



MINUTES OF THE DECEMBER 8, 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 December 8, 2021, Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, December 8, 2021, at 9:30 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. Also present was Alternate Retired Member Nancy Reilly. 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, John Ta, and 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 \$30 million Investment in Tiger Infrastructure Partners Fund III as part of ACERA’s Real Asset Portfolio – Infrastructure, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Staff, Verus and the Trustees discussed the recommended investment rationale, including Tiger Infrastructure Partners’ qualification as an emerging investment manager, as well as the buildout of the private infrastructure sub-portfolio within the broader Real Assets Portfolio.
 - A representative from Tiger Infrastructure Partners discussed the firm’s organization, its focus on the middle-market infrastructure segment, the attractive characteristics of the infrastructure segment, the firm’s track record and the firm’s investment strategy and associated risks. The representative also discussed the diversity of the firm’s workforce as well as the integration of ESG considerations into the firm’s investment processes and its investments.
 - After further discussion, Trustee Carson moved, seconded by Trustee Amaral, to recommend that the Board adopt an up to \$30 million commitment to the Tiger Infrastructure Partners Fund III, 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 Adopt an up to \$75 million Investment in Monroe Capital Private Credit Fund IV as part of ACERA's Private Credit Portfolio, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Staff, Verus, and the Trustees discussed the buildout of the Private Credit Portfolio and how an investment in Monroe Private Credit Fund IV will help diversify the name portfolio by introducing a lower middle market strategy. Furthermore, staff was pleased to point out that Monroe had first come to ACERA's attention through its IPSI program.
 - A representative from Monroe provided an overview of the firm and its employee diversity, as well as the fund's strategy, investment process, investment activity and its solid track record.
 - After further discussion, Trustee Godfrey moved, seconded by Trustee Koppenhaver, to recommend that the Board adopt an up to \$75 million commitment to the Monroe Capital Private Credit Fund IV, pending completion of legal and investment due diligence and successful contract negotiations.
 - The motion carried with 8 Yes (Amaral, Basgal, Carson, Gamble, Godfrey, Koppenhaver, Levy, Wood) 0 No, and 0 Abstention. Trustee Walker was not present for the vote.

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 June 30, 2021 – Real Assets
 - As of 6/30/2021, the Real Assets Asset Class had a total market value of \$534.319 million, representing about 4.7% of ACERA's Total Fund (class target 6.0%). For the one-year period ending 6/30/2021, the Real Assets Portfolio returned 32.27% 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 6/30/2021, ACERA's Real Assets Portfolio returned 3.10% net versus its blended benchmark return of 5.26%.
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 - Trustee Levy expressed his preference that performance reports particularly show each individual manager's return objectives vs. their actual performance. He also stated his preference that Verus provide a brief Committee education session on performance calculations.
2. Discussion of ESG implementation for ACERA
 - Verus presented the ESG implementation plan as it relates to ACERA's recently approved ESG policy which emphasizes risk mitigation as its main objective. And, Verus noted that ACERA's ESG policy is designed to be aligned with guidance found in Department of Labor (DOL) publications.

- Trustee Gamble stated the need for follow-up monitoring on ACERA's incumbent managers, including how and where ACERA's managers have improved concerning ESG risk factors.
- Verus noted the importance of proxy voting and briefly refreshed the Committee on an earlier proxy voting presentation led by ISS, ACERA's proxy voting provider. Verus and Staff discussed the costs and benefits of Commingled Accounts vs. Separately Managed Accounts (SMA), vis-à-vis ESG implementation and proxy voting through ISS.

Verus discussed the results of the ESG Survey Questionnaire provided to the Trustees, and how these results have been factored into the Verus implementation plan. Verus noted that ACERA is one of the few '37 Act Counties with a stand-alone ESG policy. Trustee Amaral, Staff, and Verus discussed the potential intended and unintended consequences of being the first fund to be in this position.

- Verus presented four potential paths of implementing ACERA's ESG policy (Divestment, Integration, Shareholder Engagement, and Impact), and the associated costs and benefits of these implementation paths.
 - Staff discussed ILPA, the Institutional Limited Partners Association, and their Diversity in Action Initiative, which specifically focuses on advancing diversity, equity, and inclusion (DEI) in the private equity industry. Staff noted that completing the signatory requirements for this DEI initiative is an example of the Integration path.
 - Staff, Verus, and Trustees discussed next steps, namely that the Committee will vote on their preferred ESG implementation path, including a possible change from ISS' Benchmark Policy to an adoption of both ISS' Public Fund Policy and ISS' Climate policy at the next Committee meeting in January 2022.
3. Semiannual Performance Review for the Period Ending September 30, 2021 – Equities and Fixed Income
- For the 6-month period ending 09/30/2021, ACERA's Total Fund returned 7.05% net, compared to the Policy Index return of 5.87%. For the year ending 09/30/2021, the Total Fund returned 25.11% net compared to the Policy Index of 21.90%. The Total Fund's results ranked in the 33RD and 19th percentile for the semi-annual and one year periods, respectively.
 - Specific to equities, the U.S. Equity asset class was net 8.58% and net 33.33% for the 6 month and 1-year periods ending 09/30/2021, respectively. The International Equity asset class was net 3.20% and net 25.67% for 6 month and 1-year periods ending 09/30/2021, respectively.
 - Specific to Fixed Income, the asset class return was 2.06% net and 3.27% net for the 6 month and 1-year periods ending 09/30/2021, respectively.

- As of 9/30/2021, the market value of the Total Fund was \$11,490,118,221.
4. Semiannual Performance Review for the Period Ending September 30, 2021 – Absolute Return
 - As of 9/30/2021, the Absolute Return Portfolio had a total market value of \$744.9 million; representing 6.4% of ACERA’s Total Fund (class target is 8.0%). For the six-month period ending 09/30/2021, the Absolute Return Portfolio returned 6.11% net versus the HFRI Fund of Funds Composite Benchmark return of 3.67%. For the one-year period ending 09/30/2021 the Absolute Return Portfolio produced an 18.47% net return compared to the Benchmark return of 14.35%.
 5. Semiannual Performance Review for the Period Ending June 30, 2021 – Private Equity
 - Verus provided a brief performance overview of the Private Equity Program. As of 6/30/2021 the Private Equity Portfolio had a total market value of \$984.2 million, which represented 8.6% of the Total Fund in comparison to its 11.0% asset class target. For the one-year period ending 6/30/21, the Private Equity Portfolio returned a net IRR of 63.57% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 55.07%. For the three-year period ending 6/30/21, ACERA’s Private Equity Portfolio returned a net IRR of 23.27% vs. the aforementioned Benchmark, which returned a net IRR of 22.39%.
 6. Semiannual Performance Review for the Period Ending June 30, 2021 – Private Credit
 - As of 6/30/2021, the Private Credit Portfolio had a total market value of \$123.3 million which represented 1.1% of the Total Fund (class target is 4.0%). Since the Private Credit Portfolio’s inception through 6/30/2021, the Portfolio’s net IRR was 9.56%, 4.44% above the same cash flows invested in the S&P LSTA US Leveraged Loan 100 Index of 5.12%.
 7. Semiannual Performance Review for the Period Ending September 30, 2021 – Real Estate
 - For the last 6-months ending 09/30/2021, ACERA’s Real Estate portfolio had a net return of 11.41%, outperforming the NFI-ODCE benchmark return of 10.33%.
 - For the trailing 1-year period, ACERA’s Real Estate portfolio had a net return of 15.85% outperforming the NFI-ODCE benchmark return of 13.64%.
 - For the trailing 3-year period, ACERA’s Real Estate portfolio had a net return of 7.92%, outperforming the benchmark return of 6.13%.
 - For the year ending 09/30/2021, ACERA’s Real Estate portfolio is valued at \$696.6 million, representing 6.06% of the Total Fund. The Real Estate Market Value and Unfunded Commitment \$815.9 million, representing 7.10%.

8. CA Gov. Code § 7514.7 Alternative Investment Vehicles Information Report

- There was no discussion on this item.

TRUSTEE REMARK

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, January 12, 2022, at 9:30 a.m.

ADJOURNMENT

The meeting ended at 12:50 p.m.