



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: August 12, 2015
To: Members of the Board of Retirement
From: George Wood – Chair
Subject: Summary of the August 12, 2015 Investment Committee Meeting

The Investment Committee met on Wednesday, August 12, 2015 at 9:39 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, Donald White, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Margo Allen – Fiscal Services Officer, Joseph Fletcher – Chief Counsel, Kathy Foster – Interim Chief Executive Officer, Harsh Jadhav – Chief of Internal Audit, and Betty Tse – Chief Investment Officer.

ACTION ITEM

1. Discussion and Possible Motion to Recommend to the Board to Adopt an amended Target Asset Allocation for ACERA – Part II
 - Representative from Strategic Investment Solutions (SIS), ACERA's general investment consultant provided three similar asset allocation mixes with varying degrees of reducing equity exposure and increasing Real Estate (Asset Mix 1); Real Estate and PEARLS (Asset Mix 2); or Real Estate, PEARLS and the Real Return Pool (Asset Mix 3).
 - After the discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Tarrell Gamble, to recommend "Asset Mix 1": 31% to US Equity, 26% to International Equity, 15% to Fixed Income, 8% to Real Estate, 15% to PEARLS, and 5% to Real Return Pool asset classes.
 - The motion did not pass with 2 yes (Gamble and Koppenhaver), 6 no (Amaral, Cain-Darnes, Carson, Rogers, White, and Wood).
 - After further discussion, Ms. Annette Cain-Darnes moved, seconded by Mr. Dale Amaral, to recommend to the Board to adopt the "Asset Mix 2", which offers incremental return (private equity), diversification (hedge funds), and inflation protection (real estate); specific targets are: 28% to US Equity, 26% to International Equity, 15% to Fixed Income, 8% to Real Estate, 18% to PEARLS, and 5% to Real Return Pool asset classes.
 - The motion carried 6 yes (Amaral, Cain-Darnes, Carson, Rogers, White, and Wood), 2 no (Gamble and Koppenhaver).
2. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in PEARLS – Debt Related/Special Situations Fund

- A representative of The Catalyst Capital Group presented to the Committee the goals and objectives of the Fund. He also presented the investment sourcing, strategy, process, and the protected market of the Fund.
- After discussion, Ms. Annette Cain-Darnes moved, seconded by Ms. Elizabeth Rogers, to recommend to the Board to adopt an up to USD 40.0 million commitment to The Catalyst Capital Group. pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The motion carried 8 yes (Amaral, Cain-Darnes, Carson, Gamble, Koppenhaver, Rogers, White, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Review of Real Return Pool Manager (Alternative): AQR Customized Real Return Offshore Fund

- A representative of AQR described events leading up to and the recent termination of the company's head trader, Hitesh Mittal. Mr. Mittal's name came up in connection with an SEC investigation of confidential trading information misuse at Investment Technology Group, (ITG). Mr. Mittal worked at ITG prior to his starting at AQR in 2012. AQR is not being investigated.
- Another representative of AQR described the Fund's "inflation surprise" and "increasing inflationary expectations" strategy, philosophy, risk management, outlook, and results. For the periods ending 06/30/15, the Fund returned (net) -6.55% YTD, -22.01% one year, and -10.11% annualized since inception. The Fund's NAV at 06/30/15 was \$165.0 million.
- The central comment of the AQR representative on the Fund's underperformance was that market conditions (lack of inflation surprise) have been challenging, i.e. inimical, to the strategy.

Recommendation

- The Committee recommends, and I move, that the Board adopt "Asset Mix 2", which has specific targets as follows 28% to US Equity, 26% to International Equity, 15% to Fixed Income, 8% to Real Estate, 18% to PEARLS, and 5% to Real Return Pool asset classes.
- The Committee recommends, and I move, that the Board adopt an up to USD 40.0 million commitment to The Catalyst Capital Group pending completion of legal due diligence, background investigations, and successful contract negotiation.

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TRUSTEE/PUBLIC INPUT

Representatives of REAC and ACRE expressed concerns over the risks associated with PEARLS and requested postponement of adoption of Action item #1.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

September 9, 2015 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 12:30 p.m.