



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: December 9, 2015
To: Members of the Board of Retirement
From: George Wood – Chair
Subject: Summary of December 9, 2015 Investment Committee Meeting

The Investment Committee met on Wednesday, December 9, 2015 at 9:33 a.m. The Committee members present were Dale Amaral, Annette Cain-Darnes, Keith Carson, Tarrell Gamble, and George Wood. Also present were Alternate Retired member, David Safer and 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, and Betty Tse – Chief Investment Officer.

ACTION ITEM

1. Discussion of and Possible Motion to Recommend to the Board Approval of the Assignment of the ACERA Investment Consulting Services Agreement with Strategic Investment Solutions, Inc. to Verus Advisory, Inc.
 - The Investment Committee questioned the potential “conflicts-of-interest” that might be introduced by the merger of Strategic Investment Solutions (SIS) and Verus Advisory – changing from a pure advisory platform serving only non-discretionary accounts to a more complex business platform serving non-discretionary, discretionary, and Outsourced CIO clients.
 - The representative from Verus Advisory explained his view on the potential “conflicts-of-interest” issue; he explained the steps Verus Advisory had taken to mitigate the issue; he offered the fact that most consultants have adopted business models that place them in a similar “conflicts-of-interest” position; and he concluded that, ultimately, the matter was a governance issue to be decided by the Retirement Board. The representative from SIS offered that, of the four potential acquirers that it had met with before selecting Verus Advisory as its merger partner, Verus Advisory had the fewest “conflicts-of-interest.”
 - Staff explained that the current SIS business model is obsolete and Staff is fairly impressed with the expanded consultant resources that the SIS/Verus Advisory combined services can provide. Staff added that it has done a lot of due diligence on Verus Advisory but will be continuing to conduct due diligence by doing a full review of Verus Advisory during 2016. Trustees Carson and Gamble requested that a nationwide search of general investment consultants be conducted in 2016 to see “what else is out there” because it has been 15 years since ACERA’s last search for a general consultant. The Committee agreed and directed Staff to pursue the consultant search while continuing to work with SIS. Staff agreed.
 - After discussion, Mr. David Safer moved, seconded by Ms. Annette Cain-Darnes, to recommend to the Board Approval of the Assignment of the ACERA Investment Consulting Services Agreement with Strategic Investment Solutions Inc. to Verus Advisory, Inc.
 - The motion carried with 7 yes (Amaral, Cain-Darnes, Carson, Gamble, Safer, Walker, and Wood), 0 no, and 0 abstention.

2. Discussion of and Possible Motion to Recommend to the Board to Adopt an Investment in Real Return Pool – Infrastructure
 - The representatives from CIM Group outlined its organization, investment philosophy, strategy, process, performance objectives, and other key characteristics. They described the improving market conditions for infrastructure investing in the U.S. and CIM Group's previous and planned water, energy, waste management, transportation, communications, and social infrastructure projects. SIS described the fee discounts available to ACERA from CIM, including the discount for closing the transaction before December 31, 2015.
 - After discussion, Ms. Annette Cain-Darnes moved, seconded by Mr. Dale Amaral, to recommend to the Board to adopt an "up to \$35.0 million" commitment to the CIM Infrastructure Fund II, L.P. pending completion of legal due diligence, background investigations, and successful contract negotiation.
 - The motion carried with 7 yes (Amaral, Cain-Darnes, Carson, Gamble, Safer, Walker, and Wood), 0 no, and 0 abstention.

INFORMATION ITEMS

1. Active Management Environment and the Public Equity Manager Structure Review
 - The representatives from SIS provided updated information on the topic of active vs. passive management environment and presented three alternative manager structures for ACERA's U.S. Equity and International Equity asset classes.
 - For U.S. Equities, SIS suggested three different alternatives of passive management for the large cap equity sub-asset class only. For International Equities, SIS presented a similar series of three alternatives, which reduced exposure to the large cap active managers in favor of a passive management component; and, separately, added a sub-asset class specifically for emerging markets.
 - The Committee discussed the alternatives suggested and acknowledged SIS's preference for the third alternative for both the U.S. Equity and International Equity asset classes. The Trustees suggested that changes in the public equity manager structure need to take the whole portfolio into consideration, as well. SIS requested feedback from the Committee in preparation of the next discussion on the Public Equity Manager Structure.
2. Quarterly Performance Review for the Third Quarter of 2015 – Equities, Fixed Income, and Real Return Pool
 - For 3Q2015, ACERA's Total Fund returned -6.1% (gross), compared to the policy index return of -6.2%. For the year ending on 09/30/15, the Total Fund returned -1.3% (gross) compared to the policy index of -1.9%. The Total Fund ranked in the 90th and 64th

percentiles for the quarter and one year periods, respectively. U.S. Equity accounted for 34.3% of the Total Fund, International Equity 27.3%, Fixed Income 16.5%, and the Real Return Pool 3.8%.

- For 3Q2015, ACERA's U.S. Equity, International Equity, Fixed Income, and Real Return Pool asset classes returned -7.6%, -12.2%, -1.5%, and -9.8% (gross) compared to their benchmarks -7.2%, -11.8%, 0.7%, and 1.0%, respectively. On a 1-year basis, these asset classes returned 1.2%, -10.5%, -0.5%, and -22.6%, respectively.
- As of 09/30/2015, the market value of the Total Fund was \$6,474,919,377.

3. Semi – Annual Performance Review for the Period Ending June 30, 2015 – PEARLS

- As of June 30, 2015 the Private Equity and Alternatives Return Leading Strategies Portfolio (“PEARLS”) had a total market value of \$680.2 million, with \$432.5 million in Private Equity and \$247.7 million in Alternatives.
- The PEARLS portfolio has produced +13.9% IRR since inception, including all inactive funds. Private Equity investments, averaging 2.7 years, produced +17.2%; and the Alternatives portfolio, now averaging 2.5 years, produced +8.1%.
- During the first half of 2015, ACERA increased its commitment to one existing Venture Capital manager and made a commitment to a new buyout manager for ACERA.

4. Quarterly Performance Review for the Third Quarter of 2015 – Real Estate

- ACERA's real estate portfolio returned 3.1% (net) for Q3 2015 and 15.0% (net) for the latest one year period (excluding the Oakland Office building) compared to the NCREIF-ODCE benchmark of 3.4% and 13.9%, respectively.
- The total market value of ACERA's real estate portfolio was \$479.5 million; approximately 7.4% of ACERA's total Fund.

Recommendations

- The Committee recommends, and I move, that the Board Approve the Assignment of the ACERA Investment Consulting Services Agreement with Strategic Investment Solution Inc. to Verus Advisory, Inc.
- The Committee recommends, and I move, that the Board adopt an “up to \$35.0 million” commitment to the CIM Infrastructure Fund II, pending completion of legal due diligence, background investigations, and successful contract negotiation.

TRUSTEE/PUBLIC INPUT

FUTURE DISCUSSION ITEMS

None

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ESTABLISHMENT OF NEXT MEETING DATE

January 13, 2016 at 9:30 a.m.

ADJOURNMENT

The meeting adjourned at 12:20 p.m.