



MINUTES OF THE JUNE 8, 2022 INVESTMENT COMMITTEE MEETING

THIS MEETING WAS CONDUCTED VIA TELECONFERENCE WITH VIDEO

To: Members of the Board of Retirement
From: George Wood – Vice Chair
Subject: Summary of June 8, 2022, Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, June 8, 2022, at 9:30 a.m. The Committee members present were Keith Carson, Jaime Godfrey, Liz Koppenhaver, Hank Levy, Kellie Simon, and George Wood. Also present were Alternate Retired Member Nancy Reilly, and 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, Serafin Lim – Investment Operations Officer, Clint Kuboyama – Investment Officer, John Ta – Investment Officer, Thomas Taylor – Investment Officer, and Julius Cuaresma – Investment Analyst.

Action Item: 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 \$36 million in Atalaya Special Opportunities Fund VIII 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 discussed the rationale behind the investment recommendation, including its diversifying benefits in the debt-related/special situations portfolio, the strategy’s track record, and Atalaya’s leadership in specialty finance. Staff and Verus also provided information on certain Atalaya litigation. Staff and Verus disclosed that they carefully reviewed the litigation and continue to recommend the investment. Staff and the Trustees also discussed having Staff provide a confidential memo to the Trustees with additional information relative to the litigation prior to the June 16 Board meeting.
 - Trustee Godfrey expressed concerns about the litigation, the sufficiency of information the Trustees will receive from a Staff memo on the litigation, headline risk and whether or not Atalaya was a leader in the specialty finance industry worth investing in despite possible risks. Staff and Verus communicated their desire to provide information to the Trustees that would enable them to make an informed decision, that these types of risks are not uncommon in the industry and that the Fund is a strong opportunity and one of the best in this investment class.
 - The Trustees, Staff, and Verus discussed the various options, including holding a closed session to discuss the litigation issues and having Atalaya address the issue at the current

meeting. Atalaya's changes to its investment process and how it evolved as a Firm to deal with these types of issues were discussed.

- Representatives from Atalaya discussed the Fund's investment strategy, including why it is an "all-weather" strategy, as well as the Firm's history, organization, culture, and ESG and D&I initiatives. The representatives also disclosed the Firm's investment process, including the improvements Atalaya has made in investment due diligence and its investment decision making process. The representatives reviewed the litigation issues and shared what they learned from these experiences.
- The Atalaya representatives and the Trustees discussed risks related to the size of the latest Fund, employee diversity and high-level employee turnover at the Firm, potential for financial exposure from pending litigation, and Dyal's minority ownership interest in Atalaya.
- The Trustees deliberated the next steps for this investment. After further discussion, Trustee Koppenhaver moved, seconded by Trustee Carson, to accept Staff's recommendation and have the Board review at its meeting on June 16, 2022, with the provision that the Trustees receive a memo from Staff answering the questions on litigation and agendize a possible closed-session discussion at the board meeting, should the Trustees require more discussion.
- The motion carried with 5 Yes (Carson, Koppenhaver, Levy, Simon, and Wood) 0 No, and 2 Abstention (Godfrey & Walker).

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

1. Semiannual Performance Review for the Period Ending December 31, 2021 – Private Equity
 - Verus provided a review of ACERA's Private Equity portfolio for the period ending 12/31/2021. General market commentary was provided along with an overview of the Private Equity portfolio performance and diversification.
 - Since ACERA's Private Equity portfolio inception in 2008, it has outperformed the Russell 3000 by 4.37% as of 12/31/2021. As of 12/31/2021 the Private Equity Portfolio had a total market value of \$987.1 million, which represented 8.3% of the Total Fund in comparison to its 11.0% asset class target. For the one-year period ending 12/31/21, The Private Equity Portfolio returned a net IRR of 38.46% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 36.76%. For the three-year period ending 12/31/21, ACERA's Private Equity Portfolio returned a net IRR of 26.51% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 25.55%.
2. Semiannual Performance Review for the Period Ending December 31, 2021 – Private Credit

- Verus provided an overview of the Private Credit Asset Class's performance. As of 12/31/2021, the Private Credit Portfolio had a total market value of \$159.8 million which represented 1.3% of the Total Fund (class target is 4.0%). Since the Private Credit Portfolio's inception through 12/31/2021, the Portfolio's net IRR was 8.90%, 5.09% above the same cash flows invested in the S&P LSTA US Leveraged Loan 100 Index of 3.81%.

3. Semiannual Performance Review for the Period Ending December 31, 2021 – Real Assets

- Verus discussed the inflationary environment, the sensitivity to inflation of the different sub-investment classes in the Real Assets Asset Class, and the performance of the Real Assets Portfolio. As of 12/31/2021, the Real Assets Asset Class had a total market value of \$759.7 million, representing about 6.3% of ACERA's Total Fund (class target 6.0%). For the one-year period ending 12/31/2021, the Real Assets Portfolio returned 17.80% net versus its blended benchmark (60% S&P Global Infrastructure Index/35% Global LargeMidCap Commodity and Resources Index/5% Bloomberg Commodity Index) return of 33.72%. For the three-year period ending 12/31/2021, ACERA's Real Assets Portfolio returned 9.44% net versus its blended benchmark return of 5.26%.

4. Status Report on ESG Implementation

- This item was presented as the first information item in order to accommodate the schedule of the ISS presenters, given the length of the first action item.
- ISS representatives presented a proxy voting update which included a comparison of ISS' Benchmark Policy relative to the Public Fund Policy. ACERA recently changed from ISS' Benchmark Policy to ISS' Public Fund Policy (as of April 11, 2022). The ISS Public Fund policy was demonstrated to be more closely aligned with ACERA's ESG policy.
- Staff and Verus provided an update regarding ACERA's ESG implementation efforts as well as covering the historical events with ACERA's ESG Policy. Staff is in the process of implementing ISS' Public Fund Policy for ACERA's BlackRock index holdings. Staff reviewed examples of integrating ACERA's ESG Policy into the manager due diligence process and expressed Staff and Verus's continued efforts to refine its ESG evaluation framework. Staff and Verus also discussed the questionnaire that is being developed as part of the data gathering required for ACERA's annual ESG risk disclosure report.
- Vice Chair Wood expressed support for the progress update and reaffirmed that he viewed the ESG implementation process to be largely operational in nature and will require minimal formal approvals from the Board. There were no dissenting opinions expressed. It was expressed that Staff and Verus will meet with ACERA's legal team to confer on what actions will require a formal Board vote. Staff and Verus stated that they will continue to provide semi-annual updates to the Committee, which was supported by Vice Chair Wood.

Investment Committee Meeting Minutes
June 8, 2022

TRUSTEE REMARKS:

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, July 13, 2022

ADJOURNMENT

The meeting ended at 12:37 p.m.