



Date: October 10, 2018  
To: Members of the Board of Retirement  
From: Elizabeth Rogers – Chair  
Subject: Summary of October 10, 2018 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, October 10, 2018 at 9:34 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Jaime Godfrey, Henry Levy, Elizabeth Rogers, and George Wood. Also present was Alternate Safety member Darryl Walker. 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 the Finalists for ACERA’s U.S. Small Cap Growth Manager Search – Domestic Equities

- A representative from Verus and Staff discussed the process utilized (focused list) in the U.S. Small Cap Growth Manager Search, which culminated in the recommendation of the four finalist firms who have met the Minimum Qualifications. In alphabetic order, the finalist are: 1) Granahan Investment Management (Granahan), 2) Pier Capital, Inc. (Pier), 3) Virtus Investment Partners, Inc. (Virtus), and 4) William Blair Investment Management (William Blair).
- The Committee discussed with Verus and Staff the differences in scoring of the four finalist and the other firms. For example, Virtus had a 14-point difference in scoring between Verus and Staff, so Verus and Staff provided the rationale of their respective scoring results. In the case of Virtus, Verus’s scoring under the sub-category of “Ownership, Organization, Staffing” was less favorable because Virtus is a publicly-traded firm and not an employee-owned company.
- Verus also provided a summary of the four finalists and both Verus and Staff discussed the merits of whether to include or not include the incumbent manager (Next Century Growth). Verus and Staff discussed Next Century Growth’s inconsistent performance relative to the

benchmark and relative rank compared to other managers on the focused-list. Staff further discussed the significant decline in NCG's strategy and firm's AUM.

- Tom Press from Next Century Growth addressed the Committee and stated that ACERA's Small Cap Growth account has done well over the recent seven quarters. Press reiterated NCG's investment process –which has not changed, had gone out of favor over the 2010-2016 time period when interest rates were very low. He offered either a fee reduction or to negotiate a performance-based fee to remain as a candidate in our U.S. Small Cap Growth Manager Search. The Committee stated its appreciation for his appearance and thanked him.
- After further discussion, Mr. Jaime Godfrey moved, seconded by Mr. Dale Amaral, to recommend to the Board that it approve the four Finalists for ACERA's U.S. Small Cap Growth Manager Search – Domestic Equities. (Granahan Investment Management, Pier Capital, Inc., Virtus Investment Partners, Inc., and William Blair Investment Management)
- The motion carried with 9 yes (Amaral, Basgal, Carson, Gamble, Godfrey, Levy, Rogers, Walker, and Wood), 0 no, and 0 abstention.

2. Discussion of and Possible Motion to Recommend to the Board to Adopt an Amended ACERA Real Assets Policy

- Staff and Verus recommended amendments/updates to ACERA's Real Assets Policy (RA Policy) as follows:
  - (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 (i.e, ...to generate a positive, domestic inflation-sensitive return in excess of the asset class's assigned benchmark.”);
  - (3) Better define the types of real assets investments to allow for investments in both liquid and illiquid strategies;
  - (4) Update the RA Policy language to reflect current California law on disclosure and related changes;

(5) Add an Addendum to describe the transition period of the RA Portfolio until it reaches its strategic (long-term) asset allocation target.

- After discussion, Mr. Tarrell Gamble moved, seconded by Mr. Jaime Godfrey, to recommend that the Board adopt the Amended ACERA Real Assets Policy.
- The motion carried with 7 yes (Amaral, Carson, Gamble, Godfrey, Levy, Rogers, and Wood), 0 no, and 0 abstention.

3. Discussion of and Possible Motion to Recommend to the Board to Adopt the 2018 – 2022 Investment Plan for ACERA’s Real Assets Class

- Representatives from Verus, joined by Staff, presented and recommended an updated 2018-2022 Real Assets Investment Plan (RA Plan) to the Committee. The representatives explained that the Real Assets Class is forecasted to grow at the actuarial assumed rate of 7.25%. Because the proposed RA Plan consists of various investment vehicles, such as natural resources, infrastructure, and commodities, the representatives asked the Committee for input should some of these investment vehicles be considered inappropriate. The Committee members discussed and stated that they would examine each proposed investment opportunity on a case-by-case basis.
- The Plan offers a roadmap for building out the asset class by showing estimated year-by-year commitments to each sub-asset class from 2018 through 2022. The plan involves moving the portfolio away from a commodity heavy allocation (most inflation sensitive) and into both a diversified private markets portfolio and a liquid portfolio that would allocate to investments that will enhance return, while protecting against anticipated inflation.
- Staff and Verus stated that the adoption of the RA Plan would require terminating three of ACERA’s existing funds: 1) AQR Customized Real Return Offshore Fund, 2) Gresham ETAP, and 3) Gresham TAP.
- After discussion, Mr. Tarrell Gamble moved, seconded by Mr. Dale Amaral, to recommend that the Board Adopt the 2018 – 2022 Investment Plan for ACERA’s Real Assets Class.

- The motion carried with 7 yes (Amaral, Carson, Gamble, Godfrey, Levy, Rogers, and Wood), 0 no, and 0 abstention.

**Recommendations:**

- The Committee recommends, and I move, that the Board approve the four Finalists for ACERA's U.S. Small Cap Growth Manager Search – Domestic Equities: 1) Granahan Investment Management, 2) Pier Capital, Inc., 3) Virtus Investment Partners, Inc., and 4) William Blair Investment Management.
- The Committee recommends, and I move, that the Board Adopt the Amended ACERA Real Assets Policy.
- The Committee recommends, and I move, that the Board Adopt the 2018 – 2022 Investment Plan for ACERA's Real Assets Class.

**TRUSTEE/PUBLIC INPUT**

None

**FUTURE DISCUSSION ITEMS**

None

**ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, November 7, 2018 at 9:30 a.m.

**ADJOURNMENT**

The meeting ended at 11:14 a.m.