



Date: December 11, 2019
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of December 11, 2019 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, December 11, 2019 at 9:41 a.m. The Committee members present were Keith Carson, Jaime Godfrey, Henry Levy, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present were Alternate Safety Member, Darryl Walker and Alternate Retired Member, Nancy Reilly. Members of the Staff present were David Nelsen – Chief Executive Officer, Kathy Mount – Chief Counsel, Harsh Jadhav – Chief of Internal Audit and Betty Tse – Chief Investment Officer (CIO).

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

There were no action items.

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

1. Review of State Street Bank and Trust Company (“SSB”) – Custodian Bank
 - ACERA staff provided the Investment Committee with its current assessment including the ‘37 Act peer survey results regarding its working relationship with SSB. Over the last 7-years, SSB has received from ACERA a range of review ratings from very favorable ones (2012) to lower ratings (2016), based on service team turnover; to improved ratings in the most recent service review (2019). Improvement has been based on the new service team and a brand new Service Level Document (SLD), which was co-developed by staff and SSB.
 - Representatives from SSB provided the Committee with updates on its organization, and examples of: i) the deliverables in the SLD, and ii) the continuing improvement opportunities.
 - After SSB’s representatives had concluded his presentation, Staff answered Trustees’ questions about the other competitor’s names in the custodian business, as well as the resources needed to conduct a search.
 - Staff also stated that it would bring an action item to the next Investment Committee Meeting for Trustees to consider extending the SSB custody contract, as well as the securities lending contract.

2. Semiannual Performance Review for the Period Ending September 30, 2019 – Equities and Fixed Income

- For the 6-month period ending 09/30/2019, ACERA's Total Fund returned 3.33% net, compared to the Policy Index return of 3.16%. For the year ending 9/30/2019, the Total Fund returned 2.99% net compared to the Policy Index of 2.66%. The Total Fund's results ranked in the 73rd percentile for the semi-annual and one year periods, respectively.
- As of 09/30/2019, the market value of the Total Fund was \$8,327,780,947.

3. Semiannual Performance Review for the Period Ending September 30, 2019 – Absolute Return

- Staff and Verus provided a brief overview of the Absolute Return (AR) Portfolio through 09/30/19. As of that date, the AR Portfolio had a total market value of \$741 million, representing 8.9% of ACERA's Total Fund (class target is 9.0%). For the six-month period ending 9/30/19, the AR Portfolio returned 1.18% versus the HFRI Fund of Funds Composite Benchmark return of 0.58%. For the one-year period ending 09/30/19, ACERA's AR Portfolio returned 0.43% versus the HFRI Fund of Funds Composite Index Benchmark return of 0.01%.

4. Semiannual Performance Review for the Period Ending June 30, 2019 – Private Equity

- Verus provided a brief overview of the Private Equity Program through 06/30/19. As of that date, the Private Equity Portfolio had a total market value of \$563.7 million which represented 6.7% of the Total Fund in comparison to its 8.0% asset class target. For the six-month period ending 6/30/19, the Private Equity Portfolio returned a net time-weighted return of 2.08% vs the Thomson Reuters C|A Global All Private Equity Benchmark that returned a time-weighted return of -4.41%. For the one-year its period ending 06/30/19, ACERA's Private Equity Portfolio returned a net IRR of 10.77% vs. the Thomson Reuters C|A Global All Private Equity Benchmark which returned a IRR of 11.91%.

5. Semiannual Performance Review for the Period Ending June 30, 2019 – Real Assets

- Verus provided a brief overview of the Real Assets Program as of 06/30/19. As of that date, the Real Assets Asset Class had a total market value of \$292 million; representing about 3.5% of ACERA's Total Fund (class target is 5.0%). For the six-month period ending 6/30/19, the Real Assets Portfolio returned -0.55% 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 14.73%. For the one-year period ending 06/30/19, ACERA's Real Assets Portfolio returned -12.41% vs. its blended benchmark return of 1.14%. Staff also updated the Committee on the changes in the Real Assets portfolio since 06/30/19.

6. Semiannual Performance Review for the Period Ending September 30, 2019 – Real Estate

- Callan presented the semi-annual Portfolio Measurement Report for ACERA's Real Estate Portfolio as of 09/30/19. ACERA's portfolio (excluding the Oakland building) returned 2.78% net for the trailing 6-months and 6.74% net for the trailing 12-months. For the year ending 09/30/19, our Real Estate portfolio had outperformed its benchmark by 1.28% and valued at \$583.20 million, 7.0% of the Total Fund.

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

- Staff presented the named CA Gov. Code § 7514.7 Alternative Investment Vehicles Information Report to the Investment Committee.

TRUSTEE/PUBLIC INPUT

Investment Committee Chair, Trustee Rogers thanked the Investment Staff and the Investment Consultants (Verus and Callan) for all their diligence and quality work for the year.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

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

Adjournment into Closed Session

1. Consider the Purchase or Sale of Particular, Specific Pension Fund Investments (2 matters)(CA Gov. Code §§ 54956.81 and 6254.26)

Reconvene into Open Session to Report on Action Taken in Closed Session

The Committee reconvened into open session at 12:06 p.m. and reported that the Investment Committee recommends to the ACERA Board that it increase ACERA's investment in a Two Sigma Advisers Fund by \$60 million and decrease ACERA's investment in CFM Institutional Systematic Diversified Fund by \$60 million to diversify the Absolute Return Portfolio.

The motion carried unanimously with 7 yes (Carson, Godfrey, Koppenhaver, Levy, Reilly, Rogers, and Walker), 0 no, and 0 abstention.

ADJOURNMENT

The meeting ended at 12:07 p.m.