



MINUTES OF THE APRIL 12, 2023, INVESTMENT COMMITTEE MEETING

To: Members of the Board of Retirement
From: Tarrell Gamble – Chair
Subject: Summary of April 12, 2023 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, April 12, 2023 at 9:34 a.m. The Committee members present were, Ophelia Basgal, 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, Jeff Rieger – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, Julius Cuaresma – Investment Analyst, Clint Kuboyama – 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 Adopt a New Investment Plan for ACERA’s Real Estate Asset Class
 - Callan discussed the 2023-2024 Real Estate (RE) Investment Plan for ACERA. Callan briefly reviewed the objectives and allocation targets of ACERA’s RE portfolio. The current market environment was also discussed.
 - As of Q3 2022, ACERA’s core allocation is 52% of the total RE portfolio, slightly under the target range of 60% to 100%. As such, the RE Investment Plan will target \$150 million in net new commitments to core real estate by the end of 2024.
 - The RE Investment Plan also proposes investing \$50 million to \$100 million per year to non-core strategies to maintain the real estate asset allocation target of 9%, based on the latest pacing study.
 - Callan also mentioned that Callan and Investment Staff will review emerging manager opportunities in the real estate space. The potential commitment sizing will be smaller given that these strategies are considered niche opportunities.
 - Questions about office vacancies, geography of properties, and property types were raised by the Committee. ACERA Staff and Callan will address these questions as part of the Real Estate Portfolio review information item on the May ICM agenda.

- After further discussion, Trustee Basgal moved, seconded by Trustee Simon, to recommend that the Board adopt the new Investment Plan for ACERA’s Real Estate Asset Class proposed by staff.
 - The motion carried with 7 Yes (Basgal, Bryant, Gamble, Levy, Rogers, Simon, and Wood), 0 No, and 0 Abstention.
2. Discussion of and Possible Motion to Recommend that the Board Approve an up to \$38 Million Investment in Crestline Opportunity Fund V as part of ACERA’s Private Equity Portfolio – Debt-Related/Special Situations, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
- Staff and Verus Advisory Inc. (“Verus”) provided the investment rationale behind Crestline Opportunity Fund V (“COF V”) and discussed with the Trustees the historical performance of Crestline’s predecessor funds, its risks, and change in fee structure for COF IV and V. Crestline’s employee diversity was also discussed.
 - Before Crestline’s presentation, ACERA Chief Counsel reminded Crestline of the public nature of the meeting.
 - Representatives from Crestline discussed the Firm’s history, investment team, current employee diversity, and ongoing diversity initiatives. Crestline’s representatives also discussed the Fund’s investment strategy, investment sourcing and risk management, as well as historical investments, and current opportunities.
 - After further discussion, Trustee Basgal moved, seconded by Trustee Levy, to recommend that the Board approve an up to \$38 million investment in Crestline Opportunity Fund V as part of ACERA’s Private Equity Portfolio – Debt-Related/Special Situations, pending completion of legal and investment due diligence and successful contract negotiation.
 - The motion carried with 7 Yes (Basgal, Bryant, Gamble, Levy, Rogers, Simon, and Wood), 0 No, and 0 Abstention.
3. Discussion and Possible Motion to Recommend that the Board Approve a Revised International Equity Asset Class Structure and Phased Implementation Transition Plan
- Staff provided a timeline of the International Equity Asset Class restructuring reviews, including the Board’s February 2023 approval to change the structure to 62% Developed Markets (33% passive, 29% active), 28% Emerging Markets (all active) and 10% International Small Cap (all active). In February 2023, the Board also instructed Verus and Staff to further evaluate the allocations to the International Active Developed Markets.
 - Staff highlighted the next two options for the Committee to vote upon at today’s ICM. The first is a Structural Option, involving different allocation sizes for the Active Developed Markets Managers. The second is an Implementation Option, involving

different RFP search timelines needed to implement those Structural Options, once approved.

- Verus presented the Structural Options, requesting that the Committee either affirm the February Board-approved Structure (“February-Approved”) or 2) approve the Modification to the February-approved Structure (“Modified”). Verus presented the merits and the associated risk factors between the two Structural Options for the Committee to consider.
- Verus’ analysis indicated that both Structural Options resulted in nearly identical projected alpha and projected tracking error. A slightly higher projected information ratio was noted for the “Modified” Structure. Based on this Verus analysis, both Verus and Staff supported either Structural Option.
- Trustee Gamble expressed his preference for the “Modified” Option, as the “Modified” Option was projected to result in a slightly higher Information Ratio, 0.41 versus 0.40 for the February-Approved Option.
- Verus then presented the Implementation Options, stating Staff’s and Verus’ preference for the Phased Option especially in light of staffing constraints.
- After further discussion, Trustee Gamble moved, seconded by Trustee Basgal, to recommend that the Board approve the “Modified” Structure of a Revised International Equity Asset Class Structure and Phased Implementation Transition Plan
- The motion carried with 7 Yes (Basgal, Bryant, Gamble, Levy, Rogers, Simon, and Wood), 0 No, and 0 Abstention.

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

1. Report on Investment Made Under Delegated Authority – Genstar Capital Partners XI³ (\$40 Million)
 - It was reported that Staff exercised its delegated authority to approve a \$40 million dollar commitment to Genstar Capital Partners XI. This will be ACERA’s third commitment to Genstar, a high-performing private equity buyout manager in good standing. Staff explained its rationale for approving this investment recommendation from Verus.
 - Staff also highlighted its plan of educating the Committee and then potentially moving towards reporting its delegated authority actions as part of a periodic report. This report would follow the model of many of ACERA’s peers by listing out its delegated investment activity in line-item format. Detailed information about each investment such as investment rationales will always be available upon request, which has been ACERA’s standard historically.

2. The Current State of ESG

- Verus provided an update on the ESG environment. This included an involved discussion about the regulatory landscape, ACERA's ESG Policy and the Policy as a risk mitigation tool.
- As ACERA's fiduciaries, the Committee, Verus and Legal/Investment Staff assessed the potential impact that recent and pending legislation, both at the federal and state level, could have on ACERA's ESG policy. In doing so, they discussed ACERA's Public Fund Proxy Voting Policy, ESG initiatives, and overall governance and due diligence efforts which ensure that ACERA is fulfilling fiduciary duties.
- Trustee Levy suggested that the ACERA ESG Sub-Committee be re-established and mentioned the potential benefits of doing so. The Investment Committee discussed briefly the pros and cons of re-establishing the named Sub-Committee now that ACERA has already approved its ESG Policy. Trustee Levy also asked Verus to opine on the appropriateness of re-establishing an ESG Sub-Committee, however, Verus responded that the convening of a Sub-Committee is a Governance matter and not an Investment matter. Verus also stated that ACERA is rather forward-thinking in adopting an ESG Policy when many of its peer have not done so.

TRUSTEE/ REMARKS:

Trustee Gamble reminded the Committee that the next Investment Committee is scheduled on May 17, 2023.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, May 17, 2023

ADJOURNMENT

The meeting ended at 11:51 a.m.