



MINUTES OF THE JANUARY 8, 2025, INVESTMENT COMMITTEE MEETING

To: Members of the Investment Committee

From: George Wood, Chair

Subject: Summary of the January 8, 2025 Investment Committee Meeting

The Investment Committee (“Committee”) met on Wednesday, January 8, 2025, at 10:34 a.m. The Committee members present were, Ophelia Basgal, Keith Carson, Ross Clippinger, Tarrell Gamble, Henry Levy, Kellie Simon, Steven Wilkinson, 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, Jeff Rieger– Chief Counsel, Harsh Jadhav – Chief of Internal Audit, John Ta – Senior Investment Officer, Julius Cuaresma – Investment Analyst, Noe Reynoso – Investment Analyst, and Betty Tse – Chief Investment Officer.

PUBLIC COMMENT: N/A

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

1. Review of Private Equity Policy

- Staff and NEPC discussed proposed revisions to ACERA’s Private Equity (PE) Policy and solicited feedback from the Investment Committee (IC). The key revisions discussed were 1) reorganizing the sub-asset classes, 2) new sub-asset class target weights and a new benchmark, 3) removal of sub-asset class benchmarks, 4) adding a definition for “Total Commitments” under delegated authority, and 5) adding language for continuation funds. Staff noted that certain code sections referenced in the Policy will be updated.
- In response to a question regarding delegated authority limits, Staff mentioned that the current limits sometimes require Staff will make adjustments, such as lowering the desired commitment amount, in order to be able to take advantage of an investment opportunity while still remaining in compliance with the PE Policy.
- A discrepancy in the Policy redline was flagged by the IC. The vintage year language in the redlined Policy was not consistent with the language in the compliance checklist template. Staff noted the inconsistency and will correct this inconsistency.
- At the next IC meeting, Staff will present the final revised PE Policy as an Action Item.

2. Annual Update for 2024 - ESG

- Staff presented ACERA's 2nd Annual ESG Risk Disclosure Report. Staff, with NEPC, outlined the planned ESG activities for 2025: 1) Board ESG education; 2) reviewing and harmonizing the ESG and Emerging Investment Manager Policies, which would incorporate substantial input from both Investments and Legal Staff, as well as from NEPC and Callan; 3) improved and more detailed ESG reporting, with input from NEPC
- Staff acknowledged potential regulatory changes with the new administration. ACERA Chief Counsel provided further context, noting that since 2002 the tone of the Department of Labor (DOL) regulations have fluctuated with each administration.
- Trustee Levy provided a quick history of ACERA's ESG Policy, including its initial development by an ad hoc committee. Trustee Levy and NEPC also discussed stakeholder feedback.
- NEPC noted the importance of academic data, which it will include in future Board ESG Education presentation.
- Staff noted that ACERA is one of a few similar-sized plans that have an ESG Policy.

3. Proposed Investment Committee Meeting WorkPlan for 2025

- Staff stated that the proposed 2025 WorkPlan includes input from Callan and NEPC and is subject to change. The plan includes familiar items such as semiannual performance reviews and the February 2025 Capital Market Assumption Review. The WorkPlan also includes policy amendments for IC review and approval such as the Private Equity Policy.
- The proposed WorkPlan includes an education on investment governance and delegation of authority. Further discussions between consultants and Staff are needed before finalizing this item.
- NEPC mentioned that the private market allocations in the WorkPlan might shift more than other projects due to the unpredictable nature of strategy availability and the time needed for due diligence.
- Biannual performance reviews will focus on public markets in March and September, while deep dives into private markets and alternatives will occur in June and December.
- The WorkPlan's approach for reviewing and proposing changes to investment policies involves presenting them as informational items first, followed by a vote in the next month. Trustees are welcome to request a faster pace if desired.

4. CA Gov. Code § 7514.7 AIV Information Report Update

The Board received the 7514.7 annual AIV Information Report (Report) in December 2024, however some AIV information was unavailable at the time of the Report. Some managers had not yet responded with the required data, which has now been included.

- There are still a few new funds listed in the Report that have too few investments to generate an Internal Rate of Return (IRR) figure.
- Trustees inquired about the significant differences between gross and net fees in certain funds. Staff clarified that during the investment period, management fees are charged, but as the funds mature such fees often decrease.
- NEPC shared that some clients have hired an independent auditor to review reported fees and other fund details, though this is a costly process. There was a discussion about whether this audit strategy leads to a manager hesitancy to do business with clients who use the independent auditors' services. ACERA Staff will continue to monitor the fees charged by money managers.

TRUSTEE REMARKS:

Trustee Levy discussed an ILPA webinar he attended, which he described as a valuable resource.

FUTURE DISCUSSION ITEMS

NEPC Consultant Sam Austin discussed the upcoming NEPC Public Funds Workshop, emphasizing its importance for public fund clients. Mr. Austin indicated that the event, scheduled for February 3rd to February 4th, will be held in Phoenix, Arizona. It's a valuable opportunity for trustees to engage in peer-to-peer discussions on common issues.

ESTABLISHMENT OF NEXT MEETING DATE

February 5, 2025 at 10:30 a.m.

ADJOURNMENT

The meeting ended at 11:35 a.m.

To view the January 8, 2025 Investment Committee Meeting in its entirety, click on the link below: <https://youtu.be/KhKzWCfbsPA>