



Date: July 12, 2017  
 To: Members of the Board of Retirement  
 From: Annette Cain-Darnes - Chair  
 Subject: **Summary of July 12, 2017 Investment Committee Meeting**

The Investment Committee met on Wednesday, July 12, 2017 at 9:33 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Annette Cain-Darnes, Keith Carson, Liz Koppenhaver, Henry Levy, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Kathy Foster – Assistant Chief Executive Officer, Margo Allen – Fiscal Services Officer, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, and Susan Weiss – Associate Counsel.

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

1. Interviews of the Finalists for ACERA’s Passive Indices (U.S. and International Equities) Manager Search and Possible Motion by the Investment Committee to Recommend Finalist(s) to the Board

- Trustee Basgal recused herself from the discussion and the vote because of her personal stock holdings in BlackRock.
- Staff and Verus presented to the Committee their recommendation of BlackRock based on the score rankings. Each of the Russell 1000 and the MSCI World ex-US index products were scored individually.

Final Scores	Russell 1000		MSCI World ex-US	
	Points	Rank	Points	Rank
BlackRock	97.2	#1	95.3	#1
Northern Trust	89.7	#3	82.3	#2
SSGA	90.1	#2	na	na

- Representatives from BlackRock, Northern Trust, and State Street Global Advisors presented their respective firm overviews, culture, philosophy, portfolio construction, and investment process to replicate the Russell and MSCI Indices. They also discussed and answered trustee questions about use of technology, risk management, performance, fees, and compliance functionality with the Investment Committee.
- First Motion: Ms. Koppenhaver moved, seconded by Ms. Rogers, that the Committee recommend to the Board to retain Northern Trust. After further discussion, the Committee voted 2 in favor, 5 against. The motion did not pass.
- Second Motion: Mr. Amaral moved, seconded by Mr. Wood, to adopt Staff and Verus’s recommendation to select BlackRock as ACERA’s Passive Indices Manager for both the Russell 1000 Index and the MSCI World ex-US Index. The motion carried with 6 yes

(Amaral, Cain-Darnes, Carson, Levy, Rogers, and Wood), 1 no (Koppenhaver), and 0 abstention.

### **INFORMATION ITEMS**

#### 1. Semiannual Performance Review for the Period ending December 31, 2016 – PEARLS

- Verus provided a brief overview of the PEARLS program through December 31, 2016. As of that date, the PEARLS Portfolio had a total market value of \$771.3 million, with \$445.3 million in Private Equity and \$326.0 million in Alternatives. This reported market value is 11.1% of the 18% asset allocation target for PEARLS. Total commitments to the PEARLS program, as of 12/31/2016<sup>[1]</sup>, were \$1.2 billion (17.1%), including \$831.8 million towards Private Equity and \$360.0 million to Alternatives. ACERA added one buyout and one debt-related commitments to the PEARLS Portfolio during the six month period ending 12/31/2016.
- For the six month and one-year periods ending 12/31/16, the PEARLS asset class returned +9.7%<sup>2</sup> and +7.6%<sup>2</sup> (net). With a weighted average investment age of 3.4 years, the PEARLS portfolio has produced +11.8% (net) IRR since inception.
- Chair Cain-Darnes asked Verus to provide a written overview of the state of the private equity markets, including the over-all trends in the private markets.

#### 2. Semiannual Performance Review for the Period ending December 31, 2016 – Real Assets

- As of 12/31/2016, the Real Assets asset class had a total market value of \$286.5 million, representing about 4.1% of ACERA's Total Fund (class target is 5.0%). Total commitments to the Real Assets Portfolio, as of 12/31/2016, were \$421.7 million (6.1%). For the six month, one-year, and since inception periods ending 12/31/16, the Real Assets asset class returned +0.8%<sup>2</sup>, +8.8%<sup>2</sup>, and -6.3% (net) IRR.

### **Recommendations**

- The Committee recommends, and I move, that the Board select BlackRock as ACERA's Passive Indices Manager for both the Russell 1000 Index and the MSCI World ex-US Index.

### **TRUSTEE/PUBLIC INPUT**

None

### **FUTURE DISCUSSION ITEMS**

None

### **ESTABLISHMENT OF NEXT MEETING DATE**

August 9, 2017 at 9:30 a.m.

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1 The Total Fund Market Value, as of 12/31/2016, was \$6,968,046,520.00  
2 These returns are time-weighted, not IRR's.