



MINUTES OF THE MARCH 9, 2022 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 March 9, 2022, Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, March 9, 2022, at 9:33 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Kellie Simon, and George Wood. Also present were Alternate Safety Member Darryl Walker and Alternate Retired Member Nancy Reilly. ACERA Senior Managers and Presenting Staff present were Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, John Ta – Investment Officer, Thomas Taylor – Investment Officer, and Betty Tse – Chief Investment Officer.

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

1. Ukraine – Russia War and its Impacts on the World’s Economy and Investments

- Regarding the ACERA Total Fund’s exposure to the Ukraine and Russian region, Staff reported to the Committee that the preliminary estimated value of the Total Fund’s Russian holdings, as of 1 p.m. 3/8/22 was about \$7M (.063% of the Total Fund’s current market value). At the same time, the Total Fund’s Energy exposure, a highly volatile sector as a result of the war, was about \$400M (3.6% of the Total Fund’s current market value).
- Ian Toner, CIO of Verus, stated that the geopolitical risks in the Eastern European region have dramatically elevated as Russia invaded Ukraine on 2/24/22. Since then, Russia has not been able to accomplish any of their strategic goals on schedule partially due to the Ukrainians’ tactics on the battlefield. Simultaneously, the Western world has imposed unprecedented sanctions on Russia as the Federal Reserve and the European Central Bank officially sanctioned the Central Bank of Russia. According to Ian’s report, prices of commodities have soared as Russia is one of the key suppliers of oil to many developed countries (especially to Western Europe), and prices in energy, agricultural and industrial metal sectors have also increased. Of note, the WTI crude oil price has soared to over \$120 per barrel. As a result of this war, interest rate hikes expectations have moderated slightly for most major central banks, but there remains an expectation of significant hikes this year.

- With the headwind of inflation added to the ongoing geopolitical risks of an uncertain outcome in the Ukraine crisis, Ian reminded us all of the fiduciary responsibility that we bear and the fortitude that we all need to exercise for the Total Fund to successfully navigate through this adversity.
- If history is any guide, Ian stated that we can expect this war to continue causing short term volatility in the markets thereby depressing market value temporarily. This may cause some investment losses in the Total Fund. In the long term, however, the markets will stabilize and so will the ACERA portfolio. The ACERA portfolio has been carefully structured and this should help the Total Fund to weather this storm. Ian answered many questions from trustees about the outlook of the markets as a result of this Ukraine-Russia war before concluding his presentation.

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

1. Discussion and Possible Motion to Recommend that the Board Approve an Investment of up to \$43 million in Altas Partners Holdings III as part of ACERA's Private Equity Portfolio – Buyout, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Staff and Verus discussed the rationale, risks, and risk mitigants for the follow-on investment in Altas Partners Holdings III. ACERA is currently invested in Altas Partners Holdings II (2019 vintage year and \$33 million commitment). Altas Partners is a manager in good standing within ACERA's Private Equity Portfolio.
 - Staff stated that it had considered exercising its delegated authority for the Altas III investment, but ultimately decided to present the opportunity as an action item so as to allow the Investment Committee to meet the manager again and get comfortable with Altas' differentiated strategy. Going forward, Staff will continue to consider exercising delegated authority (in accordance with the PE policy) for re-ups with managers in good standing.
 - Representatives from Altas III provided an overview of their organization, investment team, investment strategy, and decision-making process. The performance of Altas II was discussed as well as the expectations for Altas III. Altas also discussed their ESG efforts.
 - After further discussion, Trustee Basgal moved, seconded by Trustee Godfrey, to recommend that the Board Approve an Investment of up to \$43 million in Altas Partners Holdings III as part of ACERA's Private Equity Portfolio – Buyout, pending completion of legal and investment due diligence and successful contract negotiations.
 - The motion carried with 9 Yes (Amaral, Basgal, Carson, Gamble, Godfrey, Koppenhaver, Levy, Simon, and Wood) 0 No, and 0 Abstention.

2. Discussion and Possible Motion to Recommend that the Board Approve an Additional Investment of up to \$50 million in Clarion Partners Lion Industrial Trust (“LIT”), as part of ACERA’s Real Estate Portfolio – Core Plus, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Clarion Partners LIT is a manager with good standing in ACERA’s real estate portfolio and has provided favorable returns over the life of ACERA’s investment. ACERA made its first commitment of \$10 million in 2012; the second commitment of \$25 million in 2016; and, the third commitment of \$20 million in 2018. Trustees queried Staff as to whether the current recommendation was within ACERA investment policy limitations (40% geographic and property type), which Staff affirmed. Staff offered support from the Callan Performance Measurement Report.
 - Representatives from Clarion Partners provided an update on their investment philosophy, investment strategy, decision-making process and overall results. Representatives also discussed how LIT is continuing to work and incorporate various ESG factors. LIT said tenants are placing more importance on ESG factors, as well.
 - After further discussion, Trustee Basgal moved, seconded by Supervisor Carson, to recommend that the Board Approve an Additional Investment of up to \$50 million in Clarion Partners Lion Industrial Trust (“LIT”), as part of ACERA’s Real Estate Portfolio – Core Plus, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - The motion carried with 9 Yes (Amaral, Basgal, Carson, Gamble, Godfrey, Koppenhaver, Levy, Simon, and Wood) 0 No, and 0 Abstention.

TRUSTEE REMARKS:

- Trustee Levy suggested reforming the ESG Subcommittee to further understand and possibly participate in the upcoming proxy season.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, April 13, 2022, at 9:30 a.m.

ADJOURNMENT

The meeting ended at 12:00 p.m.