



Date: June 18, 2020
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of June 10, 2020 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, June 10, 2020 at 9:32 a.m. The Committee members present were Dale Amaral, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Safety Member Daryl Walker and Alternate Retired Member, Nancy Reilly. Members of the Staff present were David Nelsen – Chief Executive Officer, Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer (CIO).

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

1. Interview of the Finalists for ACERA’s U.S. Large Cap Value Manager Search and Possible Motion by the Investment Committee to Recommend one Finalist to the Board
 - Staff and Verus introduced the top three finalist (Aristotle Capital, Eagle Capital, and Wellington Management), discussed the onsite due diligence trips, and briefly explained the changes in scoring. Though scores were close among the three –and closest between the top two candidates, Staff and Verus favored Eagle Capital Management for ACERA’s U.S. Large Cap Value equity allocation because of its sole focus on large cap value. Eagle has a unique investment strategy, and has earned the highest average score and therefore is considered a good fit to ACERA.
 - Staff and Verus representatives discussed the relative merits of the three proposed finalists and answered Trustee questions about fees, ownership, strategy focus, ESG, and diversity. Staff briefly compared some of the highlights of each company, e.g., portfolio metrics including annual turnover, information ratio, upside/downside capture ratios, and focus of strategy. All three investment management companies have well-thought out investment philosophies, strategies, and processes, with the institutional experience and resources to support their respective strategy.
 - Representatives from Aristotle presented an overview of their company, management structure and discussed their Large Cap Value Strategy fund with the Committee. Aristotle discussed their firm’s investment philosophy and process, which involves selecting a concentrated portfolio of high-quality, undervalued companies undergoing compelling catalysts. They also explained their ESG and sustainability focus. Aristotle’s performance is very stable relative to the Large Cap Value Index and has outperformed this index over many time periods discussed. Aristotle noted that they invest in companies with full

conviction and at a full-weight position, for example, they effectively did not add on weakness to positions during the recent market volatility experienced in the first quarter. Further, they do not have macro, top-down views. Questions asked and topics discussed also included Aristotle's ESG considerations in the investment process, lessons learned from their underperforming investments, as well as the differentiated responsibilities between the co-PMs, CIO and co-CIO. The Committee and Aristotle discussed its various fee schedules. Aristotle voluntarily offered to reduce the management fee to 39 bps to match its commingled account fee.

- Representatives from Eagle presented their firm's ownership structure, its pure focus on its only strategy, large cap value, investment philosophy and process, to the Committee. They discussed their process starts with reverse stress tests risk assessments (i.e., price/valuation, business) and "value floor" fixed income/bond math analysis of companies. These tests help the team in not only in determining what could go wrong, but also why an investment could go wrong. The process is then combined with more of a venture capital type analysis, emphasizing companies with underappreciated future growth potential. In addition, the manager discussed their patient process in assessing downside risk/upside return potential, as well as how their buy-and-hold analysis is innate in their understanding of long-term risk and return drivers. Eagle further noted that their flexibility in assessing value metrics in changing market environments ties into their focus buying sustainable companies for the long-term. The manager also explained their long-term culture is reflected in their ownership/partnership structure, which does not involve annual bonus payouts. The Committee and Eagle particularly discussed Eagle's ESG considerations as it relates to selected allocations within the energy, IT, and communications space. They further discussed periods of Eagle's underperformance and the risk and return drivers of that underperformance. The Committee and Eagle discussed Eagle's rationale for their single fee schedule which Eagle offered to ACERA without change.
- Representatives from Wellington presented a brief firm history, overview and beliefs including ESG and diversity. They discussed their Large Cap Select Equity Income strategy with the Committee. Wellington's organization is large; however, its Select Equity Income strategy funds operate much like a boutique investment manager. Wellington explained the rationale for their focus on high quality, large cap companies that have sustainable and growing dividends. Wellington discussed their investment process, noting the importance of their "Fact Sheet." They also described how the Select Equity Income team leverages Wellington's robust investment and risk management structure. Specifically, the team sources differentiated views and analysis from Wellington's pool of specialized global industry analysts, including ESG analysts. The Committee and Wellington reviewed how Wellington's emphasis on sustainable dividends fits into their ESG process. The Committee and Wellington discussed Wellington's proposed fee schedule which they maintained the same for ACERA.
- After further discussion, Mr. Henry Levy moved, seconded by Ms. Koppenhaver, to recommend to the Board to select Aristotle Capital Management as ACERA's U.S. Large Cap Value manager, pending completion of legal due diligence, background investigations, and successful contract negotiation.

- The motion carried with 6 Yes (Amaral, Carson, Gamble, Koppenhaver, Levy, and Rogers), 1 No (Wood), and 0 Abstention.

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

1. Verus firm update - Introduction of Stuart Odell, Managing Director / Senior Consultant

- Verus introduced a new addition to its Team, Stuart Odell will be joining ACERA's consulting team as a secondary consultant.
- The Committee congratulated Barry Dennis on his retirement.

2. Semiannual Performance Review for the Period Ending March 31, 2020 – Equities and Fixed Income

- For the 6-month period ending 3/31/2020, ACERA's Total Fund returned -9.95% net, compared to the Policy Index return of -9.21%. For the year ending 3/31/2020, the Total Fund returned -6.87% net compared to the Policy Index of -6.33%. The Total Fund's results ranked in the 74th percentile for the semi-annual and one year periods, respectively.
- As of 3/31/2020, the market value of the Total Fund was \$7,416,223,994.

3. Semiannual Performance Review for the Period Ending March 31, 2020 – Absolute Return

- Verus provided a brief overview of the Absolute Return Portfolio through 03/31/20. As of that date, the Absolute Return Portfolio had a total market value of \$683.7 million, representing 9.2% of ACERA's Total Fund (class target is 9.0%). For the six-month period ending 03/31/20, the Absolute Return Portfolio returned -9.84% versus the HFRI Fund of Funds Composite Benchmark return of -5.98%. For the one-year period ending 03/31/20, ACERA's AR Portfolio returned -8.79% versus the HFRI Fund of Funds Composite Index Benchmark return of -5.48%.

4. Semiannual Performance Review for the Period Ending December 31, 2019 – Private Credit

- Verus provided a brief overview of the Private Credit Portfolio through 12/31/19. As of that date, the Private Credit Portfolio had a total market value of \$32.7 million which represented 0.4% of the Total Fund in comparison to its 4.0% asset class target. The first Private Credit investment was made in Q4 2019, so no performance data is available as of 12/31/19.

5. Semiannual Performance Review for the Period Ending December 31, 2019 – Private Equity
 - Verus provided a brief overview of the Private Equity Program through 12/31/19. As of that date, the Private Equity Portfolio had a total market value of \$602.2 million which represented 6.9% of the Total Fund in comparison to its 8.0% asset class target. For the one-year period ending 12/31/19, the Private Equity Portfolio returned a net IRR of 13.02% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 8.60%. For the three-year period ending 12/31/19, ACERA's Private Equity Portfolio returned a net IRR of 12.84% vs. the same Benchmark which returned a net IRR of 14.58%.
6. Semiannual Performance Review for the Period Ending December 31, 2019 – Real Assets
 - Verus provided a brief overview of the Real Assets Program as of 12/31/19. As of that date, the Real Assets Asset Class had a total market value of \$438.2 million; representing about 5.0% of ACERA's Total Fund (class target is 5.0%). For the one-year period ending 12/31/19, the Real Assets Portfolio returned a net IRR of 6.97% 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 19.22%. For the three-year period ending 12/31/19, ACERA's Real Assets Portfolio returned a net IRR of -0.76% vs. its blended benchmark return of 7.91%.
7. Semiannual Performance Review for the Period Ending March 31, 2020 – Real Estate
 - Callan presented the Semi-annual Portfolio Measurement Report for ACERA's Real Estate portfolio as of 3/31/2020. ACERA's Real Estate portfolio had a net return of 5.40% for the trailing 1-year period, outperforming the NFI-ODCE benchmark return of 3.93%. For the trailing 3-year period, ACERA's Real Estate portfolio had a net return of 7.47%, outperforming the benchmark return of 5.85%. For the year ending 3/31/2020, ACERA's Real Estate portfolio is valued at \$607.4 million, representing 8.19% of the Total Fund.
8. Brandywine Global has requested ACERA's consent to deemed assignment of its Investment Management Agreement in light of pending transaction between its parent company Legg Mason, Inc. and Franklin Resources, Inc. More information will be provided to the Board at its June 18 meeting, where the matter will be placed on the Board Consent Calendar
 - Staff provided the Committee with background information on the "deemed assignment" of ACERA's Investment Management Agreement with Brandywine Global. In addition, the Committee was notified that the approval of this "deemed assignment" has been placed on the Board's Consent Calendar for its June 18, 2020 meeting and could be removed from the Consent Calendar if Trustees wanted to discuss the matter further.

PUBLIC INPUT

A representative from Capital Group requested ACERA to consider allocating more assets to Capital Group because of its outperformance. The representative also offered to lower ACERA's management fees.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, July 8, 2020 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 1:36 p.m.