



MINUTES OF THE JUNE 14, 2023, INVESTMENT COMMITTEE MEETING

To: Members of the Board of Retirement
From: Tarrell Gamble – Chair
Subject: Summary of June 14, 2023 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, June 14, 2023 at 9:32 a.m. The Committee members present were, Keith Carson, Ross Clippinger, Tarrell Gamble, Jaime Godfrey, Henry Levy, Elizabeth Rogers, Kellie Simon, and George Wood. Also present were Alternate General Member Cynthia Baron and Alternate Safety Member Kevin Bryant. ACERA Senior Managers and Presenting Staff present were, Carlos Barrios – Assistant Chief Executive Officer, Jeff Rieger – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, Serafin Lim – Investment Operations Officer, Julius Cuaresma – Investment Analyst, Clint Kuboyama – Investment Officer, Noe Reynoso – Investment Analyst and John Ta – Investment Officer.

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

1. Discussion of and Possible Motion to Recommend to the Board to Approve the Finalists for ACERA’s General Investment Consultant (GIC) Search
 - Staff recommended that the Committee approve three finalists based on score totals achieved on the Board Approved GIC RFP Search and Evaluation Criteria (in alphabetical order).
 - (1) Aon
 - (2) Meketa Investment Group, Inc. (“Meketa”)
 - (3) NEPC, LLC (“NEPC”)
 - Staff and RFP Consultant Valter Viola (Cortex Consulting) discussed the revenue model of those finalists that earn fees on recommending sponsored and/or managed funds. Some trustees questioned why candidates with such a revenue model could have achieved such high scores. Staff and Cortex stated that all candidates were evaluated in compliance with the current Board-approved Search and Evaluation Criteria which, unlike the previous RFP Search, do not include a stand-alone “Firm Independence” Evaluation category.
 - Some trustees raised concerns about the number of cases listed in Aon’s litigation section and the significant objections to ACERA’s Consultant Service Agreement standards. These trustees did not view Aon as a good fit for ACERA. Several trustees proposed an alternate

recommendation to replace Aon with Callan and Verus as the third and fourth finalists, respectively.

- As a follow-up Information Item for the July ICM, the IC Chair requested that Staff provide a comparison of the strengths and weaknesses for all four finalists, including Callan and Verus. The comparison contained in the June ICM packet did not include Callan and Verus since these two candidates had scored fourth and fifth in total score rankings. The Committee also requested an updated score of the “Performance” category of the Evaluation for each of the four finalists in order to factor in their most current performance results of 2022.
 - After further discussion, Trustee Godfrey moved, seconded by Trustee Wood, to recommend that the Board approve a modified Staff recommendation and interview the following four finalists: Callan, Meketa, NEPC, and Verus (in alphabetical order) for ACERA’s General Investment Consultant (GIC) Search.
 - The motion carried with 6 Yes (Clippinger, Godfrey, Levy, Rogers, Simon, and Wood), 1 No (Gamble), and 0 Abstention.
2. Discussion of and Possible Motion to Recommend to the Board the Minimum Qualifications and Scoring Matrix for the Emerging Markets Equity Manager Search
- Staff and Verus provided the background and rationale for the recommended Emerging Market (EM) Equity Manager Search. This included a brief summary of the February and April 2022 Committee Meetings: the Board approved a Modified International Equity Structure (“Modified Structure”) and, to effect this new Structure, the Board approved a Phased Implementation Transition Plan (“Plan”). This Plan’s next step involves adding an EM Equity Manager through the RFI Search process: Staff’s and Verus’ recommended Minimum Qualifications (“MQs”) and Scoring Matrix are designed to produce a Focused Search list of Managers who, at the minimum, are able to meet the objectives of the recent Board-approved Modified Structure.
 - Verus shared more information regarding the due diligence involved in this RFI Search, including the recommended MQs and Scoring Matrix.
 - Trustee Gamble and Verus further discussed the MQs, including those MQs about minimum Firm/Strategy AUM and minimum number of Performance Track Record periods.
 - Trustee Clippinger, Trustee Gamble, Verus, and Staff, additionally discussed the Scoring Matrix, particularly as it relates to the scoring for each subsection within the Scoring Matrix. Trustee Clippinger requested Staff and Verus provide the IC the scoring to be applied to the individual scoring criteria within the matrix.

- After further discussion, Trustee Godfrey moved, seconded by Trustee Clippinger, to recommend that the Board approve the minimum qualifications and scoring matrix for the Emerging Markets Equity Manager Search.
- The motion carried unanimously with Yes 7 (Carson, Clippinger, Gamble, Godfrey, Rogers, Simon, and Wood), 0 No, and 0 Abstention.

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

1. Semiannual Performance Review for the Period Ending March 31, 2023 – Total Fund Review Highlighting Public Markets Asset Classes and Absolute Return

- Verus provided their Total Fund Review presentation. Trustees, Staff and Verus also discussed the managers on ACERA's Watchlist, the Watchlist process, and the ongoing monitoring of managers. Peer rankings and the return dispersion of managers at various peer percentile rankings were also discussed. Staff and Verus communicated they would follow up with return dispersion information to the Trustees. Potential changes to the Watchlist process and the relevant policy language were also discussed.
- For the 6-month period ending 03/31/2023, ACERA's Total Fund returned 10.06% net, compared to the Policy Index return of 9.90%. For the year ending 03/31/2023, the Total Fund returned -4.68% net compared to the Policy Index of -5.11%. The Total Fund's net results ranked in the 38th and 63rd percentile for the semi-annual and one year periods, respectively.
- Specific to equities, the U.S. Equity asset class returned 14.79% net (vs. its benchmark return of 14.88%) and -8.65% net (vs. its benchmark return of -8.58%) for the 6-month and 1-year periods ending 03/31/2023, respectively. The International Equity asset class returned 23.85% net (vs. its benchmark 21.88%) and -3.98% net (vs. its benchmark -5.34%) for the 6-month and 1-year periods ending 03/31/2023, respectively.
- Specific to Fixed Income, the asset class return was 6.16% net (vs. its benchmark return of 6.03%) and -5.35% net (vs. its benchmark return of -5.86%) for the 6-month and 1-year periods ending 03/31/2023, respectively.
- Specific to the Absolute Return asset class, the 6-month and 1-year returns for the periods ending 03/31/2023 were -0.99% net (vs. its benchmark return of 2.45%) and 4.15% net (vs. its benchmark return of -1.93%), respectively.
- As of 03/31/2023, the market value of the Total Fund was \$10,652,550,193.

2. Semiannual Performance Review for the Period Ending December 31, 2022 – Private Equity

- Verus provided a review of ACERA's Private Equity portfolio for the period ending 12/31/2022. General market commentary was provided along with an overview of the Private Equity portfolio performance and diversification.
 - Since ACERA's Private Equity portfolio inception in 2008, it has outperformed the Russell 3000 by 3.37% as of 12/31/2022. As of 12/31/2022 the Private Equity Portfolio had a total market value of \$1.0 billion, which represented 9.8% of the Total Fund in comparison to its 11.0% asset class target. For the one-year period ending 12/31/2022, the Private Equity Portfolio returned a net IRR of -4.34% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of -6.40%. For the three-year period ending 12/31/22, ACERA's Private Equity Portfolio returned a net IRR of 20.66% vs the Thomson Reuters C|A Global All Private Equity Benchmark net IRR of 17.71%.
3. Semiannual Performance Review for the Period Ending December 31, 2022 – Private Credit
- Verus provided an overview of the Private Credit Asset Class's performance. As of 12/31/2022, the Private Credit Portfolio had a total market value of \$265.4 million which represented 2.6% of the Total Fund (asset-class target is 4.0%). Since the Private Credit Portfolio's inception through 12/31/2022, the Portfolio's net IRR was 6.76%, 5.26% above the same cash flows invested in the S&P LSTA US Leveraged Loan 100 Index.
4. Semiannual Performance Review for the Period Ending December 31, 2022 – Real Assets
- Verus discussed the market environment for real assets investments and the performance of the Real Assets Portfolio. As of 12/31/2022, the Real Assets Asset Class had a total market value of \$625.17 million, representing about 6.0% of ACERA's Total Fund (asset-class target is 6.0%). For the one-year period ending 12/31/2022, the Real Assets Portfolio produced an 8.19% net IRR versus its blended benchmark (60% S&P Global Infrastructure Index/35% Global LargeMidCap Commodity and Resources Index/5% Bloomberg Commodity Index) return of 5.87%. For the three-year period ending 12/31/2022, ACERA's Real Assets Portfolio's net IRR was 9.55% net versus its blended benchmark return of 7.14%.

PUBLIC INPUT:

A representative from the Laborers' International Union of North America (LiUNA) spoke regarding Tiger Infrastructure Partners Fund III, and its investment in the Summit Carbon Solutions' carbon capture pipeline project. While she communicated that her organization generally supports the project, she expressed her organization's concern that, amongst other things, employment on the project was going to non-union, out-of-state workers instead of local union workers currently working in the fossil-fuels industry. She requested contact information for ACERA and was provided an email address allinvestments@acera.org to contact staff. The IC Chair thanked her for her comments and communicated that the Board will take her comments into consideration once she provided additional material for the Board to review.

FUTURE DISCUSSION ITEMS

Investment Committee Meeting Minutes
June 14, 2023

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, July 12, 2023

ADJOURNMENT

The meeting ended at 12:53 p.m.