



MINUTES OF THE DECEMBER 4, 2024, INVESTMENT COMMITTEE MEETING

To: Members of the Investment Committee

From: George Wood, Vice Chair

Subject: Summary of the December 4, 2024 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, December 4, 2024, at 9:38 a.m. The Committee members present were, Tarrell Gamble, Jaime Godfrey, Henry Levy, Kellie Simon, and George Wood. Also present were Alternate Retired Member Cynthia Baron and Alternate Safety Member Kevin Bryant. ACERA Senior Managers and Presenting Staff were David Nelsen – Chief Executive Officer, Lisa Johnson (Zoom) – Assistant Chief Executive Officer, Jeff Rieger (Zoom) – Chief Counsel, Clint Kuboyama – Senior Investment Officer, Stephen Quirk – Investment Officer, Julius Cuaresma – Investment Analyst, Noe Reynoso – Investment Analyst, Serafin Lim – Investment Operations Officer, and Betty Tse – Chief Investment Officer.

PUBLIC COMMENT:

Mr. Dominic, an Alameda County resident, discussed exploring investments in digital assets and cryptocurrencies, highlighting Bitcoin's advantages, such as scarcity, durability, and immunity to inflation. He proposed to the Investment Committee to investigate opportunities in this space.

Action Items: Matters for discussion and possible motion by the Committee

1. Discussion of and Possible Motion to Recommend that the Board Approve the 2024 Private Equity Investment Plan
 - Staff and NEPC discussed with the Investment Committee the 2024 Private Equity Investment Plan.
 - The Private Equity Investment Plan’s Purpose is to have an estimate of the capital invested and the number of managers to be hired for each of the three sub-asset classes projected over the next several years, aiming for vintage year diversification, and minimizing market timing risks.
 - The 2024 Private Equity Investment Plan calls for \$450 million in total new commitments annually, spread across 3-7 individual commitments, in the plan’s first several years. Specifically and annually, \$305 million - \$310 million of the projected commitments are for buyout investment commitments, \$50 million are for growth equity, and \$75 million - \$90 million are for venture capital investment commitments. The plan projects the market value of the Private Equity asset class will reach its 11% asset-class target in 2031.

- After discussion, Trustee Gamble moved, seconded by Trustee Wood, to recommend that the Board Approve the 2024 Private Equity Investment Plan.
 - The motion carried unanimously with 6 Yes (Baron, Gamble, Godfrey, Levy, Simon, and Wood), 0 No, and 0 Abstention.
2. Discussion of and Possible Motion to Recommend that the Board Approve the Qualified List of Candidates for ACERA's Emerging Markets Equity Manager Search – Public Equities
- Staff and Consultant provided to the Investment Committee the qualified list of three candidates including Arga, Acadian and Pzena (in alphabetical order), and the timeline of the EM Search.
 - The Committee, Staff, and Consultant discussed the investment merits/benefits and risks/costs of each of the three recommended Finalists. Trustees asked about the disparity between Staff and NEPC scores, e.g., in scoring the Performance/Risk category of the candidates. Staff explained that they had reviewed the candidates in the context of the current ACERA Equity portfolio structure, and scored the candidates accordingly based on a relative basis (vs. scoring the candidates on an absolute basis), which led to this disparity. Staff further explained that they had developed and applied a proprietary scoring methodology to calculate the candidate correlations to the existing ACERA active managers to measure the total public equity portfolio diversification effect. For example, NEPC scored one of the candidates (i.e. ABS) high in the Performance/Risk category based on their low active risk in isolation. However, Staff scored ABS low because their high correlations to the existing ACERA active managers creates the highest active risk in ACERA's total public equity portfolio of any candidates. There was additional discussion on the remaining 4 Candidates and the viability and potential pros/cons of conducting onsite due diligence on four Finalists versus three Finalists.
 - The Committee and Staff discussed the objective of Staff providing additional information to the Committee for the next step of this Emerging Markets Equity Manager Search Action Item, including performance and fee details for each of the Four Finalists.
 - Trustee Simon moved, seconded by Trustee Wood, to recommend that the Board Approve the Qualified List of Candidates namely, Arga, Acadian, Pzena, and ABS for ACERA's Emerging Markets Equity Manager Search – Public Equities.
 - The motion carried unanimously with 7 Yes (Baron, Bryant, Gamble, Godfrey, Levy, Simon, and Wood), 0 No, and 0 Abstention.
3. Discussion of NEPC Ownership Changes and Possible Motion to Recommend that the Board
- i) Consent to the Assignment of NEPC's Investment Consulting Services Agreement to HighTower Advisors, LLC (HighTower) and
 - ii) Place NEPC on Watchlist as a Result of its Organization Change per ACERA's General Investment Policy, effective immediately

- Staff presented the two recommendations pertaining to this Action item. They are: 1) Consent to the assignment of NEPC's Investment Consulting Services Agreement to HighTower Advisors LLC (HighTower); 2) Place NEPC on Watchlist as a result of its organization changes per ACERA's General Investment Policy, effective immediately.
- Staff introduced this topic of NEPC Ownership Changes publicly at ACERA's November Board Meeting when NEPC's representatives including its managing partner Mike Manning answered questions from the Board.
- Today at the Committee Meeting, staff presents this topic for the Committee's further discussion and a possible motion. The recommendations, once approved, will allow ACERA to continue its current relationship with NEPC while ACERA monitors if the named ownership changes will impact its relationship with NEPC or not. Staff will engage the Committee and seek its input during the Watchlist process, if warranted. Should the Board choose not to approve the Consent Form in question, ACERA and NEPC's contractual relationship will end. Staff responded to questions from the Committee about this Action item.
- Sam Austin of NEPC then presented his presentation on this Action item and answered questions from the Committee.
- After discussion, Trustee Gamble moved, seconded by Trustee Levy, to recommend that the Board: i) Consent to the Assignment of NEPC's Investment Consulting Services Agreement to HighTower Advisors, LLC (HighTower) and ii) Place NEPC on Watchlist as a Result of its Organization Change per ACERA's General Investment Policy, effective immediately
- The motion carried unanimously with 7 Yes (Baron, Bryant, Gamble, Godfrey, Levy, Simon, and Wood), 0 No, and 0 Abstention.

Information Item: These items are not presented for Committee action but consist of status updates and cyclical reports

1. Report on Investment Made Under Delegated Authority - Summit Growth Equity Partners XII (\$40 million)
 - This is an information item to inform the Committee that Staff has exercised its delegated authority to approve this commitment and to explain the rationale behind Staff's approval.
 - Staff and NEPC discussed the Summit Growth Equity Partners XII investment opportunity and its place in ACERA's Private Equity – Growth Equity Portfolio. NEPC discussed its investment strategy and opportunity set in greater detail.

- Staff had approved this recommendation under delegated authority on 10/1/24 per Summit's firm close date after completion of legal and investment due diligence and successful contract negotiation.
2. Notice of Change in Distribution Frequency for Informational Reports from Quarterly to Semiannual
 - Staff informed the Committee that the following six Informational Reports: Direct Brokerage, Fees Report (Consultant, Custodian, and Investment Managers), IC Workplan, IPSI, Manager Reports, and Rebalancing and Cash, will be distributed on a six-month cycle, starting in the March 5th, 2025, Investment Committee packet which will cover the period from July to December 2024. Then, the follow-up distribution would be on September 3rd, 2025, which will cover the period from January to June 2025.
 3. Semiannual Performance Review for the Period Ending June 30, 2024 – Real Estate
 - As of 6/30/24, the Real Estate Portfolio had a total market value of \$783.76 million, which represented 6.7% of the Total Fund (asset-class target is 8.2%). For the last 6-months ending 06/30/2024, ACERA's Real Estate portfolio had a net return of -3.0%, outperforming the NFI-ODCE benchmark return of -3.2%. For the trailing 3-year period, ACERA's Real Estate portfolio had a net return of 1.9% outperforming the NFI-ODCE benchmark return of 1.0%.
 4. Semiannual Performance Review for the Period Ending June 30, 2024 – Private Equity
 - As of 6/30/2024, the Private Equity Portfolio had a total market value of \$1.14 billion, which represented 9.7% of the Total Fund in comparison to its 11.0% asset class target. As of 6/30/24, the Private Equity Portfolio produced a one-year annualized, time-weighted return of 10.5% and 8.7% for the three-year-annualized, time-weighted return, versus a 4.8% and 6.9% return, respectively, of its benchmark the Cambridge Associate Global All PE 1Q Lagged.
 5. Semiannual Performance Review for the Period Ending June 30, 2024 – Private Credit
 - As of 06/30/2024, the Private Credit Portfolio had a total market value of \$304.05 million which represented 2.5% of the Total Fund (asset-class target is 4.0%). As of 06/30/24, the Private Credit Portfolio produced one- and three-year-annualized, time-weighted returns 8.3% and 8.0%, respectively, versus 13.0% and 8.0% returns, respectively, for its benchmark the Morningstar LSTA U.S. Leveraged Loan 100 Index plus 175 basis points.
 6. Semiannual Performance Review for the Period Ending June 30, 2024 – Real Assets
 - As of 06/30/24, the Real Assets Portfolio had a total market value of \$692.21 million, representing 5.8% of ACERA's Total Fund (asset-class target is 6.0%). As of 06/30/2024, the Real Assets Portfolio produced one- and five-year-annualized, time-weighted, returns

of 7.3% and 7.7%, respectively, versus 6.5% and 6.2% returns , respectively, for its blended benchmark (60% S&P Global Infrastructure Index/35% S&P Global LargeMidCap Commodity and Resources Index/5% Bloomberg Commodity Index).

7. CA Gov. Code § 7514.7 Information Report

- Staff discussed its annual CA Gov. Code § 7514.7 Alternative Investment Vehicles Information Report with the Investment Committee.

TRUSTEES REMARKS:

Trustee Gamble praised staff for significantly increasing their engagement with new managers in the IPSI program, noting a record of 17 meetings in the last quarter compared to the previous average of 3-4. He encouraged continued exploration of opportunities globally, particularly in areas previously underrepresented in the portfolio. He also expressed concerns about the commission recapture program, suggesting it might be outdated and potentially cost-inefficient. He proposed revisiting the program in 2025 to evaluate its costs and returns.

FUTURE DISCUSSION ITEMS

None

ESTABLISHMENT OF NEXT MEETING DATE

Wednesday, January 8, 2025

ADJOURNMENT

The meeting ended at 12:38 p.m.

To view the December 4, 2024 Investment Committee Meeting in its entirety, click on the link below: <https://youtu.be/iil9KOePJNA>