



MINUTES OF THE JULY 12, 2023, INVESTMENT COMMITTEE MEETING

To: Members of the Board of Retirement
From: Tarrell Gamble – Chair
Subject: Summary of July 12, 2023 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, July 12, 2023 at 9:32 a.m. The Committee members present were, Ophelia Basgal, Ross Clippinger, Tarrell Gamble, Jaime Godfrey, Elizabeth Rogers, Kellie Simon, and George Wood. Also present was Alternate Safety Member Kevin Bryant. ACERA Senior Managers and Presenting Staff present were, David Nelsen – Chief Executive Officer, Carlos Barrios – Assistant Chief Executive Officer (via zoom), Lisa Johnson – Assistant Chief Executive Officer (via zoom), Jeff Rieger – Chief Counsel, Harsh Jadhav – Chief of Internal Audit (via zoom), Betty Tse – Chief Investment Officer, Serafin Lim – Investment Operations Officer, Clint Kuboyama – Investment Officer, John Ta – Investment Officer, Noe Reynoso – Investment Analyst

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

1. Discussion of and Possible Motion to Recommend that the Board Approve an up to \$30 million Investment in LS Power Equity Partners V as part of ACERA’s Real Assets Portfolio – Infrastructure³, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations
 - Staff and Verus provided the investment rationale for LS Power Equity Partners Fund IV (“Fund”) and discussed its returns and investments with the Trustees.
 - Representatives from LS Power discussed the Firm’s organization, DE&I initiatives, and history. They outlined the evolution of their investments from traditional power generation to renewable generation and energy transition investments as the US power industry has evolved over time. The Fund’s strategy, investment profile, investment opportunities, and potential investment exits were also discussed.
 - The broader energy markets including nuclear power generation, the supply of minerals used in battery storage, and political and regulatory risks associated with the strategy were also discussed.
 - Trustee Basgal asked LS Power to notify the Trustees of any change in the Firm’s DE&I policies going forward and the representative from LS Power agreed to do so.
 - After further discussion, Trustee Basgal moved, seconded by Trustee Godfrey, to recommend that the Board approve an up to \$30 million commitment to LS Power Equity Partners V as part of ACERA’s Real Assets Portfolio Infrastructure, pending completion of legal and investment due diligence and successful contract negotiation.
 - The motion carried unanimously with 7 Yes (Basgal, Clippinger, Gamble, Godfrey, Rogers, Simon, and Wood), 0 No, and 0 Abstention.

Discussion of and Possible Motion to Recommend that the Board Approve an up to \$80 million Investment in Ares Senior Direct Lending Fund III (“Fund”) as part of ACERA’s Private Credit Portfolio³, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations

- Staff provided the rationale for the investment recommendation and discussed with the Trustees the headline risks associated with Ares’ minority investment in Front Yard Residential (“Front Yard”). Staff noted that Front Yard is not associated with ACERA’s existing investment in Ares Senior Direct Lending Fund II and won’t be associated with the recommended Fund. Manager concentration risks within ACERA’s Private Credit Portfolio related to increasing ACERA’s exposure to Ares were also discussed.
- Representatives from Ares discussed Ares’ minority ownership (about 35%) in Front Yard, as well as the investment thesis for this investment, specifically to improve the property management of, and invest capital in, Front Yard’s single-family-home properties. Representatives discussed the progress made with Front Yard to date, e.g, the complete property-management transition from Front Yard’s legacy property manager to Progress Residential in the third quarter of 2022, investments in renovations to the Front Yard properties, etc. Representatives also discussed the communication Ares has with majority owner Pretium Partners to ensure Pretium is doing the right thing.
- Representatives from Ares provided an overview of their Firm and its competitive advantages, as well as the Fund’s strategy. Following a review of Ares DE&I initiatives, Trustee Basgal requested that Ares notify the Trustees should its DE&I policies change. The Ares representative communicated that there is no plan to change Ares’ DE&I policies and that Ares will notify the Trustees should this happen.
- Ares representatives also discussed the expected crossover in investment holdings (30%) between Ares Senior Direct Lending Funds II and III, the low average position size, historical returns, capital deployment, and the investment profile of the strategy. The attractiveness of the strategy’s current investment environment was also discussed.
- Staff and Verus discussed aspects of the ACERA investment in Ares Senior Direct Lending Fund II and also aspects of the ACERA investment in Ares Senior Direct Lending Fund III. Potentially changing the Private Credit Investment Policy to address these risks was also discussed. The headline risks related to ACERA’s relationship with Ares due to Ares’ minority investment in Front Yard Residential was further discussed. Staff offered to continue to monitor the Front Yard situation as Staff completed investment and legal due diligence on the recommended Fund.
- After further discussion, Trustee Rogers moved, seconded by Trustee Simon, to recommend that the Board approve an up to \$80 million commitment in Ares Senior Direct Lending Fund III as part of ACERA’s Private Credit Portfolio, pending completion of legal and investment due diligence and successful contract negotiation.
- The motion carried unanimously with 7 Yes (Basgal, 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. Emerging Markets Equity Search Evaluation Criteria Detail Follow-Up

- Staff and Verus provided an update on the Emerging Markets Equity Search Evaluation Criteria as requested by the Trustees at the June 14th Investment Committee meeting. This update included a breakdown of the scoring matrix and the number of points assigned to each of the evaluation criteria.

2. General Investment Consultant (GIC) Search RFP Follow-up

- Staff presented a follow-up memo that covered Trustees' questions from the June Investment Committee meeting. Staff provided further information on the four Finalists, which included 2022 Performance results and Strengths and Weaknesses.
- Staff also shared that the ICM Workplan was updated to bring the four Finalists in for their interviews in the September 6th Investment Committee meeting.

PUBLIC INPUT:

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, August 9, 2023

ADJOURNMENT

The meeting ended at 12:13 p.m.