



MINUTES OF THE APRIL 13, 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 April 13, 2022, Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, April 13, 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 was Alternate Safety Member Darryl Walker. ACERA Senior Managers and Presenting Staff present were Dave Nelsen – Chief Executive Officer, – Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, Clint Kuboyama – Investment Officer, Thomas Taylor – Investment Officer, and Betty Tse – Chief Investment Officer.

Board Action Item:

1. Proposed Findings Regarding State of Emergency Pursuant to Gov’t Code §54953(e) (3): Staff Recommendation: The Board finds that it has reconsidered the circumstances of the state of emergency and (1) the state of emergency continues to directly impact the ability of the members to meet safely in person, and (2) state or local officials continue to impose or recommend measures to promote social distancing.
 - After a brief discussion, Trustee Basgal moved and Supervisor Carson seconded that the Board make the Proposed Findings.
 - The motion carried with 9 Yes (Amaral, Basgal, Carson, Gamble, Godfrey, Koppenhaver, Levy, Simon, and Walker) 0 No, and 0 Abstention.

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

1. Discussion and Possible Motion to Recommend that the Board Approve the Qualified List of Candidates for ACERA’s Emerging Markets Equity Manager Search – International Equities
 - Staff and Verus discussed the process and timeline to recommend the qualified short list candidates. Following the Board adopted focus-list approach, Staff received and reviewed 21 RFIs (A total of 26 RFIs were sent out and five (5) candidates did not respond.) The incumbent EME manager did not meet all of the minimum qualifications previously adopted by the Board.

- All 21 investment management companies met the minimum qualification; however, after averaging the scores, the top firms recommended to the Committee (in alphabetical order) are: Baillie Gifford & Company; Fidelity Institutional Asset Management; Wellington Management Company; and William Blair Investment Management.
- Staff and Verus discussed with trustees how the scoring was completed, the differences between the top four proposed nominees, as well as the scoring differences between Staff and Verus. Trustees discussed management fees, for example Wellington's and Baillie Gifford's fees, and what the standard fees are for the EME sub-asset class. Trustees inquired about the need for site-visits and international travel (Scotland and Singapore), especially in light of the potential Covid threats.
- After further discussion, Trustee Godfrey moved, seconded by Trustee Simon, to recommend that the Board Approve the Qualified List of four Candidates for ACERA's Emerging Markets Equity Manager Search – International Equities for further evaluation, due diligence, and onsite visits, including international travel.
- The motion carried with 9 Yes (Amaral, Basgal, Carson, Gamble, Godfrey, Koppenhaver, Levy, 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. Discussion of Proposed Amendments to ACERA's General Investment Guidelines, Policies and Procedures

- Staff and Verus discussed the proposed amendments to ACERA's General Investment Guidelines, Policies and Procedures (Policy) as highlighted in the cover memo prepared by the CIO. Staff updated the Policy to reflect the following items:
 - The current conditions/procedures of the portfolio, including. updated benchmarks for the various asset classes;
 - The decisions that the Board has made since its last Policy review, e.g. incorporation of the recently adopted Private Credit Policy;
 - Certain stylistic edits to the Policy to strengthen consistency and clarity, e.g. use of the broader term "contract" instead of the term "service agreement" throughout the Policy;
 - Proposed amendments to current investment guidelines and procedures, e.g. requiring an annual review of ACERA's Asset Allocation Policy.
- The Committee was in agreement with these proposed changes and only asked a few questions about certain of the proposed amendments, including how proxy voting was monitored internally. Staff responded to the questions to the satisfaction of the Committee. This information item will be agendized as an action item on the next month's ICM.

2. Traditional Asset Allocation and Investment Strategy Review for the period ending December 31, 2021 – Public Markets

- ACERA’s long-term returns have consistently been top quartile. In most periods, ACERA compares well vs. peers (i.e., above median). ACERA’s risk-adjusted return ratio (Sharpe) has been consistently at peer median. ACERA fund volatility has also been higher vs. peers.
- ACERA has added value in all public markets with the exception of Absolute Return. This has been the case in U.S. equities, which has been a difficult space for active management. Over last 10 years, -and in shorter-term periods as well, ACERA has added value in all private markets and Absolute Return.
- The ACERA portfolio is underweight Emerging Markets (vs. benchmark) and overweight North America, exposures that have both been positive contributors to results. Long-term managers and some newer managers have been adding value relative to their respective benchmarks since inception. ACERA’s active managers are adding value since inception. However, due to utilization of passive and complementary strategies, total ACERA U.S. equities exhibit a modest level of active risk. ACERA U.S. equities compare favorably versus peers and rank in the top quartile over most periods.
- ACERA has a diversified fixed income structure. Overweight to mostly below investment grade bonds (Loomis) has likely been a key source of value-added in recent years. Global bonds have lagged so this underweight likely benefitted ACERA. All managers exceed their respective benchmarks since inception. Similar to ACERA equities, ACERA fixed income ranks in the top quartile relative to the universe of peers over most periods.

3. Update on Ares Senior Direct Lending Fund II in Response to the Public Comment Made at ACERA’s Board Meeting on March 17, 2022

- Trustee Gamble communicated that ACERA’s investment with Ares (Ares Senior Direct Lending Fund II) has no exposure to Front Yard, the subject of the public comments made at the March 17, 2022, Board Meeting. For this reason, ACERA’s review of the matter is now closed.

TRUSTEE REMARKS:

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, May 19, 2022, at 9:30 a.m. (proposed)

ADJOURNMENT

The meeting ended at 11:27 a.m.