



MINUTES OF THE SEPTEMBER 6, 2023, INVESTMENT COMMITTEE MEETING

To: Members of the Board of Retirement
From: Tarrell Gamble – Chair
Subject: Summary of September 6, 2023 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, September 6, 2023 at 9:40 a.m. The Committee members present were, Ophelia Basgal, Keith Carson, Ross Clippinger, Tarrell Gamble, Jaime Godfrey, Henry Levy, Kellie Simon, and George Wood. Also present were Alternate Retired Member Cynthia Baron and Alternate Safety Member Kevin Bryant. ACERA Senior Managers and Presenting Staff present were, David Nelsen – Chief Executive Officer, Lisa Johnson – Assistant Chief Executive Officer (via zoom), Jeff Rieger – Chief Counsel, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, Serafin Lim – Investment Operations Officer, Clint Kuboyama – Investment Officer, John Ta – Investment Officer, Julius Cuaresma – Investment Analyst, Noe Reynoso – Investment Analyst, and Agnes Ducanes – Administrative Specialist II

At the outset of the Committee meeting, the IC Chair expressed his disappointment over the Staff’s decision to reduce the distribution frequency of certain non-agendized Informational Reports from quarterly to annually (e.g., Directed Brokerage Report, Securities Lending Report, etc.). Staff apologized and agreed to resume the quarterly distribution cycles per the Chair’s request.

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

1. Interview of ACERA’s General Investment Consultant Finalists and Possible Motion to Recommend a Finalist or multiple Finalists to the Board
 - On June 15, 2023, the Board of Retirement approved four finalists - Callan, Meketa, NEPC, and Verus (in alphabetical order) - for ACERA’s General Investment Consultant (GIC) Search. After onsite due diligence conducted in July and August, Staff recommended NEPC, the highest scoring consultant, for the GIC mandate. Staff also recommended that the Board vote for an Alternative GIC from the other finalists, in the event that any significant issues arise with the top scorer (NEPC) during final investment-legal due diligence efforts or the parties’ contract negotiations.
 - Each of the four Finalists presented its organization, investment philosophy, teams, processes and performance. They also explained their revenue models, fee proposals and DEI efforts. Below are more detailed highlights from each of the four Finalists’ presentations and their responses to Committee questions:

Verus – 10:25am to 11:15am

- The Verus representative who presented were Joe Abdou, Samantha Grant, Shelly Heier, Jeff MacLean, Eileen Neill, John Nicolini, and Faraz Shooshani.
- Verus highlighted the addition of Jeff MacLean (CEO) as a Strategic Advisor to the proposed ACERA consulting team.
- Verus representatives emphasized their two-decade long partnership and investment performance track records with ACERA. They also discussed their approaches to advising clients on asset allocations, manager selections, and investment policies.
- Verus identified the four points they believe differentiate Verus from the other finalists, namely: 1) Verus Team; 2) optimal size; 3) independence; and 4) research.
- Verus also emphasized that they had helped ACERA achieve its goals, including diversifying the Total Fund's assets while maintaining a reasonable risk exposure to meet return requirements.

Meketa – 11:24am to 12:21pm

- The Meketa representatives who presented were Sarah Bernstein, Stephen McCourt, Maya Ortiz de Montellano, David Sancewich, and Eric White.
- Meketa opened its interview by offering Mika Malone, the proposed lead consultant who had participated in ACERA's previous GIC RFP search, as a strategic advisor to the current proposed consulting team.
- Meketa also disclosed that they are investigating a possible change to its current revenue model to include a managed/sponsored fund.
- Meketa highlighted their organizational strengths, public and private market research teams, investment process, strong client returns on a risk-adjusted net-of-fee basis, performance measurement and reporting, and the fact that they had the lowest fees proposal amongst all four Finalists.
- Meketa stated that it utilizes internal committees to formulate investment advice, support practice groups, and share best ideas to their clients.
- Meketa emphasized that, as a consulting firm, it listens to its clients and is responsive to client input. Meketa shared their high client retention rate.

NEPC – 12:30pm to 1:17pm

- The NEPC representatives who presented were Sam Austin, Rose Dean, Dan Hennessy, and Michael Manning.
- NEPC explained why they would be an ideal partner for ACERA with their 3-Rs themes: Responsiveness, Resources (a 71-person Research Team) and Robust ideas.
- NEPC discussed that their research functions are aligned with their client needs which include the same three core functions that are typically found in public funds like ACERA. These three core functions are Asset Allocation, Portfolio Construction and Investment Manager Research. Each of these three functions is staffed with experienced in-house experts. They cited their internal actuarial expertise as an example of this experience.
- NEPC highlighted the benefits of scale and leverage that it will bring to ACERA by stating that it has successfully negotiated lower fees with 124 investment management firms.
- NEPC expressed its passion for the consulting business and doing business with public funds such as ACERA. Its business is supported by over 350 employees.

Callan – 1:22pm to 2:21pm

- The Callan representatives who presented were James Callahan, Pete Keliuotis, Christopher Park, Claire Telleen, and Avery Robinson.
- Mr. Robinson, ACERA's current Real Estate Consultant from Callan, started the interview by reviewing the track record of ACERA's Real Estate (RE) portfolio. The IC Chair clarified that today's GIC interview was to focus on evaluating the four Finalists' capabilities on general investment advisory services, not on RE.
- Callan's proposed lead consultant began his remarks by highlighting Callan's culture which is built around collaboration and humility.
- Callan discussed that it brings together the advantages of a small firm together with the advantages of a large firm. The representatives further discussed that Callan has a strong alignment of interest with its clients and focuses on client service/client experience to deliver customized solutions. The Callan representatives also mentioned its deep, specialized, proprietary resources/research, and vast experience.
- The representatives also emphasized that Callan is a big believer of process and its client-focused consulting model in services ranging from strategic planning, asset allocation, plan implementation, monitoring and education.
- Callan's proposed lead consultant, also the President of Callan, pointed out that he always makes himself available to his clients despite his senior management role.

There were many questions from trustees ranging from available resources to the proposed fee discounts offered by two of the Finalists. Both Finalists who offered to lower their original fee proposals indicated that they did so because of their strong desire to do business with ACERA.

After further discussion, Trustee Basgal moved, seconded by Trustee Simon, to recommend that the Board select NEPC, LLC, as ACERA's General Investment Consultant pending completion of investment and legal due diligence, and successful contract negotiation.

The motion carried with 6 Yes (Baron, Basgal, Clippinger, Gamble, Simon and Wood), 2 No (Godfrey and Levy), and 0 Abstention. Supervisor Carson was not present at the time of the vote.

A second recommendation was made. Trustee Godfrey moved, seconded by Trustee Clippinger, to recommend that the Board select Meketa Investment Group as an alternative General Investment Consultant to NEPC, should significant issues arise with final investment-legal due diligence or contract negotiations with NEPC.

The motion carried with 6 Yes (Baron, Basgal, Clippinger, Godfrey, Levy, and Simon), 2 No (Gamble and Wood), and 0 Abstention. Supervisor Carson was not present at the time of the vote.

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

None

PUBLIC INPUT:

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, October 4, 2023

ADJOURNMENT

The meeting ended at 2:50 p.m.