11, 1991	
Jun. 11, 1992	
Jun. 10, 1993	
Jul. 8, 1993	
Nov. 18, 1993	
May 14, 1994	
Aug. 18, 1994	
Nov. 20, 1994	
Feb. 16, 1995	
May 18, 1995	
Jan. 16, 1997	
Aug. 20, 1998	
May 20, 1999	

\* Verus (fka Strategic Investment Solutions) was hired as the General Investment Consultant for ACERA in 2000.