



MINUTES OF THE FEBRUARY 7, 2024, INVESTMENT COMMITTEE MEETING

To: Members of the Board of Retirement
From: Jaime Godfrey – Chair
Subject: Summary of February 7, 2024 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, February 7, 2024, at 10:32 a.m. The Committee members present were, Ophelia Basgal, Keith Carson, Tarrell Gamble, Jaime Godfrey, Henry Levy (via Zoom with “just cause”), Elizabeth Rogers, Kellie Simon, and George Wood. Also present were Alternate General Member Cynthia Baron and Alternate Safety Member Kevin Bryant. ACERA Senior Managers and Presenting Staff present were, David Nelsen – Chief Executive Officer, Lisa Johnson –Assistant Chief Executive Officer (via Zoom), Jeff Rieger – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, and John Ta – Investment Officer.

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

1. Discussion and Possible Motion to Recommend that the Board approve an up to \$50 million Investment in PGIM Real Estate U.S. Debt Fund as part of ACERA’s Real Estate Portfolio, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Staff informed the Committee that PGIM Real Estate U.S Debt Fund would be the first Real Estate debt-focused investment in the ACERA Real Estate Portfolio, should the investment be approved. Staff stated that the fund is one of the largest and best performing open-end real estate debt funds in the industry. Staff also stated that ACERA has a well-established partnership with PGIM through other PGIM funds.
 - Representatives from PGIM discussed its organization, ownership, and investment team, as well as the Fund’s overview, and historical debt fund performance.
 - Trustee Gamble asked the PGIM representatives if there was a standardized benchmark for this PGIM debt fund. PGIM responded that there are no standardized benchmarks and PGIM has set its return target as 6-9% gross return for this fund. Both Callan and Staff agreed with PGIM’s answer to Trustee Gamble’s question.
 - Trustee Rogers commented that Callan’s memo listed Diversity and Inclusion (D&I) metrics as an “investment risk” and asked Callan to clarify what the risk is. Callan responded that it included D&I metrics in the memo because it has historically been a topic

of interest for many Trustees. Callan stated that it should have used the label “considerations” instead of “risks” when discussing D&I metrics.

- After further discussion, Trustee Rogers moved, seconded by Trustee Simon, to recommend that the Board approve an up to \$50 million investment in PGIM Real Estate U.S. Debt Fund as part of ACERA’s Real Portfolio, pending completion of legal and investment due diligence and successful contract negotiation.
- The motion carried unanimously with 8 Yes (Basgal, Bryant, Carson, Godfrey, Levy, Rogers, Simon, and Wood), 0 No, and 0 Abstention. Trustee Gamble was not present at the time of the vote.

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

1. 2024 Capital Market Assumptions

- Representatives from NEPC discussed the asset class forecasting process and outlook on investment themes for the year. These two are important inputs to begin the asset liability study. NEPC will examine the asset class mix and valuation of liability which is a necessary function on any potential changes in the asset allocation or in the portfolio construction.
- NEPC provided an overview of the asset class assumptions and the 10-year return projections for the core asset classes. NEPC also provided an overview on the US inflation assumption which expects the 10-year and 30-year inflation rate to converge and remain the same at 2.6%. All these assumptions are considered as building blocks in the methodology of strategic asset allocation analyses. .
- NEPC identified five market themes for 2024: 1) Cost of Capital; 2) Magnificent Seven; 3) U.S. Fiscal Debt; 4) Artificial Intelligence, and 5) Geopolitics. According to NEPC, these market themes represent essential factors for investors and likely to exert significant influence on market pricing and investor sentiment. For example and under the theme of Cost of Capital, NEPC believes that the market will need to get acclimate to a higher interest rate in the long term. With the five market themes in mind and using the same building block approach discussed earlier in the presentation, NEPC’s representative discussed how the 10-year expected return of the various styles of public equities is projected.

2. Investment Committee Workplan

- Staff presented the Investment Committee Work Plan for 2024 (Work Plan).
- There were two minor changes since the workplan was presented at the Board meeting last month; (i) to sync up with the production cycle of Verus, the semiannual performance reports of all private assets under information items were moved from June to July and (ii)

the duplicated private credit education session under information item in April will instead be presented in May. Staff stated that the workplan is a living document which may warrant additional rearrangement of workplan items.

PUBLIC INPUT:

- Sarah Milne, Sr. Vice President, of “As You Sow,” a Non-Profit Organization focused on corporate accountability through the lens of shareholders and investors, addressed the Investment Committee regarding excessive CEO compensation. Milne recommended that the Investment Committee add Proxy Voting to the future ICM agenda and customize ACERA’s current ISS Public Fund Proxy Voting Policy regarding excessive CEO compensation. At the December 2023 Regular Board Committee Meeting, Milne’s colleague, Andrew Behar, CEO, made similar public comments.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, March 6, 2024

ADJOURNMENT

The meeting ended at 12:04 p.m.