



**Alameda County Employees' Retirement Association
BOARD OF RETIREMENT**

INVESTMENT COMMITTEE/BOARD MEETING

THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE [SEE SECTION 42 OF EXECUTIVE ORDER N-08-21 ATTACHED AT THE END OF THIS AGENDA.]

ACERA MISSION:

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

**Wednesday, August 11, 2021
9:30 a.m.**

ZOOM INSTRUCTIONS	COMMITTEE MEMBERS	
The public can view the Teleconference and comment via audio during the meeting. To join this Teleconference, please click on the link below. https://zoom.us/join Webinar ID: 834 0982 6109 Passcode: 586900 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193	GEORGE WOOD, CHAIR	ELECTED GENERAL
	JAIME GODFREY, VICE-CHAIR	APPOINTED
	DALE AMARAL	ELECTED SAFETY
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	TARRELL GAMBLE	APPOINTED
	LIZ KOPPENHAVER	ELECTED RETIRED
	HENRY LEVY	TREASURER
	DARRYL L.WALKER	ELECTED GENERAL¹
	NANCY REILLY	ALTERNATE RETIRED²
	VACANT	ALTERNATE SAFETY

¹Trustee Walker is filling the vacancy created by Trustee Rogers' retirement. See Gov't Code §§ 31524, 31520.1(b)

² Alternate Retired Member (Votes in the absence of the Elected Retired Member, or, if the Elected Retired Member is present, then votes if both Elected General members, or the Elected Safety Member and an Elected General member, are absent).

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

The order of agenda items is subject to change without notice. Board and Committee agendas and minutes, and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure), are available online at www.acera.org.

INVESTMENT COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 2 of 2 – August 11, 2021

Call to Order: 9:30 a.m.

Roll Call:

Public Input (The Chair allows public input on each agenda item at the time the item is discussed)

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

1. Discussion and Possible Motion to Recommend that the Board Approve the Proposed Timeline, Minimum Qualifications, and Evaluation Matrix for ACERA's Absolute Return (Custom Fund of Hedge Funds) Manager Search

9:30 – 10:00 Margaret Jadallah, Verus Advisory Inc.
Clint Kuboyama, ACERA
Betty Tse, ACERA

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

1. Proxy Voting Education and Discussion of ACERA's Proxy Voting Policy

Nathan Worthington, Institutional Shareholder Services Inc. (ISS)
Valerie Sullivan, Institutional Shareholder Services Inc. (ISS)
Margaret Jadallah, Verus Advisory Inc.
John Ta, ACERA
Betty Tse, ACERA

Trustee Remarks

Future Discussion Items

Establishment of Next Meeting Date

September 8, 2021 at 9:30 a.m.

42) Executive Order N-29-20, Paragraph 3, is withdrawn and replaced by the following text:

Notwithstanding any other provision of state or local law (including, but not limited to, the Bagley-Keene Act or the Brown Act), and subject to the notice and accessibility requirements set forth below, a local legislative body or state body is authorized to hold public meetings via teleconferencing and to make public meetings accessible telephonically or otherwise electronically to all members of the public seeking to observe and to address the local legislative body or state body. All requirements in both the Bagley-Keene Act and the Brown Act expressly or impliedly requiring the physical presence of members, the clerk or other personnel of the body, or of the public as a condition of participation in or quorum for a public meeting are hereby waived.

In particular, any otherwise-applicable requirements that

- (i) state and local bodies notice each teleconference location from which a member will be participating in a public meeting;
- (ii) each teleconference location be accessible to the public;
- (iii) members of the public may address the body at each teleconference conference location;
- (iv) state and local bodies post agendas at all teleconference locations;
- (v) at least one member of the state body be physically present at the location specified in the notice of the meeting; and
- (vi) during teleconference meetings, a least a quorum of the members of the local body participate from locations within the boundaries of the territory over which the local body exercises jurisdiction

are hereby suspended.

A local legislative body or state body that holds a meeting via teleconferencing and allows members of the public to observe and address the meeting telephonically or otherwise electronically, consistent with the notice and accessibility requirements set forth below, shall have satisfied any requirement that the body allow members of the public to attend the meeting and offer public comment. Such a body need not make available any physical location from which members of the public may observe the meeting and offer public comment.

Accessibility Requirements: If a local legislative body or state body holds a meeting via teleconferencing and allows members of the public to observe and address the meeting telephonically or otherwise electronically, the body shall also:

- (i) Implement a procedure for receiving and swiftly resolving requests for reasonable modification or accommodation from individuals with disabilities, consistent with the Americans with Disabilities Act and resolving any doubt whatsoever in favor of accessibility; and
- (ii) Advertise that procedure each time notice is given of the means by which members of the public may observe the meeting and offer public comment, pursuant to subparagraph (ii) of the Notice Requirements below.

Notice Requirements: Except to the extent this Order expressly provides otherwise, each local legislative body and state body shall:

- (i) Give advance notice of the time of, and post the agenda for, each public meeting according to the timeframes otherwise prescribed by the Bagley-Keene Act or the Brown Act, and using the means otherwise prescribed by the Bagley-Keene Act or the Brown Act, as applicable; and
- (ii) In each instance in which notice of the time of the meeting is otherwise given or the agenda for the meeting is otherwise posted, also give notice of the means by which members of the public may observe the meeting and offer public comment. As to any instance in which there is a change in such means of public observation and comment, or any instance prior to the issuance of this Order in which the time of the meeting has been noticed or the agenda for the meeting has been posted without also including notice of such means, a body may satisfy this requirement by advertising such means using "the most rapid means of communication available at the time" within the meaning of Government Code, section 54954, subdivision (e); this shall include, but need not be limited to, posting such means on the body's Internet website.

All of the foregoing provisions concerning the conduct of public meetings shall apply through September 30, 2021.



TO: Members of the Investment Committee
FROM: Clint Kuboyama, Investment Officer *Clint Kuboyama*
DATE: August 11, 2021
SUBJECT: Discussion and Possible Motion to Recommend that the Board Approve the Proposed Timeline, Minimum Qualifications, and Evaluation Matrix for ACERA's Absolute Return (Custom Fund of Hedge Funds) Manager Search

Recommendation:

Approve the attached Timeline, Minimum Qualifications, and Evaluation Matrix for ACERA's Absolute Return (Custom Fund of Hedge Funds) Manager Search.

Background:

On April 15, 2021, the ACERA Board approved a structural change to the Absolute Return (AR) Asset Class. The new AR Asset Class structure is 80% Fund of Hedge Funds/20% Other Alternatives/Opportunistic. The 80% Fund of Hedge Funds (FOHF) allocation is being implemented with two customized FOHF managers at 40% portfolio weightings each. ACERA currently has one custom FOHF manager, Lighthouse, and, in order to implement the new structure, Staff and Verus are now searching for a second custom FOHF manager.

Staff and Verus presented a search proposal to the Investment Committee (IC) as an information item at the July 14, 2021 IC Meeting; this presentation sought the IC's input on how the search would be conducted and discussed what was being planned¹. Staff and Verus proposed a focused-list search methodology that included a proposed Timeline, Minimum Qualifications, and Evaluation Matrix for the search. The IC's feedback focused primarily on the number of finalist managers the IC would evaluate and select from at the conclusion of the search. The IC communicated its preference for 2 – 3 finalist managers for evaluation versus the 1 – 3 finalist managers that were proposed. Accordingly, this input has been implemented into the search's plan and Timeline (see Attachment #1). The search's Timeline has also been altered to delay the creation of the manager focused list from July 29, 2021 to August 19, 2021. This change was made so the focused list would be completed after the minimum qualifications were approved by the Board instead of before. In addition, the Timeline was updated for the progress that has been made in the search since July 14, 2021. The other two formal search documents presented to the IC on July 14, 2021 – the search's Minimum Qualifications (see Attachment #2) and Evaluation Matrix (see Attachment #3) – have not been changed between meetings as there was no IC feedback on them at the July 14, 2021 IC Meeting.

At this meeting, Staff and Verus seek the IC's approval for the search's Timeline, Minimum Qualifications, and Evaluation Matrix such that these foundational aspects of the search can be approved by the ACERA Board and the search can formally commence.

Attachment:

- #1 Proposed Timeline, prepared by Staff
- #2 Proposed Minimum Qualifications, prepared by Staff
- #3 Proposed Evaluation Matrix, prepared by Staff
- #4 Verus Custom Fund of Hedge Funds Manager Search Memo, prepared by Verus

¹ Please see "Manager Search Process Overview" on pages 2 – 3 of Verus' Memo (Attachment #4).

Attachment I

ACERA – CUSTOM FUND OF HEDGE FUNDS MANAGER SEARCH

Proposed Timeline

ⁱStep	Activity	Tentative Deadline	Status
1.	Staff and Verus develop Initial Manager Universe, Screening Questionnaire, Timeline, Minimum Qualifications, and Evaluation Matrix	7/14/21	Completed
2.	Search Process, Timeline, Minimum Qualifications, and Evaluation Matrix to be discussed with Investment Committee as an Information Item	7/14/21	Completed
3.	Send Screening Questionnaire to Initial Manager Universe	7/16/21	Completed
4.	Screening Questionnaire Responses Due	7/26/21	Completed
5.	Evaluate Screening Questionnaire Responses	8/11/21	Completed
6.	Finalize Timeline, Minimum Qualifications, Evaluation Matrix, and Comprehensive Questionnaire (questionnaire to be sent to Focused-List Managers on 8/20/21)	8/11/21	In Process
7.	Timeline, Minimum Qualifications and Evaluation Matrix to the Investment Committee and Board as Action Items for Approvals	8/11/21 IC 8/19/21 Board	Yet to Start
8.	Create Search Focused List	8/19/21	Yet to Start
9.	Send Comprehensive Questionnaire to Search Focused List	8/20/21	Yet to Start
10.	Comprehensive Questionnaire Response Deadline for Focused List Managers	9/17/21	Yet to Start
11.	Staff and Verus Evaluation of Comprehensive Questionnaire Responses	10/15/21	Yet to Start
12.	Staff and Verus Create Finalist List	10/15/21	Yet to Start
13.	Staff and Verus Perform Due Diligence and On-Site Visits with Finalists	11/12/21	Yet to Start
14.	Present Search Recommendations for Investment Committee and Board Approvals	12/8/21 IC 12/16/21 Board	Yet to Start

ⁱ Deadlines are subject to change based upon time and resources required to complete the evaluation process.

Attachment II

ACERA – CUSTOM FUND OF HEDGE FUNDS MANAGER SEARCH

Proposed Minimum Qualifications

1. The Firm must agree to act as a fiduciary to ACERA.
2. The Firm must be registered as an investment adviser under the Investment Advisers Act of 1940, a bank (as defined in that Act) or an insurance company qualified to perform investment management services under state law in more than one state, including the State of California.
3. ACERA's investment account should not comprise more than 10% of the Firm's total assets under management at any time.
4. The Firm must have a minimum ten years' experience managing discretionary, commingled fund-of-hedge-funds and/or custom, discretionary hedge-fund-of-one¹ portfolios.
5. The Firm must have a minimum of \$3.5 billion in discretionary, commingled fund-of-hedge-funds and/or custom, discretionary hedge-fund-of-one assets under management.
6. The Firm must manage at least three custom hedge-fund-of-one portfolios that are in excess of \$100 million in size. Prefer firms with at least one custom hedge-fund-of-one portfolio that is \$350 million in size or greater.
7. The Firm must be able to provide ACERA management fees, performance fees, and pass-through fees at the aggregate underlying manager level and at the fund-of-hedge-funds-portfolio level, as well as gross and net return on a quarterly basis.
8. The Firm must be willing to annually complete ACERA's ESG questionnaire that discloses the Firm's ESG initiatives and factors incorporated at the organization and within the investment process.
9. ACERA prefers, but does not require, firms that have the ability to include compelling emerging (smaller and newer) hedge funds as part of the custom, hedge-fund-of-one portfolio.
10. The Firm should carry the following minimum insurance coverage or should apply for it by contract execution²:
 - a. Commercial General Liability – \$4,000,000
 - b. Crime Coverage
 - i. Employee Dishonesty Coverage - \$10,000,000
 - ii. Computer Theft Coverage - \$1,000,000
 - c. Error and Omissions (Professional Liability) - \$10,000,000
 - d. Fiduciary Liability - \$25,000,000, or 10% of the total assets managed in the ACERA account, whichever is higher, unless the proposed contract specifies otherwise
 - e. Workers' Compensation and Employer's Liability - \$1,000,000
11. Attend ACERA's Investment Committee Meetings as needed.
12. The Firm must be willing to allow ACERA to review the latest 3-5 years of the Firm's audited financial statements.
13. Once selected by ACERA as the recommended Firm, the Firm must consent to a background investigation of the investment management entity and key individuals.

¹ Custom fund of hedge funds are also known as "Hedge Fund of Ones".

² Subject to change upon final contract negotiation.

Attachment III

ACERA – CUSTOM FUND OF HEDGE FUNDS MANAGER SEARCH

Proposed Evaluation Matrix

A.	Fund of Hedge Funds Organization	10 Points
	<ol style="list-style-type: none">1. History2. AUM in discretionary fund of hedge funds3. AUM in customized, discretionary hedge fund of ones¹4. Access to resources from broader organization5. Proprietary strategies6. ESG initiatives	
B.	Investment Team	15 Points
	<ol style="list-style-type: none">1. Experience/Quality/Tenure of Decision Makers<ol style="list-style-type: none">i. Manager evaluationii. Portfolio constructioniii. Portfolio managementiv. Risk management2. Team Structure/Team Alignment of Interests	
C.	Investment Process	17.5 Points
	<ol style="list-style-type: none">1. Manager sourcing/access to managers2. Evaluation of managers/strategies3. Manager/strategy approval process4. Portfolio construction5. Portfolio management6. ESG integration	
D.	Risk Management	17.5 Points
	<ol style="list-style-type: none">1. Investment risk2. Operational risk3. Independent risk management division	
E.	Performance	15 Points
	<ol style="list-style-type: none">1. Flagship fund and/or custom account composite<ol style="list-style-type: none">i. Risk-Adjusted Returnsii. Downside captureiii. Correlation and beta to global markets	
F.	Platform Flexibility/Ability to Meet ACERA’s Needs	15 Points
	<ol style="list-style-type: none">1. Portfolio liquidity options2. Fee/performance transparency3. Engagement/value add to ACERA Staff/Consultant	
G.	Management/Performance Fees	10 Points
	<ol style="list-style-type: none">1. Portfolio-level management fee proposal2. Underlying manager/strategy management and performance fees<ol style="list-style-type: none">i. % managers on platform with reduced fees<ol style="list-style-type: none">a. Average management fee discountb. Average performance fee discount	

¹ A custom fund of hedge funds is also known as a “Hedge Fund of One”.

Memorandum

To: ACERA
From: Verus
Date: August 11, 2021
RE: Custom fund of hedge funds manager search

Executive Summary

ACERA will be conducting a custom fund of hedge funds manager search as a result of the Plan’s recent absolute return structure change whereby alternative premia strategies will be taken out of the absolute return portfolio and replaced with an additional custom fund of hedge funds manager. This upcoming change will be made to increase alpha potential in this part of the portfolio while maintaining a similar risk profile and to allow the absolute return portfolio to be more adaptable to changes in the market environment.

This memo outlines the search process that we plan on using for the custom fund of hedge funds search with rationale behind it. This is a proposed action item so that we can initiate the search following last month’s information item where we elicited Trustee feedback on search requirements.

Target Allocation

The absolute return (“AR”) portfolio has the strategic objective of 1) generating superior returns commensurate with risk taken using strategies that have a low correlation to the global equity markets; 2) enhancing ACERA’s long-term risk-adjusted return and providing additional diversification to ACERA’s overall investment Fund; and 3) generating total AR Portfolio returns at or above the HFRI Fund of Funds Composite Index, net of all fees and expenses.

ACERA’s new AR target allocation as of April 2021 is shown below. In addition, ACERA revised its overall strategic asset allocation in June 2021 which reduced the AR weighting from 9% to 8% of the total portfolio which is also reflected in the table. The actual weighting to AR is slightly lower than that at approximately 7% of the overall portfolio at this time.

Sub-categories	Target Allocations	Min./Max. Ranges (total portfolio %)
Absolute Return Portfolio	8.0%	4% to 10%
<ul style="list-style-type: none"> ▪ <i>Fund of hedge funds</i> ▪ <i>Other Alternatives/Oppportunistic</i> 	<ul style="list-style-type: none"> 80% 20% 	<ul style="list-style-type: none"> 50% to 100% 0% to 50%

Most of the AR portfolio based on target allocations will be comprised of fund of hedge funds assets, which are customized versions of off-the-shelf hedge fund-of-funds vehicles. This diversified source of hedge fund exposure allocates to underlying hedge funds with decisions and oversight delegated to a hedge funds-of-funds manager who manages the portfolio in

accordance with ACERA's specified investment objectives and guidelines. This portion of the AR portfolio seeks return primarily through exploiting idiosyncratic alpha sources (as opposed to returns driven by market beta).

Other alternatives/opportunistic absolute return strategies seek to augment this diversified exposure with other alpha-oriented strategies that are uncorrelated with public markets. These investments can include a wide range of innovative and/or non-traditional investments that offer unique attributes that should further contribute to the overall return and diversification objectives of the AR Portfolio. This portion of the portfolio can be described as incorporating "best ideas", uncorrelated approaches.

We estimate a five-month process from the time the search is initiated to Board approval of the new manager.

Manager Search Process Overview

ACERA's AR portfolio is intended to generate stable, modest, positive returns that are uncorrelated with global equity markets (i.e., not dependent on broad market movements for alpha). While return targets for AR are muted compared to long only equity strategies, higher risk-adjusted returns are expected with lower volatility and less downside risk. The role of absolute return is offer diversification both at the total return portfolio level and within lower volatility strategies (i.e., a fixed income substitute). Quantitative metrics in the search process will focus on these elements.

As described above, ACERA has elected to add to a fund of hedge funds via a customized portfolio to increase alpha potential in AR and to provide greater flexibility to react to market movements and opportunities while explicitly adhering to ACERA's AR investment objectives. Attractive attributes of the hedge fund-of-funds approach include:

- Specialist professional management oversight and deep resources
- Diversification and reduction of manager specific risk
- Broad knowledge of the hedge fund industry and landscape
- Outsourcing of tactical investment decisions among underlying hedge fund strategies
- Robust analytical, technological, and reporting infrastructure, leading to increased transparency and ability to manage risk more quickly
- Operational due diligence capabilities
- Potential for fee negotiation with underlying managers
- Potential access to capacity to closed and/or emerging managers, and
- Education and an additional sounding board should ACERA determine to evolve its program in the future.

Verus and ACERA staff have proposed a focused list search with two questionnaires. The first, which was already sent out and returned, was a preliminary questionnaire sent to providers that Verus and ACERA Staff had identified as potential managers for the mandate. While there is robust fund of hedge funds manager universe, third party data on this universe tends to be spotty and some well-known providers opt out of disclosing data to third party sources. For this reason, the short questionnaire focused on current data and firm and strategy statistics to enable us to compare the managers on various metrics as outlined in the minimum qualifications. Note that custom fund of hedge funds are considered an

Alternatives investment and, as such, Verus and ACERA Staff are extremely limited as far as manager specific information that we can discuss in a public setting.

After receiving approval to initiate the manager search and sign off on the Timeline, Minimum Qualifications (MQs) and Evaluation Matrix, Verus and ACERA staff will review and compare the responses using approved metrics and send a detailed questionnaire to a subset of these managers (i.e., managers on the focused list). Specific to the preliminary questionnaire evaluation, we propose 1) ensuring that approved MQs have been met for the managers, 2) determining if custom hedge fund of funds with diversifying/fixed income substitute objectives are an ongoing and core part of their hedge fund business, and 3) analyzing the managers' track records provided to ensure that they have competitive and appropriate risk-adjusted returns, are representative of ACERA's objectives, and are reasonably robust (ex., seeking to avoid small, cherry picked representative accounts).

Our full due diligence process will then focus on assessing the detailed questionnaire responses from the focused list managers who pass preliminary due diligence. We will utilize comprehensive broad evaluation criteria on the firm and its hedge fund experience, investment team experience, approach to manager due diligence (sourcing, manager analysis on the investment and operational fronts), portfolio construction, risk management, customization experience, performance (return, risk and risk-adjusted analysis), and ability to offer improved transparency and reduced fees. Complementary exposure to Lighthouse and the other investments in the AR portfolio will be additional considerations.


Lastly, Verus and ACERA Staff propose determining a short list of managers to visit (COVID willing) following a review of the detailed questionnaires with the finalist presentation taking place by year-end. Per Trustee feedback, Verus and ACERA Staff will recommend 2-3 finalists at the conclusion of our due diligence process.

Summary

Verus and ACERA Staff propose using the search process outlined above for identification of an optimal custom fund of hedge funds manager to implement ACERA's new approved absolute return structure. As described above, our goal is to identify a qualified manager with ample experience in hedge fund manager due diligence, portfolio construction and customization. We are striving to ensure that the manager has experience with custom fund of hedge funds in the range of ACERA's proposed allocation yet still allow for the consideration of compelling, boutique firms in the search process outside of the largest providers. Transparency and competitive fees are other important criteria in the search process. Moreover, we will consider the new manager's skill sets relative to Lighthouse's to look for complementary exposures for the ACERA absolute return portfolio.

Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus – also known as Verus Advisory™.



TO: Members of the Investment Committee
FROM: John Ta, Investment Officer 
DATE: August 11, 2021
SUBJECT: Proxy Voting Education and Discussion of ACERA's Proxy Voting Policy

Recommendation:

N/A. This is an information item.

Background:

The ACERA Board adopted the Environmental, Social and Governance Investment Policy (“ESG Policy”) in March 2021. The ESG Policy calls for a periodic review of ACERA’s proxy voting direction as well as soliciting guidance from the Investment Committee on ACERA’s proxy voting policies. This information item has been organized to help facilitate the review and guidance process.

Discussion:

Institutional Shareholders Service Inc. (ISS), ACERA’s proxy voting provider, will provide an education session on the significant aspects of proxy voting. ISS will also discuss ACERA’s current proxy voting policy (ISS Benchmark Policy) and compare it to other specialized ISS policy options (e.g., Sustainability Policy, Public-Funds Policy, fully custom, etc.). A discussion of the current proxy voting trends will conclude the presentation. After the presentation, Staff and Verus will solicit feedback from the Investment Committee regarding ACERA’s proxy voting policy going forward.

Conclusion:

If there is enough interest from the Investment Committee to change ACERA’s proxy voting policy, an action item will be scheduled for a later date. Additional information can be provided on request.

Attachments:

- #1 Proxy voting memo, prepared by Verus
- #2 Presentation materials, prepared by ISS

Memorandum

To: ACERA
From: Verus
Date: August 11, 2021
RE: Proxy voting educational session

Executive Summary

Proxy voting is an important fiduciary function whereby votes are cast on behalf of a corporation's shareholder who may not be able to attend a shareholder meeting. Topics voted on at shareholder meetings include the election of board directors, approving a merger or acquisition, voting on share repurchase programs, approving executive compensation, approving an auditor, and other corporate actions, such as ESG initiatives which are receiving increasing attention.

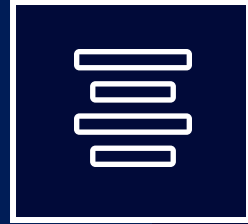
ACERA uses ISS as its proxy voting service provider and has been using ISS' standard policy for the Fund's voting. Over time, ISS has developed specialty policies that seek greater support and disclosure in certain areas of proxy voting. ISS currently has several specialty policies geared towards aspects of ESG and another specialty policy targeted towards public fund biases.

ISS will be providing education on the importance of proxy voting and describe ACERA's standard baseline policy and its voting results. The provider will then compare specialty policies that may be of interest to ACERA and their voting results. Lastly, ISS will describe recent client trends as part of the proxy voting educational session.

Next Steps

Verus and ACERA staff will elicit feedback following ISS' presentation to ascertain whether an off-the-shelf specialty policy would better serve ACERA's proxy voting needs at this juncture, in particular related to the Fund's new ESG policy. Should there be interest in making a change in policy, we will bring this back as an action item at a later date in 2021 and return with additional education in the interim if needed.

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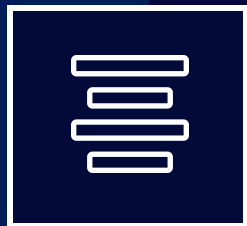


INNOVATING TO SUPPORT & ACTION

Your Governance & Responsible
Investment Strategies



Data. Analytics. Insight.
ENVIRONMENTAL • SOCIAL • GOVERNANCE



R O L E O F I S S

Empowering investors to effectively manage governance risks and opportunities to realize long-term value.



Data. Analytics. Insight.
ENVIRONMENTAL • SOCIAL • GOVERNANCE

ROLE OF ISS

Bringing together people, solutions, and systems to help action your investment mandates with ease and confidence.

INNOVATIVE

Experienced and diverse management team passionate about the company

INDEPENDENT

Privately held with a long term view to sustainable growth

GROWING

Prioritizing innovation and growing into markets adjacent to the core business organically and through acquisitions

GLOBAL

To succeed globally we believe in serving clients through local presence and expertise from our 19 offices around the world

FOCUSED ON TECHNOLOGY

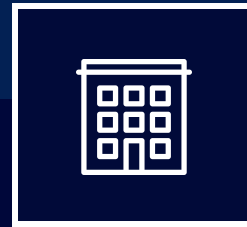
Every company today is a technology company. We are building and investing in application development, building on our resilient infrastructure and keeping security under the spotlight

REGISTERED INVESTMENT ADVISOR

Subject to a mature and comprehensive regulatory regime that covers virtually every aspect of our business

ROLE OF ISS

IN SUPPORT OF YOUR EVOLVING GOVERNANCE NEEDS



GOVERNANCE RESEARCH

Industry-leading research services and global resources for analysis of company specific governance practices and for policy-based vote recommendations.

PROXY VOTING

Unmatched control and transparency over your proxy activities. Advanced platform enables you to flawlessly execute your mandates, season after proxy season.

POLICY GUIDELINES

Full spectrum research to support your investment philosophy at every point of need.

DIALOGUE & ENGAGEMENT

Support for dialogue within investor organizations and dialogue with external stakeholders.

ESG RATINGS, SCREENING, ANALYTICS & ADVISORY

Innovative solutions that allow investors to factor in ESG risks and opportunities when analyzing portfolio companies.

DATA & ANALYTICS

Access critical but non-traditional sources of data on companies, giving investors a more complete picture of extra-financial risks and opportunities.

SECURITIES CLASS ACTION SERVICES

Turnkey services and RecoverMax platform to maximize recoveries from litigation settlements.

1 Integrated solution for research, voting, reporting & disclosure.

1,600+

Clients & 5,000+ unique users

16 Major platform releases in 3 years to meet client needs.

300,000 ballots & 1,200 holdings

One day processing capabilities during peak proxy season

ROLE OF ISS TO VOTE YOUR VIEWS WITH CONFIDENCE



10M

Ballots processed annually for clients

300K

Holdings files processed annually

360°

View of issuer, meeting, proxy & research information; plus custom research, rationales and engagements

24 x 7 x 365

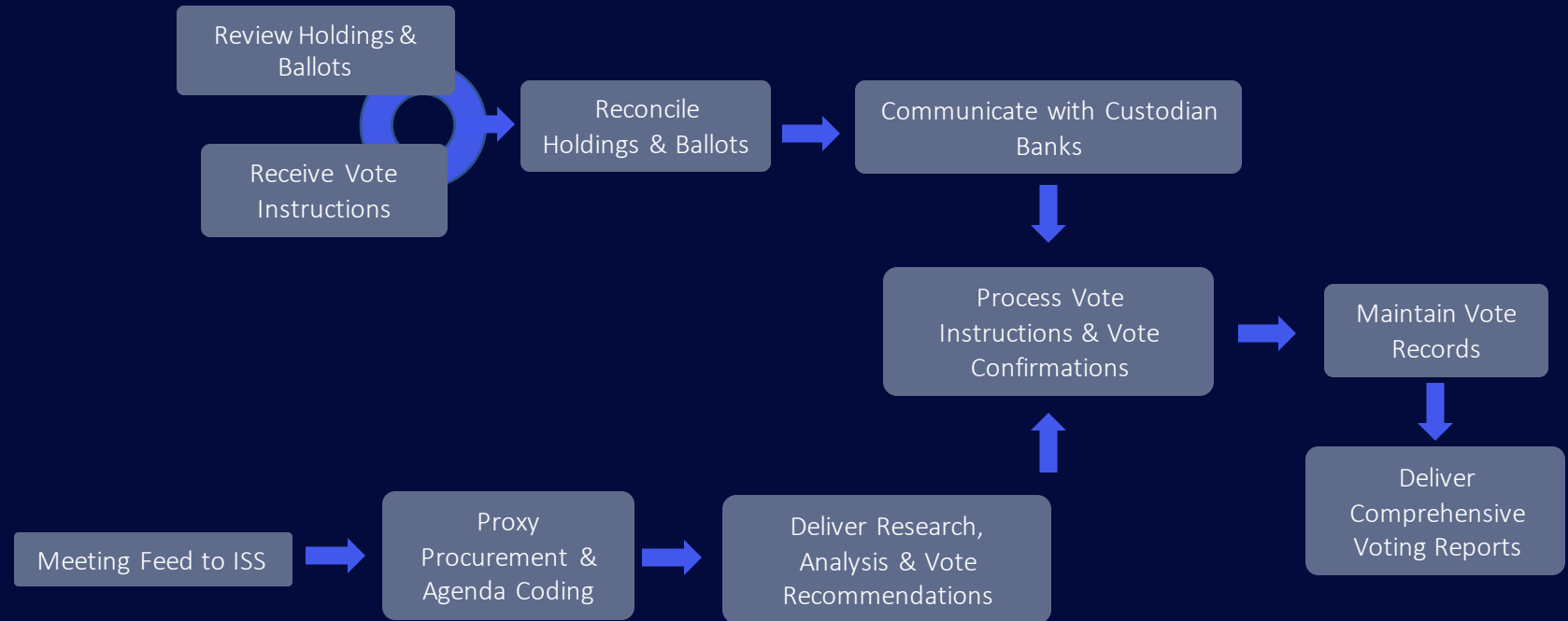
System with load balancing & disaster recovery capabilities

44,000 meetings & 375,000+ agenda items

Covered each year across more than 115 established and emerging markets

* Figures YE approximate

ISS Voting Process – A step-by-step overview of the proxy voting workflow



ISS provides leading technology and business intelligence to facilitate accurate and efficient vote execution and reporting.

- ISS has robust processes around account setup, validation, and ballot reconciliation with custodians and ballot distributors.
- The voting process allows clients to control their voting policy and final vote decisions while outsourcing the processing and management portions of the proxy voting process to a reliable partner.

Supporting your fiduciary responsibilities

ProxyExchange Voting Reports

- **Transparency and control** by leveraging ISS' library of pre-built, customizable templates
- **Flexibility** to include vote history and statistical summary data
- **Meet internal, compliance, and client requests**

Vote Disclosure Service

- **Efficient and cost-effective** solution in global markets where vote disclosure is a regulatory or best practice standard
- **Turnkey solution** includes record-keeping, reporting, and hosted websites
- **Report creation for SEC's Form N-PX** offered for U.S. domiciled funds

Global Stewardship Codes

- **Fulfill stewardship responsibilities** through comprehensive reporting solutions
- **Support engagement and vote disclosure**, including PRI Reporting User Guide

Meet regulatory and best practice standards for:

- US Securities and Exchange Commission Form N-PX
- National Instrument (NI) 81-106 website disclosure in Canada
- PRI Signatories
- UCITS Directive in Europe
- UK Stewardship Code
- EC Action Plan for Corporate Governance
- EU Shareholder Rights Directive
- EFAMA Code for External Governance
- Minder Swiss Ordinance for Pension Fund Voting
- BVI Code of Conduct in Germany
- Eumedion Best Practices in Netherlands
- Assogestioni Principi in Italy
- Japan Stewardship Code
- Financial Service Council (FSC) Standard No. 13 and Standard No. 20
- Stronger Super Reforms (RG 252) in Australia
- SEBI vote disclosure requirements in India

What are the goals of ISS' Benchmark Voting Policy?

“ISS' voting recommendations...are intended to assist institutional investors in meeting their fiduciary requirements with respect to voting by promoting long-term shareholder value creation and risk mitigation at their portfolio firms through support of responsible global corporate governance practices. These practices should respect shareholder rights and provide appropriate transparency, taking into account relevant laws, customs, and best practice codes of each market and region, as well as the right and responsibility of shareholders to make informed voting decisions.” – ISS Voting Manual (emphasis added)

FIDUCIARY RESPONSIBILITY

Focus on Shareholder Rights & Shareholder Value



Shareholder Rights

The annual review process allows ISS to create voting policies that reflect investor and market views, accepted good governance practices, and helps ensure the inclusion of regulatory changes and practical implementation matters.

Shareholder Value

ISS' Global Voting Principles guide our work to assist institutional investors in meeting their fiduciary requirements with respect to voting, by promoting long-term shareholder value creation and risk mitigation at their portfolio firms through support of responsible global corporate governance practices.

ISS' Four Key Tenets

The four key tenets on accountability, stewardship, independence, and transparency underlie ISS' approach to developing its benchmark recommendations on management and shareholder proposals at publicly traded companies globally.

ISS' Global Voting Principles

The principles and ISS' approach are designed to respect shareholder rights and provide appropriate transparency, taking into account relevant laws, customs, and best practice codes of each market and region, as well as the right and responsibility of shareholders to make informed voting decisions.

Global Expertise

ISS has long been considered the foremost expert in this field, consistently providing fact-based research through a shareholder lens. Our set of proxy voting guidelines serve as an industry standard and best practice guide to corporate governance.

How does ISS evolve its Benchmark Policy?

- Rigorous Review
 - annual, nine-month iterative process
 - identify, study, discuss, propose, back test, repeat
- Inclusive Input
 - open survey, roundtables, one-on-ones
- Transparent Communications
 - publish survey results, hold open comment period (searching for unintended consequences)

Advantages of the ISS Proxy Voting Policy Framework



THEMATIC POLICIES

INNOVATION TO
SUPPORT YOUR
INVESTMENT
PHILOSOPHIES

NEW IN 2020: CLIMATE POLICY

Climate change-focused investors.

To support greater disclosure with a company's performance record on (GHG) emissions, its activities' impact on climate and its climate strategy, and putting this into context with its sector and incident-based climate risk exposure.

PUBLIC FUND POLICY

Public pension fund managers & public plan sponsors and trustees. Long-term best interests of public plan participants & beneficiaries. Greater focus on board independence and executive compensation.

SRI POLICY

SRI investment firms, religious groups, charitable foundations & university endowments. Traditional SRI investor perspective on social, environmental, and economic issues. The "triple bottom line" value creation.

SUSTAINABILITY POLICY

Signatories to the UN Principles for Responsible Investment (UN PRI) or similarly aligned investment managers & asset owners. Supportive of greater ESG disclosure and policies and practices that are consistent with related globally accepted norms.

TAFT-HARTLEY POLICY

Taft-Hartley pension funds & investment managers (ERISA). Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines. Greater focus on board independence & executive compensation.

FAITH BASED POLICY

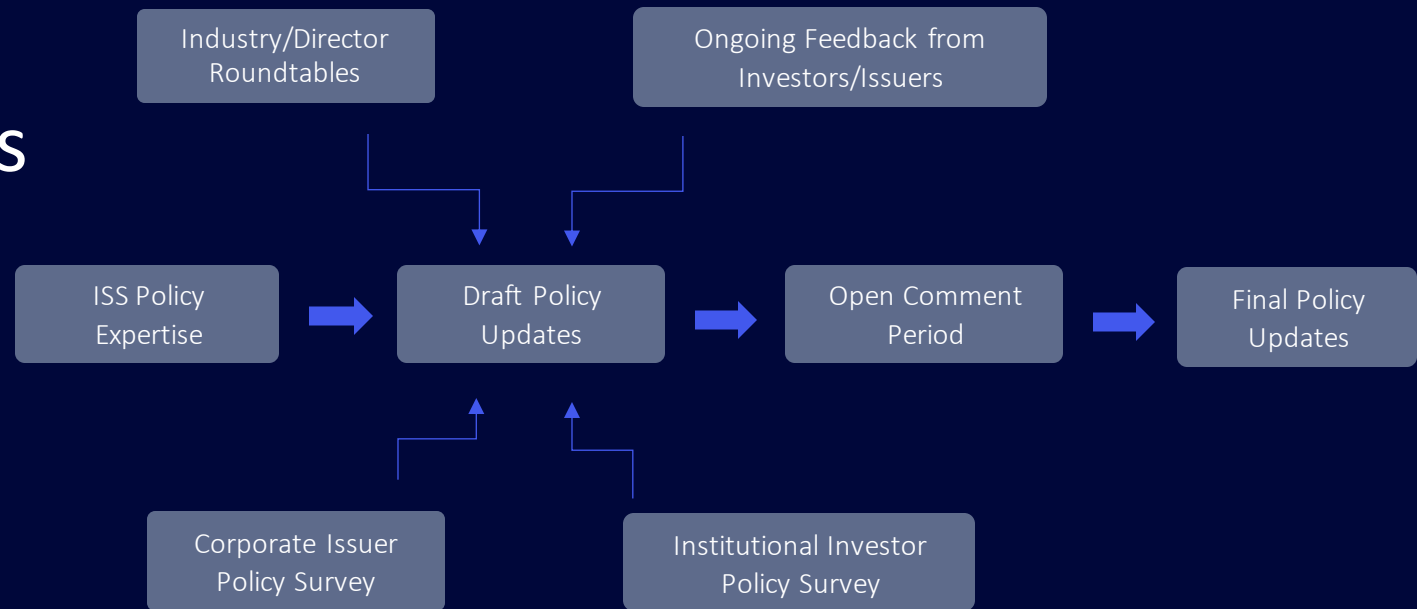
Catholic faith-based socially responsible investors. Including individuals and organizations. Based on the ethical perspective & teachings of the Catholic Church (USCCB). Attention to economic, environmental, and social justice concerns.

Advantages of the ISS Proxy Voting Policy Framework

- ISS Multiple Policy Perspectives – Russell 3000

	ISS Benchmark Policy	Sustainability Policy	SRI Policy	Climate Policy	Catholic Policy	Public Fund Policy	Taft-Hartley Policy
Policy Focus	All – including Investment managers and institutional investors of all sizes	UN PRI Signatories or similarly aligned investment managers & asset owners	SRI investment firms, religious groups, charitable foundations & university endowments	Climate-focused investors, inclusive of asset managers, asset owners and mutual funds	Catholic faith-based investors, including dioceses & Catholic healthcare systems	Public pension fund managers & public plan sponsors/trustees	Taft-Hartley pension funds & investment managers (ERISA)
Orientation	“Best practice” governance standards that promote total, long-term shareholder value & risk mitigation	United Nations Principles for Responsible Investment (UN PRI)	The “triple bottom line” value creation	Widely recognized frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD)	Economic gain, social justice, environmental stewardship, ethical conduct & teachings of the Catholic Church (USCCB)	Long-term best interests of public plan participants & beneficiaries	Worker-owner view of long-term corporate value based on the AFL-CIO proxy voting guidelines
Key Policy Highlights:							
1. <u>Board</u>	Independence (50%), composition, accountability and responsiveness	Independence (50%), composition, accountability and responsiveness – including on ESG topics	Independence (50%), composition, accountability and responsiveness - including on ESG topics, diversity	Independence (50%), composition, accountability and responsiveness - including on ESG topics, with focus on climate-related risk oversight	Independence (50%), composition, accountability and responsiveness - including on ESG topics, diversity	Independence (50%), composition, accountability and responsiveness	Independence (67%), composition, accountability and responsiveness
2. <u>Compensation</u>	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay and performance - including on ESG topics, presence of problematic compensation practices, shareholder value transfer (SVT)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (15%)	Alignment of pay & performance, presence of problematic compensation practices, voting power dilution (10%)
3. <u>Environmental & Social</u>	Consider shareholder proposals on social, environmental and labor/human rights issues on a case-by-case basis	Generally support shareholder proposals advocating ESG disclosure or universal norms/codes of conduct	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals promoting greater disclosure of corporate environmental policies and practices	Generally support shareholder proposals on social, environmental and labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues	Generally support shareholder proposals on social, environmental & labor/human rights issues
Board Opposition	12%	12%	29%	9%	49%	36%	43%
Auditor Ratification Opposition	0%	0%	4%	0%	5%	66%	65%
Equity Pay Plans	20%	20%	19%	10%	17%	88%	91%
Say on Pay Opposition	10%	10%	19%	33%	19%	25%	25%
Gov. Shareholder Proposal Support	70%	80%	83%	83%	82%	86%	86%
E&S Shareholder Proposal Support	68%	77%	95%	75%	95%	94%	94%

ISS Policy Development Process – Key Strengths



Industry-Leading Transparency: ISS promotes openness and transparency in the development of its proxy voting policies. A description of the policy development and application process, and copies of all ISS guidelines and a number of FAQ documents, appears on our website under the Policy Gateway section.

Robust Engagement with Market Constituents: Listening to diverse viewpoints is critical to effective policy review, development and application processes. ISS' analysts regularly interact with institutional investors, company directors and other issuer representatives, shareholder proposal proponents, and other parties to gain deeper insight into critical issues.

Global Expertise: ISS' policy development process is rooted in global expertise. ISS' network of global offices provides access to regional and local market experts for the Americas, Europe/Middle East/Africa (EMEA), and Asia-Pacific regions.

Recent Policy Update Examples

Released in November 2020 for meetings Feb 1 2021 and forward

- Benchmark
 - Exclusive Forum
 - Racial/Ethnic Board Diversity
 - Gender Diversity – EU Markets
- Sustainability
 - Largely followed changes to the benchmark policy (market practice or regulatory updates)
- Public Fund
 - Overboarding Policy

ACERA Voting Statistics

April 2021

Meeting Overview

Category	Number	Percentage
Number of votable meetings	160	
Number of meetings voted	159	99.38%
Number of meetings with at least 1 vote Against, Withhold or Abstain	85	53.13%

Ballot Overview

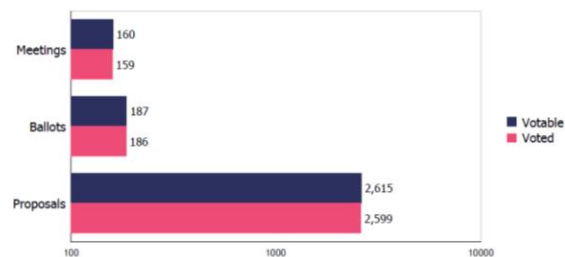
Category	Number	Percentage
Number of votable ballots	187	
Number of ballots voted	186	99.47%

Proposal Overview

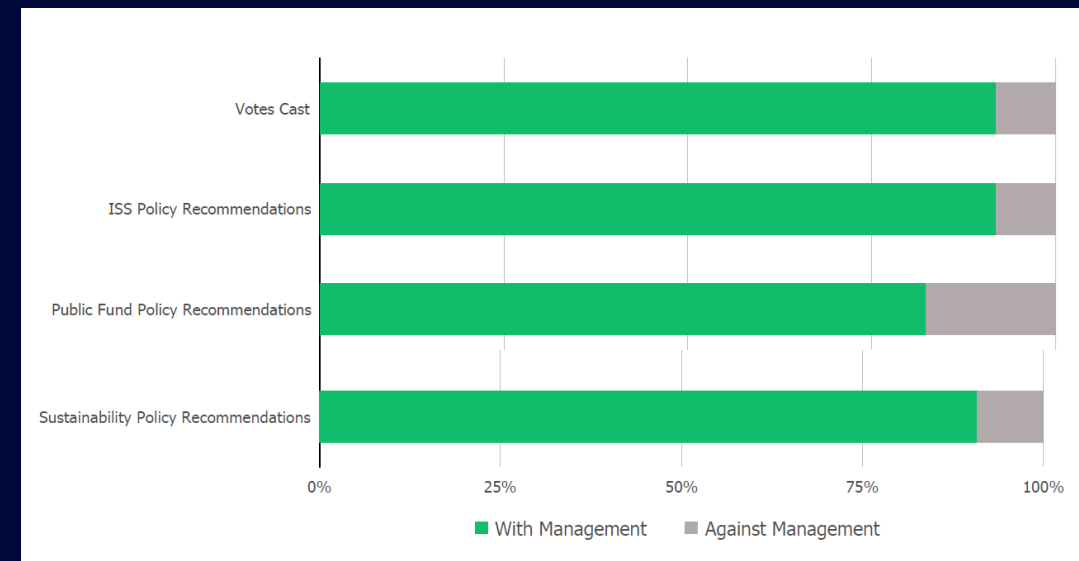
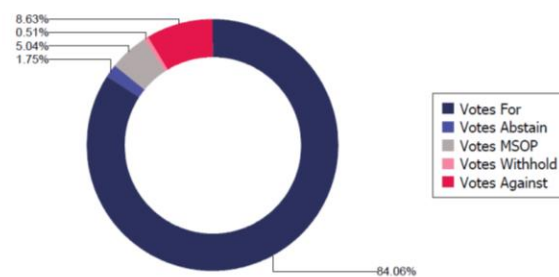
Category	Number	Percentage
Number of votable items	2,615	
Number of items voted	2,599	99.39%
Number of votes FOR	2,300	88.50%
Number of votes AGAINST	236	9.08%
Number of votes ABSTAIN	48	1.85%
Number of votes WITHHOLD	14	0.54%
Number of votes on MSOP	138	5.31%
Number of votes One Year	1	0.04%
Number of votes Two Years	0	0.00%
Number of votes Three Years	0	0.00%
Number of votes With Policy	2,599	100.00%
Number of votes Against Policy	0	0.00%
Number of votes With Mgmt	2,372	91.27%
Number of votes Against Mgmt	227	8.73%
Number of votes on Shareholder Proposals	58	2.23%

Note: Instructions of Do Not Vote are not considered voted, and in cases of different votes submitted across ballots for a given meeting, votes cast are distinctly counted by type per proposal where total votes submitted by type may be higher than unique proposals voted.

Voting Statistics



Vote Cast Statistics



Policy Comparison Example

Abbott Laboratories – April 23, 2021

A Proposals – The Board of Directors recommend a vote FOR all the nominees listed in Item 1 and FOR Items 2, 3 and 4.

1. Election of 13 Directors:

01 - R.J. Alpern	02 - R.S. Austin	03 - S.E. Blount	04 - R.B. Ford
05 - M.A. Kumbier	06 - D.W. McDew	07 - N. McKinstry	08 - W.A. Osborn
09 - M.F. Roman	10 - D.J. Starks	11 - J.G. Stratton	12 - G.F. Tilton
13 - M.D. White			

Mark here to vote FOR all nominees

Mark here to WITHHOLD vote from all nominees

For All EXCEPT - To withhold authority to vote for any nominee(s), write the name(s) of such nominee(s) below.

2. Ratification of Ernst & Young LLP as Auditors

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Say on Pay - An Advisory Vote to Approve Executive Compensation

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Amendments to the Articles of Incorporation to Eliminate Statutory Supermajority Voting Standards for:

(a) Amendments to the Articles of Incorporation

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(b) Approval of Certain Extraordinary Transactions

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Board of Directors recommends a vote AGAINST Items 5, 6 and 7.

5. Shareholder Proposal - Lobbying Disclosure	For	Against	Abstain	6. Shareholder Proposal - Report on Racial Justice	For	Against	Abstain	7. Shareholder Proposal - Independent Board Chairman	For	Against	Abstain
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ISS Benchmark

- Recommended with management on all items except for #6

- Sustainability

- Recommended to support all items

- Public Fund

- Negative recommendations on 7 directors, auditor ratification and supported all shareholder proposals



Data. Analytics. Insight.
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