



## MINUTES OF THE OCTOBER 2, 2024, INVESTMENT COMMITTEE MEETING

To: Members of the Investment Committee

From: Jaime Godfrey, Chair

Subject: **Summary of the October 2, 2024 Investment Committee Meeting**

The Investment Committee (“Committee”) met on Wednesday, October 2, 2024, at 10:34 a.m. The Committee members present were, Ophelia Basgal, Keith Carson, Jaime Godfrey, Henry Levy, Elizabeth Rogers, 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 – Chief Counsel, Michael Fara – Communications Manager (Zoom), Clint Kuboyama – Senior Investment Officer, and Betty Tse – Chief Investment Officer.

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

1. Discussion of and Possible Motion that the Board Approve the Amended Private Credit Policy
  - Staff and NEPC discussed with the Investment Committee the recommended amendments to ACERA’s Private Credit Policy. A red-line version of the named Policy with very similar proposed amendments was presented to the Committee at the 8/7/24 ICM.
  - Staff highlighted the proposed amendments to the Private Credit Policy including: 1) increased diversification of the Private Credit asset class by combining the investments in the Debt-Related/Special Situations sub-class in the Private Equity asset class with the investments in the legacy Private Credit asset class; 2) a change in the asset-class benchmark from the Morningstar LSTA U.S. Leveraged Loan 100 Index plus 175 basis points to the Morningstar LSTA U.S. Leveraged Loan Index plus 200 basis points to reflect the asset class’ increased diversification and higher return expectation; 3) an increase in the target weighting for the asset class from 4% to 6.8% resulting from the Board’s 7/18/24 approval of “Mix C” for the Total Fund’s asset allocation; 4) the creation of sub-class target weightings – 50% Direct Lending investments and 50% Distressed and Opportunistic investments - to account for the asset class’ increased diversification; 5) updated delegated authority for a higher Total Fund value (\$11.8 billion as of 6/30/24 versus \$8.4 billion as of 6/30/19 when the policy was first incepted), higher 6.8% (versus 4.0%) asset-class target, and more flexibility by removing the dollar amount references and by decreasing the percentage limits to 10% (from 20%) for an investment with a new manager and to 25% (from 40%) for aggregate commitments to existing managers in good standing; and 6) the inclusion of continuation funds related to existing funds within Staff’s delegated authority.

- After discussion, Trustee Godfrey moved, seconded by Trustee Basgal, to recommend that the Board Approve the Amended Private Credit Policy.
  - The motion carried unanimously with 9 Yes (Baron, Basgal, Bryant, Carson, Godfrey, Levy, Rogers, Simon, and Wood), 0 No, and 0 Abstention.
2. Discussion of and Possible Motion that the Board Approve the 2024 Private Credit Investment Plan
- Staff and NEPC discussed with the Investment Committee the 2024 Private Credit Investment Plan.
  - The Private Credit 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 Credit Investment Plan calls for \$330 million in total new commitments annually, spread across 4-7 individual commitments, in the plan's first several years. \$200 million - \$210 million of the projected annual commitments are for direct lending investment commitments and \$120 million - \$130 million are for opportunistic and distressed credit investment commitments. The plan projects the market value of the Private Credit asset class will reach its 6.8% asset-class target in 2030.
  - After discussion, Trustee Godfrey moved, seconded by Trustee Simon, to recommend that the Board Approve the 2024 Private Credit Investment Plan.
  - The motion carried unanimously with 9 Yes (Baron, Basgal, Bryant, Carson, Godfrey, Levy, Rogers, 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. Results of the Investment Committee Packet Trustee Survey
- Communications Manager, Michael Fara conducted a survey among ACERA Trustees from August 21 to September 9 to assess the adequacy of information provided in the Investment Committee packet. He received 9 out of a possible of 11 responses.
  - There's a significant number of Trustees who want more information on Asset Allocation.
  - While Trustees generally find the current level of information sufficient, there is a slight majority who would like to receive less information on Re-ups and New Private Investments under delegated authority, New Private Equity Investments above delegated authority, and Investments in Publicly Traded Assets. Trustee Rogers provided her

perspective and interpretation of the survey results. Michael Fara acknowledged Trustee Roger's comments and noted that the named results are open to interpretation.

- Trustees do not want to change the current frequency and method of delivery of the Total Fund Performance Report.
- Except for the Total Fund Performance Report, Trustees are receptive to receiving informational reports less frequently than quarterly and are receptive to receiving informational reports in methods other than distribution in the Investment Committee packet.
- Trustee Levy asked NEPC how best to monitor staff in the context of the survey in question. NEPC informed the Committee that this involves setting standards on hiring qualified staff, reviewing policies and strategic asset allocation, and receiving reports from staff on the execution of these policies.
- Based on the survey results and regarding investment recommendations, staff stated that it would collaborate with Callan and NEPC to draft examples of more concise recommendation reports for the Investment Committee's considerations in the near future.

#### **TRUSTEES/STAFF REMARKS:**

Betty Tse (CIO) updated the Committee regarding the BlackRock acquisition of Global Infrastructure Partners (GIP) that ACERA does not have affiliation with GIP. BlackRock acquisition of GIP has no impact on ACERA's Total Fund.

#### **FUTURE DISCUSSION ITEMS**

None

#### **ESTABLISHMENT OF NEXT MEETING DATE**

Wednesday, November 6, 2024

#### **ADJOURNMENT**

The meeting ended at 11:47 p.m.

To view the October 2, 2024 Investment Committee Meeting in its entirety, click on the link below: <https://www.youtube.com/watch?v=eZr3wJtrI-A>