



MINUTES OF THE MARCH 5, 2025, INVESTMENT COMMITTEE MEETING

To: Members of the Investment Committee

From: George Wood, Chair

Subject: Summary of the March 5, 2025 Investment Committee Meeting

The Investment Committee ("Committee") met on Wednesday, March 5, 2025, at 11:02 a.m. The Committee members present were Ophelia Basgal, Keith Carson, Ross Clippinger, Tarrell Gamble, Henry Levy, Elizabeth Rogers, Kellie Simon, Steven Wilkinson, and George Wood. ACERA Senior Managers and Presenting Staff were Harsh Jadhav – Chief of Internal Audit, Lisa Johnson – Assistant Chief Executive Officer (via Zoom), Jeff Rieger – Chief Counsel, Julius Cuaresma – Investment Analyst, Clint Kuboyama – Senior Investment Officer, Stephen Quirk – Investment Officer, Noe Reynoso – Investment Analyst, and Betty Tse – Chief Investment Officer.

PUBLIC COMMENT: N/A

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

1. Interview of the Four Finalists for ACERA's Emerging Markets Manager Search – Public Equities and Possible Motion that the Investment Committee Recommends One Finalist to the Board
 - Staff, in concurrence with NEPC and following on-site visits, presented the results of a detailed manager evaluation to the Committee in a recommendation memo that was based on updated average scores, and which resulted in the following rankings:
 1. Arga
 1. Pzena (tied for 1st)
 2. Acadian
 3. ABS
 - Trustee Gamble questioned the need to explicitly recommend two candidates in the recommendation memo. Staff responded that the recommendation was exclusively based on the ranking of the average scores of the Finalists and noted that all four Finalists were highly qualified and met the minimum qualifications.
 - Trustee Simon inquired about why Staff's Finalist scoring changed materially from the preliminary selection round (December ICM) while NEPC's scoring remained relatively stable. Staff explained that the on-site visits were extremely insightful in supplementing

the initial RFI responses. In contrast, NEPC was already familiar with the Finalists given their robust historical manager due diligence,

- Each Finalist presented their respective organizations and strategies, and fielded questions, specifically:
 - ABS emphasized their partnership with local specialists as a competitive advantage within emerging markets and their portfolio construction approach to generate alpha independent of style biases or country selection. Trustees inquired about the adaptability of the strategy to changing market conditions and ABS responded that their “boots on the ground” approach with specialists having local markets knowledge allowed them to identify new information more dynamically.
 - Acadian emphasized their significant experience as a pioneer in the emerging markets space and their robust research and technology platform to support a systematic approach. Trustees inquired about potential capacity constraints. Acadian responded that their considerable breadth of equity holdings mitigates those capacity concerns.
 - Arga emphasized the experience of their team, their global perspective, and the depth of their research. Trustees inquired about the ownership concentration with the founder and Chief Investment Officer, Rama Krishna. Arga responded that the economic interests of the firm are more diversified and that successors have been identified and are already in place should the need arise. Arga stated that their singular motivation is strong client results and that they are dedicated to preserving that philosophy.
 - Pzena emphasized their commitment to deep value investing, their experienced and deep investment team, and their culture of ownership to deliver superior investment performance. Trustees inquired about lessons learned from the 2008 Global Financial Crisis. Pzena responded that they now analyze each holding’s downside scenarios more rigorously to better understand the potential impairment and permanent loss of capital.
- Trustee Basgal moved, seconded by Trustee Wood, to recommend Arga to the Board as the Finalist for ACERA's Emerging Markets Manager, pending completion of legal and investment due diligence and successful contract negotiations.
- The motion to recommend Arga as the Finalist carried unanimously with 6 Yes (Basgal, Carson, Clippinger, Gamble, Wilkinson, and Wood), 0 No, and 0 Abstention. Trustees Levy, Rogers, and Simon were 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. Review of Real Assets Policy

- Staff and NEPC discussed with the Committee the proposed changes to the Real Assets Policy. The major proposed changes included: 1) a structural change in the asset class to 100% private investments with a 67% target weighting to private infrastructure and 33% target weighting to private natural resources; 2) interim allowable sub-class ranges to private infrastructure and natural resources and public infrastructure and natural resources; 3) updating the target weighting of the Real Assets asset class in the Total Fund to 6%; 4) the addition of sub-class descriptions; 5) an updated benchmark (67% S&P Global Infrastructure index/33% S&P Global LargeMidCap Commodity and Resources Index + 100 basis points); 6) the inclusion of delegated authority language; and 7) updated language related to information disclosure relative to ACERA real assets investments.
- Staff and NEPC discussed the rationale behind moving to a 100% private-investments structure and the syncing up of the delegated authority section of the Real Assets Policy with the other private asset class policies. Staff and NEPC also discussed the elimination of the commodity exposure in the new structure and the increased prevalence of continuation vehicles in the private asset classes.

2. Asset Allocation Update

This was the first update to ACERA's Asset Allocation Mix C since it was adopted by the Board in July of 2024. NEPC did not propose any adjustments to the Asset Allocation Mix. Mix C offers a higher 10-year expected return with a lower risk, as follows:

- The expected return for the plan increased from 6.5% on 12/31/2023 to 6.8% on 12/31/2024. Over the next 10 years, there is a 48.4% chance of exceeding the 7% assumed return. Over the next 30 years, the probability will improve to 64.7%.
- Volatility (measured by standard deviation) slightly decreased from 14.2% on 12/31/2023 to 14.0% on 12/31/2024. These changes were influenced by both the new strategic Asset Allocation Mix C and adjustments in NEPC's assumptions for each asset class.
- This update reflects improvements in expected return with a slight reduction in risk and shows how the strategic allocation and risk profile have evolved to enhance the portfolio's overall efficiency.

3. Semiannual Performance Review for the Period Ending December 2024 – Total Fund Highlighting Public Markets Asset Classes

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- For the six-month period ending 12/31/2024, ACERA's net return was 6.53%, ranking in the 21st percentile of US public funds. For the year, ACERA's net return was 9.23%, well above the assumed rate of return of 7.00%.
- Over three years, the net return was 2.81%, placing ACERA in the 52nd percentile. Over five years, the net return was 7.26%, above the assumed rate and in the 37th percentile. Over ten years, ACERA's net return was 7.47%, placing it in the 23rd percentile and outperforming the average public fund return of 6.92% and exceeding the 7% assumed rate as well.
- Overall, the year was solid for ACERA, with good returns and a diversified portfolio. There was strong performance in the US equity markets, which outperformed international markets. The next report will reflect the impact of the recent asset allocation changes.

TRUSTEE REMARKS:

Trustee Gamble (IC Vice Chair) and George Wood (IC Chair) expressed appreciation for Staff's hard work, acknowledging the effort that went into the planning and decision-making, especially in the past year and a half for onboarding ACERA's new General Investment Consultant (NEPC). They thanked everyone involved for their input and contributions to the process.

FUTURE DISCUSSION ITEMS

ESTABLISHMENT OF NEXT MEETING DATE

April 2, 2025 at 10:30 a.m.

ADJOURNMENT

The meeting ended at 3:10 p.m.

To view the March 5, 2025 Investment Committee Meeting in its entirety, click on the link below: <https://youtu.be/kXsxtOICzU>