



Date: August 8, 2018  
To: Members of the Board of Retirement  
From: Elizabeth Rogers – Chair  
Subject: Summary of August 8, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, August 8, 2018 at 9:31 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Tarrell Gamble, Jaime Godfrey, 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, Kathy Foster, Assistant Chief Executive Officer; Kathy Mount, Chief Counsel; Harsh Jadhav, Chief of Internal Audit, and Betty Tse, Chief Investment Officer.

### **ACTION ITEMS**

1. Discussion of and Possible Motion to Recommend to the Board to Approve an up to \$34 million Investment in Audax Private Equity Fund VI as part of ACERA’s Private Equity Portfolio – Buyouts
  - Representatives from Staff and Verus presented a potential Buyout investment called Audax Private Equity Fund VI, which would be managed by the Audax Group.
  - Representatives from Audax Group presented the history, background, and culture of the firm’s private equity business which accounts for about 1/3 of the firm’s asset under management. In addition, the representatives discussed the Fund’s strategy, objectives, and risk-averse approach by describing their investment results in the previous funds. The firm deploys a buy and build strategy within their private equity funds, and utilizes add on acquisitions to drive returns.
  - After further discussion, Mr. Dale Amaral moved, seconded by Mr. George Wood, to recommend to the Board that it approve an up to \$34 million investment in Audax Private Equity Fund VI as part of ACERA’s Private Equity Portfolio – Buyouts, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
  - The motion carried with 7 yes (Amaral, Basgal, Gamble, Godfrey, Reilly, Rogers, and Wood), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend Amending the International Equity Manager Structure and Appointing Bivium to Manage a New Emerging Investment Manager Mandate – International Equity

- At the beginning of this action item, Margaret Jadallah disclosed that while she has worked at Verus Advisory and Strategic Investment Solutions (Verus' predecessor) the majority of her career, she had worked at Bivium for 5 years for an interim period.
- Representatives from Staff and Verus discussed the proposed amendment to ACERA's international equity manager structure. The proposal incorporates a manager-of-managers exposure into the actively managed assets by reducing each of the three current large cap international managers' allocation target to 18.8% from 20%. The new EIM – International Equity allocation will be approximately 3.5%. Staff and Verus believe this proposed allocation maintains the integrity of the manager structure with respect to its active/passive mix. In addition, Staff and Verus provided support for maintaining Bivium for the manager-of-managers mandate in the International Equity Asset Class.
- After further discussion, Ms. Ophelia Basgal moved, seconded by Mr. George Wood, to recommend to the Board that the Board Amend the International Equity Manager Structure and Appoint Bivium to Manage a New Emerging Investment Manager Mandate – International Equity.
- The motion carried with 7 yes (Amaral, Basgal, Gamble, Godfrey, Reilly, Rogers, and Wood), 0 no, and 0 abstention.

### **INFORMATION ITEM**

#### 1. Discussion of Proposed Revisions to ACERA's General Investment Guidelines, Policies and Procedures

- Representatives from Staff and Verus discussed ACERA's process for updating the General Investment Guidelines, Policies and Procedures (Policy). Staff updated the Policy to reflect the following items:
  - Current conditions/procedures of the portfolio
  - Decisions that the Board has made since its last review of the Policy (May 20, 2013)
  - Improvements to the style and language of the Policy for consistency and claritySome examples of previous policy updates by the Board, include (1) conforming the Policy's language for the new Private Equity, Absolute Return and Real Assets Policies, (2) updating Schedules IA/IB to show the latest Asset Allocation Targets and Manager Structure Targets.
- A discussion was also held with the Trustees seeking their input about several proposed changes to the Policy. Examples of proposed revisions included: (1) simplification of the Watchlist and Probation language to reflect best practices, (2) removal of all benchmark premiums for the U.S. Equity Managers, (3) replacing the Derivative Instrument Usage section with an updated Derivative Investment Criteria schedule, and (4) evaluating the appropriateness of the goals and objectives of the portfolio. The Committee was generally in agreement with the direction of these changes, and requested to review the specific

language of all proposed revisions so as to better understand and analyze the changes in preparation of the September ICM.

**Recommendations:**

- The Committee recommends, and I move, that the Board approve an up to \$34 million investment in Audax Private Equity Fund VI as part of ACERA's Private Equity Portfolio – Buyouts – pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board Amend the International Equity Manager Structure, and appoint Bivium to manage a new Emerging Investment Manager mandate – International Equity. The proposal incorporates a manager-of-managers exposure into the actively managed assets by reducing each of the three current large cap international managers allocation target to 18.8% from 20%. The new EIM – International Equity allocation will be approximately 3.5%.

**TRUSTEE/PUBLIC INPUT**

Betty Tse, Chief Investment Officer updated the Committee on the current status of the Small Cap Growth Search using the Focus List approach. The Search started as soon as it was approved by the Board last month and is now officially in the quiet period which is estimated to end in December, based on the Board-approved timeline. There are about 20 names on the Focus List which will be emailed to all the Trustees shortly.

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, September 12, 2018 at 9:30 a.m.

**ADJOURNMENT**

The meeting ended at 11:06 a.m.