



MINUTES OF THE OCTOBER 12, 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 October 12, 2022, Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, October 12, 2022 at 9:31 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Tarrell Gamble, Liz Koppenhaver, Henry Levy, and Kellie Simon. Also present was Alternate General Member Nancy Reilly. ACERA Senior Managers and Presenting Staff present were, David Nelsen – Chief Executive Officer, Betty Tse – Chief Investment Officer, Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit; and Thomas Taylor – 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 Gamble Moved and Trustee Basgal seconded that the Board make the Proposed Findings.
 - The motion carried with 6 Yes (Amaral, Basgal, Gamble, Koppenhaver, Levy, and Simon,) 0 No, 0 abstention.

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

1. Discussion of and Possible Motion to Recommend that the Board Adopt Amendments to ACERA’s Emerging Investment Manager (EIM) Policy
 - Staff and Verus presented their proposed EIM Policy at the September 14th Investment Committee meeting (“ICM”) as an Information Item and Trustees provided their input. Staff revised the proposed EIM Policy based on trustee comments and now presents the revised EIM Policy for review as an Action Item.
 - The proposed amendments can be summarized as follows:

- Staff and Verus expanded the definition of an EIM manager to include all private market managers with total assets up to \$5 billion in committed capital, including co-investments, in any prior funds. For private real estate, managers with invested capital of up to \$3 billion will qualify for the EIM program.
 - For private equity, private real assets, and private credit asset classes, the total assets calculation will now include up to fund III in addition to funds II and I. For private real estate asset class, there are no fund offering limits.
 - To meet the requirements of the General Investment Guidelines, Policies, and Procedures, Trustees and Staff discussed removing language requiring “superior” performance as part of the goals and objective of the EIM program.
 - To clarify the graduation of traditional assets, MOMs, or FOFs, Trustees and Staff discussed adding language for possible next steps for the graduating manager to be considered. If warranted, a graduating manager could be added to the Total Fund manager roster, subject to further investment and legal due diligence.
 - Staff and Verus recommended adding language regarding ‘graduation’ of private markets by defining appropriate thresholds. An initial private market EIM will graduate as the fund is liquidated and/or any new funds exceed the committed capital limits for private markets, or invested capital for private real estate.
 - Staff and Verus recommend increasing the size or allocation of the Emerging Investment Manager program to “up to 10%” over the next 10 years from the current “up to 5%” of the Total Fund.
 - Staff and Verus recommend incorporating an additional risk metric by limiting the committed amount to no more than 25% of a manager’s total asset under management for traditional assets and no more than 15% of the private market commingled fund’s total commitment.
 - Section E. (“Fiduciary Counsel”) of the EIM Policy has been removed, as this section is no longer relevant per consultation with ACERA’s Legal Department.
- After further discussion, Trustee Koppenhaver moved, seconded by Trustee Simon to recommend that the Board Adopt Amendments to ACERA’s Emerging Investment Manager (EIM) Policy
 - The motion carried with 6 Yes (Amaral, Basgal, Gamble, Koppenhaver, Levy, and Simon,) 0 No, and 0 Abstention.

2. Discussion of and Possible Motion to Recommend that the Board Adopt Search Criteria for ACERA's General Investment Consultant (GIC) Search, including Proposed Minimum Qualifications and Evaluation Matrix

- At its September 14, 2022 meeting, the Investment Committee authorized Staff to issue a Request For Proposal (RFP) for a General Investment Consultant following the Proposed Search Timeline.
- Staff introduced Cortex, an independent search consultant for this RFP search. Cortex informed the Committee that ESG factors will also be considered in the evaluation criteria under both criteria of Organization and of Investment Process as noted. Cortex further explained the relevancy of ESG in these two criteria.
- Cortex responded to the question on Adequate Insurance which is listed as one of the minimum qualifications in the search. The Adequate Insurance is in line with the prior search and it is a standard coverage that is typically available. Trustee Basgal asked about the data breach limits on ACERA's insurance policy and ACERA CEO Dave Nelsen informed the Committee that large amounts of such coverage is becoming increasingly difficult to find and/or extremely expensive to purchase. In reference to the data breach, our general investment consultants will not have access to confidential member information.
- Staff informed the Committee on the process of handling consultants' background checks. In past searches, we conducted background checks internally and that was adequate. This time, we can look to outsource this function to a third party provider who has greater access to documents such as SEC records and court records.
- Staff confirmed that this RFP will allow Staff to identify full-service consultant candidates and give bonus points to individual firms that also offer Real Estate services. In the search we will disclose the capabilities of all the candidates in order for the Committee to have the information that is needed to choose the general investment consultant and scope of service.
- Trustees briefly discussed communications protocol between trustees and consultants. Reference was made to the Communications Policy, dated 2018. Trustees should consider filtering questions through Staff.
- After further discussion, Trustee Gamble moved, seconded by Trustee Basgal, to recommend that the Board Adopt Search Criteria to General Investment Consultant (GIC) Search, including the Proposed Minimum Qualifications and Evaluation Matrix which will include a 5% line item for ESG while changing the Organization line item to 20% from 25%.
- The motion carried with 6 Yes (Amaral, Basgal, Gamble, Koppenhaver, Levy, and Simon) 0 No, and 0 Abstention.

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

None

TRUSTEE REMARKS:

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, December 14, 2022

ADJOURNMENT

The meeting ended at 10:50 a.m.