



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

Date: November 16, 2016
To: Members of the Board of Retirement
From: George Wood - Chair
Subject: Summary of November 16, 2016 Investment Committee Meeting

The Investment Committee met on Wednesday, November 16, 2016 at 9:38 a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Members of the Staff present were David Nelsen – Chief Executive Officer, Margo Allen – Fiscal Services Officer, Harsh Jadhav – Chief of Internal Audit, Betty Tse – Chief Investment Officer, and Susan Weiss – Associate Counsel.

The order of the agenda items was changed due to a lack of quorum at the beginning of the Investment Committee meeting. The order of the minutes follows the order of the meeting not the original agenda.

INFORMATION ITEM

1. Update on Review of ACERA's Custodian Bank – State Street Bank and Trust Company

- Staff provided the Committee with a four-month interim report update on State Street Bank. Since the service review in July 2016, Staff has monitored SSB closely and noticed that its custodian and administrative services have improved significantly, especially in the areas of communications and reporting. SSB's service team is more attentive to ACERA's requirements, under the management of Jason Butler (Managing Director, Public Funds), who presented to the Committee in July 2016. Staff indicated a service review of SSB is likely within one year and will update the Committee timely should SSB's current level of service start to decline.

ACTION ITEMS

1. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in ACERA's Real Estate Portfolio

- Representatives from Artemis Real Estate Partners presented to the Committee the history, background and culture of the firm, as well as the opportunity set, investment team and strategy of the Artemis Real Estate Partners Healthcare Fund I, L.P. ("Fund"). Artemis Real Estate Partners was founded in 2009 by Deborah Harmon and Penny Pritzker, the current U.S. Secretary of Commerce. (It is yet to be determined if Ms. Pritzker will return to Artemis after her role in the government.)
- Artemis discussed the Fund's strategy related to income-orientation, defensive characteristics, long-term demographics-driven opportunity, and its partnership with its operating partners. They also spoke about the fund's focus on the niche healthcare

market within the broader real estate sector and emphasized that good, quality care within this niche equates to good business. The representatives also emphasized the General Partner's \$25 million commitment to the fund.

- After discussion, Mr. Dale Amaral moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to adopt an investment of \$25 million in the Artemis Real Estate Partners Healthcare Fund I, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The motion carried with 6 yes (Amaral, Basgal, Gamble, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.

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

- Representatives from EQT Partners presented to the Committee the history, background, philosophy, strategy, process, investment team, and investment returns of the Manager's funds. The representatives also discussed the Manager's information advantage, its focus on managing investment risk and downside protection, the Fund's integrated multi-strategy global investment approach, and other characteristics of EQT Credit Opportunities Fund III ("EQT III Fund").
- Responding to a Trustee's question on whether this is a good time to invest in European opportunities, the EQT Partners representatives responded that volatile economic times often make for improved investment opportunities.
- In response to a question on currency risk, the representative from Verus Advisory explained that a USD-hedged feeder fund would be available to mitigate this, but as it is currently structured, the additional cost of the feeder fund might not be justifiable.
- In response to a Trustee's question regarding meeting the Fund's 15% IRR (net of fees) target performance level, the EQT Partners representative offered that the Fund had the flexibility to find the best available opportunities throughout its European territory, and believed that the named target would be consistent with the Fund's expectations.
- After discussion, Ms. Elizabeth Rogers moved, seconded by Ms. Liz Koppenhaver, to recommend to the Board to adopt an Investment of up to €35.0 million Euro¹ in EQT III

¹ As of 10/31/2016, the EUR/USD exchange rate was approximately 1.10. A €35.0M Commitment in Euros is roughly equivalent to \$38.4M.

Fund pending completion of legal due diligence, background investigations, and successful contract negotiation.

- The motion carried with 5 yes (Amaral, Gamble, Koppenhaver, Rogers, and Wood), 0 no, and 0 abstention.
3. Discussion of and Possible Motion to Recommend to the Board to Adopt the Amended Proposed timeline, search criteria, and evaluation matrix for ACERA's Passive Indices (U.S. and International Equities) Manager Search
- No discussion or action was taken regarding Action Item No. 1 (per original agenda) after it was determined that the matter could not proceed without a quorum. In light of the time sensitivity of this matter, Trustees requested that Staff research whether it could be brought for discussion and vote at the November 17, 2016, Board Meeting, without committee recommendation. The meeting was adjourned.

Recommendations

- The Committee recommends, and I move, that the Board adopt an investment of \$25 million in the Artemis Real Estate Partners Healthcare Fund I, pending completion of legal due diligence, background investigations, and successful contract negotiation.
- The Committee recommends, and I move, that the Board adopt an investment of up to €35.0 million Euro in the EQT III Fund, pending completion of legal due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

Agnes Ducanes introduced Nicole Ciechanski; as the new Administrative Support Specialist (full time permanent) who will be assisting Agnes in supporting the Investment Department.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

December 14, 2016 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 11:51 a.m.