



MINUTES OF THE AUGUST 10, 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 August 10, 2022, Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, August 10, 2022, at 9:31 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Kellie Simon, and George Wood. Also present was Alternate Safety Member Darryl Walker. ACERA Senior Managers and Presenting Staff present were Betty Tse – Chief Investment Officer, Jeff Rieger – Chief Counsel, Vijay Jagar – Chief Technology Officer, Harsh Jadhav – Chief of Internal Audit, Thomas Taylor – Investment Officer, Serafin Lim – Investment Operations Officer, and Julius Cuaresma – Investment Analyst.

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

There were no action items.

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, 2022 – Real Estate
 - For the last 6-months ending 03/31/2022, ACERA’s Real Estate portfolio had a net return of 14.46%, underperforming the NFI-ODCE benchmark return of 15.34%.
 - For the trailing 1-year period, ACERA’s Real Estate portfolio had a net return of 27.54% outperforming the NFI-ODCE benchmark return of 27.26%.
 - For the trailing 3-year period, ACERA’s Real Estate portfolio had a net return of 11.62%, outperforming the benchmark return of 10.30%.
 - For the year ending 03/31/2022, ACERA’s Real Estate portfolio was valued at \$800.0 million, representing 7.00% of the Total Fund. The Real Estate Market Value and Unfunded Commitment as of that date were \$849.8 million, representing 7.16%.
 - Callan discussed the highlights of ACERA’s real estate portfolio. The Industrial and Multifamily property types continue to perform well while Retail and Office continue to lag. These trends had been developing since before 2020, but were exacerbated by the

Covid pandemic. The Lion Industrial Trust, ACERA's largest real estate position, was once again the strongest performer. Jamestown Premier Property Fund, one of ACERA's smallest real estate positions, was the largest detractor. The ACERA Core Portfolio underperformed the NFI-ODCE Value Weighted Index (Net) by 8 bps for the half-year ending 03/31/2022. ACERA's Core holdings are underweight its policy target and have underperformed. Callan hopes to bring forward recommendations to enhance the Core sub-asset class.

2. Semiannual Performance Review for the Period Ending March 31, 2022 – Total Fund Review Highlighting Public Markets Asset Classes and Absolute Return

- For the 6-month period ending 03/31/2022, ACERA's Total Fund returned 0.48% net, compared to the Policy Index return of 1.94%. For the year ending 03/31/2022, the Total Fund returned 7.62% net compared to the Policy Index of 8.43%. The Total Fund's results ranked in the 49th and 48th percentile for the semi-annual and one year periods, respectively.
- Specific to equities, the U.S. Equity asset class was net 2.62% and net 11.43% for the 6-month and 1-year periods ending 03/31/2022, respectively. The International Equity asset class was net -8.08% and net -5.14% for 6-month and 1-year periods ending 03/31/2022, respectively.
- Specific to Fixed Income, the asset class return was -5.98% net and -4.04% net for the 6-month and 1-year periods ending 03/31/2022, respectively.
- Specific to the Absolute Return asset class, the 6-month and 1-year returns for the periods ending 3/31/2022 were 4.77% net and 12.03% net, respectively.
- As of 3/31/2022, the market value of the Total Fund was \$11,437,202,296.
- Verus discussed the influences of GDP, interest rates, and inflation. The U.S. economy was stronger and fared better than many international economies. U.S. unemployment continued to fall, improving from 3.9% to 3.6%. Value stocks outperformed Growth stocks by a substantial margin during Q1 (Russell 1000 Value -0.7% vs Russell 1000 Growth -9.0%) as Growth stocks fell sharply, reversing the gains delivered in the second half of 2021. Main source of value-add for the ACERA portfolio was Absolute Return and Private Equities. Selection effect in International Equity was a material detractor. In the coming months, Verus plans to revisit the manager structure of the international asset class.

3. Status Update for the Rebalancing Consultant Services

- Staff and Verus discussed the ongoing steps Staff is taking to possibly move the Total Fund rebalancing function from Doug McCalla and his company, Optimum Portfolio Rebalancing to an institutional provider, Parametric. McCalla is a sole proprietor; Parametric provides a cash overlay service for ACERA's Unallocated Cash Account. CIO Betty Tse said that Parametric would provide the same rebalancing services as McCalla at

no additional costs. Several Trustees voiced their comfort with McCalla and asked if he was retiring. Doug McCalla, stated that he will do what is best for ACERA in helping staff with any transition; however, he plans to work for 5-10 more years and is considering hiring an assistant and/or provide Parametric with his dynamic system. Staff plans to do more diligence on Parametric's capabilities.

4. RFP for a General Investment Consultant

- As the initial term of the Verus contract with ACERA expires in 2023, Staff is contemplating a potential RFP. The goal of the RFP is to identify the best General Investment Consultant capable of serving the growing needs of ACERA's Total Fund.
- Staff will again consider working with an independent search consultant, such as Cortex, to ensure efficiency and transparency.
- Staff plans to present this RFP topic as an Action Item for the ACERA Investment Committee at the next IC meeting.

TRUSTEE REMARKS:

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, September 14, 2022

ADJOURNMENT

The meeting ended at 11:31 a.m.