



MINUTES OF THE JUNE 9, 2021 INVESTMENT COMMITTEE MEETING

THIS MEETING WAS CONDUCTED VIA TELECONFERENCE WITH VIDEO

To: Members of the Board of Retirement
From: George Wood - Chair
Subject: Summary of June 9, 2021 Investment Committee Meeting

The Investment Committee ("Committee") met on Wednesday, June 9, 2021 at 9:31 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Darryl Walker, and George Wood. ACERA Senior Managers and Presenting Staff present were, David Nelsen – Chief Executive Officer, Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, Clint Kuboyama – Investment Officer, John Ta – Investment Officer, Thomas Taylor – Investment Officer, and Betty Tse – Chief Investment Officer.

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

1. Discussion and Possible Motion to Recommend that the Board Adopt an up to \$50 million Investment in Starwood Distressed Opportunity Fund XII as part of ACERA's Real Estate Portfolio – Opportunistic Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Before the item was discussed, the Chair explained that the agenda described this investment opportunity as an "up to \$40 million" investment, when it should have been described as an "up to \$50 million" investment. The Chief Counsel advised that if the Committee recommended an up to \$50 million investment, the correct \$50 million figure would appear on the Board's June 17, 2021 agenda.
 - Staff and Callan briefly discussed the Starwood Distressed Opportunity Fund XII recommendation, a potentially new real estate manager for ACERA. The Starwood recommendation represents an opportunity to invest in a fully integrated real estate fund that adds value through hands-on asset management and well-disciplined teams that specialize in acquisitions, capital markets, data science management and dispositions. The specialized teams allows for scale and the flexibility to invest in the real estate markets.
 - Starwood representatives provided a brief overview of the Starwood Capital Management organization, history, investment philosophy, strategy, and process, as well as the Fund's management. Starwood has a unique advantage in its breadth and depth of research and information across the number of properties it manages and its global footprint. Trustees queried Starwood representatives regarding its investment and decision-making process.

Starwood further provided more information regarding diversity & inclusion, ESG, and the alignment of management's interest with the L.P. investors.

- After further discussion, Trustee Godfrey moved, seconded by Commander Amaral, to recommend that the Board adopt an up to \$50 million investment in Starwood Distressed Opportunity Fund XII as part of ACERA's Real Estate Portfolio – Opportunistic, 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, Walker, and Wood) 0 No, and 0 Abstention.

2. Discussion and Possible Motion to Recommend that The Board Approve Changes to ACERA's Portfolio Asset Allocation

- Verus reviewed the changing market environment especially as a result of the global pandemic in 2020 and its ramifications. Consequently, they forecasted a meaningful reduction in 10-year expected returns for ACERA's Total Fund from the previously projected 6.7% to 5.5%.
- In order to potentially increase our 10-year projected returns to be nearer ACERA's Actuarially Return Assumption of 7%, Verus is recommending four Asset Mixes for the consideration of the Committee. These four Asset Mixes are listed with the respective forecast 10-year return (%) and standard deviation/risk (%) as follows: (1) "Current Target" Mix, 5.5 and 12.6; (2) "ACERA Revised" Mix, 5.6 and 12.7; (3) "More Equities" Mix, 5.6 and 13.1; and (4) "More Privates" Mix 5.8 and 13.0.
- The "More Privates" Mix has the highest forecast 10-year returns of 5.8% amongst all four Mixes. The named Mix also has a slightly higher risk of 13% compared to that of our current Asset Allocation of 12.6%.
- After much discussion, Trustee Koppenhaver moved, seconded by Trustee Godfrey to accept staff's recommendation of selecting the Asset Mix of "More Privates" which Verus also supported. The "More Privates" Asset Mix includes the following specific incremental changes to our "Current Target": Domestic Equities 24%(-1%), International Equities 24% (-1%), Total Fixed Income 14% (-2%), Real Estate 9% (+1%), Private Equity 11% (+3%), Absolute Return 8% (-1%), Private Credit 4% (no change), Real Assets 6% (+1%).
- The motion carried with 8 Yes (Amaral, Basgal, Carson, Gamble, Godfrey, Koppenhaver, Levy, 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. Semiannual Performance Review for the Period Ending March 31, 2021 – Real Estate
 - Callan presented the Semi-annual Portfolio Measurement Report for ACERA’s Real Estate portfolio as of 03/31/2021. For the last 6-months, ACERA’s Real Estate portfolio had a net return of 3.99%, outperforming the NFI-ODCE benchmark return of 3.0%.
 - For the trailing 1-year period, ACERA’s Real Estate portfolio had a net return of 3.43% outperforming the NFI-ODCE benchmark return of 1.47%.
 - For the trailing 3-year period, ACERA’s Real Estate portfolio had a net return of 5.48%, outperforming the benchmark return of 3.96%.
 - For the year ending 03/31/2021, ACERA’s Real Estate portfolio is valued at \$628.099 million, representing 6.25% of the Total Fund. The Real Estate Market Value and Unfunded Commitment \$732.113 million, representing 7.28%.

2. Semiannual Performance Review for the Period Ending March 31, 2021 – Equities and Fixed Income
 - For the 6-month period ending 03/31/2021, ACERA’s Total Fund returned 16.82% net, compared to the Policy Index return of 15.47%. For the year ending 03/31/2021, the Total Fund returned 38.26% net compared to the Policy Index of 35.88%. The Total Fund’s results ranked in the 14th and 19th percentile for the semi-annual and one year periods, respectively.
 - Specific to equities, the U.S. Equity asset class was net 22.79% and net 64.00% for the 6 month and 1-year periods ending 03/31/2021, respectively. The International Equity asset class was net 21.78% and net 57.25% for 6 month and 1-year periods ending 03/31/2021, respectively.
 - Specific to Fixed Income, the asset class return was 1.19% net and 11.58% net for the 6 month and 1-year periods ending 03/31/2021, respectively.
 - As of 03/31/2021, the market value of the Total Fund was \$10,051,345,442.

3. Semiannual Performance Review for the Period Ending March 31, 2021 – Absolute Return
 - As of 3/31/2021, the Absolute Return Portfolio had a total market value of \$701.553 million; representing 7.0% of ACERA’s Total Fund (class target is 9.0%). For the six-month period ending 03/31/2021, the Absolute Return Portfolio returned 11.33% net

versus the HFRI Fund of Funds Composite Benchmark return of 10.13%. For the one-year period ending 03/31/2021 the Absolute Return Portfolio produced a 14.28% net return compared to the Benchmark return of 23.83%.

4. Semiannual Performance Review for the Period Ending December 31, 2020 – Private Equity
 - Verus provided a brief performance overview of the Private Equity Program. As of 09/30/20, the Private Equity Portfolio had a total market value of \$728.8 million which represented 8.4% of the Total Fund in comparison to its 8.0% asset class target. For the one-year period ending 09/30/20, the Private Equity Portfolio returned a net IRR of 14.93% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 14.76%. For the three-year period ending 09/30/20, ACERA's Private Equity Portfolio returned a net IRR of 12.79% vs. the aforementioned Benchmark which returned a net IRR of 13.54%.

5. Semiannual Performance Review for the Period Ending December 31, 2020 – Private Credit
 - As of December 31, 2020, the Private Credit Portfolio had a total market value of \$57.1 million which represented 0.6% of the Total Fund (class target is 4.0%). Since the Private Credit Portfolio's inception through December 31, 2020, the Portfolio's net IRR was 3.29%, 227 basis points below the same cash flows invested in the S&P LSTA US Leveraged Loan 100 Index of 5.56%.

6. Semiannual Performance Review for the Period Ending December 31, 2020 – Real Assets
 - As of 12/31/2020, the Real Assets Asset Class had a total market value of \$481.458 million, representing about 5.0% of ACERA's Total Fund (class target is 5.0%). For the one-year period ending 12/31/2020, the Real Assets Portfolio returned 2.21% net versus its blended benchmark (50% S&P Global LargeMidCap Commodity and Resources Index/35% S&P Global Infrastructure Index/15% Bloomberg Commodity Index) return of -1.29%. For the three-year period ending 12/31/2020, ACERA's Real Assets Portfolio returned 0.25% net versus its blended benchmark return of 1.90%.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, July 14, 2021 at 9:30 a.m.

Investment Committee Meeting Minutes
June 9, 2021

ADJOURNMENT

The meeting ended at 12:26 p.m.