



Date: September 12, 2018
To: Members of the Board of Retirement
From: Elizabeth Rogers – Chair
Subject: Summary of September 12, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, September 12, 2018 at 9:35 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Jaime Godfrey, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Also present were Alternate Safety member Darryl Walker and Alternate Retired member Nancy Reilly. Members of the Staff present were Dave Nelsen, Chief Executive Officer; Kathy Mount, Chief Counsel; Harsh Jadhav, Chief of Internal Audit, and Betty Tse, Chief Investment Officer.

ACTION ITEMS

1. Discussion of and Possible Motion to Recommend to the Board to Approve an up to \$33 million Investment in ABRY Advanced Securities Fund IV as a part of ACERA’s Private Equity Portfolio – Debt-Related/Special Situations
 - ABRY Partners’ Managing Director Erik Brooks presented to the Committee the history, background, and culture of the firm, as well as the ongoing opportunity set, investment team, and strategy of ABRY Advanced Securities Fund IV, L.P. (ASF IV). ACERA is currently invested in six other ABRY funds.
 - Mr. Brooks discussed ASF IV’s strategy of focusing on senior bank loans within ABRY’s industry sector expertise. The strategy has remained the same throughout all the predecessor funds, and the strategy has performed well since inception. Through December 31, 2017, ASF I, II, and III have returned 19.5%, 14.4%, and 12.7% net of fees, respectively, top quartile returns for their vintage years of 2008, 2011, and 2014.
 - After further discussion, Mr. George Wood moved, seconded by Mr. Keith Carson, to recommend to the Board that it approve an up to \$33 million investment in ABRY Advanced Securities Fund IV as a part of ACERA’s Private Equity Portfolio – Debt-Related/Special Situations, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 7 yes (Amaral, Basgal, Carson, Godfrey, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt an Amended ACERA General Investment Guidelines, Policies and Procedures

- Representatives from Staff and Verus discussed the proposed amendments to ACERA's General Investment Guidelines, Policies and Procedures (Policy). In addition to updating the named Policy to reflect the current conditions of the portfolio, Staff and Verus recommended that the Policy be revised as red-lined in the proposal presented. Specifically under the topics of: i) Watchlist and Probation, ii) Benchmark, iii) Derivatives Investment Criteria, and iv) Goals and Policy Language, based on recommendations in the Staff Memo.

The Committee indicated that it had reviewed the proposed revisions contained in the red-lined Policy and was in agreement with the direction of these changes. There were some concerns regarding the removal of rules-based Watchlist and Probation criteria for underperformance, but Staff and Verus assured the Committee they would continue to monitor the managers' performance in the same manner notwithstanding the updated Watchlist language. It was also pointed out that, going forward, the Total Fund's performance reports would be presented on a semi-annual basis to be consistent with the performance reports for the Absolute Return, Private Equity and Real Assets asset classes. The Trustees also suggested some improvements to clarify the language.

- After much discussion, Mr. Dale Amaral moved, seconded by Mr. George Wood, to recommend that the Board adopt the Amended ACERA General Investment Guidelines, Policies and Procedures with the few changes proposed by the Trustees.
- The motion carried with 7 yes (Amaral, Basgal, Carson, Godfrey, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

INFORMATION ITEM

1. Discussion of Proposed Revisions to ACERA's Real Assets Policy

- Representatives from Staff and Verus reported on suggested revisions to ACERA's Real Assets Policy (RA Policy). The following key proposed revisions were presented for the Committee's consideration: (1) modify the strategic allocations to the Real Assets Portfolio to include both liquid and illiquid investments with specific asset allocation targets; (2) clarify the strategic objective of the Real Assets Portfolio; (3) better define the types of real assets investments to allow for investments in both liquid and illiquid strategies; (4) add an Addendum to describe the transition period of the RA Portfolio until it reaches its strategic (long-term) asset allocation target.
- Staff and Verus indicated they would bring this item, including the corresponding Investment Plan, to the October 10, 2018 Investment Committee Meeting for approval.

2. Education Session: Portable Alpha

- Barry Dennis from Verus defined Portable Alpha as a strategy that involves investing in areas that have little to no correlation with the market, and explained the rationale for the implementation of Portable Alpha strategies. He explained that ACERA could add Portable Alpha strategies to improve the risk/return profile of the Total Fund.
- A positive of using portable alpha strategies is that the Total Fund's returns would increase modestly with slightly lower volatility (risk). A negative of employing portable alpha strategies is that the Total Fund would become more complex. Therefore, ACERA's index fund manager would have to engage in more trading of futures contracts rather than just holding equities long-term, and more staff resources will be needed in managing this strategy.

3. Quarterly Performance Review for the Second Quarter of 2018 – Equities and Fixed Income

- For 2Q2018, ACERA's Total Fund returned 0.28% gross (0.23% net of fees)¹, compared to the Policy Index return of 0.98%. For the year ending 06/30/2018, the Total Fund returned 10.07% gross (9.84% net of fees) compared to the Policy Index of 9.90%. The Total Fund's results ranked in the 79th and 8th percentile for the quarter and one year periods, respectively.
- As of 06/30/2018, the market value of the Total Fund was \$8,103,814,742.

4. Quarterly Performance Review for the Second Quarter of 2018 – Real Estate

- ACERA's Real Estate portfolio, including the Oakland Building, returned 2.54% gross (2.18% net) for 2Q2018 and 9.78% gross (8.43% net) for the 1-year period ending 06/30/2018 versus the NCREIF-ODCE benchmark of 2.05% gross (1.81% net) and 8.44% gross (7.47% net), respectively.
- As of 06/30/2018, the market value of ACERA's real estate portfolio was \$535.1 million comprising 6.6% of the Total Fund.

Recommendations:

- The Committee recommends, and I move, that the Board approve an up to \$33 million investment in ABRY Advanced Securities Fund IV as a part of ACERA's Private Equity Portfolio – Debt-Related/Special Situations, pending completion of legal and investment due diligence, background investigations, and successful contract negotiation.

¹ Net of fees reflects management fees that were paid in this quarter for Domestic and International Equity, as well as, Fixed Income. All other private asset categories are reported net of fees.

- The Committee recommends, and I move, that the Board Adopt the Amended ACERA General Investment Guidelines, Policies and Procedures proposed by Staff and Verus, including those additional changes proposed by Trustees at the Committee meeting.

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, October 10, 2018 at 9:30 a.m.

ADJOURNMENT

The meeting ended at 12:17 p.m.