



**MINUTES OF THE FEBRUARY 8, 2023, INVESTMENT COMMITTEE MEETING**

**THIS MEETING WAS CONDUCTED VIA TELECONFERENCE WITH VIDEO**

To: Members of the Board of Retirement  
From: Tarrell Gamble – Chair  
Subject: Summary of February 8, 2023 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, February 8, 2023 at 9:31 a.m. The Committee members present were Ophelia Basgal, Keith Carson, Ross Clippinger, Tarrell Gamble, Jaime Godfrey, Henry Levy, 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, Carlos Barrios – Assistant Chief Executive Officer, Betty Tse – Chief Investment Officer, Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, Clint Kuboyama – Investment Officer, and John Ta – Investment Officer.

**Public Input:**

The CEO/CIO of Mondrian Investment Partners (“Mondrian”), Clive Gilmore, provided a comment on the Proposed New Manager Structure for the International Equity Asset Class. Mr. Gilmore asserted that the decision to move away from Mondrian would be erroneous at this time. He also stated that Mondrian values their partnership with ACERA.

Betty Tse informed the Committee that the first action item on the agenda concerns the manager structure for the International Equity Asset Class and decision(s) relative to this first action item could impact the status of certain ACERA international equity managers such as Mondrian. Ms. Tse clarified that there was no action item on the agenda specific to Mondrian. Ms. Tse stated that ACERA Investment Staff had reached out to Mondrian and other managers in the ACERA International Manager Portfolio prior to today’s Investment Committee meeting to notify them of action item no. 1.

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

1. Discussion of and Possible Motion to Recommend that the Board Approve the Proposed New Manager Structure for the International Equity Asset Class
  - Staff and Verus communicated the rationale for the structural-change recommendation and discussed the use of core managers in the proposed structural alternatives versus the use of paired, style specific mandates in the existing asset-class structure. The opportunity for managers that currently manage non-core mandates to participate in any potential core-

mandate searches was also discussed as part of the potential path forward should one of the proposed structural options be adopted by the Board.

- The new structural alternatives were presented to the Committee by Staff and Verus. The potential use of discrete mandates for the developed markets, emerging markets and international small cap markets in the proposed alternative structures were evaluated, and the related benchmarks were discussed.
- Verus provided an overview of the process used to evaluate the existing and proposed international equity asset class structures. The weightings of passive versus active management, developed and emerging markets, etc. The projected alphas, tracking errors, and information ratios of the three structural alternatives were discussed along as well. Trustees discussed their favored structural alternatives #1 and #3.
- After further discussion, a motion to recommend that the Board approve an International Equity Asset Class Structure of 62% developed markets (of which 33% is passively managed and 29% actively managed), 28% emerging markets (all actively managed) and 10% international small cap (all actively managed) was moved by Trustee Gamble and seconded by Trustee Carson. The motion was made with the understanding that Staff and Verus would revisit the active-manager weightings in this structure with the Committee at a later date.
- The motion carried with 9 Yes (Basgal, Carson, Clippinger, Gamble, Godfrey, Levy, Rogers, Simon, and Wood), 0 No, and 0 Abstention.

2. Discussion of and Possible Motion to Recommend that the Board Adopt the 2023 – 2029 Investment Plan for ACERA’s Real Assets Asset Class

- Staff and Verus provided an overview of the proposed 2023 – 2029 Investment Plan for ACERA’s Real Assets. The primary reasons for the update were the increase of the asset class target weighting in the Total Fund, the increased Total Fund size, and the higher expected return of the Total Fund. The asset class has a target of 75% private investments and 25% public investments. With the projected annual commitments to private infrastructure and natural resource funds, the Investment Plan forecasts the asset class will reach its 75% target allocation to private investments by 2031.
- After further discussion, Trustee Basgal moved, seconded by Trustee Levy, to recommend that the Board adopt the 2023– 2029 Investment Plan for ACERA’s Real Assets Asset Class.
- The motion carried with 9 Yes (Baron, Basgal, Carson, Clippinger, Gamble, Godfrey, Levy, Simon, and Wood) 0 No, and 0 Abstention. Trustee Rogers was not present to vote.

3. Discussion of and Possible Motion to Recommend that the Board Adopt the 2023 - 2026 Updated Private Equity Investment Plan

- Staff and Verus discussed the 2023 – 2026 Private Equity Investment Plan for ACERA. The plan was updated to reflect the most recent Total Fund value and return assumptions. The 11% target allocation to Private Equity is expected to be reached by 2027. The sub-asset class weightings will remain neutral, which is 60% in buyout, 20% in venture capital, and 20% in debt/special situations.
- After further discussion, Trustee Godfrey moved, seconded by Trustee Basgal, to recommend that the Board adopt the 2023 - 2026 Updated Private Equity Investment Policy.
- The motion carried with 9 Yes (Baron, Basgal, Carson, Clippinger, Gamble, Godfrey, Levy, Simon, and Wood) 0 No, and 0 Abstention. Trustee Rogers was not present to vote.

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

1. 2023 Capital Market Assumptions

- Representatives from Verus discussed the methodologies used and the resultant 10-year return and risk forecasts for various asset classes projected for the 2023-2032 period. Verus noted large gains in the expected returns of fixed income assets due to increased target federal funds rate range, from 0 to .25% in December 2021 to 3.0% to 3.25% in December 2022. Higher risk bonds yield spreads increased from 323 basis points to 517 basis points during 2022. Verus inflation forecast remained unchanged at 2.5%.
- When applying the 2023 Capital Market Assumptions to ACERA's existing asset allocation targets, the projected 10-year return for ACERA's portfolio is approximately 7.5%, with a standard deviation of 12.9%. This Total Fund return projection has increased from a 6.1% 10-year return forecast (with a standard deviation of 13.0%) derived from the previous 2022 Capital Market Assumptions.

2. 2023 Investment Committee Workplan

- Staff presented the Investment Committee Work Plan for 2023 (Work Plan)
- Trustee Gamble mentioned the scheduling conflict with the May Investment Committee Meeting and the SACRS Conference. Staff will check with Trustees and Consultants before scheduling the May Committee meeting date.

Investment Committee Meeting Minutes  
February 8, 2023

**TRUSTEE REMARKS:**

Treasurer Levy encouraged Staff and Trustees to ask questions on things that they don't understand.

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, March 8, 2023

**ADJOURNMENT**

The meeting ended at 11:50 a.m.