



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Date: December 14, 2016
To: Members of the Board of Retirement
From: George Wood - Chair
Subject: Summary of December 14, 2016 Investment Committee Meeting

The Investment Committee met on Wednesday, December 14, 2016 at 9:40a.m. The Committee members present were Dale Amaral, Ophelia Basgal, Keith Carson, Tarrell Gamble, Liz Koppenhaver, Elizabeth Rogers, and George Wood. Members of the Staff present were David Nelsen – Chief Executive Officer, Kathy Foster – Assistant Chief Executive Officer, Betty Tse – Chief Investment Officer, and Susan Weiss – Associate Counsel.

INFORMATION ITEM

1. Report on ACERA's PEARLS Investment – Debt Related/Special Situations Fund
 - Upon completion of all due diligence procedures and in accordance with ACERA's Private Equity and Alternatives Return Leading Strategy (PEARLS) Policy, and the 2015 - 2017 Investment Plan for ACERA's PEARLS Portfolio, Verus recommended and Staff approved an up to \$25.0 million commitment to ABRY Senior Equity V, L.P. ("ABRY SE V" or "Fund") as part of the Debt-Related/Special Situations allocation in ACERA's PEARLS portfolio, pending completion of legal due diligence, background checks, and successful contract negotiation.
 - ABRY Partners (ABRY) is an existing manager and in good standing. This commitment is an extension of an existing strategy (ABRY SE IV) in ACERA's portfolio; the strategy is unchanged and will be managed by the same ABRY staff members that manage ABRY SE IV. According to the Policy, a commitment of up to \$25 million is within Staff's delegated authority.
 - ABRY has indicated a likely allocation to ACERA of from \$8.0 million to \$9.0 million.
 - A couple of Trustees questioned the additional cost of keeping monies in the traditional strategies from the committed but yet to be invested allocations of PEARLS investments. The trustees requested that an estimate of such allocation cost be prepared by the end of 1Q2017.

2. Report on the Proposed Timeline, Search Criteria, and Evaluation Matrix for ACERA's International Emerging Markets Equity Fund Manager search – International Equities
 - Staff reported that it has been working with Verus on development of a proposed timeline, set of search criteria (minimum qualifications), and evaluation matrix for the International Emerging Markets Equity Fund Manager RFP. The Investment Committee and Staff discussed the proposed search criteria, notably the minimum AUM required and the rationale for the stated level according to the General Investment Guidelines, Policies, and Procedure. Staff referenced to the Policy which states that the Emerging Markets (EM) portfolio comprises no more than 25% of the Manager's total assets under

management (AUM) at any time. The Committee further discussed proper consideration be given to possibly having more than one EM manager if appropriate. The Committee opined its desire to have issues such as various risks and tracking-error be checked within the RFP. At the conclusion of the discussion, the Committee fully vetted its concerns, and maintained the proposed weightings in the evaluation matrix.

- Staff will formally submit these three items (Timeline, Search Criteria, and Evaluation Matrix) for approval as an Action Item at the January 11, 2017 Investment Committee Meeting.

3. Quarterly Performance Review for the Third Quarter of 2016 – Equities and Fixed Income

- For 3Q2016, ACERA's Total Fund returned 5.0% (gross) compared to the Policy Index return of 4.4%. For the year ending 9/30/2016, the Total Fund Returned 10.0% (gross) compared to the Policy Index return of 12.1%. The Total Fund's results ranked in the 1st and 37th percentile for the quarter and one year periods, respectively.
- For 3Q2016, ACERA's U.S. Equity, International Equity, and Fixed Income asset classes returned 5.9%, 7.2%, and 2.2% (gross) compared to their benchmarks with returns of 4.4% (Russell 3000), 7.1% (MSCI ACWI ex USA IMI Gross), and 1.0% (75% Barclays Aggregate, 10% Barclays High Yield, and Citigroup WGBI ex US), respectively. On a 1-year basis, these asset classes returned 11.8%, 11.7%, and 9.1%, respectively.
- As of 9/30/16, U.S. Equity accounted for 32.5% of the Total Fund, International Equity 28.5%, and Fixed Income 16.7%. As of 9/30/2016, the market value of the Total Fund was \$6,947,581,532.

4. Semi- Annual Performance Review for the Period Ending June 30, 2016 - PEARLS

- As of 6/30/2016 the Private Equity and Alternatives Return Leading Strategies Portfolio ("PEARLS") had a total market value of \$769.5 million, with \$437.9 million in Private Equity and \$331.6 million in Alternatives.
- The PEARLS portfolio has produced 11.4% IRR since inception, including all inactive funds. Private Equity investments with a weighted average of 3.1 years, produced 15.2%; and the Alternatives portfolio, now with a weighted average of 2.5 years, produced 4.7%.
- ACERA made one new investment to Private Equity in the first half of 2016, a re-up to Oak Hill Strategic Credit Fund II for \$47.5 million. No new investments were made in Alternatives in the same period.
- In response to a Trustees' question, a Verus representative explained Verus's due diligence process in detail, explaining the importance of timing in evaluating the pricing and in manager selection and onboarding.

5. Semi- Annual Performance Review for the Period Ending June 30, 2016 – Real Assets

- As of 6/30/2016, the Real Assets had a total market value of \$270,649,387. approximately 4.1% of ACERA's Total Fund at 6/30/2016.
- A Representative from Verus reported that one infrastructure fund commitment had been made to the Real Assets portfolio during the 1H16 period reported. He added that two energy fund commitments had been transferred from the PEARLS portfolio to the Real Assets portfolio at the start of the reporting period. The Verus representative explained that the Liquid Pool portion of the Real Assets class will be restructured first to reduce commodity exposure and increase infrastructure and natural resources exposures. He mentioned also that Verus is actively considering a power production fund for the Real Assets portfolio.

6. Quarterly Performance Review for the Third Quarter of 2016 – Real Estate

- ACERA's real estate portfolio returned net 1.8% for Q3 2016 and 11.2% for the 1-year period ending 9/30/2016 compared to the NCREIF-ODCE benchmark of 1.8% and 9.1%, respectively.
- The total market value of ACERA's real estate portfolio was \$481.3 million; approximately 6.9% of ACERA's total Fund.
- While income returns have been increasing slightly over the last few years, recent returns have been driven by appreciation returns. The capital flows illustrate the moderation of returns as Real Estate appreciation is expected to moderate with the 3Q2106 data showing capital outflows and inflows becoming more equal. Callan considers this to be a health Real Estate Market.

TRUSTEE/PUBLIC INPUT

Betty Tse CIO, thanked the Committee for its support for the year of 2016 and updated the Investment Committee about the market value of ACERA's Total Fund. As of 12/12/2016, the Total Fund's estimated market value was about \$22 million under \$7 billion and we look forward to achieving this milestone.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

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

ADJOURNMENT

The meeting adjourned at 11:43 a.m.