



Date: February 8, 2017  
To: Members of the Board of Retirement  
From: Annette Cain-Darnes - Chair  
**Subject: Summary of February 8, 2017 Investment Committee Meeting**

The Investment Committee met on Wednesday, February 8, 2017 at 9:33 a.m. The Committee members present were Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, and Liz Koppenhaver. Also present were Alternate member Nancy Reilly and Alternate Safety member Darryl Walker. Members of the Staff present were David Nelsen – 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**

There were no action items for discussion.

**INFORMATION ITEM**

1. 2017 Capital Market Assumptions

- Three representatives from Verus Advisory, Inc. (Verus) discussed, on a preliminary basis, the 10 year return and risk assumptions that will form the basis for their upcoming Review and Discussion of Capital Market Conditions – 2017, to be presented to the Committee in March, 2017. Most of the 10-year returns forecasted for equities, fixed income, and other asset classes are expected to decline from previous forecasts.
- The representatives highlighted several market movements during 2016, such as the increase of federal fund rate that will impact the range of likely 10-year investment outcome. As an example, the representative noted that a strong US equity market had stretched equity valuations and could provide a headwind to domestic equities moving forward.
- The representatives explained the rationale for the use of geometric returns (industry standard) instead of arithmetic return forecast, and the fundamental role played by inflation forecasts as a building block for commodity, interest rate, and dividend forecasts in this discussion.

2. Review of Heitman America Real Estate Trust and Value Partners II – Real Estate

- A Heitman representative discussed the company's investment philosophy and provided an overview of the funds – Heitman America Real Estate Trust (HART) and Value Partners II (HVP II) in which ACERA is invested. For 1-year trailing period ending 9/30/16, HART had a distribution of \$1.7 million to ACERA with a net return of 8.9%. Since inception, HART has returned 11.7% net.



- Trustees discussed and the representative emphasized that Heitman expects a moderation in investment returns for HART as the real estate market approaches a more normalized investment environment.
- Heitman Value Partners II (HVP II) is in the final stages of disposition and had one more property to liquidate as of December 31, 2016. For its vintage (2007), HVP II has been a top-quartile performer. For the 1-year trailing period ending 9/30/16, HVP II had a net return of 18.2%. Since inception, ACERA has invested \$24.1 million and received cumulative distributions of \$34.5 million, leaving a remaining market value of \$0.8 million and a net return of 3.1%.

### 3. Review of UBS Trumbull Property Fund – Real Estate

- Representatives from UBS Realty Investors, LLC presented to the Committee the strategy of the UBS Trumbull Property Fund (“Fund”), its unique use of a broader, UBS-created investable universe benchmark (compared to the NFI-ODCE), income orientation, low leverage, and historical performance since the Fund’s inception.
- For the one-year period ending 12/31/2016, the Fund returned \$1.4 million in distributions and posted a 6.0% net return. Since ACERA invested in July 2014, the Fund has returned \$2.9 million in distributions and has generated a 9.5% net IRR. The Fund has underperformed the NFI-ODCE (ACERA’s Real Estate policy benchmark for this asset class) since inception and has been placed on Watchlist.
- The Committee and the representatives discussed the consistent nature of their investment strategy (including the lower use of leverage vs. ODCE), the tactical investment approaches that have been executed to capitalize on different market opportunities at different times, and the expected moderation of the Fund’s returns as the real estate market proceeds to a normalized investment environment following several years of above-average returns.

### **TRUSTEE/PUBLIC INPUT**

- A County Employee informed the public about a conference in San Francisco this April which is sponsored by CERES; a nonprofit organization advocating for sustainability leadership.

### **FUTURE DISCUSSION ITEMS**

None

### **ESTABLISHMENT OF NEXT MEETING DATE**

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

### **ADJOURNMENT**

The meeting adjourned at 11:41 a.m.