



Date: January 11, 2017
To: Members of the Board of Retirement
From: George Wood - Chair
Subject: **Summary of January 11, 2017 Investment Committee Meeting**

The Investment Committee met on Wednesday, January 11, 2017 at 9:34 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Nancy Reilly, Elizabeth Rogers, Donald White, and George Wood. Members of the Staff present were David Nelsen – Chief Executive Officer, Kathy Foster – Assistant Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, and Susan Weiss – Associate Counsel.

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

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA's PEARLS Portfolio – Buyouts and Venture Capital
 - Staff and Verus recommended committing up to \$50 million to Great Hill Equity Partners VI (GHEP VI). They highlighted the fund track records and many favorable considerations for this recommendation. The Trustees asked questions about the fee-waiver practice of Great Hill Partners (GHP or Manager) and its growth-equity (buyout/venture capital) strategy. Staff and Verus answered the questions by referring to the GHP materials in the ICM Distribution. Staff also confirmed that GHP's growth-equity strategy is in compliance with ACERA's PEARLS Policy and Investment Plan.
 - The Trustees also inquired about AB 2833 and the effect it would have on ACERA's PEARLS investments. Staff explained that the new law requires ACERA to report more detailed fee, expense, and return information for PEARLS Investments. ACERA has included this new requirement in its contracts as of January 1, 2017 (the date the law took effect.)
 - A representative from Great Hill Partners presented to the Committee the background, philosophy, strategy, investment process, and investment team of the Manager's fund. The representative discussed the GHP's diversified approach, extensive research, and exhaustive due diligence effort prior to making an investment. GHP focuses on a growth equity strategy to create value and build great businesses when acquiring control positions in middle market companies. These companies typically have some element of complexity that requires the unique experience of GHP team to maximize the value of the given portfolio company. Using the performance records of prior funds, the representative illustrated GHP's ability to



deliver strong returns to investors by successfully transforming and selling multiple businesses.

- ACERA is currently invested in Great Hill Equity Partners IV and Great Hill Equity Partners V. Great Hill Partners is a manager in good standing and will continue the same successful strategy in GHEP VI.
 - After further questions, answers, and discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Elizabeth Rogers, to recommend to the Board to adopt an up to \$50.0 million commitment to Great Hill Equity Partners VI, L.P., pending completion of legal due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 8 yes (Amaral, Basgal, Cain-Darnes, Carson, Koppenhaver, Rogers, White, and Wood), 0 no, and 1 abstention (Gamble).
2. Discussion of and Possible Motion to Recommend to the Board to Adopt the Proposed timeline, search criteria, and evaluation matrix for ACERA's Emerging Markets Manager Search – International Equities
- Staff presented the proposed timeline, set of search criteria (minimum qualifications), and evaluation matrix for the International Emerging Markets Equity Fund Manager RFP. The Committee discussed whether proper consideration could be given to having more than one Emerging Markets manager, if appropriate. Verus commented that the benefits of hiring one manager are: 1) one manager was modeled in the asset allocation and was already approved by the Board, 2) lower fees, 3) less time and cost to monitor, and 4) one manager reduces the probability of investments overlap.
 - After discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Dale Amaral, to recommend to the Board to adopt the proposed timeline, search criteria, and evaluation matrix for ACERA's International Emerging Markets Equity Fund Manager Search as proposed by Staff.
 - The motion carried with 9 yes (Amaral, Basgal, Cain-Darnes, Carson, Gamble, Koppenhaver, Rogers, White, and Wood), 0 no, and 0 abstention.

INFORMATION ITEM

1. Proposed Investment Workplan

- Staff offered the proposed Investment Committee Workplan for 2017 (Workplan) and highlighted examples of items in the workplan (e.g., the Hiring of a General Investment



Consultant, Passive Index Fund Manager, and Emerging Markets Fund Manager). Staff mentioned that the Workplan is a working document to which additional items such as reviews of U.S. Equity Manager Structure, and Emerging Managers Structure may be added.

Recommendations

- The Committee recommends, and I move, that the Board adopt an investment of up to \$50 million in the Great Hill Equity Partners VI pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board adopt the proposed timeline, search criteria, and evaluation matrix for ACERA's International Emerging Markets Equity Fund Manager Search.

TRUSTEE/PUBLIC INPUT

- Betty Tse, Chief Investment Officer, welcomed Trustee Nancy Reilly to the Investment Committee.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

February 8, 2017 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 11:01 a.m.