



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

The Investment Committee (“Committee”) met on Wednesday, July 11, 2018 at 9:32 a.m. The Committee members present were Dale Amaral, Keith Carson, Tarrell Gamble, Jaime Godfrey, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker and Alternate Retired member Nancy Reilly. Members of the Staff present were David Nelsen – Chief Executive Officer, Betty Tse – Chief Investment Officer, Harsh Jadhav – Chief of Internal Audit, and Susan Weiss – Associate Counsel.

ACTION ITEMS

1. Discussion of and Possible Motion to Adopt the proposed timeline, minimum qualification, and evaluation matrix for ACERA’s U.S. Small Cap Growth Manager Search – Domestic Equities
 - Staff and representatives of Verus presented the timeline, minimum qualifications, and evaluation matrix for ACERA’s U.S. small cap growth manager search. Staff and Verus explained that they will apply a series of screens to select qualified candidates from the small cap growth universe called eVestment Alliance Database and from ACERA’s IPSI Program. Once the qualified candidates are selected and included in a list called focus-list, a questionnaire will be sent to the selected candidates to determine and match their qualifications with the minimum qualifications approved by the Board. Staff and Verus will then analyze and recommend a short list of candidates to the Committee for further due diligence.
 - The Committee discussed various aspects of the screens to be used, as well as the nature of the eVestment database. The Committee also discussed and reviewed the tenets of the Evaluation Matrix, specifically the importance of evaluating the organization and the investment team in addition to performance. Staff plans to provide the list of selected qualified managers to the Committee in conjunction with Staff’s short list of candidates.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Dale Amaral, to recommend to the Board that it approve the proposed timeline, minimum qualifications, and evaluation matrix for ACERA’s U.S. Small Cap Growth Manager Search – Domestic Equities, using a focus-list approach.
 - The motion carried with 8 yes (Amaral, Carson, Gamble, Godfrey, Koppenhaver, Levy, Rogers, and Wood), 0 no, and 0 abstention.

2. Discussion of and Possible Motion to Recommend to the Board to Approve an Investment of \$35 million in AG Realty Value Fund X (U.S.), L.P., as a part of ACERA's Real Estate Portfolio – Opportunistic
 - Representatives from Staff and Callan presented to the Committee a potential investment called AG Realty Value Fund X, which includes a variety of value-add and opportunistic investment opportunities. AG (Angelo Gordon) Realty Value Fund X can invest up to 20% of the fund in international real estate assets. This would be the second opportunistic investment in ACERA's Real Estate Portfolio.
 - Representatives from AG Realty presented to the Committee the history, background, and culture of the firm's real estate business which accounts for about 1/3 of the firm's AUM. In addition, the representatives discussed the Fund's strategy, objectives, and risk-averse approach by describing their investment results in the previous funds. Through its network of 50 operating partners, AG focuses on light value-add (improve operations, lease-up) to heavy value-add (repositioning, change of use) opportunities. The representatives also discussed the diversification in property type and geography, as well as their bottoms-up approach to investing since most of the employees have decades of real estate experience.
 - Staff noted that this opportunity had originated from ACERA's IPSI program.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Dale Amaral, to recommend to the Board that it approve a \$35 million investment in AG Realty Value Fund X as a part of ACERA's Real Estate Portfolio – Opportunistic – pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 8 yes (Amaral, Carson, Gamble, Godfrey, Koppenhaver, Levy, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEM

1. Discussion of ACERA's International Equities Manager Structure and Emerging Investment Manager Search
 - In October 2017, the Board changed the investment mandate for the Emerging Investment Manager (EIM) to international equities from domestic equities. Accordingly, Staff and representatives from Verus sought input from the Committee regarding a few possible methods of funding and selecting a manager for the new EIM mandate.
 - With the input from the Trustees, Staff plans to bring to the Investment Committee next month an action item with an amended international equity manager structure carved out of the International Equity Index passive allocation to fund the EIM. And, Staff also

plans to recommend maintaining the current manager for the new EIM-international equity mandate.

Recommendations:

- The Committee recommends, and I move, that the Board approve the proposed timeline, minimum qualifications, and evaluation matrix for ACERA's U.S. Small Cap Growth Manager Search – Domestic Equities, using a focus – list approach.
- The Committee recommends, and I move, that the Board approve a \$35 million investment in AG Realty Value Fund X as a part of ACERA's Real Estate Portfolio – Opportunistic, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, August 8 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 11:11 a.m.