



**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, August 7, 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	APPOINTED
	CHAIR	
	GEORGE WOOD	ELECTED GENERAL
	VICE CHAIR	
	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 RETIRED¹	
KEVIN BRYANT	ALTERNATE SAFETY²	

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, August 7, 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)

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

1. Discussion and Possible Motion to Recommend that the Board approve an up to \$30 million Investment in Quantum Energy Partners VIII and Quantum Energy Partners VIII Co-Investment Fund as part of ACERA's Real Asset Portfolio³ - Natural Resources, Pending Completion of Legal and Investment Due Diligence and Successful Contract Negotiations

10:30 – 11:15

David Altshuler, Quantum Capital Group
Rob Meister, Quantum Capital Group
Sam Austin, NEPC
Rose Dean, NEPC
Clint Kuboyama, ACERA
Betty Tse, ACERA

2. Discussion and Possible Motion to Recommend to the Board the Minimum Qualifications (revised) for the Emerging Markets (EM) Equity Manager Search

11:15 – 11:45

Sam Austin, NEPC
Dan Hennessy, NEPC
Julius Cuaresma, ACERA
Betty Tse, ACERA

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

1. New Asset Allocation Implementation Plan – Oral Status Update

11:45 – 12:00

Sam Austin, NEPC
Betty Tse, ACERA

2. Review of Private Credit Policy

12:00 – 12:30

Sam Austin, NEPC
Rose Dean, NEPC
Clint Kuboyama, ACERA
Betty Tse, ACERA

Trustee Remarks

None

Future Discussion Items

None

Establishment of Next Meeting Date

September 4, 2024, at 10:30 a.m.

³ Written materials and investment recommendations from the consultants, fund managers and ACERA Investment Staff relating to this alternative investment are exempt from public disclosure pursuant to CA Gov. Code §7928.710 and §7922.000.



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To: Members of the Investment Committee

From: Julius Cuaresma, ACERA Investment Analyst *JCC*

Date: August 7, 2024

Subject: Discussion and Possible Motion to Recommend to the Board the Minimum Qualifications (revised) for the Emerging Markets (EM) Equity Manager Search

Recommendation:

To adopt the proposed Minimum Qualifications (revised) for the Emerging Markets (EM) 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. 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 the July 2024 Investment Committee Meeting, Staff and NEPC provided a Status Update for the EM Search – this Status Update presentation occurred before the ACERA Board approved the recommended Asset Allocation. Considering the significance and implications of the newly approved Asset Allocation Mix, Staff and NEPC have re-visited the EM Search due diligence materials to ensure that the criteria for this Search are aligned with the Asset Allocation.

Discussion:

As a result of this re-underwriting exercise, Staff and NEPC now recommend and seek the Board's approval for the revised Minimum Qualifications ("MQs") (Attachment #1). These revised MQs are simpler and reflect both better clarity and current market dynamics – these revisions, highlighted in yellow in Attachment #1, remove the MQ for Strategy AUM and the MQ for market capitalization. Staff and NEPC also note the following: 1) the approximate target allocation is \$395 Million and is based off ACERA's Total Fund AUM of \$11.8 Billion (as of the end of 2Q24) and; 2) there are no recommended revisions to the previously Board-approved Scoring Matrix (Attachment #2).

Conclusion:

The expected timeline for the completion of the RFI process, from RFI posting to RFI scoring completion, is approximately six months, January 2025. At the completion of the RFI process, Staff and NEPC will present Finalist(s) to the Investment Committee for interviews and recommendation to the Board for hire.

Attachments:

- #1 Recommended Minimum Qualifications
- #2 Board-Approved Scoring Matrix (approved at the June 2023 Investment Committee and Regular Board Meetings)

**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 6/30/24. **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 6/30/24 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.

**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



TO: Members of the Investment Committee
FROM: Clint Kuboyama, Senior Investment Officer *Clint Kuboyama*
DATE: August 7, 2024
SUBJECT: Review of Private Credit Policy

Recommendation:

N/A – This is an Information Item.

Background:

Currently, the vast majority of ACERA's private credit investments are found in its Private Equity ("PE") and Private Credit ("PC") asset classes. In the PE asset class, private credit investments are found in its "Debt-Related Special Situations" ("DRSS") sub-class. The private credit investments in the DRSS sub-class contain higher octane/higher risk private credit strategies such as opportunistic credit¹ and distressed credit. ACERA has invested in DRSS strategies since 2009. As of 12/31/23, there were 18 funds in the DRSS sub-class representing 2.0% of ACERA's Total Fund. Collectively, these private credit strategies produced a 9.3% Net IRR as of that date.

On the other hand, the private credit strategies in the existing PC asset class contain direct lending strategies. Direct lending strategies have lower, unlevered return targets than opportunistic and distressed private credit strategies but can use leverage to enhance their return². ACERA has been investing in direct lending strategies since 2019 when ACERA's PC asset class was inception. As of 12/31/23, there were 6 funds in the PC asset class representing 2.8% of the Total Fund. Collectively, these private credit strategies produced an 8.5% Net IRR as of that date.

Upon ACERA's hiring of NEPC as ACERA's general investment consultant, Staff and NEPC have discussed joining the private credit strategies in the PE DRSS sub-class and the PC asset class to create a broader, more-diversified PC asset class. The rationale behind this combination is to have a single asset class that houses the majority of ACERA's private credit strategies. This potential combination was discussed with the Investment Committee at the June 5, 2024 Investment Committee Meeting during the Private Credit Education Session. Moreover, the combination was anticipated and planned on when a 6.8% target weighting to the PC asset class (up from its previous 4% target) was recommended to, and approved by, the Board as part of the Total Fund's asset allocation Mix C on July 18, 2024. As a result, via this information item, Staff and NEPC seek to discuss the creation of a more diversified PC asset class and the proposed changes to the PC Policy that are aimed at facilitating this evolution. (Attachment #1 is a redlined copy of the existing PC Policy that shows the proposed changes.)

Discussion/Proposed Restructured PC Asset Class & Policy Changes Highlights:

By joining the DRSS and direct lending investments, the PC asset class investments currently represent approximately 4.8% of the Total Fund.

Expanded PC Investment Types: The types of private credit investments included in the PC asset class would be expanded to include a variety of investment types invested in by investment strategies that fall under three private credit strategy categories – Direct Lending, Opportunistic Credit, and Distressed Credit. As a result, Section IV ("TYPES OF PRIVATE CREDIT INVESTMENTS") of the PC Policy is edited to include this expansive set of

¹ For the purposes of this discussion, subordinated credit strategies are included in opportunistic credit strategies.

² Three out of the six funds in ACERA's PC asset class use leverage to enhance their returns.

investments and strategies. In addition, Section VII (“SPECIFIC GUIDELINES FOR PRIVATE CREDIT PORTFOLIO”) is also updated to include descriptions of the three general private credit categories (Sections VII-A, -B, and -C).

Updated Benchmark: The updated benchmark of the PC asset class does not deviate too much from the existing benchmark. The new benchmark is proposed to be the Morningstar LSTA U.S. Leverage Loan Index plus 200 basis points. This index is a market-value-weighted index of 1,387 leveraged loans³ representing \$1.3 trillion in loan market value that, as of 6/30/24, produced a 10-year annualized return of 4.6%. (4.6% return plus the 200 basis point adder approximates a 6.6% 10-year return.) By comparison, the existing PC asset class benchmark is the Morningstar LSTA U.S. Leveraged Loan 100 Index plus 175 basis points. This index is also a market-value-weighted benchmark but is limited to the largest 100 leveraged loans (with a 2% maximum weighting to each loan). As of 6/30/24, this index represented \$326.0 billion in loan market value and produced a 4.2% annualized return. (4.2% return plus 175 basis points approximates a 6.0% 10-year return.) Leveraged loan benchmarks have been and are proposed to be used for the PC asset class because they are similar in credit risk to many of the types of private credit investments contained in this asset class. When using these indices as the base return of the benchmark, a numeric adder (i.e., 175 basis points or 200 basis points) is added to the benchmark to represent the additional return investors should expect due to the illiquidity of private credit investments compared to the more liquid leveraged loans. The slight uptick in historical return of the proposed benchmark relative to the existing one (i.e., 6.6% approximate return versus 6.0%) is due to the higher expected return from the higher risk opportunistic and distressed strategies in the expanded PC asset class. This proposed benchmark change can be found in Sections V (STRATEGIC OBJECTIVE OF THE PRIVATE CREDIT PORTFOLIO”) and VI (“STRATEGIC ALLOCATION TO PRIVATE CREDIT”).

New 6.8% PC Asset Class Target Weighting: Following the Board’s decision to adopt a new asset allocation Mix C for the Total Fund on July 18, 2024, the new target for the PC asset class is 6.8%. The PC Policy is updated to include this increase in target weighting and the allowable ranges for the asset class were widened to $\pm 3\%$ of the 6.8% target. This compares to $\pm 1\%$ range previously for the 4% previous target. The proposed range was widened to account for potential changes in the Total Fund’s value (and the corresponding potential change in the PC asset class’ weighting in the Total Fund) and to accommodate variability in investment pacing and realizations. These changes can be seen in Section VI (“STRATEGIC ALLOCATION TO PRIVATE CREDIT”) and across the updated policy when needed.

Sub-Class Targets: Sub-Class targets are also updated in the PC Policy to reflect the multiple categories of private credit strategies in the new PC asset class, as well as their desired weightings/weightings ranges. The new proposed sub-class targets are 50% Direct Lending / 50% Opportunistic and Distressed Credit. The ranges for the Direct Lending and Opportunistic and Distressed Credit targets are $\pm 20\%$ of their 50% target weightings to provide the flexibility to opportunistically over- and under-weight these sub-classes. These changes can be seen in Section VI (“STRATEGIC ALLOCATION TO PRIVATE CREDIT”).

Delegated Authority: Delegated authority amounts in Section VIII-C (“ROLES AND RESPONSIBILITIES-STAFF”) are also updated to reflect a higher target weighting to the PC asset class (6.8% versus 4.0%), a higher value of the Total Fund now compared to when the PC Policy was incepted (\$11.8 billion as of 6/30/24 versus \$8.4 billion as of 6/30/19), and adjusted to allow for the continued investment in large allocations to direct lending strategies (current average allocation is \$75.8 million). The proposed maximum for investments with new managers is 10% (versus 20% currently) of the PC asset class target while the proposed maximum for the combined commitments (i.e., existing commitments and new commitment under delegated authority) for managers in good standing for re-ups under delegated authority is 25% (versus 40% currently). Based on a Total Fund value of \$11.8

³ Leveraged loans are loans that are originated by a bank, typically syndicated across numerous investors, priced and can trade daily, and are usually made to sub-investment-grade borrowers with the proceeds from the loans often used for leveraged buyouts.

billion and a 6.8% target weighting for the PC asset class, 10% equals an \$80.2 million limit for new investment proposals and 25% equals \$200.6 million for total commitments to an existing manager under a re-up, delegated authority investment.

Continuation Funds Related to Existing Funds: The offering of continuation funds related to private funds that are late in their fund life is increasing. In these situations, the investment manager or general partner managing a private fund that is getting close to the end of its term (i.e. 7 – 10 years for PC funds) offers limited partners in the private fund the option to: 1) receive liquidity (cash), usually immediately and at a discount to net asset value, for its interest in the fund; 2) roll its interest in the fund into a continuation fund that extends the runway for investment realizations for several years and typically under investor-friendly management-fee and general partner carried interest terms (i.e., no management fee and no carried interest); or 3) a combination of #1 and #2. These continuation vehicles can involve transferring into the continuation fund a single asset in the existing fund’s portfolio or a fund’s entire portfolio. Investors can have a very short timeline (i.e., 10-20 business days) to make a decision. Because of this truncated timeline it is likely that there isn’t enough time to complete investment and legal diligence on the continuation vehicle (and liquidity option) along a timeline that would accommodate IC and Board approvals before a decision is due. As a result, language in the Policy is added to allow Staff the authority to make the decision on continuation vehicles related to existing investments, provided the decision is in-line with the consultant’s recommendation and following sufficient due diligence by Staff and Consultant. These proposed changes are found in Section VIII-C (“ROLES AND RESPONSIBILITIES-STAFF”) and Section VIII-D (“ROLES AND RESPONSIBILITIES-CONSULTANT”).

Attachment:

#1 Redlined ACERA Private Credit Policy, prepared by Staff and NEPC

**Alameda County Employees'
Retirement Association**

ACERA

PRIVATE CREDIT POLICY

TBD July 18, 2019

ACERA PRIVATE CREDIT POLICY

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I. SCOPE

This Private Credit Policy (“Private Credit Policy” or “Policy”) governs all investments in the Private Credit asset class made by Alameda County Employees’ Retirement Association (“ACERA”). Established on July 10, 2019, the Private Credit Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA’s General Investment Guidelines, Policies and Procedures. If there is any conflict between this Private Credit Policy and ACERA’s General Investment Guidelines, Policies and Procedures pertaining to investments in the Private Credit asset class, the Private Credit Policy prevails. The ACERA Board (“Board”) reserves the right to amend, supplement, or rescind this Private Credit Policy at any time.

II. PURPOSE

The purpose of this Policy is to 1) set forth the private credit policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which private credit investment opportunities are to be measured; and 3) serve as a review document to guide the ongoing oversight of ACERA’s Private Credit Portfolio (“Private Credit Portfolio”) on a consistent basis. The Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee (“Investment Committee”), the ACERA Staff (“Staff”), the ACERA Private Credit Consultant (“Consultant”), and the Private Credit Investment Managers hired by ACERA to manage its assets (“Investment Managers”).

It is expected that this Policy will be a living document and that changes will be made from time-to-time to reflect experience, evolving investment products and opportunities, and changes in the economic and capital market environment.

III. LEGAL AUTHORITY

This Private Credit Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the ACERA Trust Fund (“Fund”).

IV. TYPES OF PRIVATE CREDIT INVESTMENTS

For purpose of this Policy, Private Credit investments may include, but not be limited to, Direct Lending investments, including performing, senior-secured, first-lien, second-lien, and unitranche corporate loans. ~~performing senior corporate loans generally, but not always, secured by first and second liens against assets of the company~~ Private Credit investments also include Opportunistic Credit investments including performing and non-performing public and private debt, senior and subordinated loans, preferred- and common-equity securities, structured products (i.e., collateralized debt obligations, collateralized loan obligations), asset-based loans secured by hard assets or a pool of hard assets, consumer and commercial specialty finance loans, factoring and receivables, royalties, regulatory capital relief securities, insurance-linked/life settlements, litigation finance, and private equity portfolio finance. Finally, Distressed Credit investments are also included, including distressed or defaulted debt investments that can be made with or without the intention of taking control of the borrower.

Private Credit investments may be denominated in U.S. dollars or other currencies, and levered to provide additional return. ACERA may consider investing in these assets if and only if the vehicles meet all standards pursuant to the Policy.

V. STRATEGIC OBJECTIVE OF THE PRIVATE CREDIT PORTFOLIO

The Board recognizes that when ACERA invests in private investments, the investment performance may be difficult to measure during the first several years of the investments. However, the Private Credit Policy establishes ongoing monitoring and reporting duties for each investment [strategy](#) and for the Private Credit Portfolio as a whole. Specific duties are designed to address these challenges and are described in detail later in this Policy.

The Board believes the Fund's overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in Private Credit. The strategic objective of such investments is to: 1) generate returns superior to those available in the public debt markets to compensate the Fund for the long-term and illiquid commitments associated with Private Credit investments; 2) enhance ACERA's long-term risk adjusted return and provide additional diversification to ACERA's overall investment Fund; and 3) generate total Private Credit Portfolio returns [in excess of the Morningstar LSTA U.S. Leveraged Loan Index + 200 basis points per Section VII – Specific Guidelines For Private Credit Portfolio.](#) ~~approximately 175 basis points over the broadly syndicated U.S. debt investments, as measured by the S&P/LSTA (Loan Syndications and Trading Association) U.S. Leveraged Loan 100 Index¹, net of all fees and expenses over rolling 3-5 years².~~

VI. STRATEGIC ALLOCATION TO PRIVATE CREDIT

The target allocation to the Private Credit asset class, as measured by actual dollars invested and not by dollars committed to underlying Investment Managers or funds, is [6.84%](#) of the Total Fund, within a range of +/-[31%](#) (i.e. between [3.83%](#) to [9.85%](#) of the Total Fund) [and exposure to sub-asset classes as follows:](#)

¹The S&P/LSTA U.S. Leveraged Loan 100 Index reflects the performance of the largest facilities in the leveraged loan market as covered by the S&P/LSTA Leveraged Loan Index (“LLI”). The LLI captures the market weighted performance of U.S. dollar-denominated institutional leveraged loan portfolios. The LLI uses real time market weightings and spreads for the facilities constituting the index. This data is sourced from current investors in these credits. The index uses the Average Bid from LSTA/LPC Mark to Market Pricing for its market value return calculations. Criteria for inclusion: U.S. dollar-denominated term loans from syndicated credits that have a minimum initial term of one year, minimum initial spread of LIBOR+125, and minimum initial size of \$50 million. The index primarily consists of senior secured facilities. However, it does include second lien and unsecured loans if they are broadly held by CLOs and other traditional loan accounts.

²A robust peer-based universe of Private Credit funds covering the target universe does not currently exist. Subject to future review, such peer universe may replace the current Private Credit Portfolio benchmark.

Portfolio	Long-Term Target Allocation	Min./Max. Ranges
Private Credit	6.8%	3.8% to 9.8%
-Direct Lending	50%	30% to 70%
-Opportunistic/Distressed Credit	50%	30% to 70%

Portfolio construction will be designed to produce a diversified mix of returns, subject to the guidelines and constraints outlined herein. While specific investments may incur losses of all or part of the capital invested, it is expected that a diversified Private Credit Portfolio will produce a positive return ~~significantly~~ in excess of the Morningstar LSTA U.S. Leveraged Loan Index + 200 basis points benchmark. ~~publicly traded domestic syndicated leveraged loans.~~

Diversifiable risks associated with this Portfolio include credit risk, seniority in the capital structure risk, sector risk, debt-collateral risk, strategy-type risk, investment manager risk, the timing of investment cash flows, and fund-level leverage. The risks associated with Private Credit investments will be viewed within the context of the entire Fund. ACERA may take on over- and under-weights to the Private Credit asset class and to the Private Credit sub-asset classes to improve its risk/return posture based upon an assessment of the relative attractiveness of all available opportunities. ~~As commitments and investments are expected to be made over time, the Portfolio is expected to reach and maintain its target allocations within 4 years (subject to availability of quality managers).~~

VII. SPECIFIC GUIDELINES FOR PRIVATE CREDIT PORTFOLIO

ACERA will gain exposure to Private Credit investments by hiring external investment managers directly or through participation in secondary Private Credit markets. Typically, the Fund will subscribe as a limited partner to limited partnership vehicles ~~sponsored/managed~~ by specialty external investment managers. The performance of the Private Credit Portfolio is benchmarked against the (insert benchmark language) Morningstar LSTA U.S. Leveraged Loan index + 200 basis points, over rolling 3- to 5-year periods, with the expectation that the Private Credit Portfolio performance shall be evaluated once majority of the committed capital has been invested .

The Private Credit Portfolio is to be diversified: ~~over 4 years:~~

By sub-asset classes: Among Direct Lending, Opportunistic Credit, and Distressed Credit.

By vintage year: It is expected that ACERA will commit capital roughly equal amounts of new funding will be committed to the Private Credit Portfolio each year to take advantage of opportunities across vintage year. The commitment amount will vary, with deviations permitted to adjust for changes in the market value of ACERA's plan, and accommodate market opportunities, ~~and to facilitate initial entry into the asset class.~~

By Investment Manager: No more than 25% and 20% of the Total Fund's 6.8% target allocation to the Private Credit Portfolio may be committed to one manager and one investment vehicle, respectively. The Private Credit Portfolio is to be diversified across a minimum of three core investment managers.

By underlying company: Through commitments to funds with diversified portfolios, exposure to a single company is to be less than 10% of the allocation to the Private Credit Portfolio.

By geography: As a fallout result of diversified commitments outlined above, it is expected that the Private Credit Portfolio will be generally diversified by exposure to companies headquartered across the United States.

By industry: As a fallout result of diversified commitments outlined above, it is expected that the Private Credit Portfolio will be generally diversified by sector/industry such that no more than 30% of the Private Credit Portfolio exposure will be in any one sector/industry.

A. Direct Lending Investments

Description: Direct Lending investments are typically performing, floating-rate, senior-secured, first-lien, second-lien or unitranche loans made to corporations owned by a private equity sponsor (i.e., sponsor-backed loan) or to publicly-traded or private corporations not owned by a private equity sponsor (i.e., non-sponsor-backed loan). These investments can be invested in vehicles that utilize leverage facilities to borrow capital that is invested in addition to the equity capital of the vehicles to increase returns with increased risk as well (i.e., levered vehicles) or in vehicles that do not use leverage to enhance returns (i.e., unlevered vehicles).

ACERA will look to hire external managers with the goal of achieving a diversified exposure across sectors, regions and vintage year.

B. Opportunistic Credit Investments

Description: Opportunistic Credit Investments include a wide variety of investment types as opportunistic credit strategies can have the flexibility to invest in private and public debt, performing and non-performing loans, secured and unsecured loans, senior and subordinated loans, preferred and common equity, structured products, and across markets including corporate, consumer, and real estate and other hard assets. For the purposes of this Policy, strategies that invest in niche markets/investment types are considered Opportunistic Credit Investments. Niche investment types include consumer and commercial specialty finance, factoring and receivables, royalties (i.e., healthcare, music, film, media, and energy and minerals royalties), regulatory capital relief, insurance linked/life settlements, litigation finance, and private equity portfolio finance. Leverage can sometimes be used to enhance the returns of Opportunistic Credit Investments.

ACERA will look to hire external managers with the goal of achieving a diversified exposure across sectors, regions and vintage year.

C. Distressed Credit Investments

Description: Distressed Credit Investments are debt securities purchased at a steep discount to par because the borrower is going through, or has the risk of going through, a debt restructuring or bankruptcy. These investments can be traded and held for relatively short time periods or can be held over longer time periods including through and beyond a restructuring or until the liquidation proceeds of a bankruptcy are paid to the holders of the bankrupt entity's debt. Distressed-for-control investing is a type of distressed investing that involves purchasing distressed debt with the intention of owning a meaningful portion of the distressed entity's equity following a debt restructuring or reorganization bankruptcy. In such a situation, the Distressed Credit Investments can be converted into equity in the entity that emerges from a restructuring or bankruptcy and the holders of the equity will have control of the entity such that business improvements can be made to enhance its value by the time the investment is exited.

ACERA will look to hire external managers with the goal of achieving a diversified exposure across sectors, regions and vintage year.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for effective administration of ACERA's Private Credit Portfolio. The duties and responsibilities of the Board, Investment Committee, Staff, Consultant, and Investment Managers are stated below:

A. Board

The Board shall be responsible for approving the Private Credit Policy that governs the Private Credit Portfolio and approving the annual investment plan of ACERA's Private Credit Portfolio. The Board, with input from the Investment Committee, shall review this Policy to determine whether amendments are necessary. The Board shall also be responsible for reviewing and approving all Private Credit investments with individual commitments exceeding Staff's delegated authority as described in subparagraph C below.

B. Investment Committee

The Investment Committee shall be responsible for the following:

1. Establishing the Policy to govern all investments in the Private Credit asset class;
2. Reviewing the Policy, evaluating proposals for the Policy amendments, if any, and making recommendations for approval by the Board;
3. Reviewing and approving the periodic investment plan of the Private Credit Portfolio; and
4. Reviewing Private Credit investments recommended by Staff and/or Consultant and making recommendations to the Board for adoption.

C. Staff

Staff shall be responsible for oversight of ACERA's Private Credit Portfolio. Staff's responsibilities shall include, but not be limited to, the following:

1. Developing and recommending all necessary changes to the Policy with input from Consultant;
2. Developing and maintaining specific procedures, if necessary, to comply with the approved Private Credit Policy with input from Consultant;
3. Developing the investment plan of ACERA's Private Credit Portfolio and making recommendations to the Committee for adoption with input from Consultant;
4. Delegation³:
 - a. Approving Consultant's Private Credit investment proposals (new proposals) with each individual commitment up to 120% of the target allocation to the total Private Credit Portfolio ~~or \$65 million (whichever is lesser)~~ upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (*See* Appendices I through III).
 - b. Approving Consultant's Private Credit investment proposals for "re-ups" with existing managers with each individual commitment in addition to the existing commitments, up to 4025% of the target allocation to the total Private Credit Portfolio ~~or \$130 million (whichever is lesser)~~ to managers in good standing⁴ upon completion of a thorough review and due diligence process with satisfactory results. Staff and Consultant shall provide the Investment Committee all required reports (*See* Appendices I through III).
 - b.c. When the investment manager or general partner of existing investment vehicles offer related continuation vehicles (aka "continuation funds"), following a thorough evaluation of the investment options related to the continuation vehicle (i.e., subscribing to the continuation vehicle, receiving liquidity, or, in some cases, both), and in alignment with Consultant's recommendation, approving of investment in continuation vehicles or other related options such as receiving liquidity (i.e., receiving cash proceeds for the investments that are to be transferred into the continuation vehicle). ;
5. Through the Investment Products and Services Introduction ("IPSI") program of ACERA and the concurrence of the Consultant, recommend highly qualified Private Credit fund investments to the Investment Committee upon completion of a thorough due diligence process and the requisite reporting listed at Appendix I. (*See* Appendices I through III);
6. Monitoring the Private Credit Portfolio for performance and compliance with the Policy;
7. Monitoring the performance of the underlying Investment Managers and their compliance with a) the investment guidelines as set forth in their respective contracts; b) this Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
8. Conducting comprehensive annual reviews of ACERA's Private Credit Portfolio and the individual investments in the Portfolio;
9. Reporting to the Investment Committee any violations of the Private Credit Policy with appropriate recommendations;
10. Assisting ACERA's legal department in contract negotiations with the selected Investment Managers;

³ Investment manager may not appear before the Investment Committee in circumstances when Staff has exercised its delegated authority.

⁴ An investment manager will be considered to be in good standing if there is sufficient comfort with factors including, but not limited to, its organization, strategy, performance, and compliance.

11. Evaluating Private Credit investment opportunities with Consultant's input on an on-going basis; and
12. Evaluating and making recommendations for retention and termination of Investment Managers.

D. Consultant

The Consultant hired by the Board is a fiduciary to ACERA and its Board. Consultant shall independently and continuously monitor and analyze the performance of ACERA's Private Credit Portfolio and make related recommendations to serve the best interests of the plan participants. Consultant shall assist Staff in developing the Private Credit Policy and recommending all necessary changes to the Policy. In addition, Consultant shall be responsible for:

1. Analyzing the asset allocation of the Private Credit Portfolio by sub-asset classtype, implementation vehicle, geography, industry, and vintage year, and making recommendations for reallocation of assets, as appropriate;
2. Developing an investment plan for ACERA's Private Credit Portfolio every 1 to 3 years;
3. Developing a search strategy for highly qualified Private Credit investments and maintaining a robust database containing information on Investment Managers;
4. Recommending highly qualified Private Credit fund investments to Staff and/or the Investment Committee upon completion of a thorough due diligence process and providing the required reports listed in the Appendix I of this Private Credit Policy to Staff and/or the Investment Committee;
- 4.5. When continuation vehicles are offered related to existing investment vehicles, and following a thorough evaluation of the related investment options, recommending to Staff which investment option is most suitable for the Private Credit Portfolio.
- 5.6. Ongoing monitoring of the investment performance of ACERA's Private Credit Portfolio and individual investments-strategies in the Portfolio;
- 6.7. Conducting ongoing due diligence on Investment Managers, notifying ACERA of any significant developments and adverse events, and providing analysis and advice on such issues;
- 7.8. Ongoing monitoring of Investment Managers' compliance with a) their respective investment guidelines as set forth in their contract; b) this Private Credit Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures;
- 8.9. Assisting Staff in contract negotiations with the selected Investment Managers;
- 9.10. Submitting performance evaluation reports and conducting comprehensive reviews of the Private Credit Portfolio and individual Investment Managers semi-annually, and when appropriate, quarterly to the Investment Committee;
- 10.11. Making recommendations for retention or termination of Investment Managers;
- 11.12. Attending meetings as needed; and
- 12.13. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

E. Investment Managers

Investment Managers are fiduciaries and shall prudently manage ACERA's assets in the best interest of ACERA and its members. Investment Managers shall abide by all applicable policies

and procedures established by ACERA, and fully comply with applicable law. Investment Managers shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the Private Credit Policy; and c) applicable requirements of ACERA's General Investment Guidelines, Policies and Procedures. Investment Managers shall be responsible for all aspects of portfolio management as set forth in their respective contracts with ACERA. They shall also:

1. Communicate with Staff and/or Consultant promptly regarding investment strategy, investment results, and any non-conforming issues that may have significant and/or negative impact on the portfolio;
2. Cooperate fully with Staff, Consultant, ACERA's custodian, and other ACERA vendors concerning requests for information;
3. Submit reports in a timely manner to Staff and Consultant in accordance with their contract terms; and
4. Attend meetings as needed.

IX. DUE DILIGENCE PROCESS FOR PRIVATE CREDIT INVESTMENT SELECTION

ACERA recognizes that a proper due diligence process is essential to control the risks associated with Private Credit investments and, therefore, hereby establishes the following due diligence processes for both its Consultant and Staff:

A. Consultant

Consultant shall conduct extensive, documented due diligence before making any Private Credit investment recommendations to Staff and the Investment Committee. Consultant shall involvewill work closely with Staff in the due diligence process, as necessary. For those investments recommended to be included in the ACERA Private Credit Portfolio, ~~When appropriate,~~ Consultant's duties shall include, but not be limited to:

1. Assessing the reputation of the individuals who manage the Private Credit investments, consider background checks, internet searches, and in-person meetings or conference calls with these individuals, etc.;
2. Conducting on-site visits to the offices of the Investment Managers;
3. Checking references from other investors that have invested in these Private Credit investments, and, when advisable, from competitors;
4. Determining that the Private Credit investment funds are audited, at least annually, by a reputable and recognized external independent auditing firm;
5. Reviewing Investment Managers investment strategies, policies, operating procedures, and historical performance;
6. Reviewing and understanding the valuation procedures employed by the Investment Managers; and
7. Reviewing and understanding the business terms of all operational documents and other related materials for the Private Credit investments under consideration, including but not limited to offering memoranda, subscription agreements, fund policies, due diligence questionnaires, and Forms ADV, if and as available.

B. Staff

Staff shall ensure that Consultant has conducted extensive, documented due diligence on all Private Credit investment proposals recommended to Staff and the Investment Committee. Staff shall participate in Consultant's due diligence process when appropriate and shall also be responsible for:

1. Reviewing the comprehensive analysis report prepared by Consultant on its recommended Private Credit investments;
2. Verifying the compliance of each recommended Private Credit investment with the Private Credit Policy, the investment plan for ACERA's Private Credit Portfolio and other applicable ACERA investment policies;
3. Discussing all issues related to the recommended Private Credit investments with Consultant and with Investment Managers to gain a thorough understanding of each strategy's return drivers, key terms, investment guidelines, and determine the investment suitability for ACERA's Private Credit Portfolio;
4. Performing independent due diligence regarding the business, economic, and legal aspects of the proposed Private Credit investment and in accordance with the Executive Summary (Appendix II) and the Compliance Checklist (Appendix III).
5. Completing Appendices II and III of this document for each investment proposal;
6. Conducting an on-site due diligence visit to each manager's headquarters office whenever possible; and
7. Arranging presentations of select investment opportunities to the Investment Committee, as applicable.

X. SPECIFIC PERFORMANCE EVALUATION CRITERIA

When appropriate, specific performance evaluation criteria, including but not limited to benchmarks, will be established for Investment Managers in their respective contracts with ACERA.

XI. MONITORING AND REPORTING

Consultant and Staff will closely monitor and analyze the Private Credit Portfolio so that the strategic objective of the Portfolio can be met.

Investment Managers shall submit all reports to Staff, Consultant, ACERA's custodian, and other ACERA vendors in accordance with their respective contracts.

Consultant shall submit all reports to Staff in accordance with its contractual obligations and the Private Credit Policy.

Consultant, in conjunction with Staff, shall perform evaluations of ACERA's Private Credit Portfolio and the underlying Investment Managers semi-annually, in addition to ongoing cooperation with the Staff and when appropriate, quarterly. Consultant shall report the findings to Staff and the Investment Committee.

XII. PRIVATE CREDIT INFORMATION DISCLOSURE POLICY

ACERA is a public agency subject to state laws, -including, without limitation, (a) the California Public Records Act (Cal. Govt. Code §6250, *et seq.*)(the “Public Records Act”), which provides generally that all records relating to a public agency’s business are open to public inspection and copying unless exempted under the Public Records Act, (b) the Ralph M. Brown Act (Cal. Govt. Code § 54950, *et. seq.*)(the “Brown Act”), which provides generally for open meetings for local legislative bodies, and (c) the California Government Code Section 7514.7 (“Cal. Govt. Code § 7514.7”) which provides generally that public pension systems in California obtain and publicly disclose certain information regarding fees, expenses and returns from the alternative investment vehicles in which they invest. *See* Appendix IV for details of the ACERA disclosure policy regarding its Private Credit investments:

XIII. TABLE OF AMENDMENT DATES

No amendments to date.

Appendix I

List of Reports Required for Each Investment Recommendation/Approval

Name of Report	Source
Recommendation/Approval memo	Staff
Recommendation/Approval memo	Consultant
Executive Summary of the Fund	Consultant
Compliance Checklist	Staff
Comprehensive Due Diligence Report (available to Trustees upon request due to confidentiality)	Consultant
Manager Pitchbook	Investment Manager

Note: Staff will provide an abbreviated Executive Summary Report that is available for review upon request by the Trustees.

Appendix II

Executive Summary Report Template

Fund Name

Section I: General Information

Fund Name; Total AUM of the Firm; Current Target Fund Size; Previous Fund Size; Fund Focus; etc.

Section II: Investment Management

Organization Structure; Management Group; Experience; Personnel Turnover; etc.

Section III: Investment Strategy

Investment Philosophy; Investment Strategy; Investment Process; Investment Objective; etc.

Section IV: Risk Management

Risk Control Methodology; Exit Strategy; etc.

Section V: Investment Rationale

Section VI: Investment Concerns

Section VII: Performance (example)

Benchmark:

Returns (%):

Periods Ending Date	YTD	1Year	3Years	5Years	Since Inception
Fund					
Benchmark					
Relative Performance: Account – Benchmark					

Section VIII: Key Terms

Fund Term; Preferred Return; Investment Period; Management Fee; Other Fees; General Partner Carry; GP Commitment; Advisory Board; Clawback; No-Fault Divorce; Key-Person Events; Closing Schedule; Drawdown Schedule; etc.

* List of items to be addressed as appropriate.
Data provided by Name as of Date; ICM Date

Appendix III

Compliance Checklist Template for Private Credit Investment Selection

Target allocation to Private Credit asset class: **6.84%** of the total Fund

A. Private Credit Policy

Fund Name

In Compliance

1. Permissible Legal Structures

Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, and limited liability corporations.	<i>Specific legal structure.</i>	<i>Yes, No or N/A</i>
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2. Investment Methods

Individual limited partnership funds Primary and/or Secondary Separate accounts Discretionary Fund-of-funds Direct investments/Co-Investments Combination of the above	<i>Specific investment methods.</i>	<i>Yes, No or N/A</i>
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3. Investment Characteristics

Private Credit may include performing senior corporate loans generally secured by first and second liens against assets of the company. shall include loans as specified in Section VII of the Private Credit Policy.	<i>Specific investment type.</i>	<i>Yes, No or N/A</i>
	<i>Specific investment characteristics.</i>	<i>Yes, No or N/A</i>
Private Credit may be denominated in U.S. dollars or other currencies.	<i>Specific currency denomination.</i>	<i>Yes, No or N/A</i>

4. Portfolio Diversification

<u>By vintage year:</u> roughly equal amounts of new funding will be committed each year, with deviations permitted.	<i>Specific vintage year.</i>	<i>Yes, No or N/A</i>
<u>By Investment Manager:</u> diversified across a minimum of four three core investment managers.	<i>Specific commitments to the Investment Manager.</i>	<i>Yes, No or N/A</i>
<u>By company:</u> a single company is to be less than 10% of the allocation to the Private Credit Portfolio.	<i>Portfolio diversification.</i>	<i>Yes, No or N/A</i>

<p><u>By geography</u>: commitments to funds investing both in and outside of the U.S.</p>	<p><i>Specific location.</i></p>	<p><i>Yes, No or N/A</i></p>
<p><u>By industry</u>: generally diversified by sector/industry such that no more than 30% of the Private Credit Portfolio exposure will be in be any one sector/industry.</p>	<p><i>Specific sector/industry.</i></p>	<p><i>Yes, No or N/A</i></p>

5. Return Expectation

<p><u>S&PMorningstar</u> / LSTA U.S. Leveraged Loan <u>Index</u> + 200<u>175</u> bps (net of all fees) in aggregate.</p>	<p><i>Specific return target.</i></p>	<p><i>Yes, No, or N/A</i></p>
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B. Private Credit Investment Plan for YEAR

Approved: DATE

Fund Name

In Compliance

<p>Specific Investment Plan</p>	<p><i>Specific commitment to the Investment Manager.</i></p>	<p><i>Yes, No, or N/A</i></p>
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APPENDIX IV

Details of Disclosure Policy For Private Credit Investments (“PCI”)

1. Upon request, ACERA shall disclose : (i) the name, address and vintage year of each PCI; (ii) the dollar amount of capital committed to each PCI by ACERA since inception; (iii) the dollar amount of cash contributions made to each PCI by ACERA since inception; (iv) the dollar amount of distributions received by ACERA from each PCI on a fiscal yearend basis; (v) the market value of ACERA’s investment in each PCI on a fiscal yearend basis; (vi) each PCI’s net internal rate of return (“IRR”) since inception; (vii) the investment multiple of each PCI since inception; (viii) the dollar amount of total management fees and expenses paid on an annual fiscal yearend basis, by ACERA to each PCI; and (ix) the dollar amount of cash profit received by ACERA from each PCI Fund on a fiscal yearend basis. (*See* Cal. Govt. Code § 6254.26(b).)

2. ACERA shall disclose at least once annually in a report presented at a meeting open to the public : (i) the fees and expenses that ACERA pays directly to the PCI, the PCI manager or related parties; (ii) ACERA’s pro rata share of fees and expenses not included in (i) that are paid from the PCI to the PCI manager or related parties; (iii) ACERA’s pro rata share of carried interest distributed by the PCI to the PCI manager or related parties; (iv) ACERA’s pro rata share of aggregate fees and expenses paid by all of the portfolio companies held by the PCI to the PCI manager or related parties; (v) the information outlined in Section 1, above, and (vi) the gross and net IRR of the PCI, since inception. (*See* Cal. Govt. Code § 7514.7)

All other records regarding such Private Credit investments shall be exempt from disclosure to the fullest extent permitted under applicable law.

Notwithstanding the preceding, or anything else in this Private Credit Policy, ACERA reserves the right to withhold any record when “on the facts of the particular case the public interest served by not disclosing the record clearly outweighs the public interest served by disclosure of the record.” (*See*, Cal. Govt. Code §6255(a)). This weighing process contemplates a case-by-case balancing test between competing public interests based on the facts presented as the statute has been interpreted by the courts.⁵

⁵ *Michaelis, Montanari & Johnson v Superior Court*, 38 Cal.4th 1065, 1071 (2006).