



MINUTES OF THE MAY 1, 2024, INVESTMENT COMMITTEE MEETING

To: Members of the Board of Retirement
From: Jaime Godfrey – Chair
Subject: Summary of May 1, 2024 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, May 1, 2024, at 10:31 a.m. The Committee members present were, Ophelia Basgal, Tarrell Gamble, Jaime Godfrey, Henry Levy, 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, Lisa Johnson –Assistant Chief Executive Officer, Jeff Rieger – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, Julius Cuaresma – Investment Analyst, Clint Kuboyama – Investment Officer, John Ta – Investment Officer, Betty Tse – Chief Investment Officer.

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

1. Discussion and Possible Motion to Recommend that the Board Approve an up to \$50 million Investment in Heitman Value Partners VI as part of ACERA’s Real Estate Portfolio, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Staff and Callan provided their rationale for making the investment recommendation. Representatives from Heitman discussed its organization, ownership, and investment team, as well as the Fund’s overview, and prior performance. When asked which part of the investment process was most important, Heitman emphasized the importance of all phases and provided examples.
 - Trustee Gamble raised a question regarding HART, which is another investment fund managed by Heitman and ACERA is a current investor in. The question was about the reasonableness of HART’s management fees. Staff and Callan responded that they would provide a short memo to the Trustees addressing the question.
 - After further discussion, Trustee Wood moved, seconded by Trustee Ophelia Basgal, to recommend that the Board approve an up to \$50 million investment in Heitman Value Partners VI as part of ACERA’s Real Estate Portfolio, pending completion of legal and investment due diligence and successful contract negotiation.
 - The motion carried unanimously with 7 Yes (Basgal, Bryant, Gamble, Godfrey, Levy, Simon, and Wood), 0 No, and 0 Abstention. Trustee Baron was 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. Performance Review for the period ending December 31, 2023 – Total Fund Highlighting Public Markets Asset Classes

- For the 6-month period ending 12/31/2023, ACERA's Total Fund returned 4.78% net, compared to the Policy Index return of 4.45%. For the year ending 12/31/2023, the Total Fund returned 12.55% net compared to the Policy Index of 11.42%. The Total Fund's net results ranked in the upper 48th and 30th percentile for the semi-annual and one-year periods, respectively.
- Specific to equities, the U.S. Equity asset class returned 8.64% net (vs. its benchmark return of 8.42%) and 25.66% net (vs. its benchmark return of 25.96%) for the 6-month and 1-year periods ending 12/31/2023, respectively. The International Equity asset class returned 5.25% net (vs. its benchmark 6.15%) and 16.88% net (vs. its benchmark 16.21%) for the 6-month and 1-year periods ending 12/31/2023, respectively.
- Specific to Fixed Income, the asset class return was 4.11% net (vs. its benchmark return of 3.93%) and 7.15% net (vs. its benchmark return of 6.36%) for the 6-month and 1-year periods ending 12/31/2023, respectively.
- As of 12/31/2023, the market value of the Total Fund was \$11,249,924,621 which was about \$1 billion higher than the Total Fund's value at 12/31/2022. In addition, the Total Fund's strong performance in 2023 has exceeded the 7% actuarial return assumption of ACERA and has helped to improve our funded status to 88% from the 86.9% recorded previously.

2. Education Session: Presentation of Asset Liability Study Findings and Discussion of Possible Asset Allocation Mixes

- Representative from NEPC informed the Committee the purpose of the education session, as follows.
 - 1) to review the projected financial status of the plan over the long term;
 - 2) to determine whether the current asset allocation is the best one in light of those expected liability, cash flow, and liquidity needs going forward;
 - 3) to test the sensitivity of both the assets and the liabilities to various range of outcomes outside the mean variance optimization regime and;
 - 4) to consider a recommendation proposal for an asset mix that may include the current policy at the June Investment Committee.
- NEPC also discussed the following proposed asset allocation mixes:

Mix A

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- Shifts Public Equity allocation closer to MSCI ACWI IMI by shifting region and market cap exposures
- Total Public Equity target remains at 48%
- Increases US Small/Mid Cap Equity, adds Emerging Market Small Cap Equity, reduces Non-US Developed Equity

Mix B

- Expands allocations to Private Debt and Multi-Sector Credit
- Takes advantage of improved opportunity set and higher interest rates
- Eliminates Global Government Bond, reduces Core Real Estate and Hedge Fund

Mix C

- Incorporates changes from Mixes A and B
 - In addition, shifts Core Bonds to explicit safe-haven segments by adding U.S. TIPS and U.S. Treasury, eliminates US Aggregate allocation
 - Increases exposure to Real Estate Debt and Private Infrastructure and eliminates Public Real Assets
- The Committee requested Staff to provide a recommendation on an asset allocation mix after they have concluded reviewing the different aspects of the various proposed asset allocation mixes. Staff agreed that they would submit a written recommendation to the Committee with the concurrence of both Consultants, as requested.

PUBLIC INPUT

None

TRUSTEES INPUT:

CIO Betty Tse informed the Committee that the onboarding with NEPC has been 100% completed as of April 30, 2024.

CEO Dave Nelson also mentioned that the Senior Investment Officer classification was approved by the Board of Supervisors in April of 2024.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, June 5, 2024

ADJOURNMENT

The meeting ended at 12:56 p.m.

To view the May 1, 2024 Investment Committee Meeting in its entirety, click on the link below: <https://youtu.be/g5BteZN3QGw>