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MINUTES OF THE FEBRUARY 9, 2022 INVESTMENT COMMITTEE MEETING

THIS MEETING WAS CONDUCTED VIA TELECONFERENCE WITH VIDEO

To: Members of the Board of Retirement

From: Tarrell Gamble – Chair

Subject: Summary of February 9, 2022, Investment Committee Meeting

The Investment Committee ("Committee") met on Wednesday, February 9, 2022, at 9:37 a.m. The Committee members present were Dale Amaral, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Kellie Simon, and George Wood. Also present were Alternate Safety Member Darryl Walker and Alternate Retired Member Nancy Reilly. ACERA Senior Managers and Presenting Staff present were David Nelsen – Chief Executive Officer, Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, Agnes Ducanes – Administrative Specialist II, Clint Kuboyama – Investment Officer, John Ta – Investment Officer, Thomas Taylor – Investment Officer, Serafin Lim – Investment Operations Officer, and Betty Tse – Chief Investment Officer.

<u>Public Comments:</u>

Betty Tse introduced ACERA's newly hired Investment Operations Officer, Serafin Lim. His start date was February 7, 2022.

Chair Gamble addressed public comments made at the January 20, 2022 Board meeting related to ACERA's previous investment with Cerberus Capital Management. Chair Gamble disclosed that in 2011, ACERA made a $35 million investment commitment to the Cerberus Offshore Leveraged Loan Opportunities Fund I, which matured in November 2020. In addition, Chair Gamble mentioned that at no time did the Fund's investments involve Tribune Publishing. Finally, Chair Gamble communicated that following the maturation of the Fund, ACERA no longer has a business relationship with Cerberus that would enable ACERA to engage with Cerberus in the manner requested during public comments.

<u>Action Items: Matters for discussion and possible motion by the Committee</u>

There are no action items

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

1. 2022 Capital Market Assumption

- Verus representatives discussed the methodologies used and the resultant 10-year return and risk forecasts for various asset classes projected for the 2022-2031 period. When compared to the 10-year forecasts previously conducted in June 2021, some of the asset classes, such as US Equity, are now estimated to increase modestly due to lower valuations and higher inflation. According to the relevant capital market assumption changes noted by Verus, inflation expectations have increased materially and inflation is now estimated to reach 2.5%, up from the previous forecast of 2%.

  More importantly, the projected 10-year return for ACERA's Total Fund has increased modestly to 6.1% [1] with a standard deviation of 13%, from the previous forecast of 5.8% with a standard deviation of 13%.

2. Semiannual Performance Review for the Period Ending September 30, 2021 – Equities and Fixed Income

- Please see December 8, 2021 ICM Minutes. No further information was provided.

3. Semiannual Performance Review for the Period Ending September 30, 2021 – Absolute Return

- Please see December 8, 2021 ICM Minutes. No further information was provided.

4. Semiannual Performance Review for the Period Ending June 30, 2021 – Private Equity

- Verus provided a review of ACERA's Private Equity portfolio for the period ending June 30, 2021. General market commentary was provided along with an overview of the Private Equity portfolio performance and diversification. The difference between two return metrics, time-weighted return (TWR) and internal rate of return (IRR), were discussed, and it was reiterated that IRR is the industry standard for measuring Private Equity performance.

- Since ACERA's Private Equity portfolio inception in 2008, it has outperformed the Russell 3000 by 2.04% as of 6/30/2021. As of 6/30/2021 the Private Equity Portfolio had a total market value of $984.2 million, which represented 8.6% of the Total Fund in comparison to its 11.0% asset class target. For the one-year period ending 6/30/21, The Private Equity Portfolio returned a net IRR of 63.57% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 55.07%. For the three-year period ending 6/30/21, ACERA's Private Equity Portfolio returned a net IRR of 23.27% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 22.39%.

[1] According to Verus' updated CMA presentation received after the February ICM, the 10-year forecast return for ACERA's Total Fund is 6.1% not 6.3% as projected in Verus' original CMA presentation used for the February ICM.

5. Semiannual Performance Review for the Period Ending June 30, 2021 – Private Credit

- Verus reviewed the status and performance of the Private Credit portfolio as of 6/30/21 and noted that its performance through this date was largely driven by the portfolio's first investment, Owl Rock First Lien Fund. The Trustees, Verus and Staff also discussed the organizational change that occurred at Owl Rock.

- As of 6/30/2021, the Private Credit Portfolio had a total market value of $123.3 million which represented 1.1% of the Total Fund (class target is 4.0%). Since the Private Credit Portfolio's inception through 6/30/2021, the Portfolio's net IRR was 9.56%, 4.44% above the same cash flows invested in the S&P LSTA US Leveraged Loan 100 Index of 5.12%.

6. Semiannual Performance Review for the Period Ending June 30, 2021 – Real Assets

- Verus discussed the inflation-risk-hedging purpose of the Real Assets portfolio and the portfolio's strong performance as inflation has risen. The performance of the private investments within the Real Assets portfolio through 6/30/21, as well as the broader performance of the natural resources, infrastructure, and commodity investments in the portfolio were also discussed. Finally, the investment outlook was provided by Verus, which included potential future investments in the core and value-added infrastructure categories, as well as a potential agricultural investment.

- As of 6/30/2021, the Real Assets Asset Class had a total market value of $534.319 million, representing about 4.7% of ACERA's Total Fund (class target 6.0%). For the one-year period ending 6/30/2021, the Real Assets Portfolio returned 32.27% net versus its blended benchmark (60% S&P Global Infrastructure Index/35% Global LargeMidCap Commodity and Resources Index/5% Bloomberg Commodity Index) return of 33.72%. For the three-year period ending 6/30/2021, ACERA's Real Assets Portfolio returned 3.10% net versus its blended benchmark return of 5.26%.

7. Semiannual Performance Review for the Period Ending September 30, 2021 – Real Estate

- Callan provided an in-depth report on ACERA's Real Estate portfolio. Callan reported that ACERA's real estate asset class was underfunded in light of the 9% allocation and that Callan would be making recommendations, especially in the Core and Core-Plus categories. The different property types continue to experience wide dispersion. Industrial and Multi-family have performed well; Office and Retail are still in its early stages of recovery.

- As previously reported, for the last 6-months ending 09/30/2021, ACERA's Real Estate portfolio had a net return of 11.41%, outperforming the NFI-ODCE benchmark return of 10.33%.

- For the trailing 1-year period, ACERA's Real Estate portfolio had a net return of 15.85% outperforming the NFI-ODCE benchmark return of 13.64%.

- For the trailing 3-year period, ACERA's Real Estate portfolio had a net return of 7.92%, outperforming the benchmark return of 6.13%.

- For the year ending 09/30/2021, ACERA's Real Estate portfolio is valued at $696.6 million, representing 6.06% of the Total Fund. The Real Estate Market Value and Unfunded Commitment is $815.9 million, representing 7.10%.

8. Investment Committee Workplan 2022

- Staff presented the Investment Committee Work Plan for 2022 (Work Plan).

TRUSTEE REMARKS
None

FUTURE DISCUSSION ITEMS
None

ESTABLISHMENT OF NEXT MEETING DATE
Wednesday, March 9, 2022, at 9:30 a.m.

ADJOURNMENT
The meeting ended at 11:30 a.m.

From: Betty Tse [email address deleted for public posting]
Sent: Monday, February 14, 2022 5:02 PM
To: Kellie Blumin; Keith Carson; Dale Amaral; Darryl Walker; Elizabeth Rogers; Hank Levy; Jaime Godfrey; Liz Koppenhaver; Nancy Reilly; Ophelia Basgal; Tarrell Gamble; George Wood [email addresses deleted for public posting]
Cc: All Investments; David Nelsen [email addresses deleted for public posting]
Subject: Re: Revised Verus 2/2022 CMA Presentation (pls read)

Dear Trustee Gamble,

Hope you are well!

Late last Friday, we received an email from Eileen Neill of Verus notifying us of an modeling error regarding the Capital Market Assumptions (CMA) presentation, presented as an Information Item at our last ICM. The error in question concerns the non-US equity index proxy specifically, but the subsequent correction affects some of the return forecast. More importantly, the 10-year forecast of the Total Fund has been modestly decreased as a result of the named correction to 6.1% from 6.3% that was presented at the last ICM. Please see attached the amended pages of the CMA presentation. These four amended pages will replace pages 4,5,6 and 8, respectively, of your original presentation. Eileen apologized for this modeling error and will be available at our Board Meeting this Thursday to answer any questions you may have.

Fyi, staff will update our Feb ICM minutes draft to reflect this change under the CMA presentation information item.

Please advise if you have any questions.

Thanks and best regards,
bt

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

FEBRUARY 2022

2022 Capital Market Assumptions Review (Revised slides only)

Alameda County Employees Retirement Association

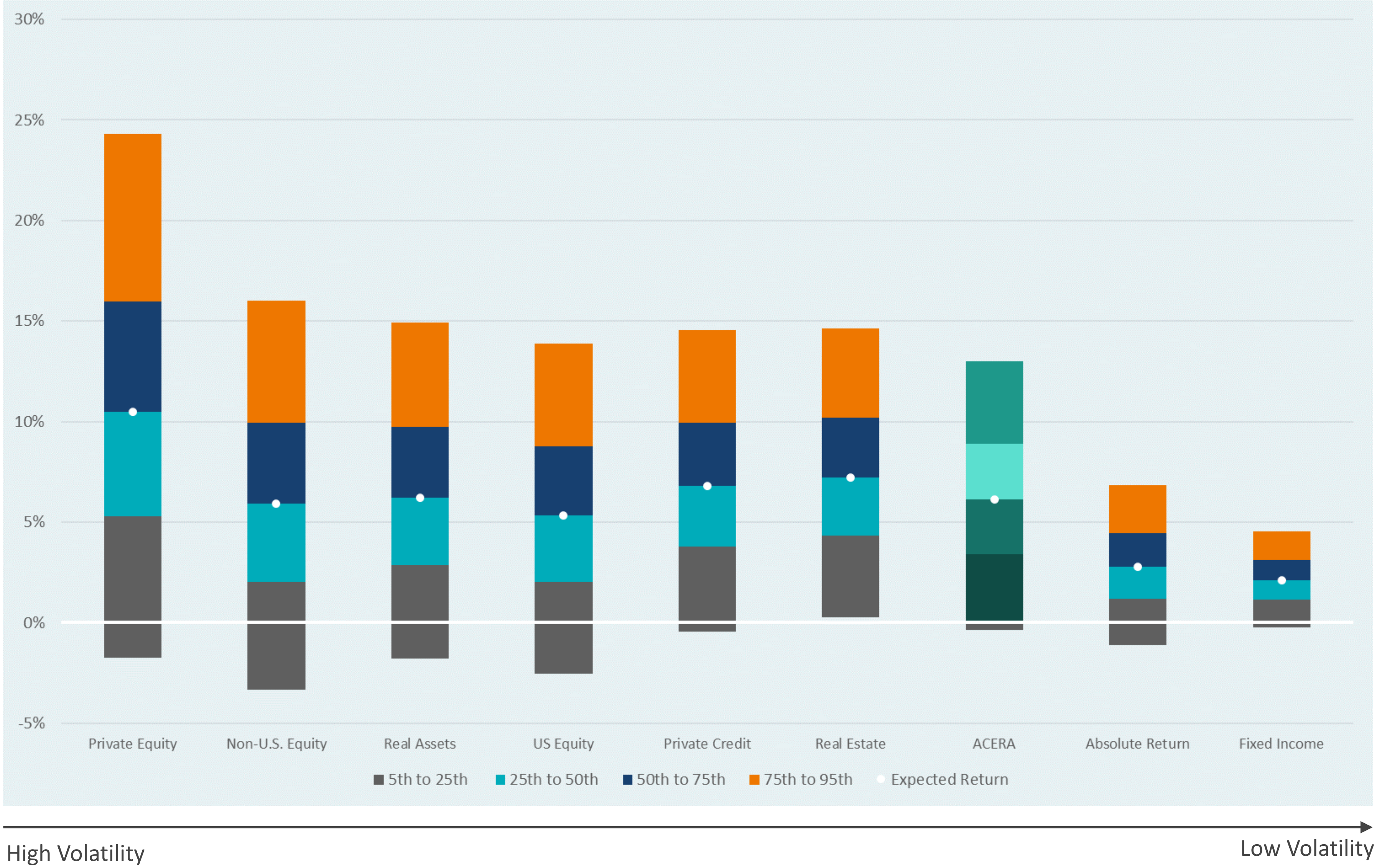
10-year expected return & risk assumptions

Asset Class	Index Proxy	Target Weight	Return Forecast	Standard Deviation Forecast
Equities				
US Equity	Custom*	24.0%	5.4%	16.0%
Non-U.S. Equities	Custom*	24.0%	5.9%	19.0%
Private Equity	Cambridge US Private Equity	11.0%	10.5%	26.0%
Fixed Income				
Fixed Income	Custom*	14.0%	2.1%	4.6%
Private Credit	S&P LSTA Leveraged Loan Index	4.0%	6.8%	14.6%
Other				
Real Estate	NCREIF Property	9.0%	7.2%	14.0%
Absolute Return	HFRI Fund of Funds Composite	8.0%	2.8%	7.7%
Real Assets	Custom*	6.0%	6.2%	16.3%
Inflation			2.5%	-
Total Portfolio	**Custom***		**6.1%**	**13.0%**

** Approved asset allocation policy June 2021. For further detail on index construction, please see appendix, slide 30.*

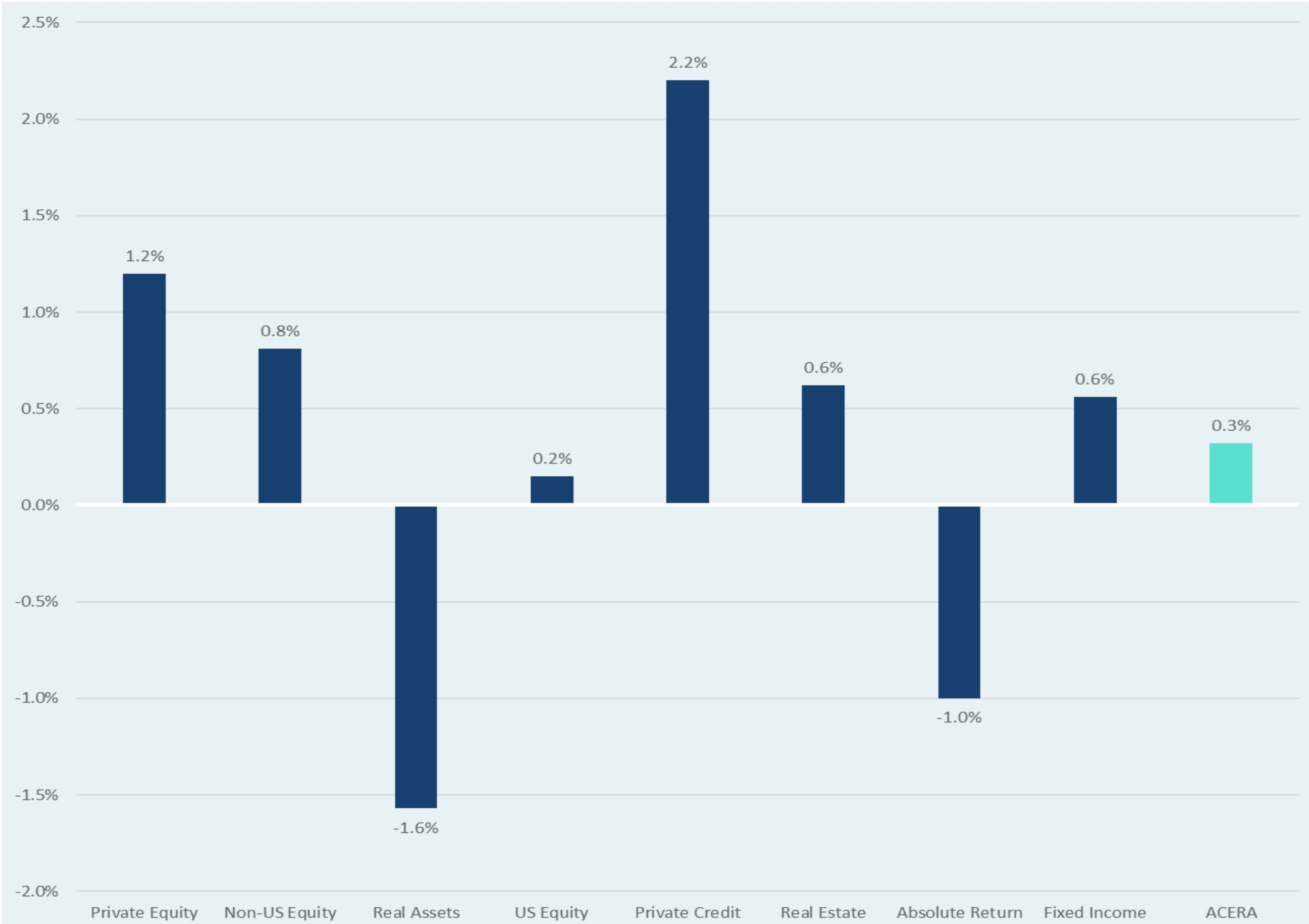
Range of likely 10-year outcomes

10-YEAR RETURN 90% CONFIDENCE INTERVAL



Source: Verus, MPI

2022 vs. 2021 return forecast



Source: Verus, as of 9/30/21

Summary

- Setting ACERA's asset allocation policy is most important fiduciary decision ACERA Board makes; thus, annual review is warranted
  - — asset allocation policy drives 90+% of total fund return and risk experience
  - — best practice for public funds is annual asset allocation policy review to understand how capital market assumption changes may affect total fund expected return and risk in between asset allocation and asset/liability studies
- Changes in Verus' capital market assumptions from 2021 to 2022 produce an updated long-term policy expected return of 6.1% versus 5.8%, which is 30 basis points higher
  - — Principally, increased assumptions driven by higher actual and expected yields
  - — Expected risk assumptions tend to be fairly static; there is no meaningful change in expected total fund risk from 2021
- Given the changes to ACERA asset allocation policy adopted by Board in 2021, no additional revisions to this policy are warranted at this time
  - — ACERA investment policy articulates asset allocation policy will be revisited every 3 years to determine whether changes are warranted given trends in capital markets