

February 9, 2011

To: Members of the Board of Retirement

From: Dale Amaral - Chair

**Subject: Summary of the February 9, 2011 Investment Committee Meeting**

The Investment Committee met on Wednesday, February 9, 2011 at 9:01 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, George Dewey, Liz Koppenhaver, Elizabeth Rogers, Donald White and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Robert Gaumer – Chief Counsel, J.P. Singh – Chief Financial Officer, Betty Tse – Chief Investment Officer and Catherine Walker –Acting Chief Executive Officer.

### **ACTION ITEMS**

- There were no Action Items for discussion.

### **INFORMATION ITEMS**

#### 1. Annual review of ACERA's international equity managers

##### AQR Capital Management

- AQR's one-year gross return ending 12/31/10 was 14.17%, outperforming its benchmark MSCI ACWI ex-US of 11.15% by 3.02%. Since the last review, AQR has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. As of 12/31/10, AQR managed about \$268.63 million, representing about 5.18% of ACERA's total assets.
- AQR presented its organizational structure, process, investment philosophy and performance. AQR implements a long-only quantitative strategy which combines bottom-up security selection with top-down country and currency selections implemented in a disciplined, risk-controlled manner.

##### Capital Guardian Trust Company

- Capital Guardian's one-year gross return ending 12/31/10 was 11.03%, underperforming its benchmark MSCI ACWI ex-US of 11.15% by 0.12%. Since the last review, Capital Guardian has not changed its investment strategy or style, and has been in compliance with ACERA's reporting requirements. As of 12/31/10, Capital Guardian managed about \$637.48 million, representing about 12.28% of ACERA's total assets.

- Capital Guardian presented an overview of the organization, investment strategy, and process, together with updates of its organizational changes to the Committee. Capital Guardian is committed to fundamental research, with a large team of experienced portfolio managers and equity analysts focused on gathering in-depth information on companies throughout the world.

#### Mondrian Investment Partners

- Mondrian's one-year gross return ending 12/31/10 was 6.75%, underperforming its benchmark MSCI ACWI ex-US of 11.15% by 4.40%. For the past year, Mondrian did not change its investment strategy or style, and was in compliance with ACERA's reporting requirements. As of 12/31/10, Mondrian managed about \$451.66 million, representing about 8.71% of ACERA's total assets.
- Mondrian presented an overview of its organization and summarized its investment philosophy, performance, and investment strategy. Mondrian is a deep value-oriented active manager. Mondrian is on Probation due to underperformance effective 12/1/10.

#### 2. Education: Hedge Funds

- SIS described the salient features of hedge funds and funds of hedge funds. Key factors defining such funds include: (1) using of hedging tools to protect both the long and short sides of the portfolio, (2) charging both management (asset) fees and performance (incentive) fees; (3) employing limited partnerships and/or offshore corporations in a master/feeder structure as typical portfolio vehicles, (4) using portfolio margin (leverage) to enhance risk-adjusted returns, and (5) delivering high diversity value (low correlation to market indices) to investors. The Committee requested a follow up educational session including comparisons between hedge funds and funds of hedge funds at the next Investment Committee Meeting and Staff agreed.

#### 3. Update on ACERA's amended Directed Brokerage Policy

- Staff presented the amended ACERA Directed Brokerage Policy (DB Policy). The amended DB Policy reflects all changes approved by the Committee on September 8, 2010 and adopted by the Board on September 16, 2010. In addition, the amended DB Policy now contains definitions of the terms, "local" and "emerging" brokers as recommended by the Committee.

#### 4. Update on ACERA's amended Emerging Investment Manager Policy

- Staff presented the amended ACERA Emerging Investment Manager Policy (EM Policy). The amended EM Policy reflects all changes approved by the Committee on December 8, 2010 and adopted by the Board on December 16, 2010. It also includes language suggested by the Committee to clarify the application of the manager graduation policies.

5. Investment Committee Workplan for 2011

- Staff distributed a copy of the updated Investment Committee Workplan.

**RECOMMENDATION**

None

**FUTURE DISCUSSION ITEMS**

None

**TRUSTEE/PUBLIC INPUT**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

March 9, 2011, 9:00 a.m.

**ADJOURNMENT**

The meeting adjourned at 11:56 p.m.