



Date: January 10, 2018
To: Members of the Board of Retirement
From: Annette Cain-Darnes – Chair
George Wood – Vice-Chair
Subject: Summary of January 10, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, January 10 at 9:32 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Tarrell Gamble, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker and Alternate member Nancy Reilly. Members of the Staff present were Dave Nelsen – Chief Executive Officer, Kathy Foster – Asst. Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, Kathy Mount – Chief Counsel, and Betty Tse – Chief Investment Officer (CIO).

At the beginning of the Committee Meeting Trustee Caine-Darnes, Committee Chair requested that Trustee Wood conduct the Investment Committee Meeting.

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

The discussion of these items was changed by Trustee Wood (the acting Committee Chair), so that the Sycamore item was presented first and the Interview of ACERA’s General Investment Consultant Finalists was presented second. However, in these Minutes, the items will follow the order in the meeting agenda.

1. Interview of ACERA’s General Investment Consultant Finalists and Possible Motion by the Investment Committee to Recommend one Finalist to the Board

On December 6, 2017, the Board of Retirement approved a motion to select Meketa Investment Group (Meketa), NEPC LLC (NEPC), and Verus Advisory Inc. (Verus) as the short-listed candidates for ACERA’s General Investment Consultant Search. After the on-site due diligence conducted last month, Staff still considers Meketa, NEPC and Verus as the top three candidates and has recommended them to the Investment Committee for consideration as finalists in this General Investment Consultant Search.

The following are highlights from each of the three finalists’ presentations and their responses to the Committee’s questions:

Meketa

The Representatives from Meketa presenting were Mika Malone, Steve McCourt, and Paola Nealon. The following is a brief summary of their presentations:

- Meketa is a 100% employee-owned firm with 31 current owner-employees (Meketa has about 144 employees). General Investment Consulting is Meketa's primary focus with over 160 total clients representing \$590 billion in assets, including 42 public fund clients.
- Meketa works in a team approach and uses the Investor Force database, similar to that of ACERA's current general investment consultant. Meketa's research staff would be available to support ACERA's Trustees and Staff.
- Meketa went on to describe its approach to Investment Policy and Asset Allocation; Investment Manager Search and Selection; Client Service and Education; Investment Consulting Services relative to ACERA's Emerging Investment Manager Program; and Performance Monitoring and Reporting.
- Meketa emphasized its passion in serving its clients' needs for emerging managers.

NEPC

The Representatives from NEPC presenting were Carolyn Smith and Sam Austin. The following is a brief summary of their presentations:

- NEPC is a 100% employee-owned firm with 36 current owner-employees (NEPC has about 270 employees). General Investment Consulting is NEPC's primary focus with over 358 total institutional clients representing \$954 billion in assets, including 62 public fund clients.
- NEPC provides customized solutions to each of its clients, and indicated that Asset Allocation is a very important decision in the investment decision-making process.
- NEPC discussed its approach to advising clients, which includes its many resources; the number of employees dedicated solely to research (47); its high clients' satisfaction ratings in the Greenwich Quality Survey (where it has ranked in the top three for 11 of the last 13 years); NEPC's Investment Philosophy and Asset Allocation Approach; and its key Market Themes and Current Market Opportunities.
- NEPC also shared its views on ACERA's current portfolio and provided a sample of portfolio construction that may provide expected lower risk and higher returns over a 5 to 7 year and a 30-year timeframes.

Verus

The Representatives from Verus presenting were Barry Dennis, Margaret Jadallah, and Faraz Shooshani. The following is a brief summary of their presentations:

- Verus is a 100% employee-owned firm with 19 current owner-employees (Verus has about 83 employees). General Investment Consulting is Verus's primary focus with over 147 total clients representing \$353 billion in assets, including 20 public fund clients.
- A representative from Verus discussed his belief in managing the good intentions of human nature and avoid doing stupid things. Namely, 1) Don't churn or hire too many fund managers, 2) Build consensus decisions, 3) Be smart about fees, and 4) Build trust which is an important component of any relationship.
- Verus also went on to describe its approach to Investment Policy and Asset Allocation; Investment Manager Search, Manager Selection and Review; Client Service and Education; and Performance Monitoring and Reporting.

During the presentations, one of the Trustees requested that each candidate explain why its fee proposals were increasing, rather than staying flat. The responses from the consultants ranged from keeping up with inflation to providing additional services to help manage an increasingly complex portfolio for ACERA.

- After further discussion, Ms. Elizabeth Rogers moved, seconded by Ms. Annette Cain – Darnes to recommend to the Board Verus Advisory, Inc. as ACERA's General Investment Consultant pending completion of legal due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 8 yes (Basgal, Cain-Darnes, Gamble, Koppenhaver, Levy, Rogers, Walker, and Wood), 0 no, and 0 abstention.
2. Discussion and Possible Motion to Recommend to the Board to Adopt an up to \$44 million Investment in Sycamore Partners III, L.P. as part of ACERA's Private Equity Investment Portfolio – Buyouts
- A representative from Sycamore explained its investment philosophy, strategy, process and objectives of Fund III. Sycamore has been managing its funds under the name strategy and team since Fund I. Sycamore explained the current market environment for consumer retail companies as well as the associated opportunities and challenges.
 - After further discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to Adopt an up to \$44 million Investment in Sycamore Partners III, L.P. as part of ACERA's Private Equity Investment Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 8 yes (Amaral, Basgal, Cain-Darnes, Gamble, Koppenhaver, Levy, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Proposed Investment Committee Workplan for 2018

- This item will be rescheduled as an information item at the February 14, 2018 Investment Committee meeting.

Recommendations:

- The Committee recommends, and I move, that the Board select Verus Advisory, Inc. as ACERA's General Investment Consultant pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Adopt an up to \$44 million Investment in Sycamore Partners III, L.P. as part of ACERA's Private Equity Investment Portfolio pending completion of legal due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, February 14, 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 1:17 p.m.