

**Alameda County Employees'
Retirement Association**

ACERA

EMERGING INVESTMENT MANAGER POLICY

Amended

~~September 11, 2019~~

October 12, 2022

ACERA EMERGING INVESTMENT MANAGER POLICY

TABLE OF CONTENTS

I.	SCOPE	<u>32</u>
II.	PURPOSE	<u>32</u>
III.	LEGAL AUTHORITY	<u>32</u>
IV.	DEFINITION OF EMERGING INVESTMENT MANAGERS	<u>32</u>
V.	EMERGING INVESTMENT MANAGER PROGRAM	3
VI.	STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM	4
VII.	STANDARDS FOR EMERGING INVESTMENT MANAGERS	<u>54</u>
VIII.	ROLES AND RESPONSIBILITIES	<u>45</u>
IX.	PERFORMANCE EVALUATION CRITERIA	<u>98</u>
X.	MONITORING AND REPORTING	<u>98</u>
XI.	QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS	<u>98</u>
XII.	EMERGING INVESTMENT MANAGER GRADUATION	<u>98</u>
XIII.	EFFECTIVE DATE	<u>109</u>
XIV.	TABLE OF AMENDMENT DATES	<u>109</u>

I. SCOPE

This Emerging Investment Manager Policy (“EIM Policy”) governs the Emerging Investment Manager Program (“EIM Program”) of Alameda County Employees’ Retirement Association (“ACERA”) and shall apply to any and all asset classes of ACERA’s Pension Fund (“Fund”) ~~other than private credit and absolute return~~. The EIM Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures. The ACERA Board (“Board”) reserves the right to amend, supplement, or rescind this EIM Policy at any time.

II. PURPOSE

The purpose of this EIM Policy is to establish a framework for the ongoing development and administration of ACERA’s EIM Program, consistent with the Board’s fiduciary responsibilities in investment of the Fund.

III. LEGAL AUTHORITY

This EIM Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the Fund.

IV. DEFINITION OF EMERGING INVESTMENT MANAGERS

For the purpose of this EIM Policy, ACERA defines emerging investment managers (“EIMs”) in traditional asset classes (public equities, public fixed income) as investment managers who have total assets under management (“AUM”) of less than \$5.0 billion, and, in addition, may have more limited time in business and/or a more limited track record in the specific products under consideration than would ordinarily be required in ACERA’s standard institutional investment manager search process. Absolute return EIM funds, which are a marketable alternative asset class, are defined as investment managers that have total AUM of less than \$5 billion. Private markets EIM funds (private equity, private credit, and private real assets) are defined as first- ~~or~~ second- or third-time institutional funds raised by the GP firm and with less than \$5 billion in firm committed capital¹ AUM, including co-investments. ~~For real estate, EIM funds are defined as first- or second-time institutional funds or those with less than \$5.0 billion in firm AUM.~~

The committed capital threshold will be applied to prior private equity, private credit and private real assets funds –including co-investments, and will not include the current recommended fund under consideration by ACERA.

For private real estate, EIMs are defined as firms that have invested less than \$3 billion of capital received from investors. This includes all active vehicles, historical vehicles

¹ Committed capital means the total dollar amount committed by all LPs to a particular fund.

[& co-investments.](#)

While total assets and length of track record are often more limited in the EIM universe, eligible EIM managers for the ACERA portfolio must have established institutional experience as demonstrated through the prior experience of the firm's key investment professionals and/or track record from a prior organization.

V. EMERGING INVESTMENT MANAGER PROGRAM

ACERA's EIM Program is an investment program, developed and managed in accordance with this EIM Policy. The EIM Program is designed to identify investment firms with the potential to add value to ACERA's portfolio and that may not be identified in ACERA's standard institutional investment manager search process. Based on market studies, ACERA believes that some smaller investment firms may be able to generate superior performance due to increased market flexibility associated with smaller asset bases.

A. Investment Vehicles

ACERA can utilize Individual Mandates (~~directly hired~~ directly hired EIMs) and/or Manager-of-Managers ("MOMs"), and ~~otherwise known as Fund-of-Funds ("FOFs") in absolute return and private markets~~ mandates for the EIM Program. ~~Both~~ Investment vehicle types will be considered based on the suitability for the of the specific characteristics of ACERA's portfolio needs for both public and private markets mandates. MOMs/FOFs can be utilized to gain exposure to EIMs subject to diligence justifying their potential net-of-fee performance on par with direct, competitive alternatives and consideration of cost.

B. Size

During the initial stage of the EIM Program implementation at ACERA, 1.0% of the Total Fund was allocated to the EIM Program. ~~The~~ is total allocation percentage ~~will be~~ is measured on an annual basis by total EIM exposure and by asset class. 1.0% will be a minimum goal for Total Fund allocation with the intent that EIM allocation will grow incrementally over time. The targeted goal for future investments, which will be revisited periodically, is up to 10~~5~~% of Total Fund allocation to be achieved within 10 years. As of June 30, 2022, the EIM exposure across the asset classes in which ACERA invests was 5.43% (on a NAV plus unfunded commitments basis for private markets and real estate exposures and market value basis for all public markets and Absolute Return assets). Allocation to EIM managers is a function of the identification of compelling opportunities across asset classes. The Board will periodically review the EIM Program size and will consider recommendations from the Investment Committee with input from ACERA Staff ("Staff") and ACERA's investment consultants ("Consultants") in conjunction with ongoing manager due diligence.

C. Asset Class Coverage

~~The following~~All asset classes for which the ACERA Board has established an asset allocation policy target may be included in ACERA's EIM Program in conjunction with ongoing due diligence: ~~public markets equities, public markets fixed income, absolute return, private equity, private credit, private real assets, and private real estate as defined in Section IV.~~ EIM managers and their respective asset class allocations will be determined on a case-by-case basis and are not pre-determined by the Board, but rather will be a function of highly competitive offerings in the market that coincide with ACERA's search needs.

VI. STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM

The strategic objective of the EIM Program is to add incremental value to the Total Fund through the hiring of the most talented EIMs to manage a portion of ACERA's total assets, using the acceptable investment vehicles of directly hired/MOMs/FOFs.

The primary goals of the EIM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund performance through the EIM Program; 3) identify superior EIMs and/or investment opportunities that are equal to or superior to comparable available non EIM investments; and 4) further diversify the Fund's overall investment program, to enhance the risk-adjusted returns of the Fund. As part of the program, ACERA seeks to identify competitive EIM managers in California and Alameda County for inclusion in the portfolio,

Commented [TT1]:

Since Distribution of this redline it has been suggested to delete this language as it is not in synch with to the General Investment Guidelines, Policies, and Procedures. 1) The latter contains goals and objectives for each asset class. 2) The EIM Policy is subject to the General Investment Guidelines, Policies and Procedures. Strike #2 & #3.

ACERA may consider an EIM investment when the assigned Consultants and staff, after due diligence and investigation, have determined that:

- 1) The risk and return characteristics of the EIM investment are no less favorable than comparable non-EIM opportunities available;
- 2) The EIM investment is in compliance with this EIM Policy; and
- 3) Administrative time (associated with typically smaller size allocations) has been considered with EIM opportunity sizing aligned with ACERA resource constraints.

VII. STANDARDS FOR EMERGING INVESTMENT MANAGERS

All investment managers selected through the EIM Program shall comply with and be subject to any and all performance-related and other standards, requirements, and expectations set forth in ACERA's General Investment Guidelines, Policies and Procedures and other applicable asset class policies; ~~other than requirements regarding minimum size and length of track record criteria for inclusion in many of ACERA's standard institutional investment managers search processes.~~ In regards to EIM managers, specific consideration may be given to the following criteria: firm formation date, firm ownership structure, firm assets under management, strategy assets under management, proposed allocation as a percentage of firm and strategy concentration,

team's investment experience together, prior verifiable track record, length of track record, management of similar client accounts, etc. It is ACERA's intent that an individual manager's EIM portfolio allocation comprises no more than 25% of ~~a~~ the manager's total ~~assets under management~~ AUM for traditional assets and no more than 15% of the manager's total fund commitments for private markets (including private real estate). Any exception to this guideline will be made on a case-by-case basis, if warranted.

All investment managers selected through the EIM Program shall also comply with and be subject to any and all other ACERA Board policies, procedures and guidelines that pertain to investment managers, including without limitation, obligations regarding disclosure by investment managers of actual or potential conflicts of interest, as well as any and all other obligations imposed on ACERA's investment managers by State and Federal law.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's EIM Program. The duties and responsibilities of the Board, Investment Committee, Staff, Consultants, ACERA's fiduciary counsel ("Fiduciary Counsel") and ~~directly hired~~ directly hired EIMs/MOMs/FOFs in relation to the EIM Program are stated below:

A. Board

The Board shall be responsible for approving the EIM Policy that governs the EIM Program and approving the implementation of the EIM Program at ACERA. The Board, with input from the Investment Committee, shall review this EIM Policy annually or as needed to determine whether modifications are necessary. The Board shall also be responsible for retention and termination of ~~directly hired~~ directly hired EIMs and/or MOMs/FOFs.

B. Investment Committee

The Investment Committee shall monitor the compliance of ACERA's EIM Program with this EIM Policy. It shall evaluate proposals for EIM Policy modifications, as needed, and make recommendations for consideration by the Board. The Investment Committee shall review the EIM Policy annually or as needed and make recommendations to the Board with respect to retention and termination of ~~directly hired~~ directly hired EIMs and/or MOMs/FOFs.

C. Staff

Staff shall be responsible for oversight of the EIM Program. Staff's responsibilities shall include, but not be limited to the following:

1. Developing and maintaining specific procedures, subject to the Board's approval, to comply with the approved EIM Policy;

2. Developing and recommending changes to the EIM Policy;
3. Implementing the EIM Policy and managing the EIM Program;
4. Initiating searches for directly-hired EIMs and/or MOMs/FOFs and/or reviewing EIM candidates within other ACERA searches;
5. Monitoring ~~directly hired~~directly hired EIMs' and/or MOMs'/FOFs' compliance with a) the investment guidelines as set forth in their respective contracts; b) the EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures and other applicable asset class policies;
6. Conducting comprehensive reviews of the EIM Program and/or the directly-hired EIMs and/or MOMs/FOFs;
7. Reporting to the Investment Committee any violations of the EIM Policy with explanations and recommendations;
8. Assisting ACERA's legal department in contract negotiations with ~~directly hired~~directly hired EIMs and/or MOMs/FOFs;
9. Evaluating EIM opportunities with Consultants' input and making recommendations to the Investment Committee; and
10. Evaluating and making recommendations for retention or termination of directly-hired EIMs and/or MOMs/FOFs.

D. Consultants

1. Investment Consultants (General and Specialty Asset Class Consultants)

General and Specialty Asset Class Investment Consultants hired by the Board are fiduciaries to ACERA and its Board. These Investment Consultants shall independently and continuously monitor and analyze the effectiveness of ACERA's EIM Program and make related recommendations to serve the best interests of the plan participants. Investment Consultants shall also assist Staff in crafting the EIM Policy and implementing the EIM Program. In addition, Investment Consultants shall be responsible for:

- a. Ongoing monitoring of the performance of ACERA's ~~directly hired~~directly hired EIMs and/or MOMs/FOFs;
- b. Monitoring ~~directly hired~~directly hired EIMs' and/or MOMs'/FOFs' compliance with a) their respective investment guidelines as set forth in their contract; b) this EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures and other applicable asset class policies;
- c. Assisting Staff in ~~directly hired~~directly hired EIM and/or MOM/FOF searches, including the due diligence of EIM candidates within other ACERA manager searches where appropriate, and contract negotiations;
- d. Submitting performance evaluation reports and conducting comprehensive reviews of the ~~directly hired~~directly hired EIMs and/or MOMs/FOFs quarterly to the Investment Committee in conjunction with the regular quarterly performance report and review;
- e. Making recommendations for retention or termination of ~~directly hired~~directly hired EIMs and/or MOMs/FOFs;

- f. Attending meetings as needed; and
- g. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

2. Specialty Investment Consultant

Should the Board, with input from the Investment Committee, decide to hire a Specialty Investment Consultant specializing in EIM programs, this specialty Consultant will be subject to the same expectations and bear the same responsibilities as stated in Section VIII (D) (1) above.

~~E. Fiduciary Counsel~~

~~Fiduciary Counsel hired by the Board through ACERA's Chief Counsel in accordance with ACERA's Fiduciary Counsel Retention Policy is a fiduciary to ACERA and its Board. Fiduciary Counsel shall provide legal, but not investment, advice to the Board, Investment Committee and Staff regarding all aspects of ACERA's EIM Policy, as requested. Fiduciary Counsel shall also provide legal, but not investment, advice on ACERA's EIM Program upon request.~~

~~F.E. Emerging Investment Managers~~

EIMs are fiduciaries to ACERA and shall prudently manage ACERA's assets in the best interest of ACERA and its members. EIMs shall abide by all of ACERA's policies and procedures and comply fully with applicable law. EIMs shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures **and other applicable asset class policies**. EIMs shall be responsible for all aspects of portfolio management as set forth in their respective contracts with ACERA. EIMs shall also:

1. Communicate with Staff and/or MOMs/**FOFs** as needed regarding investment strategy and investment results;
2. Cooperate fully with Staff, Consultants, ACERA's custodian, and/or MOMs/**FOFs** concerning requests for information;
3. Submit reports to MOMs/**FOFs**, Staff, and Consultants in accordance with their contract terms; and
4. Attend meetings as needed.

~~G.F. Manager-of-Managers/**Fund-of-Funds**~~

MOMs/**FOFs** are fiduciaries to ACERA and shall prudently manage ACERA's assets in the best interest of ACERA and its members. MOMs/**FOFs** shall abide by all of ACERA's policies and procedures, and fully comply with applicable law. MOMs/**FOFs** are responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EIM Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures **and other applicable asset class policies**. It is expected that MOMs/**FOFs** shall also:

1. Maintain a comprehensive and current database of emerging investment managers and continuously conduct due diligence evaluation of prospective EIMs;
2. Construct a diversified portfolio of EIMs based on the objectives and benchmarks established by the MOM/FOF;
3. Retain or terminate EIMs based on the evaluation criteria established by the MOM/FOF;
4. Graduate EIMs based on the criteria established by Section XII (B) of this EIM Policy.
5. Monitor and report on the performance of each underlying EIM manager in the MOM/FOF portfolio and the MOM/FOF itself in accordance with the terms of its contract with ACERA; and
6. Attend meetings as needed.

These expectations are subject to the underlying strategy of the MOM/FOF and may not always be applicable. Any exceptions to these criteria will be fully vetted for appropriateness by Consultant and Staff.

IX. PERFORMANCE EVALUATION CRITERIA

The specific performance evaluation criteria for ~~directly hired~~ directly hired EIMs, and/or MOMs/FOFs will be established in the investment agreements between ACERA and individual ~~directly hired~~ directly hired EIMs and/or MOMs/FOFs.

The Board, Investment Committee, Staff, and Consultants will evaluate MOMs/FOFs based on the performance of the total MOM/FOF itself and not based on the performance of each underlying EIM manager in the MOM/FOF portfolio.

X. MONITORING AND REPORTING

Consultants and Staff will closely monitor and analyze the EIM Program to ensure compliance with the EIM Program's strategic objective and goals. In addition to compliance monitoring, ACERA's EIM managers will be asked to complete an annual questionnaire focused on ownership structure, firm and strategy AUM, and LP concentration. Consultants and Staff will measure EIM exposure in total and by asset class annually and provide a report to ACERA's Investment Committee.

~~Directly hired~~ Directly hired EIMs and/or, MOMs/FOFs are required to submit all reports to Staff in accordance with their respective contracts and applicable requirements set forth in the Schedule V of ACERA General Investment Guidelines, Policies and Procedures and other applicable asset class policies.

Consultants are required to submit all reports to Staff in accordance with their contract terms.

Staff, in conjunction with Consultants will perform comprehensive evaluations of ACERA's EIM Program, the ~~directly hired~~ directly hired EIMs and/or MOMs/FOFs annually, or as needed, and will report the findings to the Investment Committee.

XI. QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS

ACERA seeks to retain the most talented EIMs to manage ACERA's assets. The specific qualifications of ~~directly hired~~ directly hired EIMs and/or, MOMs/FOFs, consistent with the Strategic Objective and Goals of the EIM Program, will be determined by the Board at the time of the search for ~~directly hired~~ directly hired EIMs and/or MOMs/FOFs with input and recommendations from Staff and Consultants. In addition, EIMs, as defined by ACERA's EIM Policy, may be included in ongoing ACERA searches subject to the criteria for said searches.

Staff and Consultants will conduct a comprehensive due diligence review process for each ~~directly hired~~ directly hired EIM and/or MOM/FOF. The specific search criteria and due diligence procedures for ~~directly hired~~ directly hired EIMs and MOMs/FOF will be established by the Board, consistent with the Strategic Objective and Goals of the EIM Program and each applicable asset class, at the time of the search with input and recommendations from Staff and Consultants.

XII. EMERGING INVESTMENT MANAGER GRADUATION

A. ~~Directly Hired~~ Directly Hired EIM Mandates (traditional assets and Absolute Return)

If a ~~directly hired~~ directly hired, traditional-assets EIM's firm-wide total assets under management have exceeded \$10.0 billion dollars, and, in addition, the ~~directly hired~~ directly hired EIM has been in business and/or has a track record in the specific product under consideration for more than five years, a comprehensive evaluation of the EIM shall be conducted by Staff and Consultants. Based on the evaluation, Staff and Consultants shall determine if the ~~directly hired~~ directly hired EIM should or should not be graduated from the EIM Program in accordance with ACERA's EIM Policy. The Investment Committee, with recommendations from Staff and Consultants, may recommend to the Board to graduate the EIM into a larger mandate, in conjunction with ACERA's search needs, terminate the ~~directly hired~~ directly hired EIM, or continue to retain the ~~directly hired~~ directly hired EIM in ACERA's EIM Program. Absolute Return assets will be evaluated similar to directly hired traditional-asset mandates mentioned above.

B. Manager-of-Managers (MOMs)/Fund-of-Funds Mandates (traditional assets and Absolute Return)

MOMs/FOFs shall determine whether or not an underlying EIM should be graduated in accordance with the MOMs/FOFs own graduation policy and ACERA's EIM Policy. A report on any underlying EIM graduation shall be provided to Staff and Consultants within three months after such graduation has occurred. If Staff and the Consultant decide to retain a graduated EIM based upon the recommendation of the MOM/FOF, the MOM/FOF will embark on a search to find a new EIM. This is subject to the underlying strategy of the MOM/FOF and may not always be applicable. If not applicable, reasons for exceptions will be provided to Staff and Consultant as part of the EIM monitoring process. A maturing EIM who graduates may be considered as a regular ACERA manager if warranted, subject to investment and legal due diligence.

C. Private Markets

Private Equity, Private Credit, Private Real Assets, Private Real Estate will be considered to have graduated and/or not eligible if the most recent fund to which ACERA made a commitment is the fourth time institutional fund raised by the GP firm and/or aggregate firm AUM (defined as committed capital), including co-investments is:

- More than \$5 billion for Private Equity, Private Credit, Private Real Assets funds; and
- More than \$3 billion invested capital for Private Real Estate funds

Existing EIM funds of private markets will naturally roll off the current list of EIM managers as the specific fund fully liquidates.

XIII. EFFECTIVE DATE

This Policy became effective upon its initial adoption by the Board on March 15, 2007. Any amended Policy shall become effective upon its adoption by the Board.

Commented [TT2]:

Since Distribution of this redline version it has been suggested to build in a "path" for a graduating MOM or FOF sub-manager. The following language is recommended because,

- 1) It was the MOM who did the due diligence on the manager not ACERA's staff.
- 2) The graduating manager would need to pass the prerequisites of the GIGPP.
- 3) There may need to be a manager structure review of the asset class said manager would move to.

Commented [TT3]: "Invested Capital" added to match the phrase noted above. The other two highlighted are suggested edits.

XIV. TABLE OF AMENDMENT DATES

March 15, 2007
November 19, 2009
December 16, 2010
January 17, 2013
September 11, 2019
[October 20, 2022](#)