Alameda County Employees' Retirement Association
BOARD OF RETIREMENT

INVESTMENT COMMITTEE/BOARD MEETING

ACERA MISSION:
To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Wednesday, July 3, 2024
10:30 a.m.

LOCATION AND TELECONFERENCE	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14TH STREET, 10TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574 The public can observe the meeting and offer public comment by using the below Webinar ID and Passcode after clicking on the below link or calling the below call-in number. Link: https://zoom.us/join Call-In: 1 (669) 900-6833 US Webinar ID: 879 6337 8479 Passcode: 699406 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193	JAIME GODFREY CHAIR	APPOINTED
	GEORGE WOOD VICE CHAIR	ELECTED GENERAL
	ROSS CLIPPINGER	ELECTED SAFETY
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	TARRELL GAMBLE	APPOINTED
	ELIZABETH ROGERS	ELECTED RETIRED
	HENRY LEVY	TREASURER
	KELLIE SIMON	ELECTED GENERAL
	CYNTHIA BARON	ALTERNATE RETIRED[1]
	KEVIN BRYANT	ALTERNATE SAFETY[2]

[1] The Alternate Retired Member votes in the absence of the Elected Retired Member, or, if the Elected Retired Member is present, then votes if both Elected General members, or the Safety Member and an Elected General member, are absent.

[2] The Alternate Safety Member votes in the absence of the Elected Safety, either of the two Elected General Members, or both the Retired and Alternate Retired members.

Note regarding accommodations: If you require a reasonable modification or accommodation for a disability, please contact ACERA between 9:00 a.m. and 5:00 p.m. at least 72 hours before the meeting at accommodation@acera.org or at 510-628-3000.

Public comments are limited to four (4) minutes per person in total. The order of items on the agenda is subject to change without notice.

Board and Committee agendas and minutes and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure) are posted online at www.acera.org and also may be inspected at 475 14th Street, 10th Floor, Oakland, CA 94612-1916.

INVESTMENT COMMITTEE/BOARD MEETING

NOTICE and AGENDA Wednesday, July 3, 2024

Call to Order: 10:30 a.m.

Roll Call

Public Input (The Chair allows public input on each agenda item at the time the item is discussed)

<u>Action Items: Matters for discussion and possible motion by the Committee</u>

1. Discussion and Possible Motion to Recommend that the Board to Adopt an Asset Allocation Mix

   10:30 – 11:00 Sam Austin, NEPC
   Dan Hennessy, NEPC
   Betty Tse, ACERA

<u>Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports</u>

1. Semiannual Performance Review for the Period Ending December 31, 2023 – Real Estate

   11:00 – 11:15 Aaron Quach, Callan LLC
   Avery Robinson, Callan, LLC
   John Ta, ACERA
   Betty Tse, ACERA

2. Semiannual Performance Review for the Period Ending December 31, 2023 – Private Equity

   11:15 – 11:30 John Ta, ACERA
   Betty Tse, ACERA

3. Semiannual Performance Review for the Period Ending December 31, 2023 – Private Credit

   11:30 – 11:45 Clint Kuboyama, ACERA
   Betty Tse, ACERA

4. Semiannual Performance Review for the Period Ending -March 31, 2024 – Absolute Return

   11:45 – 12:00 Clint Kuboyama, ACERA
   Betty Tse, ACERA

5. Semiannual Performance Review for the Period Ending December 31, 2023 – Real Assets

   12:00 – 12:15 Clint Kuboyama, ACERA
   Betty Tse, ACERA

6. Status Update for the Emerging Markets Equity Manager Search

12:15 – 12:30	Dan Hennessy, NEPC Julius Cuaresma, ACERA Betty Tse, ACERA

Trustee Remarks

None

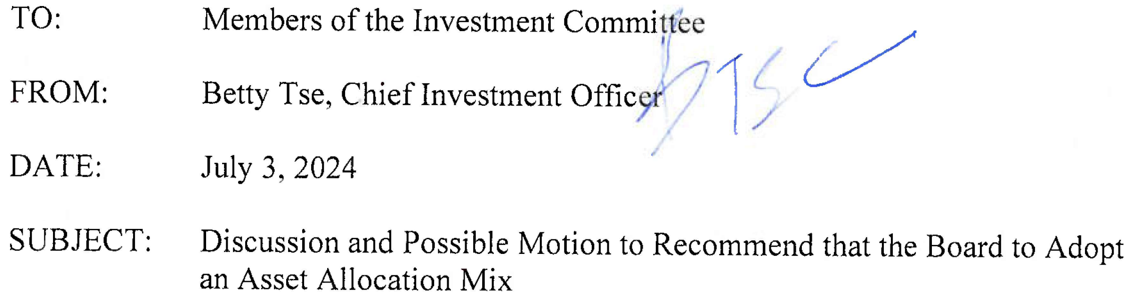
Future Discussion Items

None

Establishment of Next Meeting Date

August 7, 2024, at 10:30 a.m.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475-14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org



TO: Members of the Investment Committee

FROM: Betty Tse, Chief Investment Officer

DATE: July 3, 2024

SUBJECT: Discussion and Possible Motion to Recommend that the Board to Adopt an Asset Allocation Mix

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Recommendation:

Consider the Asset Allocation Mixes C, D and G as an optimal range of Mixes for ACERA's future Asset Allocation Targets. Select Asset Allocation Mix C based on the relatively higher risk-adjusted return profile.

Background:

NEPC has conducted multiple rounds of education and reviews on the critical topics of Asset Liabilities and Asset Allocation at our ICMs since the beginning of 2024, and it has conducted a comprehensive review of an Asset Liability Study on each of the aforementioned Asset Allocation Mixes since then. These Asset Liability Studies coupled with NEPC's current Capital Market Assumptions have allowed it to compute the risk adjusted returns of a range of Asset Allocation Mixes to be discussed with ACERA. After receiving feedback from ACERA's Investment Committee, Callan (ACERA's Real Estate Consultant) and Investment staff, NEPC has further narrowed the range of Mixes to include Mixes C, D, and G (the only new Mix since our last ICM) to ensure that the updated Asset Allocation Mixes are appropriate for ACERA's final consideration. Accordingly, NEPC believes that any one of the three proposed Asset Allocation Mixes when compared to ACERA's current policy targets, will enhance ACERA's risk-adjusted return expectations in the long run, and staff concurs.

Discussion:

Staff has prepared a comparison of profiles of Asset Allocation Mixes C, D, and G below for your consideration. These profiles include relative rankings specifics, as well as relative strengths and weaknesses of the three proposed Mixes when compared to the Current Policy. These profiles are listed as follows:

#1) Mix C: It has the highest Expected Return and Sharpe Ratio amongst all three mixes, with slight to moderate reduction each in Total Real Assets and in Total Multi Asset, respectively, to moderately increase the allocation to Total Fixed Income.

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#2) Mix D: It has the same Expected Return as Mix C and Mix G. It also has the second highest Sharpe Ratio amongst all three mixes, with no change in Total Real Assets and a substantive reduction in Total Multi Asset, to moderately increase the allocation to Total Fixed Income.

#3) Mix G: It has the same Expected Return as Mix C and Mix D and the third highest Sharp Ratio amongst all three mixes, with no change in Total Real Assets and a modest reduction in Total Multi Asset, to modestly increase the allocation to Total Fixed Income.

Expected Returns and Sharpe Ratio Profiles of the three Mixes	**Mix C**	**Mix D**	**Mix G**
Expected Return 10 Year (6.5%)	S (6.5%)	S (6.5%)	S (6.5%)
Expected Return 30 Year (7.7%)	S (7.7%)	S (7.7%)	S (7.7%)
Asset Volatility range (14.2-14.4%)	L (14.2%)	M (14.3%)	H (14.4%)
Sharpe Ratio 10 Year range (0.176-0.179)	H (0.179)	M (0.178)	L (0.176)
Sharpe Ratio 30 Year range (0.300-0.303)	H (0.303)	M (0.302)	L (0.300)
Expected Return/Surplus Volatility range (0.47-0.48)	H (0.48)	H (0.48)	L (0.47)

Footnotes for the chart above:

1) S = same result; L = lowest; M = medium; H = highest
2) Asset Volatility: L is preferred; Sharpe Ratio: H is preferred; Expected Return/Surplus: H is preferred

Conclusion:

All three Asset Allocation Mixes C, D and G are considered prudent options for ACERA as they all exhibit an improved risk-adjusted return profile when compared to our current Asset Allocation Policy Targets. Of the three named Mixes, however, Mix C exhibits a relatively higher risk-adjusted return profile than Mix D and Mix G and should be considered more favorably.

Attachments:

#1. NEPC Cover Memo
#2. NEPC presentation material

NEPC, LLC

To: Alameda County Employees' Retirement Association (ACERA)

From: NEPC Consulting Team

Date: July 3, 2024

Subject: Asset Allocation Mix Recommendation

Summary
NEPC has applied the same asset-liability analysis for Mixes D and G that was presented at the May 2024 ICM for the Mixes A, B and C. Mixes D and G produced similar results to Mix C with regard to liquidity analysis, economic scenario analysis, and stochastic analysis of the funded status and contribution rates. We have condensed the results in this report. The full comprehensive asset-liability analysis is available for review upon request.

Based on collaborative input from ACERA Investment Staff, NEPC and Callan, in addition to comments from several Investment Committee Members at the June ICM, we recommend consideration of Mix C given it has the highest expected return and Sharpe ratio. Still, we underscore that Mixes C, D and G are all reasonable choices as they are statistically similar and they are all superior to the 10-year expected return and Sharpe ratio of the Current Policy.

ASSET ALLOCATION DISCUSSION

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

JULY 3, 2024

Sam Austin, Partner

EXECUTIVE SUMMARY

- **Mix C, Mix D, and Mix G represent incremental changes in asset allocation to the Current Policy**
  - Allocation to Total Equity remains at 59%
  - Increase Total Fixed Income with higher allocation to Private Credit and Risk-Seeking Bonds, lower allocation to Safe Haven Bonds
  - Total Real Assets either decreases slightly or remains the same
  - Decrease Hedge Funds
  - Results are portfolios with marginally higher expected returns and Sharpe Ratios versus the Current Policy
  - No material differences between Mix C, Mix D, and Mix G in terms of expected returns, Sharpe Ratios, liquidity profiles, or expected impact on funded status or future contributions

- **Timeline**
  - Board invited to approve asset allocation mix (July 2024)
  - Update Investment Policy to reflect new policy allocation (3Q 2024)
  - Implementation recommendations where needed (3Q and 4Q 2024)

ASSET ALLOCATION – SUMMARY VIEW

	Current Policy	Mix C	Mix D	Mix G
Cash	0.0%	0.0%	0.0%	0.0%
Total Cash	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Public Equity	48.0%	48.0%	48.0%	48.0%
Private Equity	11.0%	11.0%	11.0%	11.0%
Total Equity	**59.0%**	**59.0%**	**59.0%**	**59.0%**
Safe Haven Bonds	12.5%	10.0%	10.0%	9.0%
Risk-Seeking Bonds	1.5%	4.0%	4.0%	3.0%
Private Credit	4.0%	6.8%	8.0%	7.0%
Total Fixed Income	**18.0%**	**20.8%**	**22.0%**	**19.0%**
Public Real Assets	1.5%	0.0%	0.0%	0.0%
Private Real Estate	9.0%	8.2%	9.0%	9.0%
Private Infra/Natural Resources	4.5%	6.0%	6.0%	6.0%
Total Real Assets	**15.0%**	**14.2%**	**15.0%**	**15.0%**
Hedge Funds	8.0%	6.0%	4.0%	7.0%
Total Multi Asset	**8.0%**	**6.0%**	**4.0%**	**7.0%**
Expected Return 10 year	**6.2%**	**6.5%**	**6.5%**	**6.5%**
Expected Return 30 year	**7.5%**	**7.7%**	**7.7%**	**7.7%**
Asset Volatility	**14.2%**	**14.2%**	**14.3%**	**14.4%**
Sharpe Ratio 10 year	**0.160**	**0.179**	**0.178**	**0.176**
Sharpe Ratio 30 year	**0.286**	**0.303**	**0.302**	**0.300**
Expected Return/Surplus Volatility	***0.46***	***0.48***	***0.48***	***0.47***

Notes: Shading reflects change in allocation relative to Current Policy; asset class allocation may not show change and/or totals may not sum correctly due to rounding

ASSET ALLOCATION – GRANULAR VIEW

	Current Policy	Mix C	Mix D	Mix G
Cash	0.0%	0.0%	0.0%	0.0%
Total Cash	**0.0%**	**0.0%**	**0.0%**	**0.0%**
US Large-Cap Equity	21.6%	25.4%	25.4%	25.4%
US Small/Mid-Cap Equity	2.4%	4.1%	4.1%	4.1%
Non-US Developed Equity	19.2%	11.5%	11.5%	11.5%
Non-US Developed Small-Cap Equity	2.4%	1.8%	1.8%	1.8%
Emerging Market Equity	2.4%	4.5%	4.5%	4.5%
Emerging Market Small-Cap Equity	0.0%	0.7%	0.7%	0.7%
Private Equity	11.0%	11.0%	11.0%	11.0%
Total Equity	**59.0%**	**59.0%**	**59.0%**	**59.0%**
US TIPS	0.0%	2.50%	2.50%	2.25%
US Treasury Bond	0.0%	2.50%	2.50%	2.25%
US Aggregate Bond	10.5%	5.00%	5.00%	4.50%
Global Government Bond	2.0%	0.0%	0.0%	0.0%
Global Multi-Sector Fixed Income	1.5%	4.0%	4.0%	3.0%
Private Credit	4.0%	6.8%	8.0%	7.0%
Total Fixed Income	**18.0%**	**20.8%**	**22.0%**	**19.0%**
Public Real Assets (Multi-Asset)	1.5%	0.0%	0.0%	0.0%
Private Real Estate	9.0%	8.2%	9.0%	9.0%
Private Real Assets (Infra/Natural Resources)	4.5%	6.0%	6.0%	6.0%
Total Real Assets	**15.0%**	**14.2%**	**15.0%**	**15.0%**
Hedge Fund	8.0%	6.0%	4.0%	7.0%
Total Multi Asset	**8.0%**	**6.0%**	**4.0%**	**7.0%**

Notes:
Shading reflects change in allocation relative to Current Policy; asset class allocation may not show change and/or totals may not sum correctly due to rounding.

Public equity allocation for Mixes C, D, and G is based on NEPC's capital market assumptions as of 3/31/24 and is subject to change.

RETURNS-BASED RISK ANALYSIS

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Funded Status	Current Policy	Mix C	Mix D	Mix G
50th Percentile 2033 Funded Ratio	91.3%	92.9%	93.0%	92.9%
75th Percentile 2033 Funded Ratio	113.2%	115.3%	115.5%	115.6%
25th Percentile 2033 Funded Ratio	73.4%	74.7%	74.7%	74.5%
Probability Funded Status Falls Below 80% in Next 10 Years	47.3%	45.5%	45.5%	45.8%
Probability of Fully Funded in 2033	38.6%	40.9%	41.1%	41.0%
Funded Ratio Volatility (% of Funded Status)	3.8%	3.8%	3.8%	3.9%

Contributions	Current Policy	Mix C	Mix D	Mix G
50th Percentile FY2035 Contribution Rate	19.0%	17.7%	17.6%	17.7%
75th Percentile FY2035 Contribution Rate	33.3%	32.3%	32.3%	32.5%
25th Percentile FY2035 Contribution Rate	10.8%	10.8%	10.8%	10.8%
Probability Contribution Rate Rises Above 35% in Next 10 Years	40.2%	38.7%	38.7%	38.9%
Probability of FY2035 Contribution Rate Below 20%	51.9%	54.0%	54.1%	54.0%
Contribution Rate Volatility (% of Payroll)	4.9%	4.9%	4.9%	4.9%

Notes: Based on 10,000 simulated return paths using NEPC mean/variance assumptions assuming normal distribution of returns; reflects 10-year mean/variance assumptions

RETURNS-BASED RISK ANALYSIS

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Worst Case Returns	Current Policy	Mix C	Mix D	Mix G
1 Year	-16.6%	-16.3%	-16.4%	-16.6%
5 Year (annualized)	-4.5%	-4.2%	-4.2%	-4.3%
10 Year (annualized)	-1.4%	-1.1%	-1.1%	-1.2%
30 Year (annualized)	3.2%	3.4%	3.4%	3.4%

Probability of Experiencing Negative Returns	Current Policy	Mix C	Mix D	Mix G
1 Year	30.1%	29.6%	29.6%	29.8%
5 Year	16.4%	15.2%	15.3%	15.5%
10 Year	8.9%	8.0%	8.1%	8.3%
30 Year	0.2%	0.2%	0.2%	0.2%

Probability of Achieving at Least 7.0% Return	Current Policy	Mix C	Mix D	Mix G
1 Year	50.7%	51.4%	51.5%	51.5%
5 Year	45.9%	47.5%	47.6%	47.6%
10 Year	43.3%	45.5%	45.6%	45.4%
30 Year	56.9%	60.6%	60.8%	60.5%

Notes: Based on 10,000 simulated return paths using NEPC mean/variance assumptions assuming normal distribution of returns
Worst case outcome defined as 95% confidence interval, i.e. 5% likely outcome; 1 Year, 5 Year and 10 Year outcome reflect 10-year expected return; 30 Year outcome reflects 30-year expected return

NEPC DISCLOSURES

Past performance is no guarantee of future results.

NEPC, LLC is an investment consulting firm. We provide asset-liability studies for certain clients but we do not provide actuarial services. Any projections of funded ratio or contributions contained in this report should not be used for budgeting purposes. We recommend contacting the plan's actuary to obtain budgeting estimates.

The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

The projection of liabilities in this report uses standard actuarial projection methods and does not rely on actual participant data. Asset and liability information was received from the plan's actuary, and other projection assumptions are stated in the report.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This report is provided as a management aid for the client's internal use only. This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

The goal of this report is to provide a basis for monitoring financial markets. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

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All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

Callan

July 2024

Semi-Annual ending 4Q 2023 Performance Measurement Report

Callan

Avery Robinson, CAIA
Senior Vice President

Aaron Quach
Vice President

Important Disclosures regarding the use of this document are included at the end of this document. These disclosures are an integral part of this document and should be considered by the user.

U.S. Private Real Estate Performance: 4Q23

Income returns positive but appreciation returns negative once again

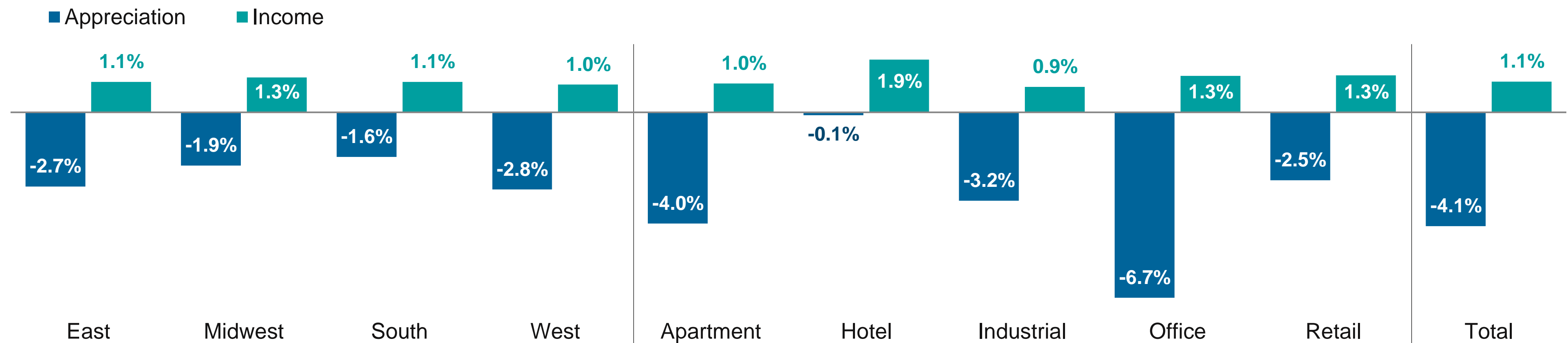
Valuations reflect higher interest rates

- Income returns were positive across sectors and regions.
- All property sectors and regions experienced negative appreciation.
- Valuations are reflective of higher interest rates, which have put upward pressure on capitalization rate and discount rate assumptions.
- Return dispersion by manager within the ODCE Index was due to the composition of underlying portfolios.

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
NCREIF ODCE	-5.0%	-12.7%	4.0%	3.3%	6.3%
Income	0.7%	2.8%	2.8%	2.9%	3.3%
Appreciation	-5.7%	-15.2%	1.2%	0.4%	3.0%
NCREIF Property Index	-3.0%	-7.9%	4.6%	4.3%	6.8%
Income	1.1%	4.3%	4.1%	4.2%	4.6%
Appreciation	-4.1%	-11.8%	0.4%	0.1%	2.2%

Returns are geometrically linked

NCREIF Property Index Quarterly Returns by Region and Property Type



Source: NCREIF, ODCE return is net

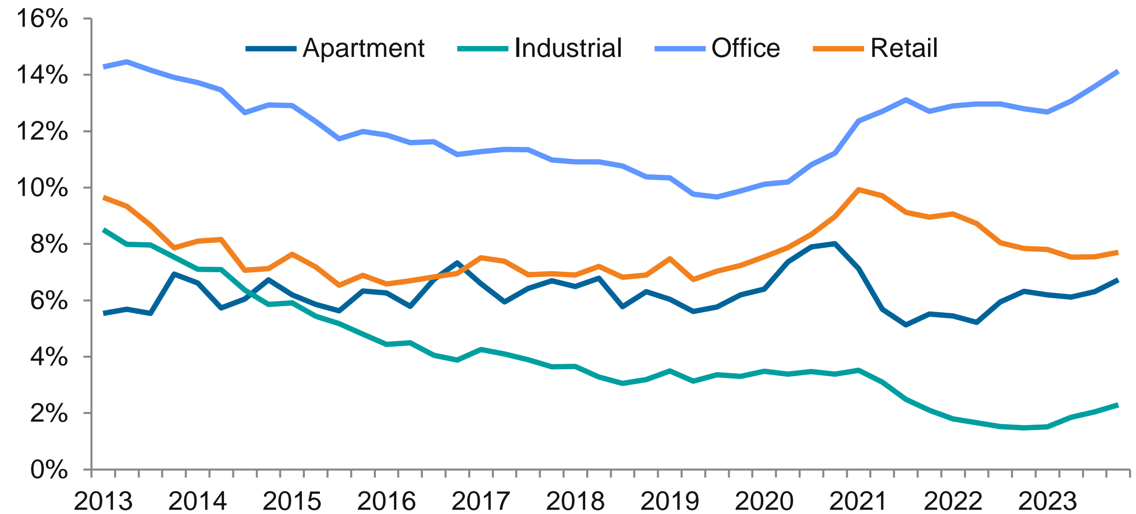
U.S. Private Real Estate Market Trends

Vacancy rates and NOI growth remain mixed

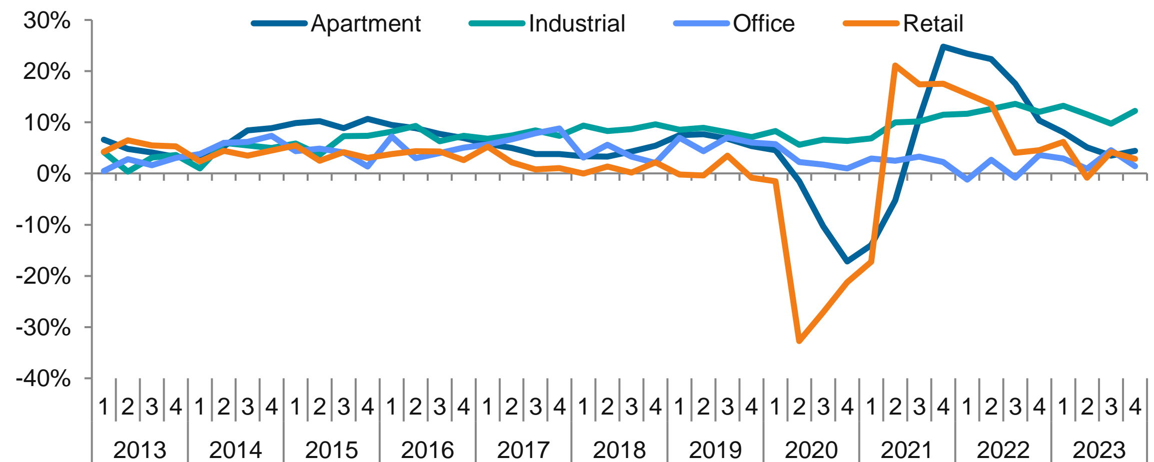
Mixed vacancy and NOI growth results

- Vacancy rates increased slightly in all sectors.
- Vacancy rates are above long-term averages for Apartment, Office, and Retail, but below long-term averages for Industrial.
- Net operating income growth decreased in Office and Retail, but increased in Apartment and Industrial.
- Overall, fundamentals remain relatively strong in Apartment, Industrial, Grocery-Anchored Retail, and many alternative sectors.

Vacancy by Property Type



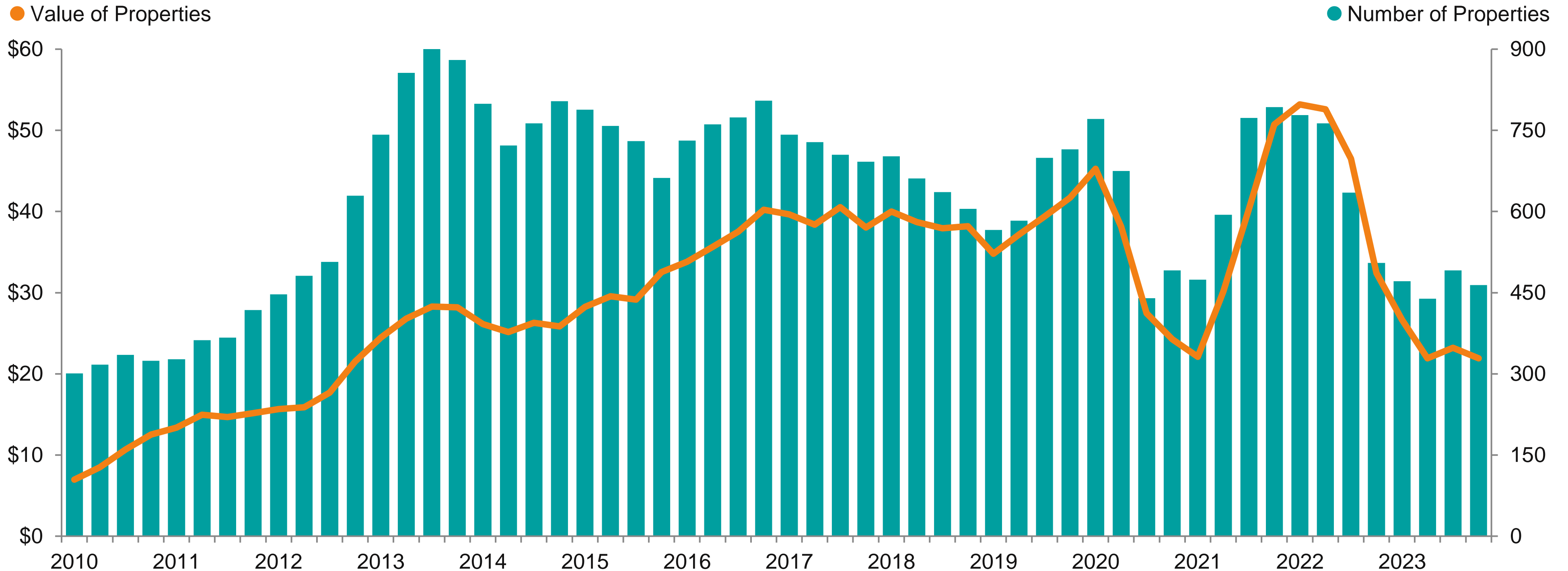
NCREIF Property Index Rolling 4-Quarter NOI Growth by Property Type



Source: NCREIF

U.S. Private Real Estate Market Trends

Pricing and transaction volumes decline through 4Q23



– Transaction volume continues to flatten on a rolling four-quarter basis and remains well below five-year averages.
– In 4Q23 transaction volume decreased slightly on a quarter-over-quarter basis. Transaction volume remains significantly lower compared to 2022.
– The rise in interest rates is the driving force behind the slowdown in transactions. A bid-ask spread remains and price discovery continues to occur among market participants. Values continue to reset adjusting to current base rates.

Source: NCREIF

Alameda County Employees' Retirement Association Performance Measurement Report Summary

Portfolio Measurement Presentation

This is the Performance Measurement Report presentation for the Alameda County Employees' Retirement Association ("ACERA") Real Estate Portfolio ("Portfolio") Quarter ending December 31, 2023 ("Quarter").

Funding Status as of December 31, 2023

	($) Millions	(%)
ACERA Plan Assets	11,249.925	100.00%
Real Estate Target(1)	1,012.493	9.00%
Plan's Real Estate Market Value	783.493	6.96%
Net Unfunded Commitments	96.385	0.86%
RE Market Value & Unfunded Commitments	879.878	7.82%
Remaining Allocation	229.001	2.04%

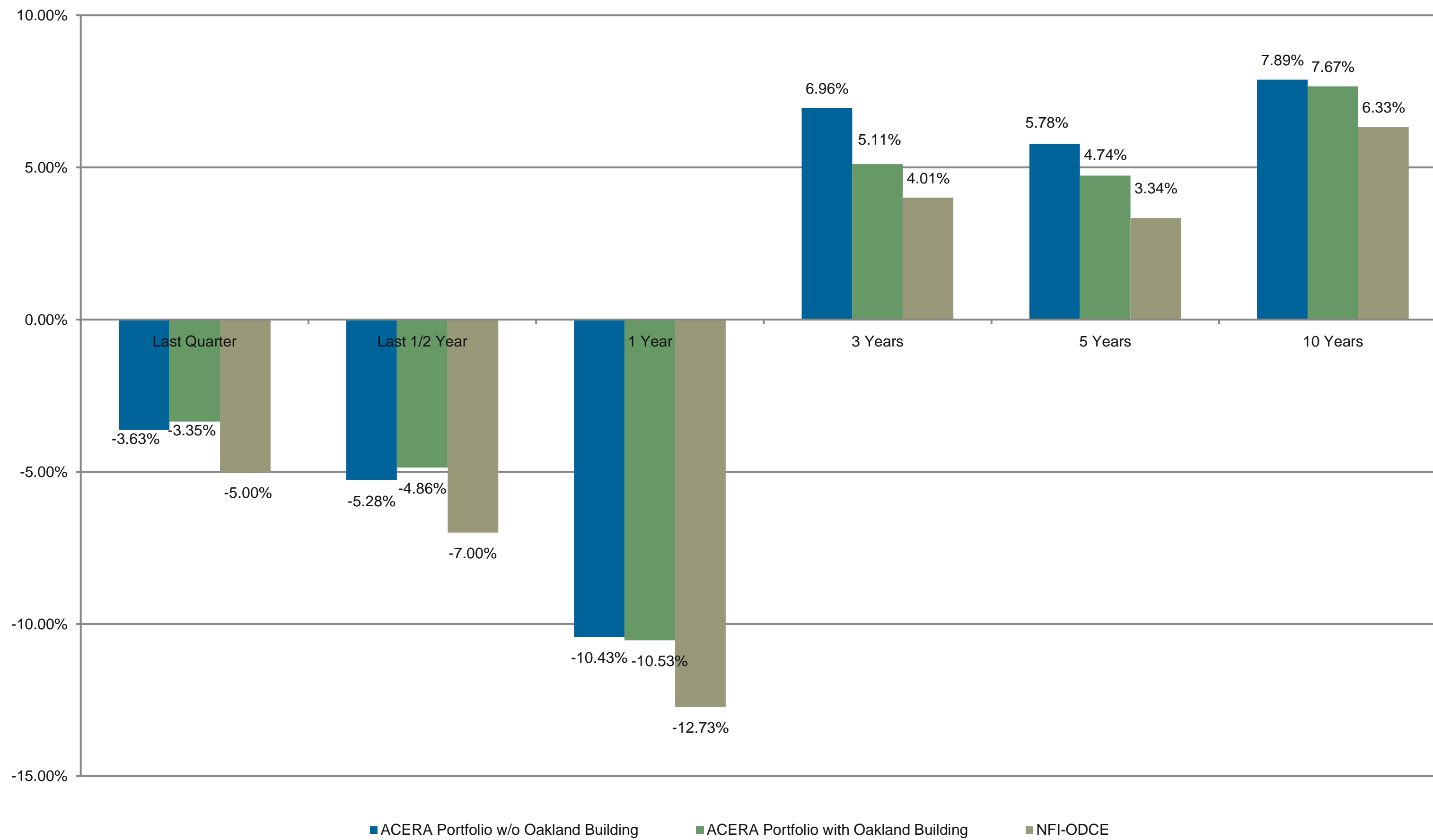
Portfolio Composition

Portfolio Composition	Target	Funded	Funded & Committed
Core	60% - 100%	42.39%	37.75%
Core-Plus	0% - 30%	26.12%	23.26%
Value-Add	0% - 30%	20.86%	24.14%
Opportunistic	0% - 15%	10.62%	14.84%

(1) The real estate target changed from 8% to 9% effective 6/30/2021.

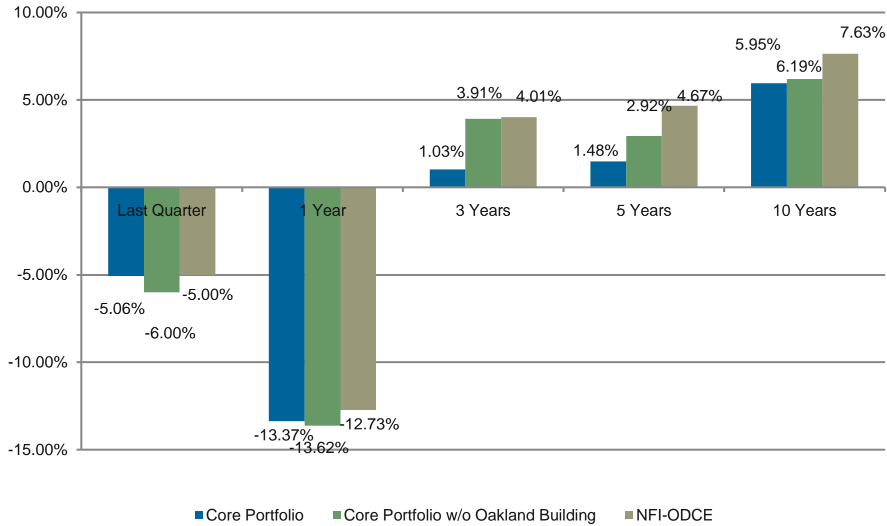
Portfolio Net Returns

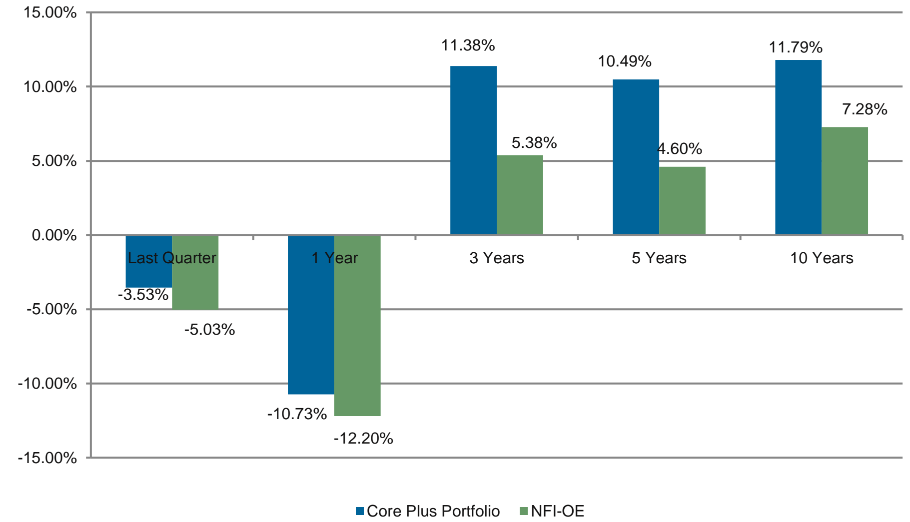
For Period Ended December 31, 2023

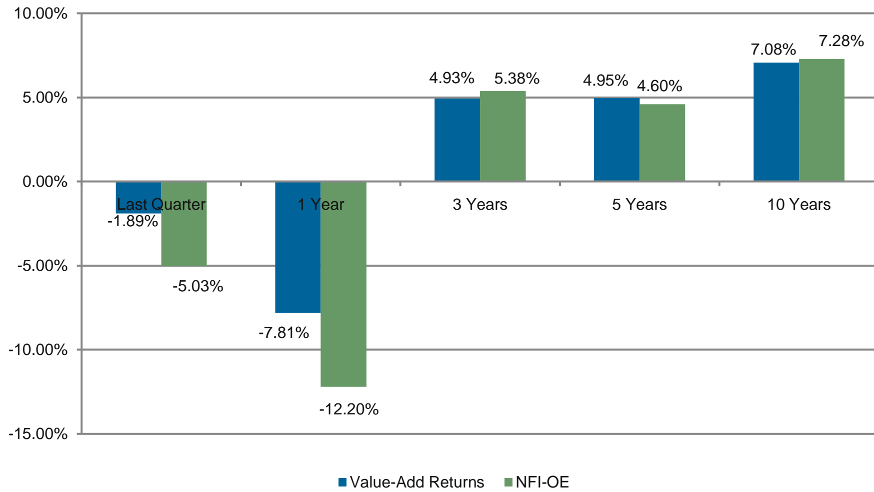


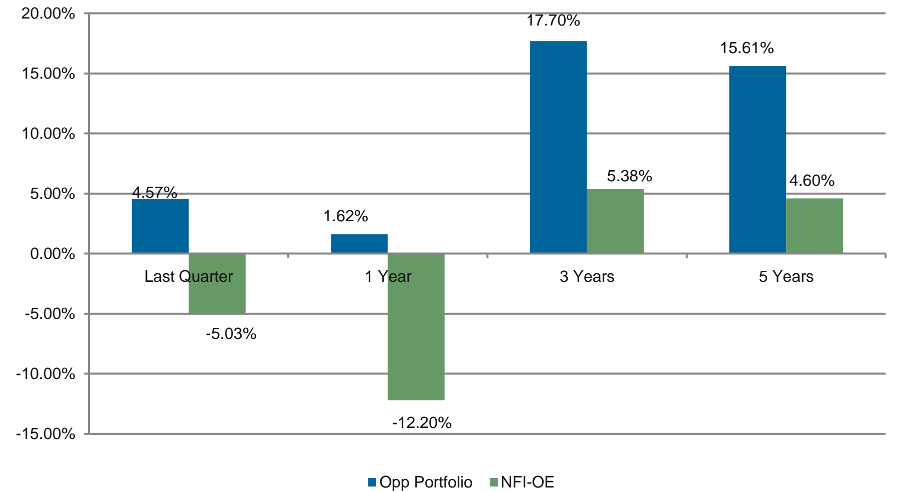
Portfolio Returns by Style

For Period Ended December 31, 2023









Portfolio Returns by Style

For Period Ended December 31, 2023

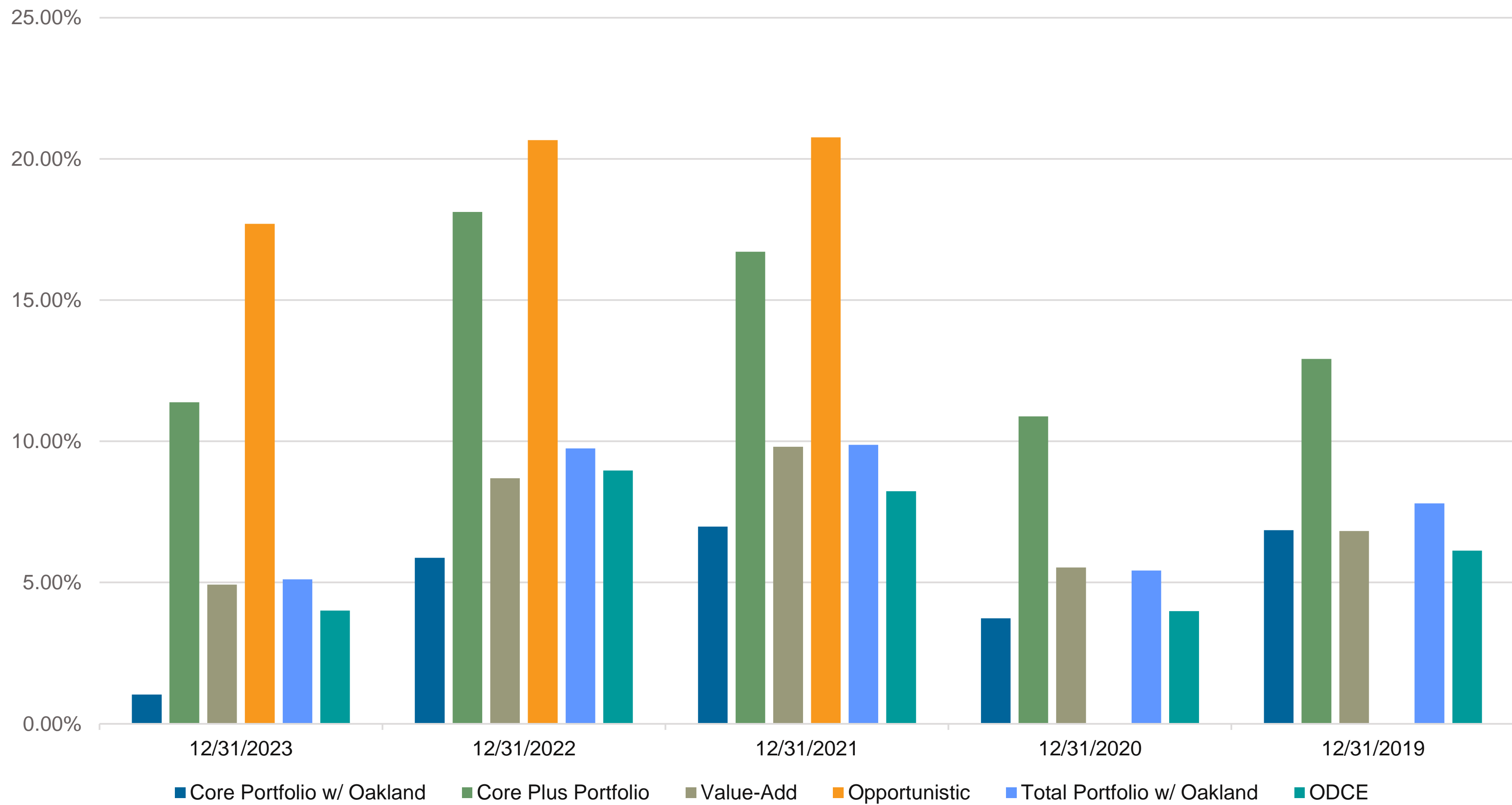
Net Portfolio w/o Oakland Building	Last Quarter	1 Year	3 Years	5 Years	10 Years
Core Portfolio w/o Oakland Building	-6.00%	-13.62%	3.91%	2.92%	6.19%
Core Plus Portfolio	-3.53%	-10.73%	11.38%	10.49%	11.79%
Value-Add Portfolio	-1.89%	-7.81%	4.93%	4.95%	7.08%
Opportunistic Portfolio	4.57%	1.62%	17.70%	15.61%	
Total Portfolio w/o Oakland Building	**-3.63%**	**-10.43%**	**6.96%**	**5.78%**	**7.89%**

Net Total Portfolio	Last Quarter	1 Year	3 Years	5 Years	10 Years
Core Portfolio	-5.06%	-13.37%	1.03%	1.48%	5.95%
Core Plus Portfolio	-3.53%	-10.73%	11.38%	10.49%	11.79%
Value-Add Portfolio	-1.89%	-7.81%	4.93%	4.95%	7.08%
Opportunistic Portfolio	4.57%	1.62%	17.70%	15.61%	
Total Portfolio	**-3.35%**	**-10.53%**	**5.11%**	**4.74%**	**7.67%**

Rolling 3 Year Returns

For Period Ended December 31, 2023

Total Net Real Estate Portfolio Returns



Performance Drivers and Detractors by Style

Core Portfolio (Excluding Oakland Building)

- The ACERA Core Portfolio outperformed the NFI-ODCE Value Weight Index (Net) by 33 bps for the half year ending 12/31/2023.
- Aside from the Oakland Building Portfolio, which generated a positive return, the strongest performers were the UBS Trumbull Property Fund and Heitman HART, which outperformed the benchmark.
- JP Morgan Strategic Fund was the largest detractor from performance.

Core Plus Portfolio

- The Core Plus Portfolio outperformed the NFI-OE Value Weight Index (Net) by 315 bps for the half year ending 12/31/2023.

Value-Add Portfolio

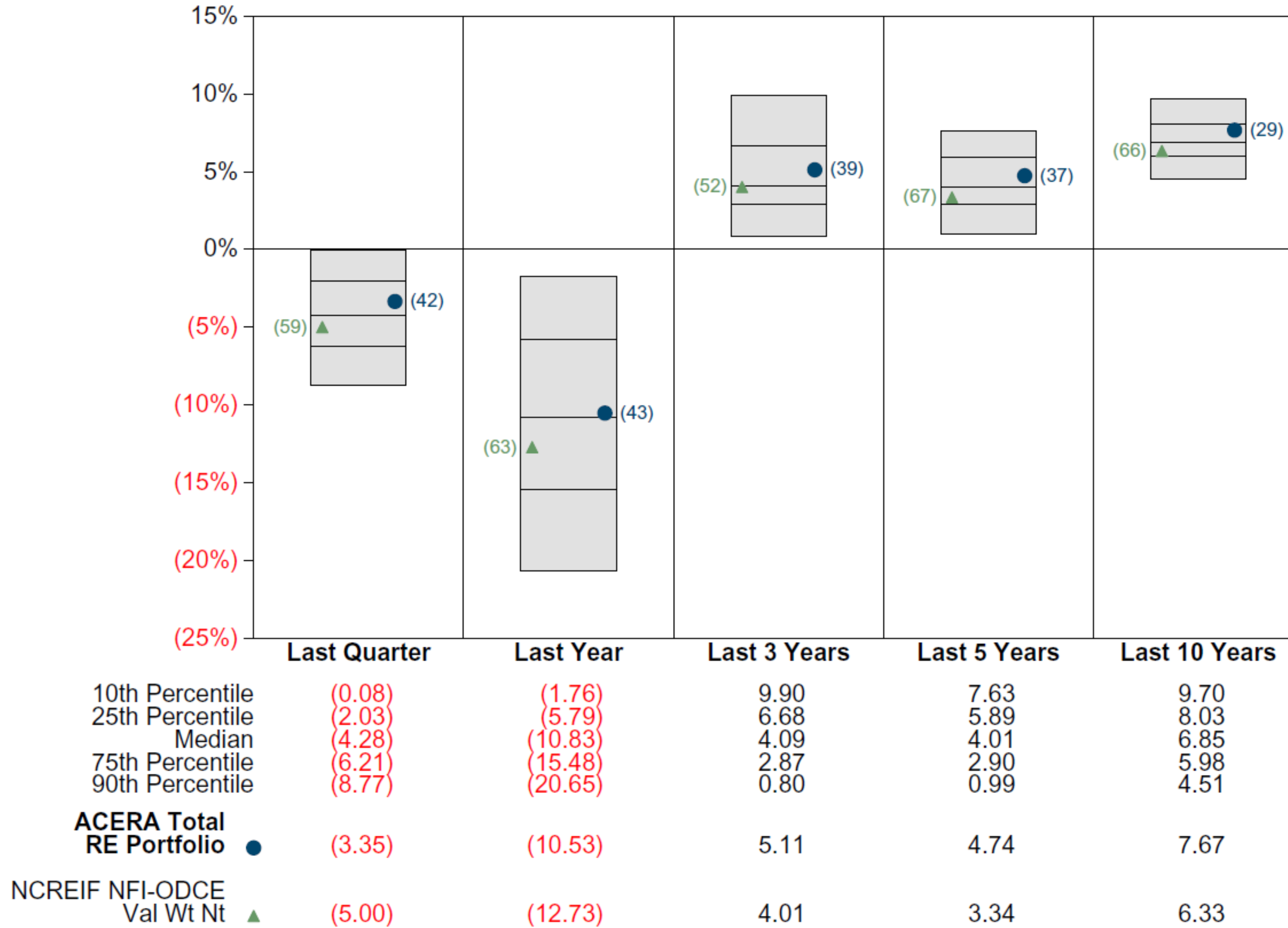
- The Value-Add Portfolio outperformed the NFI-OE Value Weight Index (Net) by 242 bps for the period.
- Artemis Healthcare Fund I and Artemis Healthcare Fund II were the primary drivers of performance.

Opportunistic Portfolio

- The Opportunistic Portfolio outperformed the NFI-OE Value Weight Index (Net) by 492 bps for the period.
- AEW Partners IX and AEW Partners VIII were the primary drivers of performance.

Performance vs. Peer Group

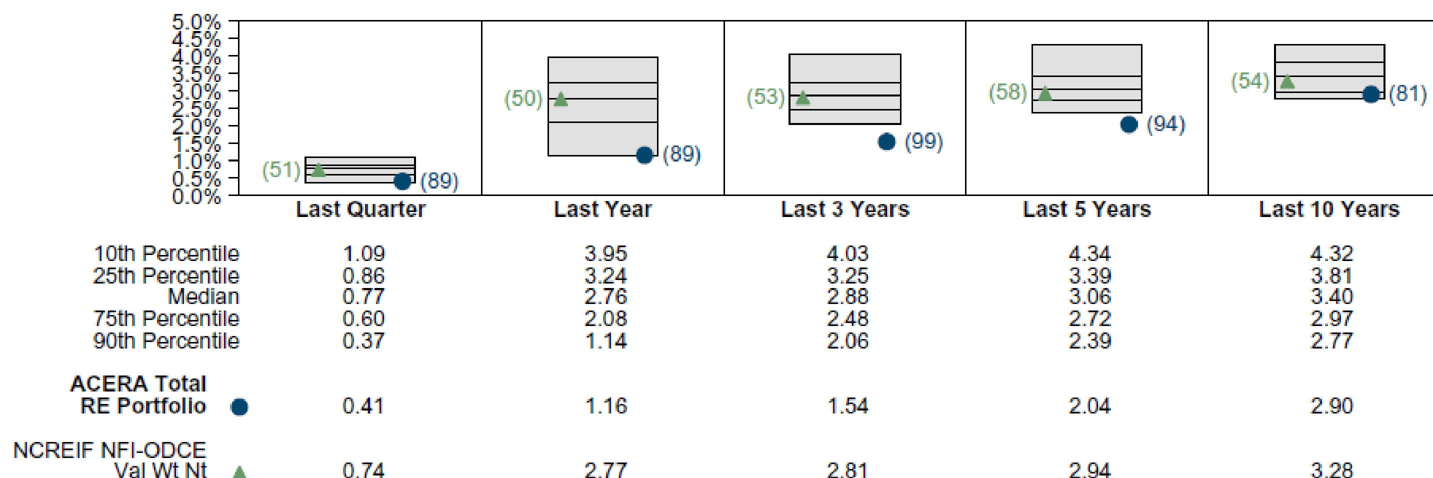
For Period Ended December 31, 2023



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	(0.08)	(1.76)	9.90	7.63	9.70
25th Percentile	(2.03)	(5.79)	6.68	5.89	8.03
Median	(4.28)	(10.83)	4.09	4.01	6.85
75th Percentile	(6.21)	(15.48)	2.87	2.90	5.98
90th Percentile	(8.77)	(20.65)	0.80	0.99	4.51
ACERA Total RE Portfolio ●	(3.35)	(10.53)	5.11	4.74	7.67
NCREIF NFI-ODCE Val Wt Nt ▲	(5.00)	(12.73)	4.01	3.34	6.33

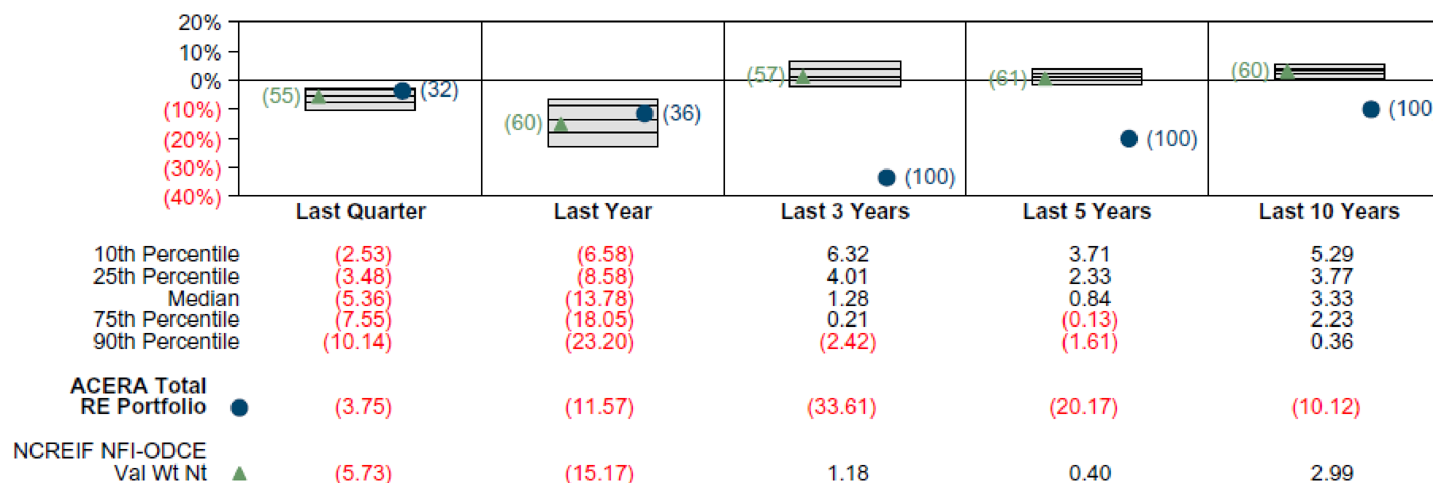
Performance vs. Peer Group

Income Rankings vs Callan OE Core Cmngld RE
Periods ended December 31, 2023



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	1.09	3.95	4.03	4.34	4.32
25th Percentile	0.86	3.24	3.25	3.39	3.81
Median	0.77	2.76	2.88	3.06	3.40
75th Percentile	0.60	2.08	2.48	2.72	2.97
90th Percentile	0.37	1.14	2.06	2.39	2.77
ACERA Total RE Portfolio ●	0.41	1.16	1.54	2.04	2.90
NCREIF NFI-ODCE Val Wt Nt ▲	0.74	2.77	2.81	2.94	3.28

Appreciation Rankings vs Callan OE Core Cmngld RE
Periods ended December 31, 2023

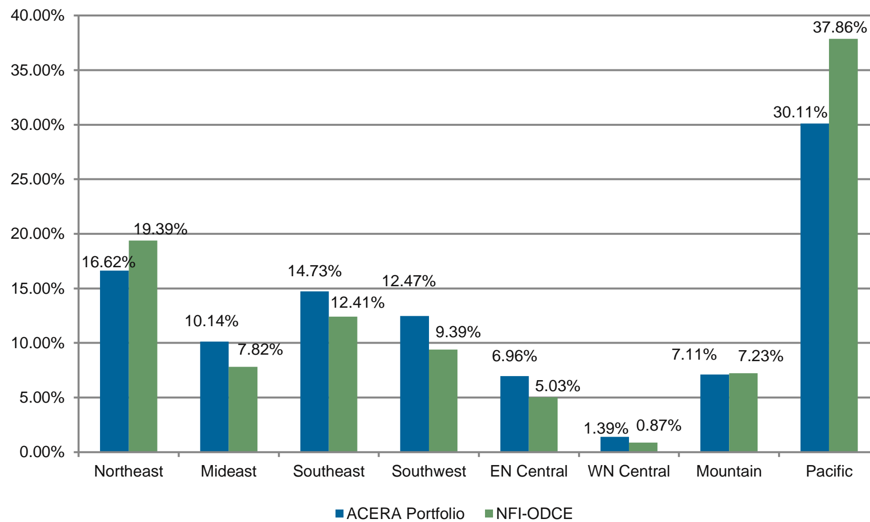


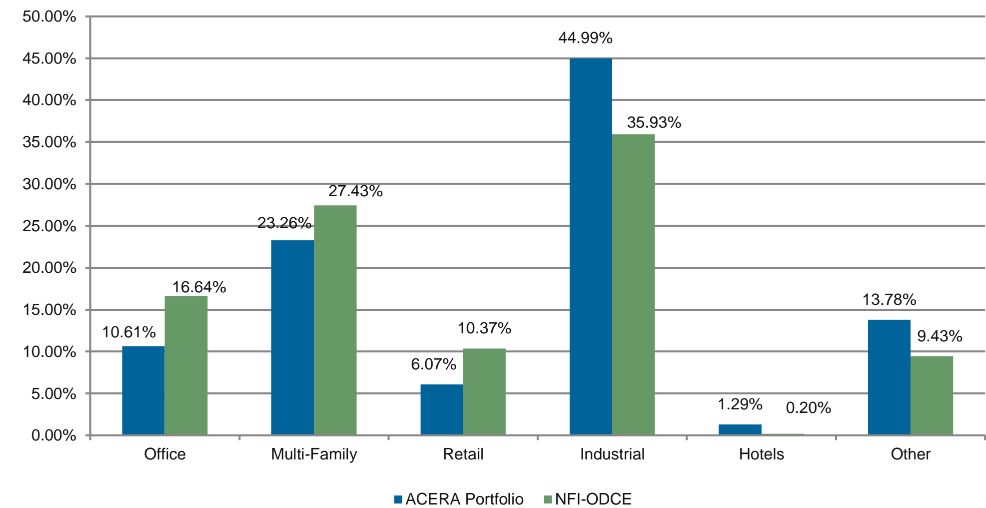
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	(2.53)	(6.58)	6.32	3.71	5.29
25th Percentile	(3.48)	(8.58)	4.01	2.33	3.77
Median	(5.36)	(13.78)	1.28	0.84	3.33
75th Percentile	(7.55)	(18.05)	0.21	(0.13)	2.23
90th Percentile	(10.14)	(23.20)	(2.42)	(1.61)	0.36
ACERA Total RE Portfolio ●	(3.75)	(11.57)	(33.61)	(20.17)	(10.12)
NCREIF NFI-ODCE Val Wt Nt ▲	(5.73)	(15.17)	1.18	0.40	2.99

Diversification & Debt

Diversification – Total Portfolio (excluding Oakland Building)

- The ACERA Portfolio is well diversified by both property type and region.
- The portfolio has an overweight to the industrial and alternative sectors, and an underweight to the office and retail sectors.
- The portfolio has an overweight to the South, Mideast, and Midwest, and an underweight to the Northeast and Pacific regions.





Debt Compliance

- The ACERA Strategic Plan limits leverage to 40.0% at the Portfolio level. As of December 31, 2023, the loan-to-value ("LTV") ratio of the Portfolio was 37.12%.

APPENDIX

Definitions

Performance

Capitalization rate: Commonly known as cap rate, is a rate that helps in evaluating a real estate investment. Cap rate = Net operating income / Current market value (Sale price) of the asset.

Net operating income: Commonly known as NOI, is the annual income generated by an income-producing property, taking into account all income collected from operations, and deducting all expenses incurred from operations.

Real Estate Appraisal: The act of estimating the value of a property. A real estate appraisal may take into account the quality of the property, values of surrounding properties, and market conditions in the area.

Income Return ("INC"): Net operating income net of debt service before deduction of capital items (e.g., roof replacement, renovations, etc.)

Appreciation Return ("APP"): Increase or decrease in an investment's value based on internal or third party appraisal, recognition of capital expenditures which did not add value, uncollectible accrued income, or realized gain or loss from sales.

Total Gross Return ("TGRS"): The sum of the income return and appreciation return before adjusting for fees paid to and/or accrued by the manager.

Total Net Return ("TNET"): Total gross return less Advisor fees reported. All fees are requested (asset management, accrued incentives, paid incentives). No fee data is verified. May not include any fees paid directly by the investor as opposed to those paid from cash flows.

Inception Returns: The total net return for an investment or portfolio over the period of time the client has had funds invested. Total portfolio Inception Returns may include returns from investments no longer held in the current portfolio.

Net IRR: IRR after advisory fees, incentive, and promote. This includes actual cash flows and a reversion representing the LP Net Assets at market value as of the period end reporting date.

Equity Multiple: The ratio of Total Value to Paid-in-Capital (TVPIC). It represents the Total Return of the investment to the original investment not taking into consideration the time invested. Total Value is computed by adding the Residual Value and Distributions. It is calculated net of all investment advisory and incentive fees and promote.

Definitions

Style Groups

The Style Groups consist of returns from commingled funds with similar risk/return investment strategies. Investor portfolios/investments are compared to comparable style groupings.

Core: Direct investments in operating, fully leased, office, retail, industrial, or multifamily properties using little or no leverage (normally less than 30%).

Value-Added: Core returning investments that take on moderate additional risk from one or more of the following sources: leasing, re-development, exposure to non-traditional property types, the use of leverage.

Opportunistic: Investments that take on additional risk in order to achieve a higher return. Typical sources of risks are: development, land investing, operating company investing, international exposure, high leverage, distressed properties.

Definitions

Indices

Stylized Index: Weights the various style group participants so as to be comparable to the investor's portfolio holdings for each period.

Open-End Diversified Core Equity Index ("ODCE"): A core index that includes only open-end diversified core strategy funds with at least 95% of their investments in U.S. markets. The ODCE is the first of the NCREIF Fund Database products, created in May 2005, and is an index of investment returns reporting on both a historical and current basis (24 active vehicles). The ODCE Index is capitalization-weighted and is reported gross and net of fees. Measurement is time-weighted and includes leverage.

NCREIF Fund Index Open-End Index ("OE"): NFI-OE is an aggregate of open-end, commingled equity real estate funds with diverse investment strategies. Funds comprising NFI-OE have varied concentrations of sector and region, core and non-core, leverage, and life cycle.

NAREIT Equity Index: This is an index of Equity Real Estate Investment Trust returns reflecting the stock value changes of REIT issues as determined through public market transactions.

Definitions

Cash Flow Statements

Beginning Market Value: Value of real estate, cash, and other holdings from prior period end.

Contributions: Cash funded to the investment for acquisition and capital items (i.e., initial investment cost or significant capital improvements).

Distributions: Actual cash returned from the investment, representing distributions of income from operations.

Withdrawals: Cash returned from the investment, representing returns of capital or net sales proceeds.

Ending Market Value: The value of an investment as determined by actual sales dollars invested and withdrawn plus the effects of appreciation and reinvestment; market value is equal to the ending cumulative balance of the cash flow statement (NAV).

Unfunded Commitments: Capital allocated to managers which has not yet been called for investment. Amounts are as reported by managers.

Remaining Allocation: The difference between the ending market value + the unfunded commitments and the target allocation. This figure represents dollars available for allocation.

NCREIF Region Map

GEOGRAPHIC REGIONS and DIVISIONS

PACIFIC
Alaska
California
Hawaii
Oregon
Washington

MOUNTAIN
Arizona
Colorado
Idaho
Montana
Nevada
New Mexico
Utah
Wyoming

WEST NO. CENTRAL
Iowa
Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

EAST NO. CENTRAL
Illinois
Indiana
Michigan
Ohio
Wisconsin

NORTHEAST
Connecticut
Maine
Massachusetts
New Hampshire
New Jersey
New York
Pennsylvania
Rhode Island
Vermont

MIDEAST
Delaware
Kentucky
Maryland
North Carolina
South Carolina
Virginia
Washington, DC
West Virginia

SOUTHWEST
Arkansas
Louisiana
Oklahoma
Texas

SOUTHEAST
Alabama
Florida
Georgia
Mississippi
Tennessee

WEST
PACIFIC
MOUNTAIN
MIDWEST
WEST NORTH CENTRAL
EAST NORTH CENTRAL
EAST
NORTHEAST
MIDEAST
SOUTH
SOUTHWEST
SOUTHEAST
ALASKA
HAWAII

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Verus

Period Ending: December 31, 2023

Investment Performance Review

Private Markets

Alameda County Employees' Retirement Association

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- By Geography
- By Industry
- By Vintage Year

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Market Commentary

DEBT RELATED

— **HY issuance was up, but Leveraged Loan issuance was down.** In 2023, US High Yield issuance at $152.9 billion was up 58.4% compared to 2022[1]. US Leverage Loan issuance volume was $876.9 billion in 2023, down 17.3% / $183.3 million from the $1,060.2 billion in 2022[1]. In Europe, 2023 new issue LBO Loan volume at $28.6 billion was down 21.0% from 2022 and down 79.2% from $137.7 billion peak in 2007[4].

— **Spreads tightened across the board.** US HY Credit Index decreased by 128bps or down by 26.1%[2] versus last year. BB and B index tightened by 48 bps and 195 bps, decreasing by 13.2%[2] and 28.2%[2] versus 2022. In the meantime, CCC index spread decreased by 14.1%[2] in 2023 from 2022.

— **Decline in both interest coverage and large LBO leverage in both US and Europe.** In the US, interest coverage averaged 2.4x (EBITDA / cash interest), down 22.1% from 2022[3]. Large Corp total leverage averaged 4.9x (debt / EBITDA) in 2023 for US new issue loans, down 17.8% from 2022[3]. In Europe, leverage multiples decreased 6.3% to 5.3x in 2023[4], down from 13.1% from peak in 2007[4].

GLOBAL

— **Private Markets dry powder increased slightly globally.** In 2023, global total dry powder was at $3.1 trillion, up by 0.9% from 2022[5]. Global total PE ex Venture Capital dry powder was up by 0.1% to $1.6 trillion[5]. Global Venture Capital dry powder was down by 0.1% to $657.3 billion[5]. Global Private Debt dry powder was up by 4.1% to $506.2 billion[5].

US PRIVATE EQUITY (BUYOUT & GROWTH)

— **Buyout fundraising activity increased while Growth strategy decreased.** In 2023, US Buyout firms raised $301.7 billion, up by 4.3% from 2022[5]. Average fund size was up 111.3%, from $449.0 million in 2022 to $948.7 million in 2023[5]. US Growth strategy raised $72.6 billion, down by 18.8% from $89.4 billion in 2022.

— **Investment activity was down.** In 2023, US buyout firms invested in $563.6 billion[5] (-31.6% from 2022) into 5,207 deals[5] (-27.1%)[5]. Energy and IT sectors declined the most, down from 2022 by 55.9% and 50%, respectively. Materials & resources sector invested the most capital ($22.3 billion[5], +28.9% from 2022. B2B completed the most number of deals (2,631 deals[5], -20.8% from 2022). US Growth strategy deployed $81.7 billion[5], down by 9.8% from $90.6 billion[5] of 2022.

— **Dry powder increased.** In 2023, US private equity dry powder was $1.3 trillion[5], up by 1.9% from 2022.

- **LBO price multiples down.** As of December 31, 2023, US LBO purchase price multiple (Enterprise Value / EBITDA) was at 10.8x[6] , an 8.6% decrease from December 31, 2022[6].
- **Exit activity decreased.** During 2023, US private equity firms exited 1,121 companies[5], representing $282.1 billion[5] in total transaction value. This represented a 17.4% decrease in the number of exits and a 7.8% decrease in total transaction value compared to 2022[5].

US VENTURE CAPITAL

- **Fundraising activity dropped significantly with ncreased fund size.** US VC firms raised $66.   billion in 2023, a 61.3% decrease from 2022[5]. 474 funds closed in 2023, a 64.6% decrease from 2022[5]. The average US VC fund size increased to $141.1 million by 9.4% versus 2022[5].
- **Investment activity decreased.** US VC firms deployed $170.6 billion[5] in capital in 2023, a 29.6% decrease from last year. The number of deals closed at 15,766[5], a 10.4% decrease from 2022. Average deal size decreased 21.4% from 2022.
- **Dry powder increased.** In 2023, US VC dry powder was at $311.6 billion[5], up 3.9% from a year ago.
- **Entry valuations and deal sizes mixed by stage:**
  - **Entry valuations.** Compared to December 31, 2022, the average pre-money valuations for all stages in 2023 are: down 5.0% at $5.7 million[5] for Pre-seed stage, up 9.1% at $12.0 million[5] for Seed stage, down 17.0% at $38.3 million[5] for early-stage VC, and down 17.7% at $50.0 million[5] for late-stage VC.
  - **Deal sizes.** Average deal size increased for Pre-seed stage by 0.8% to $1.0 million[5]. In the meantime, average deal size decreased for Seed stage, Early stage and Late stage by 11.4% to $3.8 million[5], 42.5% to $7.3 million[5] and 6.8% at $18.7 million[5], respectively. Across all stages, the average investment per deal decreased to $7.7 million, a 19.0% decrease from prior year[5]. Compared to 2020, the average deal size of Pre-seed-, Seed-, Early- and Late-stage investments were +83.7%, +45.3%, -32.2%, and -5.0%, respectively[5].
- **Exit activity decreased significantly with smaller transactions.** US VC firms exited 1,129 companies in 2023, down by 19.4% from the same time last year, and down by 11.0% from three years ago[5]. This represented $61.5 billion in transaction value, down by 21.8% from 2022, and down by 78.9% from 2020[5]. Largest sectors exited were Software and Commercial Products & Services.

EX US

- **Ex-US fundraising activity was down.** In 2023, ex-US fundraising decreased 11.9% from the same time in 2022 to $571.1 billion[5]. Fundraising in Asia decreased by 38.0% to $107.8 billion[5], while Europe was up by 27.2% to $149.3 billion[5].

Market Commentary

For Period Ending December 31, 2023

— **Capital deployment decreased by VCs and Buyout managers in Europe and Asia.**

- **In both Europe and Asia, investment activity declined in Venture.** In 2023, number of deals closed decreased by 30.5% in Europe with 45.6% less in capital deployed at $63.2 billion. Similar to Europe, VCs invested $13.3 billion (66.2% decline) into 60.4% fewer deals than 2022.
- **Buyout deal activity increased in Europe but dropped in Asia; capital deployment dropped in Europe and in Asia.** In Europe, Buyout firms transacted on $464.9 billion in aggregate value (-26.5% from 2022)[5]. Asia Buyout firms invested $11.0 billion in aggregate value (-67.0% from 2022)[5].

— **Dry powder decreased ex-US.** PE dry powder outside the US decreased 2.2% to $1.0 trillion[5] as of December 31, 2023. Dry powder outside the US was 19.8% less than dry powder in the US ($1.3 trillion)[5].

- **Europe VC and Buyout dry powder both down.** VC at $75.8 billion and Buyout at $346.0 billion were down 3.6% and 1.2% from 2022, respectively[5].
- **In Asia, VC and Buyout dry powder decreased.** VC at $282.9 billion and Buyout at $186.6 billion were down 3.1% and 7.9% from 2022, respectively[5].

— **Purchase price multiples increased both in Europe and Asia.** As of December 31, 2023, European Buyout median purchase price multiples increased 2.4% to 7.6x EBITDA from the same time last year[5]. Asia Buyout median purchase price multiples increased 27.4% to 5.6x from 4.4x EBITDA from 2022[5].

— **Exit activity decreased both in Europe and Asia.** Europe PE aggregate exit value amounted to $304.4 billion in 2023, a 7.5%% decrease from last year, and Asia PE exit value dropped by 14.1% to $149.6 billion[5].

Notes

1. White & Case Debt Explorer (February 29, 2024)
2. Guggenheim High-Yield Bank Loan Outlook (Q1 2024)
3. Pitchbook | LCD US Leveraged Loan Quarterly Trend Lines (April 1, 2024)
4. Pitchbook | LCD European LBO Debt Quarterly Trend Lines (Q1 2024)
5. Pitchbook (December 31, 2023)
6. Pitchbook | LCD Q1_2024_(US LBO Debt Quarterly Trend Lines (Q1 2024)

* Include Buyout, Venture Capital, Private Debt, Fund of Funds and Secondaries.

Private Equity Portfolio

Investment Type	Policy Target	Policy Range	Market Value %	Market Value $	Unfunded Commitment $	Market Value + Unfunded $
Private Equity Portfolio	**11.0%**	**8-13%**	**10.2%**	**1,148,493,090**	**591,509,229**	**1,740,002,319**
Buyout	60.0%	30-80%	60.0%	689,507,029	369,000,697	1,058,507,726
Venture Capital	20.0%	0-40%	20.2%	232,339,119	46,166,003	278,505,122
Debt-Related/Special Situations	20.0%	0-30%	19.7%	226,646,942	176,342,529	402,989,470

Portfolio Summary

- As of December 31, 2023, the Private Equity Portfolio had a total market value of $1,148,493,090, with $689,507,029 in Buyout, $232,339,119 in Venture Capital, and $226,646,942 in Debt-Related/Special Situations. Total market value is the current reported value of investments, excluding remaining unfunded commitments.
- Since its initial allocation to Private Equity in Q4 2008, ACERA has contributed $1,502,863,989 toward its Private Equity commitments. Unfunded commitments totaled $591,509,229.
- The portfolio exposure at 10.2% is below the 11.0% policy target effective January 1st, 2021, but within its 8-13% target range. Compared to December 31st, 2022, portfolio exposure is up 0.5%. All sub-asset classes are within policy range.

Portfolio Activity

- In 2023, ACERA made the following commitments:
  - $5M to Eclipse V, $50M to CD&R XII, $40M to Genstar XI, $38M to Davidson Kempner Opportunity VI, $38M to Crestline Opportunity V, $50M to Gridiron Capital V.
- ACERA transitioned Private Markets Consultant in Quarter 1 of 2024.

Performance

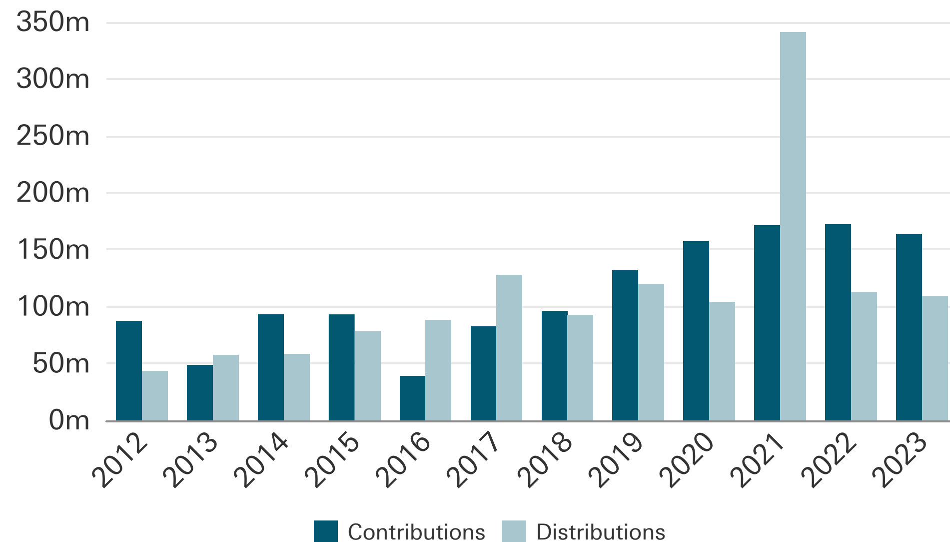
- The Total Private Equity portfolio's performance, as measured by net IRR, is 15.45%, 106 bps above the Refinitiv C/A Global All PE Benchmark 14.39%. Portfolio returns rank above median on all measures: net IRR and Total Value Multiple (TVPI), and Distribution Multiple (DPI).
- The portfolio is currently valued at $1,148,493,090. Together with $1,355,688,826 in realized distributions, the Total Value at $2,504,181,916 is $1,001,317,927 above $1,502,863,989 in total capital contributions, resulting in a total value multiple of 1.67x and a distribution multiple of 0.90x.

Attribution of returns:

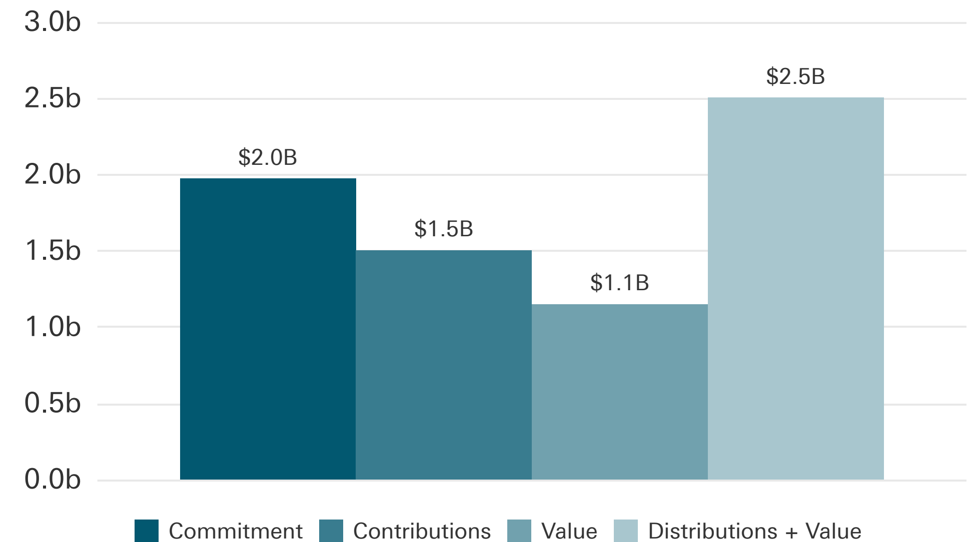
- Buyouts is up $534,066,083 / 1.63x (Great Hill VI & JLL Partners leading), with .82x of called capital realized and distributed.
- Venture Capital is up $353,518,864 / 2.63x cost (General Catalysts VI & Khosla IV leading), with 1.56x of called capital realized and distributed.
- Debt-Related, up $111,855,261 / 1.26x cost (Centerbridge Special Credit & OHA II leading), with 0.74x of called capital realized and distributed.

- Within the Total Private Equity, the current allocation of market value exposure by strategy is 60.0% to Buyout, 20.2% to Venture Capital, and 19.7% to Debt-Related.

Cash Flows on Annual Basis as of December 31,



Cumulative Cash Flow and Valuation as of December 31,

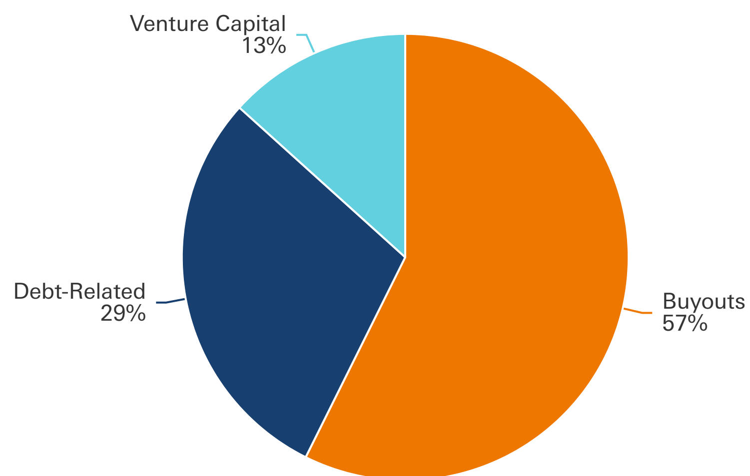


	1 Year	3 Year	5 Year	10 Year	Since Inception
Total Private Equity	**13.04%**	**15.08%**	**17.86%**	**16.34%**	**15.45%**
Refinitiv C/A Global All Private Equity Benchmark [1]	*5.89%*	*11.15%*	*14.88%*	*14.00%*	*14.39%*
Buyout	**15.93%**	**21.44%**	**19.50%**	**16.11%**	**15.32%**
Refinitiv C/A Global Buyout Benchmark [1]	*10.07%*	*13.42%*	*16.56%*	*15.92%*	*16.02%*
Venture Capital	**7.65%**	**8.98%**	**23.63%**	**22.76%**	**21.09%**
Refinitiv C/A Global Venture Capital & Growth Equity Benchmark [1]	*-0.25%*	*6.44%*	*16.42%*	*16.48%*	*16.61%*
Debt-Related / Special Situation	**10.62%**	**8.86%**	**7.26%**	**7.03%**	**9.23%**
Refinitiv C/A Global All Debt Benchmark [1]	*7.70%*	*11.91%*	*10.79%*	*9.70%*	*11.34%*

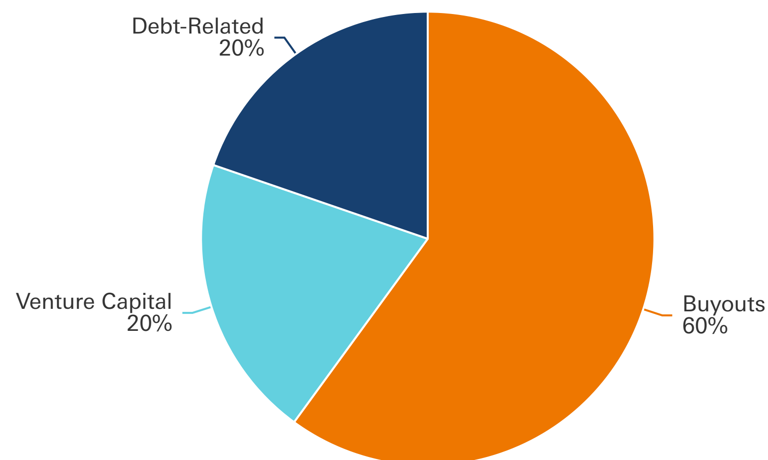
1 Benchmarks: Refinitiv C/A as of 12/31/2023, vintage 2008 through present.
2 ACERA's inception date of November 21, 2008 vs. Refiniv C/A's inception date of January 1, 2008.

Investment Type	Commitment	Reported Value
Buyouts	$1,131,119,831	$689,507,029
Debt-Related	$578,688,092	$226,646,942
Venture Capital	$262,600,000	$232,339,119
Total	**$1,972,407,923**	**$1,148,493,090**

Commitment Exposure by Fund Type



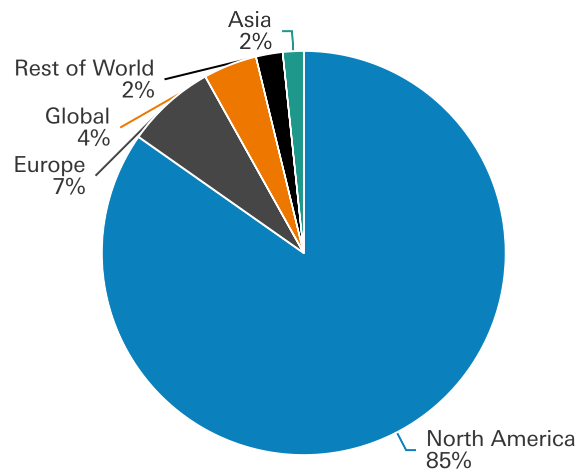
Current Exposure by Fund Type



Geography	Reported Value
Global	$3,317,356
North America	$970,726,706
Europe	$60,094,910
Asia	$12,820,219
Rest of World	$28,238,710
Total	**$1,075,197,901**

*Values exclude AG Credit Solutions Fund II, AG CSF2A Dislocation, Centerbridge Special Credit Partners, & Partners Group Secondary 2008 due to lack of specific investment information

Reported Value by Geography

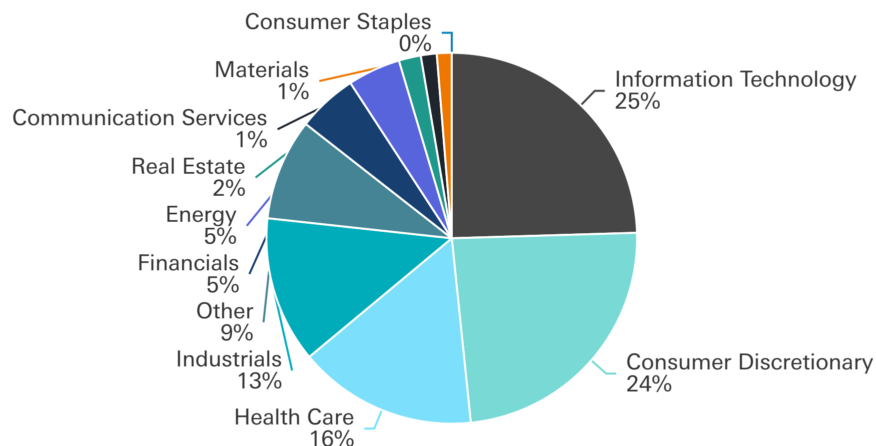


Based on the value of portfolio companies and fund reported exposures as of December 31, 2023. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Global Industry Classification Standard	Reported Value
Communication Services	$6,399,589
Consumer Discretionary	$228,939,345
Consumer Staples	$7,405
Energy	$45,421,326
Financials	$89,837,227
Health Care	$177,657,413
Industrials	$116,330,551
Information Technology	$276,285,722
Materials	$10,941,775
Real Estate	$19,152,731
Utilities	$5,702,979
Other	$98,521,838
Total	**$1,075,197,901**

*Values exclude AG Credit Solutions Fund II, AG CSF2A Dislocation, Centerbridge Special Credit Partners, & Partners Group Secondary 2008 due to lack of specific investment information

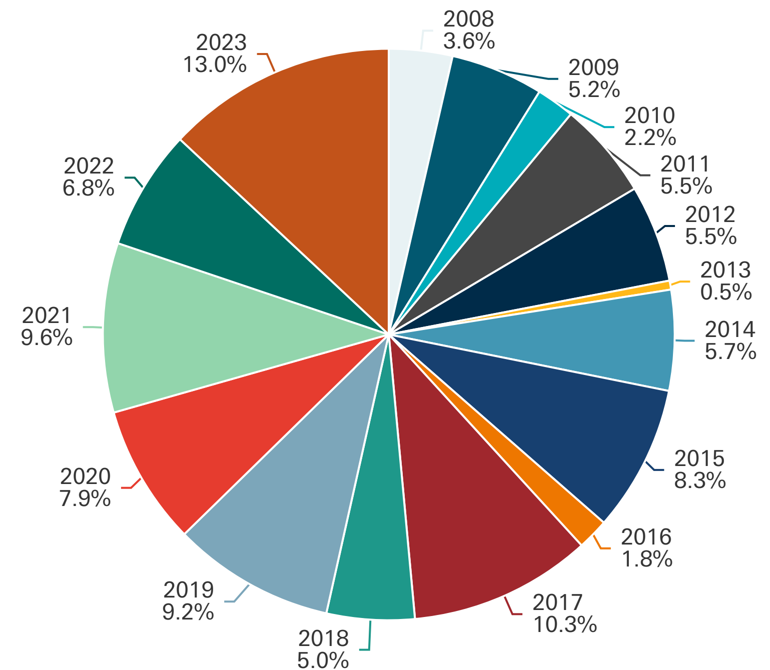
Reported Value by Industry



Based on the value of portfolio companies and fund reported exposures as of December 31, 2023. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Vintage Year	Commitments	Reported Value
2008	$70,790,940	$6,833,364
2009	$103,500,000	$12,728,274
2010	$42,500,000	$20,453
2011	$108,189,282	$45,361,221
2012	$108,500,000	$74,604,707
2013	$10,000,000	$435,876
2014	$112,080,000	$80,767,529
2015	$163,250,000	$122,045,147
2016	$35,000,000	$29,011,706
2017	$203,522,152	$164,720,310
2018	$98,000,000	$114,226,533
2019	$181,000,000	$199,534,612
2020	$156,075,549	$104,711,273
2021	$189,000,000	$85,235,825
2022	$134,000,000	$37,754,040
2023	$257,000,000	$70,502,222
Total	**$1,972,407,923**	**$1,148,493,090**

Commitments by Vintage Year



Verus

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Private Credit Portfolio

	Policy Target	Policy Range	Market Value %	Market Value $(000)	Unfunded Commitment $(000)	Market Value + Unfunded $(000)
ACERA Plan Assets - Total				**$11,249,925**		
Private Credit:	**4.0%**	**3-5%**	**2.8%**	**$314,607**	**$151,664**	**$466,271**
Private Credit	4.0%	3-5%	100.0%	$314,607	$151,664	$466,271

Portfolio Summary

- As of December 31, 2023, the Private Credit Portfolio had a total market value of $314,607,179. Total market value is the current reported value of investments, excluding remaining unfunded commitments.
- Since ACERA's initial allocation to Private Credit in Q3 2019, the Plan has contributed $315,375,532 toward its aggregate $455,000,000 commitments. Unfunded commitments total $151,663,837.
- The portfolio exposure at 2.8% is below the 4.0% policy target and policy range of 3-5%. Compared to December 31st, 2022, ACERA's private credit exposure is up 0.2%, and up 1.5% from December 31st, 2021.

Portfolio Activity

- In 2023, ACERA made a $80M commitment to Ares Senior Direct Lending Fund III.
- ACERA transitioned Private Markets Consultant in Quarter 1 of 2024.

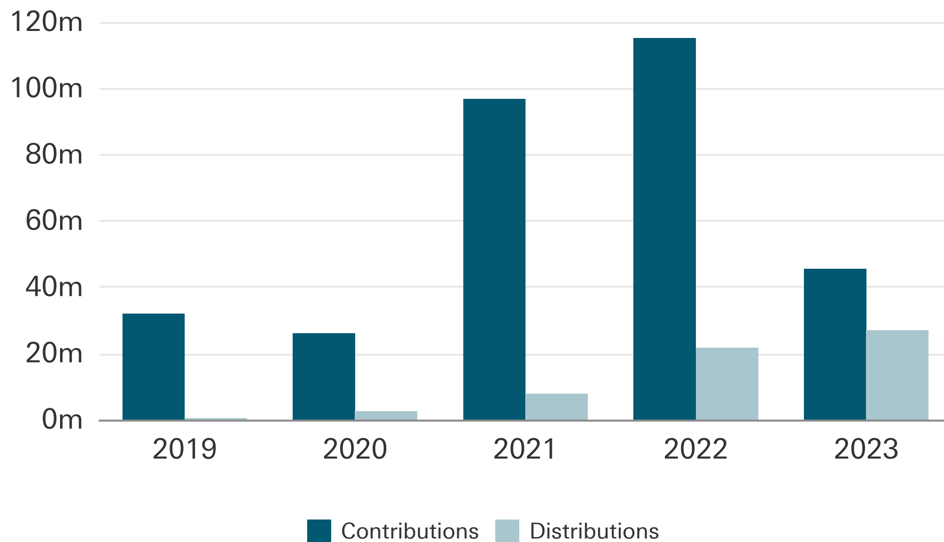
Performance

- The Private Credit's performance, as measured by net IRR, is 8.52%, 225 bps above the same cash flow invested in the Morningstar LSTA Leveraged Loan Index of 6.27%. The capital-weighted average life of investments is 1.81 years. While IRR is a meaningful measure of performance at this stage, the portfolio is still growing and not yet mature.
- The portfolio is currently valued at $314,607,179. Together with $59,306,358 in realized distributions (0.19x), the Total Value at $340,467,813 is $57,927,240 above $315,375,532 cost (1.19x TVPI), net of fees.
- Capital calls have dominated cash-flow activity thus far while new investments are made.

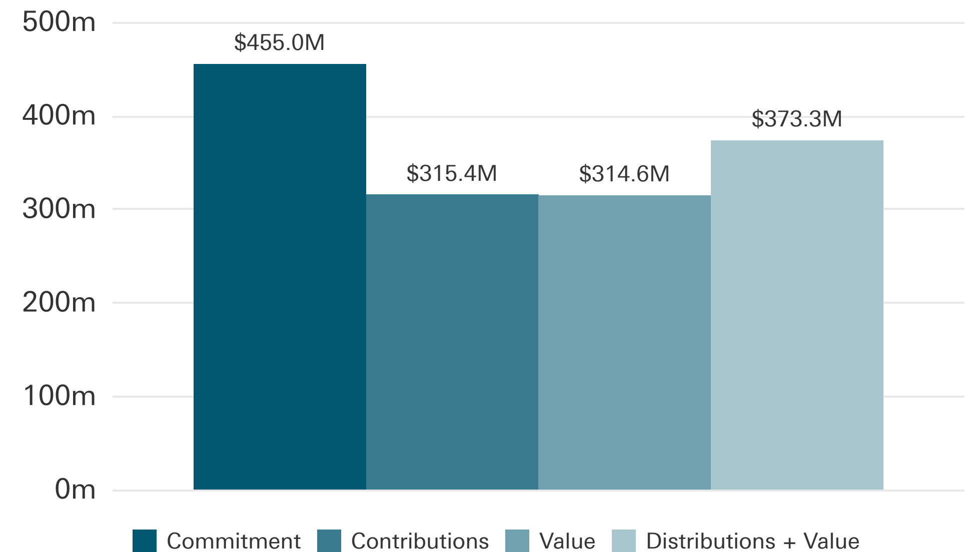
The Portfolio has five commitments to date:

Fund	Commitment
Ares Senior Direct Lending Fund II, L.P.	$70.0 M
Ares Senior Direct Lending Fund III, L.P.	$80.0 M
BlackRock Direct Lending Fund IX, L.P.	$75.0 M
HPS Specailty Loan Fund V, L.P.	$75.0 M
Monroe Private Credit Fund IV, L.P.	$75.0 M
Owl Rock First Lien LP	$80.0 M

Cash Flows on Annual Basis as of December 31,



Cumulative Cash Flow and Valuation as of December 31,



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Absolute Return Performance Report

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Hedge Fund Environment

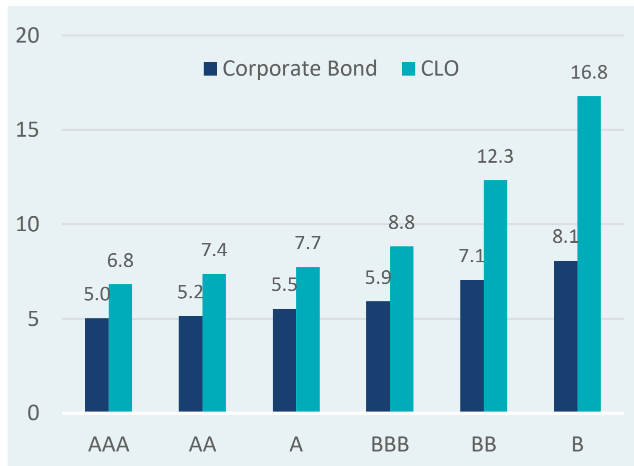
Credit hedge funds

— Structured credit hedge funds, which focus on credit sectors such as CLOs, ABS (auto, credit card, etc), MBS, and CMBS, continue to deliver strong returns relative to traditional high yield and remain competitive versus leveraged loan indices.

— Yields in those securitized markets remain wide relative to equivalent rating-risk corporate yields, with CLOs offering 150-300bps of spread in the IG tranches and up to 800bps in sub-IG tranches. Other sectors, such as CMBS, offer significantly wider spreads, evidence of the uncertainty and stress unfolding in the commercial property market.

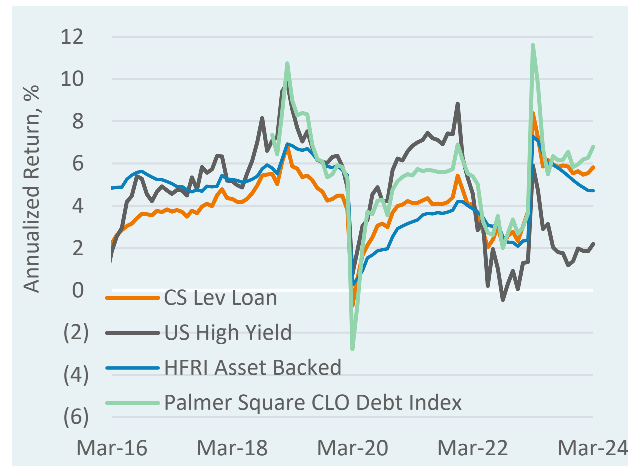
— Distressed credit hedge funds performed well after COVID due to the amount of dry powder they usually keep on hand and the abundance of opportunities created by the pandemic. More recently, they have kept up with High Yield in the last 12-18 months, and they should see their opportunity set continue to improve the longer interest rates remain elevated.

CLO VS CORPORATE BOND YIELDS



Source: Bloomberg, BofA, Federal Reserve, MPI. As of 3/31/2024

3 YEAR ROLLING RETURN



Source: CS, HFR, Bloomberg, Palmer Square, MPI

1 YEAR ROLLING RETURN

Source: Bloomberg, EurekaHedge, MPI

ACERA Performance

Allocations

Target

Sub-categories	Target Allocations	Min./Max. Ranges
AR Portfolio	**8.0%**	**5% to 10.5%**
▪ *Fund of Funds**	*6.4%*	*4% to 8%*
▪ *Other Alternatives/Opportunistic*	*1.6%*	*0% to 4.0%*

Current (as of 9/30/2023)

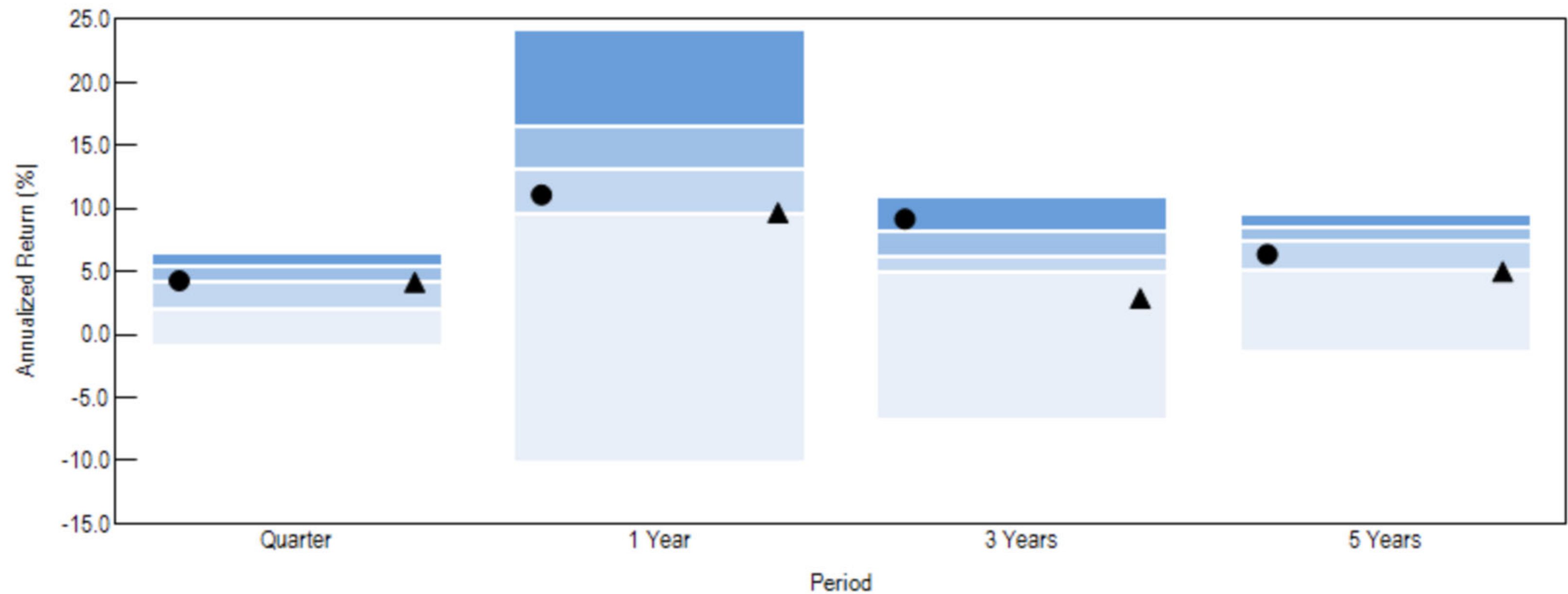
Sub-categories	Current Allocations	Min./Max. Ranges
AR Portfolio	**8.1%**	**5% to 10.5%**
▪ *Fund of Funds**	*6.4%*	*4% to 8%*
▪ *Other Alternatives/Opportunistic*	*1.7%*	0% to 4%

* Funding second Fund of One manage completed in two tranches August and September 2022.

Performance Summary

	Market Value ($)	% of Portfolio	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	Inception (%)	Inception Date
									Ending March 31, 2024							
Absolute Return*	**947,391,541**	**100.0**	**4.3**	**4.3**	**4.3**	**11.1**	**9.2**	**6.4**	**4.5**	**6.7**	**6.1**	**15.0**	**-0.6**	**1.8**	**4.5**	**Sep-11**
Absolute Return Blend			*4.2*	*4.2*	*4.2*	*9.7*	*2.9*	*5.0*	*4.3*	*6.1*	*-5.3*	*6.2*	*10.9*	*8.4*	*4.3*	*Sep-11*

Relative Performance



	Return (Rank)							
5th Percentile	6.4		24.2		11.0		9.5	
25th Percentile	5.5		16.6		8.3		8.5	
Median	4.3		13.2		6.3		7.5	
75th Percentile	2.1		9.7		5.1		5.2	
95th Percentile	-0.8		-10.1		-6.7		-1.3	
# of Portfolios	92		52		43		36	
● Absolute Return	4.3	(57)	11.1	(71)	9.2	(8)	6.4	(63)
▲ Absolute Return Blend	4.2	(57)	9.7	(76)	2.9	(87)	5.0	(78)

Portfolio Statistics* (as of 3/31/2024)

	Benchmark HFRI FoF Composite	Absolute Return Portfolio	MSCI ACWI
Max Drawdown	-9.0	-10.5	-25.3
Sharpe Ratio	0.55	0.72	0.67
Beta	0.27	0.07	1.00
Correlation to MSCI ACWI	0.82	0.24	1.00
Annualized StDev	4.8	4.1	14.6

*Since inception of AR Portfolio (9/2011)

Portfolio performance and risk targets are:

- AR portfolio returns to exceed benchmark
- Correlation to global equities less than or equal to 0.5

Appendix

Glossary

Beta - A measure of systematic (undiversifiable) or market risk, the part of risk in a portfolio or security that is attributable to general market movements. Beta is calculated by dividing the covariance of a security by the variance of the market.

Correlation – A measure of the relative movement of returns of one security or asset class relative to another over time. A correlation of 1 means the returns of two securities move in lock step, a correlation of -1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help optimize the benefits of diversification when constructing an investment portfolio.

Internal Rate of Return (IRR) – the interest rate which is the net present value of all the cash flows (both positive and negative) of an investment.

Maximum Drawdown – the maximum loss from a peak to a trough of a portfolio before a new peak attained. Maximum drawdown measures the downside risk over a specified time period.

Standard Deviation - A measure of volatility, or risk. Measures risk by indicating how far from the average, or mean, return one is likely to fall in any given time period. The rules of statistics dictate that you will fall within 1 standard deviation of the mean 2/3 of the time and within 2 standard deviations 95% of the time. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Glossary

Sharpe Ratio - A measure of that explains the return of an investment compared to its risk. The Sharpe Ratio indicates excess portfolio return for each unit of risk over the risk free rate (usually short-term Treasuries or LIBOR) per unit of volatility. The higher the Sharpe Ratio, the greater its risk-adjusted return.

Time Weighted Return – A measure of the compound rate of growth in a portfolio, which eliminates the distorting effects of growth rates created by inflows and outflows of money.

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Outlook summary

Strategy	Current Environment	Potential Risks	Outlook/Implementation	View
Core real estate	Core real estate has experienced six straight quarters of negative total returns as valuations have been steadily adjusting downward. The NFI ODCE was down 12% in 2023 and is down over 18% over the last six quarters (through 1Q'24). The primary reason has been adjusting to the higher interest rate environment; however, fundamentals have softened with rising vacancy rates, declining growth rates, higher costs of debt, and an over-supply in certain markets and property types.	— Cap rates have not yet fully adjusted to the new higher interest rate environment, and we expect more to come in 2024, especially in the office sector. — Core real estate returns tend to have high correlation to overall GDP growth. There are risks to weakening fundamentals if a recession materializes.	We recommend clients continue to rebalance/ take liquidity from core ODCE funds where possible, although redemption exit queues continue to pay only modest liquidity. We recommend continued diversification into alternative property types to reduce existing exposures to office, which may face longer-term challenges.	**Negative**
Value-add real estate	The costs of leverage remains elevated, making it difficult for strategies historically reliant upon leverage to make deals pencil out. Transaction levels remain subdued for value-add investments as some sellers remain reluctant to trade at deeply discounted pricing. Some deals are getting done where a catalyst exists, such as the need to refinance/ restructure and we are seeing some transactions completed where there are opportunities to add value, such as mark to market leases. Entry pricing is more favorable on a go-forward basis.	— Higher interest rates and borrowing costs have challenged high leverage value-add strategies, pressuring total returns. — Slowing rent growth in a cooling economy has the potential to further reduce forecasted returns	We continue to favor strategies with limited focus on high leverage and those with strong asset management and internal operating capabilities to add value as cap rate compression and market growth will be less reliable sources of return.	**Neutral**
Opportunistic real estate	The steep rise in interest rates that began in 2022 has created pockets of stress and distress in the real estate market. Many asset owners in need of refinancing face a gap in their capital stack as values have declined and credit standards have tightened. Borrowers will be forced to get creative with financing as they often lack fresh equity capital and want to minimize their dilution. Preferred equity financing, structured solutions, and investments in debt may see attractive opportunities.	— Higher interest rates and borrowing costs have challenged high leverage opportunistic strategies, pressuring total returns. — Competition could be a challenge as large sums of capital have been raised waiting for this opportunity to emerge. — Increasing construction costs due to materials and labor may pressure development strategies.	Non-core funds with vintage years during periods of economic stress tend to be some of the best performing vintages. The impact from higher rates will likely create more attractive entry points. Loans coming due at higher borrowing costs and at higher loan-to-values sets the stage for opportunities to provide rescue capital. GPs with experience in distressed situations and those able to be flexible up and down the cap stack are viewed favorably.	**Positive**
Real estate debt	Lending rates have increased, both from floating rate base rates as well as spreads. Traditional lending sources (banks and insurance companies) are retreating from writing loans as they continue to reduce risk across their balance sheets. Loan maturities coming due over the next few years will need refinancing and private lenders are well positioned to take advantage of the opportunity.	— Rising rates, while generally positive for lending strategies, could also decrease transaction volumes and therefore increase competition for deals. — Loan defaults are also on the horizon so having capabilities to structure workouts will be important.	Levered whole loan strategies look attractive as borrowing costs have risen, both in base rates and spreads. Private capital providers look attractive as there will be less competition from traditional lending sources. Construction financing is also receiving a premium due to lack of competition in the market.	**Positive**

Outlook summary (continued)

Strategy	Current Environment	Potential Risks	Outlook/Implementation	View
REITs	REITs have continued to lag the broader equity market in 1Q'24 (0% vs 10.6%), 2023 (16% vs 26%), and 2022 (-27% vs -18%). Valuations have been adjusting to the higher interest rate environment, much faster than the private market real estate appraisal process. REITs appear to have a more favorable valuation profile when viewed from an implied cap rate perspective, although fundamentals continue to show some weakness overall.	— REITs have higher leverage than core real estate. — Rising interest rates can have a negative effect on REITs and all yield-sensitive assets over short periods. — REITs are sensitive to economic decline and general equity market volatility.	Verus believes REITs can provide liquid exposure to real estate with the following caveats: high sensitivity to equity market volatility over shorter holding periods, higher leverage, and higher exposures to non-core sectors. Active management is preferred. REIT valuations are currently at a discount; however, this has been volatile and difficult to time.	**Neutral**
Commodities	Commodities retreated lower in 2023 as central bank policy, intent on tamping down on inflation, created headwinds to the asset class. Our bearish view on commodities going into 2023 was in part predicated on the belief that we did not want to fight the Fed. Commodities have started 2024 in positive territory with inflation remaining stickier than markets anticipated. 2024 may be a better year for commodities but there remains countervailing forces from central banks.	— Central banks have signaled their primary goal is to keep inflation contained, which would be a headwind for commodities. — Geopolitics often contributes to higher commodity prices, but a cooling of tensions globally could have the opposite effect.	Verus does not view commodity futures as an attractive asset class to hold long term. As an inflation hedge, commodities can often be one of the best exposures to own in the early stages of inflation. We are less bearish on commodities this year and would not be surprised if the asset class is up modestly, but we would still recommend investors allocate capital elsewhere.	Negative
TIPS	TIPS were up modestly in 2023, roughly in line with nominal bonds. Though inflation remains stickier than the market anticipated, TIPS returns have not been notably better than nominal treasuries, highlighting what we have long found problematic about the securities, they do not offer a compelling hedge to inflation and lack a high enough carry to merit an allocation for most investors. Inflation, even if slow to fall, is unlikely to surprise on the upside high enough to warrant an allocation to TIPS.	— Decreasing inflation expectations or rising nominal interest rates would be a headwind to TIPS. — Continued low rates creates a high cost of carry.	Low absolute current yields and uncertain inflation expectations has led to low total return expectations for TIPS, especially relative to other real asset investment opportunities. If inflation were to surprise to the upside in a material way, TIPS would likely outperform nominal treasuries.	**Neutral**

Outlook summary (continued)

Strategy	Current Environment	Potential Risks	Outlook/Implementation	View
Core Infrastructure	Performance within infrastructure moderated in 2023 relative to longer-term historical returns, though they were still positive. The valuation adjustment from higher rates did not materialize in private infrastructure as we had anticipated. A mix of abundant dry power, anticipated rate cuts, and generally healthy company fundamentals kept valuations elevated. As the specter of near-term rate cuts diminishes, core infrastructure funds may come under pressure to raise discount rates. Whether that happens or not, we see lower returns ahead for the asset class as financing costs pressure returns.	— Valuations remain disconnected from public company values and where private infrastructure funds trade. The biggest risk we see to the asset class is the potential for material write-downs as rates stay elevated for longer. — There are some asset specific challenges like Fiber-to-the-home (FTTH), UK water utilities and underperforming energy transition assets. — Many GPs that have been successful in the sector have grown rapidly, raising $15+ billion funds. Deploying this amount of capital while still delivering alpha becomes a challenge.	Entry today is less attractive, given rich valuations and an elevated interest rate environment. We prefer allocations to non-core, although core can still maintain defense characteristics from sectors less exposed to GDP risk. We recommend waiting on new commitments to core open-end infrastructure funds until we get a better sense of the path of interest rates and/or we begin to see funds adjust valuations lower to account for the higher cost of capital environment.	**Neutral**
Non-Core Infrastructure	Transaction activity finally slowed in 2023 to its lowest level in over eight years as bid-ask spreads widened. Fundraising in 2023 across infrastructure was around half of the levels reached in 2022. Despite that, a large amount of dry powder sits on the sideline. Performance has moderated but top quartile performance has stretched higher, a product of the asset classes' evolving strategy. The blurring line between buyouts and infrastructure is a troubling trend for an asset class that is meant to offer stable returns. There remains a significant capital need for more modern infrastructure to keep up with the digital economy and electrification of the grid.	— We would be cautious about strategies that expose investors to technology risk and/or commercialization risk in growing sectors like digital and electrification. — "Core" is defined by long-term contractual payments with the ability to pass on costs, often including forms of inflation protection. The further you move up on the risk spectrum, the less inflation protection investors will receive. — Fundraising is the slowest in years, and while dry powder remains robust, consecutive years of slow fundraising could make exiting existing assets challenging.	The asset class offers a compelling return profile that aligns well with long-duration pools of capital. Non-core infrastructure comes with higher operational/execution risk than core, therefore investors should expect a broader range of outcomes and greater emphasis on manager selection. We prefer a rifle-shot approach with managers who have a robust track record and deep experience in a market niche. Strategies targeting assets in the middle market, building the infrastructure of tomorrow remain our highest conviction.	**Positive**
Energy Transition	A few years ago, wind and solar renewables were the only way to invest in this theme. Higher rates has been a headwind for the industry and low barriers of entry in the form of new development have led to pricing compression that we believe will continue. There are potentially higher returning opportunities for newer technologies such as battery storage and distributed energy. Tailwinds to the theme still persist in the form of policy support and growing demand for energy from transitioning sectors like transportation.	— Several approaches that reduce carbon emissions such as green hydrogen and carbon capture technology are commercially unproven. Investments in this space will take venture-like risk and rely on significant cost reductions as well as favorable policy regimes to be successful. — The market continues to become more competitive with managers investing from diversified strategies and energy transition funds.	Energy demand will increase opportunities related to this theme, but achieving an attractive return remains difficult given the competition. Solving grid stability and providing utility power generation and services is an area we find compelling with less technology adoption risk. We are seeing risk underpriced in the marketplace so backing the right manager will be critical.	**Neutral**

Outlook summary (continued)

Strategy	Current Environment	Potential Risks	Outlook/Implementation	View
Upstream Energy	The environment for oil & gas investments looks more attractive today than it has in many years. Last year, we saw a notable uptick in transaction activity among sponsor-backed oil & gas companies, which was sorely needed. We still maintain that liquidity is going to remain a real risk to investors in private energy funds, along with regulatory and demand risk, but seeing buyers return to the market has given us confidence to consider new allocations to the industry. On a relative basis, valuations are compelling, supply/demand metrics look favorable, and capital is scarce. All characteristics that we do not see elsewhere.	— Liquidity could be episodic/cyclical which private investors will have to accept going into the asset class. — Longer-term, oil demand is expected to decline as non-carbon sources of power outcompete hydrocarbons. — Regulatory risk remains an existential threat to oil/gas but one we see as small given the larger geopolitical issues surrounding energy security.	We believe there is an interesting window to invest in upstream oil/gas with an experienced sponsor. There are a small handful of oil/gas sponsors with a decade or more of experience that have viable track records to raise capital around. We would look for a fund in market that has seasoned investments already accruing value and less blind pool risk.	**Neutral**
Midstream Energy	Public midstream indices were up around 14% in 2023, capping off an impressive 3-year run of double-digit returns. The last three Outlooks highlighted the challenges that private midstream funds would face in deploying capital to traditional gathering and processing deals and that remains largely accurate. Public midstream companies are outcompeting private funds with a lower cost of capital and the opportunity set is narrower today than it was 10 years ago. The opportunity within oil and gas looks more attractive on the upstream side for private investors. Public midstream stocks are benefiting from growing volumes in oil production and LNG export activity. The asset class is notoriously volatile, and sentiment can shift abruptly, making allocations challenging to merit for institutional portfolios	— Public midstream stocks are highly correlated to movements in commodity price so any movement lower in oil prices is going to be a headwind to performance. — Tactical trades into the asset class have been incredibly challenging to time given the unpredictable movement in oil and gas prices. — Private midstream faces an existential problem of finding enough development opportunities within oil & gas infrastructure to build a diversified portfolio of companies.	We retain a negative outlook for midstream energy, despite the positive tailwinds that higher oil prices could bring to this sector in the near-term. Low natural gas prices have led to declining volumes which is likely to be headwind to gas-oriented assets, but oil volumes remain robust. The challenges in capital deployment and long-term demand risks remain too high for our comfort.	**Negative**

Outlook summary (continued)

Strategy	Current Environment	Potential Risks	Outlook/Implementation	View
Mining	Long-term demand growth continues to be a dominant narrative as metals like copper, zinc, lithium, and nickel (among others) are increasingly viewed as undersupplied for global decarbonization goals. Commodity prices for metals have increased in 2024 on expectations of interest rate cuts and increased demand from China. While major mining companies are flush with cash from a half-decade of discipline and elevated commodity pricing, the current price of commodities has not been enough to finance new greenfield mines, and older mines in service are beginning to diminish in quality.	— Metal prices have run up in 2024 on expectations of rate cuts in the latter half of the year. However, as we have seen, inflation can be sticky and may result in higher rates for longer periods and, as a result, pressure prices downward on commodities. — The sector continues to be troubled by persistent cost inflation from labor, equipment parts, diesel, and explosives, which results in margin erosion. — Global GDP growth and China's economy are the two biggest demand drivers in the sector. China is a disproportionately large buyer of industrial metals, so its economy and industrial output have a large impact on metal prices.	While the long-term demand for energy transition metals is a compelling thesis, the reality of investing in mining is that many risks must be overcome: operational, political, and environmental. Even when executed, returns can be hampered by weak commodity prices. We prefer to implement mining investments on an opportunistic basis, especially when commodity pricing is lower.	**Neutral**
Timberland	Timberland was up 9.5% in 2023, most of which was appreciation-driven. Income, as a component of the NCREIF Timberland return, was again lower than the previous two years. Land values continued to increase, albeit more modestly than in 2022. We remain skeptical about the sustainability of returns within the asset class if cash flows are flat to negative YoY. Housing starts have been weak since plunging in spring 2022 when mortgage rates soared, though they have started to recover recently as rates eased. Excess supply of pine inventory in the South remains a headwind to sawtimber pricing and ultimately returns for timberland funds.	— Flat sawtimber pricing for pine and higher input costs are just some of the issues creating headwinds for the asset class. — With weaker expected returns for the asset class, TIMOs have turned to Latin America for restoration opportunities that generate carbon credit in addition to traditional return drivers. We view the risks of investing in emerging markets as not commensurate with the returns. — Liquidity has been an issue for the asset class for the better part of a decade, and fundraising trends have yet to improve to the point where we see transactions becoming robust.	Despite above average returns over the last 3 years, we would continue to avoid allocations to timberland. There are more attractive options available in real assets, and many have cash flows that justify the higher valuation. Fundraising has been slow to non-existent for closed-end timber funds for several years, which has resulted in a weak transaction market.	**Negative**

Outlook summary (continued)

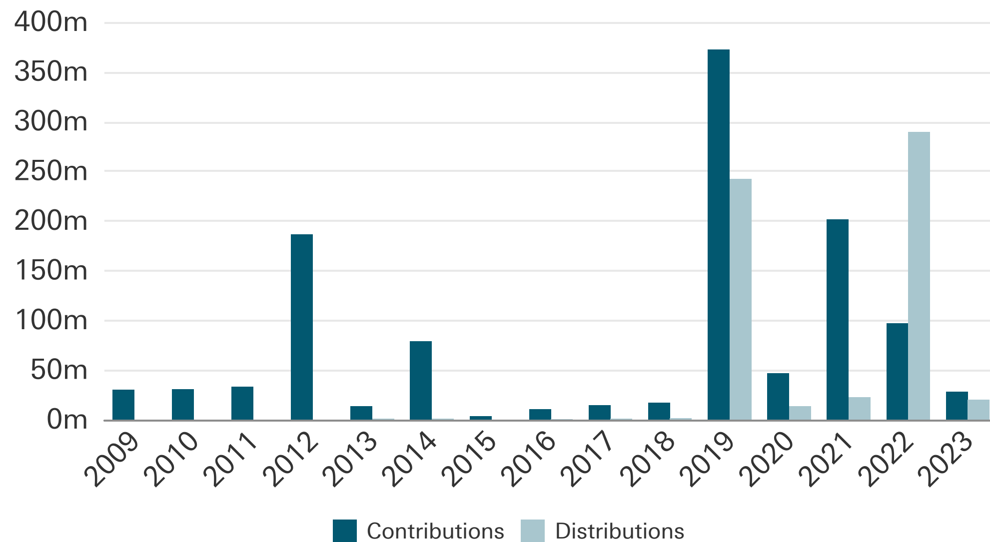
Strategy	Current Environment	Potential Risks	Outlook/Implementation	View
Agriculture	Supply disruptions related to COVID and global conflict sent grain prices to multi-decade highs that continue to stabilize at lower prices in 2024. Land values for some crops have appreciated, driven by higher commodity prices. Despite this, rental yields continue to shrink as farmers struggle to keep up with cost increases. Fundraising has been slow in the last few years as income returns remained unattractive and investors favored other asset classes. Structural drivers should make agriculture more attractive as global demand rises and the amount of arable land remains relatively stable, but we have yet to see this affect investors returns.	— Agriculture is a highly illiquid asset class that is not suited to tactical investment opportunities. — Anecdotally, we have seen many managers affected by natural disasters, and this seems to be becoming increasingly prevalent. We recommend diversifying across crop types and geography within the U.S. to reduce risk. — Permanent crops have not performed well in the last few years as prices have fallen for several perennial crops. Tariffs, excess supply, and consumer demand all contributed to lower permanent crop prices and highlight just a few of the additional risks that come with Ag investing.	For investors seeking pure-play cropland investments, we recommend diversifying across row and permanent crops focused on the U.S. market. The fragmented nature of farmland in the U.S. has made scaling a challenge so we would be weary of strategies seeking to deploy large pools of capital (>$1B). We also view agriculture investments where crop and land are a component of a broader value-add investment strategy as more attractive than core farmland funds, but operational complexity brings its own set of challenges.	**Negative**

Real Asset Portfolio Performance

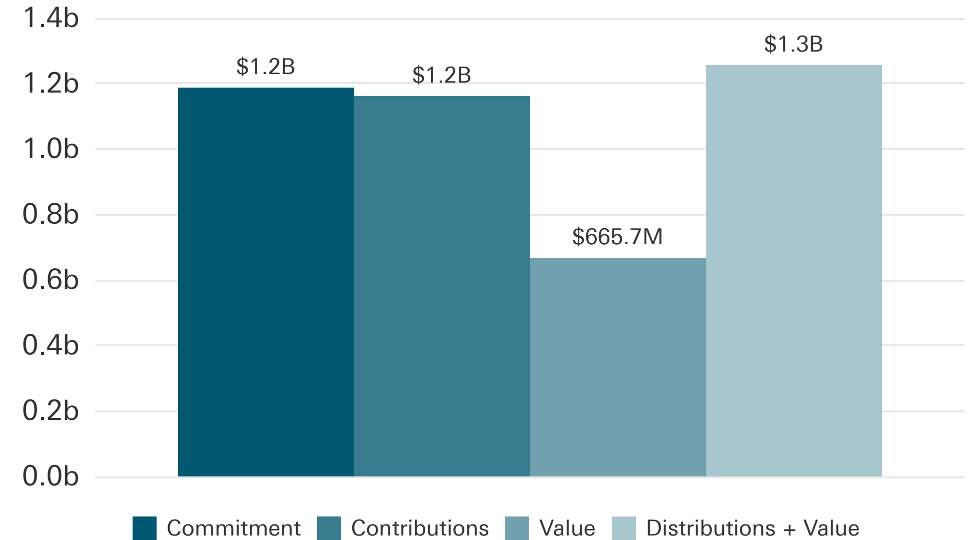
Performance

- ACERA's Real Asset Pool has produced a 1.61% IRR since inception. The portfolio's performance has been driven primarily by the large weighting in commodity futures (Gresham and AQR) and poor returns from a couple early energy funds. That said, the portfolio is beginning to see the success of more recent fund investments in natural resources and infrastructure that have matured and are delivering top quartile or near top quartile returns.
- In the second half of 2023 ACERA committed $30 million to LS Power Fund IV, L.P. the fund has not drawn any capital yet.

Cash Flows on Annual Basis as of December 31,



Cumulative Cash Flow and Valuation as of December 31,

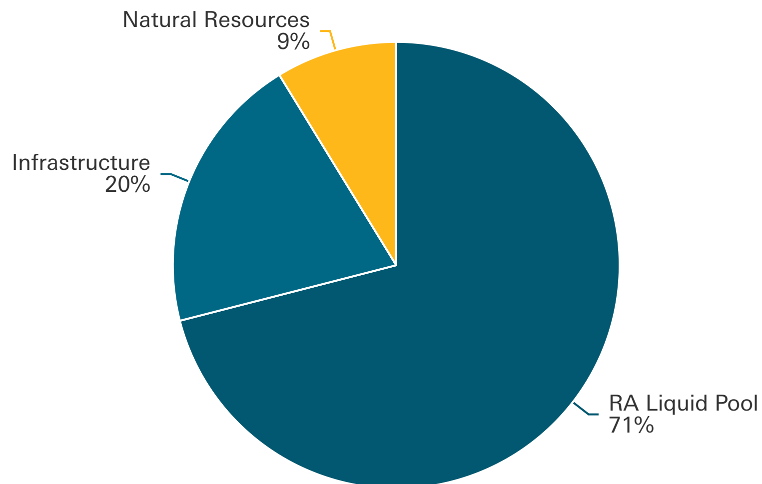


	1-Year	3-Year	5-Year	10-Year	Since Inception
Natural Resources Funds	**4.35%**	**22.13%**	**12.07%**	**3.69%**	**1.51%**
S&P Global Natural Resources Index [1]	*4.07%*	*12.66%*	*11.44%*	*7.95%*	*7.76%*
Infrastructure Funds	**8.67%**	**9.58%**	**10.71%**		**10.32%**
S&P Global Infrastructure Index [1]	*2.53%*	*2.29%*	*14.20%*	*1.77%*	*2.05%*
Liquid Pool Funds	**3.13%**	**9.44%**	**7.15%**	**1.09%**	**0.61%**
Bloomberg Commodity Index [1]	*-7.94%*	*10.61%*	*7.63%*	*3.30%*	*3.34%*
Total Real Assets	**5.12%**	**10.29%**	**8.23%**	**2.31%**	**1.61%**
Blended Real Assets Benchmark [2]	*3.23%*	*8.75%*	*8.52%*	*6.31%*	*6.00%*

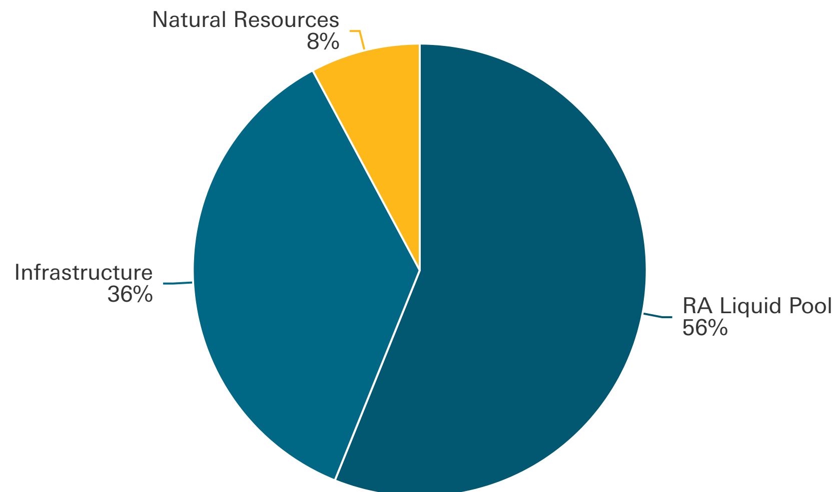
1 Benchmarks: Identical cash flows invested in the appropriate benchmarks through the life of the portfolio up through 12/31/2023. Analysis provided by Addepar.
2 Blended Real Assets Benchmark calculated on a time-weighted return basis. Blended returns are weighted as follows: 60% S&P Global Infrastruture Index, 35% S&P Global Natural Resources Index, and 5% Bloomberg Commodity Index.

Investment Type	Commitment	Reported Value
Infrastructure	$240,000,000	$240,176,530
Natural Resources	$104,000,000	$52,061,245
RA Liquid Pool	$494,556,035	$373,477,331
Total	**$1,186,235,893**	**$665,715,106**

Commitment Exposure by Fund Type



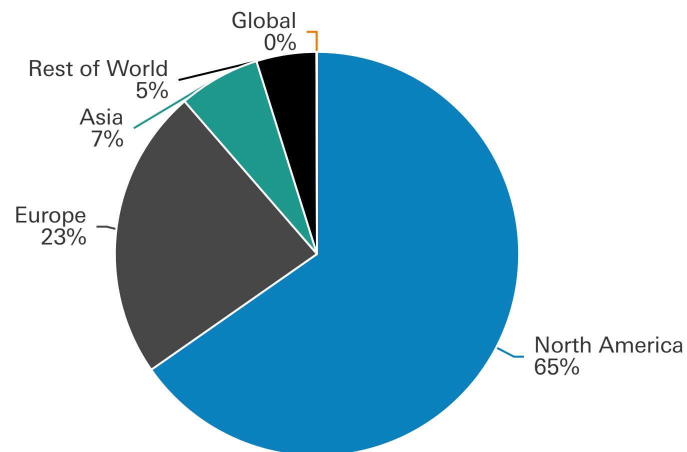
Current Exposure by Fund Type



Geography	Value (USD)
Global	$115,635
North America	$161,973,048
Europe	$57,872,165
Asia	$16,202,186
Rest of World	$11,891,753
Total	**$248,054,787**

** Excludes open-end vehicles and liquid assets*

Reported Value by Geography

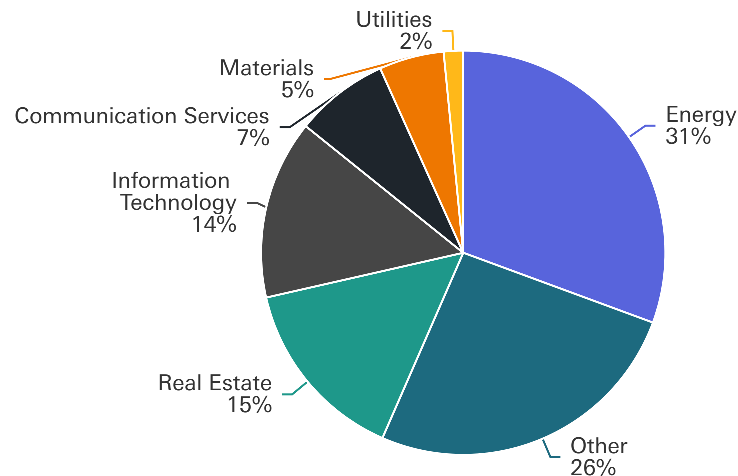


Based on the value of portfolio companies and fund reported exposures as of December 31, 2023. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

Global Industry Classification Standard	Reported Value
Communication Services	$18,568,512
Energy	$75,943,495
Information Technology	$35,560,161
Materials	$12,862,621
Real Estate	$36,940,705
Utilities	$3,848,527
Other	$64,330,766
Total	**$248,054,787**

** Includes open-end vehicles and liquid assets*

Reported Value by Industry

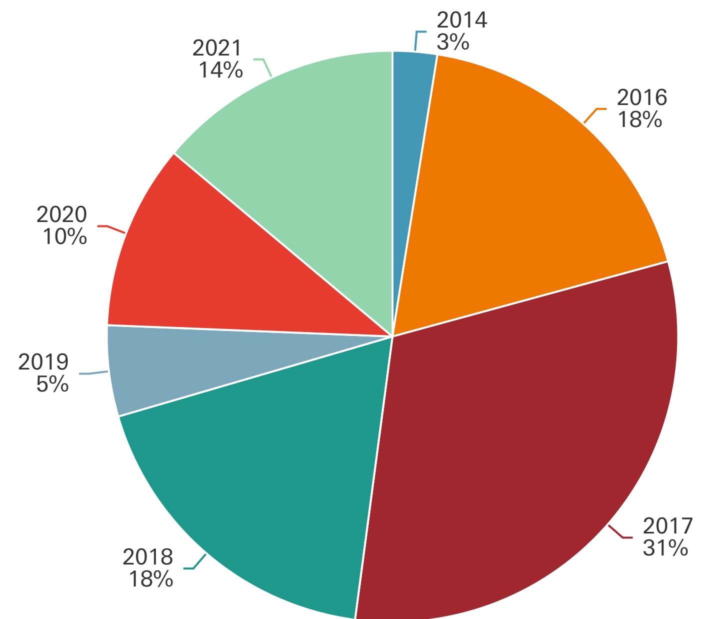


Based on the value of portfolio companies and fund reported exposures as of December 31, 2023. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed GICS breakdown.

Vintage Year	Commitments	Reported Value
2010	$24,000,000	$0
2014	$15,000,000	$6,282,461
2016	$35,000,000	$45,554,921
2017	$75,000,000	$78,231,186
2018	$40,000,000	$45,908,152
2019	$30,000,000	$12,862,621
2020	$30,000,000	$26,173,922
2021	$55,000,000	$34,667,395
Total	**$304,000,000**	**$248,054,787**

** Excludes open-end vehicles and liquid assets*

Current Exposure by Vintage Year



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street, Suite 1000, Oakland, CA 94612 / Telephone (800) 838-1932 (510) 628-3000 / Fax: (510) 268-9574 / www.acera.org

To: Members of the Investment Committee

From: Julius Cuaresma, Investment Analyst JCC

Date: July 3, 2024

Subject: Status Update for the Emerging Markets Equity Manager Search

Background:

At the 2023 February and April Committee Meetings, the Board approved a new International Equity Structure and a Phased Implementation Transition Plan ("Phased Plan"). This Phased Plan entails sequential Searches, including a Search for an additional active Emerging Markets ("EM") Equity Manager. ACERA employs a Request for Information ("RFI") process for procuring new investment managers. At the June 2023 Committee Meeting, the Board approved an EM Equity Manager RFI Search and the relevant MQs and Scoring Matrix (please see attachments). During that timeframe, the Board and Staff were also nearing completion of the General Investment Consultant Search, and so this EM Search was paused in 3Q23. At this July 2024 Investment Committee Meeting, Staff, now with guidance from Daniel Hennessy and the NEPC team, are providing a Status Update for this EM Search, specifically the next steps of this Phased Plan.

Discussion:

With NEPC's input, review, and approval of ACERA's EM RFI Search process thus far, Staff and NEPC now provide the following updates: 1) the approximate target allocation[1] is $391 M (based off of ACERA's Total Fund AUM of $11.7 B, as of the end of 1Q24); 2) no changes to the previously 2023-Board-approved Minimum Qualifications (Attachment #1) ("MQs") or the Scoring Matrix (Attachment #2); 3) this month, Staff and NEPC will continue to implement the Transition Plan and the EM Search, which involves distributing the RFI to candidates – this is expected to comprise up to 20 EM Equity strategies that meet the MQs. Additionally, with screens based upon multiple criteria using NEPC's EM equity manager peer universe (eVestment), these managers will subsequently be invited to participate in the RFI process.

Conclusion:

The expected timeline for the completion of the RFI process, from RFI posting to RFI scoring completion, is approximately six months, December 2024. At the completion of the RFI process, Staff and NEPC will provide the Committee with a recommended list of Finalist Candidates to consider for hire.

Attachments:

#1 Minimum Qualifications (previously approved by the Board; changes made are the year, i.e., "23" to "24")
#2 Scoring Matrix (previously approved by the Board)

[1] The Total Fund's target allocations to IE and EM are, 24.0% and 6.7%, respectively. The IE portfolio currently has 1 active EM manager.

Attachment #1

ACERA EMERGING MARKETS (EM) EQUITY MANAGER SEARCH RECOMMENDED MINIMUM QUALIFICATIONS

1. The Firm must agree to act as fiduciary to ACERA.
2. The Firm must be registered as an investment adviser under the Investment Advisers Act of 1940, a bank (as defined in that Act) or an insurance company qualified to perform investment management services under state law in more than one state, including the State of California.
3. Separate account for the active emerging markets equity mandate is acceptable; however, commingled account is preferred as long as other terms are equal.
4. The Firm must have $1.4 billion or more in total Assets under Management (AUM) firm-wide as of 3/31/24. The proposed strategy should have $1.8 billion or more in AUM as of 3/31/24. ACERA's investment portfolio (or account) should not comprise more than 25% of the Firm's total AUM at any time in accordance with ACERA's General Investment Guidelines, Policies and Procedures.
5. ACERA will only consider Emerging Investment Managers that meet all of the Minimum Qualifications for Proposal.
6. The Firm must be directly responsible for the management of the account, and all personnel responsible for the account must be employees of the Firm or a legal joint venture partner.
7. The Firm must have a minimum three-year, continuous performance history as of 3/31/24 managing the international emerging markets equity fund product for institutional investors by the existing portfolio manager or portfolio manager team. The manager's performance history must be documented, and real time (i.e. not simulated or back-tested) and in compliance with CFA Institute (CFAI) Global Investment Performance Standards (GIPS).
8. The product must currently be benchmarked against the MSCI Emerging Markets Index (either standard or IMI, and either gross or net of dividends).
9. If hired, the Firm must agree to accept the MSCI Emerging Markets Index (ND) as the ACERA mandate benchmark for the firm's proposed international emerging markets equity product.
10. The product must historically exhibit a median market capitalization commensurate with the MSCI Emerging Markets Index standard, either gross or net of dividends, with an average median market capitalization greater than $6B.
11. The Firm must be able to provide monthly GIPS-compliant performance reports to ACERA, its General Consultant, and its Custodian Bank.
12. The Firm must be able to provide a minimum of monthly liquidity.
13. The Firm should carry the following minimum insurance coverage or should apply for it by contract execution (subject to change upon final contract negotiation):
    a. Commercial General Liability – $4,000,000
    b. Crime Coverage
        i. Employee Dishonesty Coverage - $10,000,000
        ii. Computer Theft Coverage - $1,000,000
    c. Error and Omissions (Professional Liability) - $10,000,000
    d. Fiduciary Liability - $25,000,000, or 10% of the total assets managed in the ACERA account, whichever is higher, unless the proposed contract specifies otherwise
    e. Workers' Compensation and Employer's Liability - $1,000,000
14. The Firm must provide a description of its ESG policies and objectives and Diversity & Inclusion efforts and objectives.
15. The Firm must agree to attend ACERA's Investment Committee Meetings as needed.
16. The Firm must be willing to allow ACERA to review the latest 3-5 years of the firm's audited financial statements. In-office reviews are acceptable.
17. Once selected by ACERA as the recommended Firm, the Firm must consent to a background investigation of the investment management entity and key individuals.

Attachment #2

ACERA EMERGING MARKETS (EM) EQUITY MANAGER SEARCH
RECOMMENDED SCORING MATRIX

A. Organization **30 Points**

1. History
2. Ownership, Organization, and Staffing
3. Compliance
4. Client Service

B. Investment Team **35 Points**

1. Strategy
    a. Philosophy
    b. Process
    c. ESG considerations/integration
2. Experience
3. Research Capabilities
4. Other Resources
5. Trading/Operations
6. Risk Management

C. Performance and Risk **25 Points**

1. Consistency Beating Benchmark
2. Peer Group Ranking
3. Risk (to benchmark/tracking error, upside/downside)
4. Risk-Adjusted Returns

D. Proposed Fee Schedule/Structure **10 Points**