

April 13, 2011

To: Members of the Board of Retirement

From: Dale Amaral - Chair

Subject: Summary of the April 13, 2011 Investment Committee Meeting

The Investment Committee met on Wednesday, April 13, 2011 at 9:00 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, and George Dewey. Also present were Alternate Retiree member David Safer and 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, and Betty Tse – Chief Investment Officer.

ACTION ITEMS

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

1. Discussion of ACERA's Portfolio Asset Allocation & Possible Motion to Adopt a New Target Asset Allocation for ACERA's Portfolio
 - SIS presented the re-optimized asset allocation target reflecting its current expectations of the risk/return profile of ACERA's portfolio. (SIS provided an educational session on the Real Return Pool in the same meeting. Please refer to Information Item #1 below.) This re-optimized target asset allocation calls for a 5% allocation to the new Real Return Pool by decreasing allocations to the U.S. Equity and Fixed Income asset classes and increasing the allocation to the International Equity asset class. SIS stated that ACERA would obtain inflation protection without incurring additional risk or compromising investment returns by adopting this revised target asset allocation.
 - After discussion, Mr. Safer moved, seconded by Ms. Cain-Darnes, to adopt the new target asset allocation for ACERA's portfolio, specifically: 34% in U.S. Equity, 25% in International Equity, 20% in Fixed Income, 6% in Real Estate, 10% in PEARLS and 5% in Real Return Pool. The motion passed unanimously.
2. Discussion of and Possible Motion to Adopt an Amended ACERA Proxy Voting Guidelines and Procedures
 - Staff, with assistance from ACERA's Proxy Voting Consultant, Institutional Shareholders Services Inc. (ISS), completed a comprehensive review of ACERA's Proxy Voting Guidelines and Procedures (Guidelines) and proposed the following notable changes: 1) Delete Exhibit I: Proxy Guidelines Code List for the purposes of simplification and efficiency, 2) Expand the Guidelines to reflect the advisory votes on

executive pay imposed by the Dodd-Frank Act, and 3) Expand the Social/Environmental Issues section to provide an evaluation framework to facilitate implementing proxy instructions.

- Representatives from ISS presented current governance trends including the impact of the Dodd-Frank Act on corporate governance as well as the evolution of ACERA's Guidelines. The amended ACERA Guidelines continue to promote (1) a "middle of the road" theme and (2) director independence as well as management and director responsibility/accountability to shareholders. ISS has reviewed the amendments and proposed no additional changes.
- After discussion, Mr. Dewey moved, seconded by Ms. Cain-Darnes, to adopt the amended ACERA Proxy Voting Guidelines and Procedures as written. The motion passed unanimously.

Information Items:

1. Education: Real Return Pool (Part I)

- SIS provided an overview on inflation and explained why a dedicated real return allocation would be advantageous for ACERA's portfolio as it would attenuate the impact of unanticipated inflation.

2. Report on ACERA's Proxy Voting activities for 2010

- Staff provided a report on ACERA's Proxy Voting activities for 2010 to the Committee.

3. Annual review of ACERA's custodian bank – State Street Bank and Trust Company

- ACERA regularly reviews its relationship with State Street Bank and Trust Company (SSB) to ensure that the quality of custodial services provided is satisfactory and that the relationship with SSB is effective.
- Investment Staff awarded SSB an average score of 4.0 out of 5.0 for its quality of custodial services and believes that SSB has fulfilled its contractual obligations with an over-all service quality level similar to that reported in its previous review. SSB referenced the recent discussions with Investment Staff regarding specific scores and that a follow-up meeting will be scheduled to continue the discussion. The Investment Committee encouraged Staff to continue such discussions to seek any necessary improvements.
- Accounting Staff awarded SSB an overall performance rating of 4.75 out of 5.00 for the services provided and noted that the Accounting Staff was satisfied with SSB's custodial services in general.

- SSB disclosed that the company was closing its Alameda office and relocating the functions and most of its staff to the Sacramento office. SSB assured ACERA that the transition will be transparent and smooth without interruption of the services provided. SSB also acknowledged Staff's concerns as conveyed in the score ratings and pledged to work with ACERA to strive for further improvements in service quality.
4. Oral status report on asset transition to ACERA's new International Small Cap Equity Manager – Franklin Templeton Investments
 - Staff executed contracts with Franklin Templeton Investments (FTI) on March 31, 2011, and plans to fund the commingled pool trust managed by FTI in the second half of April 2011.
 5. Oral status report on ACERA's currency manager search
 - Staff and SIS continue to review the RFI responses from the 11 currency manager candidates independently. Selected finalists' presentations and motion to adopt one of the candidates as ACERA's new currency alpha manager is expected at the July or August Investment Committee Meeting (ICM).
 6. Oral status report on the Japanese security holdings in ACERA's portfolio
 - Due to the catastrophic events in Japan, Staff reported to the Committee on ACERA's Japanese holdings, which as of April 11, 2011, remained under 3.6% of the total Fund.
 7. Report on the postponement of the May 2011 Investment Committee meeting.
 - Staff proposes to postpone the May ICM to Wednesday, May 18, 2011 at 9:00 a.m. owing to the SACRS Spring Conference. The Committee agreed.

RECOMMENDATION

- The Committee recommends, and I move, that the Board adopt the new target asset allocation for ACERA's portfolio, specifically: 34% in U.S. Equity, 25% in International Equity, 20% in Fixed Income, 6% in Real Estate, 10% in PEARLS and 5% in Real Return Pool.
- The Committee recommends, and I move, that the Board adopt the amended ACERA Proxy Voting Guidelines and Procedures.

FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

None

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ESTABLISHMENT OF NEXT MEETING DATE

May 18, 2011, 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 12:00 p.m.