



Date: April 11, 2018
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of April 11, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, April 11, at 9:31 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker. 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).

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

1. Discussion of and Possible Motion to Recommend the Board that it make an additional investment of \$178 million in the Lighthouse Strategic Alpha Fund as part of ACERA’s Absolute Return Portfolio – Fund of Hedge Funds
 - Representatives from Staff and Verus Advisory, Inc. (Verus) discussed how the potential investment in the Lighthouse Strategic Alpha Fund (SAF) would bring the “Funds of Hedge Funds” sub-asset class closer up to the target of 40%. This recommendation is being made in addition to the \$100 million invested in the same SAF in 2015. Since inception, SAF has yielded an annualized 5.8% return to ACERA.
 - Representatives from Lighthouse discussed the firm’s philosophy, strategies, and risk management. SAF is a customized Fund of one constructed for ACERA. Therefore, ACERA can have more control and transparency, for example, a scalable and flexible Fund. More importantly, this SAF helps to reduce equity correlations in accordance with the new Absolute Return Policy. The Representatives also discussed its firm’s history, investment process, and its return and risk objectives. Finally, the representatives highlighted the Fund’s diversifying return profile, low return correlation to traditional asset classes, and risk-adjusted returns.
 - Some Trustees questioned the total fees that ACERA would pay with the new proposed investment. Lighthouse responded with an all-in fee estimate of about 1.32%.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Henry Levy, to recommend to the Board to make an additional investment of \$178 million in the

Lighthouse Strategic Alpha Fund as part of ACERA's Absolute Return 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.
2. Discussion of and Possible Motion to Recommend to the Board that it adopt a \$25 million investment in AEW Partners Real Estate Fund VIII as part of ACERA's Real Estate Portfolio – Opportunistic
- Representatives from Staff and Callan discussed how the potential investment in AEW Partners VIII would help build out the “opportunistic” Real Estate sub-asset class. This would be the first opportunistic investment in ACERA's Real Estate portfolio. AEW is a manager in good standing as ACERA had previously invested in AEW Value Investors II, a value-add fund. That fund was a 2007 vintage and returned a 5.7% net IRR and posted an equity multiple of 1.27.
 - Representatives from AEW discussed an overview of the firm and its research capabilities, as well as the Fund's strategy, objectives, and approach. The representatives highlighted current seed investments in AEW Partners VIII and the potential for the fund to produce attractive returns in a late stage real estate cycle.
 - After further discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Dale Amaral, that the Board adopt a \$25 million investment in AEW Partners Real Estate Fund VIII as part of ACERA's Real Estate Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 7 yes (Amaral, Basgal, Cain-Darnes, Koppenhaver, Levy, Rogers, and Wood), 0 no, and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board that it approve the finalists for ACERA's Emerging Markets Manager Search – International Equities
- Staff recommended to approve the following three finalists for ACERA's Emerging Markets Manager Search – International Equities:
 - (1) Newton Investment Management (North America) LLC (“Newton”)
 - (2) TT International (“TT”)
 - (3) UBS Asset Management (Americas) Inc. (“UBS”)
 - A representative from Verus mentioned that TT has recently informed Verus that they are requesting to be dropped from contention for ACERA's EM RFP due to the recent implementation of “soft-closing” their EM product (i.e. they're not taking on additional

capital from non-current investors). Verus and Staff recommended that ACERA move forward with the remaining two finalists: Newton and UBS.

- The Committee briefly discussed the internal evaluation process of all candidates such as the scoring and ranking of all the qualified firms. The Committee also discussed the logistics of international travel with Staff and Verus. After further discussion, Ms. Annette Cain-Darnes moved, seconded by Mr. Henry Levy, to recommend to the Board to approve the two Finalists for ACERA's Emerging Markets Manager Search – International Equities.
- The motion carried with 7 yes (Amaral, Basgal, Cain-Darnes, Carson, Koppenhaver, Levy, and Rogers), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Education Session: Environmental, Social and Governance (ESG) – Part 1

- Representatives from Verus Advisory, Inc. (Verus) presented Part 1 of the ESG education session by defining and comparing the different approaches to ESG Investing. These approaches, ranging from lower to higher implementation costs/impact, include Socially Responsible Investing, ESG Integration, Active Ownership and Impact Investing. Verus also discussed the potential effects of including ESG in a portfolio.
- Verus and Staff confirmed the importance of trustees' input in planning for future discussions of this topic. Among other questions, the Committee asked what other '37 Act counties were doing to incorporate ESG, as well as the possible application of ACERA's Proxy Voting Policy to the subject matter.

Recommendations:

- The Committee recommends, and I move, that the Board make an additional investment of \$178 million in the Lighthouse Strategic Alpha Fund as part of ACERA's Absolute Return Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Adopt a \$25 million investment in AEW Partners Real Estate Fund VIII as part of ACERA's Real Estate Portfolio, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Adopt to approve the two Finalists for ACERA's Emerging Markets Manager Search – International Equities: Newton Investment Management and UBS Asset Management.

TRUSTEE/PUBLIC INPUT

Betty Tse, the Chief Investment Officer, provided an update on the transition of the U.S. Equity manager structure. BlackRock, the transition manager, was almost (99.9%) complete on funding the Russell 1000. She expected that BlackRock would provide a post-trade analysis of the transition in the very near future.

Separately, the CIO reported that the estimated market value of the total fund was at \$8.1 billion as of April 9, 2018.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, May, 9, 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 12:13 p.m.