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 8, 2018
9:30 a.m.

LOCATION	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**	**ELIZABETH ROGERS, CHAIR**	**ELECTED GENERAL**
	GEORGE WOOD, VICE CHAIR	**ELECTED GENERAL**
	DALE AMARAL	**ELECTED SAFETY**
	OPHELIA BASGAL	**APPOINTED**
	KEITH CARSON	**APPOINTED**
	TARRELL GAMBLE	**APPOINTED**
	JAIME GODFREY	**APPOINTED**
	LIZ KOPPENHAVER	**ELECTED RETIRED**
	HENRY LEVY	**TREASURER**
	NANCY REILLY	**ALTERNATE RETIRED[1]**
	DARRYL L. WALKER	**ALTERNATE SAFETY[2]**

Should a quorum of the Board attend this meeting, this meeting shall be deemed a joint meeting of the Board and Committee.
The order of agenda items is subject to change without notice. Board and Committee agendas and minutes are available online at www.acera.org.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

[1] 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 Elected Safety Member and an Elected General Member, are absent.

[2] Alternate Safety Member (Votes in the absence of (1) the Elected Safety, (2) either of the two Elected General Members, or (3) both the Retired and Alternate Retired Members).

INVESTMENT COMMITTEE/BOARD MEETING

Call to Order: 9:30 a.m.

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

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

   9:30 – 10:15

   Robert Conners, Audax Group
   David Wong, Audax Group
   John Nicolini, Verus Advisory, Inc.
   Thomas Taylor, ACERA
   Betty Tse, ACERA

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

   10:15 – 11:00

   Margaret Jadallah, Verus
   Thomas Taylor, ACERA
   Betty Tse, ACERA

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

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

   Margaret Jadallah, Verus Advisory, Inc.
   Betty Tse, ACERA

Trustee Remarks

Public Input (Time Limit: 4 minutes per speaker)

Future Discussion Items

Establishment of Next Meeting Date
September 12, 2018 at 9:30 a.m.

ACERA
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

Date: July 11, 2018

From: Betty Tse, Chief Investment Officer

Subject: Discussion of ACERA's International Equities Manager Structure and Emerging Investment Manager Search.

Recommendation

This is not a recommendation.

Background

In June 2016, the Board amended manager structure for the international equity asset class and adopted an allocation of: (1) 20% passive developed market index non US Equity, (2) 20% large cap value non-US Equity, (3) 20% large cap growth non-US Equity, (4) 20% large cap core quantitative (no change), (5) 10% small company non-US Equity (no change), and (6) 10% in a newly-established sub-asset class for Emerging Markets. ACERA has not completed its implementation of these changes as it has just concluded the emerging market equity manager search and is now targeting the 3Q2018 to complete the transition to the new structure.

In October 2017, the Board adopted a recommendation to change the mandate (asset class) for the Emerging Investment Manager (EIM) from U.S. equities to international equities, which is an applicable asset class in the EIM Policy. Staff and Verus are now considering the following options to implement this action regarding the EIM search. (Please see a more detailed description of the options under "Discussion" below.)

Discussion

First, ACERA needs to establish approximately 1% EIM allocation (Total Fund[1]), per the EIM Policy, for the new Emerging Investment Manager in the international equity asset class. One consideration is to reduce the passive index allocation (MSCI World ex-U.S.) by approximately $81.0 million[1], which reduces the allocation to 16.25% from 20%. Alternatively, ACERA can reduce the three large cap active non-U.S. equity managers (Capital Group, Mondrian, and AQR Intl Equity) by approximately $27.0 million each, which reduces each allocation to 18.75% from 20%.

Second, establish the requisite criteria for the search, i.e., focused list vs. request for proposal. In the past, ACERA has used both methods.

Conclusion:

The Emerging Investment Manager Policy remains applicable; however, given the new international equity mandate for the emerging investment manager, we believe it to be prudent to have this open discussion with the Investment Committee in advance of recommending a timeline, search criteria and evaluation matrix pertaining to the search.

Attachments:

1. Introduction to Proposed International Equity Manager-of-Managers Search – memo prepared by Verus

[1] As of 3/31/2018, the Total Fund AUM was $8,125,417,975. The EIM allocation is estimated to be $81.0 million.

Verus

Memorandum

To: Alameda County Employees' Retirement Association

From: Verus

Date: July 11, 2018

RE: Introduction to Proposed International Equity Manager-of-Managers Search

Executive Summary

In June 2016, ACERA's Board amended its international equity manager structure. The current structure is 20% MSCI World ex U.S. Index exposure, 20% non-U.S. large cap growth, 20% non-U.S. large cap value, 20% non-U.S. core, 10% to international small cap, and 10% allocation to a dedicated emerging markets equity manager. Separately, in October 2017, The Board adopted a recommendation to change ACERA's U.S. all cap equity manager-of-managers mandate to an international equity manager-of-managers mandate. This allocation will maintain its 1% weighting as established in the current Emerging Investment Manager (EIM) policy. Funding for the mandate (either from non-U.S. passive or from the active non-U.S. managers) will be determined closer to the finalization of the search process. Verus and Staff will be recommending that ACERA initiate an international equity emerging manager-of-manager (MOM) search next month once we receive guidance from the ICM on the preferred format for the search, either a focused search or full RFP process.

Verus recommended that the Investment Committee and Board alter its emerging manager exposure from U.S. all cap domestic equity to international equity because the asset class is more inefficient and alpha over the benchmark is more achievable. A small but qualitatively sound international equity MOM universe exists for ACERA's consideration, including ACERA's current manager Bivium. Bivium's U.S. all cap MOM portfolio has been on ACERA's watch list since March 2012 and on probation since 2012 for underperformance. However, Bivium's international equity strategy has had competitive performance and provides exposure to a more inefficient asset class with greater excess return potential. Bivium will be invited to participate in the search process for the international equity MOM.

This memo is an informational item and provides an overview of the search criteria, timeline and evaluation matrix that we plan on using for the international equity MOM search. Minimum qualifications will be similar to other ACERA manager searches and in accordance with the Plan's policies and procedures.

Search Criteria

Verus and Staff propose that ACERA uses either a focused search process or a full RFP process for the search. For the international equity MOM universe of candidates, the peer group is of a size that the search protocol and due diligence process would be only marginally different.

A focused search would be slightly more efficient. Under this methodology, Verus and Staff would use pre-approved quantitative and qualitative criteria to develop a focused list of international equity MOMs on which to perform detailed due diligence. Recent ACERA manager searches (emerging markets equity, passive searches) have utilized a full RFP approach. However, in the past, there is also precedence for ACERA using focused searches (ex., small cap value search performed in 2010 resulting in Kennedy's hire). It is important to note that both approaches to hiring managers utilize the same rigorous approach, including pre-approved and customized search criteria, a questionnaire assessment, quantitative and qualitative analysis on respondents, and onsite visits to finalist candidates. The primary difference is that further quantitative and qualitative due diligence takes place at the outset of a focused search, culling the universe of candidates to a smaller list of managers.

In the case of the international equity MOM universe, the total number of strategies in the database is comprised of approximately six to eight managers. A focused search would result in detailed due diligence on those providers that are competitive and meet minimum qualifications and would likely include at least half of the total universe (depends on the stringency of approved minimum qualifications).

Like other ACERA public markets focused searches, we will propose initial screening criteria that considers returns, risk-adjusted returns, and risk measures over longer time periods and relative to the relevant benchmark (MSCI ACWI ex-US Index) and peer group (eVestment Alliance ACWI ex-US Large Cap Core Equity). Assets under management will also be screened to ensure that ACERA wouldn't be an outsized client of the manager. The intent will be to cull the full universe to a subset that provide competitive returns compared to the benchmark and the peer group. Staff and Verus will compare managers that have met the agreed upon quantitative screening criteria and qualitatively assess the managers considering the strength of the organization, investment team, performance and risk characteristics and reasonableness of fees. As stated above, the resulting list of competitive managers will receive a questionnaire for further due diligence under the focused search scenario.

A full RFP process will result in all international MOMs receiving RFPs who meet minimum criteria. Under this scenario, performance screening would occur after receiving back the RFPs but would use identical return and risk metrics in our evaluation.

Timeline

Verus and Staff will present a detailed timeline, search criteria and evaluation matrix to the Investment Committee in August, and we estimate that a focused search or full RFP will take approximately six months to complete once initiated. As described above, the timeline would include the following steps – determine eligible manager list, send and review questionnaires, recommend finalists, visit onsite and present finalist(s) to the Investment Committee. While the steps in the focused search are identical to those in a full RFP search, the time to complete the search could be curtailed on the margin by a month or so.

Evaluation Matrix

Under either search protocol, our evaluation matrix for the international equity MOM candidates will include a full assessment of the manager's organization, investment team, performance and risk and competitiveness of fees. Verus and Staff will compare relative rankings with the end goal of having a joint recommendation to the Investment Committee.

Summary

In summary, Verus and Staff are seeking to initiate an international equity MOM search which was initially discussed in October 2017. We will be fleshing out the screening criteria, timeline and evaluation criteria and will formally present these criteria as part of an action item at the August ICM. We request guidance on the search protocol that ACERA would like to employ as we move forward – focused search or full RFP process. The purpose of this memo is merely to provide an overview of next month's action item, answer questions and elicit feedback from the ICM.

ACERA
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: August 8, 2018

SUBJECT: Discussion of Proposed Revisions to ACERA's General Investment Guidelines, Policies and Procedures

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Recommendation:

Not applicable. This is an Information Item.

Background / Discussion:

The last update to ACERA's General Guidelines, Policies and Procedures (Policy) was on May 20, 2013, and certain Policy Sections and Schedules have been amended by Board actions since then but have not yet been reflected in the Policy. Additionally, certain guidelines and procedures of the Policy may have become obsolete in today's investment/market environment.

Accordingly, Staff proposes to update the Policy to reflect the following items:

1. The current conditions/procedures of the portfolio (Please see attached red-line of the Policy for reference);
2. The decisions that the Board has made since its last review of the Policy (Please see attached red-line of the Policy for reference);
3. Improvement of the style and language of the Policy for consistency and clarity (Please see attached red-line of the Policy for reference);
4. Proposed improvements to some of the guidelines and procedures currently in the Policy (Please see a list of the proposed revisions on page 2 of this memo).

Regarding the items listed as 1, 2, and 3 above, please see below examples of policy updates:

1. **Sections VI, VII, and VIII (pp. 5-10):** Staff conformed the Policy's language to reflect the following:
   - **i)** A new Private Equity Investment Policy and Absolute Return Policy to replace the PEARLS Policy and to update their respective policy names.
   - **ii)** A new Real Assets Policy replaces the Real Return Pool Addendum and the policy name has been updated.
   - **iii)** The renamed real estate policy is called Real Estate Investment Guidelines, Policies and Procedures.
2. **Schedules IA and IB (pp. 23-24):** Updated Schedules IA/IB to show the latest Asset Allocation Targets and Manager Structure Targets, respectively.

3. **Schedule 1C (Page 25):** Updated the standard deviation multiplier to 2.20 from 1.80, as previously reported to the Committee.
4. **Schedule III (pp. 30-31):** Updated Schedule III to reflect revised Policy Index for the portfolio and Benchmarks for Asset Classes/Investment Managers.

Regarding item 4 listed on page 1 of this memo, please see below examples of proposed revisions for your consideration:

Watchlist and Probation
(Pages 14-22, 26-29)

1. Simplify the Watchlist and Probation language to reflect current best practices by doing the following:
   i. Deleting the Probation language in the current policy.
   ii. Removing the rules-based Watchlist criteria.
   iii. Consider applying the Watchlist criteria in the Real Estate Investment Guidelines, Policies and Procedures to the Policy.

Benchmark
(Pages 30-31)

2. Contemplate the removal of all benchmark premiums from the U.S Equity managers (e.g., consider changing Pzena's benchmark from the "Russell 1000 Value +200 bps" to the "Russell 1000 Value").

Risk
(Page 11)

3. Replace the existing Derivative Instrument Usage section with an updated Derivative Investment Criteria in a schedule.

Policy Language and Other Ideas

4. Evaluate the appropriateness of the goals and objectives of the portfolio and insure that other relevant investment policies are reflected consistently and clearly.

Attachment:

1) ACERA General Investment Guidelines, Policies and Procedures (redline copy reflecting all Board-approved actions through July 19, 2018)

Alameda County Employees'
Retirement Association

ACERA

GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

AMENDED ~~May 20, 2013~~TBD

ACERA
GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES
2013

TABLE OF CONTENTS

	SECTIONS	PAGE
I.	Mission and Purpose	1
II.	Constitutional Requirements	1
III.	Roles and Principal Duties	2~~3~~
IV.	Investment Philosophy	3~~4~~
V.	Asset Allocation and Rebalancing	4
VI.	Investment Strategy and Manager Structure	5
VII.	Eligible Asset Categories	7
VIII.	Asset Categories Objectives	8
IX.	Allocation of Cash Flow	10
X.	Prohibited Investments	10
XI.	Directed Brokerage	10
XII.	Derivative Instrument Usage	11~~0~~
XIII.	Selection of Investment Managers	11
XIV.	Emerging Investment Managers	11
XV.	Authority of Investment Managers	12~~1~~
XVI.	Investment Guidelines for the Managed Accounts	12

SECTIONS		PAGE
XVII.	Investment Manager Specifications	13
XVIII.	Manager Monitoring Procedure	14
XIX.	Contract Review Process	16
Schedule IA– Asset Allocation Targets		23
Schedule IB – Manager Structure Targets		24
Schedule IC – Asset Allocation Portfolio Rebalancing		25
Schedule IIA – Watchlist/Probation Criteria for Underperformance		26
Schedule IIB – Performance Criteria for Watchlist/Probation Removal		28
Schedule III – Policy Index for Total Fund and Benchmarks for Asset Classes and Investment Managers		30
Schedule IV – Manager Termination Checklist		32
Schedule V – Compliance Schedule		33
Schedule VI – Investment Philosophy[1]		36
Schedule VII – Charter of ACERA's Investment Committee of the Board		44
Schedule VIII – Table of Amendment Dates		46
~~Addendum – Real Return Pool Policy~~		~~48~~

[1] Prepared for ACERA by Cortex Consulting; adopted by the Board of ACERA on March 8, 2000; revised in May, 2013.

ACERA

GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

SECTION I: MISSION AND PURPOSE

The Alameda County Employees' Retirement Association (ACERA) exists for the purposes of providing accurate, timely benefits to its members and their beneficiaries and defraying reasonable expenses of administration.

The Board of Retirement (the Board), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the Fund), hereby establishes the following "General Investment Guidelines, Policies and Procedures" (the Policy) for the investment of ACERA's assets. The Board reserves the right to amend, supplement, or rescind this Policy at any time.

The Board is directed by law and given discretion to prudently invest the retirement plan assets. The purpose of this statement of Policy is to assist ACERA in effectively supervising said investments and to encourage effective communication between ACERA and its investment managers (Manager(s)) and investment consultants (Consultant(s)).

ACERA's investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis and to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

SECTION II: CONSTITUTIONAL REQUIREMENTS

Article 16 §17 of the California State Constitution provides in pertinent part as follows:

"Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all the following:

a. The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

b. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits, to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

c. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

d. The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

e. The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.

f. With regard to the retirement board of a public pension or retirement system which includes in its composition elected employee members, the number, terms, and method of selection or removal of members of the retirement board which were required by law or otherwise in effect on July 1, 1991, shall not be changed, amended, or modified by the Legislature unless the change, amendment, or modification enacted by the Legislature is ratified by a majority vote of the electors of the jurisdiction in which the participants of the system are or were, prior to retirement, employed.

g. The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section.

h. As used in this section, the term "retirement board" shall mean the board of administration, board of trustees, board of directors, or other governing body or board of a public employees' pension or retirement system; provided, however, that the term "retirement board" shall not be interpreted to mean or include a governing body or board created after July 1, 1991 which does not administer pension or retirement benefits, or the elected legislative body of a jurisdiction which employs participants in a public employees' pension or retirement system."

SECTION III: ROLES AND PRINCIPAL DUTIES

The Fund investments shall be prudently planned, implemented, managed, monitored and guarded. The Board, Investment Committee (Committee), Investment Staff (Staff), Consultant, Custodian Bank (Custodian), and Manager shall coordinate this process. See the defined roles and principal duties of the above-mentioned parties below:

A. THE BOARD shall review and approve Committee recommendations. The Board also reviews, adopts and monitors all investment policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund.

B. THE COMMITTEE shall identify issues pertinent to the effective investment and administration of the Fund and initiate analysis of such issues by Staff, Consultant or Managers. It also reviews Staff's and Consultant's recommendations regarding all investment policies and investment Fund management. The Committee provides recommendations to the Board for adoption, oversees implementation, and monitors the investment programs in accordance with all applicable laws and Board-established policies, guidelines and procedures. Refer to Schedule VII – Charter of ACERA's Investment Committee of the Board for detailed Committee responsibilities.

C. STAFF shall oversee the Fund's investment program activities, implement the Board/Committee's decisions, make recommendations to the Committee regarding Fund management, and recommend investment-related policies and procedures to the Committee. Additionally, Staff monitors the performance and compliance of Managers in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as "Specific Investment Guidelines"[2] set out in the investment agreement between ACERA and each Manager (Agreement or Contract). Staff also facilitates the Committee meetings and completes activity as directed by the Board/Committee.

D. CONSULTANT shall review, analyze and evaluate the Fund's effectiveness and efficiency and make fund management related recommendations. Consultant assists Staff in implementing the Board/Committee's decisions and developing all investment-related policies. Consultant's responsibilities are detailed in the service agreement between ACERA and Consultant.

E. CUSTODIAN shall provide custody of ACERA's investment assets. Custodian's responsibilities are detailed in the service agreement between ACERA and Custodian.

F. MANAGER shall prudently manage its Managed Account (defined in Section VII – Eligible Asset Categories) in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as Specific Investment Guidelines. Manager's responsibilities are detailed in the Agreement.

SECTION IV: INVESTMENT PHILOSOPHY

The following is a summary of ACERA's investment philosophy. For the complete statement, please refer to Schedule VI of this document, "ACERA Investment Philosophy."

The Board believes that its investment policies, in aggregate, are the most important determinants of its investment success. Compliance with investment policies should, therefore, be monitored rigorously. The Board also believes that performance of the total portfolio, individual asset classes, and Managers should be monitored and compared to appropriate, predetermined benchmarks.

[2] Includes the Objectives/Guidelines of all comingled funds.

The Board believes that prudent management of risk is a central element of the investment function and that diversification among asset classes will reduce risk and enhance returns of the overall investment portfolio in the long term.

The Board believes that market efficiency and opportunities vary among asset classes and may change over extended periods of time; therefore, the Board believes that ACERA's portfolio management strategies should adapt over time to reflect the changing nature of capital markets.

The Board's primary goals in managing the Fund are

1. To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;
2. To comply with all applicable fiduciary standards; and
3. To add marginal value that will help reduce the costs of the plan and/or to increase benefits for the beneficiaries.

The Board believes that, to achieve its goals, ACERA must invest the necessary resources to build and maintain an appropriate organizational infrastructure.

SECTION V: ASSET ALLOCATION AND REBALANCING

Asset allocation targets, a function of the returns and risks from various asset classes and the nature of the plan's liabilities, are set forth in Schedule I. A goal of asset allocation is balancing asset growth versus liability growth considering time horizons, liabilities and risk tolerance. ACERA's objective is to conduct an asset/liability study once every five (5) years and an asset allocation study once every three (3) years or more often if necessary.

Rebalancing is the risk control process of returning an allocation back to the desired target level after having drifted away from its targeted position. Equal probability bands, as defined by standard deviation factors, shall be used to define the acceptable ranges around the asset allocation targets as set forth in Schedule IA. The objective of rebalancing is to enhance the risk-adjusted performance of the asset allocation structure.

Staff shall be responsible for maintaining the relative weights of asset classes and allocations within the acceptable rebalancing ranges. Should an asset class or allocation fall outside its target range, Staff shall rebalance the asset class or allocation back to the target weights as specified in the asset allocation targets in Schedule IA.

Staff shall:

1. Monitor the portfolio;
2. Determine whether or not any asset category is out of balance with its target asset allocation in excess of the specified tolerance range;
3. Determine whether or not any Manager within each asset category is out of balance with its target allocation in excess of the specified tolerance range;
4. And, if this is determined, either
   (a) instruct the relevant Managers to redirect cash income (interest coupon and dividends) in concert with an evaluation of pending commitments and other cash flows (employer

and employee contributions), in order to bring the allocation(s) back to the adopted strategic target; and/or

(b) instruct the relevant Managers to liquidate or acquire the appropriate dollar value of securities to reach the target and reallocate the cash thus generated or required to the other category(s) or Manager(s), as necessary.

Staff shall report to the Board on a regular basis the status of the Fund with respect to how categories are tracking relative to their allowable ranges, as well as any actions taken to rebalance the portfolio.

SECTION VI: INVESTMENT STRATEGY AND MANAGER STRUCTURE

A. U.S. EQUITY will be structured to capture exposure to the broad U.S. equity market as represented by the Russell 3000 Index. Passively managed (index) portfolios will be used in portions of the markets that are reasonably efficient. These portfolios are intended to provide broadly diversified market exposure with controlled (market) risk and minimal cost.

Actively managed portfolios will be used when the Board determines that a Manager possesses special skills or abilities that enable that Manager to capture excess returns relative to the market, adjusted for risk and fees; or to exploit specialty markets that provide enhanced return with acceptable risk.

A great part of the Russell 3000 Index, on a market value basis, is comprised of large-cap stocks. The Board has adopted a policy of obtaining overall exposure to this segment of the market via passively managed indexed products. In addition, some active Managers have been employed to enhance overall portfolio return on a risk- and fee-adjusted basis.

The remainder of the Russell 3000 Index is comprised of small to mid-cap companies. Some opportunities for active management enhancement exist in these securities due to market inefficiencies. ACERA will attempt to capture these opportunities through a mix of Managers who have the special skills required to identify smaller companies that may be undervalued or possess substantial growth potential.

The U.S. equity portfolio shall be allocated among the various styles and Managers. The U.S. equity asset allocation and manager structure targets are outlined in Schedules IA and IB.

B. INTERNATIONAL EQUITY represents an opportunity to diversify risk and capture enhanced returns within markets generally less efficient than the U.S. domestic equity market. ~~100%~~Eighty percent of the international equity portion of the Fund will be invested in actively managed portfolios. Passively managed (index) portfolios will be used in portions of the markets that are reasonably efficient.

The international equity portfolio shall be allocated among the various styles and Managers. The international equity asset allocation and manager structure targets are outlined in Schedules IA and IB.

C. FIXED INCOME represents a means of reducing overall portfolio risk and capturing incremental returns either domestically or globally. Inefficiencies in the pricing and trading of fixed income securities create opportunities to add value through active management. 100% of the fixed income portion of the portfolio will be invested in actively managed portfolios.

The fixed income portfolio shall be allocated among the various styles and Managers. The fixed income asset allocation and manager structure targets are outlined in Schedules IA and IB.

D. REAL ESTATE will be used as a means for diversifying the portfolio and capturing additional returns due to the low correlation between returns on real estate and financial assets. Due to the illiquid nature of real estate assets, distinctions between active and passive management are not applicable. Detailed information regarding real estate investments is included in ACERA's "Real Estate ~~Strategic Plan~~Guidelines, Policies and Procedures," which is maintained as a separate document.

The real estate portfolio shall be allocated among the various styles and Managers. The real estate portfolio asset allocation target is outlined in Schedules IA and IB.

~~E.~~ PRIVATE EQUITY investments~~AND ABSOLUTE RETURNLTERNATIVES~~ represent~~s~~ a means of ~~further diversifying the portfolio and~~ generating returns superior to those available in the public equity market to compensate the Fund for the long term commitments~~and illiquid commitments associated with such investments.~~ The Private Equity portfolio is intended to enhance ACERA's overall returns on a risk-adjusted basis. ~~Due to the absence of an appropriate index for private equity and alternatives investments, distinctions between active and passive management are not applicable.~~

The private equity ~~and alternatives~~ portfolios shall be allocated among the various sub-categories and Managers. The private equity ~~and absolute returnlternatives total~~ portfolios' asset allocation targets ~~is~~are outlined in Schedules IA and IB. Specific details on the strategic allocation to the private equity ~~and absolute returnlternatives~~ investment portfolios are outlined in ACERA's ~~"~~Private Equity Investment Policy ~~and Absolute Return lternatives Return Leading Strategies~~ Policy ~~(PEARLS Policy)"~~ which is maintained as ~~a~~ separate documents.

F. ABSOLUTE RETURN strategies represent a means of further diversifying the portfolio and generating a return stream that has a low correlation to equity markets. The Absolute Return portfolio is intended to enhance ACERA's overall returns on a risk-adjusted basis. The Absolute Return portfolio shall be allocated among the various sub-categories and Managers. The absolute return portfolio's asset allocation targets are outlined in Schedules IA and IB. Specific details on the strategic allocation to the absolute return investment portfolio are outlined in ACERA's Absolute Return Policy which is maintained as a separate document.

~~F.~~G. REAL ASSETS~~RETURN POOL~~ investments are expected to produce positive returns with a secondary goal of protecting the Fund against unexpected U.S. inflation and increasing U.S. inflation expectations.

The real assets~~return pool~~ portfolio shall be allocated among the specific types of Managers. The real assets~~return pool~~ total portfolio allocation target is outlined in Schedules IA and IB. ~~See the Addendum for additional detail.~~Detailed information regarding real assets investments is included in ACERA's Real Assets Policy which is maintained as a separate document.

In aggregate, investments in non U.S. markets across all asset classes shall not exceed 45% of the market value of the total Fund.

SECTION VII: ELIGIBLE ASSET CATEGORIES

The Fund shall hold assets in categories established by the Board. Any asset category may be held in direct form, in pooled/commingled form, or in both. Asset categories managed by one or more "Qualified Investment Managers" are called "Managed Accounts or Funds." Eligible asset categories are listed and defined below.

A. CASH AND CASH EQUIVALENT shall consist of, but not be limited to, cash, short term (12 months or less) interest bearing investments of high quality such as U.S. Treasury issues, insured certificates of deposit of U.S. banks (fixed and/or variable), commercial paper rated A-1, P-1 or both, or other instruments of equal or better quality, and money market funds available through the Custodian.

B. U.S. EQUITY shall consist of, but not be limited to, common stocks and other securities which are convertible into common stocks, and ADRs (American Depository Receipts), as well as cash (per "A" above) and fixed income (per "D" below) when used as temporary substitutes for common stocks.

C. INTERNATIONAL EQUITY shall consist of, but not be limited to, common stocks and other securities convertible into common stocks of companies domiciled outside of the U.S., GDRs (Global Depository Receipts), IDRs (International Depository Receipts) and other depository receipts as well as cash/cash equivalents (per "A" above) and fixed income (per "D" below), domestic or international, which are being used as temporary substitutes for common stock.

D. FIXED INCOME shall consist of investments in, but not be limited to, U.S. taxable bonds, debentures, notes and other evidences of debt. Fixed income may also include, but not be limited to, non-dollar denominated bonds issued by corporations or governments domiciled outside of the U.S. Other eligible investments shall include cash/cash equivalents (per "A" above), convertible bonds, and preferred stock.

E. REAL ESTATE shall consist of investments in real estate and equity real estate through the use of commingled or direct investments. Detailed information about real estate investments is included in ACERA's "Real Estate Guidelines, Policies and Procedures~~Strategic Plan~~," which is maintained as a separate document.

F. PRIVATE EQUITY investments~~AND ABSOLUTE RETURNLTERNATIVES~~ shall consist of investments including~~, but not limited to,~~ venture capital, corporate buyouts, debt-related and special situations~~, absolute return strategies, and other non-traditional and uncorrelated investments~~. Private equity ~~and absolute returnlternatives~~ investments may be denominated in U.S. dollars or other currencies. Detailed information about private equity ~~and absolute returnlternatives~~ investments is included in ACERA's "Private~~EARLS~~ Equity Investment Policy" ~~and "Absolute Return Policy"~~ which is maintained as a separate document.

~~F.~~G. ABSOLUTE RETURN shall consist of investments including alternative premia strategies, funds of hedge funds, and other opportunistic absolute return strategies that are uncorrelated with equity markets. Absolute return investments may be denominated in U.S. dollars or other currencies. Detailed information about absolute return investments is included in ACERA's "Absolute Return Policy" which is maintained as a separate document.

~~G.~~H. REAL ASSETS~~RETURN POOL~~ shall consist of investments including, but not be limited to, natural resources, infrastructure, commodities, TIPS, Inflation Break-evens, and REITs. All Real Assets investments/ strategies are Alternative Investments. ~~See the Addendum for additional detail.~~ Detailed information regarding real assets investments is included in ACERA's Real Assets Policy which is maintained as a separate document.

In aggregate, non U.S. currency exposure (net) across all asset classes shall not exceed 45% of the market value of the total Fund.

SECTION VIII: ASSET CATEGORIES' OBJECTIVES

The general objective of the Board is to preserve capital and to earn a return from appreciation and income, as described herein:

1. To ensure the integrity of ACERA's actuarial funding plan, one minimum return objective for the Fund shall be the current actuarial interest assumption rate plus 25 basis points per year over a full market cycle. Returns shall be calculated net of all fees (both administrative and investment fees).
2. To ensure that ACERA's assets grow appropriately to match salary increases which directly impact benefit levels, an additional minimum return objective for the Fund over a full market cycle (up to five (5) years) shall also be 400 basis points (4.00%) per year over the national Core Consumer Price Index, published by the U.S. Department of Commerce. Returns shall be calculated gross of investment management fees.
3. To ensure that ACERA's external investment manager structure, in the aggregate, is performing satisfactorily, an additional minimum return objective for the Fund over a market cycle (up to five (5) years) shall be to achieve annualized investment returns equivalent to the Fund's Policy Index on a gross of investment management fees basis.

The objectives of each asset category are:

A. CASH AND CASH EQUIVALENT

1. An annualized rate of return in excess of 90-Day U.S. Treasury ~~b~~Bills, and
2. An annualized rate of return within the upper one half of a universe of like short-term funds.

B. U.S. EQUITY

1. An annualized rate of return in excess of the annualized U.S. equity market returns as measured by the Russell 3000 Index, and
2. An annualized rate of return within the upper 33rd percentile of the InvestorForce database or similar database of the annualized returns of diversified domestic equity portfolios.

C. INTERNATIONAL EQUITY

1. An annualized rate of return in excess of the Morgan Stanley Capital International All Country World Investable Market Index Ex U.S. (MSCI ACWI Ex U.S. IMI), and
2. An annualized rate of return within the top quartile of the InvestorForce database or similar database of the annualized returns of diversified international equity portfolios.

D. FIXED INCOME

1. An annualized rate of return in excess of the Barclay's Aggregate Bond Index, Citigroup World Government Bond Ex. U.S. and Barclay's High Yield Index in a ratio of 75/15/10, and
2. A rate of return within the top quartile of the InvestorForce database or similar database of the performance of diversified fixed income portfolios.

E. REAL ESTATE

1. Total Net Return – equivalent to the National Council of Real Estate Investment Fiduciaries Open-End Diversified Core Equity (NFI ODCE) as a minimum return for the total portfolio over rolling five-year periods, and
2. Income Return – Income, which is defined as cash distributed to ACERA , should comprise generally 50% of the total expected return over rolling five-year periods for all Core (as defined in ACERA's "Real Estate Guidelines, Policies and Procedures~~Strategic Plan~~") products.

F. PRIVATE EQUITY~~LTERNATIVES~~

1. For Private Equity: An annualized rate of return in excess of the ~~Russell 3000 Index plus 100 basis points~~Thomson Reuters C|A Global All Private Equity Benchmark net of all fees and expenses over a full market cycle. Please refer to ACERA's Private Equity~~EARLS~~ Investment Policy, which is maintained as a separate document, for detailed information.
1. ~~For Absolute Return: Achieve (a) a low correlation to equity markets and (b) an annualized rate of return at or above the HFRI Fund of Funds Composite Index (net of all fees and expenses}. Please refer to ACERA's Absolute Return Policy, which is maintained as a separate document, for detailed information.~~

G. ABSOLUTE RETURN

1. Achieve (a) a low correlation to equity markets and (b) an annualized rate of return at or above the HFRI Fund of Funds Composite Index net of all fees and expenses. Please refer to ACERA's Absolute Return Policy, which is maintained as a separate document, for detailed information.

~~G.~~H. REAL ASSETS~~RETURN POOL~~

1. ~~An annualized rate of return in excess of the Core Consumer Price Index plus 300 basis points (3.00%). See the Addendum for additional detail.~~
1. The Real Assets portfolio is expected to provide return and risk above bonds but below equity, with generally low correlations to both asset categories. More specifically, the

performance of the real assets portfolio will be measured against the following blended benchmark: S&P Global Natural Resources Index, S&P Global Infrastructure Index, and Bloomberg Commodity Index in the ratio of 50/35/15. Please refer to ACERA's Real Assets Policy, which is maintained as a separate document, for detailed information.

In addition, objectives that reflect a particular investment strategy or style employed by an individual Manager shall be outlined in the Specific Investment Guidelines attached to the Manager's Contract.

SECTION IX: ALLOCATION OF CASH FLOW

Cash flow not needed for benefit payments or administrative expenses shall be allocated to Managed Accounts in a ratio that best funds the overall targeted asset allocation as reflected in Schedules IA and IB.

If cash flow is insufficient for the payment of benefits or to cover administrative expenses, then Managed Accounts shall be debited in a ratio that best satisfies the target allocation shown in Schedules IA and IB. Such debits, if necessary, will be carried out as needed and with timely notice to Managers to facilitate effective funds transitions and performance measurement.

For all planned investments which may not need to be funded immediately, a reserve may be budgeted and invested in appropriate accounts in accordance with the asset allocation targets until such moneys are required. Alternatively, Managed Accounts within "overfunded" asset classes may be called upon to provide the required moneys.

SECTION X: PROHIBITED INVESTMENTS

Managers shall exercise prudent expert standards in defining prohibited investments. For example, prohibited investments include, but are not limited to, securities issued by the County of Alameda or any agency thereof.

SECTION XI: DIRECTED BROKERAGE

ACERA has established an open Directed Brokerage (DB) Program designed to maximize the recapture of brokerage commissions by enforcement of the target percentages of direction. ACERA's DB Program is governed by ACERA's DB Policy, which is maintained as a separate document.

The strategic objective of the DB Program is to take advantage of the industry-accepted recapture of a portion of trade commissions paid to brokers. The primary goals of the DB Program are to 1) recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) construct the percentage of trades subject to recapture so as to allow investment managers to have access to the research they need; 3) seek "Best Execution" through third-party administration and outside consultant monitoring; and 4) encourage local and emerging broker participation through the use of an open correspondent network program.

SECTION XII: DERIVATIVE INSTRUMENT USAGE

Exposure to risk by use of derivative instruments must be consistent with ACERA's overall investment policy as well as an individual Manager's Specific Investment Guidelines. In general, derivatives shall not be used to establish a leveraged position (i.e., offsetting Cash positions must be maintained against all delayed settlement transactions). Should there be any conflict between an individual Manager's Specific Investment Guidelines and this Policy statement regarding the use of derivative instruments, the Specific Investment Guidelines shall control.

SECTION XIII: SELECTION OF INVESTMENT MANAGERS

The Investment Committee shall direct Staff and/or a Consultant to initiate searches for Managers. Staff and/or the Consultant shall research for qualified candidates and present a list of finalists to the Investment Committee for its approval. Upon approval of the list, the finalists shall be interviewed by Staff and the Consultant (if applicable). Staff and the Consultant (if applicable) shall evaluate the interviews, rank the finalists, and make a recommendation to the Investment Committee to hire one or more firms attaining the highest rankings in a publicly noticed meeting at which no less than five (5) Investment Committee members shall be present. It is possible that none of the firms will be recommended for hire.

The above-mentioned procedures are developed for the convenience and benefit of ACERA, and shall not bind ACERA or invalidate the selection of a Manager, if different processes are used subsequent to the promulgation of this Policy. ACERA recognizes that some investments by their nature present unique opportunities and there may not be suitable competitors for a unique investment opportunity. ACERA also recognizes that due to inherent features of some investments, time constraints may require ACERA to use a different investment manager selection process.

SECTION XIV: EMERGING INVESTMENT MANAGERS

The Board has established the ACERA Emerging Investment Manager Policy (EM Policy), which is maintained as a separate document. The purpose of the EM Policy is to establish a framework for the development and administration of ACERA's Emerging Investment Manager Program (EM Program), consistent with the Board's fiduciary responsibilities in the investment of the Fund. The EM Policy states that the initial investment of the EM Program is not to exceed 1% of the total Fund.

The strategic objective of the EM Program is to add incremental value to the Fund through the hiring of the most talented Emerging Investment Managers (EMs) to manage ACERA's assets.

The primary goals of the EM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund return performance through the EM Program; 3) identify superior EMs and/or investment opportunities in the State of California and Alameda County that are equal to or superior to comparable available investments; and 4) further diversify the Fund's overall investment program, so as to enhance risk-adjusted returns of the Fund.

SECTION XV: AUTHORITY OF INVESTMENT MANAGERS

Subject to the laws of the United States and the State of California, and to the terms and conditions of this Policy, Managers shall have full discretion to direct the purchase, exchange, sale and reinvestment of the assets of the Managed Accounts. The Board expects that Managers will recommend changes to this Policy when any part of this Policy appears to be at variance with overall market and economic conditions.

Managers shall place orders to buy and sell securities and, by notice to the Custodian, shall cause the Custodian to deliver and receive securities on behalf of the Fund. Managers shall, upon Board inquiry, report placement of ACERA brokerage activities such that the Board shall be assured commissions were placed for the sole and exclusive benefit of the Fund.

Separate account Managers shall not vote proxies. Proxies shall be voted by ACERA, via a proxy voting service vendor, in accordance with "ACERA Proxy Voting Guidelines and Procedures" which is maintained as a separate document.

Securities lending shall be performed under the oversight of Staff, in accordance with Board-established procedures.

SECTION XVI: INVESTMENT GUIDELINES FOR THE MANAGED ACCOUNTS

Individual Manager discretion shall be governed by the Investment Guidelines for the Managed Accounts as well as the Specific Investment Guidelines for each Manager. Should there be any conflict between the Specific Investment Guidelines of an individual Manager and the Investment Guidelines for the Managed Accounts, the Specific Investment Guidelines shall prevail.

A. GENERAL

1. All investments shall comply with all applicable laws of the U.S. and the State of California governing the investment of pension trusts.
2. All securities transactions shall be executed by reputable broker/dealers, banks, or the Custodian, and shall be on a best-price and best-execution basis, and shall be reported to ACERA as is called for elsewhere in this Policy.
3. All Managers shall refrain from investing in a tobacco producer investment opportunity when, in their expert opinion, an alternative non-tobacco producer investment opportunity is available that will satisfy the same ACERA portfolio guidelines, instructions and objectives for risk, return and diversification.

B. EQUITY

Managers have full discretion to invest solely in readily marketable and diversified equity securities subject to the following:

1. For Managed Accounts, no more than 10% of the value (at time of purchase) of the account shall be invested in the securities of a single issuer.
2. ACERA shall not hold more than 10% of the equity securities of any issuer.
3. Equity securities shall possess value and quality corroborated by generally accepted techniques and standards of fundamental securities analysis.

4. Assets in a Managed Account not invested in equity securities shall be kept with interest in appropriate money market instruments, including any money market fund available through the Custodian.
5. A Managed Account shall be subject to ACERA's Policy statement on the use of derivatives in Section XII.
6. All Managers shall endeavor to be fully invested in stocks at all times unless they have received specific authorization to the contrary from the Board. Cash holdings, as defined in this Policy, shall generally not exceed 5% of the portfolio on a market value basis.

C. FIXED INCOME

Managers have full discretion to invest solely in readily marketable and diversified securities including, but not limited to

1. Obligations of the U.S. and/or eligible foreign government treasuries.
2. Obligations guaranteed by agencies of the U.S. and/or eligible foreign governments.
3. Insured certificates of deposit and banker's acceptances of credit worthy banks.
4. Corporate and other evidences of debt. At least 80% of this debt must be rated by Moody's Investor's Services or by Standard & Poors Corporation.
5. Commercial paper and banker's acceptances of issuers rated P-1 by Moody's Investor's Service or A-1 by Standard & Poors Corporation.
6. Excepting direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible governments, no account shall hold more than 5%, at cost, of the obligations of any single issuer.
7. Excepting direct obligations of the U.S. and/or eligible foreign governments, and those explicitly guaranteed by the U.S. and/or eligible governments, no security shall comprise more than 5% of the account, as determined at the time of purchase.
8. A Managed Account shall be subject to ACERA's Policy on the use of derivatives as stated in Section XII.

SECTION XVII: INVESTMENT MANAGER SPECIFICATIONS

A. Managers must be registered as investment advisers under the Investment Adviser's 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. Unless an exception is granted by the Board, by accepting appointment as ACERA's Managers, Managers shall acknowledge that they are "Plan Fiduciaries" and "Qualified Investment Managers" as defined by the Employees' Retirement Income Security Act (ERISA) of 1974 (see or reference United States Code Title 29 Section 1001 et. seq.).

B. Managers shall maintain fiduciary insurance in the amount of 10% of the total assets managed in the ACERA account or $25 million, whichever is higher, unless the Contract specifies otherwise.

C. Managers shall promptly notify ACERA of changes that occur in any of the following:

1. The investment strategy used in managing the subject product.
2. The key personnel involved in managing ACERA's account.
3. The ownership, key personnel, or organizational structure of the Manager's company.

4. The Manager company's financial condition.
5. The number of clients invested in the subject product and firm wide.
6. The market value of the total assets managed in the subject product and firm-wide.

D. Managers shall promptly notify ACERA if they are subject to censure or disciplinary action by a regulatory agency.

E. Managers shall provide to ACERA all required documents and reports as set forth in Schedule V – ACERA's Compliance Schedule.

F. Managers shall not make contributions, provide gifts, reimbursements of expenses or provide personal benefits exceeding $440.00[3] in the aggregate within any 12-month period to any Trustee, fiduciary, employee or Consultant of ACERA. Donations of educational conferences and similar events and benefits, including travel, meals and accommodations will be made to ACERA and not directed to individuals. The Board will determine whether to accept any donations and will be solely responsible for selection of the Trustee, Staff, or other individual, who will attend or otherwise participate on behalf of ACERA.

SECTION XVIII: MANAGER MONITORING PROCEDURE

The Board has contracted with a number of external Managers to invest ACERA assets in the capital markets. As part of the Board's fiduciary duties to prudently select, monitor and supervise these Managers, the Board has adopted this Procedure. The intent of this Procedure is to notify Managers of the standards by which they will be evaluated and to establish a structure which the Investment Committee and the Board can use to monitor the performance of the Managers.

Managers will be monitored to:

1. Evaluate how well they achieve their investment objectives.
2. Ensure that they adhere to their established investment approach/style and do not attempt to index returns to preserve stellar performance or take extraordinary risk to overcome poor performance.
3. Identify issues or trends that have the potential to result in losses to the Fund.
4. Alert the Board when Managers are not performing to expectations so that appropriate remedial action can be taken.

Managers will be evaluated on the basis of the following: performance, style integrity, organizational stability, compliance, client service, and fees described in greater detail below.

A. PERFORMANCE

On a monthly basis Staff will monitor Manager holdings, activity, and performance.

On a quarterly basis Staff and/or a Consultant will furnish the Investment Committee and/or Board with an in-depth evaluation of each Manager which will include a comparison of the Manager to its Contract benchmark and a peer universe of Managers using a similar investment style. This report shall include an analysis of the sources of Managers' returns (stock selection, industry

[3] Updated annually by the California Fair Political Practices Commission.

selection, asset allocation, etc.) and shall identify which decisions enhanced or diminished performance.

On a quarterly basis, trading costs will be evaluated in terms of commissions paid and execution of trades. Staff and/or Consultants shall furnish a report to the Investment Committee and/or Board regarding trading costs on an annual basis.

B. STYLE INTEGRITY

Each Manager will be analyzed at least annually to ensure that the Manager is continuing to invest the portfolio in the style for which it was originally hired. Style integrity is essential to maintain the Board's asset allocation policy. Any significant deviation in style will result in the overall portfolio having a different characteristic, in some measure, from the broad market which is represented by the Russell 3000 Index. Significant variations in the portfolio characteristics from the style anticipated in the management Contract may indicate a change in its investment style.

This review also provides the Investment Committee and/or Board an opportunity to evaluate the Manager's continuing "fit" with the goals of the overall Fund. By monitoring the Manager style integrity, the Investment Committee and/or Board can assure that its Manager mix takes advantage of opportunities to increase diversification through lower correlation of returns among individual Managers.

C. ORGANIZATIONAL STABILITY

Managers' organizations will be monitored to ensure continuity of the intellectual and philosophical processes that went into developing the particular investment approach contracted for by ACERA. In addition, Managers will be monitored for business risk, quality of staff, departures of key investment personnel, change in ownership or acquisition, and potential conflicts of interest.

It is ACERA's intent that its portfolio comprises no more than 25% of the Manager's total assets under management (AUM)[4] at any time. Therefore, ACERA will monitor the Managers' assets, firm-wide, as well as in the subject product.

D. COMPLIANCE

Managers will be monitored to ensure they are adhering to federal and state laws regarding securities and the management of investment portfolios, trading, and pension investments; ethical practices of the investment professions; the Contract governing their relationship with ACERA; this Policy; and any other written directives issued by ACERA.

Each ACERA Contract will specify which investment vehicles a Manager is authorized to use, which markets the Manager is authorized to transact business in and any limitations within a market (small or large capitalization, value or growth orientation). The assets in each Manager's portfolio shall be reviewed monthly to ensure compliance with Contract guidelines.

[4] ACERA defines total AUM as the total market value of assets a Manager manages on behalf of investors under discretionary management where the client delegates responsibility to the Manager.

All required documents and reports, set forth in Schedule V, must be submitted in a timely manner and in the format specified by ACERA, unless otherwise agreed to.

Managers must provide prior notification and justification for failure to comply with rules, regulations, Contract provisions, deadlines or other directives. Managers must provide a time frame for curing any deficiencies. Staff shall evaluate each incident on a case-by-case basis and determine whether an exception may be granted.

E. CLIENT SERVICE

Managers are required to comply with routine portfolio investment guidelines and reporting deadlines and are also expected to cooperate with special requests for information. ACERA will establish reasonable time frames for all requests and reporting and will provide feedback to all external Managers regarding the perceived quality of their client service.

F. FEES

Managers are expected to charge ACERA investment management fees no greater than the fees charged for other clients with a similar investment style, investment objective, and account type, size and services. Should a Manager enter into a more favorable fee schedule with a similar client, the manager is expected to modify ACERA's fee schedule to reflect the more favorable terms.

ACERA Staff will endeavor to meet with each Manager at least twice a year by telephone or in person to review performance and other issues.

SECTION XIX: CONTRACT REVIEW PROCESS

If during the course of regular monitoring, ACERA determines that a Manager's performance, style integrity, organizational stability, compliance, client service, and/or fees have reached to unacceptable levels, ACERA may, at its discretion, subject the Manager to ACERA's Contract Review Process. As part of the Board's fiduciary duties to prudently select, monitor and supervise their Managers, the Board has approved this process. The purpose of this process is to ensure as little disruption as possible in the event that concerns or problems arise with respect to a Manager's performance. The Board does not confer any additional rights or protections to its Managers by the promulgation of this Policy and/or this process.

There are generally three stages of review: Watchlist, Probation, and Termination (described below). ACERA reserves the right to terminate an investment management contract at any time, with or without thirty (30) calendar ~~days notice~~days' notice, for any reason, and without resort to this Contract Review Process.
The Contract Review Process may result in one or more of the following:

1. Placement on Watchlist or Probation status
2. Movement from one stage of review to another, or removal from the Contract Review Process
3. Reduction of Assets Under Management
4. Revision of investment Contract guidelines for that Manager
5. Re-negotiation of fees
6. Termination of a Manager's Contract

7. Any other actions deemed appropriate by the Board

Each situation is unique Action by the Board will vary depending on the type of Manager, the style/strategy, and the deficiency involved. The following describes the Contract Review Process:

A. INITIAL REVIEW

Prior to a Manager being considered for Watchlist, Probation or Termination, ACERA may take the following steps:

1. Analysis

   Staff will conduct in-depth analyses of the perceived deficiency to verify that a deficiency exists, form an initial assessment of the severity of the deficiency, and make an initial determination of possible causes.

2. Discussion with the Manager

   Staff will contact the Manager to discuss the situation and the results of Staff's analysis.

3. Consultant Input

   ACERA may seek the services of Consultant to provide additional assessment and advice regarding the situation, depending on the severity of the deficiency.

All phases of account compliance may be reviewed during this step, in addition to the specific issue that originated the Review Process.

B. FORMAL ACTION

After completing the Initial Review, Staff may recommend to the Investment Committee and/or Board that the Manager be either placed on Watchlist or Probation or, in certain cases, Terminated. The Committee and/or Board will approve or reject the recommendation. However, if a Manager's deficiency satisfies the criteria as listed under Watchlist and Probation in this Review Process, Staff may place a Manager on Watchlist or Probation without the Committee and/or Board's prior approval. In that case, Staff will be required to report to the Committee on the action taken in this Review Process as soon as possible. The specific criteria for determining which stage of Contract Review to recommend is outlined later in this Policy section and summarized in tabular form in Schedule II.

Upon approval of a Watchlist or Probation recommendation:

1. Staff will notify the Manager of the Board's decision and will provide the Manager with a statement of concerns which outlines the areas which need improvement.
2. The Manager will be asked to respond in writing with an explanation of the issues and a proposed action plan to resolve the issues within thirty (30) calendar days of receipt of the statement of concerns.

3. Staff, a Consultant and the Manager will collectively draft a Plan of Action. The plan will identify the specific steps to be taken to correct the problem; the time frames for further review; and what additional monitoring may be required.

   At the end of the time period specified in the Plan of Action, the Manager will be evaluated and one of the following actions may be taken:

   (a) Removal from Contract Review: if the Manager successfully resolves the issues/deficiencies and demonstrates continued success in all other areas of its relationship with ACERA.
   (b) Movement from Probation to Watchlist: if the Manager has satisfied all or most of the issues/deficiencies that caused it to be placed on Probation, yet Staff continues to have concerns about the Manager. If circumstances warrant, a Manager may also be moved from Watchlist to Probation at any time during the Contract Review Process.
   (c) Extension of Contract Review: a Manager may be given additional time to satisfy the conditions of its Plan of Action if reasonable progress is being made. Extensions may also be granted if unfavorable market conditions or high costs make reallocation of assets inadvisable.
   (d) Termination: if the Manager has not satisfactorily resolved the issues/deficiencies, Staff may recommend termination as described below. Termination may be recommended at any time during the Contract Review Process if circumstances warrant.

WATCHLIST

Watchlist status indicates an increased level of concern, but does not indicate major deficiencies. Managers may be placed on ACERA's Watchlist for one or more reasons stated below. The Watchlist period is typically one year. Staff shall conduct a comprehensive evaluation of the Manager at the end of the one-year Watchlist status period to determine whether the Manager may be removed from Watchlist status. Any of the following may result in a Watchlist status:

a. UNDERPERFORMANCE

   Please refer to Schedule IIA for specific Watchlist criteria for each Manager. A Manager may be removed from ACERA's Watchlist if the Manager's performance has improved to a level where all applicable specific performance criteria as set forth in Schedule IIB of this Policy have been met.

b. STYLE DEVIATION

   Managers are expected to adhere to the style of investment management for which they were originally hired. Changes in portfolio characteristics or style drift may lead to a Watchlist status.

c. ORGANIZATIONAL CHANGE

1. New Ownership

   Even relatively benign ownership changes, which impact personnel key to ACERA's portfolio management may be cause for a Watchlist status.

2. Turnover

   Significant turnover or reassignment in top management, portfolio Managers, research or trading staff, or marketing personnel may warrant Watchlist status.

3. Reorganization

   Changes which signal management deterioration, departures or reassignment of key investment personnel, a change in ownership that increases risk to ACERA's investments, or hasty, uncontrolled growth in the firm with potential to disrupt the investment team hired for management of ACERA's account will mandate Watchlist status.

4. Assets Under Management (AUM)

   If the market value of ACERA's portfolio rises above 25% of the Manager's total AUM, Watchlist status may be warranted.

d. NON-COMPLIANCE

1. Contracts and Other Agreements

   Managers are expected to comply with the investment management Contract, investment guidelines, or other directives. Non- or partial compliance may result in a Watchlist status.

2. Reporting

   Staff will contact Managers to request past due reports. If the Manager's reports are consistently delinquent, the payment of fees may be delayed. If a Manager cannot comply with reporting deadlines, ACERA should be given prior notification. If warranted, a variance may be allowed. Managers are expected to resolve reporting problems immediately upon notification by ACERA. Repeated delinquency in reporting may result in a Watchlist status.

e. POOR CLIENT SERVICE

If a Manager is uncooperative and demonstrates a poor client service attitude, Watchlist status is appropriate. Managers are expected to resolve client service issues immediately upon notification by ACERA.

f. HIGH FEES

Watchlist status may be appropriate if a Manager

1. Charges ACERA unreasonably high fees relative to what it charges its other clients with a similar investment style, investment objective, and account type, size and service, and/or
2. Charges ACERA unreasonably high fees relative to the current market fee rate.

PROBATION

Probation indicates a level of serious deficiency and signals a need for closer contact with the firm. Probation necessitates a cautious, observant relationship with the Manager.

Managers may be placed on Probation with or without first being placed on Watchlist status for one or more reasons stated below. The probation period is typically one year. Staff shall conduct a comprehensive evaluation of the Manager at the end of the one-year Probation period to determine whether the Manager may be removed from Probation status.

The following may result in Probation:

a. UNDERPERFORMANCE

Please refer to Schedule IIA for specific Probation criteria for each Manager. A Manager may be removed from ACERA's Probation if its performance has improved to a level where all applicable specific performance criteria as set forth in Schedule IIB of this Policy have been met.

b. STYLE DEVIATION

Probation may be warranted when a Manager's portfolio characteristics are significantly different from its contractually specified style. In general, a Manager will be placed on Probation after four or more consecutive quarters of deviating from its style benchmark. In effect, if the Manager is no longer the same Manager that was retained for ACERA's account, Probation and perhaps even Termination is appropriate.

c. ORGANIZATIONAL CHANGE

Changes in ownership, organizational assignments, departures of key investment personnel, a change in ownership that poses substantial risk to ACERA's investments, or turnover that have the potential to seriously disrupt or destroy the investment management team that was hired to manage the ACERA account may result in Probation or Termination. When key personnel, such as top management, portfolio Managers, research and trading staff are no longer available for use on the ACERA portfolio and do not appear to be replaced or replaceable, Probation and perhaps even Termination is appropriate.

d. NON-COMPLIANCE

If a Manager does not comply with securities laws, industry regulations, standards of professional conduct or contractual provisions, Probation is appropriate. Certain circumstances may warrant Termination.

e. POOR CLIENT SERVICE

Failure to correct any issues that previously resulted in the Watchlist status shall result in Probation. Managers will generally be given one calendar quarter to resolve client service issues.

f. HIGH FEES

Failure to reduce unreasonably high investment management fees shall result in Probation.

TERMINATION

Upon determining that the Manager has not made adequate improvement in the areas outlined in the Plan of Action, Staff may recommend to the Investment Committee and/or Board that the Manager be terminated. Prior to making the final decision to terminate the Manager, the Investment Committee may invite the Manager to make a presentation at the meeting in which the Termination recommendation is to be discussed. Staff will have analyzed the liquidity of the Manager's portfolio and will have a recommendation and plan for disposition of the assets.

Upon the Investment Committee's decision to terminate, Staff will notify the relevant ACERA Staff regarding this decision (See Section IV). All outstanding issues between the Manager and ACERA's Master Custodian, brokers, Consultant, or other parties shall be resolved prior to closing out the Contract. The Manager Termination checklist is attached as Schedule IV.

The Contract Review Process described in this Policy does not provide any additional rights or protections to Managers, beyond what is provided in the contract. The Board reserves the right to terminate an investment management contract without resort to the Contract Review Process, at any time, with or without thirty (30) calendar ~~days notice~~days' notice, for any reason or no reason.

In the event of an emergency or crisis, such as an imminent, foreseeable threat to a Managed Account within the Fund, the following procedure shall be followed to protect the portfolio (with the advice and assistance of the appropriate ACERA consultant(s):

(a) Staff shall make a concerted attempt to arrange a special meeting (in person and/or by telephone) of the Board to consider and to resolve the matter.
(b) If (a) is not practicable within the time necessary to protect the portfolio, the Board delegates temporary authority to the Board Chair (and/or Vice Chair) and the Committee Chair (and/or Vice Chair) to consider and to resolve the matter.

The temporary authority delegated under subsection (b) shall be strictly limited to the matter itself and any related actions that may be necessary and appropriate. Under subsection (b), at least two

(2) persons of the four persons identified would be required to consider and resolve the matter. The temporary delegated authority shall be as full and complete as the Board's authority which means that Managed Accounts and funds may be terminated and/or redeemed.

Staff and the consultants shall prepare and submit a full report on any and all actions taken under this section for presentation at the next scheduled Investment Committee meeting.

SCHEDULE IA

ACERA

ASSET ALLOCATION TARGETS[5]

Asset Class	**Target Allocation %**
U.S. Equity~~ies~~	~~32~~28
~~U.S. Large Cap~~	~~26~~
~~U.S. Small Cap~~	~~6~~
International Equity~~ies~~	26~~7~~
Fixed Income	15
Real Estate	~~6~~8
Private Equity ~~and Alternatives~~	~~15~~9
Absolute Return	9
Real Assets~~Return Pool~~	5
Cash	0
TOTAL	100

[5] The target asset allocation to each asset class was adopted by the Board in September 2012.

SCHEDULE IB

ACERA
MANAGER STRUCTURE TARGETS

Managers		**Target Allocation % Within** Asset Class	Total Fund
U.S. Equity			
Large Cap (Core Index)	~~Mellon Capital~~BlackRock	~~44.5~~80.0	~~14.2~~22.4
Large Cap (Growth)	T~~rust~~ C~~ompany of the~~ West	~~17.5~~5.0	~~5.6~~ 1.4
Large Cap (Value)	Pzena	~~17.5~~5.0	~~5.6~~1.4
Small Cap (Growth)	TBD[6]~~Next Century Growth~~	~~6.5~~5.0	~~2.1~~1.4
~~Micro Cap (Growth)~~	~~Next Century Growth~~	~~2.5~~	~~0.8~~
Small Cap (Value)	Kennedy Capital	~~9.0~~5.0	~~2.9~~1.4
~~All Cap~~	~~Bivium~~	~~2.5~~	~~1.0~~
International Equity			
MSCI All World	BlackRock	20.0	5.2
~~Core~~Large Cap~~Non-U.S. Equity~~(Growth)[7]	Capital Group~~uardian~~	~~40.0~~20.0	~~10.8~~5.2
~~Core~~Large Cap ~~Non-U.S. Equity~~ (Value)[7]	Mondrian	~~3~~20.0	~~8.1~~5.2
~~Core~~Large Cap ~~Non-U.S. Equity~~ (Quantitative)[7]	AQR	20.0	5.~~4~~2
~~Core~~ Non-U.S. Equity (Small Cap)	Franklin Templeton	10.0	2.~~7~~6
Non-U.S. Equity (Emerging Markets Manager)	Legal DD in process (Newton)	10.0	2.6
International Equities EIM Mandate[7]	Bivium	~3.5	~1.0
Fixed Income			
Enhanced Index	Baird	50.0	7.5
Aggressive Core Plus	Loomis Sayles	25.0	3.8
Global Bond	Brandywine	25.0	3.8
Real Estate[8]			~~6~~8.0
Private Equity ~~and Alternatives~~[~~6~~8]			~~15~~9.0
Absolute Return[8]			9.0
Real ~~Return Pool~~Assets[~~6~~8]			5.0
Cash			0.0

[6] Small Cap (Growth) RFP Search in process.

[7] Bivium percentage not included in the schedule calculation and is expected to have a 1% allocation to the Total Fund per the Emerging Investment Manager Policy (EIM). Accordingly, each of the Large Cap International Equity manager structure targets would be subject to slight reductions to fund the International Equities EIM mandate at a 1% allocation.

[~~6~~ ~~7~~ 8] ACERA's real estate, private equity, absolute return, and real assets manager structure targets are specified in ACERA's "Real Estate Guidelines, Policies and Procedures, Private Equity Investment Policy, Absolute Return Policy, and Real Assets Policy," respectively.

SCHEDULE IC

ACERA

ASSET ALLOCATION PORTFOLIO REBALANCING

The objective of rebalancing is to control risk and enhance the risk-adjusted return of the asset allocation strategy. For purposes of enhancing the risk-adjusted return of the asset allocation structure, the relative deviation of any liquid sub asset class away from its target weight (or liquidity-adjusted target weight) shall be no more than plus or minus ~~1.80~~2.20 standard deviation factors of each allocation's expected volatility, relative to the other allocations in the asset mix. This standard deviation factor shall be used to define the range of allowable deviation from Policy target asset allocations. If any sub asset class reaches its allowable deviation from its target allocation, all sub asset classes will be evaluated.

The actual reallocation will be at the discretion of Staff (with oversight by the rebalancing Consultant) after reviewing the following: the relative magnitude of deviation from target for all other sub asset classes; the available cash liquidity of sub asset classes that could be used to fund rebalancing; pending cash flows (employer and employee contributions, or proceeds from a terminated Manager's portfolio); pending liquidity windows with commingled investment pools; pending investment commitments (real estate transactions and/or new funding commitments); and pending interest coupon and dividend cash flows.

Asset allocation and rebalancing status reports, and any rebalancing activity taken toward attaining the objective of the rebalancing program will be reported to the Board quarterly.

Significant modifications to the asset allocation strategy shall be cause to review the appropriateness of maintaining this rebalancing parameter or revising it to a parameter more suitable to the revised asset allocation structure.

SCHEDULE IIA

ACERA

Watchlist/Probation Criteria for Underperformance[7]

Watchlist Criteria	Probation Criteria
U.S. Equity • Large Cap Core Index: negative tracking error exceeds 5 bps on an annualized basis in any 1 year period. • Large Cap (Growth/Value): cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period.	**U.S. Equity** • Large Cap Core Index: negative tracking error exceeds 5 bps on an annualized basis in any period greater than 1 year, or negative tracking error exceeds 10 bps for any 2 consecutive quarters. • Large Cap (Growth/Value): cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

[7] If the Fund history is less than 5 years, ACERA will use a rolling 3 year period.

Watchlist Criteria	Probation Criteria
International Equity • Core Non-U.S. Equity (growth/ value/ quant/ small cap): cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below median for 2 consecutive quarters in a cumulative 5year rolling period.	**International Equity** • Core Non-U.S. Equity (growth/value/quant/small cap): cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below median for 3 or more consecutive quarters in a cumulative 5 year rolling period.
Fixed Income • Aggressive Core Plus: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return is below the benchmark for 2 consecutive quarters, or the Manager's peer ranking falls below the median for 2 consecutive quarters in a cumulative 5 year rolling period.	**Fixed Income** • Aggressive Core Plus: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return is below the benchmark for 3 more consecutive quarters, or the Manager's peer ranking falls below the median for 3 more consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return is below the benchmark for 3 or more consecutive quarters, or the Manager's peer ranking falls below the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

SCHEDULE IIB

ACERA

Performance Criteria for Watchlist/Probation Removal [8]

Watchlist Removal	**Probation Removal**
U.S. Equity • Large Cap Core Index: negative tracking error falls below 5 bps on an annualized basis in any 1 year period. • Large Cap (Growth/Value): cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period.	**U.S. Equity** • Large Cap Core Index: negative tracking error falls below 5 bps on an annualized basis in any period greater than 1 year, and negative tracking error falls below 10 bps for any 2 consecutive quarters. • Large Cap (Growth/Value): cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small/Micro Cap Growth: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Small Cap Value: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Large Cap Enhanced Core: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

[8] ~~If the~~If the Fund history with a Manager is less than 5 years, ACERA will use a rolling 3 year period. ACERA reserves the right not to remove a Manager from its Watchlist/Probation status even though the Manager may qualify for removal based on the Performance Criteria for Watchlist/Probation Removal.

Watchlist Removal	Probation Removal
International Equity • Core Non-U.S. Equity (growth/value/quant./ small cap): cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period.	**International Equity** • Core Non-U.S. Equity (growth/value/quant./ small cap): cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.
Fixed Income • Aggressive Core Plus: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return exceeds the benchmark for 2 consecutive quarters, and the Manager's peer ranking exceeds the median for 2 consecutive quarters in a cumulative 5 year rolling period.	**Fixed Income** • Aggressive Core Plus: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Global Bond: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period. • Enhanced Index: cumulative 5 year rolling return exceeds the benchmark for 3 or more consecutive quarters, and the Manager's peer ranking exceeds the median for 3 or more consecutive quarters in a cumulative 5 year rolling period.

SCHEDULE III

ACERA

POLICY INDEX FOR TOTAL FUND AND BENCHMARKS FOR ASSET CLASSES AND INVESTMENT MANAGERS

POLICY INDEX FOR TOTAL FUND

~~32~~28% Russell 3000/ 26~~7~~% MSCI All Country World Index Ex U.S. IMI/ ~~11.25~~11.25% Bloomberg Barclay’s Aggregate/ ~~2.25~~2.25% Citigroup World Government Bond Ex. U.S./ ~~1.504~~1.5% Bloomberg Barclay’s High Yield/ ~~6~~8% NCREIF ODCE~~-~~/ ~~15~~9% Thomson Reuters C|A Global All Private Equity Benchmark/ ~~Russell 3000 + 100 basis points (net)/5% Core CPI + 300 basis points.~~9% HFRI FOF Composite Index/ 2.5% of S&P Global Natural Resources/ 1.75% of S&P Global Infrastructure Index/ 0.75% Bloomberg Commodities Index

BENCHMARKS FOR ASSET CLASSES*

Asset Class	**Benchmark**
U.S. Equity	Russell 3000
International Equity	MSCI ACWI Ex. U.S. IMI
Fixed Income	Bloomberg Barclay’s Aggregate /Citigroup World Government Bond Ex U.S./Bloomberg Barclay’s High Yield in the ratio of 75/15/10
Real Estate	NCREIF ODCE
Private Equity ~~and Alternatives~~	~~Russell 3000 + 100 basis points (net)~~ Thompson Reuters C|A Global All Private Equity Benchmark
Absolute Return	HFRI Fund of Funds Composite Index
Real ~~Return Pool~~Assets	~~Core CPI + 300 basis points~~ S&P Global Natural Resources Index/S&P Global Infrastructure Index/Bloomberg Commodities Index in the ratio of 50/35/15

*Benchmarks are net of all Fees

SCHEDULE III (cont.)

ACERA

POLICY INDEX FOR TOTAL FUND AND BENCHMARKS FOR ASSET CLASSES AND INVESTMENT MANAGERS

BENCHMARKS FOR INVESTMENT MANAGERS[9]

Manager	**Benchmark**
U.S. Equity	
~~Bivium~~	~~Russell 3000 + 200~~100 ~~bps~~
BlackRock	Russell 1000
Kennedy Capital	Russell 2000 Value + 250 bps
~~Mellon Capital~~	~~S&P 500~~
TBD[10]~~Next Century Growth~~ (small growth)	Russell 2000 Growth +250 bps
~~Next Century Growth (micro growth)~~	~~Russell Microcap Growth + 250 bps~~
Pzena	Russell 1000 Value + 200 bps
Trust Company of the West	Russell 1000 Growth + ~~250~~200 bps
International Equity	
AQR	MSCI ACWI Ex U.S.
BlackRock	MSCI World Ex U.S.
Capital Group~~uardian~~	MSCI ACWI Ex U.S.
Franklin Templeton	MSCI ACWI Ex U.S. Small Cap
Mondrian	MSCI ACWI Ex U.S.
RFP in Process (Newton)	MSCI Emerging Markets
Bivium[11]	TBD
Fixed Income	
Baird	Bloomberg Barclay's Aggregate Index
Brandywine (Global Bond)	Citigroup World Gov. Bond Index
Loomis Sayles (Boston)	Bloomberg Barclay's Baa Credit Index
Real Estate[12]	NFI ODCE
Private Equity ~~and Alternatives~~[12]~~[13]~~	~~Russell 3000 + 100 bps~~Thomson Reuters C|A Global All Private Equity Benchmark
Absolute Return[12]	HFRI Fund of Funds Composite Index
Real ~~Return Pool~~ Assets[12]	~~Core CPI + 300 bps~~ S&P Global Natural Resources Index/S&P Global Infrastructure Index/Bloomberg Commodity Index in the ratio of 50/35/15

[9] Individual Manager's Contract contains more specific information about each Manager's benchmark.

[10] Small Cap (Growth) Search RFP in process.

[11] Bivium would have a 1% allocation to the Total Fund per the Emerging Investment Manager Policy (EIM).

[12] ~~Benchmarks for real estate Managers are specified in ACERA's "Real Estate Guidelines, Policies and Procedures."~~ACERA's real estate, private equity, absolute return, and real assets benchmarks are specified in ACERA's "Real Estate Guidelines, Policies and Procedures, Private Equity Investment Policy, Absolute Return Policy, and Real Assets Policy," respectively.

~~[13] Benchmarks for Private Equity and Alternatives Managers are specified in ACERA's "PEARLS Policy" and/or individual Manager's Contract.~~

SCHEDULE IV

ACERA

MANAGER TERMINATION CHECKLIST

This checklist is used to ensure that all details are covered when terminating investment management services.

1) Officially notify the Manager in question of the Board's decision to terminate.

2) Establish a plan of action for reallocating assets from the terminated portfolio; transfer assets to other portfolios or prepare for liquidation.

3) Review department files and logs to identify any outstanding issues.

4) Notify ACERA Administration, Fiscal Services Department, Legal Counsel, Consultant, Custodian and any other vendors of the termination. Identify and resolve all outstanding issues with these parties.

5) Have Manager and Custodian review and sign off on monthly market values and performance figures produced during the Contract period.

6) Hold payment of last invoice until all issues are resolved.

7) Retain terminated Manager files in the ACERA office for a minimum of one year; then send to ACERA archives.

8) Hold terminated Manager files in ACERA archives in accordance with the ACERA Record Retention Policy and Schedule or applicable securities laws and accounting practice.

SCHEDULE V[12]

ACERA

Compliance Schedule

REQUEST	**DUE DATE**
MONTHLY	
Soft Dollar Commission Report (if applicable) (Submit each month regardless of activity.)	By the 20th calendar day of the month following the reported month
Broker Commission Report (Submit each month regardless of activity.)	By the 20th calendar day of the month following the reported month
Accounting Report/Portfolio Valuation (Provide transaction data – buys/sells, a portfolio listing including cost and market values, and performance returns.)	By the 20th calendar day of the month following the reported month
Derivative Report (if applicable) (Submit each month regardless of whether any derivative instruments were used.)	By the 20th calendar day of the month following the reported month
Confirmation that monthly reconciliation with Custodian is performed. (Reconciliation should include market values, transactions, and performance.)	By the 20th calendar day of the month following the reported month
ACERA overall compliance checklist	By the 20th calendar day of the month following the reported month

[12] This schedule is designed for all investment Managers of ACERA. However, Managers may be required to provide additional compliance reports based on their individual Investment Agreements with ACERA. Should there be any conflict between individual Investment Agreements with ACERA and ACERA's "General Guidelines, Policies and Procedures," the individual Investment Management Agreements shall prevail.

REQUEST	**DUE DATE**
QUARTERLY	
Fee Billings (Provide all pertinent backup documentation for fee calculations)	Within 30 calendar days following the end of the quarter
Confirmation of compliance with limitations on investment vehicles and investment markets[13]	Within 30 calendar days following the end of the quarter
Confirmation of compliance with % limitations on cash holdings, on equity investment and on fixed-income investment[13]	Within 30 calendar days following the end of the quarter
Confirmation that ACERA's assets under management do not exceed 25% of the Total assets under management firm-wide	Within 30 calendar days following the end of the quarter
Market and Portfolio Analyses and Commentaries	Within 45 calendar days following the end of the quarter
Additional requirements applicable to Real Estate Program	
Operations Report/Financial Statements	Within 60 calendar days following the end of the quarter
Preliminary Investment Packages (Applicable to Individually Managed Account)	Within 30 calendar days following the completion of the report, if applicable
Valuation Adjustments Memo (Applicable to Individually Managed Account)	Within 90 calendar days following the anniversary date of asset acquisition
Property Valuation Report (Applicable to Individually Managed Account)	Within 90 calendar days following the anniversary date of asset acquisition

[13] Detailed information can be found in "Specific Investment Guideline" section of each Manager's Investment Contract.

REQUEST	**DUE DATE**
ANNUAL	
Annual Performance Fee Billing (if applicable) (Provide all backup documentation/ reconciliation sign-offs.)	Within 30 calendar days following the end of the performance fee period
Organization Chart	Within 30 calendar days following the end of the year or as soon as updated, whichever is earlier
Fidelity Bond/ Errors and Omissions Insurance (Submit an original certificate.)	Within 30 calendar days of renewal
Audited Financial Statements	Within 90 calendar days following the end of the year
Form ADV, Parts 1 and 2A and 2B (Brochures) (as applicable)	Within 30 calendar days of filing
Statement or Summary of Code of Ethics	Within 30 calendar days of any change
SEC Examination Reports	Within 30 calendar days of receipt
Fair Political Policies Commission Form 700	On or before March 31st of each year
Placement Agent Policy Update	Within 30 calendar days, provide an update of any change to the information included in the most recently filed Placement Agent Information Disclosure Form.
Additional requirements applicable to Real Estate Program	
Tactical Plans/Management Investment Plans[14] (applicable to Individually Managed Account)	Within 30 calendar days of completion
Asset Management and Budget Plan[14] (applicable to Individually Managed Account)	Within 30 calendar days prior to fiscal year end
Audited Financial Statement for ACERA's Fund (applicable to Individually Managed Account)	Within 90 calendar days following the end of the year

[14] Seven copies of this report shall be submitted to Staff.

SCHEDULE VI

ACERA

INVESTMENT PHILOSOPHY (REVISED MAY 2013)

This document describes the investment philosophy of the Alameda County Employees' Retirement Association (ACERA). Its purpose is to enunciate the basic principles and beliefs that underlie ACERA's investment policy and impact the overall management of the pension Fund. The Investment Philosophy (Philosophy) is designed to complement rather than replace the specific investment policies of ACERA. It is expected that ACERA's approach to investments, as reflected in its policies and strategies, will be consistent with the Philosophy over time. Though the Philosophy allows significant flexibility, it also raises some constraints or implications. Where these were deemed to be significant, they have been explicitly identified and labeled as *Implications*.

Future Boards may choose to amend the investment Philosophy, as their experiences and circumstances will almost certainly differ. The initial document and any subsequent changes will provide staff, advisors and future trustees with a frame of reference to help them understand how the investment program has evolved as well as the rationale behind its design. Future Boards may modify the Philosophy as their experiences and circumstances suggest is prudent.

The major sections of the Philosophy are:

1. Mission
2. Risk Management
3. Diversification
4. Market Efficiency
5. Organizational Infrastructure and Communications
6. Performance Monitoring and Time Horizon

1. MISSION

a) The Board's primary goals in managing the Fund are:

   i) To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;

ii) To comply with all applicable fiduciary standards; and

iii) To add value, where feasible, that will help reduce the costs of the plan, increase benefits, or both.

2. RISK MANAGEMENT

a) The Board believes that prudent management of risk is a central element of the investment function.

b) Though there are numerous risks involved in the management of a pension investment program, ACERA believes that the following warrant particular attention:

i) ***Funding-related Risk*** **-** The risk that the funds available in the Plan will be insufficient to pay the promised benefits, both vested and supplemental, or that contribution volatility will be unacceptably high. The primary methods for managing funding risk include regularly conducting integrated asset/liability studies, and establishing appropriate and prudent investment and funding policies.

0.1 In managing the relationship between assets and liabilities, the approved asset allocation of the Fund should provide an adequate level of certainty of meeting the projected liabilities of the Plan over a time period, as determined by the actuary.

ii) ***Benchmark-related Risk*** – The risk that the investment benchmarks adopted by the Fund are inappropriate, or that the aggregate of the individual Manager benchmarks within an asset class do not adequately reflect the benchmark for the asset class as a whole. The latter risk is a specific risk generally referred to as *benchmark misfit risk (i.e. style risk)*. Inappropriate benchmarks or excessive benchmark misfit risk could result in investment performance different than expected and could adversely impact decisions concerning the hiring or firing of investment managers.

0.1 The primary methods for effectively managing benchmark-related risk are

(a) regular review of the Fund's benchmarks; and

(b) regular measurement and monitoring of misfit risk using proper methodologies.

iii) ***Manager Risk*** - The risk of aberrant performance on the part of individual investment Managers, and the related active management risk for asset classes as a whole.

0.1 The primary methods for mitigating Manager risk are:

(a) Prudent processes for selecting and monitoring investment Managers;
(b) Competent internal investment Staff;
(c) Effective investment consulting support; and
(d) Clear communication to investment Managers of ACERA's objectives, expectations, and investment time horizons.

0.2 The primary method for mitigating active management risk for asset classes include:

(a) Establishment of appropriate asset class benchmarks;
(b) Careful monitoring of asset class performance relative to the benchmarks; and
(c) Prudent use of passive management.

iv) ***Fortitude Risk*** - The risk that the Board or Staff will fail to exercise the patience, judgment, or fortitude required to support long-term policies and strategies for the investment and funding program.

0.1 The keys to managing fortitude risk are believed to include:

(a) Effective orientation and education with respect to institutional investing and actuarial science; and
(b) A commitment to continually refining, confirming, and communicating the investment philosophy and funding policy of the Association.

3. DIVERSIFICATION

a) ACERA acknowledges the basic tenets of modern portfolio theory, which suggest that diversification, or combining assets that are not perfectly correlated with each other, will reduce the long-term volatility of the overall portfolio.

b) It is generally desirable however to avoid overly complex asset structures, provided the allocation selected can reasonably be expected to meet the objectives of the Plan. ACERA believes that the benefits of diversification must be weighed against the costs involved, which may include fees, liquidity, complexity, communication, internal staff resources and expertise and trustee knowledge and effort.

c) The following asset classes are appropriate candidates for inclusion in its portfolio:

i) Domestic equity
ii) International equity (including emerging markets)

iii) Fixed income, including high yield fixed income and international fixed income
iv) Real estate
v) Private Equity and Alternatives
vi) Real Return Pool

Implications

- A systematic methodology for re-balancing the investment portfolio is required to ensure proper implementation and adequate risk control concerning ACERA's asset allocation.
- Adding or deleting asset classes or investment Managers should be considered in light of the impact such decisions are likely to have on the general complexity and cost structure of the portfolio, as well as ACERA's ability to prudently achieve its investment and funding goals over the long run.

4. Market Efficiency

a) ACERA does not believe in the viability of active management strategies that rely on market timing.

b) ACERA does not believe in the viability of management strategies that call for over weighting or under weighting styles or sectors within an asset class; i.e., benchmark misfit risk will not generate long-term alpha. Accordingly, ACERA generally believes that it should maintain exposures within an asset class (such as style or capitalization weightings) that are consistent with the broad benchmark for the asset class as a whole.

c) ACERA does believe that market efficiency varies among asset classes, creating opportunities for successful active management strategies based on securities selection.

d) Asset classes that can be demonstrated to be efficient should be managed passively in order to reduce active management risk and lower the costs of managing the portfolio.

e) For inefficient asset classes, ACERA believes that it has the ability and a duty to prudently exploit such inefficiencies through active securities selection strategies.

Implications

- ACERA should be conscious of any subtle forms of market timing that may arise in the course of managing the Fund, or that may be implicit in investment strategies presented to ACERA for inclusion in the investment program.

- ACERA must determine appropriate methodologies for determining whether an asset class is efficient or presents appropriate opportunities, thus providing insight to the Board on the use of particular strategies.

5. ORGANIZATIONAL INFRASTRUCTURE AND COMMUNICATIONS

a) ACERA believes that, in order for the investment program to achieve its goals, ACERA must invest the necessary resources to build and maintain an appropriate organizational infrastructure, key elements of which include:

i) A competent, internal investment staff comprised of a sufficient number of investment professionals possessing appropriate leadership, technical, and administrative skills.

0.1 Attracting a competent staff. ACERA recognizes that it competes with the private sector. It must therefore continually strive to create a total work environment that is challenging, rewarding, and competitive.

ii) A strong relationship with outside general investment Consultant(s) who are able to provide ACERA with the following:

0.1 A high degree of investment expertise;
0.2 Innovative and proactive advice and counsel;
0.3 Strong research support; and
0.4 Strong reporting capabilities.

iii) A broad-based information gathering and reporting system to present well- researched, relevant and timely data in a manner that is easily understood and that supports rigorous and consistent monitoring of critical investment activities.

iv) An open channel of communication among the Board, management, and ACERA's external investment professionals.

b) By providing the Board with timely, accurate, and thorough information, the organizational infrastructure will give the Board the high level of comfort it needs to set policy, make investment decisions, oversee the performance of the investment program, and maintain the fortitude necessary to support its investment philosophy, policies, and strategies.

Implications

- ACERA must determine what constitutes an appropriate internal investment staff structure, given the nature of the current investment program.

- ACERA must, over time, take concrete steps toward creating a work environment that will allow the Association to attract and retain needed staff.

- ACERA must recognize that developing the organizational infrastructure it needs – staffing, consulting support, information systems, and communication channels cannot be achieved overnight, but rather will require an ongoing commitment of time and resources.

6. PERFORMANCE MONITORING AND TIME HORIZON

a) ACERA holds the following basic beliefs concerning performance monitoring practices and methodologies:

   i) The various investment policies of the Fund, in the aggregate, are the most important determinants of investment success; compliance with investment policies should, therefore, be monitored rigorously;

   ii) The performance of the total portfolio, individual asset classes, and investment Managers should be compared to appropriate, predetermined benchmarks;

   iii) Peer comparisons are an additional valid tool in assessing individual Manager performance (supplementing the use of benchmarks), given that ACERA aims to select superior Managers within particular investment styles or mandates. Peer comparisons, or performance rankings, are also valid tools for measuring the performance of asset class portfolios; and

iv) Peer group comparisons may not be an appropriate means of assessing the performance of the total Fund, given that sponsors have different objectives and risk tolerance levels, and therefore may have different asset allocation policies.

v) Benchmark misfit risk, or the risk that the aggregate of individual investment Manager benchmarks in an asset class do not adequately reflect the benchmark for the asset class as a whole, should be explicitly measured on a regular basis.

vi) Investment Managers are generally hired to fulfill a specific role in a portfolio. Accordingly, ACERA believes it is important that ACERA monitor the extent to which Managers comply with their stated style and mandates.

b) ACERA believes that successful funding and investment decisions require a long-term perspective on the part of the Board and management:

i) It is the intention of the Retirement Board that commitments to asset classes and investment strategies should involve long time horizons that may include more than one business cycle (3-5 years each). Relatively illiquid asset classes may require even longer time horizons.

ii) The Board acknowledges that commitments to individual investment Managers also require a long time horizon of at least one business cycle (3-5 years).

iii) ACERA believes that proper reporting and monitoring systems; and clear communication among Consultants, management, investment Managers and the Board will enable the Board to maintain the necessary long term perspective on all investment decisions.

Implications

- Assessing the investment performance relative to appropriate, pre-determined, benchmarks is as applicable to the total portfolio and to individual asset classes as it is for individual investment Managers and, therefore, warrants a commensurate share of the Board’s time and attention.

- The Board will spend relatively little time assessing the performance of the Fund relative to that of comparable pension funds.

- ACERA will need either to develop in-house capabilities to measure benchmark-related risk regularly or to purchase such capabilities from external investment Consultants.

- ACERA will monitor all investment Managers to ensure they are complying with their stated investment style, regardless of whether they are performing well or poorly. Strongly performing Managers who are found not to be following their stated styles will be carefully scrutinized and may be subject to disciplinary action.

- ACERA will monitor all investment providers to ensure compliance with ACERA's "General Investment Guidelines, Policies and Procedures."

SCHEDULE VII

CHARTER OF ACERA'S INVESTMENT COMMITTEE OF THE BOARD

To identify issues pertinent to the effective management of the investment portfolio, initiate analysis of such issues by management or consultants, review all policy recommendations by staff and consultants, provide recommendations to the Board for adoption, and oversee the implementation of the investment program. Specific responsibilities include:

1. The Investment Committee shall review recommendations of staff and consultants and in turn provide its own recommendations to the Board on all investment policies, including investment philosophy, requiring Board approval. Said policies shall normally be contained in, or appended to, the *ACERA General Investment Guidelines, Policies and Procedures*.

2. The Investment Committee shall review and recommend additional policies for the Board's approval as requested by the Board and in accordance with the Policy Development Process.

3. The Investment Committee shall review recommendations of staff and consultants and in turn provide its own recommendation for Board approval on the following matters:
   a) Appointment of Investment Managers;
   b) Appointment of the Investment Consultants;
   c) Appointment of the Custodian Bank.

4. The Investment Committee shall monitor the investment program of ACERA in accordance with all relevant policies of the Board. In general, the Investment Committee shall monitor:
   a) Compliance with and continued appropriateness of all ACERA investment policies;
   b) Progress towards achievement of investment goals;
   c) Progress towards implementation of the ACERA budget and Business Plan with respect to investments; and
   d) Cost effectiveness of the ACERA investment program.

5. In accordance with the provisions of the Open Meeting Law, the Investment Committee shall allow adequate opportunity for input from the public and shall respond to such input in a manner that reflects the Committee members' fiduciary duties as trustees of the Plan.

Frequency of Meetings

The Investment Committee shall generally meet monthly on the second Wednesday of the month, but may meet more or less frequently as required.

Committee Composition

The Investment Committee shall be composed of all Board members, one of whom shall serve as Committee Chair. Alternate members shall serve on the Investment Committee as provided by law.

Staff Contact

The Chief Investment~~Executive~~ Officer shall ~~appoint a staff person to~~ serve as a staff contact to the Investment Committee.

SCHEDULE VIII

ACERA

TABLE OF AMENDMENT DATES

AMENDING RESOLUTIONS

Jun.	27,	1985
Oct.	10,	1985
Jan.	9,	1986
Jan.	16,	1986
Mar.	13,	1986
May	22,	1986
Sep.	11,	1986
Oct.	9,	1986
Nov.	20,	1986
May	14,	1987
Aug.	13,	1987
Oct.	8,	1987
Apr.	21,	1988
Jul.	28,	1988
Jan.	29,	1989(4)
Apr.	13,	1989(5)
May	18,	1989
Jul.	13,	1989
Aug.	10,	1989
Nov.	16,	1989(2)
Jul.	11,	1991
Jun.	11,	1992
Jun.	10,	1993
Jul.	8,	1993
Nov.	18,	1993
May	14,	1994
Aug.	18,	1994
Nov.	20,	1994
Feb.	16,	1995
May	18,	1995
Jan.	16,	1997
Aug.	20,	1998
May	20,	1999
Jan.	31,	2000*
Apr.	19,	2001
Jul.	18,	2002
Feb.	21,	2003
Feb.	19,	2004
Feb.	17,	2005
Jul.	20,	2006
Jun.	21,	2007
Sep.	18,	2008
May	20,	2013

* Verus (fka Strategic Investment Solutions) was hired as the General Investment Consultant for ACERA in 2000.

~~ADDENDUM~~

~~Real Return Pool~~

~~I. SCOPE~~

~~In April 2011,[15] the ACERA Board of Retirement adopted the establishment of a Real Return Pool Asset Class with a target allocation of 5% of the total Fund. This Addendum is an integral part of the Policy. If there is any conflict between this Addendum and the Policy pertaining to investments in the Real Return Pool asset class, this Addendum prevails.~~

~~II. DEFINITION~~

~~Real Return Pool investments consist of Real Assets that are expected to produce positive returns with a bias toward periods of unexpected U.S. inflation and increasing U.S. inflation expectations. The strategy is implemented using a diverse set of exposures to inflation sensitive instruments, hedges intended to reduce various risk exposures, and active strategies intended to provide additional sources of absolute returns by under- and over-weighting the strategic risk target of the various inflation sensitive instruments and securities. Instruments and securities employed include, but are not limited to, commodity futures and swaps on commodity futures, global exchange-traded equities issued by publicly held corporations in natural resource related sectors, publicly-traded real estate investment trusts ("REITs"), treasury inflation protected securities (TIPS) and currency forwards. It is expected that the Real Return Pool portfolio will also consist of short positions in equity index futures and currency forwards used to hedge partially the equity exposure of the portfolio. Limited leverage and short positions are employed to build certain hedging and long investment positions in the Real Return Pool portfolio. All Real Return Pool investments/strategies are Alternative Investments.~~

[15] ~~ACERA Investment Committee, April 13, 2011; ACERA Board of Retirement, April 22, 2011.~~

~~III. PURPOSE/OBJECTIVE~~

~~Real Return Pool investments are principally intended to hedge against inflation, provide significant real returns during periods of unexpected or rising U.S. inflation, and provide long-term protection of purchasing power. Real Return Pool Assets are expected to exhibit low correlations to equity or fixed income assets and thus provide an additional diversifying benefit to the overall ACERA portfolio.~~

~~IV. INVESTMENT PARAMETERS/DIVERSIFICATION~~

~~The Real Return Pool will invest in a broad, diverse set of inflation-hedging and return-seeking instruments. The Real Return Pool portfolio should generally provide return and risk above bonds but below equity, with generally low correlations to both asset categories.~~

~~V. TARGET ALLOCATION~~

~~The target allocation to the Real Return Pool Asset Class is 5% of the total Fund.~~

~~Class~~	~~Target~~	~~Range~~
~~Commodities~~	~~40%~~	~~30-50%~~
~~Other Inflation Hedging Assets~~	~~60%~~	~~50-70%~~

~~It is expected that the Real Return Pool assets will be managed on a discretionary basis by investment managers under specific investment guidelines which are consistent with the intent of this Addendum.~~

~~VI. INVESTMENTS~~

~~Real Return Pool investments include, but are not limited to, the following:~~

1. ~~Commodities~~
2. ~~Treasury Inflation Protected Securities (TIPS), Inflation Break-evens~~
3. ~~Developed and Emerging Market Currencies~~
4. ~~Natural Resources Related Equities~~
5. ~~Gold, Other Precious Metals~~
6. ~~Publicly-traded Real Estate Investment Trusts (REIT's)~~
7. ~~Hard Assets~~
8. ~~Farmland, Timber~~
9. ~~Publicly-traded Energy Master Limited Partnerships (MLP's)~~
10. ~~Infrastructure~~
11. ~~Other Inflation-Hedging Assets~~

~~VII. BENCHMARK~~

~~Core Consumer Price Index Plus 300 Basis Points Annualized~~