



**ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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Date: March 9, 2016  
To: Members of the Board of Retirement  
From: George Wood – Chair  
**Subject: Summary of March 9, 2016 Investment Committee Meeting**

The Investment Committee met on Wednesday, March 9, 2016 at 9:35 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Tarrell Gamble, Elizabeth Rogers, Donald White, and George Wood. Also present were Alternate Retired member David Safer and Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Interim Chief Executive Officer, Betty Tse – Chief Investment Officer, and Susan Weiss – Associate Counsel.

**ACTION ITEM**

1. Discussion of and Possible Motion to Recommend to the Board to Adopt the Amended ACERA Real Assets Policy (formerly known as Real Return Pool Policy)
  - Staff and Verus recommended amending the current Policy to: 1) rename the Real Return Pool Policy to Real Assets Policy (the industry standard nomenclature), 2) incorporate decisions the Board made since the last review in 2015, 3) reflect the updated structure of ACERA's Real Assets Portfolio, 4) improve the language of the RRP Policy for clarity and consistency, and 5) prepare the Real Assets Policy in a form similar to the Private Equity and Alternatives Return Leading Strategies Policy ("PEARLS Policy"). In addition, the proposed amended policy will have the following asset class targets: (1) Commodities at 15%, (2) Natural Resources at 50%, (3) Infrastructure at 35%, and (4) Other Real Assets at 0%, compared to the previous two asset classes of Commodities and other Inflation Hedging Assets.
  - The Committee discussed whether or not the Committee should further amend the Real Assets Policy to delegate limited authority to Staff to approve investments up to a certain level to insure that closing deadlines of privately-placed funds will not be missed. No action was taken. The Committee also supported all of Staff's proposed amendments to the Real Asset Policy.
  - After discussion, Mr. Donald White moved, seconded by Mr. Tarrell Gamble to recommend to the Board to adopt the amended ACERA Real Assets Policy.
  - The motion carried with 7 yes (Cain-Darnes, Amaral, Gamble, Rogers, Safer, White, and Wood), 0 no, and 0 abstention.

2. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2016 – 2017 Investment Plan for ACERA’s Real Assets (formerly known as Real Return Pool) Class
  - Staff and Verus presented the 2016 – 2017 Investment Plan for ACERA’s Real Asset Class. A Verus representative provided his recommendation on how to execute the plan of building out the target Real Assets portfolio, with a roadmap to serve as a guide on the number and size of investments/commitments.
  - The Verus representative offered an overview of the Plan comparing the previous and the proposed (expanded) sub-asset class allocations and explaining the purposes for both the privately-placed (illiquid) and publicly-listed (liquid) assets. The representative further explained that the target allocations shown year-by-year were approximate and it would be impossible to predict what specific opportunities might be available in the market in the future. The representative also confirmed that proposed allocations to the class would be based on the returns and volatilities of the assets rather than on correlations to the Core CPI Index. Verus estimated that the buildout of the asset class could be completed in four to five years.
  - After discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Elizabeth Rogers, to recommend to the Board to adopt the 2016 – 2017 Investment Plan for ACERA’s Real Assets Class.
  - The motion carried with 7 yes (Cain-Darnes, Amaral, Gamble, Rogers, Safer, White, and Wood), 0 no, and 0 abstention.

## **INFORMATION ITEMS**

1. Quarterly Performance Review for the Fourth Quarter of 2015 – Equities, Fixed Income, and Real Return Pool
  - For 4Q2015, ACERA’s Total Fund returned 3.2% (gross), compared to the policy index return of 4.1%. For the year ending on 12/31/15, the Total Fund returned 0.4% (gross) compared to the policy index of 0.3%. The Total Fund ranked in the 15<sup>th</sup> and 47<sup>th</sup> percentiles for the quarter and one year periods, respectively. U.S. Equity accounted for 32.9% of the Total Fund, International Equity 27.7%, Fixed Income 16.0%, and the Real Return Pool 3.5%.
  - For 4Q2015, ACERA’s U.S. Equity, International Equity, Fixed Income, and Real Return Pool asset classes returned 5.8%, 4.2%, -0.6%, and -4.3% (gross) compared to their benchmarks 6.3%, 3.6%, -0.8%, and 0.8%, respectively. On a 1-year basis, these asset classes returned 1.1%, -4.0%, -2.2%, and -17.8%, respectively.
  - As of 12/31/2015, the market value of the Total Fund was \$6,651,294,445.

2. Quarterly Performance Review for the Fourth Quarter of 2015 – Real Estate

- ACERA’s real estate portfolio returned 5.2 (gross) for Q4 2015 and 17.9% (gross) for the latest one year period (including the Oakland Office building) compared to the NCREIF-ODCE benchmark of 3.3% and 15.0%, respectively. The Oakland Office building had a 40%+ increase in value since year end 2014, and is now nearly fully leased.
- The total market value of ACERA’s real estate portfolio was \$492.9 million; approximately 7.4% of ACERA’s total Fund.

3. Proposed Investment Committee Workplan for 2016

- Staff offered the proposed Investment Committee Workplan for 2016 (Workplan). On a quarterly basis, Staff will provide an updated Investment Committee Workplan.

**Recommendations**

- The Committee recommends, and I move, that the Board Adopt the Amended ACERA Real Assets Policy (formerly known as Real Return Pool Policy).
- The Committee recommends, and I move, that the Board adopt the 2016 – 2017 Investment Plan for ACERA’s Real Assets (formerly known as Real Return Pool) Class.

**TRUSTEE/PUBLIC INPUT**

Staff provided the Committee with an update on steps being taken to implement the new asset allocation targets. With the recommendation of the general consultant and the rebalancing consultant, Staff is working with Russell Investments to true-up and rebalance the U.S. Equity asset class first. After the Committee reviews and possibly adopts new management structures for U.S. Equity, International Equity, and the Fixed Income asset classes, Staff will continue with its implementation of the new asset allocation.

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

April 13, 2016 at 9:30 a.m.

**ADJOURNMENT**

The meeting adjourned at 11:50 a.m.