

June 8, 2011

To: Members of the Board of Retirement

From: Annette Cain-Darnes – Vice Chair

Subject: Summary of the June 8, 2011 Investment Committee Meeting

The Investment Committee met on Wednesday, June 8, 2011 at 9:10 a.m. The Committee members present were Annette Cain-Darnes, Keith Carson, Elizabeth Rogers, Donald White and George Wood. Also present were Alternate Safety members David Safer and 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

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

1. Discussion of and Possible Motion to Adopt the Amended Real Estate Strategic Plan and the 2011 Investment Plan for ACERA's Real Estate Portfolio.
 - Representatives from The Townsend Group explained three proposed changes to the Strategic Plan, namely: (i) replace the NCREIF Property Index (NFI) with the NCREIF Fund Level Open-End Diversified Core Equity Index (ODCE) to improve comparability (the NPI is an index of unleveraged real estate properties whereas the ODCE Index is an index of leveraged real estate funds comparable to ACERA's leveraged real estate holdings); (ii) replace the terms, "Stable, Enhanced, and High Return" with the more current, standardized real estate property-type terms, "Core, Value-Added, and Opportunistic," respectively; and (iii) adding "Watchlist Status" to identify underperforming managers in the real estate asset class will make the real estate asset class consistent with other asset classes in the portfolio.
 - After discussion, Mr. David Safer moved, seconded by Mr. Donald White, to recommend to the Board the adoption of the amended Real Estate Strategic Plan and the 2011 Investment Plan for ACERA's Real Estate Portfolio as offered by The Townsend Group and Staff. The motion passed unanimously.
2. Discussion of and Possible Motion to Adopt an Investment in ACERA's Real Estate Portfolio – CIM VI, LLC
 - Upon completion of all investment due diligence, Townsend recommended, and Staff concurred with, a \$25.0 million commitment to CIM VI, LLC, pending completion of legal due diligence and successful contract negotiation.
 - Representatives from CIM outlined its organization, investment philosophy, strategy, process, performance objectives, and other key characteristics. The representatives confirmed to the Committee that CIM VI, LLC will be utilizing the same investment

strategy as CIM IV, LLC, a current ACERA investment. They also addressed the Committee's other comments and questions.

- After discussion, Mr. Donald White moved, seconded by Mr. David Safer, to recommend to the Board the adoption of a \$25.0 million commitment to CIM VI, LLC, pending completion of legal due diligence and successful contract negotiation. The motion passed unanimously.

Information Items:

1. Quarterly performance review for the first quarter of 2011 – equities and fixed income
 - ACERA's total Fund returned 4.7% in the first quarter of 2011 and was ranked in the upper 15th percentile among public funds greater than \$100 million. The Fund outperformed its Policy Index and the median public fund by 0.5% and 0.6%, respectively. Longer term, the three-year gross return of 4.2% (36th percentile) underperformed its Policy Index by 0.3% and the five-year gross return of 4.8% (30th percentile) underperformed its Policy Index by 0.7%. The market value of the total Fund as of 3/31/11 was \$5,425,765,050.00.
2. Semi-annual performance review for the period ending December 31, 2010 – PEARLS
 - During the second half of 2010, ACERA made three new and one follow-on PEARLS investments for a total of approximately \$96.5 million. As of 12/31/10, the total market value of ACERA's PEARLS Portfolio was about \$191.0 million, representing 3.7% of the total Fund.
3. Quarterly performance review for the first quarter of 2011 – real estate
 - ACERA's real estate portfolio returned 3.8% in the first quarter of 2011, outperforming its benchmark NPI of 3.4% by 0.4%. Longer term, the three-year and five-year gross returns of -9.1% and -0.7% underperformed the benchmark by 5.5% and 4.2%, respectively. As of 3/31/11, the total market value of ACERA's real estate portfolio was about \$289.8 million, approximately 5.3% of ACERA's total Fund.

RECOMMENDATION

The Committee recommends, and I move, that the Board adopt the amended Real Estate Strategic Plan and the 2011 Investment Plan for ACERA's Real Estate Portfolio as offered by The Townsend Group and Staff.

The Committee recommends, and I move, that the Board adopt the recommendation of a \$25.0 million commitment to CIM VI, LLC, pending completion of legal due diligence and successful contract negotiation.

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FUTURE DISCUSSION ITEMS

None

TRUSTEE/PUBLIC INPUT

Staff reported that they would temporarily suspend (estimated at three to four months) the Investment Products and Services Introduction (IPSI) program and will announce the suspension through a posting on ACERA's website.

ESTABLISHMENT OF NEXT MEETING DATE

July 13, 2011 at 9:00 a.m.

ADJOURNMENT

The meeting adjourned at 12:16 p.m.