



Date: September 13, 2017  
To: Members of the Board of Retirement  
From: Annette Cain-Darnes - Chair  
Subject: **Summary of September 13, 2017 Investment Committee Meeting**

The Investment Committee ("Committee" or "IC") met on Wednesday, September 13, 2017 at 9:39 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Tarrell Gamble, Liz Koppenhaver, Henry Levy, and George Wood. Also present was Alternate Safety member Darryl Walker. Members of the Staff present were Dave Nelsen –Chief Executive Officer, Margo Allen – Fiscal Services Officer, Harsh Jadhav – Chief of Internal Audit, Kathy Mount – Chief Counsel, and Betty Tse – Chief Investment Officer (CIO).

**Action Item: Matters for discussion and possible motion by the Committee**

1. Discussion of and Possible Motion to Recommend to the Board to Adopt a New and Separate Private Equity Investment Policy
  - The Committee discussed this proposed PE Investment Policy, which reflects the recommendations of the Committee from the August ICM.
  - The Committee further recommended a couple of minor changes in language to provide clarity, as follows: (1) from "may be difficult to measure" to "may be difficult to predict" in Section V, and (2) from "While specific investments may incur losses" to "As with any investments, invested capital may incur losses," in Section VI.
  - The Committee discussed increasing the delegation of authority to Staff, as the percentage (up to 10%) and dollar limits (up to \$50 million), whichever is lesser, for commitments to existing managers. The CIO assured the trustees that Staff would continue to present recommendations to the ICM timely, if possible.
  - After further discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Dale Amaral, to recommend to the Board to approve the new and separate Private Equity Investment Policy with revised language as noted in sections V and VI.
  - The motion carried with 6 yes (Amaral, Cain-Darnes, Gamble, Koppenhaver, Levy, and Wood), 0 no, and 0 abstention.
2. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2017 – 2019 Investment Plan for ACERA's Private Equity Asset Class
  - A Representative from Verus Inc. briefly discussed ACERA's 2017-2019 PE Investment Plan. The plan proposes to reduce the current Venture Capital tilt to neutral sub – asset class targets by 2022. The PE Investment Plan calls for over \$400 million in additional commitments in all three sub-asset classes.
  - After further discussion, Mr. George Wood moved, seconded by Mr. Hank Levy, to recommend to the Board to approve the 2017 – 2019 Investment Plan for ACERA's Private Equity Asset Class.

- The motion carried with 6 yes (Amaral, Cain-Darnes, Gamble, Koppenhaver, Levy, and Wood), 0 no, and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board to Adopt a New and Separate Absolute Return Policy
- The Committee discussed this proposed AR Policy, which reflects the recommendations of the Committee from the August ICM.
  - The Committee further recommended a minor change in language to provide clarity, as follows, from “While specific investments may incur losses” to “As with any investments, invested capital may incur losses,” in Section VI.
  - The Committee discussed increasing the delegation of authority to Staff, as the percentage (up to 10%) and dollar limits (up to \$50 million), whichever is lesser, for commitments to existing managers. The CIO assured the trustees that Staff would continue to present recommendations to the ICM timely, if possible.
  - After further discussion, Ms. Liz Koppenhaver moved, seconded by Mr. Dale Amaral, to recommend to the Board to approve a new and separate Absolute Return Policy with revised language as noted in section VI.
  - The motion carried with 6 yes (Amaral, Cain-Darnes, Gamble, Koppenhaver, Levy, and Wood), 0 no, and 0 abstention.
4. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2017 – 2019 Investment Plan for ACERA’s Absolute Return Asset Class
- A Representative from Verus, Inc. briefly discussed ACERA’s 2017-2019 Absolute Return (AR) Investment Plan and proposed to invest/commit about \$500 million in additional investments in all sub-asset classes. The goal is to reduce the equity overweight in ACERA’s portfolio and reallocate to the AR category by calendar year-end 2017.
  - After further discussion, Mr. George Wood moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to approve the 2017 – 2019 Investment Plan for ACERA’s Absolute Return Asset Class.
  - The motion carried with 6 yes (Amaral, Cain-Darnes, Gamble, Koppenhaver, Levy, and Wood), 0 no, and 0 abstention.
5. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA’s Real Assets Class – Natural Resources
- A representative from Quantum Energy presented to the Committee the history, background, and culture of the firm, as well as the opportunity set, investment team, and strategy of the Quantum Energy Partners VII (QEP VII) and Quantum Energy Partners VII Co-Investment Fund (QEP-VII CI) (collectively, “Funds”).
  - The representative discussed the Funds’ strategy that was to generate the best risk-adjusted returns across the energy value chain and how that strategy relates to ACERA’s Real Assets

Portfolio. They also discussed the firm's long history of investing in North American energy and how the current distressed environment in energy is creating opportunities. The representative also discussed the firm's investment process and performance in detail.

- After further discussion, Mr. Dale Amaral moved, seconded by Mr. George Wood, to recommend to the Board to adopt an investment of up to \$35.0 million in the Funds, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The motion carried with 5 yes (Amaral, Cain-Darnes, Koppenhaver, Levy, and Wood), 1 no (Gamble), and 0 abstention.

6. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA's PEARLS Portfolio – Buyouts and Debt-Related/Special Situations

- Representatives from Peak Rock Capital presented to the Committee the history, background, and culture of the firm, as well as, the opportunity set, investment team, and strategy of the Peak Rock Capital Fund II and Peak Rock Capital Credit Fund II (collectively, "Peak Rock" or "Funds").
- Peak Rock invests in small-to-midsize portfolio companies where it can drive rapid growth. Peak Rock focuses on strong market positions that are temporarily underperforming due to non-recurring and addressable issues. The representatives emphasized their deep experience in efficient operational improvements and turnarounds.
- After further discussion, Mr. George Wood moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to adopt an investment of up to a total of \$43.75 million in the Funds (\$35.0 million into Peak Rock Capital Fund II, and \$8.75 million into Peak Rock Capital Credit Fund II), pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The motion carried with 5 yes (Cain-Darnes, Gamble, Koppenhaver, Levy, and Wood), 0 no, and 0 abstention.

## **INFORMATION ITEMS**

1. Review of Lighthouse Investment Partners

- Representatives from Lighthouse Investment Partners provided updates on its organization, the Strategic Alpha Fund's investment strategy, philosophy, risk management, staff turnover, and ACERA's investment results. The Fund continues to exhibit a low equity beta (0.05) versus the Russell 3000 Index and a low volatility as measured by a standard deviation of 1.23% (annualized). Lighthouse fee information will be provided when the Committee discusses funds of funds, scheduled for October per the ICM Workplan.
- As of June 30, 2017, the Fund's AUM was at \$108.5 million and it returned an annualized 5.13% (net of all fees) since inception, November 2015.

2. Quarterly Performance Review for the Second Quarter of 2017 – Equities and Fixed Income

- For 2Q2017, ACERA's Total Fund returned 3.8% gross (3.8% net of fees), compared to the Policy Index return of 3.5%. For the year ending 6/30/2017, the total fund returned 16.3% gross (16.0% net of fees), compared to the policy index of 15.2%. The Total Fund's results ranked in the top 8<sup>th</sup> and 2<sup>nd</sup> percentile for the quarter and one year periods, respectfully.
  - As of 06/30/2017, the market value of the Total Fund was \$7,558,634,864.
3. Quarterly Performance Review for the Second Quarter of 2017 – Real Estate
- ACERA's real estate portfolio, including the Oakland Building, returned 3.36% gross (3.09% net) for 2Q2017 and 9.33% gross (8.27% net) for the 1-year period ending 06/30/2017 versus the NCREIF-ODCE benchmark of 1.70% (1.47% net) and 7.87% (6.90% net), respectively.
  - As of 6/30/2017, the market value of the ACERA's real estate portfolio was \$518.6 million.
4. Oral Update on ACERA's Emerging Markets Manager Search – International Equities
- Chief Investment Officer Betty Tse provided an update on the Emerging Markets Manager Search. On July 7, 2017, ACERA received 73 proposals to the RFP and reduced the number of proposals to 29 by comparing all responses to the MQs and ranking the vendors by screens in compliance with ACERA's General Investment Guidelines, Policies and Procedures.

### **Recommendations**

- The Committee recommends, and I move that the Board adopt a new and separate Private Equity Investment Policy with the recommended language changes.
- The Committee recommends, and I move that the Board adopt the 2017- 2019 Investment Plan for ACERA's Private Equity Asset Class.
- The Committee recommends, and I move that the Board adopt a new and separate Absolute Return Policy with the recommended language change.
- The Committee recommends, and I move that the Board adopt the 2017- 2019 Investment Plan for ACERA's Absolute Return Asset Class.
- The Committee recommends, and I move that the Board adopt an investment of up to \$35.0 million in the Quantum Energy Partners VII and Quantum Energy Partners VII Co-Investment Fund LP, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move that the Board to adopt an investment of up to a total of \$43.75 million in the two Peak Rock Capital funds (\$35.0 million into Peak Rock Capital Fund II, and \$8.75 million and Peak Rock Capital Credit Fund II), pending completion of legal due diligence, background investigations, and successful contract negotiation.

### **TRUSTEE/PUBLIC INPUT**

None

### **FUTURE DISCUSSION ITEMS**

None

### **ESTABLISHMENT OF NEXT MEETING DATE**

October 11, 2017 at 9:30 a.m.