



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

**INVESTMENT COMMITTEE/BOARD MEETING**

**THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE PER GOV'T  
CODE § 54953(e)**

**ACERA MISSION:**

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

**Wednesday, November 3, 2021  
9:30 a.m.**

<b>ZOOM INSTRUCTIONS</b>	<b>COMMITTEE MEMBERS</b>	
<p>The public can view the Teleconference and comment via audio during the meeting. To join this Teleconference, please click on the link below. <a href="https://zoom.us/join">https://zoom.us/join</a> <b>Webinar ID: 840 2168 0040</b> <b>Passcode: 547875</b> For help joining a Zoom meeting, see: <a href="https://support.zoom.us/hc/en-us/articles/201362193">https://support.zoom.us/hc/en-us/articles/201362193</a> Call-in Number: 1 669 900 6833</p>	<b>GEORGE WOOD, CHAIR</b>	<b>ELECTED GENERAL</b>
	<b>JAIME GODFREY, VICE-CHAIR</b>	<b>APPOINTED</b>
	<b>DALE AMARAL</b>	<b>ELECTED SAFETY</b>
	<b>OPHELIA BASGAL</b>	<b>APPOINTED</b>
	<b>KEITH CARSON</b>	<b>APPOINTED</b>
	<b>TARRELL GAMBLE</b>	<b>APPOINTED</b>
	<b>LIZ KOPPENHAVER</b>	<b>ELECTED RETIRED</b>
	<b>HENRY LEVY</b>	<b>TREASURER</b>
	<b>DARRYL L.WALKER</b>	<b>ELECTED GENERAL<sup>1</sup></b>
	<b>NANCY REILLY</b>	<b>ALTERNATE RETIRED<sup>2</sup></b>
	<b>VACANT</b>	<b>ALTERNATE SAFETY</b>

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

<sup>2</sup> The 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 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](http://www.acera.org).

# **INVESTMENT COMMITTEE/BOARD MEETING**

NOTICE and AGENDA, Page 2 of 2 – November 3, 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 to the Board the Timeline, Minimum Qualifications, and Scoring Matrix for the Emerging Markets Equity Manager Search

9:30 – 10:00 Joe Abdou, Verus Advisory Inc.  
Margaret Jadallah, Verus Advisory Inc.  
Thomas Taylor, ACERA  
Betty Tse, ACERA

2. Discussion and Possible Motion to Recommend that the Board Adopt an Amended Real Estate Investment Guidelines, Policies, and Procedures

10:00 – 10:30 Avery Robinson, Callan LLC,  
Thomas Taylor, ACERA  
Betty Tse, ACERA

3. Discussion and Possible Motion to Recommend that the Board Adopt a New Investment Plan for ACERA's Real Estate Asset Class

10:30 – 11:00 Avery Robinson, Callan LLC  
Thomas Taylor, ACERA  
Betty Tse, ACERA

4. Discussion and Possible Motion to Recommend that the Board Direct Staff to Send Proposed Letter to ACERA's Real Estate Managers Regarding the Expiration of the Eviction Moratorium

11:00 – 11:15 Avery Robinson, Callan LLC  
Thomas Taylor, ACERA  
Betty Tse, ACERA

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

None

**Trustee Remarks**

**Future Discussion Items**

**Establishment of Next Meeting Date**

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



TO: Members of the Investment Committee

FROM: Thomas Taylor, Investment Officer *Thomas Taylor*

DATE: November 3, 2021

SUBJECT: Discussion and Possible Motion to Recommend to the Board the Timeline, Minimum Qualifications, and Scoring Matrix for the Emerging Markets Equity Manager Search

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**Recommendation:**

Staff recommends adoption of the proposed timeline, search criteria, and evaluation matrix for ACERA's Emerging Markets (EM) Equity Fund Manager Search.

**Background:**

At the August 11, 2021 Investment Committee Meeting, Staff and Verus Advisors reviewed Newton, ACERA's Emerging Markets Equity Manager, including the significant organizational changes, resignation and departure of all the portfolio managers.

**Discussion:**

Staff and Verus recommend conducting a focus-list search to possibly replace and hire a new dedicated, active, core-like EM equity manager to complement ACERA's other investment managers in the international asset class.

Staff recommends the following steps for announcing the subject search and follow-up to the search:

1. Send an updated RFI for an emerging markets equity manager, including a sample investment management agreement, to a pre-screened<sup>1</sup> focus-list of qualified candidates.
2. Collect and evaluate responses in compliance with the timeline, search criteria, and the evaluation matrix to be adopted by the Board.
3. Recommend a qualified list of candidates who meet the search criteria or minimum qualifications for due diligence to the Investment Committee.
4. Conduct on-site due diligence of short list candidates, as approved by the Board.
5. Present qualified finalist candidates to the Investment Committee for possible action.

**Attachments:**

- #1 Proposed Timeline.
- #2 Proposed Minimum Qualifications (Search Criteria).
- #3 Proposed Evaluation Matrix.

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<sup>1</sup> In addition to the Minimum Qualifications, Staff and Verus rank and take into account attributes of excess returns, Active Share (measure of active management to benchmark), Information Ratio (portfolio compared to benchmark), and Sharpe Ratio (portfolio to risk-free returns).

## Attachment I

# ACERA –EMERGING MARKETS EQUITY FUND MANAGER SEARCH

### Proposed Timeline

Step <sup>1</sup>	Activity	Tentative Deadline	Status
1.	Work with Verus to develop Timeline, Search Criteria, and Evaluation Matrix.	Oct. 30, 2021	Completed
2.	Recommend Timeline, Search Criteria, and Evaluation Matrix to the Investment Committee as an Action Item for Committee/Board adoption and approval <sup>2</sup> .	Nov. 3, 2021 Nov. 18, 2021	Pending
3.	Prepare RFI Questionnaire and Scope of Services.	Dec. 15, 2021	In process
4.	Issue RFI and sample investment management agreement to the Staff/Verus selected focused-list firms <sup>2</sup> .	Dec. 10, 2021	Yet to Start
5.	Deadline for firms to submit questions regarding RFI. Also, Staff/Verus to follow-up with bidding firms for further information or clarification as necessary.	Dec. 31, 2021	Yet to Start
6.	Post responses to questions submitted by bidding firms	Jan. 15, 2022	Yet to Start
7.	Proposal (RFI responses) submission deadline	Jan. 31, 2022	Yet to Start
8.	ACERA and Verus evaluate of proposals. Tabulate responses to RFI Questionnaire and prepare Summary Report.	Mar. 15, 2022	Yet to Start
9.	Recommend Qualified List of Candidates to the Investment Committee and the Board for approval.	Apr. 13, 2022 Apr. 21, 2022	Yet to Start
10.	Complete due diligence and on-site visits <sup>3</sup> with finalist(s) selected.	May 31, 2022	Yet to Start
11.	Present finalist(s) to the Investment Committee for interviews and recommendation to the Board to select the International Emerging Markets Equity Fund manager	June 8, 2022 June 16, 2022	Yet to Start

<sup>1</sup> Deadlines are subject to change based upon time and resources required to complete the evaluation process.

<sup>2</sup> Search Criteria and Evaluation Matrix to be applied to a focus-list of managers based on a predetermined screening process.

<sup>3</sup> Pending Board approval and Staff allowed to travel by ACERA.

**Minimum Qualifications for Proposal**

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. Separate account for the active emerging markets equity mandate is acceptable; however, commingled account is preferred as long as other terms are equal.
4. The Firm should have \$1.5 billion or more in total AUM firm wide as of 9/30/21.
5. ACERA's investment portfolio (or account) should not comprise more than 25% of the Firm's total assets under management at any time in accordance with the General Investment Guidelines, Policies and Procedures.
6. The proposed strategy should have \$900 million or more in AUM as of 9/30/21.
7. ACERA will only consider Emerging Investment Managers that meet all of the Minimum Qualifications for Proposal.
8. The Firm must be directly responsible for the management of the account, and all personnel responsible for the account must be employees of the Firm or a legal joint venture partner.
9. The Firm must have a minimum three-year, continuous performance history managing the international emerging markets equity fund product for institutional investors by the existing portfolio manager or portfolio manager team. The manager's performance history must be documented, and real time (i.e. not simulated or back-tested) and in compliance with CFA Institute (CFAI) Global Investment Performance Standards (GIPS).
10. The product must currently be benchmarked against the MSCI Emerging Markets Index (either standard or IMI, and either gross or net of dividends).
11. If hired, the firm must agree to accept the MSCI Emerging Markets Index (ND) as the ACERA mandate benchmark for the firm's proposed international emerging markets equity product.
12. The Firm must be able to provide monthly GIPS-compliant performance reports to ACERA, its General Consultant, and its Custodian Bank.
13. The Firm must be able to provide a minimum of monthly liquidity.
14. The Firm should carry the following minimum insurance coverage or should apply for it by contract execution<sup>1</sup>:
  - 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
15. The Firm must provide a description of its E.S.G. policies and objectives and Diversity & Inclusion efforts and objectives.
16. Attend ACERA's Investment Committee Meetings as needed.

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<sup>1</sup> Subject to change upon final contract negotiation.

17. The Firm must be willing to allow ACERA to review the latest 3-5 years of the firm's audited financial statements. In-office reviews are acceptable.
18. Once selected by ACERA as the recommended Firm, the Firm must consent to a background investigation of the investment management entity and key individuals.

## ACERA –EMERGING MARKETS EQUITY FUND

### MANAGER SEARCH

#### Recommended Evaluation Matrix

The following is the proposed evaluation matrix for an international emerging markets equity fund manager search to be included in the RFI:

**A. Organization** **30 Points**

1. History
2. Ownership, Organization, and Staffing
3. Compliance
4. Client Service
5. ESG

**B. Investment Team** **30 Points**

1. Strategy
  - i. Philosophy
  - ii. Process
  - iii. ESG considerations/integration
2. Experience
3. Research Capabilities
4. Other Resources
5. Trading/Operations

**C. Performance and Risk** **30 Points**

1. Consistency Beating Benchmark
2. Peer Group Ranking
3. Risk (to benchmark/tracking error, upside/downside)
4. Risk-Adjusted Returns
5. Risk Management and ESG

**D. Proposed Fee Schedule/Structure** **10 Points**

# Memorandum

**To:** ACERA Investment Committee  
**From:** Verus  
**Date:** November 3, 2021  
**RE:** Proposed Emerging Markets Equity Search Process

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**Pursuant to the discussion at the August Investment Committee meeting with the concerns about the current Emerging Markets manager Newton we are recommending the initiation of an emerging markets equity manager search as a replacement search. In this memo we will discuss the minimum criteria, search timeline, and focused search guidelines we propose using to narrow the field to managers suitable for ACERA's mandate.**

## Minimum Qualifications

Verus and staff reviewed and discussed the minimum qualifications for the search in September, and ACERA staff has attached the full minimum qualifications under separate cover. Highlights of the minimum qualifications are below:

- Strategy Performance History – Should have at least 3 years of performance history managed by the same lead portfolio manager and team and a track record that is GIPS compliant
- Firm size – The minimum total firm AUM should be equal to or greater than \$1.5 billion such that the emerging markets equity manager does not comprise more than 25% of the firm's AUM.
- Strategy size – The minimum strategy AUM should be equal to or greater than \$900 million so that ACERA's portfolio would comprise less than 1/3 of strategy assets.
- The strategy must be appropriate for and will be measured against a broad emerging market benchmark (MSCI Emerging Markets Index (ND)).
- ESG – The responding firm must be able and willing to describe its ESG & DEI firm policies and objectives.

## Search Timeline

Pending approval of the process and guidelines set forth in this action item, Verus and staff propose issuing an RFI in December to a focused list of managers that pass the screens described below. The focused list managers will receive the RFI questionnaire and have until January 2022 to complete it. Verus and staff will independently score the strategies, determine the most



attractive candidates and bring a recommendation of short list candidates to the Investment Committee in April. Following that meeting, Verus and staff expect to conduct onsite visits (if safely possible) and enhanced due diligence on the finalists. Finally, we will present our findings in June 2022 and have the finalist managers present at this meeting.

### **Search Pre-Screening Guidelines**

Verus and staff propose the following criteria for narrowing the universe of managers that receive RFI's for the emerging markets search:

- The firm must meet the minimum criteria outlined in the staff MQ document
- Firm size – \$1.5 billion
- Strategy size - \$900 million
- Strategy status – Active (open to new business)
- Primary Benchmark – MSCI Emerging Markets Index/ MSCI Emerging Markets IMI index
- Information Ratio – Greater than 0.2
- Rolling 3 and 5 year excess return – Beats the MSCI EM Index by at least 0.8% over rolling 3 and 5 year periods
- 5-year excess return – Beats the benchmark by 0.8% over 5-years
- R Squared – Greater than 0.8
- Using the criteria above create a universe and removed the bottom 50% based on the information ratio

Using these guidelines Verus and staff will create a manageable focused list of managers to send RFIs to and review. Using a focused search will create efficiencies in the search process but still ensure that we are reviewing highly competitive, institutional quality managers that are an appropriate fit for the mandate.

*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 Advisory Inc. and Verus Investors, LLC ("Verus") file a single form ADV under the United States Investment Advisors Act of 1940, as amended.*

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TO: Members of the Investment Committee

FROM: Thomas Taylor, Investment Officer *Thomas Taylor*

DATE: November 3, 2021

SUBJECT: Discussion of and Possible Motion to Recommend to the Board to Adopt an Amended ACERA Real Estate Investment Guidelines, Policies and Procedures

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**Recommendation:**

Adopt the proposed amendments to ACERA's Real Estate Investment Guidelines, Policies and Procedures ("RE Policy").

**Background / Discussion:**

On June 17, 2021, the Board adopted a new asset allocation policy that included an increase to the Real Estate target allocation from 8% to 9% of the Total Fund. Subsequently, Staff and Callan reviewed the entire RE policy and made revisions based on the recent allocation changes as well as our experiences since the last policy update on December 12, 2018.

At the December 12, 2018 Investment Committee Meeting, Callan LLC ("Callan") and Staff recommended and the Board approved specific revisions, such as adding Debt Real Estate and International Real Estate investments, as well as, semi-annual reporting versus quarterly reporting to match the Private Equity Asset Class. At this time, Callan and Staff are presenting proposed amendments to:

- Updated the long-term RE target allocation from 8% to 9% to match the new allocation target set as of June 17, 2021 (page 2);
- Bifurcate Core and Core-Plus sub-assets classes (page 3); and,
- Add delegated authority up to 5% or 10% (page 18).
- Delete table of current real estate funds which are reported on semi-annually.
- Add an Executive Summary to policy (page 25).

The objectives of updating the current RE Policy are to: 1) reflect the current investment disposition of ACERA's Real Estate Portfolio and, 2) reflect similar tenets of the private equity policy regarding delegated authority. At present, ACERA is underweight in its allocation to real estate. Availing delegated authority to Staff and the consultant would allow more flexibility for improving investments in private real estate situations where a potential investment manager in good standing, has some constraints (e.g., short Fund raising timeline –first or last closes, oversubscribed). Additionally, such delegated authority affords Staff and the consultant to incrementally add to existing open-end ACERA funds in good standing.

**Attachments:**

1. Proposed amended ACERA Real Estate Investment Guidelines, Policies and Procedures (redline copy)
2. Callan – Real Estate Policy Review and 2021-2022 Real Estate Investment Plan<sup>1</sup>

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<sup>1</sup> Investment Plan, although part of the Real Estate Policy Review, is a separate Action Item on the Agenda



**ALAMEDA COUNTY  
EMPLOYEES RETIREMENT ASSOCIATION**

**REAL ESTATE INVESTMENT GUIDELINES,  
POLICIES AND PROCEDURES**

Amended ~~December 20, 2018~~ [November 18, 2021](#)

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## I. SCOPE

The Real Estate Investment Guidelines, Policies and Procedures (“R/E Policy”) governs all investments in the Real Estate asset class made by Alameda County Employee’s Retirement Association (“ACERA”). The R/E Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guideline, Policies and Procedures (“General Policy”). If there is any conflict between this R/E Policy and ACERA’s General Policy pertaining to investments in the Real Estate asset class, this R/E Policy prevails. The ACERA Board (“Board”) reserves the right to amend, supplement or rescind this R/E Policy at any time.

## II. PURPOSE

The purpose of this Policy is to 1) set forth the real estate investment policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which real estate investment opportunities are to be measured; and 3) serve as a governance document and guide to the ongoing oversight of ACERA’s Real Estate Portfolio (“R/E Portfolio”) on a consistent basis. The Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee (“Investment Committee”), the ACERA Staff (“Staff”), the ACERA Real Estate Consultant (“Consultant”) and the Real Estate Investment Managers hired by ACERA to manage its assets (“Investment Managers”).

It is expected that this Policy will be a living document and that changes will be made from time-to-time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

ACERA has determined that, over the long term, inclusion of real estate investments should provide the following benefits (in order of relative importance):

- Lower portfolio risk due to low correlation with other portfolio asset classes
- Generate a stable, income stream to assist in meeting cash flow needs
- Provide growth through appreciation
- Serve as a hedge against inflation

- Provide an opportunity to enhance portfolio return through higher total return investments

In order to achieve the above benefits, this document establishes the specific investment guidelines, policies and procedures involved in the implementation and oversight of the ACERA real estate program. The investment guidelines define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

### III. INVESTMENT OBJECTIVES

#### A. Asset Allocation

ACERA has approved a long-term asset allocation target of ~~nine~~eight percent (89%) for investment in real estate investments.

#### B. Return Objectives

The Board has determined that the primary objective for the real estate asset class will be to provide a source of return that improves the diversification of the overall investment portfolio. Equity real estate investments generally have low correlations to traditional asset classes. The secondary objective for the asset class will be to achieve total returns<sup>1</sup> that include a large portion attributable to income<sup>1</sup>.

The Board seeks to achieve total net returns on all real estate investments equivalent to the net returns of the National Council of Real Estate Investment Fiduciaries Fund Index Open-End Diversified Core Equity Index (“NFI-ODCE” or “ODCE”) as a minimum return for the total portfolio over rolling five-year periods.

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<sup>1</sup> Total return is comprised of two components: income and appreciation. Income is defined as net operating income from real estate after expenses and leverage but before the deduction of capital items (e.g. roof replacement, renovations, etc.). Appreciation / depreciation is defined as an increase or decrease in investment value based on an internal or third party appraisal or mark-to-market.



## IV. INVESTMENT POLICIES

### A. Portfolio Composition

The universe of public and private real estate investment strategies ('styles') can be divided into three primary categories: (1) Core, (2) [Core-Plus](#), (3) [Value-Added](#), and (4) ~~3~~ Opportunistic. For purposes of diversification and because of the size of ACERA's Fund, the portfolio will consist mostly of commingled funds, not Separately Managed Accounts ("SMA") except for maintaining ACERA's Headquarters. The style groups are defined by their respective market risk/return characteristics:

#### Core Characteristics

- Institutional quality operating properties that are substantially leased (greater than 80%) core quality properties;
- Property types invested in mainly include office, apartment, retail and industrial;
- Total return consists of both income and appreciation with income accounting for ~~65~~50% or more of the return.
- May generally include the use of leverage up to 50% Loan-to-Value. (See Section IV.B.4.a, "Leverage: Core" for more information).

#### Core - Plus Characteristics

- Institutional quality operating properties that are substantially leased core quality properties;
- Strategies may include one or more of the traditional property types (office, apartment, retail, industrial) or niche property types with demonstrated capital demand for disposition;
- Total return consists of both income and appreciation with income accounting for 50% or more of the return.
- May generally include the use of leverage up to 65% Loan-to-Value. (See Section IV.B.4.~~a~~b, "Leverage: Core-[Plus](#)" for more information).

Value-Added Characteristics

- Institutional quality properties with identifiable deficiencies such as lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments in order to reach stabilization;
- Strategies may include traditional (office, apartment, retail, industrial) or niche property types with demonstrated capital demand for disposition;
- Total return consists of capital appreciation with anticipated growing income over time;
- May generally include the use of leverage up to 65% Loan-to-Value. (See Section IV.B.4.[bc](#), “Leverage: Value Added” for more information).

Opportunistic Characteristics

- Institutional quality properties offering recapitalization, turnaround, development, market arbitrage opportunities or offshore investments;
- No property types are excluded, and properties may include business operations (e.g. hotels, congregate care), as well as, office, apartment, retail, and industrial;
- Total return is primarily attributable to appreciation.
- May generally include the use of leverage up to 80% Loan-to-Value. (See Section IV.B.4.[ed](#), “Leverage: Opportunistic” for more information).

With respect to the [four](#)~~three~~ style groups, the Board has established the following portfolio composition target<sup>1</sup>:

Style	Return Benchmarks (Net of Fees)
≥ <del>70</del> <a href="#">60</a> % Core	NCREIF Open-End Diversified Core Equity (“ODCE”) Index Capitalization – Weighted (Net of Fees)
<a href="#">0%-30% Core-Plus</a>	<a href="#">NCREIF Open-End Equity (“OE”)Index</a>
0% - 30% Value-Added	NCREIF Open-End Equity (“OE”)Index
0% - 15% Opportunistic	NCREIF OE Index
Total Real Estate Portfolio	NCREIF ODCE Index Capitalization-Weighted (Net of Fees)

<sup>1</sup> Refer to Schedule II: ACERA’s policy index for Real Estate and Benchmarks for Real Estate Managers.

All investments will be classified based upon the strategy advocated at inception of the investment.

## **B. Risk Management**

The primary risks associated with real estate investments relate to property type and geographic selection, illiquidity, investment manager risk, portfolio management risk and loss of principal (economic risk). The following policies have been established to prudently manage and mitigate the risks involved in investing in real estate.

### *1. Defined Roles for Participants*

All program participants must comply with ACERA policies, guidelines and contracts in addition to the conditions listed in this document. Additional roles and responsibilities specific to the real estate portfolio are detailed in Appendix A of this document.

### *2. Investment Structure*

ACERA recognizes that, regardless of investment vehicle, real estate is an illiquid asset class. Vehicles that maximize investor control of the assets are preferred, particularly in Core, Core-plus—~~and~~, Value-Added, and Opportunistic -investments. ACERA also recognizes that the Opportunistic style requires the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

ACERA will utilize the following investment structure:

- a) Commingled Funds<sup>1</sup>

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<sup>1</sup> Investments made through a privately placed commingled fund structure or limited partnerships are considered Alternative Investments.

Commingled Funds will be utilized for Core, [Core-plus](#), Value-Added and Opportunistic investment strategies.

The Core investment style is considered to be less risky (thereby providing lower returns) than higher returning [Core-plus](#), value-added or opportunistic investments. The lower risk assigned to stabilized investments is due to three primary characteristics: (1) the stability of the income generated;(2) the higher proportion of the total return attributable to income; and (3) the limited use of debt (0% to 50%) usually associated with the style. Because of its high occupancy rates, Core properties are more stable.

[The Core-plus investment style is considered to be slightly more risky than Core, but less risky than higher returning value-added or opportunistic investments. The slightly higher risk assigned to Core-plus is due to three primary characteristics: \(1\) greater specialization in 1 or more property types, \(2\) possible more leverage used, and \(3\) the stability of the income generated, albeit less than Core.](#)

The Value-Added and Opportunistic investment styles seek to provide higher returns with higher risk than the Core [or Core-plus](#) components of the portfolio. Value-Added investments depend upon the successful completion of an active management strategy and a timely disposition of the asset(s). Value-Added investments often use higher levels of debt, as compared to Core [or Core-plus](#) investments, to further increase total return expectations.

Opportunistic investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering, non-domestic markets) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion and a significant level of diversification.

In order to mitigate the increased risks associated with the style exposure, ACERA will make investments in the Value-Added and

Opportunistic components through the ownership of units or shares of Commingled Fund structures. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations. ACERA will invest in Commingled Fund in accordance with the procedures detailed in Section IV. B.

3. *Diversification*

To minimize the adverse impact of any single style, strategy, manager or investment property, ACERA will seek to diversify its real estate portfolio by property type, property location, investment style, investment strategy, and manager; and primarily through commingled funds. At the asset class level, the debt investments in real estate cannot account for more than up to 15% of the total allocation.

*Property Types and Location*

Selection of specific Commingled Fund investments will provide enhanced diversification characteristics based on its complimentary strategy/style so as to increase diversification benefits within the real estate portfolio.

Exposure to any single property type (i.e. office, retail, apartment, industrial) or geographic region (East, Mid-West, West or South in the United States or internationally) will be within a range of zero percent (0%) to forty percent (40%), excluding the Oakland Office Building. Any single property type or region found to be in excess of the range limitations must be approved as an exception by the Committee and Board. At the asset class level, investments in international real estate cannot account for more than up to 15% of the total allocation.

*Investment Style/Strategy*

The risk profile of the real estate portfolio will be managed through the maintenance of the approved style composition ( $\geq$  ~~70~~60% Core; ~~0%-30%~~ Core-Plus; 0%-30% Value-Added; 0%-15% Opportunistic) when allocating capital.

*Investment Vehicles/Managers*

- a) Commingled Fund ("CF")

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Core, [Core-plus](#), Value-Added and Opportunistic allocation and/or the total portfolio. Commingled Funds will provide reporting which will allow ACERA to monitor its geographic and property type diversification. Commingled Funds are generally categorized into two sub-structures, Open-end and Closed-end. Open-end commingled funds are infinite vehicles which provide liquidity by allowing investor to make capital contributions or redemption requests, typically on a quarterly basis. Closed-end funds are finite vehicles where the timing of contribution requests and capital distributions are at the discretion of the manager.

4. *Leverage*

ACERA has approved leverage limits in order to maximize returns to the total portfolio with minimum risk. The Board has approved a maximum of forty percent (40%) leverage for the total portfolio. In addition, targets are established for each investment style based on the risk/return profile of the underlying investments. In the event that either the portfolio level and/or style level leverage constraint is breached due to a contraction in market values, the ACERA's Staff and Consultant will notify the Board and make a recommendation for action or exception.

a) Core

Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. Core opportunities accessed through Commingled Funds will have pre-specified leverage limits stated in the offering documents. Core Commingled Fund leverage will generally be limited to 50% at the portfolio level.<sup>1</sup>

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<sup>1</sup> For any single Core SMA asset, such as the Oakland Office Building, third-party debt will be limited to fifty percent (50%) of the market value of the asset.

b) Core-Plus

Investments classified as institutional high quality Core-like opportunities that fall outside of all the Core type fund assets parameters. Core-plus funds can specialize in one or more property types, geographic regions, with higher levels of debt. Core-Plus Commingled Fund leverage will generally be limited to 65% at the portfolio level.

b)c) Value-Added

Investments classified as Value-Added generally provide a higher proportion of appreciation, as compared to income, than Core and Core-plus assets. Value-Added opportunities accessed through Commingled Funds will have pre-specified leverage limits stated in the offering documents. Value-Added Commingled Fund leverage will generally be limited to 65% at the portfolio level.

e)d) Opportunistic

Investments classified as Opportunistic investments often utilize third-party debt as an integral part of their total return strategy. Such investments will be made through Commingled Funds and will therefore have a specified leverage target or maximum stated in the offering documents. Opportunistic Commingled Fund leverage will generally be limited to 80% at the portfolio level.

A chart depicting the leverage limits is shown below:

Style	Leverage Limits
Core	≤ 50%
<u>Core-Plus</u>	<u>≤ 65%</u>
Value-Added	≤ 65%
Opportunistic	≤ 80%
Total Real Estate Portfolio	≤ 40%

5. *Investment Size*

ACERA's investment in any single Commingled Fund may not exceed 20% of the total net asset value of the Commingled Fund at offering.

6. *Valuations*

This policy does not apply to the Fund's commingled fund investments, where the Fund does not have control over the appraisal policies or implementation of appraisal practices.

For any SMA, such as the Oakland Office Building, an annual valuation in the quarter of the anniversary date of each asset acquisition, the Manager will arrange for valuations for such assets and will provide ACERA with valuations for all properties for which it has asset management responsibilities. Unless specifically directed by ACERA, the valuation will be prepared by a qualified independent third party entity beginning on the third anniversary of ownership and every third year of ownership thereafter. Interim valuations may be conducted by the manager.

All materials generated by the independent third party will be copied to ACERA for record keeping. Valuation adjustments made in the interim periods will be documented in a memo to ACERA and retained for record keeping.

**C. *Discretionary Authority***

The Board controls the delegation of discretion. The Policies and Procedures described herein are structured to control investment risk.

1. *Commingled Funds*

Commingled Funds are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in Commingled Fund investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to Commingled Funds extending greater investor rights (e.g. redemptions, termination, and alignment). Investments made in



Commingled Funds are monitored for compliance with vehicle documents through quarterly performance measurement procedures.

## **V. INVESTMENT PROCEDURES**

The ACERA Annual Real Estate Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Real Estate Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section IV.A-C.

### **A. Commingled Funds**

The following procedures will be utilized in the selection, closing and monitoring of specific Commingled Fund investments.

#### *1. Commingled Fund Selection Process*

- a) The Consultant will maintain an ongoing review of offerings within the institutional market place and, based on due diligence findings, refer appropriate Commingled Fund investments to Staff.
- b) Staff shall review the Consultant recommendations for compliance with agreed upon due diligence procedures for each fund recommendation.
- c) Staff shall verify and opine as to the compliance of each recommended fund with the approved R/E Policy and current Investment Plan. (See Compliance Check List, Appendix B)
- d) Staff shall arrange presentations to the Committee in order to allow the Committee to recommend a selection to the Board for approval.

### **B. Separately Managed Accounts (“SMA”)**

The following procedures will be utilized for maintaining and monitoring of SMA, such as the Oakland Office Building.

*1. Control and Monitoring*

a) Budget and Management Plan

Not less than 60 days after the end of the calendar year, each SMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate SMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly distribution projections.

Not more than 90 days after the end of the calendar year, Staff and Consultant will meet with the Manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

**C. Performance Measurement Reports**

On a semi-annual basis, the Consultant will prepare a report and evaluation of the real estate portfolio relative to the R/E Policy. The report shall provide such information as may be required by ACERA to evaluate and administer its investments and Managers.

The content of the report shall include return analysis for both the investment managers and the total portfolio including: income, appreciation, gross and net returns for the portfolio and each manager, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and R/E Policy and Investment Plan compliance.

Quarterly reports will also provide the ACERA Staff and Board with notification of any manager appearing on the ACERA 'Watch list' for additional oversight and evaluation.

### **Watch List Qualification**

1. A manager may be placed on the Watch List at any time for material organizational changes or instability. Material organizational changes may include, but are not limited to, key personnel changes, ownership changes or other firm level issues.
2. A manager will automatically be placed on the Watch List if net of fee performance falls below the net of fee performance of the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three or five year rolling returns).

### **Watch List Removal**

1. With respect to material organizational changes, a manager may be removed from the Watch List after a minimum one year period and with satisfaction by and recommendation from the Staff and Consultant. The Staff and Consultant will provide notification to the Board when such changes are made.
2. With respect to performance, any manager placed on the Watch List for underperformance will automatically be eligible for removal from the Watch List once net of fee performance exceeds the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three, or five year rolling returns).

The Consultant shall prepare and forward to ACERA's Staff, a Performance Measurement Report within ninety (90) days following the last day of each quarter pending receipt of all manager supplied data requests.

**Schedule I**

**Manager Structure, Capital Structure, and Location Targets**

No manager may represent more than 35% of ACERA's total real estate target allocation. Other guidelines are set forth in the chart below.

Style	Target Allocation within Asset Class
Core Investments	≥ <del>70</del> 60%
<u>Core - Plus</u>	<u>0% - 30%</u>
Value-Added Investments	0% - 30%
Opportunistic	0% - 15%

Capital Structure/Location	Target Allocation within Asset Class
Equity Real Estate	0% - 100%
Debt Real Estate	0% - 15%
International Exposure (Equity or Debt)	0% - 15%

**Schedule II**

**Policy Index for Real Estate and Benchmarks for Real Estate Managers**

POLICY INDEX FOR REAL ESTATE PORTFOLIO

RETURN BENCHMARKS FOR REAL ESTATE MANAGER

Style	BENCHMARK (Net of Fees)
<b>Core Investments</b>	<b>NCREIF Open-End Core Diversified Equity Index ("ODCE")</b>
ACERA Oakland Building Portfolio	ODCE
Clarion Lion Industrial Trust	ODCE
Heitman America Realty Trust (HART)	ODCE
Jamestown Premier Property Fund	ODCE
JP Morgan Strategic Property Fund	ODCE
MetLife Core Property Fund	ODCE
PRISA	ODCE
UBS Trumbull Property Fund	ODCE
<b>Value Added Investments</b>	<b>NCREIF Open-End Equity Index ("OE")</b>
AEW Value Investors II	OE
Artemis Real Estate Partners Healthcare Fund I, L.P.	OE
CIM Urban REIT IV	OE
CIM VI 2 (Urban REIT)	OE
Heitman Value Partners II	OE
Heitman Value Partners IV, L.P.	OE
PRISA III	OE
<b>Opportunistic</b>	<b>NCREIF Open-End Equity Index ("OE")</b>
AEW Partners Real Estate Fund VIII, L.P.	OE

<del>AG Realty Value Fund X, L.P.</del>	OE
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## Schedule II

### Defined Roles of Participants

The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Investment Committee (“Committee”), Staff, Real Estate Consultant (“Consultant”) and Investment Managers (“Manager” or “Managers”). Set forth below is the delegation of the major responsibilities of each participant.

#### Responsibilities of the ACERA Board

- Approves Committee recommendations.

#### Responsibilities of the Investment Committee

- Reviews the R/E Policy and the Investment Plan for the real estate program.
- Evaluates the selection and/or termination of Managers and Real Estate Consultants, and recommends such selection and/or termination to the Board for approval.
- Reviews the real estate portfolio quarterly to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.
- Makes recommendations to the Board for approval; and,
- Delegation<sup>1</sup>:
  - a. Delegating to Staff the authority to make final decisions on new proposed private real estate investments with an individual commitment up to 5% of the target allocation to the total Real Estate Portfolio.
  - b. Delegating to Staff the authority to make final decisions on proposed “re-up” private real estate investments with existing managers in good standing, an individual commitment, in addition to the existing commitment, up to 10% of the target allocation to the total Real Estate Portfolio.

#### Responsibilities of the ACERA Staff

- Recommends the R/E Policy and the Investment Plan to the Committee.
- Makes recommendations to the Committee regarding ACERA’s real estate portfolio.

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<sup>1</sup> Investment managers may not appear before the Investment Committee when Staff exercises its delegated authority.

- Ensures compliance with the R/E Policy and with contracts by consultants and by managers.
- Implements Board and Committee decisions.
- Provides day-to-day oversight of program activities.
- Makes recommendations to the Committee regarding the management of the portfolio.
- Monitors the organization and performance of managers, and reports any significant discrepancies.
- Completes any other activity as directed by the Committee and/or Board.
- Delegation:

a. Approving Consultant's real estate investment proposals (new proposals) with each individual commitment up to 5% of the target allocation to the total RE Portfolio upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (please see Appendices A & B).

b. Approving Consultant's real estate investment proposals for "re-ups" with existing managers with each individual commitment in addition to the existing commitment, up to 10% of the target allocation to the total RE Portfolio to managers in good standing<sup>1</sup> upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports<sup>2</sup> (please see Appendices A & B).

#### Responsibilities of the Consultant

- Recommends the R/E Policy and the Investment Plan to the Committee.
- Makes recommendations to the Committee regarding ACERA's real estate portfolio.
- Brings any non-conforming items or significant issues to the attention of the Staff, Committee and/or Board.
- Prepares the R/E Policy (with annual reviews) and Real Estate Investment Plan
- Prepares the Annual Real Estate Portfolio Review including the review of annual Budget and Management Plans prepared by Managers in conjunction with Staff.

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<sup>1</sup> An investment manager may be considered to be in good standing if there is sufficient comfort with factors including, but not limited to, its organization, strategy, performance, and compliance.

<sup>2</sup> Investment managers may not appear before the Investment Committee when Staff exercises its delegated authority



- Oversees Manager preparation of annual Manager Investment Plans.
- Reviews Preliminary Investment Packages (submitted by IMA Managers) for program compliance.
- Presents portfolio performance reports (as described in Section IV.C. of this document) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans to the Committee quarterly.
- Provides any additional real estate related information (within the agreed upon scope of work) as requested by the Board and ACERA Staff. Responsibilities of the Manager
- Provides performance measurement data in form and substance as requested by ACERA or its Consultant.
- Promptly reports any non-conforming items or significant issues to the Staff and Consultant.
- Provides any additional real estate related information as requested by the Board, ACERA Staff and the Consultant.
- Attends ACERA's meetings as requested.

*Separately Managed Account Managers (e.g. Manager of the Oakland Building):*

- Monitors, manages and disposes of assets on behalf of ACERA.
- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA") and the National Association of Real Estate Investment Managers ("NAREIM") ("Information Standards").
- Provides quarterly financial statements and annual reports to Staff and Consultant.
- Prepares Manager Investment Plans (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.
- Prepares Preliminary Investment Packages (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.
- Prepares Budget and Management Plans (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.
- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review (as described in Section V.B.1.a of this document).

*Commingled Fund Managers:*

- Adheres to the most recent version of the NCREIF PREA Reporting Standards established jointly by the National Council of Real Estate Investment Fiduciaries (“NCREIF”), the Pension Real Estate Association (“PREA”).
- Provides all compliance reports, including quarterly financial statements and annual reports to Staff and Consultant.
- Executes and performs its responsibilities under the terms of the investment vehicle documents and contracts.
- Provides timely notices for capital contributions and distributions.
- Conducts annual portfolio review meetings with the Consultant, Staff, the Committee and/or the Board, and provides timely information to discuss important developments regarding investment and management issues.



RE may include debt real estate in addition to equity real estate: Level of debt real estate at Fund Level, at asset class level.	<i>Specific limit of debt real estate in percentage and dollars terms?</i>	
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**4. Portfolio Diversification**

<p><u>Property Type, Geography, and Other Exposure:</u></p> <p>Property Types: Office, Multifamily, Retail, and Industrial. No property types are excluded, and properties may include business operations (e.g. hotels, senior housing, and public storage)</p> <p>Geography/Diversification (Domestic or International): Geographic Percentage and Property Type Percentage) – within R/E Policy Guidelines.</p> <p><u>International Exposure (not to exceed 15% for total portfolio.)</u></p> <p><u>Debt Exposure (not to exceed 15% for total portfolio.)</u></p> <p><u>By vintage year:</u> roughly equal amounts of new funding may be committed in each calendar year with deviations permitted (Closed-end Commingled Funds).</p>	<p><i>Specific investment type.</i></p> <p><i>Specific region of investments; Is this a domestic or international fund; specific currency denomination.</i></p> <p><i>Exposure per fund; total exposure for asset class.</i></p> <p><i>Exposure per fund; total exposure for asset class.</i></p> <p><i>Specific vintage year.</i></p>	<p><i>Yes, No, or N/A</i></p> <p><i>Yes, No, or N/A</i></p> <p><i>Yes, No, or N/A</i></p> <p><i>Yes, No, or N/A</i></p> <p><i>Yes, No, or N/A</i></p>
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## APPENDIX B

### EXECUTIVE SUMMARY

#### FUND NAME

Organization:

Investment Strategy:

Investment Process:

Total Assets under Management:

Fund Style:

Fund Structure/Inception Date:

Fund Target Commitment:

ACERA Proposed Investment:

Fund Life/Term:

Target Return of Fund Life:

Platform Gross Returns:

<u>As of DATE</u>	<u>Fund I, Fund II, Fund III, etc.</u>
<u>Vintage</u>	
<u>Capital Commitments (\$ M)</u>	
<u>Gross Value</u>	
<u>Leverage</u>	
<u>% Realized (all 100% invested)</u>	
<u>Gross Levered Returns</u>	

<a href="#">-Realized/Unrealized IRR (current)</a>	
<a href="#">-Realized/Unrealized Equity Multiple (current)</a>	

**Target Property Types:**

**ACERA's Account Benchmark:**

**Leverage Ratio (%):**

**Investment Guidelines:**

**Leverage:**

**Concentration and investment size:**

**Anticipated investment size:**

**Fees Structure (Management/Incentive):**

**Distributions:**

**Investment Manager:**

**GP (Sponsor) Commitment:**



November 2021

**2021 – 2022  
Real Estate Investment Plan**

Callan LLC

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**Avery Robinson, CAIA**  
Senior Vice President



# Agenda

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- Portfolio Overview
- Market Highlights
- Investment Plan Recommendations
- Policy Modification Recommendations
- Appendix

# Portfolio Objectives Overview

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## Real Estate Investment Program

- The ACERA Real Estate portfolio dates back to 1988. The program has evolved from a heavily concentrated, predominately direct, separately-managed-account based portfolio, to a well-diversified, commingled fund-based program.
- The ACERA Real Estate portfolio is anticipated to provide the following benefits over the long term:
  - Lower the overall portfolio risk due to real estate’s low correlation with other portfolio asset classes.
  - Generate a stable income stream to assist in meeting cash flow needs.
  - Provide growth through appreciation.
  - Serve as a hedge against inflation.
  - Provide an opportunity to enhance portfolio return through higher total return investments.
- The real estate program has a target allocation of 9%. As of June 30, 2021, the real estate exposure was 5.75%, 6.55% when including unfunded commitments.

# ACERA Program Overview

## ACERA COMPLIANCE MATRIX (as of June 30, 2021)

<b>Investment Style Allocations</b>	<b><u>Strategic Constraint / Guideline</u></b>	<b><u>Compliance</u></b>
Core/Core-Plus	70% to 100%	In Compliance
Value-Added	0% to 30%	In Compliance
Opportunistic	0% to 15%	In Compliance
<b>Return Targets</b>	<b><u>Strategic Constraint / Guideline</u></b>	<b><u>Compliance</u></b>
<b>(Five Year Measurement; Net/Net)</b>		
Core	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance
Core-Plus	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance
Value-Added	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Opportunistic	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Total Portfolio	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance

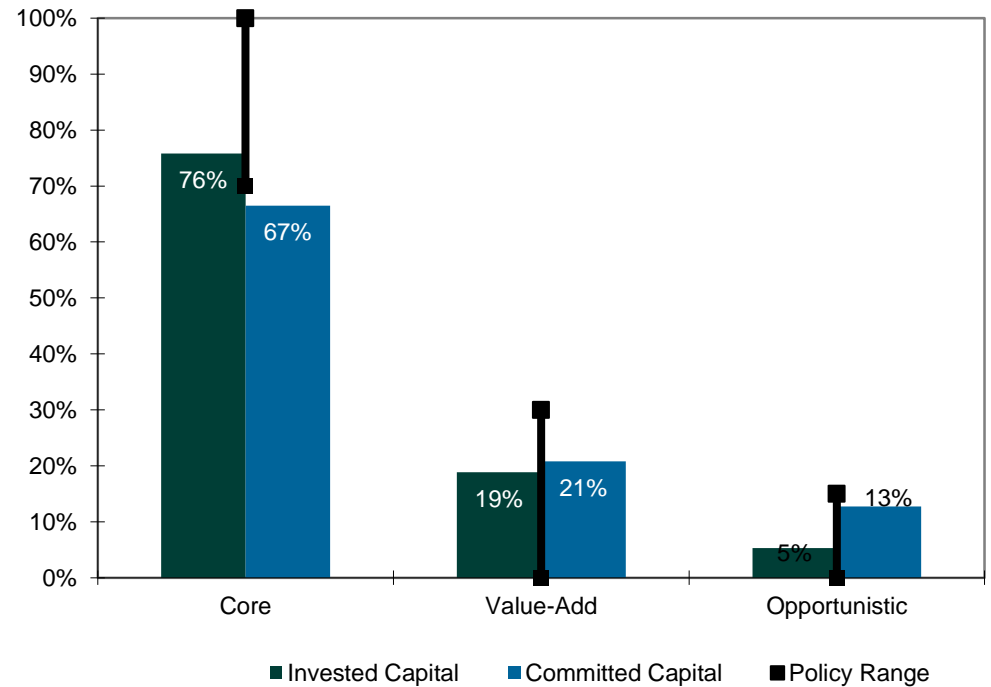
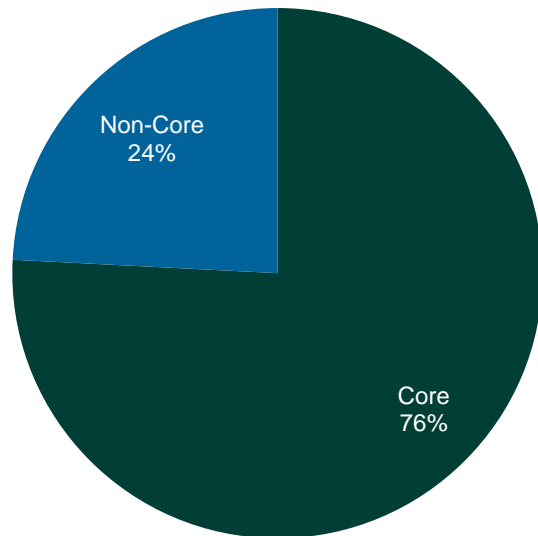
# ACERA Program Overview

## ACERA COMPLIANCE MATRIX (as of June 30, 2021)

<b>Risk Policies</b>	<b><u>Strategic Constraint / Guideline</u></b>	<b><u>Compliance</u></b>
Manager/Fund Diversification	No manager may represent more than 35% of ACERA's total real estate target allocation.	In Compliance
Property/Location Diversification	No property type or geographic location should represent more than 40% of program.	In Compliance
Leverage	A maximum of 40% leverage for the total portfolio.	In Compliance (29.3% LTV)
Watch List	A manager will automatically be placed on the Watch List if net of fee performance falls below the performance of the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three or five year rolling returns).	In Compliance

# Strategic Diversification (as of June 30, 2021)

## Portfolio Overview



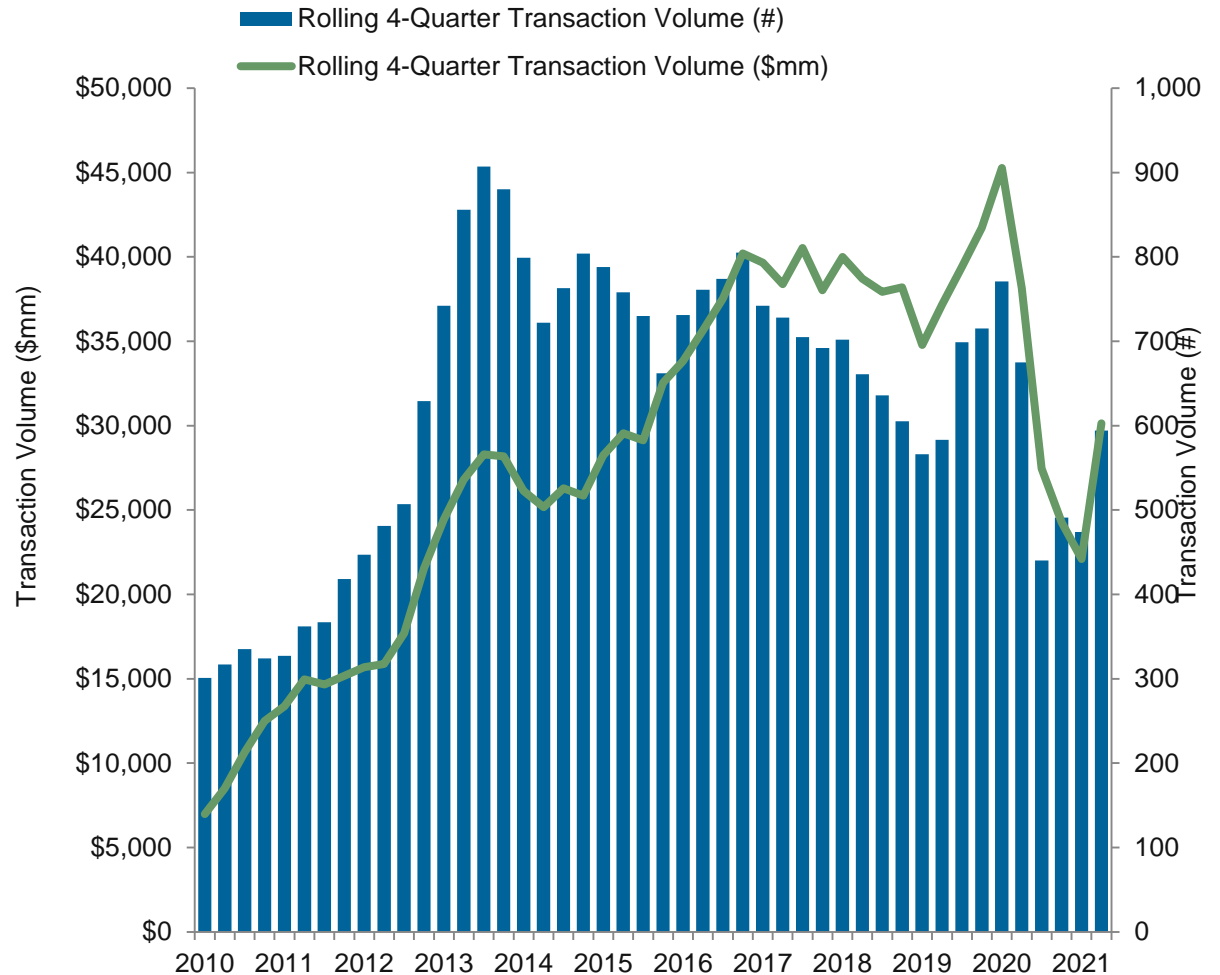
- ACERA has a predominantly core portfolio with some value-added and opportunistic exposure.
- All styles are within their strategic ranges.

# Market Observations and Highlights

## Investors committing to non-core; transactions market limited

- Recovery continues as ODCE posts strongest return single quarter return ever during 3Q2021 (6.6% Gross) Industrial remains the best performer.
- Appraisers pricing in recovery due to strong fundamentals within Industrial and Multifamily
- Return dispersion by manager within the ODCE Index due to composition of underlying portfolios
- Niche sectors self-storage and life sciences continue to be accretive.

**NCREIF Rolling 4-Quarter Transaction Totals**



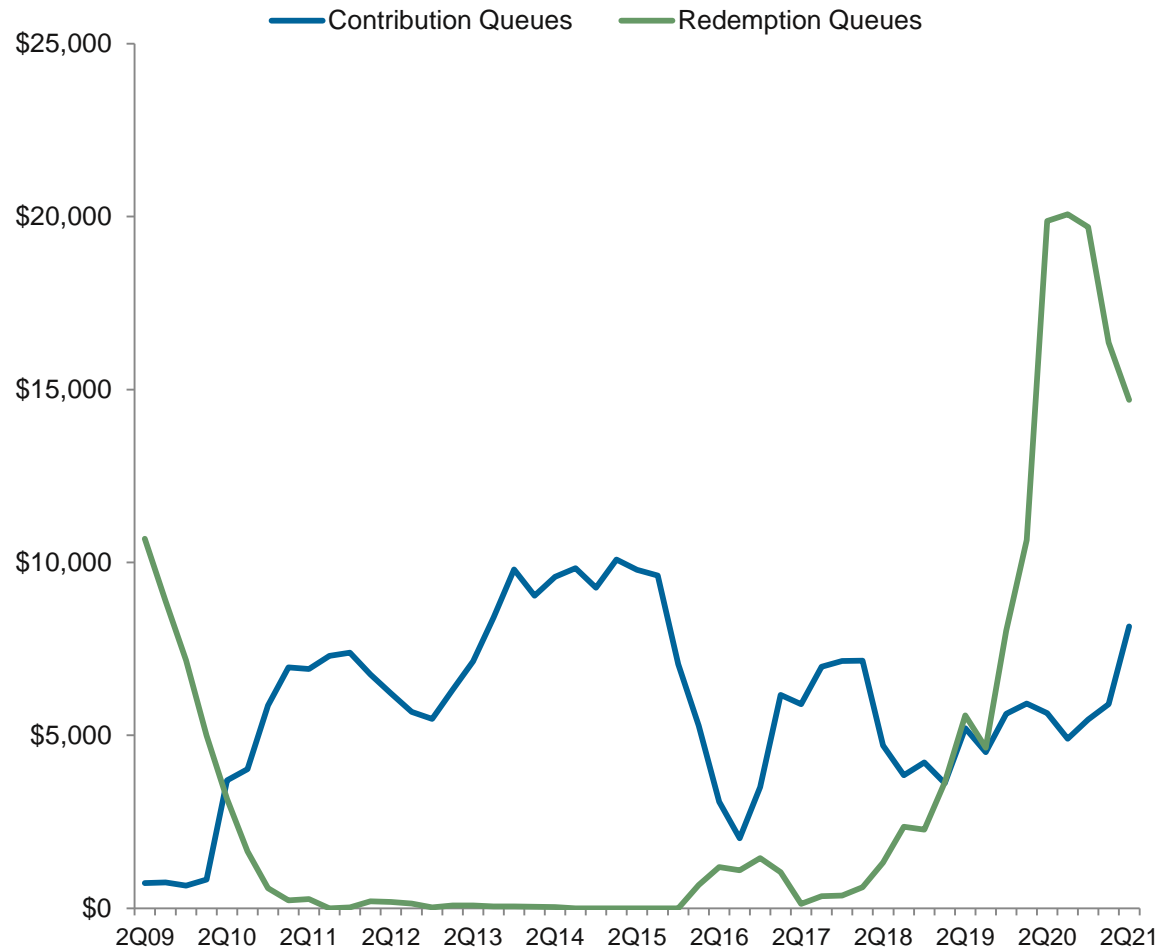
Source: Prequin

# Expected Demand and Search Activity Drivers

Denominator could drive activity; niche properties in favor; pandemic halts new construction

- The gains in the equity market and accompanying denominator are leading lead to an influx of capital going toward the space.
- Some niche property sectors are garnering more interest, such as single-family rentals, medical office, and lab space.
- Net core activity has rebounded considerably during the past two quarters.

**Core Fund Contribution/Redemption Queues (\$mm)**



# ACERA Prior Investment Activity (2019/2020/2021 YTD)

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- There were six individual capital commitments made during 2019/2020 and YTD 2021 highlighted below. The strategies included value-add and opportunistic.
- There is approximately \$185 million in capital that remains to be drawn from these commitments.

Fund	Strategy	Commitment Amount (\$mm)	Commitment Year
Artemis Income & Growth	Value Add	\$35.0	2019
Angelo Gordon Fund X	Opportunistic	\$35.0	2019
AEW Value Partners IX	Opportunistic	\$35.0	2020
Artemis Healthcare Fund II	Value Add	\$25.0	2021
CBRE Value Fund 9	Value Add	\$40.0	2021
Starwood Fund XII	Opportunistic	\$50.0	2021

Liquidations during 2019/2020.

- CIM IV (CMCT) completed its transition and liquidation.
- Heitman V II completed its transition and liquidation.
- JP Morgan Alternative Property Fund completed its transition and liquidation.



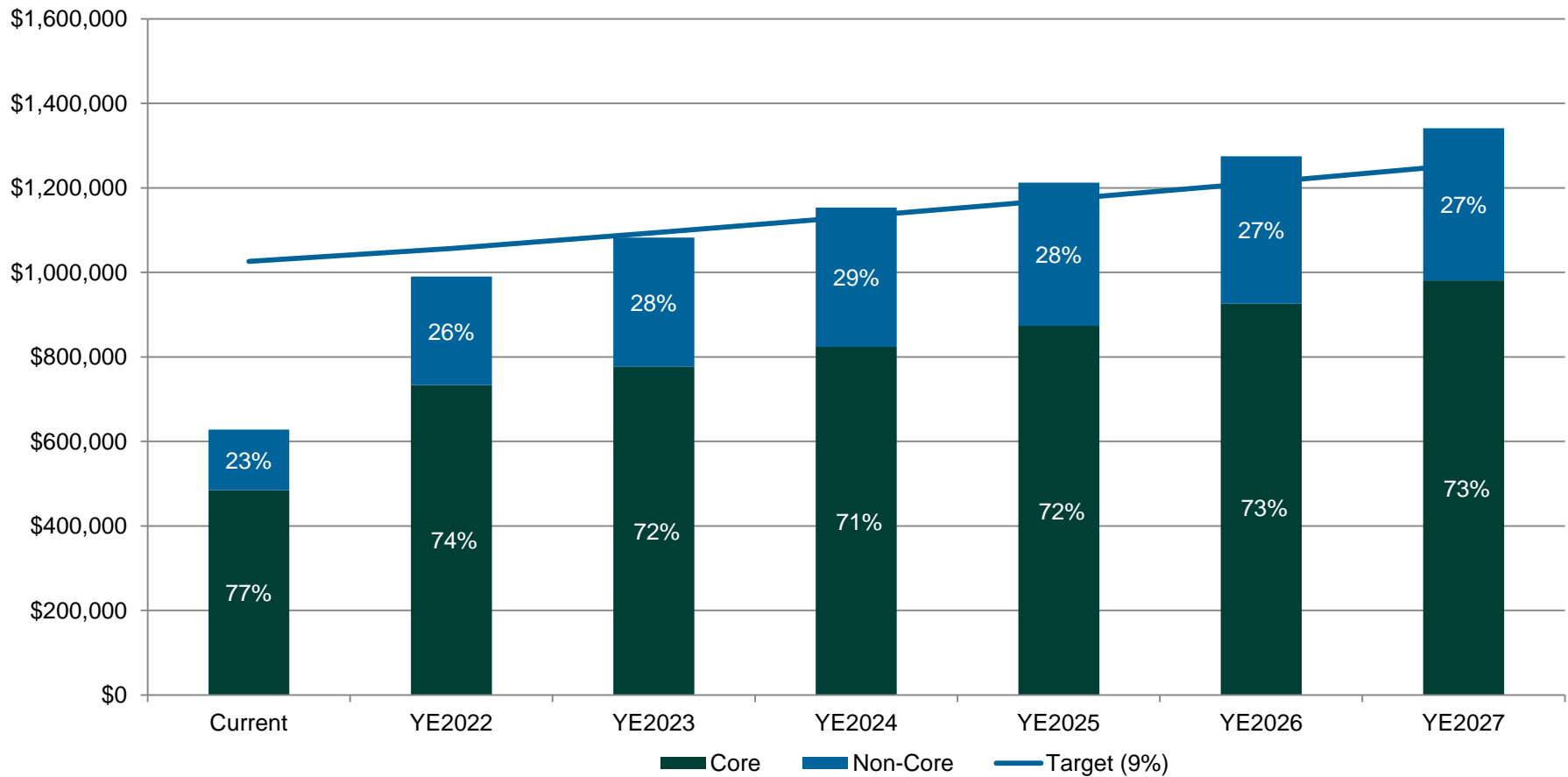
# 2022 / 2023 / 2024 Investment Plan Recommendations and Actions

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1. Callan recommends that ACERA increase its core and core-plus real estate exposure. This can be achieved through a combination of new capital to existing, high performing managers, and select capital to new opportunities. Net new commitments totaling approximately \$200 million before the end of 2022 will help achieve and maintain the real estate allocation target based on the pacing study. (9%)
2. Callan recommends that ACERA continue to explore non-core investment opportunities in order to achieve and maintain vintage year diversification as the existing fund's return capital. This recommendation is dependent on the availability and quality of non-core funds in the market. Given the existing outstanding commitments, a new commitment of \$50 million in 2022, with additional new commitments of \$100 million in each subsequent year will help achieve and maintain the real estate allocation target based on the pacing study.

# Pacing Based on Recommended Commitments

- Based on the recommendation of \$200 million to core/core-plus and as well as continued commitments to non-core strategies, the real estate program is forecasted to reach its 9% target around year-end 2023.





## Policy Modifications

# ACERA Policy Review and Recommendations

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## Recommendations

- Bifurcate Core and Core-Plus sub-assets classes
  - Currently Core and Core-Plus are included in the same allocation
  - Distinguishing between core and core-plus and setting appropriate limitations will help better account for the risk and return characteristics between the strategies. For example, currently the ACERA real estate portfolio has two core-plus funds representing approximately 19% of the total real estate allocation. In 2020, those two managers represented the strongest return and the weakest return, producing 23.2% and -9.3% respectively.
  - Establishing a core-plus range of 0-30%, and adjusting the core range to  $\geq 60\%$  is recommended.
- Add delegated authority up to 5% or 10%
  - Establishing limited staff discretion will allow the portfolio adjust more efficiently and invest with good managers that may be subject to some constraints. (i.e. Short Fund raising timeline –first or last closes, oversubscribed)
  - The proposed limit allows the staff to commit up to 5% of the real estate target to a new strategy or up to 10% to an existing manager via a “re-up”.

## Future considerations and thinking

- Revisit international and debt policy limitations



Appendix



To: Members of the Investment Committee  
Date: November 3, 2021  
From: Thomas Taylor, Investment Officer *Thomas Taylor*  
Subject: Discussion and Possible Motion to Recommend that the Board Direct Staff to Send Proposed Letter to ACERA's Real Estate Managers Regarding the Expiration of the Eviction Moratorium.

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**Recommendation**

Direct Staff to send proposed letter to ACERA's Real Estate portfolio managers.

**Background**

At the October 13, 2021 Investment Committee Meeting, Callan proposed the Trustees –if they are concerned with any potential violations of the CDC guidelines<sup>1</sup>, send a letter to ACERA's real estate managers expressing their concern about the possible evictions that may occur after the CDC eviction moratorium expires.

**Attachments**

1. Proposed draft letter by Staff

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<sup>1</sup> As of October 6, 2021, all ACERA Real Estate managers reported to be in compliance with the CDC and state mandates.



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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**DRAFT**

November 18, 2021

Dear ACERA Real Estate Fund Managers:

This letter is written on behalf of the Retirement Board of Alameda County Employees' Retirement Association.

The purpose is to ask portfolio managers and property managers who oversee the housing sector properties to continue treating tenants that have been compromised by the COVID-19 pandemic in both a humanitarian and thoughtful way. Now that the CDC moratorium has expired, we hope that the real estate fund and property managers will continue to extend to tenants every reasonable accommodation and opportunity to work through to a reasonable resolution while serving their fiduciary responsibilities to the real estate fund.

Please provide ACERA Staff, Thomas Taylor and John Ta, with any remarkable news on this subject matter on a timely basis.

Kind regards,

Dale Amaral  
Chair of the Board of Retirement

cc: John Ta, Investment Officer (allinvestments@acera.org)  
Thomas Taylor, Investment Officer (allinvestments@acera.org)  
Betty Tse, Chief Investment Officer