LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

REGULAR MEETING **TUESDAY, FEBRUARY 12, 2019** **TIME: 10:00 A.M.** **MEETING LOCATION:** LACERS Ken Spiker Boardroom 202 West First Street, Suite 500 Los Angeles, California 90012-4401 Live Board Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area). Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.	President: Cynthia M. Ruiz Vice President: Elizabeth L. Greenwood Commissioners: Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn Michael R. Wilkinson Manager-Secretary: Neil M. Guglielmo Executive Assistant: Ani Ghoukassian Legal Counsel: City Attorney's Office Retirement Benefits Division

I. PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION

II. APPROVAL OF MINUTES FOR REGULAR BOARD MEETING OF JANUARY 22, 2019 AND POSSIBLE BOARD ACTION

III. BOARD PRESIDENT VERBAL REPORT

IV. GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS

B. UPCOMING AGENDA ITEMS

V. RECEIVE AND FILE ITEMS

A. BENEFITS PAYMENTS APPROVED BY GENERAL MANAGER

B. MARKETING CESSATION NOTIFICATION

C. LACERS CUSTOMER SERVICE SURVEY SEMI-ANNUAL REPORT, JULY – DECEMBER 2018

VI. BOARD/DEPARTMENT ADMINISTRATION

A. AMENDMENT NO. 4 TO CONTRACT NO. 4075 WITH LINEA SOLUTIONS, INC. AND POSSIBLE BOARD ACTION

B. SEMI-ANNUAL REPORT OF BUSINESS PLAN INITIATIVES FOR THE PERIOD ENDING DECEMBER 2018

C. PROPOSED LACERS STRATEGIC PLAN AND POSSIBLE BOARD ACTION

VII. COMMITTEE REPORT(S)

A. GOVERNANCE COMMITTEE VERBAL REPORT ON THE MEETING OF JANUARY 22, 2019

B. TRIENNIAL BOARD POLICY REVIEW: BOARD PROCEDURES, BOARD EDUCATION AND TRAVEL POLICY, CORPORATE GOVERNANCE ACTIONS RESPONSE PROTOCOL AND POSSIBLE BOARD ACTION

C. BENEFITS ADMINISTRATION COMMITTEE VERBAL REPORT ON THE MEETING OF FEBRUARY 12, 2019

VIII. BENEFITS ADMINISTRATION

A. BOARD EDUCATION: HEALTH PLAN ADMINISTRATION OVERVIEW

IX. INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT

B. REAL ESTATE PORTFOLIO REVIEW

C. PRESENTATION BY NEPC, LLC REGARDING TACTICAL ASSET ALLOCATION

D. INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE BOARD ACTION

X. LEGAL/LITIGATION

A. BOARD EDUCATION: LEGAL FRAMEWORK FOR IMPLEMENTING ESG FACTORS INTO INVESTMENT STRATEGY

XI. CLOSED SESSION

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.8 TO CONFER WITH REAL PROPERTY NEGOTIATOR AND POSSIBLE BOARD ACTION.

PROPERTY: 202 WEST FIRST STREET, LOS ANGELES, CA 90012;
AGENCY NEGOTIATORS: JAMES N. TRAVERS, DENNIS SMITH
NEGOTIATING PARTIES: LACERS, ONNI TIMES SQUARE
UNDER NEGOTIATION: PRICE AND TERMS OF PAYMENT FOR PROPOSED LEASE

XII. DISABILITY RETIREMENT APPLICATION(S)

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF MAYRA MARTINEZ AND POSSIBLE BOARD ACTION

XIII. OTHER BUSINESS

XIV. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, February 26, 2019 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

XV. ADJOURNMENT

MINUTES OF THE REGULAR MEETING
BOARD OF ADMINISTRATION
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

LACERS Ken Spiker Boardroom
202 West First Street, Fifth Floor
Los Angeles, California

January 22, 2019

10:01 a.m.

Agenda of: <u>Feb. 12, 2019</u>

Item No: <u>II</u>

PRESENT:	President:		Cynthia M. Ruiz
	Vice President:	(arrived at 10:20 a.m.)	Elizabeth L. Greenwood
	Commissioners:		Elizabeth Lee
			Sandra Lee
			Nilza R. Serrano
		(arrived at 10:27 a.m.)	Sung Won Sohn
			Michael R. Wilkinson
	Manager-Secretary:		Neil M. Guglielmo
	Executive Assistant:		Ani Ghoukassian
	Legal Counsel:		Anya Freedman

The Items in the Minutes are numbered to correspond with the Agenda.

I

PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION – President Ruiz asked if there were any persons who wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment cards were received.

II

APPROVAL OF MINUTES FOR REGULAR BOARD MEETING OF JANUARY 8, 2019 AND POSSIBLE BOARD ACTION – A motion to approve the Regular Board Meeting minutes of January 8, 2018 was moved by Commissioner Serrano, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, and President Ruiz -5; Nays, None.

III

BOARD PRESIDENT VERBAL REPORT – President Ruiz discussed the following items:

- January 14, 2019 press release on sexual harassment.
- Wellness and diabetes risk and prevention.

IV

GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS – Neil M. Guglielmo, General Manager discussed the following items:

- Martin Luther King day observance.
- Live audio coverage extended to Committee Meetings starting with January 22, 2019 Governance Committee Meeting.
- The Pension Administration System (PAS) moving from administration to maintenance and support on April 1, 2019.
- Annual Carrier Summit on January 7, 2019 at SCAN's offices.
- Wellness Gala to be held on January 23, 2019.
- Tech Workshop to be held on January 24, 2019.
- Medicare Part B Premium will be $135.50 per month.
- Revenue Generation Committee still discussing pension fees.
- Strategic Plan and Initiative will be introduced to the Board in February 2019.
- 1099R scheduled to be mailed on January 22, 2019.
- Office space expansion being planned.
- Additional card access doors being installed at LACERS offices.
- Exit orientation workshop for Council District 12 staff on January 12, 2019.

B. UPCOMING AGENDA ITEMS – Neil M. Guglielmo, General Manager, stated the following future agenda items:

- February – Overpayments and relinquishment report
- February – Health benefits education
- February – Semi-Annual Customer Service Report
- February – Spotlight on Health Division-Enrollment Unit
- February – 2019 Open Enrollment results
- February – Alex Benefit Software updated information
- February Benefits Administration Committee – LACERS *Well* 2018 Annual Report

C. LACERS NEW OFFICE HOURS STATUS VERBAL REPORT – Wendy Johnson, Chief Clerk and Sandra Ford-James, Senior Administrative Clerk discussed this item with the Board.

V

RECEIVE AND FILE ITEMS

A. RECEIVE AND FILE – COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 3018 – The report was received by the Board and filed.

B. MONTHLY REPORT ON SEMINARS AND CONFERENCES (NOVEMBER 2018) – The report was received by the Board and filed.

C. MONTHLY REPORT ON SEMINARS AND CONFERENCES (DECEMBER 2018) – The report was received by the Board and filed.

VI

CONSENT AGENDA

A. ADOPTION OF 2019 EMPLOYEE MEMBER OF THE BOARD ELECTION CALENDAR AND POSSIBLE BOARD ACTION – Vice President Greenwood moved approval, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Sohn, Wilkinson, Vice President Greenwood, and President Ruiz -7; Nays, None.

VII

COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE VERBAL REPORT ON THE MEETING OF JANUARY 8, 2019 – Commissioner Sohn reported that the Committee discussed the Loomis, Sayles & Co. contract, Robert W. Baird contract, and the Investment Policy Statement Review.

VIII

BENEFITS ADMINISTRATION

A. BOARD RULES RELATED TO MEMBER AND BENEFITS ADMINISTRATION AND POSSIBLE BOARD ACTION – Karen Freire, Chief Benefits Analyst presented this item to the Board. Commissioner Serrano moved approval of the following Resolution:

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROPOSED BOARD RULES RELATED TO THE
ADMINISTRATION OF BENEFITS

RESOLUTION 190122-A

WHEREAS, the proposed Board Rules serve to codify LACERS' administrative practices and provide necessary guidance for effective and efficient Plan administration;

WHEREAS, the Los Angeles Charter Section 1106(f) authorizes the Board of Administration to adopt rules governing the administration of benefits for the Plan; and,

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby adopts the proposed Board Rules as presented.

Which motion was seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Sohn, Wilkinson, Vice President Greenwood, and President Ruiz -7; Nays, None.

X

INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value, $16.86 Billion as of January 21, 2019. Mr. June discussed the following items:

- Private Credit RFP responses were due January 18, 2019 and 45 responses have been received.
- Real estate opportunities can be brought to the Board in Closed Session and City Attorney confirmed that fund name can be included in the title of the Closed Session item. Mr. June reported that in October 2018, the Board moved approval to commit up to $35 million with Kayne Anderson Core Real Estate LP. Board vote: Ayes 4 (Ruiz, Greenwood, Serrano, Wilkinson), Nays 0.
- The Trump Administration is proposing to change the reporting of 10K reports from quarterly to semi-annually. This item will be agendized at a future Board Meeting so the Board can discuss and take possible action. The public comment period for this item is March 21, 2019.
- The Dodd-Frank Act of 2010 impacts the financial banking system. The Trump Administration has raised the threshold in bank assets from $50 billion to $250 billion and therefore fewer banks will fall under the scrutiny of the Dodd-Frank Act.
- Recognizing teamwork in the Investments Division with a 12-month team building campaign.
- New team members in Investments Division introduced themselves: Saira Ghandi, Management Analyst and Alejandra Zuniga, College Intern.

B. INVESTMENT MANAGER CONTRACT WITH ROBERT W. BAIRD & CO., INC. REGARDING THE MANAGEMENT OF AN ACTIVE CORE DOMESTIC FIXED INCOME PORTFOLIO AND POSSIBLE BOARD ACTION – Bryan Fujita, Chief Operating Officer and Jimmy Wang, Investment Officer I presented this item to the Board. Commissioner Serrano moved approval of the following Resolution:

CONTRACT RENEWAL
ROBERT W. BAIRD & CO. INCORPORATED
ACTIVE DOMESTIC FIXED INCOME
PORTFOLIO MANAGEMENT

RESOLUTION 190122-C

WHEREAS, LACERS' current contract with Robert W. Baird & Co. Incorporated (Baird) for active domestic fixed income portfolio management expires on February 28, 2019; and,

WHEREAS, Baird is in compliance with the LACERS Manager Monitoring Policy; and,

WHEREAS, a contract renewal with Baird will allow the fund to maintain a diversified exposure to the core fixed income markets; and,

WHEREAS, on January 22, 2019 the Board approved the Investment Committee's recommendation for a four-year contract renewal with Baird; and, NOW, THEREFORE, BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following services and terms:

Company Name:	Robert W. Baird & Co. Incorporated
Service Provided:	Active Domestic Fixed Income Portfolio Management
Effective Dates:	March 1, 2019 through February 28, 2023
Duration:	Four years
Benchmark:	Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index.
Allocation as of December 31, 2018:	$259 million

Which motion was seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Sohn, Wilkinson, Vice President Greenwood, and President Ruiz -7; Nays, None.

C. INVESTMENT MANAGER CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE DOMESTIC FIXED INCOME PORTFOLIO AND POSSIBLE BOARD ACTION – Bryan Fujita, Chief Operating Officer and Jimmy Wang, Investment Officer I presented this item to the Board. Vice President Greenwood moved approval of the following Resolution:

CONTRACT RENEWAL
LOOMIS, SAYLES & COMPANY, L.P.
ACTIVE CORE DOMESTIC FIXED INCOME
PORTFOLIO MANAGEMENT

RESOLUTION 190122-D

WHEREAS, LACERS' current contract with Loomis, Sayles & Company, L.P. (Loomis Sayles) for active core domestic fixed income portfolio management expires on July 31, 2019; and,

WHEREAS, Loomis Sayles is in compliance with the LACERS Manager Monitoring Policy; and,

WHEREAS, a contract renewal with Loomis Sayles will allow LACERS to maintain a diversified exposure to core fixed income; and,

WHEREAS, on January 22, 2019, the Board approved the Investment Committee's recommendation for a four-year contract renewal with Loomis Sayles; and, NOW, THEREFORE, BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following services and terms:

Company Name:	Loomis, Sayles & Company, L.P.
Service Provided:	Active Core Domestic Fixed Income Portfolio Management
Effective Dates:	August 1, 2019 through July 31, 2023
Duration:	Four years
Benchmark:	Bloomberg Barclays U.S. Aggregate Bond Index.
Allocation as of December 31, 2018:	$741 million

Which motion was seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Sohn, Wilkinson, Vice President Greenwood, and President Ruiz -7; Nays, None.

D. PRESENTATION BY NEPC, LLC REGARDING ESG/IMPACT INVESTING OVERVIEW – Carolyn Smith and Kevin Novak with NEPC presented this item to the Board.

Item IX-A taken out of order.

President Ruiz adjourned the Regular Meeting at 12:37 p.m. to convene in Closed Session.

IX

DISABILITY RETIREMENT APPLICATION(S)

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF JUANA ALAMILLO AND POSSIBLE BOARD ACTION

President Ruiz reconvened the Regular Meeting at 12:47 p.m. and announced that during Closed Session the Board unanimously approved the Disability Retirement Application of Juana Alamillo.

XI

OTHER BUSINESS – There was no other business.

XII

NEXT MEETING – The next Regular meeting of the Board is scheduled for Tuesday, February 12, 2019 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

XIII

ADJOURNMENT – There being no further discussion before the Board, President Ruiz adjourned the meeting at 12:48 p.m.

Cynthia M. Ruiz
President

Neil M. Guglielmo
Manager-Secretary

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-A

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

SERVICE RETIREMENTS

Member Name	Service	Department	Classification
Acosta, Luis H	38	Dept. of Airports	Airport Police Lt
Aguirre, Maria H	13	Dept. of Airports	Custodian Airport
Barajas, Ignacio	6	Dept. of Rec. & Parks	Special Prog Asst
Borunda, Eleanor R	30	Dept. of Airports	Administrative Clerk
Carranza, F Benny	34	PW - St. Maint.	St Svcs Supt
Chisom, Henry Elbert	41	Controller's Office	Sr Systems Analyst
Chowdhry, Abid H	30	PW - Engineering	Civil Engineer
Colorado, Dina O	17	PW - Accounting	Sr Accountant
Cooper, David Ozeal	25	PW - Solid Resource	Ref Coll Truck Oper
Dandridge, Rose Marie	12	Dept. of Rec. & Parks	Gardener Caretaker
Davis, Jennie E	10	Police Dept. - Civilian	Administrative Clerk
De La Rosa, Keith J	32	City Attorney's Office	Deputy City Atty
Der, Anna	30	ITA	Programmer/Analyst
Djansezian, Vasken	19	LA Housing Dept.	Commnty Hsg Progrms
Embry, Garcelle J	30	City Attorney's Office	Deputy City Atty
Evans, Billie G	30	PW - Lot Cleaning	St Svcs Supvr
Fong, Arthur Chiwing	30	Police Dept. - Civilian	Sr Systems Analyst
Garcia, Enrique	7	Dept. of Rec. & Parks	Special Prog Asst
Gutierrez, Robert	29	PW - St. Improv Div.	Landscape Arch
Guzman, Greg Y.	34	PW - St. Maint.	Equipmnt Operator
Harper, Dwayne R	30	Dept. of Transportation	Traf Officer
Henry, Vina	30	City Attorney's Office	Legal Clerk
Ho, Kar Yui C	5	Dept. of Airports	Airport Guide
Hudson, Ivory P	17	PW - Engineering	Administrative Clerk
Hunter, Patricia A	31	City Attorney's Office	Deputy City Atty
Kaufman, Edward L	23	Dept. of Rec. & Parks	Gardener Caretaker
Khineche, Abdelkader	28	Dept. of Airports	Geo Info Systems Sup
Kim, Peter B	31	Dept. of Bldg. & Safety	Sr Structural Engineer
Kwong, Kin Wah	17	Harbor Dept.	Civil Eng Drft Tech
Lewis, John Robert	15	Zoo Dept.	Gen Mgr L A Zoo
Lin, Frank S	28	Office of the CAO	Sr Systems Analyst
Lumbang, Milagros Belisario	24	GSD - Purchasing	Supl Svcs Payment Clerk
Mabie, William Allen	4	Council	Council Aide
Matossian, Vasken K	19	Dept. of Transportation	Signal System Electrcn
Mayer, Richard J	27	PW - Engineering	Environmental Engineer
Mcdade, Simone C	34	Police Dept. - Civilian	Management Analyst

Mepham, John R	30 Harbor Dept.	Constr Inspector
Nakasone, Candace Joy	41 PW - Engineering	Sr Administrative Clerk
Nishimura, Peter Kazuo	15 Dept. of Rec. & Parks	Recreation Fac Dir
Orme, Vincent Astor	21 Police Dept. - Civilian	Commun Electrician
Patterson, Geoffrey Malcolm	12 PW - Resurf & Reconstr	Motor Sweeper Operator
Perez, Manuel E	12 Dept. of Rec. & Parks	Gardener Caretaker
Perry, Jan Cynthia	28 EWDD	Gm EWDD
Potthoff, Joyce L	19 Library Dept.	Admin Clerk
Ripalda, Walfredo Baroman	10 GSD - Bldg. Svcs.	Build Operating Engr
Rodriguez, Agueda F	38 Fire Dept. - Civilian	Secretary
Roybal, Kenneth M	12 Personnel Dept.	Background Investgr
Shafik, Tawfik	30 PW - Engineering	Survey Party Chief
Shimoji, Stanley J	30 Zoo Dept.	Light Equip Operator
Smith, Herman Lincoln	12 GSD - Public Bldgs.	Electrician
Smith, Wanda J	17 PW - Sanitation	Commun Info Rep
Stahoski, Sylvia M.	44 City Attorney's Office	Pr Clerk City Atty
Streator, Charles A	25 Dept. of Rec. & Parks	Gardener Caretaker
Tapia, Clark J	31 PW - Sanitation	Maintenance Laborer
Tso, Kenneth D	30 City Attorney's Office	Deputy City Atty
Williams, Inez M	29 Dept. of Rec. & Parks	Recreation Fac Dir
Zesati, Manuel Del Villar	16 Dept. of Rec. & Parks	Cook

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-A

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

Approved Death Benefit Payments

Deceased **TIER 1**	Beneficiary/Payee
Ali, Migoi Eli	Anita Esther Ali for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Baratti, Lee B	Rorie Steiding for the payment of the Accrued But Unpaid Disability Retirement Allowance Troy Garo Stone for the payment of the Accrued But Unpaid Disability Retirement Allowance Burial Allowance
Barbala, Ann Jean	Joseph R Barbala for the payment of the Accrued But Unpaid Disability Continuance Allowance Madeline C Martin for the payment of the Accrued But Unpaid Disability Continuance Allowance
Bearden, Charles Lee (Deceased Active)	Add Wesley Bearden for the payment of the Accumulated Contributions
Blow, William R	Brenda D Blow for the payment of the Accrued But Unpaid Service Retirement Allowance

Boyd, Earl A	Eric F Boyd for the payment of the Burial Allowance Robert J Boyd for the payment of the Burial Allowance
Boyd, Jeanne M	Robert L Boyd for the payment of the Accrued But Unpaid Continuance Allowance
Brown, Juanita	Kelli C Holland for the payment of the Burial Allowance
Brown Sr, Aaron	Carolin E B Miller for the payment of the Accrued But Unpaid Service Retirement Allowance Cynthia Ann Brown for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Burba, Jan Boris	Nancy L Burba for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Burge, Betty R	Steven W Burge for the payment of the Accrued But Unpaid Continuance Allowance
Caldwell, Henrietta J	Angelia S Fowler for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Chandler, Gertrude R	Lanette Chandler for the payment of the Accrued But Unpaid Continuance Allowance

Chang, Kim M	Kim L Chang-Lopez for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Choudhry, Fazal	Zubaida B Chaudhry for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Cole, Elsie Juanita	William R Cole Jr for the payment of the Accrued But Unpaid Continuance Allowance Unused Contributions
Cook, David Glen	Dorothy Castro for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Cook, Earline J	Ja Juan Webb for the payment of the Burial Allowance
Cook, Esther K	Wade Cook for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Davis, Tony G	Elizabeth Talford Davis for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
De Sellem, Sandra P	Wilbur E De Sellem for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance

Douglas, John M	Anna M Douglas for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Christine M Douglas for the payment of the Burial Allowance
Durkac, John C	Judith Durkac for the payment of the Accrued But Unpaid Continuance Allowance
Egnatoff, Jim (Deceased Active)	Ryan J Egnatoff for the payment of the Accumulated Contributions
Fernandez, Nancy I	Daniel J Fernandez for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Gaspar, Maria	Matthew D Sepulveda for the payment of the Accrued But Unpaid Service Retirement Allowance
	Natividad Baca for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Sarah M Sepulveda for the payment of the Accrued But Unpaid Service Retirement Allowance
Gray, Huston L	Barbara B Gray for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Grazer, John P	Rohn T Grazer for the payment of the Accrued But Unpaid Service Retirement Allowance

Harris, Carol Ann	Robert L Stinnett for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Unused Contributions
Helpes, William H	Robert Horn for the payment of the Accrued But Unpaid Service Retirement Allowance
Hernandez, Victoria R	Martha Yolanda Ruiz for the payment of the Accrued But Unpaid Continuance Allowance
Holland, Robert J	Denise Lynn Holland for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Jantz, Raymond W	Mae A Jantz for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Kamachi, Tadao P	Clara F Kamachi for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
King, Doris M	Arne P King for the payment of the Accrued But Unpaid Continuance Allowance
Kirkland, Alice Corine	Allison Karen Wills for the payment of the Accrued But Unpaid Service Retirement Allowance Unused Contributions

Kostrencich, Maria Linda	Nancy C Carr for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Krakowski, James J	Mary D Krakowski for the payment of the Accrued But Unpaid Disability Retirement Allowance Burial Allowance
Lopez, Mary Ann C (Deceased Active)	Raymond C Lopez for the payment of the Accumulated Contributions Robert Lopez for the payment of the Accumulated Contributions
Louis, Grace Francis	Clarence Bourne for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Lucree, William J	Maureen Turner for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Mc Gee, Paul C	Denise A Mcgee for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Merced, Frances T	Marvin M Merced for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

Mondy, Helen V	Russell Hiawatha Mondy for the payment of the Accrued But Unpaid Service Retirement Allowance
Nadalsky, Margie	Janet Ann Cairney for the payment of the Accrued But Unpaid Continuance Allowance
Nakada, James Sadao	Eleanor E Nakada for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Nonno, James A	Cynthia Carol Mcmeekin for the payment of the Burial Allowance
Paz, Antonio	Ana M Reyes for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Powers, Wesley D	Charles Powers for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Prince, Eli D	Eric D Prince for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Ridgeway, Booker H	Delores Ridgeway for the payment of the Burial Allowance

Rivers, Eva L	Clarence James Rivers for the payment of the Accrued But Unpaid Continuance Allowance
Schwartz, Bertha	Robin S Kapper for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance Sharon Schwartz for the payment of the Accrued But Unpaid Service Retirement Allowance
Skarin, Philip H	Grace M Skarin for the payment of the Accrued But Unpaid Service Retirement Allowance
Spiegelman, Joseph	Donnie Spiegelman-Boyd for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance Unused Contributions
Steinberg, Howard	Harriet Steinberg for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Stewart, Roger E	Sheila K Stewart for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Stokes, Joy Maria	Erin E Stokes for the payment of the Accrued But Unpaid Continuance Allowance
Takagi, Ei G	Bruce H Akiyama for the payment of the Burial Allowance

Talley, Harold G	Micki Lenora Brightwell for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Terao, Eugene M	Janie T Terao for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Terry, Ivory G	De Etta L Champ for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Ivory G Terry for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Kevin B Terry for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Michael A Terry for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Tosti, Glenda J	Scott Allen Tosti for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance
Trammell, Olysee	Alice M Brown for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Virgil, William	Edith B Virgil for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

TIER 3

None

Agenda of: FEBRUARY 12, 2019

Item No: V-B

MARKETING CESSATION REPORT
NOTIFICATION TO THE BOARD

The Board's Marketing Cessation Policy was adopted in order to prevent and avoid the appearance of undue influence on the Board or any of its Members in the award of investment related and other service contracts. Pursuant to this Policy, this notification procedure has been developed to ensure that Board Members and staff are regularly apprised of firms for which there shall be no direct marketing discussions about the contract or the process to award it; or for contracts in consideration of renewal, no discussions regarding the renewal of the existing contract.

Firms listed in Attachments 1 and 2 are subject to limited communications with Board Members and staff pursuant to the Policy and will appear and remain on the list, along with the status, from the first publicized intention to contract for services through the award of the contract. Lists of current LACERS contracts are on file in the Board office and are available upon request.

Attachments: 1) Contracts Under Consideration for Renewal
2) Active RFPs and RFQs

ATTACHMENT 1

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END
			INVESTMENTS				
1	Robert W. Baird & Co., Inc.	Active Domestic Fixed Income	3/1/2011	2/28/2019	Board approved renewal on January 22, 2019; contract under review for execution.	1/4/2019	2/28/2019
2	Loomis, Sayles & Company, L.P.	Active Core Domestic Fixed Income	8/1/2011	7/31/2019	Board approved renewal on January 22, 2019; contract under review for execution.	1/4/2019	7/31/2019
			ADMINISTRATIVE SERVICES				
3	Travers Cresa	Real Estate Services	Pending	Pending	Board awarded new contract on 11/28/2017; Contract under review for execution.	10/1/2017	11/30/2018
4	Linea Solutions, Inc.	Pension Administration System Project Management Consulting Services	10/1/2017	3/31/2019	Contract Amendment to be presented to the Board 2/12/19.	11/1/2018	5/31/2019
			CITY ATTORNEY				
5	Bernstein Litowitz & Grossman	Litigation	Pending	Pending	Board approved engaging firm on 11/13/18; Contract in process of execution.	7/23/2018	1/30/2019

ATTACHMENT 1

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END
HEALTH BENEFITS ADMINISTRATION							
6	Anthem 2019	Medical HMO & PPO	1/1/2019	12/31/2019	Board approved on 8/28/2018; Contract under review for execution.	9/30/2018	3/31/2019
7	Kaiser 2019	Medical HMO	1/1/2019	12/31/2019	Board approved on 8/28/2018; Contract under review for execution.	9/30/2018	3/31/2019
8	SCAN 2019	Medical HMO	1/1/2019	12/31/2019	Board approved on 8/28/2018; Contract under review for execution.	9/30/2018	3/31/2019
9	United Healthcare 2019	Medical HMO	1/1/2019	12/31/2019	Board approved on 8/28/2018; Contract under review for execution.	9/30/2018	3/31/2019
10	Delta Dental 2019	Dental PPO and HMO	1/1/2019	12/31/2019	Board approved on 8/28/2018; Contract under review for execution.	9/30/2018	3/31/2019
11	Anthem Blue View Vision 2019	Vision Services Contract	1/1/2019	12/31/2019	Board approved on 8/28/2018; Contract under review for execution.	9/30/2018	3/31/2019

*RESTRICTED PERIOD

Start Date - The estimated start date of the restricted period is three (3) months prior to the expiration date of the current contract. No entertainment or gifts of any kind should be accepted from the restricted source as of this date. Firms intending to participate in the Request for Proposal process are also subject to restricted marketing and communications.

ATTACHMENT 1

CONTRACTS UNDER CONSIDERATION FOR RENEWAL

NO.	VENDOR / CONSULTANT	DESCRIPTION	INCEPTION DATE	EXPIRATION DATE	MARKETING CESSATION STATUS	RESTRICTED PERIOD*	
						START	END

End Date - The estimated end date of the restricted period is three (3) months following the expiration date of the current contract. For investment-related contracts, the estimated end date is normally six (6) months following the expiration of the current contract. For health carrier contracts, the estimated end date is normally one (1) year following the expiration of the current contract. Estimated dates are based on contract negotiation periods from prior years.

ATTACHMENT 2

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CONTRACTS LIST FOR THE FEBRUARY 12, 2019 BOARD MEETING

ACTIVE RFPs AND RFQs*

NO.	DESCRIPTION	MARKETING CESSATION STATUS AND VENDOR RESPONSES
	INVESTMENTS	
1	Private Credit Mandate Search	**RFP Release Date:** December 10, 2018 **Submission Deadline:** January 18, 2019 **Status:** In progress **List of Respondents:** Alcentra Limited, Barings LLC, MB Global Partners, LLC, Backcast Partners Management LLC, BlackRock, Inc., CLSA Capital Partners (HK) Limited, Cross Ocean Adviser LLP, Clearwater Capital Partners (Fiera Capital Corporation), Guggenheim Partners, LLC, Goldman Sachs Asset Management, L.P., Pemberton Capital Advisors LLP, Kayne Anderson Capital Advisors, L.P., Maranon Capital, L.P., Bain Capital Credit, LP, Breakwater Management LP, Carlyle Global Credit Investment Management L.L.C., Crescent Capital Group LP, MV Credit Partners LLP, New Mountain Capital, LLC, Park Square Capital USA LLC, Tor Investment Management (Hong Kong) Limited, AlbaCore Capital LLP, Muzinich & Co., Inc., Kartesia Management S.A., Medalist Partners, LP, NXT Capital Investment Advisers, LLC, Owl Rock Capital Partners, PennantPark Investment Advisers, PIMCO Investments LLC, Deerpath Capital Management, LP, Brightwood Capital Advisors, Magnetar Capital LLC, MC Credit Partners LP, Oaktree Capital Management, L.P., THL Credit Advisors LLC, White Oak Global Advisors, LLC, Benefit Street Partners L.L.C., EntrustPermal / Blue Ocean GP LLC, Willow Tree Credit Partners LP, Monroe Capital LLC, Runway Growth Capital LLC, Stellus Capital Management, LLC
2	Outside Health Law and Data Privacy Counsel	**RFP Release Date:** January 7, 2019 **Submission Deadline:** January 28, 2019 **Status:** In progress **List of Respondents:** Clark Hill PLC, Foley & Lardner LLP, Groom Law Group Chartered, Hanson Bridgett LLP, Lewis Brisbois Bisgaard & Smith LLP, Nossaman LLP, Orrick Herrington & Sutcliffe LLP, Polsinelli LLP, Reed Smith LLP

* RESTRICTED PERIOD FOR REQUEST FOR PROPOSAL OR REQUEST FOR QUALIFICATIONS:

Start Date - The restricted period commences on the day the Request for Proposal is released.

End Date - The restricted period ends on the day the contract is executed.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Report to Board of Administration

Agenda of: **FEBRUARY 12, 2019**

From: Neil M. Guglielmo, General Manager

ITEM: **V-C**

SUBJECT: **LACERS CUSTOMER SERVICE SURVEY SEMI-ANNUAL REPORT, JULY – DECEMBER 2018**

Recommendation

That the Board receive and file this report.

Background

In 2014, LACERS implemented a departmental customer service initiative to continuously build and improve service delivery externally to LACERS Members, as well as internally among LACERS staff. This initiative emphasizes defining, identifying, and improving customer service and communication skills, while supporting the promotion of LACERS' Guiding Principles.

As part of this effort, LACERS disseminated and compiled results from the following three surveys during a six-month period, from July 2018 to December 2018:

- Customer Service Satisfaction Survey: for group counseling, counseling appointments, and walk-ins;
- Retired Member Workshop Satisfaction Survey: for events such as Open Enrollment Meetings or Wellness Workshops; and
- Active Member Seminar Satisfaction Survey: for events held for current City of Los Angeles employees, such as the Planning for Retirement Seminars.

Each of the surveys allows respondents to score the criteria on a rating scale from "7" to "1," with "7" being "Very Satisfied" and "1" being "Very Unsatisfied." The rating scale appears below.

Very Satisfied 7	Satisfied 6	Somewhat Satisfied 5	Uncertain 4	Somewhat Unsatisfied 3	Unsatisfied 2	Very Unsatisfied 1

Additionally, several yes/no questions were asked on the Active Member Seminar Satisfaction Surveys and are recorded on the corresponding table.

Below are summaries of the satisfaction ratings for each survey. Satisfaction percentages are based on the number of responses provided for each criterion and not the overall number of surveys completed. In compiling results, respondent ratings were only counted as having met LACERS' customer satisfaction goal ("Met Goal") if the scores were at or above the "Satisfied" rating of 6.

CUSTOMER SERVICE SATISFACTION SURVEY
(12) Group Counseling Workshops

CRITERIA	% of Members Who Met Goal	7	6	5	4	3	2	1
The service you received at the front desk	100%	95.8%	4.2%	-	-	-	-	-
		23	1	-	-	-	-	-
The service you received from the LACERS representative that met with you	97.6%	87.7%	9.9%	2.0%	0.4%	-	-	-
		221	25	5	1	-	-	-
How LACERS benefits and processes were explained	97.6%	78.4%	19.2%	2.0%	0.4%	-	-	-
		196	48	5	1	-	-	-
Overall LACERS experience	96.0%	81.2%	14.8%	2.0%	0.8%	0.4%	0.8%	-
		203	37	5	2	1	2	-

RETIRED MEMBER WORKSHOP SATISFACTION SURVEY*
(6) Open Enrollment Meetings, (1) Technology Workshop, and (1) Medicare Workshop

CRITERIA	% of Members Who Met Goal	7	6	5	4	3	2	1
Location of workshop	95.0%	73.6%	21.4%	3.4%	0.2%	1.1%	0.2%	-
		324	94	15	1	5	1	-
Workshop materials	96.3%	69.8%	26.5%	3.2%	0.2%	-	0.2%	-
		305	116	14	1	-	1	-
Knowledge of medical plan representatives	96.2%	68.4%	27.7%	3.1%	0.5%	-	0.3%	-
		269	109	12	2	-	1	-
Knowledge of LACERS staff	97.9%	79.6%	18.3%	1.4%	0.5%	-	0.2%	-
		335	77	6	2	-	1	-
Quality of presentations	97.5%	68.5%	29.0%	2.1%	0.5%	-	-	-
		300	127	9	2	-	-	-
Overall quality of workshop	97.7%	72.0%	25.7%	2.1%	0.2%	-	-	-
		313	112	9	1	-	-	-

*Percentages do not add up to an even hundred percent due to rounding.

ACTIVE MEMBER SEMINAR SATISFACTION SURVEY (21) Planning for Retirement Seminars								
CRITERIA	**% of Members Who Met Goal**	**7**	**6**	**5**	**4**	**3**	**2**	**1**
Seminar Materials	**98.1%**	**80.6%**	**17.5%**	**1.7%**	-	**0.2%**	-	-
		387	**84**	**8**	-	**1**	-	-
Knowledge of presenter	**99.6%**	**86.2%**	**13.4%**	**0.4%**	-	-	-	-
		411	**64**	**2**	-	-	-	-
Quality of presentation	**98.1%**	**83.4%**	**14.7%**	**1.9%**	-	-	-	-
		397	**70**	**9**	-	-	-	-
Overall quality of the seminar	**98.7%**	**83.8%**	**14.9%**	**1.3%**	-	-	-	-
		399	**71**	**6**	-	-	-	-

	Yes	No
By the end of the seminar, did you have a better understanding of the subject matter presented?	**99.4%**	**0.6%**
	468	**3**
Did the seminar meet your expectations?	**99.6%**	**0.4%**
	468	**2**
Would you recommend this seminar to other employees?	**99.5%**	**0.5%**
	411	**2**

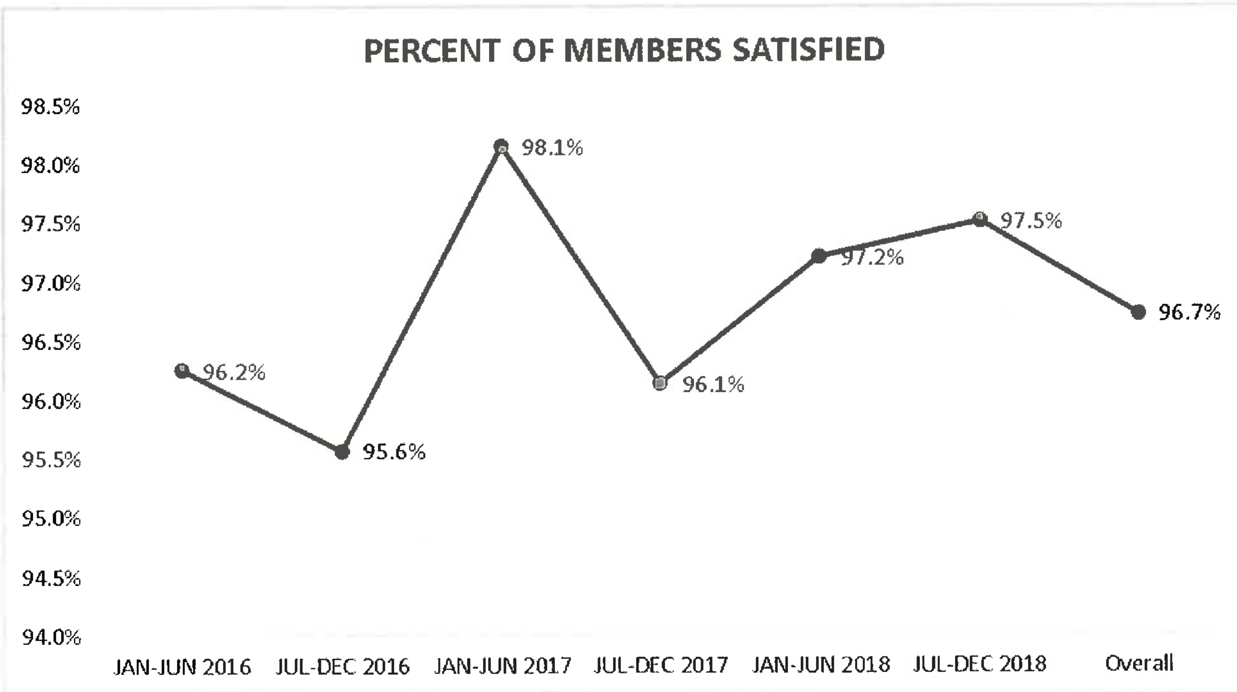
These results reflect very good Member satisfaction with LACERS' services, materials, and quality, content, and location of presentations. The percentage of participating Members who met LACERS' customer satisfaction goal of self-identifying as "Satisfied" or "Very Satisfied" ranged from a low of 95% for "Location of workshop" to a high of 100% for "The service you received at the front desk."

By compiling survey results, staff can report the overall number and percentage of satisfied responses. The following table reflects individual ratings marked 6 and above and 5 and above (includes those marked as "Somewhat Satisfied") across all surveys and all rating criteria for the current reporting period.

JULY – DECEMBER 2018
OVERALL SATISFACTION RATES

	SATISFIED RESPONSES	TOTAL RESPONSES	OVERALL % OF MEMBERS SATISFIED
6 OR ABOVE	5,118	5,249	97.5%
5 OR ABOVE	5,223	5,249	99.5%

LACERS continues to provide a high level of customer service based on these ratings from Members. The graph below depicts the compiled individual ratings results since January of 2016. These results show that 96.7% of the individual ratings across surveys and criteria (27,912 individual ratings out of 28,858) were marked "Satisfied" with ratings of 6 or above.



Many positive comments were written on the surveys, such as "Keep up the good work, LACERS is the greatest you care!" to "I'd be surprised if you could improve!" and "Keep up the good work LACERS! We matter! You already make a special effort to reach retirees in Las Vegas Nevada, thank you!" Comments were reviewed to identify areas of attention and while there were no identified trends found in the comments, staff did notice that the most unsatisfied survey responses continued to be in the "location of workshop" field for Retired Member Workshops (some members preferred a location we previously used in the South Bay for Open Enrollment Meetings, asked for Orange Country locations, and more variety of locations for future Medicare workshops). Staff continuously looks for new locations to host events throughout the region and will continue to identify new locations to provide Members with more options to attend workshops closer to their homes.

In order to advance LACERS' commitment to provide a high level of customer service, LACERS will continue to:

- Invite Member feedback on operations and customer interactions;
- Forward any survey comments to relevant employees;
- Identify and act on Member concerns; and
- Discuss identified issues at quarterly Customer Service Committee meetings.

Additionally, a LACERS-wide effort to take a fresh look at the "Customer Experience" has begun, with an emphasis on utilizing technology and accentuating our customer service goals amongst staff. The participants, made up of representatives from throughout the Department, will further inform, and be informed by, our current customer service practices.

Strategic Plan Impact Statement

The customer service satisfaction survey is an important tool that assesses whether LACERS is reaching its Strategic Plan goal of Outstanding Customer Service.

This report was prepared by Heather Ramirez, Senior Management Analyst I, of the Health Benefits Administration and Communications Division.

NG:AR:HR

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

Report to Board of Administration

Agenda of: **FEBRUARY 12, 2019**

From: Neil M. Guglielmo, General Manager

ITEM: **VI-A**

SUBJECT: **AMENDMENT NO. 4 TO CONTRACT NO. 4075 WITH LINEA SOLUTIONS, INC. AND POSSIBLE BOARD ACTION**

Recommendation

That the Board:

1. Approve Contract Amendment No. 4 with Linea Solutions, Inc. for nine months, not to exceed $336,888, to provide project management services through the stabilization period of the Pension Administration System (PAS) project; and
2. Authorize the General Manager to negotiate and execute the final contract amendment.

Discussion

LACERS went live with the updated Pension Administration System (PAS), Version 3, on March 1, 2018. Currently, the PAS is operating under the one year warranty period provided by LACERS' system vendor Levi, Ray & Shoup (LRS). Once the warranty period ends on March 31, 2019, LACERS will transition over to the vendor's support and maintenance team, utilizing service hours as needed.

Our PAS consultant, Linea Solutions, Inc. (Linea), has been under contract with LACERS since June 1, 2011. Linea's current contract is also scheduled to end on March 31, 2019.

Staff recommends that Linea's consulting and project management services extend to the end of the calendar year, December 31, 2019. During the stabilization period, Linea will continue to provide oversight of any defect remediation, monitor the run of cyclical processes, as well as complete the prioritization and deployment of any necessary system enhancements and functionality. Linea's depth of knowledge in respect to LACERS' business needs; the ability to maximize resources toward the PAS effort with sensitivity toward LACERS' other operational priorities; and the ability to effectively advocate and negotiate on LACERS' behalf, continues to be a valuable asset to LACERS. In addition to these services, Linea would also provide transitional services such as end-user training and oversight of vendor management in order to prepare staff to effectively handle the tasks and responsibilities currently handled primarily by the project consultant.

Linea will continue to provide consultation services on site 100% of the time through September 30, 2019 at a fixed fee of $37,432 per month. As the necessity for project oversight and training begins to wind down, Linea will reduce their on-site time to 155 hours per month from October 1, 2019 through December 31, 2019. On October 1, 2019, Linea's contract will also transition to an hourly rate of

$241.50, inclusive of travel expenses. The consultant will provide monthly invoices detailing the daily services performed to the quarter-hour. While services are expected to taper off, staff is recommending a contract ceiling of $336,888 (equivalent to $37,432 x 9 months) to provide the maximum flexibility to utilize these services if necessary.

Our advising City Attorney has deemed that, although the contract term and annual payment exceed contract thresholds assigned to the Board, the nature of the services performed under this contract falls under the Board's plenary authority. Therefore, this fourth contract amendment does not require City Council approval.

Strategic Plan Impact Statement:

This request supports the Organizational Goal of the LACERS Strategic Plan to maximize organizational effectiveness and efficiency through use of technology.

This report was prepared by Brian Cha, Management Analyst, PAS Project Team

Attachment: 1) Proposed Resolution

NG:TB:BC

ATTACHMENT 1

CONTRACT AMENDMENT NO. 4 WITH
LINEA SOLUTIONS, INC.
FOR PROJECT MANAGEMENT SERVICES
OVERSEEING THE PENSION ADMINISTRATION SYSTEM PROJECT

PROPOSED RESOLUTION

WHEREAS, Linea Solutions, Inc. ("Linea") has been under contract with LACERS since June 1, 2011, facilitating and providing expert advice on the selection of the new pension administration system (PAS) and providing project management services during the implementation and warranty phases of the PAS project; and

WHEREAS, it is LACERS' desire to continue utilizing Linea's project consultation and management services for the duration of the 2019 calendar year, inclusive of the new system's support and maintenance phase, to provide system stabilization, enhancement management and transitional services; and

WHEREAS, Linea has agreed to continue providing their project consultation and management services through December 31, 2019 for a fixed monthly fee and transitioning to an hourly fee as the need for project oversight winds down; and

BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract amendment, subject to satisfactory business and legal terms, and substantially consistent with the following services and terms:

Company Name:	LINEA SOLUTIONS, INC.
Service Provided:	Pension Administration System Project Management Services
Term Dates:	April 1, 2019 through December 31, 2019
Total Expenditure Authority:	$336,888

February 12, 2019

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Report to Board of Administration

Agenda of: **FEBRUARY 12, 2019**

From: Neil M. Guglielmo, General Manager

ITEM: **VI-B**

SUBJECT: **SEMI-ANNUAL REPORT OF BUSINESS PLAN INITIATIVES FOR THE PERIOD ENDING DECEMBER 2018**

Recommendation

That the Board receive and file this report.

Discussion

LACERS' strategic plan goals are achieved through a series of initiatives, generally developed in conjunction with the annual budget process, and if prioritized as a "business plan initiative (BPI)" are presented and discussed in a performance management approach by the BPI Team, inclusive of the General Manager, Chief Investment Officer, Assistant General Managers, senior managers, and the leads of each initiative. In September 2018, the Executive team identified ten BPIs to drive the strategic goals of the Department.

The Fiscal Year 2018-19 BPIs are:

- Performance Management Initiative
- Cybersecurity Plan Initiative
- Emergency Preparedness Initiative
- Contractor Disclosure Initiative
- Recruitment and Retention Initiative
- Website Redesign Initiative
- Alex Software Initiative
- LACERS Well – Purpose Campaign
- Asset Allocation Initiative
- Active Versus Passive Investing Initiative

The BPI Team meets monthly to review dashboards that report progress on the initiatives. The Team discusses challenges and impediments to progress and actively engages in questioning, introducing alternative perspectives, identifying solutions, and seeking opportunities to collaborate across divisions. The attached report represents the inaugural semi-annual progress report on the first set of initiatives through December 2018. The program has been successful in beginning to institutionalize standardized, succinct reporting, and a culture of collective ownership, ultimately raising transparency and accountability in these areas. The next BPI report to the Board will be in July 2019, and will cover progress through the end of the fiscal year. The next slate of BPIs will be inclusive of major initiatives that are approved in the fiscal year 2019-20 budget.

Strategic Plan Impact Statement

The BPI Program seeks to enhance the strategic goal toward greater organizational effectiveness, efficiency, and resiliency.

This report was prepared by Dale Wong-Nguyen, Chief Benefits Analyst, Administrative Services Division

Attachment: Business Plan Initiatives Fiscal Year 2018-19 for the reporting period ending December 2018

LACERS

Los Angeles City Employees' Retirement System

BUSINESS PLAN INITIATIVES
FISCAL YEAR 2018-19

Reporting Period Ending December 2018

PREPARED FOR

THE LACERS BOARD OF ADMINISTRATION

February 12, 2019

TABLE OF CONTENTS

The Top 10

EXECUTIVE SUMMARY DASHBOARD

	COMPLETED
	ON TRACK
	OFF TARGET
	NEEDS INTERVENTION

BUSINESS PLAN INITIATIVES

	INITIATIVES, GOALS & EXECUTIVE SPONSORS	DECEMBER STATUS	INITIATIVE LEADS
1	**PERFORMANCE MANAGEMENT** ORGANIZATION EFFICIENCY, EFFECTIVENESS, RESILIENCY Executive Sponsor: Todd Bouey		Lead: Dale Wong-Nguyen
2	**WEB REDESIGN** OUTSTANDING CUSTOMER SERVICE Executive Sponsor: Lita Payne		Lead: Thomas Ma & Linda Aparicio
3	**CYBERSECURITY PLAN** ORGANIZATION EFFICIENCY, EFFECTIVENESS, RESILIENCY Executive Sponsor: Todd Bouey		Lead: Thomas Ma & Dale Wong-Nguyen
4	**EMERGENCY PREPAREDNESS** ORGANIZATION EFFICIENCY, EFFECTIVENESS, RESILIENCY Executive Sponsor: Todd Bouey		Lead: John Koontz
5	**CONTRACTOR DISCLOSURE** GOVERNANCE Executive Sponsor: Neil Guglielmo		Lead: Rahoof Oyewole & Melani Rejuso
6	**RECRUITMENT & RETENTION** HIGH PERFORMING WORKFORCE Executive Sponsor: Neil Guglielmo		Lead: Lin Lin
7	**ALEX SOFTWARE** OUTSTANDING CUSTOMER SERVICE Executive Sponsor: Lita Payne		Lead: Alex Rabrenovich
8	**LACERS WELL - PURPOSE CAMPAIGN** MINIMIZE HEALTH CARE COSTS Executive Sponsor: Lita Payne		Lead: Alex Rabrenovich
9 & 10	**ASSET ALLOCATION - ACTIVE VERSUS PASSIVE INVESTING** ACHIEVE PERFORMANCE/RISK OBJECTIVES Executive Sponsor: Rod June		Lead: Bryan Fujita

PERFORMANCE MANAGEMENT

Strategic Goal: ORGANIZATION

REPORTING MONTH: **DECEMBER 2018**
STATUS: **ON TRACK**

LEAD(S): DALE WONG-NGUYEN
DIVISION(S)/SECTION(S): ADMINISTRATIVE SERVICES

INITIATIVE SUMMARY

Implement a Performance Management System comprised of:

- Business Plan (BP)
- Strategic Plan (SP)
- Performance Budget (PB)
- Operational Benchmarking (OB)

BUDGET

Appropriation:	$88,000
Expense:	($80,000)
Unspent:	$8,000

KEY DEPENDENCIES/ASSUMPTIONS

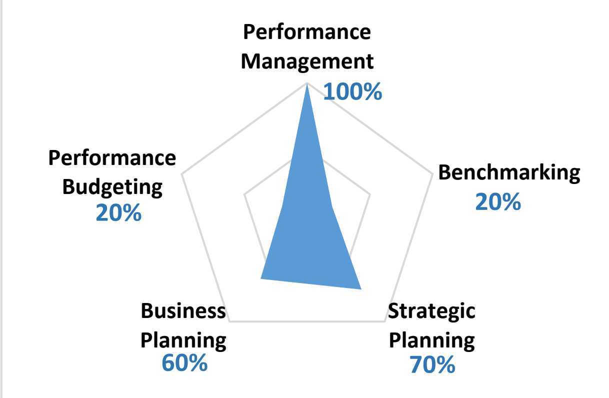
- Staff & time resources to lead this effort
- Divisions meet timelines
- CEM benchmarking contract – funding, final execution of contract

ISSUES / CHALLENGES

- CEM Benchmark contract will include both the benefits administration benchmarking and the investment administration benchmarking. Board approval for the investment administration benchmarking contract and funding is pending

KEY INDICATORS

Performance Management Implementation Progress



- Performance Management at 100% = 100% commitment to this initiative
- 100% Strategic Planning is achieved when plan is adopted by the Board & promotion in office is initiated
- 100% Benchmarking is achieved upon receipt of final report
- 100% Business Planning is achieved when all FY19 initiatives complete first dashboard for monthly reporting & report is made to the Board
- 100% Performance budgeting is achieved when SMART measures can be quantified for all initiatives for 3 months

MILESTONES / ACHIEVEMENTS

SEP OCT NOV DEC

Q1/FY19

- ✓ *BP:* Launch and establish Initiatives Dashboard; submit first monthly report – Sep
- ✓ *SP:* Execute Strategic Plan consultant contract – Sep

Q2/FY19

- ✓ *OB:* Board approval of contract for CEM Benchmark report for benefit admin – Oct
- ✓ *SP:* Conduct Board Strategic Planning retreat – Oct
- ✓ *SP:* Issue Stakeholder surveys & conduct focus groups
- ✓ *BP:* Submit monthly reports Sept-Nov
- ✓ *SP:* Develop Strategic Plan Initiatives – Nov
- ✓ *PB:* FY20 Develop budget templates – Dec
- ✓ *PB:* Kick-off budget process with GM expectations

DELIVERABLES / TIMEFRAME

Q3/FY19

- ☐ *PB:* FY20 Exec conceptual budget approval – Jan
- ☐ *PB:* FY20 budget submissions – Jan
- ☐ *BP:* Business Plan update to Board – Feb
- ☐ *SP:* Board approval – Feb
- ☐ *PB:* FY20 budget discussion with Board – March

Q4/FY19

- ☐ *PB:* Board approval of FY20 budget – May
- ☐ *OB:* Prepare CEM benchmarking data to contractor - June

FY20

- ☐ *BP:* Business Plan update to Board – Q1
- ☐ *OB:* Receive CEM Benchmarking report – Q1

LACERS WEB REDESIGN – PHASE 1

REPORTING MONTH:	**DECEMBER 2018**
STATUS:	**ON TRACK**

Strategic Goal:	**CUSTOMER SERVICE**
LEAD(S):	**THOMAS MA & LINDA APARICIO**
DIVISION(S)/SECTION(S):	**SYSTEMS/COMMUNICATIONS**

INITIATIVE SUMMARY

Systems and Communications are co-leads on technical and business requirements/development of a new LACERS internet site focused on the following key priorities:

- A New Website with Prevailing Design
- Functionality and Usability
- Scalability (Desktop/Mobile)
- Ease of Use/Approachability
- Integration of Social Media Platforms
- Content Management System
- Supportability

BUDGET

Appropriation:

Expense:

Unspent:

*Estimated funding requirement $200,000 to be requested in FY20 budget

KEY DEPENDENCIES/ASSUMPTIONS

- Fund availability
- Staffing resources
- Board approval
- Leverage existing City contract/RFP process

ISSUES / CHALLENGES

- Organizational alignment roles/assignments
- Budget timing
- Internal operational requirements compete for personnel resources
- Dependencies on other departments for support and access

KEY INDICATORS

DECEMBER 2018

Baseline:

Web Analytics

Total Visitors	7,731
Top 10 Pages	30,413 views
Homepage	10,088 (33.17%)
Active Member Page	972 (3.20%)
Request For Proposals	812 (2.67%)
Active Member Events	802 (2.64%)
Retired Member Page	757 (2.49%)
Active Benefit Calculator	755 (2.48%)
Retired Member Forms	743 (2.44%)
Contact Information	639 (2.10%)
Active Member Forms	587 (1.93%)
Health Benefit Calculator	546 (1.80%)
Average Session Duration	2 minutes 53 seconds
Pages Per Session	2.54 pages

Compliance

- Website must be compliant with Federal laws requiring accessibility to all users regardless of disability status (Federal §508-compliant and ADA-compliant)
- Penetration Testing and Security

MILESTONES / ACHIEVEMENTS

Q1/FY19
- ✓ Form Working Group
- ✓ Gather & Codify Requirements

Q2/FY19
- ✓ Develop Project Plan – Dec
- ✓ Identify City Contracts

DELIVERABLES / TIMEFRAME

Q3/FY19
- ☐ Obtain proposals & reconfirm offers, Jan-Feb
- ☐ Board approval of contractual services & budget
- ☐ Vendor selection & contract execution
- ☐ Confirm individual roles of working group members
- ☐ Establish regular meeting schedule
- ☐ Preliminary scope of work & deliverables

Q4/FY19
- ☐ Project Kick-Off
- ☐ Provide orientation to contractor
- ☐ Conduct surveys & focus groups
- ☐ Requirements gathering

FY20
- ☐ Design selection
- ☐ Content & data conversion
- ☐ Train internal staff on new site
- ☐ User testing
- ☐ Penetration testing
- ☐ Soft launch
- ☐ Go live of new internet site

SEP OCT NOV DEC

CYBERSECURITY

REPORTING MONTH:	**DECEMBER 2018**
STATUS:	**ON TRACK**
Strategic Goal:	**ORGANIZATION**
LEAD(S):	**THOMAS MA & DALE WONG-NGUYEN**
DIVISION(S)/SECTION(S):	**SYSTEMS/ADMINISTRATIVE SERVICES/INTERNAL AUDIT**

INITIATIVE SUMMARY

The Ad-Hoc Cybersecurity Committee and the Cybersecurity Working Group (Internal Audit & Administrative Services Division) shall develop and implement strategies to build our organization's cyber resilience in the following key areas:

- INFRASTRUCTURE [I]
- GOVERNANCE [G]
- PREPAREDNESS [P]
- RESPONSE [R]

ISSUES / CHALLENGES

- Internal operational requirements compete for personnel resources
- Difficulty recruiting & retaining qualified IT staffing
- Gartner's recommendation for a project lead who can dedicate 25% of their time to this effort

MILESTONES / ACHIEVEMENTS

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Q1/FY19

- ✓ Cyber Working Group Meeting #4 – Aug
- ✓ Kick-off Initiative – Aug
- ✓ Tech-Tips: "Email phishing"

Q2/FY19

- ✓ Formalize objectives; develop scope of work & deliverables
- ✓ Identify knowledge resource – Gartner subscription
- ✓ Select City's insurance broker
- ✓ Issue Tech-tips: USB charging & passwords
- ✓ Finalize member breach notification template – Nov
- ✓ Domain infrastructure migration – Nov
- ✓ USB lockdown – Nov
- ✓ Finalize Gartner subscription – Nov
- ✓ Research risk assessment framework – Dec
- ✓ Issue Tech-tip: software updates – Dec
- ✓ Gartner subscription & roadmap kick off – Dec
- ✓ Cybersecurity ad-hoc committee update – Dec

BUDGET

Appropriation:	**$268,500**
Expense:	**$76,000**
Unspent:	**$260,700**

* Appropriations: GM Discretionary $100k, Cyber Protected Infra $47.5K, Web Security Upgrade $45K, Penetration Testing $40K, Cisco Firewall $36K

KEY DEPENDENCIES / ASSUMPTIONS

- Staffing resources
- Funding for Cyber liability insurance
- Identification of risk assessment framework

KEY INDICATORS

CYBER CATEGORY	TOTAL SCORE
PATCHING	100%
TRAINING	98%
E-MAIL PHISHING	77%
CYBER POLICIES	10%
INFRASTRUCTURE	10%

- Five Cyber policies are slated for update/development
- Ten infrastructure layers are slated for enhancement

DELIVERABLES / TIMEFRAME

Q3/FY19

- ☐ Issue Tech-tip: wireless access points & public charging stations
- ☐ Review & establish cybersecurity policies
- ☐ Select risk assessment framework
- ☐ Email reverse proxy migration

Q4/FY19

- ☐ Develop cyber event response plan
- ☐ Cyber infrastructure implementation kick-off
- ☐ Vulnerability scan system
- ☐ System upgrades
- ☐ Initiate email phishing test
- ☐ Issue Tech-tips

FY20

- ☐ Framework/self-assessment tool
- ☐ Procure cyber liability insurance
- ☐ Cybersecurity tabletop exercise
- ☐ Server OS upgrade
- ☐ Workstation OS upgrade

EMERGENCY PREPAREDNESS

REPORTING MONTH:	**DECEMBER 2018**
STATUS:	**OFF TARGET**

Strategic Goal:	**ORGANIZATION**
LEAD(S):	**JOHN KOONTZ**
DIVISION(S)/SECTION(S):	**ADMINISTRATIVE SERVICES DIVISION**

INITIATIVE SUMMARY

Encompassing both Life Safety and Business Continuity concerns, this initiative drives LACERS' investment in emergency planning, disaster recovery, and staff's ongoing training and exercises of those plans.

Key activities include:

- Emergency Preparedness and Response Training
- Department Emergency Plan/Business Continuity Plan (BCP) Update
- Tabletop Exercise of the BCP
- Security Door Installation Project

ISSUES / CHALLENGES

- The Security Door Project was delayed waiting for the required permits. The revised installation is February 8, 2019
- Due to competing priorities, the CERT training has been moved to the 4th Quarter
- Seeking to identify City owned properties where LACERS could potentially set up the mobile recovery trailers provided by via contracted services

MILESTONES / ACHIEVEMENTS

Q1/FY19

✓ CPR/AED Training – Jul
✓ Security Door Project: Design Approval – Sep

Q2/FY19

✓ Fire Evacuation Drill – Oct
✓ Issue Emergency Tip: "Drop, Cover, Hold On" – Oct
✓ Earthquake Drill – Oct
✓ Walkie Talkie Testing/Training – Oct
✓ Monthly Evac. Route Tour/BCP Orientation – Dec

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BUDGET

Appropriation:	**$49,885**
Expense:	**$2,970**
Unspent:	**$46,915**

KEY INDICATORS

82% Response Rate to automated call-out system test*	New Employees Trained in 1st 90 Days: **9 / 10**

***** Percent of individuals who successfully received and responded to the automated test notification sent during the 2018 exercise

DELIVERABLES / TIMEFRAME

Q3/FY19

- □ Submit annual update of Dept. Emergency Plan to Emergency Management Dept./Mayor –Jan
- □ Monthly Evacuation Route Tour/BCP Orientation
- □ Security Door Project: Installation, Testing – Feb
- □ MIR3 Callout System Annual Test – Mar

Q4/FY19

- □ CERT (ERT Team) Training – Jun
- □ Officer-In-Charge Incident Mgmt. Training – Jun
- □ BCP Tabletop Exercise (Earthquake) – Jun
- □ Monthly Evacuation Route Tour/BCP Orientation

KEY DEPENDENCIES / ASSUMPTIONS

- Staff assigned as the Emergency Response Team can be released to attend training

CORRECTIVE ACTIONS

- Adjusted schedule to accommodate employee availability for CERT training
- Conducting outreach to several City departments

CONTRACTOR DISCLOSURE POLICY

REPORTING MONTH: **DECEMBER 2018**
STATUS: **ON TRACK**

Strategic Goal: **BOARD GOVERNANCE**
LEAD(S): **RAHOOF OYEWOLE/ MELANI REJUSO**
DIVISION(S)/SECTION(S): **INTERNAL AUDIT**

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INITIATIVE SUMMARY

Internal Audit proposes implementing a Contractor Disclosure Policy. The policy will require contractors to disclose any conflicts of interest- whether actual, potential, or perceived. It will also help prevent any forms of impropriety or the appearance of impropriety, provide transparency and confidence in LACERS' decision-making process, and ensure investment and procurement decisions are made solely on the merits of goods or services to be provided by contractors.

ISSUES / CHALLENGES

- Compliance issues – there is a risk that some contractors may fail to disclose or provide partial disclosure for fear of losing their contracts

MILESTONES / ACHIEVEMENTS

Q2/FY19
- ✓ Obtain concurrence from Committee & Board
- ✓ Draft disclosure policy
- ✓ Develop contractor disclosure reporting form

BUDGET

Internal Audit section currently has one vacancy in FY 2018-19 budget that will need to be filled to get this project started.

Future budget request may be needed.

KEY DEPENDENCIES / ASSUMPTIONS

- Audit Committee & Board approval
- Staffing resources
- Timely notification of contractors and consultants

KEY INDICATORS

Baseline:

Number of contracts that will be subject to the Contractor Disclosure Policy & Reporting requirements:

PRIVATE EQUITY	**215**
REAL ESTATE	**48**
OTHER INVESTMENT	**36**
NON-INVESTMENT	**32**

TOTAL	**331**

DELIVERABLES / TIMEFRAME

Q3/FY19
- □ Committee & Board's approval for final disclosure policy and reporting form
- □ Compile a database of all contractors that will be subject to the new disclosure policy (FY 2018-19)
- □ Notify all affected contractors/consultants

Q4/FY19
- □ Send first requests for disclosures and certifications
- □ Track responses

FY20
- □ Evaluate responses and report findings to the Board

RECRUITMENT & RETENTION – PHASE 1

REPORTING MONTH: **DECEMBER 2018**
STATUS: **OFF TARGET**

Strategic Goal: **HIGH PERFORMANCE WORKFORCE**
LEAD(S): **LIN LIN**
DIVISION(S)/SECTION(S): **HUMAN RESOURCES**

INITIATIVE SUMMARY

Human Resources Unit is the lead for LACERS in the goal of recruiting, mentoring, empowering, and promoting a high performing workforce. Reporting will be focused on the following key priorities:

- Employee Evaluations
- Training
- Tuition Reimbursement
- Targeted Local Hire Program
- Creation of Benefits Analyst & Senior Benefits Analyst Classifications

ISSUES / CHALLENGES

- Timely return of evaluations
- Timely completion of mandatory training
- Class creation is dependent on approval from other City departments

MILESTONES / ACHIEVEMENTS

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Q1/FY19
- ✓ New Employee Orientation – Aug
- ✓ New Employee mandatory training
- ✓ Employee evaluations
- ✓ Assign supervisory training
- ✓ Benefits Analyst & Senior Benefits Analyst Civil Service Commission approval – Sep

Q2/FY19
- ✓ New Employee Orientation – Dec
- ✓ New Employee mandatory training
- ✓ Employee evaluations
- ✓ Supervisory Staff training
- ✓ All Staff training Senior Sensitivity – Oct
- ✓ Benefits Analyst & Senior Benefits Analyst submit salary setting memo to CAO – Oct

BUDGET

Appropriation:	**$70,500**
Expense:	**$11,693**
Unspent:	**$58,807**

Tuition Reimbursement $35,000; CALAPRS $35,500

KEY INDICATORS

	FISCAL YEAR 2018-19			
	Q1	Q2	Q3	Q4
New Employee mandatory training	**100%**	**86%**	TBD	TBD

Total # of annual evaluations required in calendar 2018 **98**

- # of annual evaluations completed in 2018 **32** or **33%**

DELIVERABLES / TIMEFRAME

Q3/FY19
- ☐ New Employee Orientation
- ☐ New Employee mandatory training
- ☐ Employee evaluations
- ☐ Supervisory Staff training
- ☐ All Staff training
- ☐ Benefits Analyst & Senior Benefits Analyst

Q4/FY19
- ☐ New Employee Orientation
- ☐ New Employee mandatory training
- ☐ Employee evaluations
- ☐ Supervisory Staff training
- ☐ All Staff training
- ☐ Benefits Analyst & Senior Benefits Analyst (Create Exam)

KEY DEPENDENCIES/ASSUMPTIONS

- Fund availability
- Staffing resources
- Board approval

CORRECTIVE ACTIONS

- Increased Executive mandate to complete evaluations on a timely basis
- Provision of regular status updates to Division Managers to manage progress

ALEX SOFTWARE

REPORTING MONTH: **DECEMBER 2018**
STATUS: **COMPLETED**

Strategic Goal: **CUSTOMER SERVICE**
LEAD(S): **ALEX RABRENOVICH**
DIVISION(S)/SECTION(S): **HEALTH BENEFITS ADMINISTRATION**

INITIATIVE SUMMARY

Provide Member support in making health plan decisions by implementing the ALEX software for LACERS Members:

- Review and signing of 3-year contract
- Ensure that benefits are accurately reflected
- Includes correct premiums, subsidies, and deductions
- Spanish version
- Communicate the launch
- Launch by Open Enrollment (Oct. 15, 2018)

BUDGET

Appropriation:	**$185,000**
Expense:	**$185,000**
Unspent:	**$0**

KEY DEPENDENCIES / ASSUMPTIONS

- Timing of contract approval
- Staffing and staff availability

ISSUES / CHALLENGES

None

KEY INDICATORS

Survey Feedback

"How helpful was this medical section for you?"

Choice	Count	%
Extremely helpful	6	42.9%
Very helpful	3	21.4%
Somewhat helpful	3	21.4%
Not very helpful	1	7.1%
Not at all helpful	1	7.1%

"Do you feel like you have a better understanding of how your medical benefits work now?"

Choice	Count	%
Yes, definitely	7	29.2%
Yes, a little	9	37.5%
Maybe	2	8.3%
No, not really	4	16.7%
No, definitely not	2	8.3%

MILESTONES / ACHIEVEMENTS

Q1/FY19
- ✓ Contract approval by Board – Jul
- ✓ Contract executed – Aug
- ✓ First Release – Sep
- ✓ Feedback of First Release – Sep
- ✓ Feedback of Spanish Version – Sep
- ✓ Feedback for Second Release – Sep

Q2/FY19
- ✓ Feedback for Release 3 – Oct
- ✓ ALEX launched – Oct
- ✓ Promote ALEX in Open Enrollment packet (on envelope and in the Open Enrollment Overview and 2019 Health Benefits Guide)
- ✓ Promote ALEX in October paycheck flyer
- ✓ Send Mid-Open Enrollment via e-blast to retired Members
- ✓ Promote ALEX in retirement packets

SEP
OCT
NOV
DEC

DELIVERABLES / TIMEFRAME

Q3/FY19
- □ Prepare quarterly report on ALEX utilization
- □ Continue communications of ALEX
- □ Request FY20 budget for ALEX

Q4/FY19
- □ Prepare quarterly report on ALEX utilization
- □ Continue communications of ALEX
- □ Begin discussions with Jellyvision about updates for the new contract year

LACERS WELL PURPOSE CAMPAIGN

REPORTING MONTH: **DECEMBER 2018**
STATUS: **ON TRACK**

Strategic Goal: **MINIMIZE HEALTH CARE COSTS**
LEAD(S): **ALEX RABRENOVICH**
DIVISION(S)/SECTION(S): **HEALTH BENEFITS ADMINISTRATION**

INITIATIVE SUMMARY

Create a campaign to promote our Members finding a sense of purpose in retirement as a motivator to stay healthy and seek preventive care:

- Available to all Members, near and far
- Measurable outcomes
- Includes written materials, workshops, and online programs
- Survey Members to identify Member needs/wants and those that would like assistance

BUDGET

Appropriation:	**$488,000**
Expense:	**$0**
Unspent:	**$488,000**

* Funding provided through health plan carriers

KEY DEPENDENCIES / ASSUMPTIONS

- Assistance from Member Outreach and Education
- Availability of venues/expert speakers
- Funding from carriers is easily accessible

ISSUES / CHALLENGES

None at this time

KEY INDICATORS

	2018 Participation
I. Wellness Initiatives	
Passport to Health Participation Incentive Program	2176
Diabetes Prevention Campaign	
Quizzes	237
Pledges	62
Graduates	35
PHS	
Dental	337
Vision	259
II. LACERS *Well* Events	
5th Annual Extravaganza (Roadshow): Because Your Health Matters	336
Technology Workshop	137
OE Tech Consultations	370
Facebook Enrollment	310
SilverSneakers/Silver & Fit Open House events (4 locations)	151
2nd Annual Gala and Awards Ceremony: Roaring Twenties	184
III. Champion Program	
Champion-led events	191
Champion leads	20
Champion-led event *touch points	719
Total LW Members registered	3186

*Data from previous campaigns are available to establish a benchmark or goal for 2019

MILESTONES / ACHIEVEMENTS

Q1/FY19

- ✓ Meet with a Purpose speaker – Aug
- ✓ Meet with a Purpose expert – Sep
- ✓ Finalize the 2019 Plan

Q2/FY19

- ✓ Approval of 2019 Plan by BAC – Nov
- ✓ Confirm extravaganza locations and dates in three regions. Develop agenda, confirm key note speaker, finalize other presenters
- ✓ Design Wellness newsletter and prepare for printing (focus on Living Life to Fullest)
- ✓ Approval of LACERS *Well* Survey by GM
- ✓ Draft materials for campaign introductory packet, which will be mailed out in February
- ✓ 5-week workshops – confirm two of three locations, finalize instructors and discussions
- ✓ Schedule implementation calls for *Feel Like a Million program*

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DELIVERABLES / TIMEFRAME

Q3/FY19

- ☐ Save the Date for Extravaganza in January paycheck flyer
- ☐ Mail survey and Introductory packet
- ☐ Promote Purpose Extravaganza and workshops
- ☐ Conduct Extravaganzas in three locations – Mar

Q4/FY19

- ☐ Purpose workshops scheduled in three regions
- ☐ Online purpose program introduced

LACERS ASSET ALLOCATION AND ACTIVE VS PASSIVE

Strategic Goal: ACHIEVE PERFORMANCE/RISK OBJECTIVES

REPORTING MONTH: DECEMBER 2018
STATUS: ON TRACK

LEAD(S): BRYAN FUJITA/ROD JUNE
DIVISION(S)/SECTION(S): INVESTMENT DIVISION

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INITIATIVE SUMMARY

The Investment Division implements the Asset Allocation Policy approved by the Board. The Board seeks to achieve its return target of 7.25% over long periods of time by assuming prudent levels of risk as prescribed in the Risk Budget. The key priorities are:

- Launch appropriate investment manager searches
  - Issue RFPs and manage the selection process pursuant to Investment Policy
  - Negotiate contract terms and conditions
  - Fund managers and rebalance the portfolio
  - Monitor investment managers pursuant to Investment Policy
  - Report search and manager status to the Investment Committee and Board
- Active versus Passive
  - Provide Board education
  - Discuss active and passive exposures with in risk/return framework
  - Implement passive exposure changes as approved by the Board

BUDGET

Appropriation:	$39,200
Expense:	$1,738
Unspent:	$37,462

KEY DEPENDENCIES / ASSUMPTIONS

- Board and Investment Committee priorities
- Staffing and Consultant resources
- Qualified investment managers respond to RFPs
- Selection process pursuant to Manager Search and Selection Policy remains substantially unchanged

ISSUES / CHALLENGES

- Implementation may change depending on Board and Investment Committee priorities
- Investment Division Staffing to complete manager searches according to proposed schedule
- Pending and approved Investment Policy changes could lead to modification of implementation schedule

KEY INDICATORS

See Exhibits

- Exhibit A – Asset Class Exposure Actual versus Target
- Exhibit B – Asset Class Exposure Trend Past 12 Months
- Exhibit C – Active vs. Passive Trend Past 12 Months

MILESTONES / ACHIEVEMENTS

Q2/FY19

✓ Board authorization of RFPs – Oct
✓ Launch Private Credit RFP – Dec
✓ Provide Active versus Passive Education

DELIVERABLES / TIMEFRAME

Q3/FY19

□ Launch U.S. Small Cap Equities RFP – Jan
□ Launch High Yield/Bank Loans RFP – Jan
□ Launch Emerging Markets Small Cap RFP – Feb
□ Launch Emerging Market Debt RFP – Mar
□ Launch Core Fixed Income RFP – May
□ Discuss Active and Passive Exposures – as necessary

Q4/FY19

□ Complete Private Credit RFP – May
□ Complete U.S. Small Cap Equities RFP – June
□ Complete High Yield/Bank Loans RFP – June
□ Implement Passive Exposure Changes – June

FY20

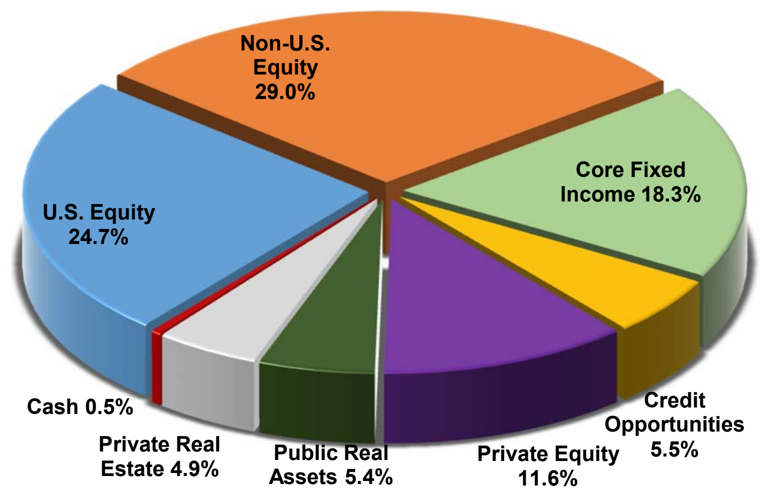
□ Complete Emerging Markets Small Cap RFP – July
□ Complete Emerging Market Debt RFP – Aug
□ Complete Core Fixed Income RFP – Oct

LACERS Investment Portfolio

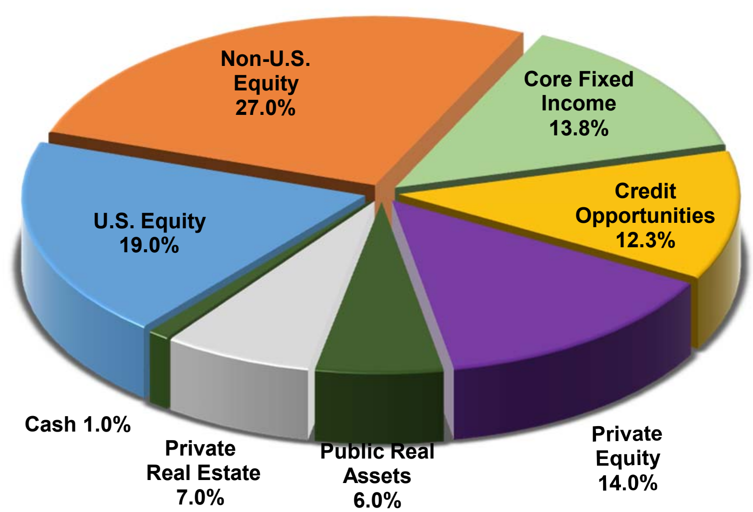
ASSET CLASS BY MARKET VALUE & ALLOCATION						
	as of ▶	December 31, 2018				
Asset Class	Actual ($ B)	Actual (%)	Target (%)	Actual-Target*	Min (%)	Max (%)
U.S. Equity	4.02	24.7%	19.0%	5.7%	12.0%	26.0%
Non-U.S. Equity	4.72	29.0%	27.0%	2.0%	18.0%	36.0%
Core Fixed Income	2.98	18.3%	13.8%	4.6%	10.8%	16.8%
Credit Opportunities	0.90	5.5%	12.3%	-6.7%	8.3%	16.3%
Private Equity	1.89	11.6%	14.0%	-2.4%	N/A	N/A
Public Real Assets	0.88	5.4%	6.0%	-0.6%	4.0%	8.0%
Private Real Estate	0.79	4.9%	7.0%	-2.1%	N/A	N/A
Cash	0.08	0.5%	1.0%	-0.5%	0.0%	2.0%
TOTAL FUND	**16.28**	**100.0%**	**100.0%**	**0.0%**	N/A	N/A

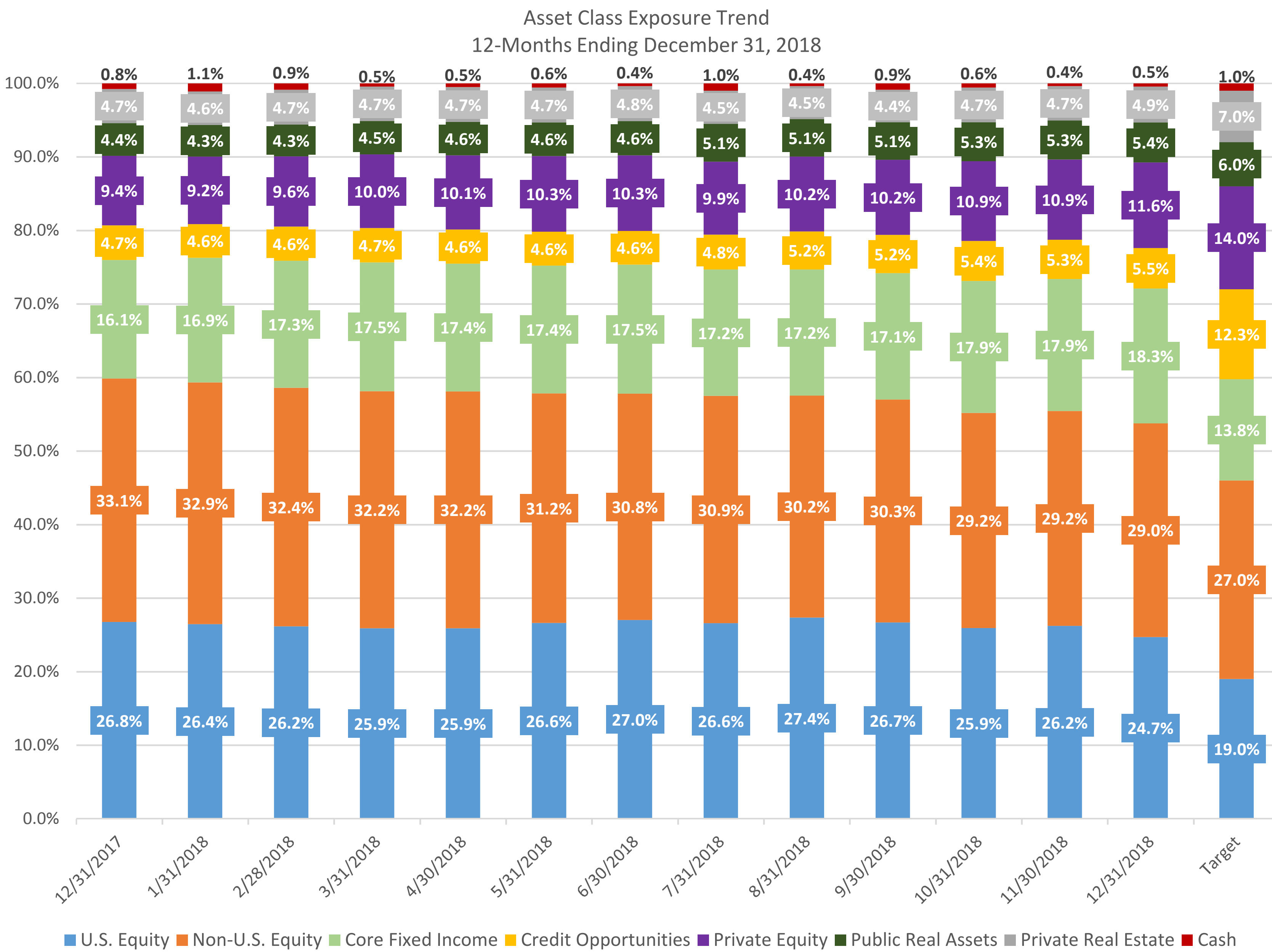
*Current asset allocation targets approved in April 2018. Transition to new targets in process.

Actual

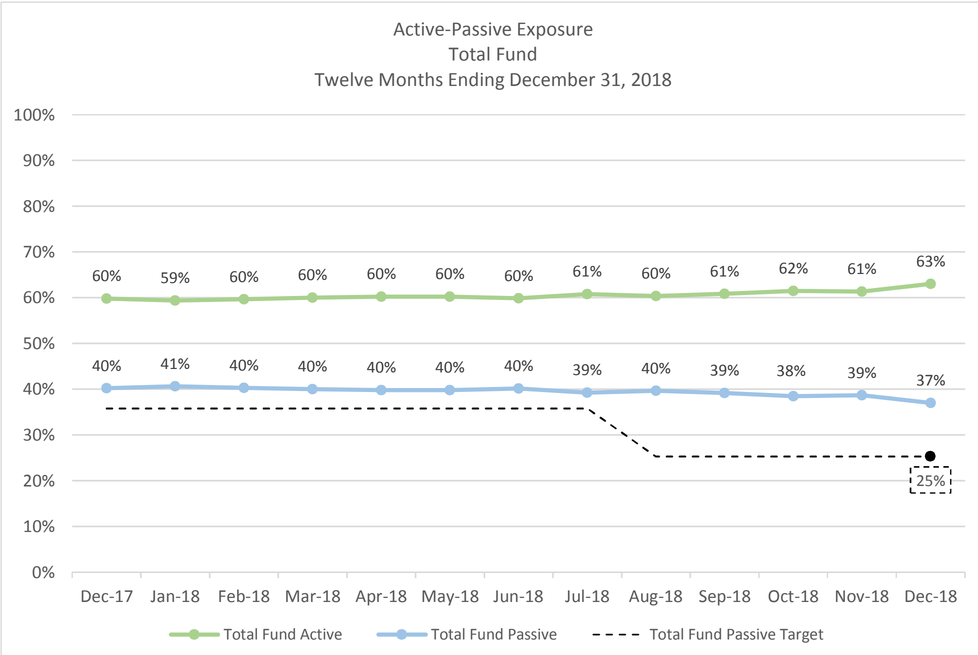


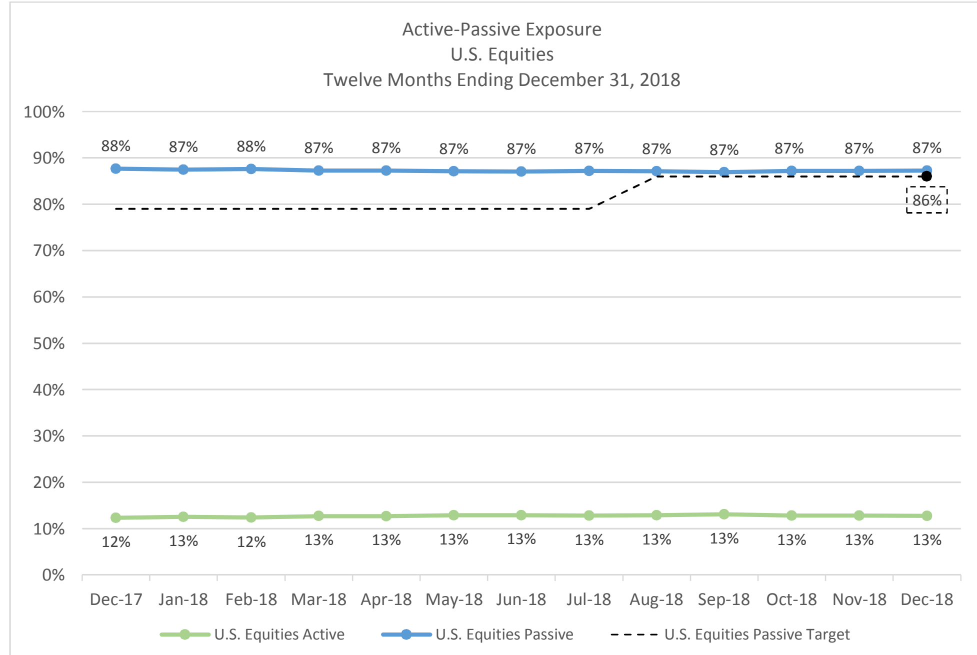
Target

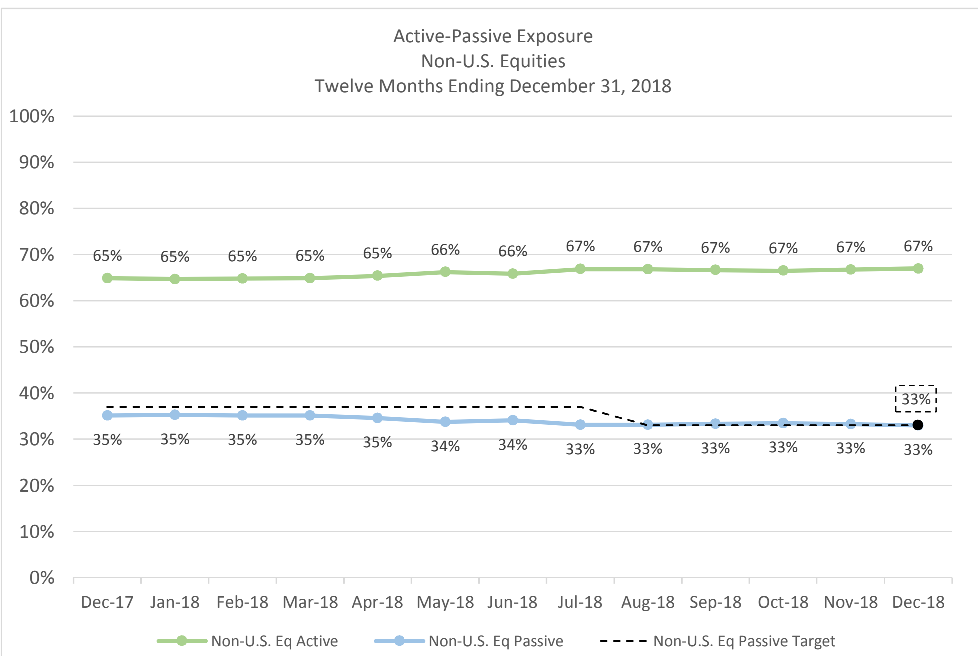


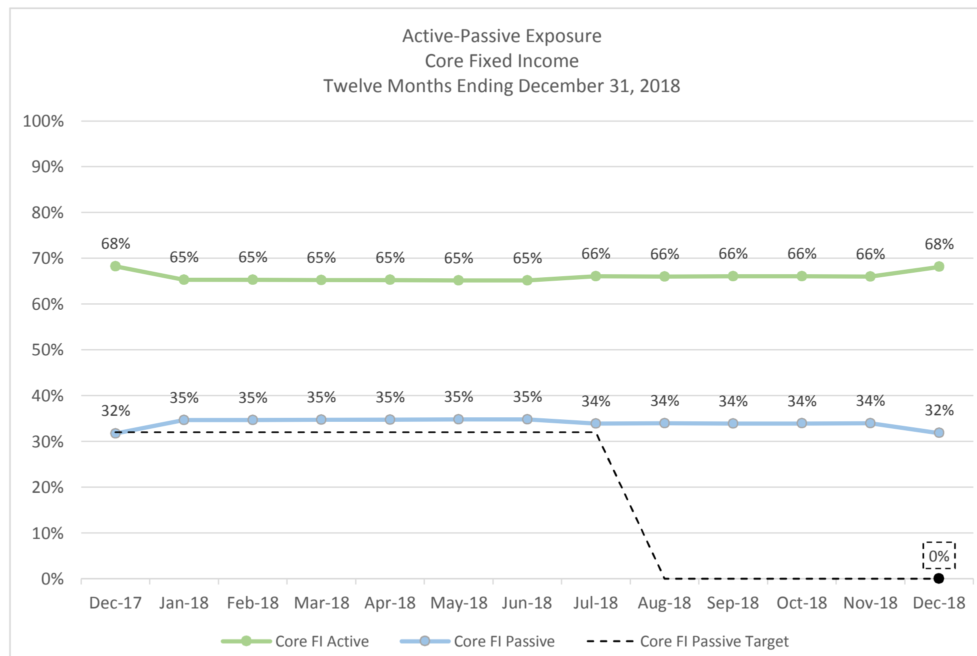


Asset Class Exposure Trend
12-Months Ending December 31, 2018
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
12/31/2017
1/31/2018
2/28/2018
3/31/2018
4/30/2018
5/31/2018
6/30/2018
7/31/2018
8/31/2018
9/30/2018
10/31/2018
11/30/2018
12/31/2018
Target
0.8% 1.1% 0.9% 0.5% 0.5% 0.6% 0.4% 1.0% 0.4% 0.9% 0.6% 0.4% 0.5% 1.0%
4.7% 4.6% 4.7% 4.7% 4.7% 4.7% 4.8% 4.5% 4.5% 4.4% 4.7% 4.7% 4.9% 7.0%
4.4% 4.3% 4.3% 4.5% 4.6% 4.6% 4.6% 5.1% 5.1% 5.1% 5.3% 5.3% 5.4% 6.0%
9.4% 9.2% 9.6% 10.0% 10.1% 10.3% 10.3% 9.9% 10.2% 10.2% 10.9% 10.9% 11.6% 14.0%
4.7% 4.6% 4.6% 4.7% 4.6% 4.6% 4.6% 4.8% 5.2% 5.2% 5.4% 5.3% 5.5% 12.3%
16.1% 16.9% 17.3% 17.5% 17.4% 17.4% 17.5% 17.2% 17.2% 17.1% 17.9% 17.9% 18.3% 13.8%
33.1% 32.9% 32.4% 32.2% 32.2% 31.2% 30.8% 30.9% 30.2% 30.3% 29.2% 29.2% 29.0% 27.0%
26.8% 26.4% 26.2% 25.9% 25.9% 26.6% 27.0% 26.6% 27.4% 26.7% 25.9% 26.2% 24.7% 19.0%
U.S. Equity
Non-U.S. Equity
Core Fixed Income
Credit Opportunities
Private Equity
Public Real Assets
Private Real Estate
Cash


Active-Passive Exposure
Total Fund
Twelve Months Ending December 31, 2018
100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Dec-17 Jan-18 Feb-18 Mar-18 Apr-18 May-18 Jun-18 Jul-18 Aug-18 Sep-18 Oct-18 Nov-18 Dec-18
60% 59% 60% 60% 60% 60% 60% 61% 60% 61% 62% 61% 63%
40% 41% 40% 40% 40% 40% 40% 39% 40% 39% 38% 39% 37%
25%
Total Fund Active
Total Fund Passive
Total Fund Passive Target


Active-Passive Exposure
U.S. Equities
Twelve Months Ending December 31, 2018
100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Dec-17 Jan-18 Feb-18 Mar-18 Apr-18 May-18 Jun-18 Jul-18 Aug-18 Sep-18 Oct-18 Nov-18 Dec-18
88% 87% 88% 87% 87% 87% 87% 87% 87% 87% 87% 87% 87%
86%
12% 13% 12% 13% 13% 13% 13% 13% 13% 13% 13% 13% 13%
U.S. Equities Active
U.S. Equities Passive
U.S. Equities Passive Target


Active-Passive Exposure
Non-U.S. Equities
Twelve Months Ending December 31, 2018
100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Dec-17 Jan-18 Feb-18 Mar-18 Apr-18 May-18 Jun-18 Jul-18 Aug-18 Sep-18 Oct-18 Nov-18 Dec-18
65% 65% 65% 65% 65% 66% 66% 67% 67% 67% 67% 67% 67%
33%
35% 35% 35% 35% 35% 34% 34% 33% 33% 33% 33% 33% 33%
Non-U.S. Eq Active
Non-U.S. Eq Passive
Non-U.S. Eq Passive Target


Active-Passive Exposure
Core Fixed Income
Twelve Months Ending December 31, 2018
100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Dec-17 Jan-18 Feb-18 Mar-18 Apr-18 May-18 Jun-18 Jul-18 Aug-18 Sep-18 Oct-18 Nov-18 Dec-18
68% 65% 65% 65% 65% 65% 65% 66% 66% 66% 66% 66% 68%
32% 35% 35% 35% 35% 35% 35% 34% 34% 34% 34% 34% 32%
0%
Core FI Active
Core FI Passive
Core FI Passive Target

APPENDIX A. **BUSINESS PLAN INITIATIVE TEMPLATE**

Shade the cells according to status:
- COMPLETED
- ON TRACK
- OFF TARGET
- INTERVENTION NEEDED

[NAME OF BUSINESS PLAN INITIATIVE]

REPORTING MONTH:	**[REPORTING MONTH] [YEAR]**	**Strategic Goal:**	**[ASSOCIATED STRATEGIC GOAL]**
STATUS:	**[ON TRACK] [OFF TARGET] [INTERVENTION NEEDED]**	**LEAD(S):**	**[FIRST AND LAST NAME(S)]**
		DIVISION(S)/SECTION(S):	**[DIV./SECTION NAME]**

INITIATIVE SUMMARY

[Provide 1-2-line description of initiative. Bullet the major components.]

- [Component 1]
- [Component 2]
- [Component 3]

BUDGET

Appropriation:	**$[whole dollars]**
Expense:	$[whole dollars]
Unspent:	$[whole dollars]

[Add budget notes here]

[Budget should reflect expenses, excluding salaries, unless requesting new positions mid-year.]

KEY DEPENDENCIES / ASSUMPTIONS

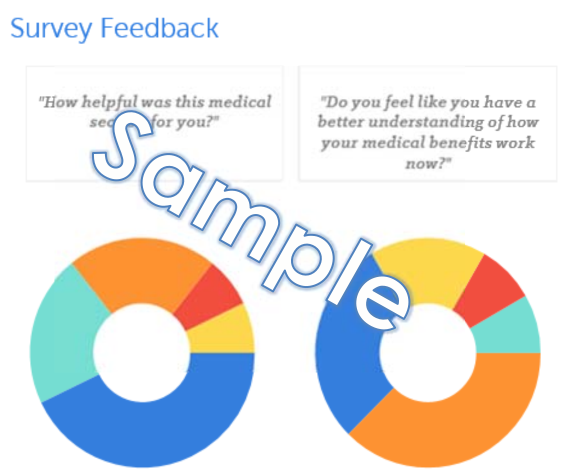
- [Bullet assumptions of certain resources or prioritizations that are required for timely implementation of this initiative.]
- [For example: Funding availability, Staffing availability, other resource availability, Key cooperation.]

ISSUES / CHALLENGES

[Identify any current or future barriers to the achievement of deliverables. Keep it brief.]

KEY INDICATORS

[Provide quantitative measurements of successful implementation. Graphical representations are encouraged]



CORRECTIVE ACTIONS

[Box displayed for those BPI with Status of "OFF TARGET" or "INTERVENTION NEEDED." List strategies that will be taken to move BPI back on track.]

MILESTONES / ACHIEVEMENTS

Q1/FY19

✓ [List key completed items/milestones this quarter. Use check mark bullet]

Q2/FY19

✓ [List key completed items this quarter. Use check mark bullet.]

DELIVERABLES / TIMEFRAME

Q3/FY19

□ [List key upcoming deliverables/milestones in this quarter. Use the box bullet.]

Q4/FY19

□ [List key upcoming deliverables/milestones in this quarter. Use the box bullet.]

FY20

□ [List key upcoming deliverables/milestones in future fiscal year or add future quarters. Use the box bullet.]

Side bar represents the status over the months in the FY. Change the color accordingly.

JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

Report to Board of Administration

Agenda of: **FEBRUARY 12, 2019**

From: Neil M. Guglielmo, General Manager

ITEM: **VI-C**

SUBJECT: **PROPOSED LACERS STRATEGIC PLAN AND POSSIBLE BOARD ACTION**

Recommendation

That the Board consider and approve the proposed LACERS Strategic Plan (Mission, Vision, Motto, Guiding Principles, Goal Areas, and Objectives) and provide input on the proposed Fiscal Year 2019-20 initiatives.

Discussion

Strategic Planning Policy
Pursuant to the LACERS Strategic Planning Policy, the Board and executive management shall engage in a triennial strategic planning session which includes an environmental scan (strengths, weaknesses, opportunities, threats analysis), and the establishment or reaffirmation of the LACERS Mission, Vision, Motto, Guiding Principles, and Goals. The Strategic Plan will be reviewed and reported on to the Board at least annually along with updates on business initiatives established within its framework.

Strategic Planning Process – Stakeholder Engagement
Recognizing the importance of involving stakeholders in the strategic planning process, LACERS' approach included engagement with the Board Members, LACERS executives and staff, commission support staff, Active and Retired Members, Office of the City Attorney staff, and key contractors for feedback on the current state of the organization and their vision for its future. This feedback allows LACERS to address topics of importance to its stakeholders in the development of the strategic plan.

In September 2018, LACERS began its triennial strategic planning process with the assistance of our board governance consultant, Cortex Applied Research Inc. (Cortex). One-on-one interviews were conducted with members of the Board as well as executive and divisional management, City Attorney staff, and key contractors to obtain their input on the direction of the organization and ideas for building the overall strategy.

In October 2018, online surveys were sent to LACERS Active and Retired Members as well as LACERS employees. A total of 1,355 Member survey responses were received; and there was nearly 100% participation from LACERS staff. These surveys brought considerable insight to issues, strengths, perceptions, and priorities of the Department and were integral to the Board strategic planning session, as well as the continuing development of objectives and initiatives.

On October 16, 2018, a Board offsite meeting was held in an open meeting session to review the Board's strategic planning goals, progress, and plans for the organization's future. There were approximately 30 attendees which were comprised of LACERS Board Members, LACERS executives and senior management staff, representatives from the Office of the City Attorney, commission support staff, and contractor partners, as well as members from the general public. Cortex facilitated the exercise and led the group in reviewing the major components of the Strategic Plan including the Mission, Vision, Motto, and Guiding Principles. The strengths, weaknesses, opportunities, and threats of the department were evaluated as they related to current strategic plan goals. Break-out sessions were conducted to focus on each of the goals, developing initiatives specific to that goal. This Board meeting produced the direction for staff to proceed in further developing the objectives and initiatives of the Strategic Plan.

In early November 2018, goal owners facilitated working group sessions in seven goal areas with a cross-section of LACERS staff members at all levels and cross-divisions to involve them in the strategic planning process. On average, each group session was 12-15 people in size. Each session discussion revolved around the objectives and initiatives that were recommended during the Board offsite meeting as well as new ones suggested by the attendees.

On November 14 and 28, 2018, strategic planning focus group sessions were hosted to survey Active and Retired Members on their experiences and impressions of LACERS as an organization in general and the services LACERS provides. A total of 19 Members participated in these two events, the results of which were entered into the Strategic Plan development feedback loop.

Proposed Strategic Plan and Fiscal Year 2019-20 Initiatives

Further to the Board's off-site strategic planning meeting, below are the overarching elements of the LACERS Strategic Plan. The following lists the proposed LACERS Mission, Vision, Motto, Guiding Principles, and Goal Areas.

Mission – To protect and grow our trust fund and to ensure the sustainable delivery of ethical, reliable, and efficient services to our Members

Vision – Trusted by our Members and partners for excellence, innovation, professionalism, and transparency

Motto – "Securing Your Tomorrows"

Guiding Principles – Professionalism, Innovation, Respect, Kindness and Caring, Teamwork

Goal Areas – Customer Service, Benefits Delivery, Health and Wellness, Investment, Governance, Organization, and Workforce

Additionally, staff developed strategic plan objectives, initiatives, and metrics for the strategic goals that were proposed at both the Board off-site meeting and the working group sessions. The Proposed Strategic Plan report (attachment) contains, in detail, the Strategic Plan elements including strategic goals with corresponding objectives, initiatives, and measures. Fiscal Year (FY) 2019-20 Initiatives will be further codified and funded in the upcoming Board budget approval process. The following lists the proposed strategic goals and their respective strategic initiatives for FY 2019-20.

	GOAL	OBJECTIVES	FY 2019-20 INITIATIVES
1	**Customer Service** *Provide outstanding customer service*	Provide outstanding customer service to our Members via all points of contact, through: ❖ Identifying and providing department-wide service standards that meet Members' expectations ❖ Making retirement information and planning resources more accessible to Members through various communication channels	➢ Establish a Member Services Bill of Rights codifying customer service delivery expectations ➢ Ensure that the Member Service Center meets or exceeds established customer service benchmarks related to Member phone calls ➢ Continue to survey and receive Member feedback at customer touch points ➢ Benchmark benefits service delivery against peers ➢ Launch a new, more accessible LACERS' website ➢ Increase enrollment in MyLACERS Member web portal ➢ Increase outreach to educate Members about their benefits, retirement planning, and the wellness program
2	**Benefits Delivery** *Deliver accurate and timely Member benefits*	Deliver accurate and timely retirement benefits delivery, through: ❖ Investment in and development of internal benefits delivery knowledge resources ❖ Increasing usage of technology to maximize efficiency	➢ Develop, review and update comprehensive policies and procedures ➢ Capture and systematize staff knowledge ➢ Continuous up-to-date training across benefit delivery units ➢ Maximize utilization of the new pension administration system and eliminate use of side systems
3	**Health and Wellness** *Improve value and minimize costs of Members' health and wellness benefits*	Improve value and minimize costs of our health and wellness program, through: ❖ Ensuring affordable care benefits	➢ Analyze health plan data to identify cost drivers that can be impacted and encourage Member utilization of services ➢ Engage Members in LACERS' wellness program to develop

		❖ Encouraging Members to adopt a lifestyle of wellness ❖ Providing health plan options that meet Members' needs	healthier behaviors and to become better healthcare consumers ➢ Evaluate how well LACERS' health plans are meeting Members' needs
4	**Investment** *Optimize long-term risk adjusted investment returns through superior investments*	Optimize long-term risk adjusted investment returns, through: ❖ Outperforming respective benchmarks and peer comparisons over periods of time ❖ Creating value through an optimal stable of active and passive investment managers ❖ Assessing cost-effectiveness	➢ Evaluate investment managers' performance in achieving superior risk-adjusted returns in accordance with LACERS' policies and guidelines ➢ Review the use of active versus passive investment strategies ➢ Conduct benchmarking to assess the cost-effectiveness of the investment program and to leverage for contract negotiations with investment managers
5	**Governance** *Uphold good governance practices which affirm transparency, accountability, and fiduciary duty*	Engage in sound governance practices, through: ❖ Promoting and guiding a knowledgeable, engaged, independent-minded Board ❖ Promoting transparency and accountability to stakeholders and fellow Commissioners	➢ Coordinate Board member education ➢ Involve stakeholders in LACERS' governance practices through various media
6	**Organization** *Increase organizational effectiveness, efficiency, and resiliency*	Increase organizational effectiveness, efficiency, and resiliency, through: ❖ Utilizing a performance management system to identify, measure and monitor achievement of LACERS strategic goals and initiatives ❖ Aligning organizational resources to LACERS Strategic Plan	➢ Promote the new strategic plan and align the business plan initiative program ➢ Institutionalize the culture of performance management ➢ Systematize the use of performance budgeting and metrics in aligning resources to organizational strategies ➢ Increase emergency preparedness and strengthen business continuity plans

		❖ Continuing to mature an effective enterprise risk management program ❖ Utilizing technology for internal communications improvement and operational efficiency	➢ Adopt a cybersecurity risk management framework and mature the controls ➢ Achieve greater technological efficiency in operational support services ➢ Increase internal operational support transparency and communications
7	**Workforce** *Recruit, retain, mentor, empower, and promote a high-performing workforce*	Recruit, retain, mentor, empower, and promote a high-performing workforce, through: ❖ Committing and promoting dedicated training and educational resources ❖ Maintaining a safe and harassment-free workplace ❖ Promoting guiding principles throughout the organization ❖ Developing career paths and installing classifications necessary for the nature of work conducted by the Department	➢ Promote the Tuition Reimbursement Program and provide training opportunities for staff in multiple formats ➢ Continue to use the Guiding Principles in staff selection and recognition ➢ Establish an internal cross-sectional workplace safety committee to identify, evaluate and address safety issues and concerns ➢ Incorporate information on LACERS' careers to new Department website ➢ Review position classifications utilized in other retirement systems for possible appropriateness to the needs of the Department

Strategic Plan Impact Statement

Review of the LACERS Strategic Plan supports the Strategic Plan Board Governance Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

This report was prepared by Edeliza Fang, Senior Management Analyst, Administrative Services Division.

NG:TB:DWN:EF

Attachment: LACERS Proposed Strategic Plan & Fiscal Year 2019-20 Initiatives report

PROPOSED STRATEGIC PLAN
&
FISCAL YEAR 2019-20
INITIATIVES

LACERS BOARD OF ADMINISTRATION MEETING
February 12, 2019

TABLE OF CONTENTS

LACERS PROPOSED STRATEGIC PLAN

MISSION
To protect and grow our trust fund and to ensure the sustainable delivery of ethical, reliable, and efficient retirement services to our Members

VISION
Trusted by our Members and partners for excellence, innovation, professionalism, and transparency

MOTTO
"Securing Your Tomorrows"

GUIDING PRINCIPLES
- Professionalism
- Innovation
- Respect
- Kindness and Caring
- Teamwork

GOAL AREAS
1. CUSTOMER SERVICE – To provide outstanding customer service
2. BENEFITS DELIVERY – To deliver accurate and timely Member benefits
3. HEALTH AND WELLNESS – Improve value and minimize costs of Members' health and wellness benefits
4. INVESTMENT – To optimize long-term risk adjusted returns through superior investments
5. GOVERNANCE – To uphold good governance practices which affirm transparency, accountability, and fiduciary duty
6. ORGANIZATION – To increase organizational effectiveness, efficiency, and resiliency
7. WORKFORCE – To recruit, retain, mentor, empower, and promote a high-performing workforce

GOAL 1: CUSTOMER SERVICE

To provide outstanding customer service.

Customer service is everyone's responsibility as LACERS strives to provide outstanding customer service to its Members through all points of contact; whether online, by phone, or in person. In order to improve on high customer satisfaction, it is important to continue to explore new ways to reach Members and provide information to help them plan for a successful retirement.

OBJECTIVE A

Identify and provide department-wide service standards that meet Members' expectations.

INITIATIVES

- Establish a Member Services Bill of Rights codifying customer service delivery expectations.
- Ensure that the Member Service Center meets or exceeds. established customer service benchmarks related to Member phone calls.
- Continue to survey and receive Member feedback at customer touch points.
- Benchmark benefits service delivery against peers.

MEASURES

1) Development of a Member Services Bill of Rights
   Target: Completion FY 2019

2) Call wait time/time to answer
   Target: 2.5 minutes

3) Percent of appropriately transferred calls (Audit to be performed every two years)
   Target: 95% (2020)

4) Abandoned call rate
   Target: 8%

5) Service Commitment (Responses within one business day)
   Target: 100%

6) Customer Satisfaction Survey Results

Overall Customer Satisfaction Survey Results	
Period	**% of Members Satisfied**
Jul – Dec 2016	95.6%
Jan – Jun 2017	99.1%
Jul – Dec 2017	96.1%
Jan – Jun 2018	97.2%
Overall	96.8%

   Target: 97%

7) Conduct benchmarking of benefits service delivery against peer agencies
   Target: Complete by Fall 2019

OBJECTIVE B

Make retirement information and planning resources more accessible to Members through various communication channels.

INITIATIVES

- Launch a new, more accessible LACERS' website.
- Increase enrollment in MyLACERS Member web portal.
- Increase outreach to educate Members about their benefits, retirement planning, and the wellness program.

MEASURES

1) Number of portal registrations

   Target: Increase total number of registrations by 10% each year, over the next three years; currently, 11,923 of approximately 45,421 Members are registered.

2) Launch new LACERS' website

   Target: Completion TBD

3) Outreach efforts

   Target:

Outreach Targets for 2019		
Event	**Number of Events**	**Overall Attendance**
Open Enrollment	6	950
Medicare Workshops	2	175
Onsite PFR Seminars	25	1,000
Offsite PFR Seminars	20	1,000
Tabletops	10	400

GOAL 2: BENEFITS DELIVERY

To deliver accurate and timely Member benefits.

LACERS strives to ensure quality of retirement benefits delivery by improving mechanisms which support service delivery, while also seeking efficiency of retirement benefits delivery through improvements in the usage of technology, information, and knowledge of staff.

OBJECTIVE A

Investment in and development of internal benefits delivery knowledge resources.

INITIATIVES

- Develop, review, and update comprehensive policies and procedures.
- Capture and systematize staff knowledge.
- Continuous up-to-date training across benefit delivery units.

MEASURES

1) Number of identified policies and procedures completed

   Target: 100% by July 2020

2) Codification of institutional knowledge into a working manual/directory

   Target: Two reference documents by Summer 2019
   - Electronic tax reference folder
   - Unit manuals

3) Number of training sessions completed by staff

   Target: Five sessions by June 2019

OBJECTIVE B

Increase usage of technology to maximize efficiency.

INITIATIVES

- Maximize utilization of the new pension administration system and eliminate use of side systems.

MEASURES

1) Benefits calculations using side systems

Target: 0% by June 2020

GOAL 3: HEALTH AND WELLNESS

To improve value and minimize costs of Members' health and wellness benefits.

As healthcare costs continue to rise, LACERS is challenged with maintaining reasonable premium costs and comprehensive benefits that serve the Members well. Through strategic and innovative approaches in managing its health and wellness program, LACERS strives to keep the average premium costs below expected industry trends.

OBJECTIVE A

Ensure affordable care benefits.

INITIATIVES

- Analyze health plan data to identify cost drivers that can be impacted and encourage Member utilization of services.

MEASURES

1) Increase utilization of the following health plan offerings:
   - Annual Physician Visits (Anthem)
   - Tele-Health (video visits)
   - Condition Management Programs (Anthem)

   Target: 10% increases

OBJECTIVE B

- Encourage Members to adopt a lifestyle of wellness.

INITIATIVES

Engage Members in LACERS' wellness program to develop healthier behaviors and to become better healthcare consumers.

MEASURES

1) Increase participation in LACERS' wellness programs

   Targets:
   - Number of Champion activity leaders:
     - 25 (for 2019)
     - 28 (for 2020)
     - 30 (for 2021)
   - Attendance at Champion-led events:
     - 800 (for 2019)
     - 850 (for 2020)
     - 925 (for 2021)
   - Participation in campaign-related programming:
     - at least 600 each year (for 2019, includes Extravaganzas, workshops, Feel Like A Million, and Volunteer Picnic)

OBJECTIVE C

Provide health plan options that meet Members' needs.

INITIATIVES

- Evaluate how well LACERS' health plans are meeting Members' needs.

MEASURES

1) Completion of survey

   Target: Survey to be conducted in summer of 2019, with a follow-up survey in 2021 to determine if earlier-identified issues were addressed and Member satisfaction increased.

GOAL 4: INVESTMENT

To optimize long-term risk adjusted returns through superior investments.

This Goal strives to achieve the highest likelihood of attaining the assumed actuarial rate of return of 7.25% over a long investment time horizon. The LACERS investment program is designed to achieve this rate of return while minimizing risk through asset diversification, which helps protect overall fund value in order to pay promised retirement benefits.

LACERS' investment approach strives to create value through an optimal stable of active and passive investment managers. The investment staff and consultants will evaluate opportunities for passive investment management on an on-going basis. The investment program will be managed with an eye on cost effectiveness in-light-of risk-return profile of its investment managers and support vendors.

OBJECTIVE A

Outperform respective benchmarks and peer comparisons over periods of time.

INITIATIVES

- Evaluate investment managers' performance in achieving superior risk-adjusted returns in accordance with LACERS' policies and guidelines.

MEASURES

1) Evaluate quarterly performance of the Total Fund against its assigned policy benchmark and the Board-approved investment risk budget
   Target: Outperform benchmarks on both three- and five-year basis, and since inception; and achieve long-term performance objectives

OBJECTIVE B

Create value through an optimal stable of active and passive investment managers.

INITIATIVES

- Review the use of active versus passive investment strategies

MEASURES

1) Evaluate individual active and passive investment managers on a quarterly basis against their respective benchmarks over various long-term time periods, including (but not limited to) three- and five-year periods

2) Review active and passive public market investment mandates at least annually and adjust the mandates as appropriate; manage an investment manager stable that appropriately assigns active and passive mandates based on the market efficiency of a particular asset class and availability of passive mandates
   Target: Outperform benchmarks on both three- and five-year basis, and since inception; utilize passive investment management where it is appropriate in-light-of long-term performance objectives

OBJECTIVE C

Assess cost effectiveness.

INITIATIVES

- Conduct benchmarking to assess the cost-effectiveness of the investment program and to leverage for contract negotiation with investment managers.

MEASURES

1) Prudent use of active and passive management on a cost-effectiveness basis

2) Evaluate the effectiveness and performance of the stable of public market active investment managers

   Target: Be deemed a cost-effective plan by independent benchmarking report; contract with investment managers where LACERS' fee structures are in the top half of peer investment managers within the same or similar mandate

GOAL 5: GOVERNANCE

To uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

LACERS strives to engage in sound governance practices through continuing education and maintaining Board Administrative Policies, Board Governance Policies, and Investment Policies to show transparency, responsibility, and commitment.

OBJECTIVE A

Promote and guide a knowledgeable, engaged, independent-minded Board.

INITIATIVES

- Coordinate Board Member education.

MEASURES

1) Development of an Individual Board Member Education Plan
   Target: Complete by March 2019

2) Create a Board Member Training/Conference Calendar to avoid scheduling conflicts with Board meetings, potentially affecting quorum
   Target: Completed

OBJECTIVE B

Promote transparency and accountability to stakeholders and fellow Commissioners.

INITIATIVES

- Involve stakeholders in LACERS' governance practices through various media.

MEASURES

1) LACERS Pension Symposium
   Target: To be held in Fall 2019

2) Conversion of LACERStat online static documents to accessible Open Data platform
   Target: 100% of data converted

3) Live broadcast of Board and Committee meetings
   Target: Completed

GOAL 6: ORGANIZATION

To increase organizational effectiveness, efficiency, and resiliency.

LACERS' effectiveness as an organization is indicated by how well we meet our established goals, while LACERS' efficiency is indicated by how well we make use of our resources to advance our strategic plan and create value for our Members. LACERS' resiliency is its ability to withstand changes in its environment, overcome challenges, and return to the original, or better, organizational state.

OBJECTIVE A

Utilize a performance management system to identify, measure and monitor achievement of LACERS' strategic goals and initiatives.

INITIATIVES

- Promote the new strategic plan and align the business plan initiative program.
- Institutionalize the culture of performance management.

MEASURES

1) Employee survey on the strategic plan and business plan initiatives
   Target: 100% awareness

2) Business plan initiative implementation
   Target: 100%

OBJECTIVE B

Align organizational resources to LACERS' strategies.

INITIATIVES

- Systematize the use of performance budgeting and metrics in aligning resources to organizational strategies.

MEASURES

1) Meaningful metrics are developed for each business plan initiative
   Target:
   - 100% of BPIs have "SMART" metrics
   - 100% of budget request enhancements have "SMART" metrics

OBJECTIVE C

Continue to mature an effective enterprise risk management program.

INITIATIVES

- Increase emergency preparedness and strengthen business continuity plans.
- Adopt a cybersecurity risk management framework and mature the controls.

MEASURES

1) Establish security risk assessment score benchmark
   Target: TBD

2) Improvement in employee performance on penetration tests
   Target: 90% pass rate

3) Establish cybersecurity risk assessment benchmark
   Target: TBD

OBJECTIVE D

Utilize technology for internal communications improvement and operational efficiency.

INITIATIVES

- Achieve greater technological efficiency in operational support services.
- Increase internal operational support transparency and communications.

MEASURES

1) Continue implementation of front-end scanning in the pension administration system

   Target: TBD

2) Establish vision and develop project plan for improved internal communications, assignment tracking, and transparency

   Target: TBD

GOAL 7: WORKFORCE

To recruit, retain, mentor, empower, and promote a high-performing workforce.

LACERS strives to increase employee performance relative to goals and guiding principles; enhance knowledge and skill sets of staff; and increase leadership opportunities to develop future leaders.

OBJECTIVE A

Commit and promote dedicated training and educational resources.

INITIATIVES

- Promote the Tuition Reimbursement Program and provide training opportunities in multiple formats.

MEASURES

1) Number of staff participating in the Tuition Reimbursement Program
   Target: TBD

2) Number of training classes
   Target:
   - 1 class per quarter (for all staff)
   - 1 class per quarter (for supervisors)
   - 4 hours of training (for all staff annually)

OBJECTIVE B

Maintain a safe and harassment-free workplace.

INITIATIVES

- Establish ongoing internal safety committee to evaluate and address workplace safety issues and concerns.

MEASURES

1) Meeting frequency
Target: Quarterly

OBJECTIVE C

Promote guiding principles throughout the organization.

INITIATIVES

- Continue to use the Guiding Principles in staff selection and recognition.

MEASURES

1) Use of Guiding Principles in staff selection and recognition
   Target: Ongoing

OBJECTIVE D

Develop career paths and install classifications necessary for the nature of work conducted by the Department.

INITIATIVES

- Incorporate information on LACERS' careers to new Department website.
- Review position classifications utilized in other retirement systems for possible appropriateness to the needs of the Department.

MEASURES

1) Implementation of new LACERS' website
   Target: Completion TBD

2) Identification and research of classifications
   Target: Completion TBD

Report to Board of Administration

From: Governance Committee
Nilza R. Serrano, Chairperson
Elizabeth L. Greenwood
Cynthia M. Ruiz

Agenda of: **FEBRUARY 12, 2019**

ITEM: **VII-B**

SUBJECT: **TRIENNIAL BOARD POLICY REVIEW: BOARD PROCEDURES, BOARD EDUCATION AND TRAVEL POLICY, CORPORATE GOVERNANCE ACTIONS RESPONSE PROTOCOL AND POSSIBLE BOARD ACTION**

Recommendation

That the Board approve the attached proposed updates to the LACERS Board Manual as follows:

1) Revision to the LACERS Board Governance Statement, Section 4.0: Board Procedures, as reflected in Attachments B and C;
2) Revision to the LACERS Board Administrative Policies, Section 1.0: Guidance for Board Members – Board Education and Travel Policy, as reflected in Attachment A, pages 24, 31-32;
3) Affirmation of the LACERS Board Administrative Policies, Section 5.1: Corporate Governance Actions Response Protocol, as reflected in Attachment A, page 33.

Discussion

On January 22, 2019, as part of the triennial Board Policy Review, the Committee considered proposed revisions to the *Board Governance Statement* and *Board Administrative Policies*, as well as the recommendation to affirm the *Corporate Governance Actions Response Protocol*. The Committee approved staff's recommendation with modification to *Section 4.0 Board Procedures*, as suggested by the Assistant City Attorney. The *Board Procedures* are amended to designate a succeeding officer for Committee meetings in the event the Committee Chair is absent or leaves before the adjournment of the meeting, as reflected in Attachments B and C.

Strategic Plan Impact Statement

The review of the Board Governance Statement and Board Administrative Policies of the LACERS Board Manual conforms to the Strategic Plan Board Governance Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

This report was prepared by Edeliza Fang, Senior Management Analyst, Administrative Services Division.

NMG:TB:DWN:EF

Attachments:

A. Report to Governance Committee dated January 22, 2019
B. Section 4.0 Board Procedures – redline
C. Section 4.0 Board Procedures - clean

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Report to Governance Committee

Agenda of: **JANUARY 22, 2019**

From: Neil M. Guglielmo, General Manager

ITEM: **III**

SUBJECT: **TRIENNIAL BOARD POLICY REVIEW: BOARD PROCEDURES, BOARD EDUCATION AND TRAVEL POLICY, CORPORATE GOVERNANCE ACTIONS RESPONSE PROTOCOL AND POSSIBLE COMMITTEE ACTION**

Recommendation

That the Committee consider the following:

1) Proposed revision to the LACERS Board Governance Statement, Section 4.0: Board Procedures
2) Proposed revision to the LACERS Board Administrative Policies, Section 1.0: Guidance for Board Members – Board Education and Travel Policy
3) Affirmation of the LACERS Board Administrative Policies, Section 5.1: Corporate Governance Actions Response Protocol

Discussion

Every three years, LACERS performs a comprehensive review of its Board Governance Policies as a best practice. In March 2018, a schedule of review for the Board Governance and Administrative Policies of the LACERS Board Manual was adopted by the Board based on the Governance Committee's recommendation. Staff's review of the Board Manual sections includes suggested updates or revisions based on changes in applicable laws or standards of practice. These proposed modifications are presented to their respective committees and subsequently to the Board for adoption.

In August 2018, the Board approved revisions to Section 4.0: Board Procedures of the Board Manual. Staff further reviewed the section and an additional change is proposed to the language under Subsection 4.1 – General regarding the Board Meeting Presiding Officer. This revision relates to situations when the Board President and Board Vice President are not available to preside over a Board meeting, allowing designation of a succeeding officer.

Additionally, staff reviewed Subsection 1.2 – Board Education and Travel Policy of the Guidance for Board Members section of the Board Manual, specifically the areas pertaining to travel advances and the Board Member Education Evaluation Form. Proposed revisions relate to requests for travel advances when attending conferences, seminars, and training. The reformatting of the Board

Member Education Evaluation Form is also proposed. A comprehensive review of the Board Education and Travel Policy will be performed and completed by the end of the first quarter of 2019.

Subsection 5.1 – Corporate Governance Actions Response Protocol was also reviewed by staff. The addition of the affirmation of the Board policy is the only change that is proposed to the document since there were no significant issues that arose since its last update.

There are two attachments to this report: (A) a redline version of the policies showing only the proposed changes, and (B) a clean version of the proposed policies accepting the changes to the redline version.

Upon the Committee's finalization of the proposed revised Board Procedures section of the Board Governance Statement as well as the Board Education and Travel Policy and Corporate Governance Actions Response Protocol of the Board Administrative Policies, they will be presented to the Board for further consideration and approval.

Strategic Plan Impact Statement

The review of the Board Governance Statement and the Board Administrative Policies of the LACERS Board Manual conforms with the LACERS Strategic Plan Board Governance Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

This report was prepared by Edeliza Fang, Senior Management Analyst, Administrative Services Division.

NMG:TB:DWN:EF

ATTACHMENTS: A) Board Policies – Redline Version
B) Board Policies – Clean Version

Section 4.0 BOARD PROCEDURES

Section Affirmed: October 22, 2013; Revised: May 14, 2013, February 25, 2014, June 14, 2016, August 28, 2018, November 27, 2018, January 22, 2019

4.1 GENERAL

A. **Procedural Standard**
The Board and its Committees shall operate under Robert's Rules of Order unless statutes or Board action provide otherwise.

B. **Board Actions**
Actions of the Board require four votes. The Los Angeles City Charter §503(c) requires that "Each board shall exercise the powers conferred upon it by the Charter by order or resolution adopted by a majority of its members. Action of the board shall be attested by the signatures of the President or Vice President, or two members of the board, and by the signature of the secretary of the board."

C. **Board Meeting Presiding Officer**
Board meetings shall be convened and presided over by the President of the Board. In the absence of the President, the Vice President shall assume all responsibilities and authority of the President. In the absence of both the President and Vice President, the General Manager/Manager-Secretary will open the meeting and call for nominations of a President Pro Tempore from the members present to serve for the duration of the meeting. Should the last presiding officer need to leave an open meeting, they shall designate a succeeding officer.

D. **Committee Assignments**
Committee assignments are to be determined by the President or Acting President, who shall also name the Committee Chair. An alternate will be appointed for each Committee to serve in the absence of Committee Members. Additional alternates may be appointed on an as-needed basis by the Board President.

E. **Committee Meeting Schedule and Attendance**
All Committee meetings of the Board shall be open to all Board members, but only Committee Members may vote. Committee meetings shall be scheduled to occur on the same day as regular Board meetings whenever possible.

F. **Closed Sessions**
Closed sessions of the Board and its Committees shall be limited to Board Members and only those other persons who are required by the Board.

G. **Closed Session Discussions and Decisions**
Pursuant to Section 54957.2, Chapter 9 of the California Government Code (The Ralph M. Brown Act), the legislative body of a local agency may, by ordinance or resolution, designate a clerk or other officer or employee of the local agency who shall then attend each closed session of the legislative body and keep and enter in a minute book a record of topics discussed and decisions made at the meeting. The Executive Assistant to the Board of Administration shall be designated to serve in this capacity; and the General Manager/Manager-Secretary is designated as the alternate.

H. **Board Member Compensation**
Members of the Board shall be compensated for attendance at all Regular and Special meetings of the Board at a rate of $50 per meeting with a maximum of $250 per month, except when such Special meeting is concurrently scheduled as a meeting of a Committee of the Board.

Section 4.0 BOARD PROCEDURES

I. **Board Meeting Schedule and Location**

The Board hereby approves the official meeting time for Regular Meetings of the LACERS Board of Administration as 10 a.m. on the second and fourth Tuesdays of each month, in the LACERS Boardroom at 202 West First Street, Suite 500, as the official place for Regular Meetings. All Board and Committee meetings are open to the public, with the exception of "closed session" meeting items.

J. **Public Comment**

The Board shall provide a member of the public the opportunity to address the Board or Committee on any item under its jurisdiction as follows:

1. Agenda Items – With respect to any item which is already on the agenda, the public shall be allowed the opportunity to comment at the commencement of the Board or Committee meeting. The Board/Committee Meeting Presiding Officer may request to have the spreaker give their public comment prior to the agenda item to be addressed. The public shall also be given an opportunity to comment on closed session items prior to adjournment into closed session.
2. Non-Agenda Items – Members of the public shall have the right to address the Board on items which are within the subject matter jurisdiction of the Board. Except as otherwise permitted by the Ralph M. Brown Act, no deliberation of action may be taken by the Board concerning a non-agenda item, except that members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board; (2) ask a question for clarification; or (3) provide a reference to staff for factual information. Furthermore, the Board may take action to direct staff to place a matter of business on a future agenda.

Each speaker giving a public comment shall be allotted two minutes per agenda item or new matter which is to be enforced by the Board/Committee Meeting Presiding Officer. The allotted time may be adjusted at the discretion of the Presiding Officer.

Written public comment addressing items on the meeting agenda shall be distributed to members of the Board or Committee prior to the beginning of the meeting but shall not be read out loud into the record by Board Members or LACERS' staff during the meeting as a matter of course. All submitted public comments, including public comment cards, shall be posted with the Board meeting documents on LACERS' website.

1.2 BOARD EDUCATION AND TRAVEL POLICY

Adopted: May 29, 2009; Revised: June 22, 2010; December 13, 2011; March 11, 2014; September 23, 2014; January 22, 2019

~~**This policy supersedes any previously adopted policy.**~~

I. STATEMENT OF PURPOSE

Los Angeles City Charter Section 1106(c), consistent with Article XVI, Section 17 of the California Constitution requires the Board to exercise a *Prudent Person Standard*, discharging their duties with respect to its system, with care, skill, prudence, and diligence. It is imperative that LACERS Board Members maintain a broad and current understanding of issues affecting the administration of public pension systems to fulfill their fiduciary duties. This policy recognizes and affirms the role of education in ensuring Trustees have the knowledge to successfully discharge their duties as fiduciaries.

The Board establishes a standard of a minimum of 24 hours of Board Member education within the first two years of assuming office and for every subsequent two-year period in which the Board Members continue to hold membership on the Board. A report detailing the training and education received by the respective Board Members during the two-year periods will be published on the LACERS website.

II. EDUCATIONAL OBJECTIVES

This policy defines a *Prudent Person Standard* for Trustees as a general understanding of:

A. The role of the Board Members and the role of staff
B. The obligations and role of fiduciary and the paramount duties of loyalty and prudence
C. The business model (including knowledge of true measure of success, the driving factors that determine success and the major business risks associated with public pension systems; namely, in the areas of investments and benefit administration).
D. Governance principles
E. The legal and legislative environment
F. Actuarial principles
G. Plan design and other benefit program
H. Investment and asset allocation strategies

III. NEW TRUSTEE ORIENTATION PROGRAM

To ensure that newly appointed and elected LACERS Board Members are securely grounded in their role as fiduciaries at the outset of assuming such an important responsibility, each shall participate in the New Trustee Orientation Program which offers critical background information and education on the Board's governance responsibilities, the knowledge of which is essential for the fullest possible engagement of each Board Member in every aspect of pension fund management.

The structure of the orientation will generally be as follows:

A. Day 1
   Morning
   1. History and overview of LACERS
   2. Fiduciary Responsibility
   3. Ethics Training

Afternoon
1. Board Governance
2. Benefits and Services
3. Actuarial Concepts

B. Day 2
1. Investment Concepts
2. Operations
3. Legal Representation and Law
4. Current Topics for LACERS
5. Tour of the offices and boardroom

IV. IN-HOUSE EDUCATION PROGRAM

To provide updates on various issues affecting the administration of public pension systems, in-house education sessions will occur periodically at regular Board meetings or organized as stand-alone sessions. The General Manager will arrange in-house training for the Board based on the schedule below and as-needed:

A. Mentoring

Any new Board Member may request a mentor to assist him or her in becoming familiar with his or her responsibilities on the Board. If a request is made, the Board President will designate an experienced Board Member to be a mentor to the new Board Member for a period of one year.

B. Investment Education

At least once per fiscal year, an investment educational session for all Board Members shall be conducted. The General Manager shall survey the Board to identify specific investment topics of interest.

C. Fiduciary Education Sessions by Fiduciary Counsel

Each year, outside Fiduciary Counsel will provide fiduciary education to the Board.

D. Actuarial Education

Each year, an actuarial education session will be provided to the Board.

E. Healthcare Benefits Education

Each year, a healthcare benefits education session will be provided to the Board.

F. Retirement Benefits

Each year, an update of the issues regarding retirement benefits will be provided to the Board.

G. Ethics Training

Board Members are required to participate or attend the City's Ethics training during the first year of appointment and then once every two years. Refresher ethics training will be provided to the Board annually.

H. Other As-needed Topics

Staff will periodically coordinate educational sessions for the Board on topics of general interest or topics that Board Members may request.

V. EDUCATIONAL CONFERENCES/SEMINARS

The complexities of sound management of the assets and liabilities of a trust fund impose a continuing need for all Members of the LACERS Board to attend professional and educational conferences, seminars, and other educational events that will better prepare them to perform their fiduciary duties.

A. Annual Approved List of Educational Seminars

At the beginning of each fiscal year, the General Manager shall prepare for Board adoption a list of recommended conferences, seminars and meetings (Appendix A). The list shall identify recommended conferences for new trustees, and make a concerted effort to reflect educational opportunities at Southern California universities available for pension trust fiduciaries.

Board Members are encouraged to attend a minimum of one educational conference or seminar per fiscal year from this list.

The General Manager will prepare an annual blanket authority for Board approval for conferences included in the Approved List of Educational Seminars.

Every Board Member's participation in a pre-approved conference shall be noticed on the Board agenda following submission of the Board Travel request.

B. Travel Requiring Explicit Board Approval

Subject to explicit approval of the Board for each conference, the requesting Board Member shall provide appropriate justification to the Board for consideration of:

1. Requests to travel to conferences outside the List of Educational Seminars (Appendix A) will be submitted to the Board for approval, so long as the trustee's education allocation is not exceeded.
2. Requests for travel outside the United States.

C. Travel Outside the United States

All conferences and seminars which involve travel to a destination outside the United States must be approved by the Board. Each Board Member may attend no more than one conference which involves international travel in any 12-month period.

D. Travel to Washington D.C. or Sacramento

The Mayor requires notification of any travel to Washington D.C. or Sacramento. Staff will process the appropriate forms on behalf of the Trustees.

E. Conference Invitations Received by a Board Member

To provide all the Trustees with the same conference and seminar opportunities, the individual Board Member shall forward invitations they receive to a conference or seminar, to the General Manager or the Board Executive Assistant. LACERS will consult with the Office of the City Attorney or the City Ethics Commission for compliance with gift and disclosure requirements. If the conference or seminar clears the ethics compliance process, the Board Executive Assistant shall disseminate the conference or seminar invitation to all Board Members.

F. This section is intentionally left blank.

G. Board Education and Travel Limitations

Board Member travel shall adhere to the following guidelines:

- Board Members shall attend conferences or seminars that have a solid reputation for quality program content. (see Appendix A); i.e., agendas with a minimum of five hours of substantive educational content. Content shall not be geared toward marketing or the promotion of investment management and related sponsors. Topics covered during the conference or seminar must be related to the pension fund industry.
- The Board education travel budget per Trustee shall not exceed $10,000 per fiscal year for conference fees and travel expenses. Expenses which exceed this annual allocation shall be the personal responsibility of the Board Member unless the Board approves additional travel and budget allocation prior to the conference.

H. Reports to the Board

1. Quarterly Travel Expenditure Report

   An educational travel expenditure report shall be provided to the Board on a quarterly basis, covering cumulative Board Member and staff travel for the fiscal year.

2. Monthly Report on Seminars and Conferences Attended by Board Members on Behalf of LACERS

   There may be occasions where a Board Member attends seminars or conferences as a LACERS representative or in the capacity of a LACERS Board Member which are either complimentary (no cost involved) or with expenses fully covered by the Board Member.* Since there is no expense incurred to LACERS, these seminars or conferences do not require Board approval. However, for the purpose of transparency and to avoid the appearance of impropriety, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, such conferences or seminars attended. Monthly reports will include conferences or seminars attended during the period preceding the said Board meeting.

   **Please consult the City Ethics Commission for gift reporting limitations and reporting requirements.*

I. Meeting for Business Purpose in Compliance with the Ralph M. Brown Act

In accordance with the Ralph M. Brown Act, a quorum comprising of majority of the members of the LACERS' Board or Committee to hear, discuss, or deliberate upon any matter which is under the subject matter jurisdiction of LACERS are meetings subject to the Brown Act. Board Members must be cognizant of this requirement and avoid discussing LACERS' business when in meetings or discussions with other Members of the Board.

VI. TRAVEL EXPENSE REIMBURSEMENT POLICIES

A. The LACERS Board of Administration has full authority over the trust fund expenditures including the payment of all education and related travel expenditures which it deems reasonable and appropriate for the conduct of official LACERS business.

The Office of the City Attorney has affirmed the LACERS Board's plenary authority and fiduciary responsibility for investment of trust assets and administration of the System as codified in the California Constitution (Section 17 of Article 16). The position is further strengthened by the Los Angeles City Charter §1110(b): "The board of each pension and retirement system shall have control over their respective funds. Transfers or expenditures shall be drawn upon funds only upon demands signed by the chief accounting employee of the board. All payments from the funds shall be made upon demands prepared and approved in accordance with the provisions of the Charter."

The City's travel policies as set forth in Division 4, Chapter 5, Article 4 of the Los Angeles Administrative Code (LAAC) provide the definitions, parameters, and guidance for the majority of travel circumstances encountered for LACERS travel and will be referenced as LACERS primary travel policy. LACERS departmental travel expense reimbursement policy is meant to be in compliance with the LAAC travel and augment the policy to facilitate LACERS business. LACERS travel reimbursement policy establishes standards of reasonableness, appropriateness, and necessity for the conduct of LACERS business, and applies to all travel expenditures paid by LACERS. Expenditures which are certified as to reasonableness and appropriateness by the Department Head are to be paid by the City Controller upon demand. The Board authorizes by resolution, authority to certify travel expenditures as required by the LAAC, to the Board President for Board Member and General Manager travels; the Board Vice President for Board President travel; and the General Manager for staff, City Attorney-Retirement Benefit Office counsel, and consultant travel.

LACERS acknowledges the Los Angeles City Controller's Travel Policy applies to most other City departments. However, LACERS Board and its designees retain their plenary authority to approve all education and related travel expenditures which are reasonable and appropriate for the conduct of official LACERS business. LACERS will consider the Controller's Travel Policy and will incorporate similar rules if appropriate.

B. Reimbursable Expenses

LACERS Travelers are entitled to reimbursement of travel expenses when on official LACERS business, including reimbursement of all transportation costs, registration or attendance fees, subsistence costs and other costs reasonably and necessarily incurred on official business, subject to the guidelines outlined in this policy and in compliance with the Internal Revenue Service accountable plan rules for travel reimbursements.

A list of reimbursable expenses is included in Appendix B, which includes a summary of allowable reimbursements under the LAAC and the corresponding LACERS policy establishing standards for reasonableness, appropriateness, and necessity.

C. Non-Reimbursable Expenses
Expenditures which are incurred by a Board Member or staff that are not substantive to LACERS' business will not be reimbursed by LACERS. A list of non-reimbursable travel expenses is included in Appendix B.

D. Event Participation Report
Whenever a Trustee attends a conference or other event at the expense of the Fund, it shall be his or her responsibility to complete the Board Members Education Evaluation Form (Appendix D) and to provide the Board information on concerns with the event, which they believe are of significance to the System. The evaluation form must be submitted with the request for reimbursement of expenses associated with each conference attended. A reimbursement will not be made without a completed evaluation form.

E. Travel Activity Summary
Upon the close of the fiscal year, the General Manager shall report to the Board on Trustee (along with staff) travel expenditures throughout that year.

VII. APPENDICES

A. Appendix A – List of Educational Seminar Schedule
B. Appendix B – LACERS Travel Expense Reimbursement Policy
C. Appendix C – Board Travel Reimbursement Checklist
D. Appendix D – LACERS' Board Member Education Evaluation Form

APPENDIX A
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
LIST OF EDUCATIONAL SEMINARS – FISCAL YEAR 2018-19

*****_Local Conference_

CONFERENCE / SEMINAR / MEETING	SUBJECT MATTER	TRUSTEE EVALUATION: TRUSTEE RATING Rate seminar with:		TRUSTEE EVALUATION: LEVEL
		A	*Excellent*	▪ *Introductory*
		B	*Very Good*	▪ *Intermediate*
		C	*Good*	▪ *Advanced*
		D	*Not Beneficial*	
California Association of Public Retirement Systems (**CALAPRS**) – General Assembly ▪ March 2 - 5, 2019 (Monterey, CA)	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A**	(Sohn, 2016) (Wilkinson, 2018)	Intermediate
CALAPRS – Principles of Pension Management For Trustees ▪ August 27 – 30, 2018 (Malibu, CA)* ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A**	(Lee, Serrano, Wilkinson 2015)	Intermediate
CALAPRS – Advanced Principles of Pension Management For Trustees ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A**	(Lee, 2017)	Advanced
CALAPRS – Trustees' Roundtable ▪ October 26, 2018 (Glendale, CA)* ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**B**	(Chao, 2016)	Intermediate
Council of Institutional Investors (**CII**) – Conferences ▪ **Fall Conference:** October 24 – 26, 2018 (Boston, MA) ▪ **Spring Conference:** March 4 -6, 2019 (Washington, DC)	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A** **B**	(Chao, 2017) (Wilkinson 2015)	Intermediate Advanced

International Foundation of Employee Benefit Plans (**IFEBP**) – Trustees And Administrators Institute ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Plan Admin			
International Foundation of Employee Benefit Plans (**IFEBP**) – Health Care Management Conference ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin			
International Foundation of Employee Benefit Plans (**IFEBP**) – New Trustees Institute ▪ **Level I: Core Concepts:** October 13 – 15, 2018 (New Orleans, LA) ▪ **Level II: Concepts in Practice:** October 13 - 14, 2018 (New Orleans, LA)	▪ Benefits Admin ▪ Investments ▪ Plan Admin			
International Foundation of Employee Benefit Plans (**IFEBP**) – The Wharton School Advanced Investments Management ▪ 2018 and 2019 Dates and Location TBD	▪ Investments ▪ Corporate Governance			
International Foundation of Employee Benefits Plan (**IFEBP**) – The Wharton School Portfolio Concepts and Management Course ▪ 2018 and 2019 Dates and Location TBD	▪ Investments			
National Conference on Public Employee Retirement Systems (**NCPERS**) – Annual Conference & Exhibition ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance	**A** **B**	(Wilkinson, 2017) (Ruiz, 2016) (Sohn, 2018)	Intermediate
National Conference on Public Employee Retirement Systems (**NCPERS**) – Trustee Educational Seminar (TEDS) ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance	**A**	(Sohn, 2018)	Intermediate

National Conference on Public Employee Retirement Systems (**NCPERS**) – Legislative Conference ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance			
Pension Real Estate Association (**PREA**) Spring Conference ▪ March 14 – 15, 2019 (Dallas, TX)	▪ Investments	**A**	(Chao, 2017) (Lee, 2018)	Intermediate
Pension Real Estate Association (**PREA**) Annual Institutional Investor Conference ▪ October 3 – 5, 2018 (Boston, MA)	▪ Investments	**A**	(Chao, 2017)	Intermediate
State Association of County Retirement Systems (**SACRS**) Conference ▪ **Fall Conference**: November 13 – 16, 2018 (Indian Wells, CA)* ▪ **Spring Conference**: May 7 – 10, 2019 (Lake Tahoe, CA)	▪ Benefits Admin ▪ Investments ▪ Corporate Governance	**A** **B**	(Wilkinson, 2015 and 2017) (Chao, 2017)	Intermediate
State Association of County Retirement Systems (**SACRS**) / **UC Berkeley Program** – Public Pension Investment Management Program ▪ July 15 – 18, 2018 (Berkeley, CA)	▪ Investments	**A**	(Wilkinson, 2015)	
Western Economic Association International – Annual Conference ▪ June 28 – July 2, 2019 (San Francisco, CA)	▪ Investments			
Women's Alternative Investment Summit ▪ November 8 – 9, 2018 (New York, NY)	▪ Investments			
Women's Private Equity Summit ▪ March 13 - 15, 2018 (Dana Point, CA)	▪ Investments			

APPENDIX B
LACERS TRAVEL EXPENSE REIMBURSEMENT POLICY
AND RELATED PROVISIONS OF CITY TRAVEL POLICY
(LAAC Chapter 5, Article 4, §§ 4.242.1-4.242.9)
Approved: March 11, 2014;
Revised: September 23, 2014; January 22, 2019

H. GENERAL GUIDELINES

A copy of the Travel and Education Policy including the Guidelines for Travel and Personal Expenses will be provided to new Board Members and staff before processing their first travel request.

A. LACERS considers an individual traveling if:
   i) the travel is outside the geographic boundaries of Los Angeles County [LAAC §4.242.2]; and more than 50 miles away from both LACERS' offices and the traveler's home; and
   ii) the duties require the individual to be away from the general area of the individual's primary residence substantially longer than an ordinary day's work; or
   iii) the individual needs to sleep or rest to meet the demands of work while away from the primary residence.

B. Costs incurred on travel days which are not conference days are allowable (subject to limitations covered in the applicable sections of the guidelines): (i) on the day before the first educational session of the conference or seminar if transportation on the first conference day would require the traveler to leave his/her point of departure (e.g., home) earlier than 9:00 a.m.; or (ii) on the day after the last educational session of the conference or seminar if transportation on the last conference day would cause the traveler to get to his/her final destination (e.g., home) after 8:00 p.m.

C. Board approval of travel is required prior to payment of any related fees. If a Traveler elects to personally incur travel-related fees prior to the Board's approval, the Traveler assumes personal financial liability that his or her expenses may not be reimbursed.

II. TRANSPORTATION

A. AIR TRAVEL	
LAAC Requirement	LACERS Policy
Except in the case of official necessity, air travel expenses are allowable only for the lowest regular fare available for regularly scheduled airlines for the date and time selected [§4.242.2(a)(1)] Claims for reimbursement of higher fare or extra charges for transportation by schedule airlines are allowable only if certified by the Department Head[1] that he or she has reviewed and concurs with the facts constituting the official necessity. [§4.242.2(a)(1)]	1. Air travel may be used when it is the most efficient means of travel. 2. Air travel shall be at coach or economy fare. Coach or economy fare is presumed to be the lowest regular fare available for regularly scheduled airlines. Airfare quotes from several airlines are not necessary. 3. When the airfare receipt shows an upgrade to business or first class accommodation, a. Without further justification, the traveler may be reimbursed at the lower of the lowest regular fare rate available[2] and actual cost, or b. the traveler shall provide a memo stating the case of official necessity, for approval by the Department Head[1]. 4. LACERS will pay directly for airfare booked with the City's authorized business travel service, CalTravelStore. 5. If CalTravelStore is not used, LACERS travelers must use their personal credit card to book flights or other modes of transportation. 6. Consistent with Federal and City travel standards, coupons, or promotional mileage credits earned by the traveler during the course of LACERS business travel may be used for LACERS or personal business. The traveler will not be reimbursed for such coupons or promotional mileage credits used for LACERS travel. 7. Fees for the first checked baggage will be reimbursed. Fees for additional checked baggage may be reimbursed if a justification for an official business need is provided. 8. The cost of air flight insurance is not eligible for reimbursement. 9. With pre-approval of the Department Head[1], refundable airline tickets may be purchased if the traveler provides acceptable justification

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

[2] The acceptable amount will be the fare verified by the Accounting staff prior to encumbrance of the travel request.

	that the benefit of booking a refundable ticket outweighs the risk of changes in travel plans.
B. PERSONAL VEHICLE OR NON-AIR TRANSPORTATION	
LAAC Requirement	LACERS Policy
In all instances where a mode of transportation other than regularly scheduled airlines is chosen, the Department Head[1] shall authorize such alternate mode of transportation in advance and the allowable cost shall be the actual cost of the alternate mode of transportation or the cost allowable under Subsection (a)1, whichever is less. [§4.242.3.(a)(2)] In the case of travel by modes of transportation other than regularly scheduled airlines, transportation costs shall be the regular fare for the mode of transportation chosen. [§4.242.3(a)]	10. Pre-approval by the Department Head[1] is required for all non-air travel in advance of travel. Travelers must submit the following items for pre-approval: a. For travelers using personal automobiles for business purposes – Provide proof of automobile insurance at minimum coverage levels as follows: $25,000 injury to or death of one person; and, $50,000 injury to or death of more than one person; and, $5,000 property damage for any one accident. b. Cost comparisons are required for all non-air travel, with exceptions listed below: Traveler shall submit: a quote for the lowest regular fare available for regularly scheduled airlines to the destination for the date and time selected; and the cost for regular fare on the alternative mode of transportation. <u>Exceptions</u> (no cost comparison is required): If traveling by vehicle to neighboring counties of Orange, Riverside, San Diego, San Bernardino, Ventura, Kern, Santa Barbara, and San Luis Obispo, or to the San Francisco Employees Retirement System to transport sensitive computer equipment for the LACERS emergency hot/warm site. 11. Receipts for alternate modes of travel are required. Reimbursement will be for the lower of the actual cost of transportation or lowest regular airfare verified by Accounting prior to

[1]Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

	encumbrance of the travel request.
In the instance of the use of private automobile, mileage shall be in accordance with mileage provisions of Division 4, Chapter 5, Article 2 of the Administrative Code. [§4.242.3.(a)(2)]	12. Mileage reimbursement a. Mileage reimbursement for the Board will be calculated on a roundtrip basis between official's residence and official destination. b. Mileage reimbursement for staff will be based on the distance in excess of home to City office for travels during regular work days; for other days, reimbursement will be based on a roundtrip between staff's residence and official destination. 13. Additional travel time and expenses (such as meals and lodging) incurred in choosing other than the fastest and most direct mode of transportation are at the traveler's own personal time and expense. 14. Claims for repairs, replacements, towage, gas and car insurance are not reimbursable. 15. Ground transportation refers to transportation from home to airport, airport to hotel and/or conference/ meeting/seminar location, and back. This includes taxis, shuttles, limousines, and private vehicles. 16. Mileage reimbursement is provided when personal vehicle is used for ground transportation to/from airport. Commissioner's mileage reimbursement will be computed based on roundtrip miles from residence to airport. Staff mileage reimbursement will be computed based on the distance in excess of home to City office for travels during regular work day; and roundtrip miles from residence to airport on non-work days.

C. GROUND TRANSPORTATION	
LAAC Requirement	LACERS Policy
The least expensive and most practical form of public transportation shall be used, taking into consideration such factors as time, availability, and personal safety or health. [§4.242.3.(c)]	17. Reimbursement for airport parking is actual amount, not to exceed $20 per day. Pre-approval is not required. Reimbursement for actual amounts in excess of $20 per day requires the traveler submitting a memo to justify the expense based on time, availability, and personal safety or health. 18. Reimbursement for use of taxi, shuttle, private car or limousine service is limited to the lesser of roundtrip taxi fare (http://www.taxifarefinder.com)[2] or shuttle fare (http://www.shuttlefare.com)[2].
D. AUTOMOBILE RENTAL	
LAAC Requirement	LACERS Policy
Such expenses are allowable if traveling by car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus. [§4.242.3.(d)]	19. Pre-approval by the Department Head[1] is required. Travelers must provide written justification that the traveling by car is less expensive or more efficient in conducting LACERS business than by use of taxi or bus. 20. The traveler will not be reimbursed for car rental insurance within the United States. Car rental insurance costs required in foreign countries may be claimed for reimbursement.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.
[2] The acceptable amount will be the fare verified by the Accounting staff prior to encumbrance of the travel request.

III. LODGING, MEALS AND INCIDENTAL EXPENSE ALLOWANCE

A. LODGING	
LAAC Requirement	LACERS Policy
This section is not intended to preclude an employee or elected official from staying in a hotel where the meeting or convention to be attended is held. [§4.242.3.(b)(1)]	21. Acceptable documentation shall include original itemized hotel receipt marked 'Paid in Full' or showing a zero balance; otherwise, proof of payment is also required. 22. Reimbursement for lodging in a hotel where the meeting or convention to be attended is deemed the most practical accommodation and permissible. 23. A traveler may elect to stay in a hotel sponsored by the conference as it is presumed to be the most practical or convenient. The reimbursement will be limited to the lesser of the actual hotel costs incurred or the conference hotel rate. 24. For any official System travel for training, due diligence trips, meetings with investment managers, or training where hotels are not pre-designated, the traveler should select the most economical lodging taking into consideration the proximity of the selected place to conduct the official System business, traveler's safety, time and transportation costs and other relevant factors. Any of the following methods are acceptable for determining "moderately priced establishments of acceptable quality", "the most economical and practical accommodations", and those which would be presumed not to meet the IRS definition of "lavish and extravagant" accommodations: (i) Lodging does not exceed the highest Federal domestic lodging per diem rate; cost comparison is not necessary; or (ii) The most economical hotel identified using the City traveler provider website (www.concursolutions.com/), with availability, with at least a 3 star rating on a 5 star scale travel, and within walking distance or no less than ½ mile radius of the first business location; or

Section 1.0 GUIDANCE FOR BOARD MEMBERS

In the selection of restaurants and hotel rooms, it is expected that individuals will seek moderately priced establishments of acceptable quality. [LAAC §4.242.3.(b)] An employee or elected official must consider transportation costs, time, and other relevant factors in selecting the most economical and practical accommodations. [§4.242.3.(b)(1)]	(iii) The most practical hotel on the above list with acceptable written justification; or (iv) Any lodging expenses may be reimbursed provided that the expense does not exceed 300% of the lodging per diem and traveler must clearly demonstrate no other acceptable alternative lodging was available, as in the event of a state of emergency, or other justifiable reason reviewed and certified by the Department Head[1] as reasonable and proper, and incurred in the pursuit of System business. 25. Reimbursement is limited to single occupancy room rate, as documented on hotel letterhead or the hotel's room rates listing, plus applicable taxes and charges unless additional occupants are LACERS trustees/staff on official LACERS business.
B. MEALS AND INCIDENTAL EXPENSES (M&IE)	
LAAC Requirement	LACERS Policy
Expenses incurred by an employee or elected official for food and beverage served at meals, scheduled receptions, or other functions necessary for the conduct of City business are allowable to a maximum of three meals a day. [§4.242.3.(b)(2)]	26. LACERS intends to be compliant with IRS accountable plan rules, therefore M&IE allowance will be provided only when business travel results in a necessity for lodging. LACERS will provide travelers with a standard meal allowance at the Federal per diem rate per locale. The allowance, in lieu of providing receipts, is acceptable under the IRS accountable plan rules. The IRS (Publication 463) defines meals and incidental expenses include: meals, transportation to acquire meals, fees/tips to porters, baggage carriers, bellhops, hotel maids, wait staff, and other service providers. 27. No meal allowance will be paid when meals are provided throughout the day by the host or at the conference. 28. Prorating the standard meal allowance – The IRS permits LACERS to adopt its own rules for prorating the standard meal

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

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allowance on partial days of travel so long as we consistently apply the method in accordance with reasonable business practice.
The meal and incidental expense allowance will be prorated from a daily allowance to a per meal period allowance on partial days of travel; and when some meals are prepaid/to be paid by LACERS (complimentary breakfast provided at the hotel, meals at the conference, or pre-paid to comply with the City/LACERS gift restrictions.
The M&IE allowance = incidental expense + breakfast allowance (if traveling between 1AM – 9AM) + lunch allowance (if traveling between 9AM – 5PM) + dinner allowance (if traveling between 5PM – 1AM).
Utilize the M&IE per travel locale and provide an allowance for each meal period the traveler is away from home (based on the current Federal General Services Agency six tiered M&IE allowance):
<table>
<tr><th>Total</th><th>Breakfast</th><th>Lunch</th><th>Dinner</th><th>IE</th></tr>
<tr><td>$46</td><td>$7</td><td>$11</td><td>$23</td><td>$5</td></tr>
<tr><td>$51</td><td>$8</td><td>$12</td><td>$26</td><td>$5</td></tr>
<tr><td>$56</td><td>$9</td><td>$13</td><td>$29</td><td>$5</td></tr>
<tr><td>$61</td><td>$10</td><td>$15</td><td>$31</td><td>$5</td></tr>
<tr><td>$66</td><td>$11</td><td>$16</td><td>$34</td><td>$5</td></tr>
<tr><td>$71</td><td>$12</td><td>$18</td><td>$36</td><td>$5</td></tr>
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<td>Gratuities. Such expenses, not exceeding 15%, are allowable where reasonable and customary. [§4.242.3.(h)]</td>
<td>29. Gratuities are included in the IRS definition of “incidental” expenses and are therefore subject to per diem limits. Reimbursement for restaurant gratuities are calculated as up to 15 percent of the restaurant bill exclusive of taxes, except when the gratuity percentage is required and the amount is added on the bill by the service provider.</td>
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Section 1.0 GUIDANCE FOR BOARD MEMBERS

IV. OTHER EXPENSES

LAAC Requirement	LACERS Policy
(j) Other Expenses. Expenses not specifically set forth in other subsections of this section that are incurred by an employee or an elected official are allowable where deemed necessary in the conduct of City business; provided that such expenses have been reviewed and certified by the Department Head[1] as reasonable and proper and incurred in pursuit of City business. Wherever the type of expenditure is not specifically listed in this section, the employee or elected official should be prepared to absorb the cost as a personal expenditure in the event that such expense is not certified by the Department Head[1]. [§4.242.3.(j)]	30. Other travel expenses are allowable when deemed necessary in the conduct of System business provided such expenses are reviewed and certified by the Department Head[1] as reasonable, proper, and incurred in pursuit of System business. Otherwise, these expenses become personal expenditures. 31. Travel Interruptions – When there is an interruption or deviation from planned travel due to bona fide public emergencies outside of the traveler's control such as weather or shutdown of air travel, travelers may be reimbursed at full cost for emergency lodging, meals, and incidental expenses. 32. Indirect Travel - whether for the traveler's personal leave or for convenience, expenses allowable will not exceed those that would have been incurred for uninterrupted travel utilizing the direct travel route or travel days. Supporting documentation showing the cost for direct travel and the deviation should be provided by the traveler.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures ; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

IV. NON-REIMBURSABLE TRAVEL EXPENSES

LAAC Requirement	LACERS Policy
Expenditures which are incurred by an employee or elected official that are of a purely personal nature will not be reimbursed by the City. a) Auto repairs, replacement or towage to personal vehicle when such use has been authorized (see established City procedures for repair to City vehicle); b) Flight insurance; c) Personal telephone calls (except those specified in Section 4.242.3 (g) of this article); d) Expenses for persons other than the employee or elected official, except as specified in Section 4.242.3 (b) 2. [§4.242.4]	33. Expenditures which are not substantive to LACERS business will not be reimbursed by LACERS, such as: a) Any expenses related to entertainment and recreational activities; b) Flight upgrade fees for seats other than coach or economy: c) Internet usage fees (unless the internet is used for City business); d) Any expenses related to alcohol and tobacco. 34. The traveler must submit reimbursement for personal expenditures paid by LACERS. If there are portions of the conference or seminar that are entertainment in nature and not business-related (e.g., golf tournaments, musical performances or concerts, etc.), the traveler is required to reimburse LACERS for the cost of these recreational activities.

V. OTHER RULES AND RESTRICTIONS

A. DOCUMENTATION OF EXPENSES - PERSONAL EXPENSE STATEMENTS	
LAAC Requirement	LACERS Policy
All expenses claimed shall be listed on separate forms provided and used for required documentation of travel expense. Completed travel expense forms shall be forwarded to the Controller within thirty (30) days of the conclusion of the trip. The Department Head[1] shall certify that all expenditures were incurred in pursuit of City business. Falsification of such certification shall be grounds for appropriate disciplinary action and such other sanctions provided by law. Receipts shall be provided for transportation costs incurred under Section 4.242.3(a), lodging, and for any single item of expenditure in excess of $25.00. Receipts for expenditures under $25.00 should be presented when available. [LAAC § 4.242.7]	35. All expenses claimed for reimbursement must be itemized on the Personal Expense Statement (PES - Form Gen. 16). 36. The traveler is responsible for verifying all charges on receipts before making payment. Charges made in error will not be reimbursed. 37. Original receipts are required for any single expenditure in excess of $25. Receipts are not required for a meal and incidental expense allowance, regardless of amount, when the Federal per diem rate per locale is provided to the traveler and prorated in accordance with LACERS' policy.

B. TRAVEL ADVANCES	
LAAC Requirement	LACERS Policy
Requests for an advance for funds shall be submitted to the Controller, where feasible, at least ten (10) days in advance of the beginning of the planned expenditure of funds and such request shall include the persons traveling, period covered, and the destination. In addition, the request should state the purpose of the trip, the nature of the City business to be conducted on the trip, and the proposed total estimated expenditure. Documentation of actual expenses incurred shall be submitted to the Controller in conformance with Section 4.242.7.	38. For trips of ~~two~~ one night~~s~~ or more, a travel advance may be ~~provided if a need is established~~ requested. The amount advanced is limited to the lodging, meal and incidental expenses per diem. 39. Written requests for the travel advance are to be submitted by the Traveler to the CEA/travel coordinator for approval at least thirty (30) days prior to the date of travel. The request must ~~establish a need for the cash advance and~~ include a statement certifying that the traveler has no outstanding cash advance. 40. A cash advance request will be denied if a traveler has an outstanding cash advance for past travel with does not comply with the procedures.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures, the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

	41. Regular travel advances will be released no earlier than one (1) week before travel. 42. Outstanding travel advances not accounted for and delinquent over 120 days will be included as part of an employee's wages on the first payroll period of the subsequent calendar quarter following the end of the 120 calendar days; and, for non-City employees, IRS Form 1099-Misc will be issued per IRS Federal, State, Local Government Taxable Fringe Benefit Guide. Nothing herein eliminates the traveler's obligation to return to the Fund any excess monies that were received that were not used for approved travel expenses. 43. Future travel advances will not be processed for traveler(s) with delinquent PES over 30 days. Requests for reimbursement may be processed in advance of the travel for expenditures such as registration fees, airfare and/or one-night hotel deposit. To ensure timely processing of the reimbursement, such requests along with supporting documents and proof of payment (credit card statement, etc.) must be submitted to the CEA/travel coordinator, in writing, at least fifteen (15) working days before the date of travel. 44. Advanced payment for cancelled travel: Any amount that was paid by department in advance of travel is considered an advance. In the event of the need to cancel the trip, the traveler is responsible for notifying all payees to as soon as possible to avoid/minimize cancellation fees a. If cancellation was due to personal reasons, the traveler must personally reimburse the department for any amount not recovered (net of cancellation fees). If the refund or credit was issued directly to the traveler, traveler must pay LACERS the entire amount of credit received within 14 calendar days from the credit issued

	date. b. If travel was cancelled due to the business or public reason, traveler is responsible to submit a justification along with the proper documentation to the General Manager within 14 calendar days from the cancelled date. c. Unrecovered amounts are reported as taxable income to the traveler. The traveler may be required to pay for future airfare using their own credit card, and LACERS will reimburse airfare upon completion of the travel.

APPENDIX C
BOARD TRAVEL REIMBURSEMENT CHECKLIST
Adoption Date: May 26, 2009
Revised Dates: June 22, 2010; December 13, 2011; March 11, 2014

I. STEPS FOR TRAVEL APPROVAL AND REIMBURSEMENT:

Step 1: Provide details of the educational event to the Commission Executive Assistant (CEA)

Step 2: Submit information on estimated expenses to the CEA

Fees Paid Directly By LACERS:

Step 3: Register for the Conference

- Conference registration and registration fees can be arranged through the CEA prior to the conference date. Registration fees are paid directly by LACERS with no out-of-pocket expenses for the traveler;
  - o Under State and City gift laws, complimentary conferences or conference-related events could be considered gifts. LACERS will evaluate the circumstances with the assistance of the City Ethics Commission and may be required to pay a pro-rata share of conference expenses provided by the hosting organization.
- Or, after the fact, submit a receipt showing a zero balance as proof of payment.

Step 4: Book flight

- Provide desired flight numbers, dates, and times to the CEA. The CEA will book the flight. Flights booked through the City's travel service negate the need to secure three fare quotes. The City's travel service will also provide a flight credit if the traveler is unable to fly and proper notification is given.
- Or after the fact, submit a receipt for the purchase of the airline ticket and three fare quotes generated on the same day the flight was booked. Reimbursement is limited to the lowest regular fare.

Items Requiring Pre-Approval for Expenditure Reimbursement:

Step 5: Submit written justification for items requiring pre-approval from the Board President or Vice President. If approval is not secured prior to incurring the expense, reimbursement may not be granted.

- Requests for reimbursement of airfare which exceeds the lowest regular fare – justification should demonstrate the official necessity of the selected flight. Attach to the request three air fare quotes generated on the same day the flight was booked.
- Requests for transportation other than air flight – justification should indicate reasons for use of the alternate mode of transportation.
- Requests for cash advances to cover lodging and per diem for meals must be submitted 30 days prior to the commencement of travel. See further instructions below.

After the Travel has been completed, submit report and receipts:

Step 6: Submit an Event Evaluation Report within thirty (30) days of the conclusion of the trip

- The report is required prior to reimbursement

Step 7: Submit a Personal Expense Statement (PES) within thirty (30) days of the conclusion of the trip:

- Itemize all reimbursable daily expenses for lodging, transportation, and miscellaneous expenses; list the per diem for meals and incidentals.
- Report expenses paid directly by LACERS as a deduction to the total reimbursable amount
- See further instructions on the following checklist

II. REIMBURSEMENT CHECKLIST:

ALLOWABLE TRAVEL COSTS	REQUIRED DOCUMENTS
AIR TRAVEL	
Air Travel Air travel expenses are only allowable for the lowest regular fare available. If the flight with the lowest regular fare is not booked, reimbursement will only be for the lowest regular fare.	**Transportation Expenses** ☐ Submit a receipt showing a zero balance as proof of payment for airfare
If three fare quotes are not submitted, the lowest regular fare will be determined by a quote from the City's travel agent for a direct flight, coach class, 14 days prior to the date of business travel. The CEA will determine the reasonable flights to be quoted which best meet the conference dates and times.	☐ Provide three air fare quotes from the same date as the booked flight, demonstrating that the selected flight is the lowest regular fare practically available
Exceptions allowing reimbursement for a higher cost fare may be approved by the General Manager for "official necessity." Official necessity means there is a bona fide benefit to LACERS for taking the selected flight which outweighs the cost of the higher fare.	☐ Provide written justification of the "official necessity" for any higher cost fare if seeking reimbursement above the lowest fare rate. The General Manager must concur for the expense to be submitted for reimbursement.
OTHER TRANSPORTATION	
Bus or Rail Travel The allowable cost shall be the actual cost for the regular fare for the bus/rail travel.	☐ Submit request for pre-approval from the General Manager for all modes of transportation other than regularly scheduled airlines.
Automobile Rental Automobile rental expenses are allowable if traveling by automobile is less expensive or more appropriate than by other modes of transportation.	☐ Submit request for pre-approval from the General Manager demonstrating that traveling by rental car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus.

Private Automobile The allowable cost shall be the actual total mileage rate allowance as determined by the Internal Revenue Service (IRS).	☐ Submit request for pre-approval from the General Manager, and include a satisfactory liability insurance policy covering the full use and operation of the vehicle. The limits of liability on any such policy shall not be less than $25,000 in the case of injury to or death of one person, and $50,000 in the case of injury to or death of more than one person; and in the case of property damage, not less than $5,000 in any one accident
REGISTRATION FEES	
Registration Fees Reimbursable if paid by the Trustee	☐ Submit a receipt showing a zero balance as proof of payment
LODGING	
Hotels generally offer specially rated room blocks for conference participants. The Trustee may stay at an "off-site" hotel if the room blocks are exhausted. Transportation costs, time, and other relevant factors must be considered in selecting the most economical and practical accommodations. An extra-night stay is allowable if it sufficiently reduces the airfare, or if the conference commences early in the morning or adjourns late in the evening.	☐ Submit receipt showing a zero balance as proof of payment. Personal credit card information must be redacted from the receipt. ☐ If lodging is for other than single occupancy, secure a rate sheet or other documentation of the single occupancy rate.
MEALS & INCIDENTAL EXPENSES	
o The meal and incidental per diem for domestic travel is currently $71 per day. o Incidental expenses are fees and gratuities provided to service workers, and for transportation costs in acquiring meals. o The daily allowance is prorated at 75% on days of travel, and if some meals are provided by the hotel or conference. o No meal allowance is provided when meals are provided throughout the day by the hosting organization. o The rate for international travel is in accordance with current Federal per diem rate guidelines.	Receipts for meals and incidental expenses are not required. ☐ Submit justification letter if claiming reimbursement for expenses exceeding the per diem allowance.

MISCELLANEOUS EXPENSES	
Checked Baggage Fees Such expenses are allowable when the Trustee is charged for the first checked bag. **Laundry Service** Such expenses are allowable if the duration of the trip, traveling conditions, or some other special circumstances dictate. **City Business Telephone Calls** Such expenses are allowable if the telephone calls are relevant to appropriate City business. **Personal Telephone Calls** Such expenses are allowable for one call to the Trustee's immediate family if they are located within the locale of their residence. If travel is in excess of three (3) days, one such call is permitted for each successive three (3) days thereafter. Each call should last a reasonable amount of time, such as 10 minutes per call. **Ground Transportation** Transportation between the traveler's residence and airport, and transportation between the airport and conference location.	☐ Baggage fees for second and additional items require a justification memo that it meets a business purpose. ☐ Submit receipts for all miscellaneous expenses.

~~APPENDIX D~~
~~LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS)~~
~~BOARD MEMBER EDUCATION EVALUATION FORM~~
~~Adoption Date: May 26, 2009~~

~~Board Member Name:~~	
~~Conference/Seminar Title~~	
~~Date~~	
~~Location (City/State)~~	
~~Level of complexity of the Conference/Seminar:~~	☐ **~~Introductory~~** ☐ **~~Intermediate~~** ☐ **~~Advanced~~** ☐ **~~Others:~~** ______
~~Conference/Seminar Category:~~	☐ **~~Finance/Investments~~** ☐ **~~Benefits (Retirement/Healthcare)~~** ☐ **~~Legislative/Fiduciary Law~~** ☐ **~~Corporate Governance~~** ☐ **~~Others:~~** ______

~~SEMINAR CONTENT~~
~~Please provide an evaluation on the quality of the conference or seminar and its relevance to you as a Board member.~~

~~1. What letter grade would you give to the overall educational value of the conference/seminar?~~ ***~~Rate seminar with A (excellent), B (very good), C (good), D (not beneficial).~~***	~~A~~ ☐ ~~B~~ ☐ ~~C~~ ☐ ~~D~~ ☐ ~~Comments:~~ ______
~~2. Would you recommend your fellow trustees attend this conference?~~	~~Never~~ ☐ ~~At least Once~~ ☐ ~~Annually~~ ☐ ~~Every other year~~ ☐ ~~Other~~ ☐ ~~Comments:~~ ______
~~3. Do you feel the conference was a good use of your time?~~	☐ ~~Yes~~ ☐ ~~No~~ ~~Why?~~ ______
~~4. Are there other conferences addressing this subject area that you feel would be a better investment than this conference?~~	☐ ~~Yes~~ ☐ ~~No~~ ~~Please provide the name/title of the recommended conference:~~ ______

~~Additional Comments:~~
______
______

APPENDIX D
Revised Date: January 22, 2019

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS) TRAVEL/CONFERENCE EVALUATION REPORT

Name of Attendee:	
Title of Conference/Seminar:	
Location:	
Event Sponsor:	Date(s) Held:

Report for:

☐ Travel

☐ Conference/Seminar Attendance Only

I. Nature/Purpose of Travel (if applicable):

II. Significant Information Gained:

III. Benefits to LACERS:

IV. Additional Comments:

SUBMIT TO THE LACERS COMMISSION EXECUTIVE ASSISTANT, 202 W. FIRST STREET, SUITE 500
WITHIN 30 DAYS AFTER ATTENDING THE CONFERENCE/SEMINAR

5.1 CORPORATE GOVERNANCE ACTIONS RESPONSE PROTOCOL

Adopted: January 13, 2009; Affirmed: January 22, 2019

Upon receipt of a request for a Corporate Governance action, which is not directly addressed by existing Board policy, and for which there is not sufficient time in advance of the deadline to convene a Corporate Governance Committee or Board meeting to consider the matter, the General Manager or General Manager designee shall execute the action if one staff member plus one Board Member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy.

For the purpose of implementing this policy, the Chief Investment Officer (CIO) shall serve as the designated staff member, and the Corporate Governance Committee Chairperson as the designated Board Member. In the absence of the CIO, the General Manager will act as the designated staff member, and in the absence of the Committee Chairperson, the Board President will act as the designated Board Member.

Section 4.0 BOARD PROCEDURES

Section Affirmed: October 22, 2013; Revised: May 14, 2013, February 25, 2014, June 14, 2016, August 28, 2018, November 27, 2018, January 22, 2019

4.1 GENERAL

A. **Procedural Standard**
The Board and its Committees shall operate under Robert's Rules of Order unless statutes or Board action provide otherwise.

B. **Board Actions**
Actions of the Board require four votes. The Los Angeles City Charter §503(c) requires that "Each board shall exercise the powers conferred upon it by the Charter by order or resolution adopted by a majority of its members. Action of the board shall be attested by the signatures of the President or Vice President, or two members of the board, and by the signature of the secretary of the board."

C. **Board Meeting Presiding Officer**
Board meetings shall be convened and presided over by the President of the Board. In the absence of the President, the Vice President shall assume all responsibilities and authority of the President. In the absence of both the President and Vice President, the General Manager/Manager-Secretary will open the meeting and call for nominations of a President Pro Tempore from the members present to serve for the duration of the meeting. Should the last presiding officer need to leave an open meeting, they shall designate a succeeding officer.

D. **Committee Assignments**
Committee assignments are to be determined by the President or Acting President, who shall also name the Committee Chair. An alternate will be appointed for each Committee to serve in the absence of Committee Members. Additional alternates may be appointed on an as-needed basis by the Board President.

E. **Committee Meeting Schedule and Attendance**
All Committee meetings of the Board shall be open to all Board members, but only Committee Members may vote. Committee meetings shall be scheduled to occur on the same day as regular Board meetings whenever possible.

F. **Closed Sessions**
Closed sessions of the Board and its Committees shall be limited to Board Members and only those other persons who are required by the Board.

G. **Closed Session Discussions and Decisions**
Pursuant to Section 54957.2, Chapter 9 of the California Government Code (The Ralph M. Brown Act), the legislative body of a local agency may, by ordinance or resolution, designate a clerk or other officer or employee of the local agency who shall then attend each closed session of the legislative body and keep and enter in a minute book a record of topics discussed and decisions made at the meeting. The Executive Assistant to the Board of Administration shall be designated to serve in this capacity; and the General Manager/Manager-Secretary is designated as the alternate.

H. **Board Member Compensation**
Members of the Board shall be compensated for attendance at all Regular and Special meetings of the Board at a rate of $50 per meeting with a maximum of $250 per month, except when such Special meeting is concurrently scheduled as a meeting of a Committee of the Board.

I. **Board Meeting Schedule and Location**
The Board hereby approves the official meeting time for Regular Meetings of the LACERS Board of Administration as 10 a.m. on the second and fourth Tuesdays of each month, in the LACERS Boardroom at 202 West First Street, Suite 500, as the official place for Regular Meetings. All Board and Committee meetings are open to the public, with the exception of "closed session" meeting items.

J. **Public Comment**
The Board shall provide a member of the public the opportunity to address the Board or Committee on any item under its jurisdiction as follows:

1. Agenda Items – With respect to any item which is already on the agenda, the public shall be allowed the opportunity to comment at the commencement of the Board or Committee meeting. The Board/Committee Meeting Presiding Officer may request to have the spreaker give their public comment prior to the agenda item to be addressed. The public shall also be given an opportunity to comment on closed session items prior to adjournment into closed session.
2. Non-Agenda Items – Members of the public shall have the right to address the Board on items which are within the subject matter jurisdiction of the Board. Except as otherwise permitted by the Ralph M. Brown Act, no deliberation of action may be taken by the Board concerning a non-agenda item, except that members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board; (2) ask a question for clarification; or (3) provide a reference to staff for factual information. Furthermore, the Board may take action to direct staff to place a matter of business on a future agenda.

Each speaker giving a public comment shall be allotted two minutes per agenda item or new matter which is to be enforced by the Board/Committee Meeting Presiding Officer. The allotted time may be adjusted at the discretion of the Presiding Officer.

Written public comment addressing items on the meeting agenda shall be distributed to members of the Board or Committee prior to the beginning of the meeting but shall not be read out loud into the record by Board Members or LACERS' staff during the meeting as a matter of course. All submitted public comments, including public comment cards, shall be posted with the Board meeting documents on LACERS' website.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

1.1 BOARD EDUCATION AND TRAVEL POLICY

Adopted: May 29, 2009; Revised: June 22, 2010; December 13, 2011; March 11, 2014; September 23, 2014; January 22, 2019

I. STATEMENT OF PURPOSE

Los Angeles City Charter Section 1106(c), consistent with Article XVI, Section 17 of the California Constitution requires the Board to exercise a *Prudent Person Standard*, discharging their duties with respect to its system, with care, skill, prudence, and diligence. It is imperative that LACERS Board Members maintain a broad and current understanding of issues affecting the administration of public pension systems to fulfill their fiduciary duties. This policy recognizes and affirms the role of education in ensuring Trustees have the knowledge to successfully discharge their duties as fiduciaries.

The Board establishes a standard of a minimum of 24 hours of Board Member education within the first two years of assuming office and for every subsequent two-year period in which the Board Members continue to hold membership on the Board. A report detailing the training and education received by the respective Board Members during the two-year periods will be published on the LACERS website.

II. EDUCATIONAL OBJECTIVES

This policy defines a *Prudent Person Standard* for Trustees as a general understanding of:

A. The role of the Board Members and the role of staff
B. The obligations and role of fiduciary and the paramount duties of loyalty and prudence
C. The business model (including knowledge of true measure of success, the driving factors that determine success and the major business risks associated with public pension systems; namely, in the areas of investments and benefit administration).
D. Governance principles
E. The legal and legislative environment
F. Actuarial principles
G. Plan design and other benefit program
H. Investment and asset allocation strategies

III. NEW TRUSTEE ORIENTATION PROGRAM

To ensure that newly appointed and elected LACERS Board Members are securely grounded in their role as fiduciaries at the outset of assuming such an important responsibility, each shall participate in the New Trustee Orientation Program which offers critical background information and education on the Board’s governance responsibilities, the knowledge of which is essential for the fullest possible engagement of each Board Member in every aspect of pension fund management.

The structure of the orientation will generally be as follows:

A. Day 1
   Morning
   1. History and overview of LACERS
   2. Fiduciary Responsibility
   3. Ethics Training

Afternoon
1. Board Governance
2. Benefits and Services
3. Actuarial Concepts

B. Day 2
1. Investment Concepts
2. Operations
3. Legal Representation and Law
4. Current Topics for LACERS
5. Tour of the offices and boardroom

IV. IN-HOUSE EDUCATION PROGRAM

To provide updates on various issues affecting the administration of public pension systems, in-house education sessions will occur periodically at regular Board meetings or organized as stand-alone sessions. The General Manager will arrange in-house training for the Board based on the schedule below and as-needed:

A. Mentoring
Any new Board Member may request a mentor to assist him or her in becoming familiar with his or her responsibilities on the Board. If a request is made, the Board President will designate an experienced Board Member to be a mentor to the new Board Member for a period of one year.

B. Investment Education
At least once per fiscal year, an investment educational session for all Board Members shall be conducted. The General Manager shall survey the Board to identify specific investment topics of interest.

C. Fiduciary Education Sessions by Fiduciary Counsel
Each year, outside Fiduciary Counsel will provide fiduciary education to the Board.

D. Actuarial Education
Each year, an actuarial education session will be provided to the Board.

E. Healthcare Benefits Education
Each year, a healthcare benefits education session will be provided to the Board.

F. Retirement Benefits
Each year, an update of the issues regarding retirement benefits will be provided to the Board.

G. Ethics Training
Board Members are required to participate or attend the City's Ethics training during the first year of appointment and then once every two years. Refresher ethics training will be provided to the Board annually.

H. Other As-needed Topics
Staff will periodically coordinate educational sessions for the Board on topics of general interest or topics that Board Members may request.

V. EDUCATIONAL CONFERENCES/SEMINARS

The complexities of sound management of the assets and liabilities of a trust fund impose a continuing need for all Members of the LACERS Board to attend professional and educational conferences, seminars, and other educational events that will better prepare them to perform their fiduciary duties.

A. Annual Approved List of Educational Seminars

At the beginning of each fiscal year, the General Manager shall prepare for Board adoption a list of recommended conferences, seminars and meetings (Appendix A). The list shall identify recommended conferences for new trustees, and make a concerted effort to reflect educational opportunities at Southern California universities available for pension trust fiduciaries.

Board Members are encouraged to attend a minimum of one educational conference or seminar per fiscal year from this list.

The General Manager will prepare an annual blanket authority for Board approval for conferences included in the Approved List of Educational Seminars.

Every Board Member’s participation in a pre-approved conference shall be noticed on the Board agenda following submission of the Board Travel request.

B. Travel Requiring Explicit Board Approval

Subject to explicit approval of the Board for each conference, the requesting Board Member shall provide appropriate justification to the Board for consideration of:

1. Requests to travel to conferences outside the List of Educational Seminars (Appendix A) will be submitted to the Board for approval, so long as the trustee’s education allocation is not exceeded.
2. Requests for travel outside the United States.

C. Travel Outside the United States

All conferences and seminars which involve travel to a destination outside the United States must be approved by the Board. Each Board Member may attend no more than one conference which involves international travel in any 12-month period.

D. Travel to Washington D.C. or Sacramento

The Mayor requires notification of any travel to Washington D.C. or Sacramento. Staff will process the appropriate forms on behalf of the Trustees.

E. Conference Invitations Received by a Board Member

To provide all the Trustees with the same conference and seminar opportunities, the individual Board Member shall forward invitations they receive to a conference or seminar, to the General Manager or the Board Executive Assistant. LACERS will consult with the Office of the City Attorney or the City Ethics Commission for compliance with gift and disclosure requirements. If the conference or seminar clears the ethics compliance process, the Board Executive Assistant shall disseminate the conference or seminar invitation to all Board Members.

F. This section is intentionally left blank.

G. Board Education and Travel Limitations

Board Member travel shall adhere to the following guidelines:

- Board Members shall attend conferences or seminars that have a solid reputation for quality program content. (see Appendix A); i.e., agendas with a minimum of five hours of substantive educational content. Content shall not be geared toward marketing or the promotion of investment management and related sponsors. Topics covered during the conference or seminar must be related to the pension fund industry.
- The Board education travel budget per Trustee shall not exceed $10,000 per fiscal year for conference fees and travel expenses. Expenses which exceed this annual allocation shall be the personal responsibility of the Board Member unless the Board approves additional travel and budget allocation prior to the conference.

H. Reports to the Board

1. <u>Quarterly Travel Expenditure Report</u>
   An educational travel expenditure report shall be provided to the Board on a quarterly basis, covering cumulative Board Member and staff travel for the fiscal year.

2. <u>Monthly Report on Seminars and Conferences Attended by Board Members on Behalf of LACERS</u>
   There may be occasions where a Board Member attends seminars or conferences as a LACERS representative or in the capacity of a LACERS Board Member which are either complimentary (no cost involved) or with expenses fully covered by the Board Member.* Since there is no expense incurred to LACERS, these seminars or conferences do not require Board approval. However, for the purpose of transparency and to avoid the appearance of impropriety, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, such conferences or seminars attended. Monthly reports will include conferences or seminars attended during the period preceding the said Board meeting.

   **Please consult the City Ethics Commission for gift reporting limitations and reporting requirements.*

I. Meeting for Business Purpose in Compliance with the Ralph M. Brown Act

In accordance with the Ralph M. Brown Act, a quorum comprising of majority of the members of the LACERS' Board or Committee to hear, discuss, or deliberate upon any matter which is under the subject matter jurisdiction of LACERS are meetings subject to the Brown Act. Board Members must be cognizant of this requirement and avoid discussing LACERS' business when in meetings or discussions with other Members of the Board.

VI. TRAVEL EXPENSE REIMBURSEMENT POLICIES

A. The LACERS Board of Administration has full authority over the trust fund expenditures including the payment of all education and related travel expenditures which it deems reasonable and appropriate for the conduct of official LACERS business.

The Office of the City Attorney has affirmed the LACERS Board's plenary authority and fiduciary responsibility for investment of trust assets and administration of the System as codified in the California Constitution (Section 17 of Article 16). The position is further strengthened by the Los Angeles City Charter §1110(b): "The board of each pension and retirement system shall have control over their respective funds. Transfers or expenditures shall be drawn upon funds only upon demands signed by the chief accounting employee of the board. All payments from the funds shall be made upon demands prepared and approved in accordance with the provisions of the Charter."

The City's travel policies as set forth in Division 4, Chapter 5, Article 4 of the Los Angeles Administrative Code (LAAC) provide the definitions, parameters, and guidance for the majority of travel circumstances encountered for LACERS travel and will be referenced as LACERS primary travel policy. LACERS departmental travel expense reimbursement policy is meant to be in compliance with the LAAC travel and augment the policy to facilitate LACERS business. LACERS travel reimbursement policy establishes standards of reasonableness, appropriateness, and necessity for the conduct of LACERS business, and applies to all travel expenditures paid by LACERS. Expenditures which are certified as to reasonableness and appropriateness by the Department Head are to be paid by the City Controller upon demand. The Board authorizes by resolution, authority to certify travel expenditures as required by the LAAC, to the Board President for Board Member and General Manager travels; the Board Vice President for Board President travel; and the General Manager for staff, City Attorney-Retirement Benefit Office counsel, and consultant travel.

LACERS acknowledges the Los Angeles City Controller's Travel Policy applies to most other City departments. However, LACERS Board and its designees retain their plenary authority to approve all education and related travel expenditures which are reasonable and appropriate for the conduct of official LACERS business. LACERS will consider the Controller's Travel Policy and will incorporate similar rules if appropriate.

B. Reimbursable Expenses

LACERS Travelers are entitled to reimbursement of travel expenses when on official LACERS business, including reimbursement of all transportation costs, registration or attendance fees, subsistence costs and other costs reasonably and necessarily incurred on official business, subject to the guidelines outlined in this policy and in compliance with the Internal Revenue Service accountable plan rules for travel reimbursements.

A list of reimbursable expenses is included in Appendix B, which includes a summary of allowable reimbursements under the LAAC and the corresponding LACERS policy establishing standards for reasonableness, appropriateness, and necessity.

C. Non-Reimbursable Expenses
Expenditures which are incurred by a Board Member or staff that are not substantive to LACERS' business will not be reimbursed by LACERS. A list of non-reimbursable travel expenses is included in Appendix B.

D. Event Participation Report
Whenever a Trustee attends a conference or other event at the expense of the Fund, it shall be his or her responsibility to complete the Board Members Education Evaluation Form (Appendix D) and to provide the Board information on concerns with the event, which they believe are of significance to the System. The evaluation form must be submitted with the request for reimbursement of expenses associated with each conference attended. A reimbursement will not be made without a completed evaluation form.

E. Travel Activity Summary
Upon the close of the fiscal year, the General Manager shall report to the Board on Trustee (along with staff) travel expenditures throughout that year.

VII. APPENDICES

A. Appendix A – List of Educational Seminar Schedule
B. Appendix B – LACERS Travel Expense Reimbursement Policy
C. Appendix C – Board Travel Reimbursement Checklist
D. Appendix D – LACERS' Board Member Education Evaluation Form

APPENDIX A
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
LIST OF EDUCATIONAL SEMINARS – FISCAL YEAR 2018-19

*****_Local Conference_

CONFERENCE / SEMINAR / MEETING	SUBJECT MATTER	TRUSTEE EVALUATION		
		TRUSTEE RATING Rate seminar with:		LEVEL
		A	*Excellent*	▪ *Introductory*
		B	*Very Good*	▪ *Intermediate*
		C	*Good*	▪ *Advanced*
		D	*Not Beneficial*	
California Association of Public Retirement Systems (**CALAPRS**) – General Assembly ▪ March 2 - 5, 2019 (Monterey, CA)	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A**	(Sohn, 2016) (Wilkinson, 2018)	Intermediate
CALAPRS – Principles of Pension Management For Trustees ▪ August 27 – 30, 2018 (Malibu, CA)* ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A**	(Lee, Serrano, Wilkinson 2015)	Intermediate
CALAPRS – Advanced Principles of Pension Management For Trustees ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A**	(Lee, 2017)	Advanced
CALAPRS – Trustees' Roundtable ▪ October 26, 2018 (Glendale, CA)* ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**B**	(Chao, 2016)	Intermediate
Council of Institutional Investors (**CII**) – Conferences ▪ **Fall Conference:** October 24 – 26, 2018 (Boston, MA) ▪ **Spring Conference:** March 4 -6, 2019 (Washington, DC)	▪ Benefits Admin ▪ Investments ▪ Corporate Governance ▪ Audit & Strategic Planning	**A** **B**	(Chao, 2017) (Wilkinson 2015)	Intermediate Advanced

International Foundation of Employee Benefit Plans (**IFEBP**) – Trustees And Administrators Institute ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Plan Admin			
International Foundation of Employee Benefit Plans (**IFEBP**) – Health Care Management Conference ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin			
International Foundation of Employee Benefit Plans (**IFEBP**) – New Trustees Institute ▪ **Level I: Core Concepts:** October 13 – 15, 2018 (New Orleans, LA) ▪ **Level II: Concepts in Practice:** October 13 - 14, 2018 (New Orleans, LA)	▪ Benefits Admin ▪ Investments ▪ Plan Admin			
International Foundation of Employee Benefit Plans (**IFEBP**) – The Wharton School Advanced Investments Management ▪ 2018 and 2019 Dates and Location TBD	▪ Investments ▪ Corporate Governance			
International Foundation of Employee Benefits Plan (**IFEBP**) – The Wharton School Portfolio Concepts and Management Course ▪ 2018 and 2019 Dates and Location TBD	▪ Investments			
National Conference on Public Employee Retirement Systems (**NCPERS**) – Annual Conference & Exhibition ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance	**A** **B**	(Wilkinson, 2017) (Ruiz, 2016) (Sohn, 2018)	Intermediate
National Conference on Public Employee Retirement Systems (**NCPERS**) – Trustee Educational Seminar (TEDS) ▪ 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance	**A**	(Sohn, 2018)	Intermediate

National Conference on Public Employee Retirement Systems (**NCPERS**) – Legislative Conference ▪ 2018 and 2019 Dates and Location TBD	▪ Benefits Admin ▪ Investments ▪ Corporate Governance			
Pension Real Estate Association (**PREA**) Spring Conference ▪ March 14 – 15, 2019 (Dallas, TX)	▪ Investments	**A**	(Chao, 2017) (Lee, 2018)	Intermediate
Pension Real Estate Association (**PREA**) Annual Institutional Investor Conference ▪ October 3 – 5, 2018 (Boston, MA)	▪ Investments	**A**	(Chao, 2017)	Intermediate
State Association of County Retirement Systems (**SACRS**) Conference ▪ **Fall Conference**: November 13 – 16, 2018 (Indian Wells, CA)* ▪ **Spring Conference**: May 7 – 10, 2019 (Lake Tahoe, CA)	▪ Benefits Admin ▪ Investments ▪ Corporate Governance	**A** **B**	(Wilkinson, 2015 and 2017) (Chao, 2017)	Intermediate
State Association of County Retirement Systems (**SACRS**) / **UC Berkeley Program** – Public Pension Investment Management Program ▪ July 15 – 18, 2018 (Berkeley, CA)	▪ Investments	**A**	(Wilkinson, 2015)	
Western Economic Association International – Annual Conference ▪ June 28 – July 2, 2019 (San Francisco, CA)	▪ Investments			
Women's Alternative Investment Summit ▪ November 8 – 9, 2018 (New York, NY)	▪ Investments			
Women's Private Equity Summit ▪ March 13 - 15, 2018 (Dana Point, CA)	▪ Investments			

APPENDIX B
LACERS TRAVEL EXPENSE REIMBURSEMENT POLICY
AND RELATED PROVISIONS OF CITY TRAVEL POLICY
(LAAC Chapter 5, Article 4, §§ 4.242.1-4.242.9)
Approved: March 11, 2014;
Revised: September 23, 2014; January 22, 2019

H. GENERAL GUIDELINES

A copy of the Travel and Education Policy including the Guidelines for Travel and Personal Expenses will be provided to new Board Members and staff before processing their first travel request.

A. LACERS considers an individual traveling if:
   i) the travel is outside the geographic boundaries of Los Angeles County [LAAC §4.242.2]; and more than 50 miles away from both LACERS' offices and the traveler's home; and
   ii) the duties require the individual to be away from the general area of the individual's primary residence substantially longer than an ordinary day's work; or
   iii) the individual needs to sleep or rest to meet the demands of work while away from the primary residence.

B. Costs incurred on travel days which are not conference days are allowable (subject to limitations covered in the applicable sections of the guidelines): (i) on the day before the first educational session of the conference or seminar if transportation on the first conference day would require the traveler to leave his/her point of departure (e.g., home) earlier than 9:00 a.m.; or (ii) on the day after the last educational session of the conference or seminar if transportation on the last conference day would cause the traveler to get to his/her final destination (e.g., home) after 8:00 p.m.

C. Board approval of travel is required prior to payment of any related fees. If a Traveler elects to personally incur travel-related fees prior to the Board's approval, the Traveler assumes personal financial liability that his or her expenses may not be reimbursed.

II. TRANSPORTATION

A. AIR TRAVEL	
LAAC Requirement	LACERS Policy
Except in the case of official necessity, air travel expenses are allowable only for the lowest regular fare available for regularly scheduled airlines for the date and time selected [§4.242.2(a)(1)] Claims for reimbursement of higher fare or extra charges for transportation by schedule airlines are allowable only if certified by the Department Head[1] that he or she has reviewed and concurs with the facts constituting the official necessity. [§4.242.2(a)(1)]	1. Air travel may be used when it is the most efficient means of travel. 2. Air travel shall be at coach or economy fare. Coach or economy fare is presumed to be the lowest regular fare available for regularly scheduled airlines. Airfare quotes from several airlines are not necessary. 3. When the airfare receipt shows an upgrade to business or first class accommodation, a. Without further justification, the traveler may be reimbursed at the lower of the lowest regular fare rate available[2] and actual cost, or b. the traveler shall provide a memo stating the case of official necessity, for approval by the Department Head[1]. 4. LACERS will pay directly for airfare booked with the City's authorized business travel service, CalTravelStore. 5. If CalTravelStore is not used, LACERS travelers must use their personal credit card to book flights or other modes of transportation. 6. Consistent with Federal and City travel standards, coupons, or promotional mileage credits earned by the traveler during the course of LACERS business travel may be used for LACERS or personal business. The traveler will not be reimbursed for such coupons or promotional mileage credits used for LACERS travel. 7. Fees for the first checked baggage will be reimbursed. Fees for additional checked baggage may be reimbursed if a justification for an official business need is provided. 8. The cost of air flight insurance is not eligible for reimbursement. 9. With pre-approval of the Department Head[1], refundable airline tickets may be purchased if the traveler provides acceptable justification that the benefit of booking a refundable ticket outweighs the risk of changes in travel plans.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

[2] The acceptable amount will be the fare verified by the Accounting staff prior to encumbrance of the travel request.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

B. PERSONAL VEHICLE OR NON-AIR TRANSPORTATION	
LAAC Requirement	LACERS Policy
In all instances where a mode of transportation other than regularly scheduled airlines is chosen, the Department Head[1] shall authorize such alternate mode of transportation in advance and the allowable cost shall be the actual cost of the alternate mode of transportation or the cost allowable under Subsection (a)1, whichever is less. [§4.242.3.(a)(2)] In the case of travel by modes of transportation other than regularly scheduled airlines, transportation costs shall be the regular fare for the mode of transportation chosen. [§4.242.3(a)]	10. Pre-approval by the Department Head[1] is required for all non-air travel in advance of travel. Travelers must submit the following items for pre-approval: a. For travelers using personal automobiles for business purposes – Provide proof of automobile insurance at minimum coverage levels as follows: $25,000 injury to or death of one person; and, $50,000 injury to or death of more than one person; and, $5,000 property damage for any one accident. b. Cost comparisons are required for all non-air travel, with exceptions listed below: Traveler shall submit: a quote for the lowest regular fare available for regularly scheduled airlines to the destination for the date and time selected; and the cost for regular fare on the alternative mode of transportation. <u>Exceptions</u> (no cost comparison is required): If traveling by vehicle to neighboring counties of Orange, Riverside, San Diego, San Bernardino, Ventura, Kern, Santa Barbara, and San Luis Obispo, or to the San Francisco Employees Retirement System to transport sensitive computer equipment for the LACERS emergency hot/warm site. 11. Receipts for alternate modes of travel are required. Reimbursement will be for the lower of the actual cost of transportation or lowest regular airfare verified by Accounting prior to encumbrance of the travel request.

[1]Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

Section 1.0 GUIDANCE FOR BOARD MEMBERS

In the instance of the use of private automobile, mileage shall be in accordance with mileage provisions of Division 4, Chapter 5, Article 2 of the Administrative Code. [§4.242.3.(a)(2)]	12. Mileage reimbursement a. Mileage reimbursement for the Board will be calculated on a roundtrip basis between official's residence and official destination. b. Mileage reimbursement for staff will be based on the distance in excess of home to City office for travels during regular work days; for other days, reimbursement will be based on a roundtrip between staff's residence and official destination. 13. Additional travel time and expenses (such as meals and lodging) incurred in choosing other than the fastest and most direct mode of transportation are at the traveler's own personal time and expense. 14. Claims for repairs, replacements, towage, gas and car insurance are not reimbursable. 15. Ground transportation refers to transportation from home to airport, airport to hotel and/or conference/ meeting/seminar location, and back. This includes taxis, shuttles, limousines, and private vehicles. 16. Mileage reimbursement is provided when personal vehicle is used for ground transportation to/from airport. Commissioner's mileage reimbursement will be computed based on roundtrip miles from residence to airport. Staff mileage reimbursement will be computed based on the distance in excess of home to City office for travels during regular work day; and roundtrip miles from residence to airport on non-work days.

C. GROUND TRANSPORTATION	
LAAC Requirement	LACERS Policy
The least expensive and most practical form of public transportation shall be used, taking into consideration such factors as time, availability, and personal safety or health. [§4.242.3.(c)]	17. Reimbursement for airport parking is actual amount, not to exceed $20 per day. Pre-approval is not required. Reimbursement for actual amounts in excess of $20 per day requires the traveler submitting a memo to justify the expense based on time, availability, and personal safety or health. 18. Reimbursement for use of taxi, shuttle, private car or limousine service is limited to the lesser of roundtrip taxi fare (http://www.taxifarefinder.com)[2] or shuttle fare (http://www.shuttlefare.com)[2].
D. AUTOMOBILE RENTAL	
LAAC Requirement	LACERS Policy
Such expenses are allowable if traveling by car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus. [§4.242.3.(d)]	19. Pre-approval by the Department Head[1] is required. Travelers must provide written justification that the traveling by car is less expensive or more efficient in conducting LACERS business than by use of taxi or bus. 20. The traveler will not be reimbursed for car rental insurance within the United States. Car rental insurance costs required in foreign countries may be claimed for reimbursement.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.
[2] The acceptable amount will be the fare verified by the Accounting staff prior to encumbrance of the travel request.

III. LODGING, MEALS AND INCIDENTAL EXPENSE ALLOWANCE

A. LODGING	
LAAC Requirement	LACERS Policy
This section is not intended to preclude an employee or elected official from staying in a hotel where the meeting or convention to be attended is held. [§4.242.3.(b)(1)]	21. Acceptable documentation shall include original itemized hotel receipt marked 'Paid in Full' or showing a zero balance; otherwise, proof of payment is also required. 22. Reimbursement for lodging in a hotel where the meeting or convention to be attended is deemed the most practical accommodation and permissible. 23. A traveler may elect to stay in a hotel sponsored by the conference as it is presumed to be the most practical or convenient. The reimbursement will be limited to the lesser of the actual hotel costs incurred or the conference hotel rate. 24. For any official System travel for training, due diligence trips, meetings with investment managers, or training where hotels are not pre-designated, the traveler should select the most economical lodging taking into consideration the proximity of the selected place to conduct the official System business, traveler's safety, time and transportation costs and other relevant factors. Any of the following methods are acceptable for determining "moderately priced establishments of acceptable quality", "the most economical and practical accommodations", and those which would be presumed not to meet the IRS definition of "lavish and extravagant" accommodations: (i) Lodging does not exceed the highest Federal domestic lodging per diem rate; cost comparison is not necessary; or (ii) The most economical hotel identified using the City traveler provider website (www.concursolutions.com/), with availability, with at least a 3 star rating on a 5 star scale travel, and within walking distance or no less than ½ mile radius of the first business location; or

Section 1.0 GUIDANCE FOR BOARD MEMBERS

In the selection of restaurants and hotel rooms, it is expected that individuals will seek moderately priced establishments of acceptable quality. [LAAC §4.242.3.(b)] An employee or elected official must consider transportation costs, time, and other relevant factors in selecting the most economical and practical accommodations. [§4.242.3.(b)(1)]	(iii) The most practical hotel on the above list with acceptable written justification; or (iv) Any lodging expenses may be reimbursed provided that the expense does not exceed 300% of the lodging per diem and traveler must clearly demonstrate no other acceptable alternative lodging was available, as in the event of a state of emergency, or other justifiable reason reviewed and certified by the Department Head[1] as reasonable and proper, and incurred in the pursuit of System business. 25. Reimbursement is limited to single occupancy room rate, as documented on hotel letterhead or the hotel's room rates listing, plus applicable taxes and charges unless additional occupants are LACERS trustees/staff on official LACERS business.
B. MEALS AND INCIDENTAL EXPENSES (M&IE)	
LAAC Requirement	LACERS Policy
Expenses incurred by an employee or elected official for food and beverage served at meals, scheduled receptions, or other functions necessary for the conduct of City business are allowable to a maximum of three meals a day. [§4.242.3.(b)(2)]	26. LACERS intends to be compliant with IRS accountable plan rules, therefore M&IE allowance will be provided only when business travel results in a necessity for lodging. LACERS will provide travelers with a standard meal allowance at the Federal per diem rate per locale. The allowance, in lieu of providing receipts, is acceptable under the IRS accountable plan rules. The IRS (Publication 463) defines meals and incidental expenses include: meals, transportation to acquire meals, fees/tips to porters, baggage carriers, bellhops, hotel maids, wait staff, and other service providers. 27. No meal allowance will be paid when meals are provided throughout the day by the host or at the conference. 28. Prorating the standard meal allowance – The IRS permits LACERS to adopt its own rules for prorating the standard meal

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

	allowance on partial days of travel so long as we consistently apply the method in accordance with reasonable business practice. The meal and incidental expense allowance will be prorated from a daily allowance to a per meal period allowance on partial days of travel; and when some meals are prepaid/to be paid by LACERS (complimentary breakfast provided at the hotel, meals at the conference, or pre-paid to comply with the City/LACERS gift restrictions. The M&IE allowance = incidental expense + breakfast allowance (if traveling between 1AM – 9AM) + lunch allowance (if traveling between 9AM – 5PM) + dinner allowance (if traveling between 5PM – 1AM). Utilize the M&IE per travel locale and provide an allowance for each meal period the traveler is away from home (based on the current Federal General Services Agency six tiered M&IE allowance):
Gratuities. Such expenses, not exceeding 15%, are allowable where reasonable and customary. [§4.242.3.(h)]	29. Gratuities are included in the IRS definition of "incidental" expenses and are therefore subject to per diem limits. Reimbursement for restaurant gratuities are calculated as up to 15 percent of the restaurant bill exclusive of taxes, except when the gratuity percentage is required and the amount is added on the bill by the service provider.

Total	Breakfast	Lunch	Dinner	IE
$46	$7	$11	$23	$5
$51	$8	$12	$26	$5
$56	$9	$13	$29	$5
$61	$10	$15	$31	$5
$66	$11	$16	$34	$5
$71	$12	$18	$36	$5

IV. OTHER EXPENSES

LAAC Requirement	LACERS Policy
(j) Other Expenses. Expenses not specifically set forth in other subsections of this section that are incurred by an employee or an elected official are allowable where deemed necessary in the conduct of City business; provided that such expenses have been reviewed and certified by the Department Head[1] as reasonable and proper and incurred in pursuit of City business. Wherever the type of expenditure is not specifically listed in this section, the employee or elected official should be prepared to absorb the cost as a personal expenditure in the event that such expense is not certified by the Department Head[1]. [§4.242.3.(j)]	30. Other travel expenses are allowable when deemed necessary in the conduct of System business provided such expenses are reviewed and certified by the Department Head[1] as reasonable, proper, and incurred in pursuit of System business. Otherwise, these expenses become personal expenditures. 31. Travel Interruptions – When there is an interruption or deviation from planned travel due to bona fide public emergencies outside of the traveler's control such as weather or shutdown of air travel, travelers may be reimbursed at full cost for emergency lodging, meals, and incidental expenses. 32. Indirect Travel - whether for the traveler's personal leave or for convenience, expenses allowable will not exceed those that would have been incurred for uninterrupted travel utilizing the direct travel route or travel days. Supporting documentation showing the cost for direct travel and the deviation should be provided by the traveler.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures ; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

IV. NON-REIMBURSABLE TRAVEL EXPENSES

LAAC Requirement	LACERS Policy
Expenditures which are incurred by an employee or elected official that are of a purely personal nature will not be reimbursed by the City. a) Auto repairs, replacement or towage to personal vehicle when such use has been authorized (see established City procedures for repair to City vehicle); b) Flight insurance; c) Personal telephone calls (except those specified in Section 4.242.3 (g) of this article); d) Expenses for persons other than the employee or elected official, except as specified in Section 4.242.3 (b) 2. [§4.242.4]	33. Expenditures which are not substantive to LACERS business will not be reimbursed by LACERS, such as: a) Any expenses related to entertainment and recreational activities; b) Flight upgrade fees for seats other than coach or economy: c) Internet usage fees (unless the internet is used for City business); d) Any expenses related to alcohol and tobacco. 34. The traveler must submit reimbursement for personal expenditures paid by LACERS. If there are portions of the conference or seminar that are entertainment in nature and not business-related (e.g., golf tournaments, musical performances or concerts, etc.), the traveler is required to reimburse LACERS for the cost of these recreational activities.

V. OTHER RULES AND RESTRICTIONS

A. DOCUMENTATION OF EXPENSES - PERSONAL EXPENSE STATEMENTS	
LAAC Requirement	LACERS Policy
All expenses claimed shall be listed on separate forms provided and used for required documentation of travel expense. Completed travel expense forms shall be forwarded to the Controller within thirty (30) days of the conclusion of the trip. The Department Head[1] shall certify that all expenditures were incurred in pursuit of City business. Falsification of such certification shall be grounds for appropriate disciplinary action and such other sanctions provided by law. Receipts shall be provided for transportation costs incurred under Section 4.242.3(a), lodging, and for any single item of expenditure in excess of $25.00. Receipts for expenditures under $25.00 should be presented when available. [LAAC § 4.242.7]	35. All expenses claimed for reimbursement must be itemized on the Personal Expense Statement (PES - Form Gen. 16). 36. The traveler is responsible for verifying all charges on receipts before making payment. Charges made in error will not be reimbursed. 37. Original receipts are required for any single expenditure in excess of $25. Receipts are not required for a meal and incidental expense allowance, regardless of amount, when the Federal per diem rate per locale is provided to the traveler and prorated in accordance with LACERS' policy.

B. TRAVEL ADVANCES	
LAAC Requirement	LACERS Policy
Requests for an advance for funds shall be submitted to the Controller, where feasible, at least ten (10) days in advance of the beginning of the planned expenditure of funds and such request shall include the persons traveling, period covered, and the destination. In addition, the request should state the purpose of the trip, the nature of the City business to be conducted on the trip, and the proposed total estimated expenditure. Documentation of actual expenses incurred shall be submitted to the Controller in conformance with Section 4.242.7.	38. For trips of one night or more, a travel advance may be requested. The amount advanced is limited to the lodging, meal and incidental expenses per diem. 39. Written requests for the travel advance are to be submitted by the Traveler to the CEA/travel coordinator for approval at least thirty (30) days prior to the date of travel. The request must include a statement certifying that the traveler has no outstanding cash advance. 40. A cash advance request will be denied if a traveler has an outstanding cash advance for past travel with does not comply with the procedures. 41. Regular travel advances will be released no earlier than one (1) week before travel.

[1] Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures, the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

42. Outstanding travel advances not accounted for and delinquent over 120 days will be included as part of an employee's wages on the first payroll period of the subsequent calendar quarter following the end of the 120 calendar days; and, for non-City employees, IRS Form 1099-Misc will be issued per IRS Federal, State, Local Government Taxable Fringe Benefit Guide. Nothing herein eliminates the traveler's obligation to return to the Fund any excess monies that were received that were not used for approved travel expenses.
43. Future travel advances will not be processed for traveler(s) with delinquent PES over 30 days. Requests for reimbursement may be processed in advance of the travel for expenditures such as registration fees, airfare and/or one-night hotel deposit. To ensure timely processing of the reimbursement, such requests along with supporting documents and proof of payment (credit card statement, etc.) must be submitted to the CEA/travel coordinator, in writing, at least fifteen (15) working days before the date of travel.
44. Advanced payment for cancelled travel: Any amount that was paid by department in advance of travel is considered an advance. In the event of the need to cancel the trip, the traveler is responsible for notifying all payees to as soon as possible to avoid/minimize cancellation fees
    a. If cancellation was due to personal reasons, the traveler must personally reimburse the department for any amount not recovered (net of cancellation fees). If the refund or credit was issued directly to the traveler, traveler must pay LACERS the entire amount of credit received within 14 calendar days from the credit issued date.
    b. If travel was cancelled due to the business or public reason, traveler is

Section 1.0 GUIDANCE FOR BOARD MEMBERS

	responsible to submit a justification along with the proper documentation to the General Manager within 14 calendar days from the cancelled date. c. Unrecovered amounts are reported as taxable income to the traveler. The traveler may be required to pay for future airfare using their own credit card, and LACERS will reimburse airfare upon completion of the travel.

APPENDIX C
BOARD TRAVEL REIMBURSEMENT CHECKLIST
Adoption Date: May 26, 2009
Revised Dates: June 22, 2010; December 13, 2011; March 11, 2014

I. STEPS FOR TRAVEL APPROVAL AND REIMBURSEMENT:

Step 1: Provide details of the educational event to the Commission Executive Assistant (CEA)

Step 2: Submit information on estimated expenses to the CEA

Fees Paid Directly By LACERS:

Step 3: Register for the Conference

- Conference registration and registration fees can be arranged through the CEA prior to the conference date. Registration fees are paid directly by LACERS with no out-of-pocket expenses for the traveler;
  - Under State and City gift laws, complimentary conferences or conference-related events could be considered gifts. LACERS will evaluate the circumstances with the assistance of the City Ethics Commission and may be required to pay a pro-rata share of conference expenses provided by the hosting organization.
- Or, after the fact, submit a receipt showing a zero balance as proof of payment.

Step 4: Book flight

- Provide desired flight numbers, dates, and times to the CEA. The CEA will book the flight. Flights booked through the City's travel service negate the need to secure three fare quotes. The City's travel service will also provide a flight credit if the traveler is unable to fly and proper notification is given.
- Or after the fact, submit a receipt for the purchase of the airline ticket and three fare quotes generated on the same day the flight was booked. Reimbursement is limited to the lowest regular fare.

Items Requiring Pre-Approval for Expenditure Reimbursement:

Step 5: Submit written justification for items requiring pre-approval from the Board President or Vice President. If approval is not secured prior to incurring the expense, reimbursement may not be granted.

- Requests for reimbursement of airfare which exceeds the lowest regular fare – justification should demonstrate the official necessity of the selected flight. Attach to the request three air fare quotes generated on the same day the flight was booked.
- Requests for transportation other than air flight – justification should indicate reasons for use of the alternate mode of transportation.
- Requests for cash advances to cover lodging and per diem for meals must be submitted 30 days prior to the commencement of travel. See further instructions below.

After the Travel has been completed, submit report and receipts:

Step 6: Submit an Event Evaluation Report within thirty (30) days of the conclusion of the trip

- The report is required prior to reimbursement

Step 7: Submit a Personal Expense Statement (PES) within thirty (30) days of the conclusion of the trip:

- Itemize all reimbursable daily expenses for lodging, transportation, and miscellaneous expenses; list the per diem for meals and incidentals.
- Report expenses paid directly by LACERS as a deduction to the total reimbursable amount
- See further instructions on the following checklist

II. <u>REIMBURSEMENT CHECKLIST</u>:

ALLOWABLE TRAVEL COSTS	REQUIRED DOCUMENTS
AIR TRAVEL	
<u>Air Travel</u> Air travel expenses are only allowable for the lowest regular fare available. If the flight with the lowest regular fare is not booked, reimbursement will only be for the lowest regular fare.	**<u>Transportation Expenses</u>** ☐ Submit a receipt showing a zero balance as proof of payment for airfare
If three fare quotes are not submitted, the lowest regular fare will be determined by a quote from the City's travel agent for a direct flight, coach class, 14 days prior to the date of business travel. The CEA will determine the reasonable flights to be quoted which best meet the conference dates and times.	☐ Provide three air fare quotes from the same date as the booked flight, demonstrating that the selected flight is the lowest regular fare practically available
Exceptions allowing reimbursement for a higher cost fare may be approved by the General Manager for "official necessity." Official necessity means there is a bona fide benefit to LACERS for taking the selected flight which outweighs the cost of the higher fare.	☐ Provide written justification of the "official necessity" for any higher cost fare if seeking reimbursement above the lowest fare rate. The General Manager must concur for the expense to be submitted for reimbursement.
OTHER TRANSPORTATION	
<u>Bus or Rail Travel</u> The allowable cost shall be the actual cost for the regular fare for the bus/rail travel.	☐ Submit request for pre-approval from the General Manager for all modes of transportation other than regularly scheduled airlines.
<u>Automobile Rental</u> Automobile rental expenses are allowable if traveling by automobile is less expensive or more appropriate than by other modes of transportation.	☐ Submit request for pre-approval from the General Manager demonstrating that traveling by rental car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus.

Private Automobile The allowable cost shall be the actual total mileage rate allowance as determined by the Internal Revenue Service (IRS).	☐ Submit request for pre-approval from the General Manager, and include a satisfactory liability insurance policy covering the full use and operation of the vehicle. The limits of liability on any such policy shall not be less than $25,000 in the case of injury to or death of one person, and $50,000 in the case of injury to or death of more than one person; and in the case of property damage, not less than $5,000 in any one accident
REGISTRATION FEES	
Registration Fees Reimbursable if paid by the Trustee	☐ Submit a receipt showing a zero balance as proof of payment
LODGING	
Hotels generally offer specially rated room blocks for conference participants. The Trustee may stay at an “off-site” hotel if the room blocks are exhausted. Transportation costs, time, and other relevant factors must be considered in selecting the most economical and practical accommodations. An extra-night stay is allowable if it sufficiently reduces the airfare, or if the conference commences early in the morning or adjourns late in the evening.	☐ Submit receipt showing a zero balance as proof of payment. Personal credit card information must be redacted from the receipt. ☐ If lodging is for other than single occupancy, secure a rate sheet or other documentation of the single occupancy rate.
MEALS & INCIDENTAL EXPENSES	
o The meal and incidental per diem for domestic travel is currently $71 per day. o Incidental expenses are fees and gratuities provided to service workers, and for transportation costs in acquiring meals. o The daily allowance is prorated at 75% on days of travel, and if some meals are provided by the hotel or conference. o No meal allowance is provided when meals are provided throughout the day by the hosting organization. o The rate for international travel is in accordance with current Federal per diem rate guidelines.	Receipts for meals and incidental expenses are not required. ☐ Submit justification letter if claiming reimbursement for expenses exceeding the per diem allowance.

MISCELLANEOUS EXPENSES	
Checked Baggage Fees Such expenses are allowable when the Trustee is charged for the first checked bag. **Laundry Service** Such expenses are allowable if the duration of the trip, traveling conditions, or some other special circumstances dictate. **City Business Telephone Calls** Such expenses are allowable if the telephone calls are relevant to appropriate City business. **Personal Telephone Calls** Such expenses are allowable for one call to the Trustee's immediate family if they are located within the locale of their residence. If travel is in excess of three (3) days, one such call is permitted for each successive three (3) days thereafter. Each call should last a reasonable amount of time, such as 10 minutes per call. **Ground Transportation** Transportation between the traveler's residence and airport, and transportation between the airport and conference location.	☐ Baggage fees for second and additional items require a justification memo that it meets a business purpose. ☐ Submit receipts for all miscellaneous expenses.

APPENDIX D
Revised Date: January 22, 2019

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS) TRAVEL/CONFERENCE EVALUATION REPORT

Name of Attendee:	
Title of Conference/Seminar:	
Location:	
Event Sponsor:	Date(s) Held:

Report for:

☐ Travel

☐ Conference/Seminar Attendance Only

I. Nature/Purpose of Travel (if applicable):

II. Significant Information Gained:

III. Benefits to LACERS:

IV. Additional Comments:

SUBMIT TO THE LACERS COMMISSION EXECUTIVE ASSISTANT, 202 W. FIRST STREET, SUITE 500
WITHIN 30 DAYS AFTER ATTENDING THE CONFERENCE/SEMINAR

5.1 CORPORATE GOVERNANCE ACTIONS RESPONSE PROTOCOL

Adopted: January 13, 2009; Affirmed: January 22, 2019

Upon receipt of a request for a Corporate Governance action, which is not directly addressed by existing Board policy, and for which there is not sufficient time in advance of the deadline to convene a Corporate Governance Committee or Board meeting to consider the matter, the General Manager or General Manager designee shall execute the action if one staff member plus one Board Member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy.

For the purpose of implementing this policy, the Chief Investment Officer (CIO) shall serve as the designated staff member, and the Corporate Governance Committee Chairperson as the designated Board Member. In the absence of the CIO, the General Manager will act as the designated staff member, and in the absence of the Committee Chairperson, the Board President will act as the designated Board Member.

Section 4.0 BOARD PROCEDURES

Section Affirmed: October 22, 2013; Revised: May 14, 2013, February 25, 2014, June 14, 2016, August 28, 2018, November 27, 2018, February 12, 2019

4.1 GENERAL

A. **Procedural Standard**

The Board and its Committees shall operate under Robert's Rules of Order unless statutes or Board action provide otherwise.

B. **Board Actions**

Actions of the Board require four votes. The Los Angeles City Charter §503(c) requires that "Each board shall exercise the powers conferred upon it by the Charter by order or resolution adopted by a majority of its members. Action of the board shall be attested by the signatures of the President or Vice President, or two members of the board, and by the signature of the secretary of the board."

C. **Board Meeting Presiding Officer**

Board meetings shall be convened and presided over by the President of the Board. In the absence of the President, the Vice President shall assume all responsibilities and authority of the President. In the absence of both the President and Vice President, the General Manager/Manager-Secretary will open the meeting and call for nominations of a President Pro Tempore from the members present to serve for the duration of the meeting. Should the last presiding officer need to leave an open meeting, they shall designate a succeeding officer. For Committee meetings, the Committee Chair shall convene and preside over the meeting. In the Chair's absence, they shall designate a succeeding officer by notifying the Commission Executive Assistant or the General Manager in advance of the meeting at which they will be absent. If the Chair needs to leave before a Committee meeting ends, they shall designate a succeeding officer.

D. **Committee Assignments**

Committee assignments are to be determined by the President or Acting President, who shall also name the Committee Chair. An alternate will be appointed for each Committee to serve in the absence of Committee Members. Additional alternates may be appointed on an as-needed basis by the Board President.

E. **Committee Meeting Schedule and Attendance**

All Committee meetings of the Board shall be open to all Board members, but only Committee Members may vote. Committee meetings shall be scheduled to occur on the same day as regular Board meetings whenever possible.

F. **Closed Sessions**

Closed sessions of the Board and its Committees shall be limited to Board Members and only those other persons who are required by the Board.

G. **Closed Session Discussions and Decisions**

Pursuant to Section 54957.2, Chapter 9 of the California Government Code (The Ralph M. Brown Act), the legislative body of a local agency may, by ordinance or resolution, designate a clerk or other officer or employee of the local agency who shall then attend each closed session of the legislative body and keep and enter in a minute book a record of topics discussed and decisions made at the meeting. The Executive Assistant to the Board of Administration shall be designated to serve in this capacity; and the General Manager/Manager-Secretary is designated as the alternate.

H. **Board Member Compensation**

Members of the Board shall be compensated for attendance at all Regular and Special meetings of the Board at a rate of $50 per meeting with a maximum of $250 per month, except when such Special meeting is concurrently scheduled as a meeting of a Committee of the Board.

I. **Board Meeting Schedule and Location**

The Board hereby approves the official meeting time for Regular Meetings of the LACERS Board of Administration as 10 a.m. on the second and fourth Tuesdays of each month, in the LACERS Boardroom at 202 West First Street, Suite 500, as the official place for Regular Meetings. All Board and Committee meetings are open to the public, with the exception of "closed session" meeting items.

J. **Public Comment**

The Board shall provide a member of the public the opportunity to address the Board or Committee on any item under its jurisdiction as follows:

1. <u>Agenda Items</u> – With respect to any item which is already on the agenda, the public shall be allowed the opportunity to comment at the commencement of the Board or Committee meeting. The Board/Committee Meeting Presiding Officer may request to have the spreaker give their public comment prior to the agenda item to be addressed. The public shall also be given an opportunity to comment on closed session items prior to adjournment into closed session.
2. <u>Non-Agenda Items</u> – Members of the public shall have the right to address the Board on items which are within the subject matter jurisdiction of the Board. Except as otherwise permitted by the Ralph M. Brown Act, no deliberation of action may be taken by the Board concerning a non-agenda item, except that members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board; (2) ask a question for clarification; or (3) provide a reference to staff for factual information. Furthermore, the Board may take action to direct staff to place a matter of business on a future agenda.

Each speaker giving a public comment shall be allotted two minutes per agenda item or new matter which is to be enforced by the Board/Committee Meeting Presiding Officer. The allotted time may be adjusted at the discretion of the Presiding Officer.

Written public comment addressing items on the meeting agenda shall be distributed to members of the Board or Committee prior to the beginning of the meeting but shall not be read out loud into the record by Board Members or LACERS' staff during the meeting as a matter of course. All submitted public comments, including public comment cards, shall be posted with the Board meeting documents on LACERS' website.

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LACERS Health Benefits

February 12, 2019

LACERS Health Benefits

- History: Key Dates
  - 1973 – Health and Welfare Program in LAAC (Administered by Personnel Dept.)
  - 1985 – Maximum Medical Plan Premium Subsidy; increases limited to dollar increase in Kaiser HMO two-party plan
  - 1986 – Start FICA (Medicare) Deduction (1.45%)
  - 1996 – Surviving Spouse/Domestic Partner Medical Plan Premium Subsidy
  - 1999 – LACERS begins to administer the Health and Welfare Program for Retired Civilian Employees
  - 2001- Maximum Medical Plan Premium Subsidy increase also tied to three-year average of Assumed Actuarial Medical Trend Rate
  - 2011 – Members making additional LACERS contributions have vested right to health benefit increases; others have capped benefit
  - 2013 – Tier 2 created
  - 2016 – Tier 2 Members transferred to Tier 1 and Tier 3 created

LACERS Health Plans

- LACERS administers group health plan coverage for its Retirees and Survivors. Insurance plans offered by LACERS include:
  - Medical HMOs (Kaiser, Anthem, SCAN, UnitedHealthcare)
  - Medical PPOs (Anthem)
  - Dental plans (Delta Dental PPO, DeltaCare USA)
  - Vision plans (Anthem Blue View, Kaiser)
- Over 14,000 Retirees and Survivors as well as over 5,000 dependents are enrolled in LACERS health plans.
- Estimated 2019 premium costs are approximately $134 million
  - Medical - $123 million; Dental - $10 million; Vision - $700,000
  - 10-year average premium cost increases – LACERS: 4%; Assumed Actuarial Medical Trend Rate: 8%

LACERS Health Plans

- LACERS provides retiree medical and dental subsidies, based on years of Service and Medicare status, and administers group health plans for early (under age 64) and Medicare-eligible (age 65 and over) retirees.
  - Members must be age 55 and have at least 10 years of Service to be eligible for a subsidy.
  - Subsidies are applied toward LACERS health plan premiums.
    - Premium balances, after the subsidy is applied, are deducted from the Member's monthly allowance.
  - If Members are unable to access a LACERS medical HMO in their zip code, they may enroll in an individual plan and be reimbursed their premium costs, up to their subsidy amount, through LACERS' Medical Premium Reimbursement Program (MPRP).
    - Approximately 275 participants

Membership Tiers

- LACERS offers two tiers of health benefits (medical and dental subsidies)
  - Medical Benefit:
    - Tier 1 – Retirees who became LACERS Members before July 1, 2013
      - *Discretionary Group* – Retired before July 1, 2011. The Board has the authority to change the maximum medical plan premium subsidy each year; the three-year average increase can not be greater than the three-year average Assumed Actuarial Medical Trend Rate.
      - *Capped Group* – Retired on or after July 1, 2011 – maximum subsidy amounts are set by ordinance and capped at 2011 amounts.
        - *About 200 in this group*. The majority are not enrolled in a LACERS plan.
      - *Vested Group* – Retired on or after July 1, 2011 and make an additional 4% retirement contribution to LACERS – Members are entitled to increases to the maximum medical plan premium subsidy at an amount no less than the increase in the Kaiser HMO two-party premium.

Membership Tiers

- Tier 1 Continued
  - Non-Medicare Parts A and B: 10 years of Service = 40% maximum subsidy, 4% more for each year greater than 10 years of Service Credit; Medicare Parts A and B: 10 years of Service Credit = 75%, 15 years = 90%, 20 years = 100% of the maximum subsidy.
- Tier 3 – Retirees who became LACERS Members on or after July 1, 2013
  - The maximum medical plan premium subsidy is based on the Kaiser HMO two-party premium.
  - Non-Medicare Parts A and B: 10 years of Service = 40% maximum subsidy, 4% more for each greater than 10 years of Service Credit; Medicare Parts A and B: 10 years of Service Credit = 75%, 15 years = 90%, 20 years = 100% of the maximum subsidy.
- Medical subsidies can cover dependents; Survivor health benefits are provided.
- Medical subsidies usually cover more than 90% of the premium costs in a given year

Membership Tiers

- Dental Benefit:
  - For both Tiers – The Board may increase the maximum dental subsidy to the amount provided to active Members by the City of Los Angeles. The subsidy may only be applied toward the subscriber's premium cost.
  - 10 years of Service Credit = 40% maximum subsidy, 4% for each additional year of Service Credit.

Other LACERS Health Benefits

- Survivor Benefit:
  - For both Tiers – If not enrolled in Medicare Parts A and B, the eligible Survivor is entitled to a maximum subsidy equivalent to the lowest-cost plan (Kaiser HMO) single-party premium, based on the Member's years of Service Credit. If enrolled in Medicare Parts A and B, the eligible Survivor is entitled to a maximum subsidy equivalent to the single-party premium of the selected LACERS Senior plan, based on the Member's years of Service Credit. The subsidy can not be applied toward the cost of health plan dependents.
- Medicare Part B Premium Reimbursement
  - Members enrolled in Medicare Parts A and B are reimbursed the Medicare Part B basic premium. Only retired Members (not Survivors or dependent) are entitled to Medicare Part B premium reimbursements.
    - Over 8,300 Members receive a Medicare Part B premium reimbursement

Health Programs

- **Medicare Compliance Program**
  - At age 65, Members are required to enroll in Medicare Part B and if they are eligible to receive Medicare Part A premium-free, they must enroll in Medicare Part A. Members who fall out of compliance with LACERS Medicare requirements are given three months to rectify their enrollment before losing their LACERS subsidy and coverage.
- **Open Enrollment**
  - Open Enrollment is held each year, usually October 15 – November 15, to allow Members to switch plans, add dependents, or enroll in a plan.
    - Six meetings in 2018 – Downtown LA, Van Nuys, Oxnard, Lakewood, Ontario, and Las Vegas
  - ALEX Online Benefits Counselor introduced in 2018

Health Programs

- LACERS *Well*
  - Introduced in 2012, LACERS' retiree wellness program aims to put Members in touch with their health plan resources and engage in activities with other retired Members to maintain or improve health.
    - Funded through carrier contributions and premiums
    - Annual campaigns with seminars, workshops, activities
    - Champion-led events
    - Rewards program – Passport to Health

Upcoming Education

- Renewal Process; Role of Consultant
- Kaiser Permanente
- Anthem Blue Cross
- Wrap Up

Questions?

LACERS

202 W. First Street, Suite 500

Los Angeles, CA 90012-4401

Toll-free customer service line: **(800) 779-8328**

www.LACERS.org

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Report to Board of Administration

From: Neil M. Guglielmo, General Manager

Agenda of: **FEBRUARY 12, 2019**

ITEM: **IX-B**

SUBJECT: **REAL ESTATE PORTFOLIO REVIEW**

Recommendation

That the Board receive and file this report.

Discussion

At the Board meeting of January 8, 2019, The Townsend Group (Townsend), LACERS' Private Real Estate Consultant, presented the Real Estate Program Portfolio Performance Review for the Period Ending June 30, 2018. During the presentation, the Board requested a follow-up report discussing the underperformance of the real estate portfolio and funds committed to prior to Townsend's rehiring in 2014. In addition, the Board requested that Townsend identify which of the underperforming funds were classified as emerging investment managers. As discussed in detail in the attached Townsend report, the main drivers of real estate portfolio underperformance were (1) an increased allocation to real estate prior to the financial crisis; (2) an emphasis on higher risk opportunistic strategies pre-crisis; and (3) sub-par fund selection. The report also provides a review of the strategic shift of the real estate program and fund selection criteria since Townsend's rehiring in 2014.

This report was prepared by Eduardo Park, Investment Officer I, Investment Division.

RJ:BF:EP

Attachment: Real Estate Portfolio Follow-Up Report from The Townsend Group

TOWNSEND® GROUP
an Aon company

MEMORANDUM

TO:	**Los Angeles City Employees' Retirement System**
DATE:	February 2019
SUBJECT:	Real Estate Portfolio Follow-Up
FROM:	**The Townsend Group**

Overview

This memorandum was written in response to questions asked during the LACERS Board Meeting on January 8, 2019. The content of the report covers the following topics:

- Lessons Learned from Underperforming Funds
- Navigating Selection Post-Crisis

Possible Factors for Measuring Success in a Downturn
Durability
• How well did Core funds maintain income and dividends?
• How well did Non-Core funds retain assets? Were capital structures generally durable?
• When we look at the worst performers with the benefit of hindsight, do we see mistakes in judgment or do we see calculated risks that didn't happen to pay off?
Performance
• The portfolio is higher risk than the benchmark and will likely underperform over the short run following a downturn. Over the longer term, was this additional risk rewarded by additional return? Is the portfolio beating the benchmark over the long run?
Liquidity
• Did capital calls create a problem for LACERS' cash management?
Investment Opportunity
• Was sufficient dry powder available to take advantage of investment opportunities following the downturn? Was that capital deployed well?

LACERS Real Estate Performance

Near term performance of the LACERS Portfolio is improving relative to the ODCE-based benchmark. Historical performance continues to lag the benchmark due to the following reasons:

1. *Increased Allocation to Real Estate in 2007*

   LACERS, at the advice of its then General Consultant, increased the total allocation from 4% (pre-2007) to 7%. LACERS was expected to reach its new target allocation of 7% by 2009. Therefore, in order to reach and maintain the 7% funding status by 2009, LACERS needed to allocate an estimated $200 million per fiscal year based on growth of the total plan, real estate portfolio and capital being returned from liquidating commingled funds. This occurred at a time when the Non-Core component of the

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portfolio already represented 67% on a funded basis and 78% on a funded and committed basis. Ironically, LACERS faces the same exact challenge today. General consensus is that we are late-cycle. In 2018, at the advice of the LACERS General Consultant, LACERS increased its target allocation to real estate from 5% to 7%. This leaves an additional $200 million to deploy over the next 3-5 years in order to reach and maintain the target allocation.

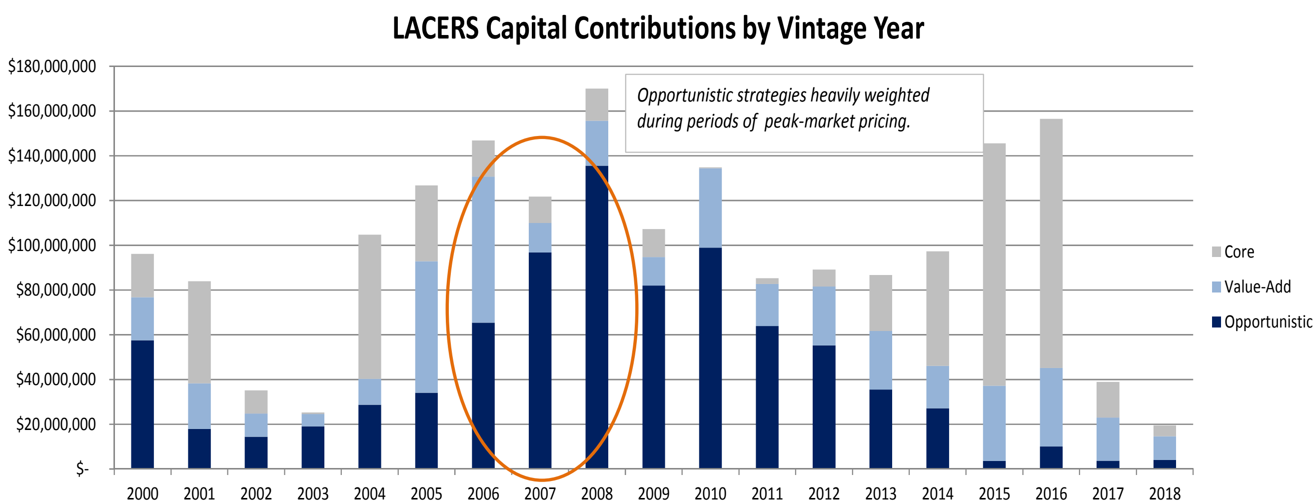
Year	2007	2008	2009*	2011 - 2018	2019
LACERS RE Allocation	4%	5%	7%	5%	7%

*Note that the LACERS Board approved a staged increase to the 7% allocation in 2007.

2. *Focus on Non-Core Investments in Pre-Crisis Vintages*

Until May 2014, the LACERS Board targeted 30% exposure to Core and 70% exposure to Non-Core. Today, the Portfolio targets 60% Core and 40% Non-Core. The increased allocation to real estate depicted above took place at a time when LACERS targeted 70% to Non-Core strategies. As shown in Chart 1, pre-crisis, LACERS was eager to deploy capital in Non-Core strategies to reach and maintain its target allocation to real estate as well as the splits between Core and Non-Core.

Chart 1



3. *Non-Core Fund & Strategy Selection Pre-Crisis*

In many cases, performance of the individual Non-Core funds fall below-median when compared to funds of a similar vintage and strategy, pointing to poor selection over time. This is shown in Chart 2 and Chart 3. Townsend was the Consultant to LACERS from 2000 to 2006. Townsend was replaced in 2007 by Courtland Partners, in part because of push-back on higher risk strategies and deployment of peak-vintage Non-Core capital that the Board was eager to pursue. One lesson learned from this time period is that Townsend could have been more effective at dissuading risk-on behaviors.

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Chart 2

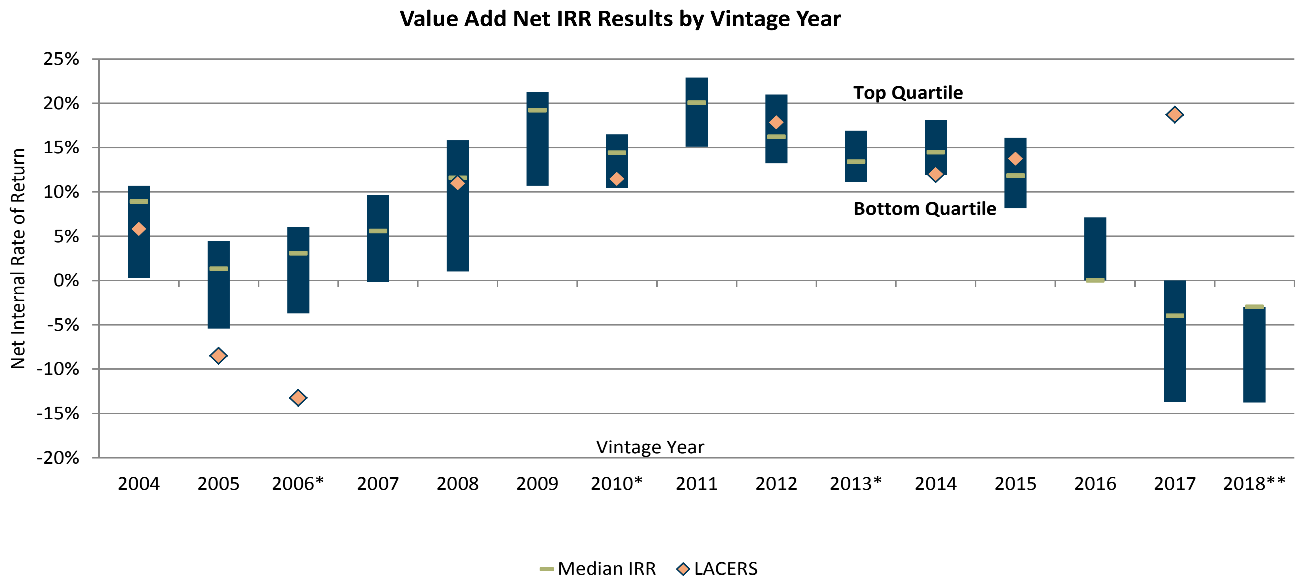
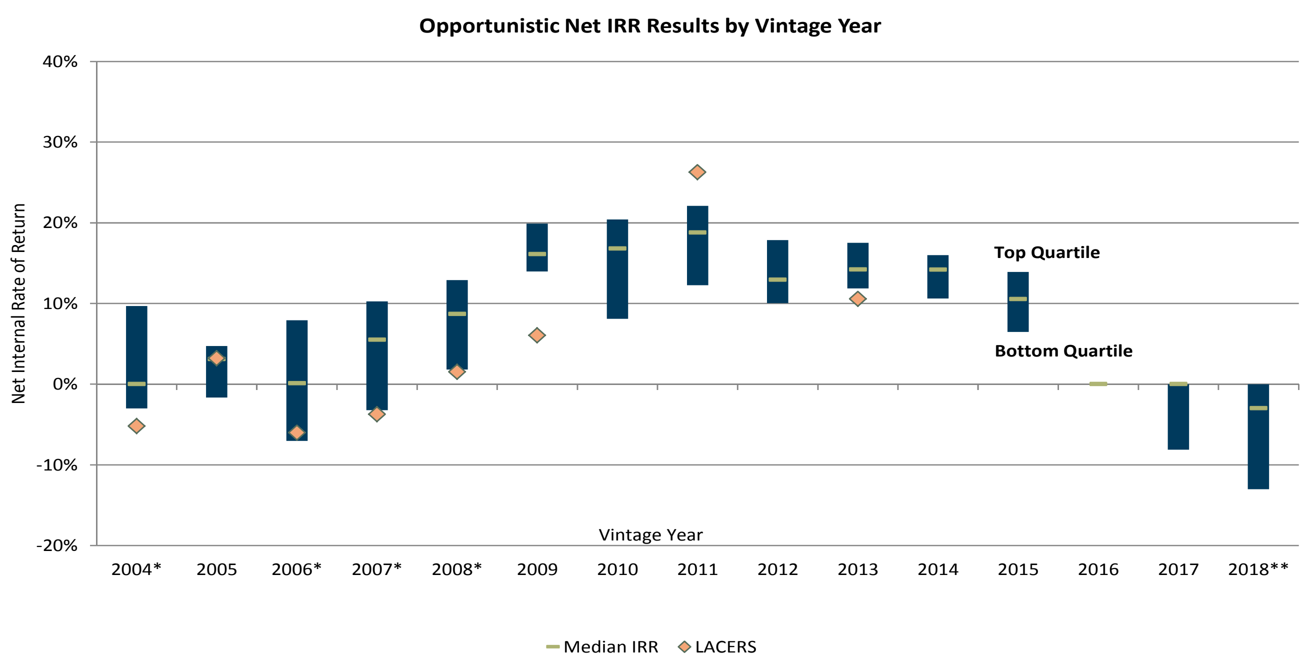


Chart 3



*Hardcoded Data
**As of 2Q18

4. *Composition of LACERS Portfolio vs. Benchmark during the Global Financial Crisis ("GFC" or "Crisis")*

As shown in Chart 4, LACERS' Core investments remained competitive with the benchmark over most time periods of measure while Non-Core investments historically lag until the most recent time periods when post-crisis investments begin to drive return.

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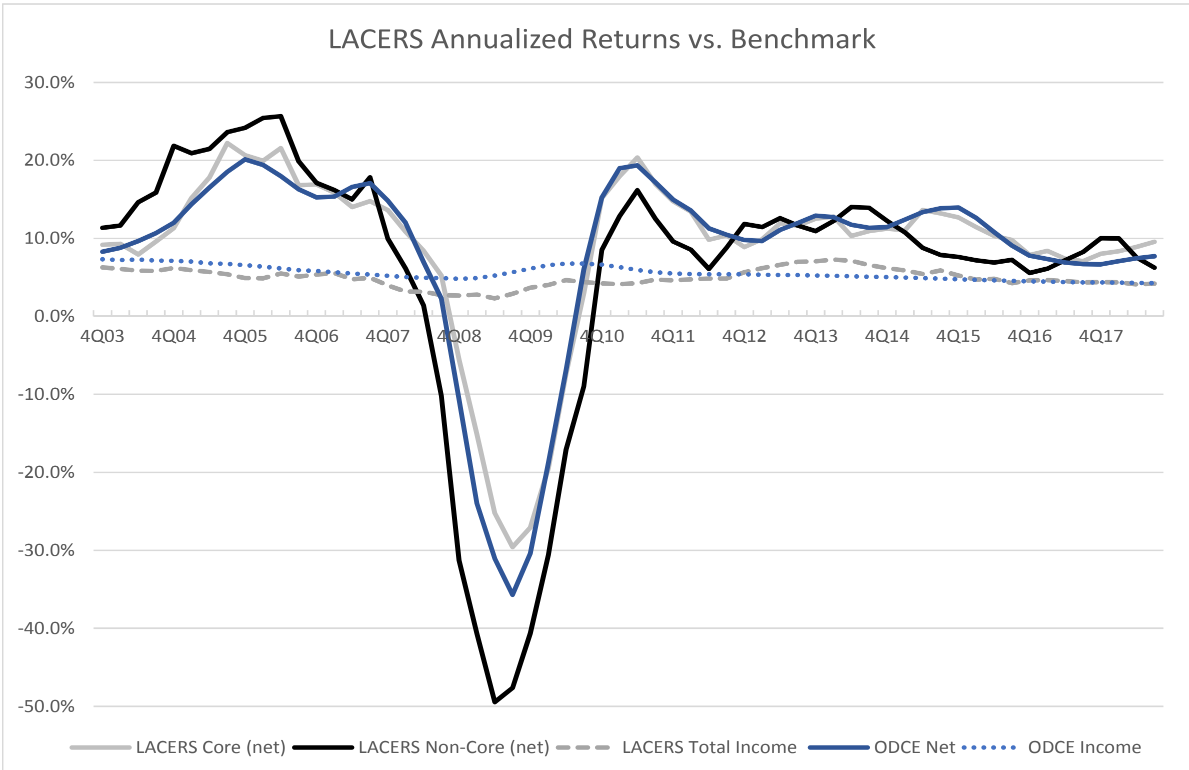
Chart 4



Common Characteristics of Underperforming Funds

- *Underlying Asset Risk with Limited Cash Flow*
- *Broad/Allocator Strategies*
- *High Number of Assets*
- *High Leverage*
- *Peak Vintage Acquisitions*

Underperforming Funds

Townsend classifies 16 of the remaining LACERS investment positions as "underperforming." In addition, several liquidated positions were classified as "underperforming." These are funds that resulted in sub-par returns to LACERS during the investment hold period and are detailed in the table below.

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ATTACHMENT A

Remaining Underperforming Funds	Specialized (emerging mgrs., MBE, WBE, etc.)	Risk Category	Vehicle Type	Strategy	Liquidation Status	3Q18 Market Value ($)	Inception Date	Net IRR	Equity Multiple
Hancock Timberland XI		Core	Closed-End Fund	Timber	Long life strategy; unharvested	20,450,073	2Q12	3.9	1.2
JP Morgan Alternative Property Fund		Value	Open-End Fund	Niche Property Type	Liquidated	270,780	1Q06	-4.2	0.7
Apollo CPI Europe I		Opportunistic	Closed-End Fund	Pan-European Allocator	Liquidated	583,662	4Q06	-9.2	0.5
California Smart Growth Fund IV		Opportunistic	Closed-End Fund	California Allocator (Small Deal Size)	6 Assets Remaining (including land)	4,349,315	1Q07	2.5	1.2
Canyon Johnson Urban Fund II	X	Opportunistic	Closed-End Fund	Urban Allocator (including 50% condo)	Liquidated	34,453	3Q05	-10.5	0.4
Colony Investors VIII		Opportunistic	Closed-End Fund	Global Allocator	Liquidated	655,200	4Q07	-11.6	0.5
Integrated Capital Hospitality Fund		Opportunistic	Closed-End Fund	Hotel Allocator - Full Service	3 Assets Remaining (3Q18)	3,768,149	3Q11	1.8	1.1
LaSalle Asia Fund II		Opportunistic	Closed-End Fund	Pan-Asia Allocator	Liquidated	231,089	4Q05	1.8	1.1
Paladin Latin America Investors III		Opportunistic	Closed-End Fund	Pan-Latin America Allocator (including condo)	2020 Liquidation (60% of 80 projects are realized)	2,556,044	1Q09	-25.7	0.3
DLJ RECP Fund IV, L.P.		Opportunistic	Closed-End Fund	NYC, LA, Washington & China	2023 Liquidation	34,565,431	4Q08	3.6	1.2
Southern California Smart Growth Fund	X	Opportunistic	Closed-End Fund	Southern California Allocator (Small Deal Size)	1 Asset Remaining	1,869,836	1Q05	-0.3	1.0
Stockbridge Real Estate Fund II		Opportunistic	Closed-End Fund	US Allocator	2 Assets Remaining (3Q18)	10,392,261	4Q06	-7.5	0.5
The Buchanan Fund V		Opportunistic	Closed-End Fund	US Allocator	Liquidated	2,735,779	3Q07	-0.7	1.0
Torchlight Debt Opportunity Fund II		Opportunistic	Closed-End Fund	Debt	Liquidated	1,799,720	1Q08	-1.8	0.9
Tuckerman Residential Income & Value Added Fund		Opportunistic	Closed-End Fund	US Residential	Liquidated	453,005	4Q04	-0.1	1.0
Walton Street Real Estate Fund V		Opportunistic	Closed-End Fund	US Allocator	2020 Liquidation (Realized 42 Investments, 8 Remain)	5,667,329	4Q06	-2.7	0.8

Other liquidated underperformers with $0 market value include Next Block Medical Office (-51.92% and an EM of 0.19x, '07 vintage), CBRE Strategic Partners UK Fund III (-24.47%, 0.16x, '07 vintage); Lowe Hospitality Investment Partners (-17.67%, 0.58x, '04 vintage); MacFarlane Urban Real Estate Fund II (-16.78%, 0.27x, '08 vintage), UrbanAmerica II (-25.51%, 0.11x, '07 vintage), and CBRE Strategic Partners IV (-33.41, 0.04x, '06 vintage). Next Block, MacFarlane & Urban America were Specialized (emerging mgrs., MBE, WBE, etc.).

Navigating Selection Post-Crisis

Though real estate investment over the recent past has been quite strong, during the economic downturn and global financial crisis ("GFC") real estate was materially impacted, particularly funds with legacy investments. This demanded commitment of substantial time and attention to work-outs, restructuring and recapitalizations, manager changes, and partnership amendments; furthermore, it provided the opportunity for secondary market purchases and/or sales. As a diligent investor advocate and industry leader, we were actively involved in numerous "projects" over the course of this time period. We increased our presence and involvement in manager Advisory Board and investor meetings, and we took a proactive role in a number of troubled investments to preserve investor value and maximize recovery of invested capital.

LACERS Real Estate Portfolio Risk Profile

Pre-crisis, the orientation of the prior LACERS Real Estate Portfolio was heavily oriented toward Non-Core commitments. In 2015, Townsend recommended re-aligning the Real Estate Portfolio after discussing the role of real estate, as well as its expected return profile with both the General Consultant and LACERS Staff and Board.

LACERS Vintage Year Diversification

Leading up to the Global Financial Crisis, LACERS had ample capital to invest in commercial real estate. At the time, it was the directive of the former Board to deploy that capital in certain Non-Core strategies with an above-average risk profile and an Emerging/Specialized Manager profile.

LACERS Manager/Strategy Selection

Pre-crisis, Townsend most often implemented investment strategies through multi-strategy and multi-regional vehicles with selective, focused strategies as complements. During the downturn, Townsend saw the greatest persistency in performance in those instances where it pursued more focused mandates identified and researched independently.

Post-crisis, Townsend client portfolios have been characterized by deployment with focused operators with pre-specified investments, maximizing fee saving potential, and minimizing manager ability to drift or potential for strategy to become stale in execution. The performance difference is notable and the resultant lower cost structures allow us to keep higher relative returns while simultaneously pursuing less risky strategies.

Post-Crisis Fund Focus:

1. Regional Operators Replaced Global Allocators
2. Eliminate J-Curve
    a. Pre-Specified Assets with Intrinsic Value and In-Place Cash Flow
    b. Lower Fees
3. Limiting Risk
    a. Income-Orientation
    b. Income Growth Potential

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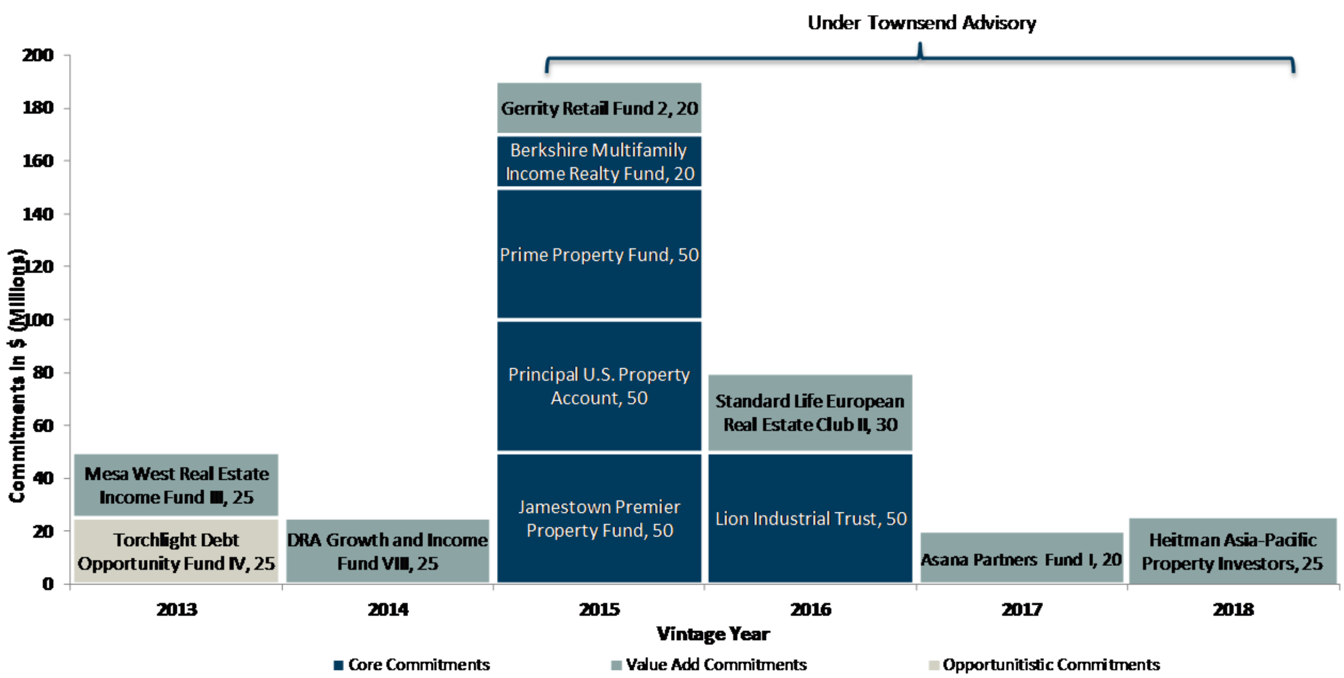
c. Prudent Leverage Guidelines
   i. Cap Property & Fund Level Leverage
   ii. Limit Cross-Collateralization
   iii. Limit Recourse

LACERS Post-Crisis Fund Selection & Performance:

Since 2014, Townsend has recommended ten investments to LACERS staff and nine (including two emerging managers) ultimately were brought forth for Board recommendation. The first of these investments to call capital was Jamestown Premier Property Fund in 3Q15. Core investments include Berkshire, Jamestown, Lion Industrial Trust, Prime, and Principal. Non-Core investments include Gerrity, Standard Life, Asana, and Heitman Asia.

Performance of Townsend-advised investments since 2014 exceeds performance of the Total Portfolio and the benchmark over the trailing quarter, 1-year and 3-year periods. These investments are expected to drive performance going forward.



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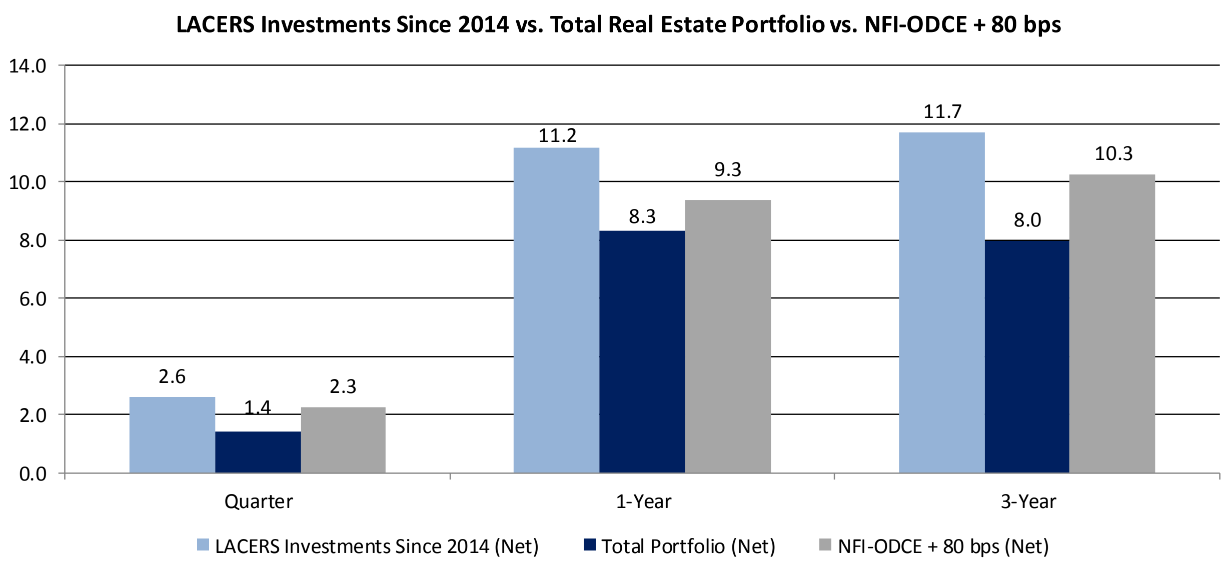


TACTICAL ASSET ALLOCATION OVERVIEW

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

February 12, 2019

BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

AGENDA

TACTICAL ASSET ALLOCATION

NEPC, LLC

ASSET ALLOCATION POLICY

Strategic

- Reflects forecast of asset class returns, risk and correlations over 10-, 20- or 30-year time periods
- Determined by asset liability modeling or mean variance conducted periodically (3-5 years)
- Maintained through establishment of acceptable ranges around each asset class target and periodic rebalancing

Opportunistic

- Market dislocation and valuation moves to extreme
  - Examples include: technology bubble (late 1990s) and credit market sell-off (2008)
- Decisions for investment typically can be made within a public fund’s normal decision-making process
- Time horizon for investments in this category is ~1-3 years
- Outsized opportunities may not present themselves often

Tactical

- Requires more frequent review and adjustment of asset allocation using market-driven assumptions
  - Most public fund governance structures do not allow for tactical decision making
- Time horizon for these types of investments <1 years
- Requires delegating: 1) a portion of assets to flexible investment strategies; and/or 2) granting authority to staff to make portfolio adjustments

TACTICAL ASSET ALLOCATION

What is Tactical Asset Allocation (TAA)?

- Portfolio adjustments based on market dynamics and shifts in valuations over time
- Investment decisions expected to enhance a strategic allocation

What it is not....

- Market timing
- Speculation

Goal of TAA is to incrementally improve risk-adjusted returns of the entire investment portfolio

- It should be noted that difficulty exists in quantitatively demonstrating consistent value-add from TAA programs
- Most investors (including ourselves) do not have investment experience, tools and decision-making framework to pursue true tactical asset allocation

TACTICAL ASSET ALLOCATION APPROACH

A tactical approach to asset allocation can allow long-term investment programs to increase return and manage risk more effectively

- More frequent review and adjustment of asset allocation based on market-driven changes
- Inclusion of an opportunistic component to over all asset mix
  - Flexible target typically expressed as 0-10%

Governance and implementation considerations include:

- Expedited decision-making process
  - Board and/or Investment Committee level
- Empower Staff to actively tilt portfolio exposures within specified tolerance ranges
  - LACERS current policy only allows for rebalancing when an asset class/manager exceeds respective threshold or for external cash flows (e.g., annual City contribution)
- Structural changes to the asset allocation to incorporate flexible investment strategies
  - Inclusion of opportunities across global capital markets (e.g., Global Asset Allocation or Global Macro strategies)
- Establish an overlay program at the total portfolio level to efficiently rebalance and/or implement a market view

HISTORICAL NEPC TACTICAL MESSAGING

2007 — Reduce Equity and Position for Volatility

- Markets near peak valuations
- Risk-based investors enjoy outsized returns

2008 — Opportunistic Credit Group Created

- Great Recession begins
- All risk assets decline sharply
- Volatility sharply higher
- Government bonds safe-haven

2009 — Increase Risk Exposure and Allocate to EM Small Cap

- Unprecedented market intervention by central banks
- Markets begin recovery

2010 - 2013 — Be Dynamic With Credit and Employ Private Markets

- Markets awash in stimulus from central banks
- Bull markets in all risk assets
- Interest rates drop and remain near all-time lows

2014 — Opportunistic Energy Group Created

- Energy prices collapse
- US markets positive
- US Dollar strengthens

2015 — Significant Rebalancing to Capture Value

- Markets pause due to uncertainty
- Energy and commodity markets continue to tumble
- Credit spreads widen

2016 — Overweight Int'l Equity & Hedged Vol at Year-end

- Risk assets up
- Energy prices up
- Interest rates remain low
- Non-US rally

2017

- Risk assets up; bull market continues
- Volatility near all-time lows
- Non-US equities outpace US
- Rates lower, credit spreads tighten

NEPC

CURRENT MARKET ENVIRONMENT

2019 SUMMARY OUTLOOK

Market dynamics shifted significantly in 2018, with Fed policy and US-China trade tensions disrupting many of our key market themes

As a result we have removed Federal Reserve Gradualism, Extended US Economic Cycle, and Global Synchronized Growth as key themes

We believe we have entered a late-cycle market environment and the dynamics of such an environment will be a focal point for investors

However, late-cycle does not mean end of cycle and equities can still offer lucrative returns, though are likely to be accompanied by additional volatility

We encourage investors to rebalance developed market equity exposure

We have downgraded our outlook for non-US developed equities and removed the overweight recommendation from our current opportunities list

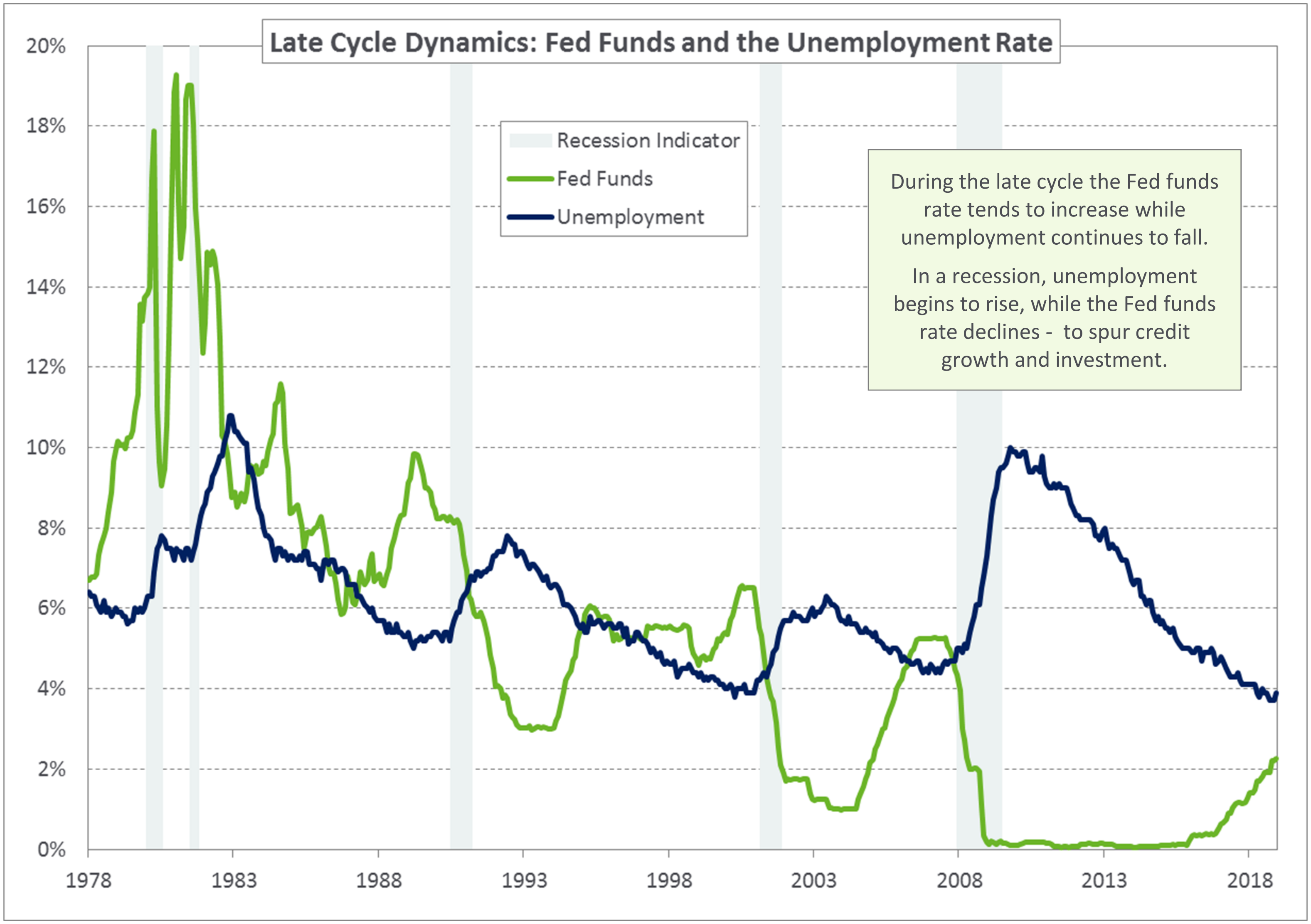
The main driver of the change is negative sentiment surrounding economic and political conditions of Europe, concerns related to the earnings growth outlook, and central banks paring back their support of easy financial conditions

The transition to a late-cycle is accompanied with a more risk-averse investment outlook as economic risks become more pronounced

After years of low volatility and outsized equity returns, the market is likely to transition to a higher volatility regime, which offers more risk but also tactical opportunities

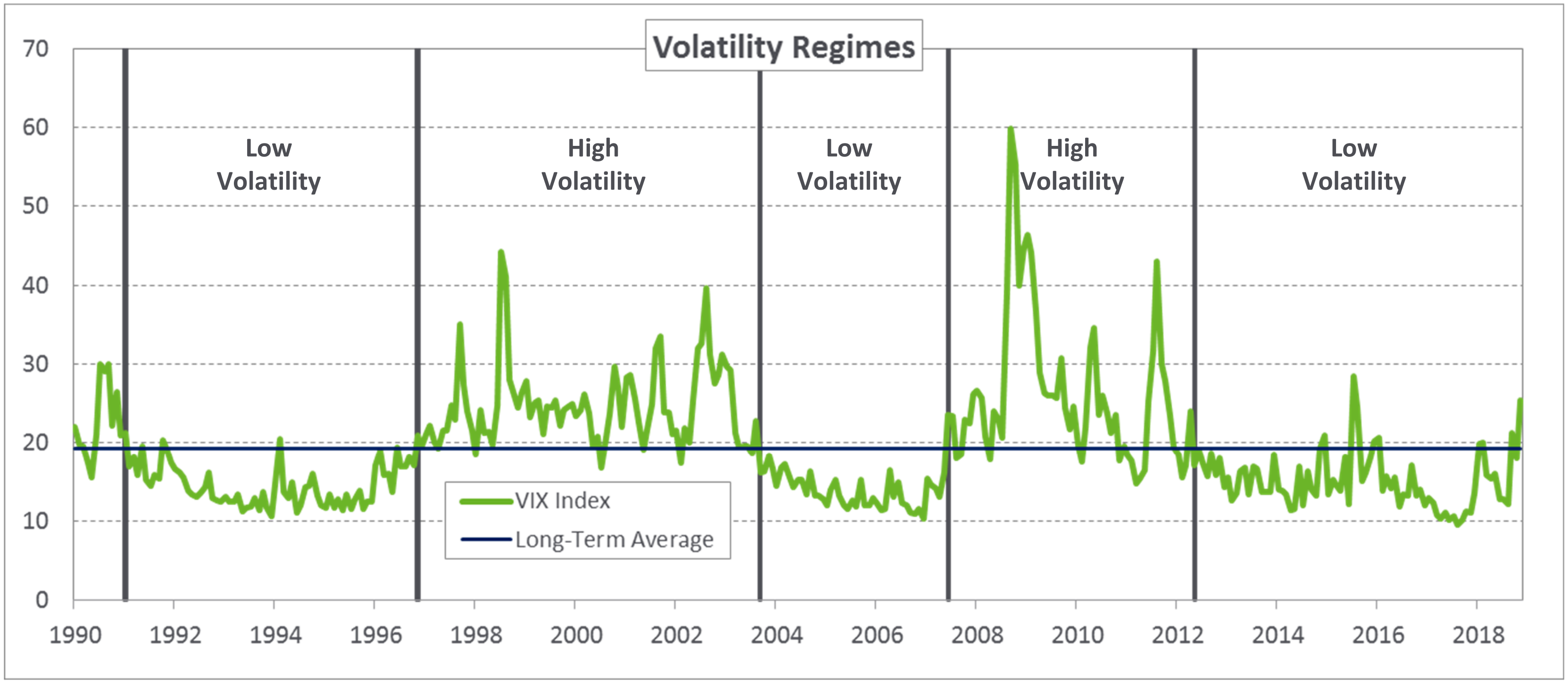
We recommend reducing lower quality credit exposure as higher default rates are a common aspect of late-cycle market dynamics

THE ECONOMIC CYCLE IS IN TRANSITION



Source: St. Louis Federal Reserve, NBER

BRACE FOR HIGHER VOLATILITY IN 2019



Source: S&P, CBOE, Bloomberg, NEPC

Equity volatility regimes tend to persist over prolonged periods and 2018 was witness to a material shift higher in equity volatility

We encourage investors to raise "safe haven" fixed income exposure as trends associated with each of our key market themes suggest higher volatility is on the horizon

2019 may prove to be a difficult year for markets but higher volatility can also offer a greater number of opportunities for dynamic investors

Investors should be prepared to act in a higher volatility regime, as dynamic opportunities may arise to deploy safe-haven assets back into US equity and other risk assets

KEY MARKET THEMES

NEPC, LLC

KEY MARKET THEMES

Late Cycle Dynamics

Tightening Global Liquidity

China Transitions

Globalization Backlash

KEY MARKET THEMES

Late Cycle Dynamics

The US economy has transitioned from a mid- to late-cycle environment

Late cycle does not mean end of cycle; equity markets can offer strong returns and abandoning risk assets early may detract from long-term results

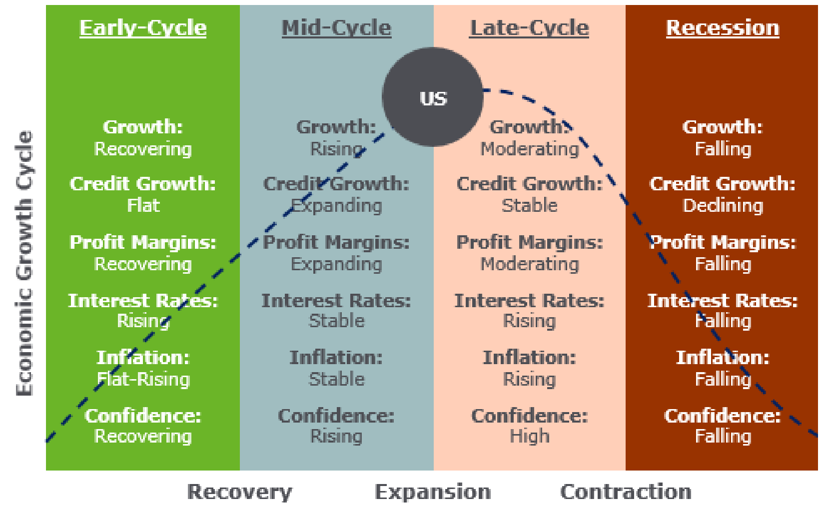
Positive economic data can support continued US economic expansion and further equity gains

However, moving into a late cycle negatively skews the range of outcomes and our investment outlook reflects a more risk-averse posture with a bias toward selling low quality credit and increasing safe-haven fixed income exposure

Trends among key indicators suggest a transition to late-cycle has occurred

These indicators provide a useful guide to recognize changes in the economic cycle

Despite the recent trend, there is minimal evidence in economic/financial indicators to suggest that a US recession is imminent



US Indicators	Late-Cycle Trend	Current Trend
Equities	Peaking	Uncertain
Interest Rates	Rising	Yes
Yield Curve	Flattening	Yes
Inflation	Rising	Yes
GDP Growth	Moderating	Uncertain
Credit Spreads	Stable/Rising	Yes
Output Gap	Near/Above Potential	Yes
Unemployment	Falling/Bottoming	Uncertain

Source: (Top) NEPC
Source: (Bottom) NEPC

KEY MARKET THEMES

Late Cycle Dynamics

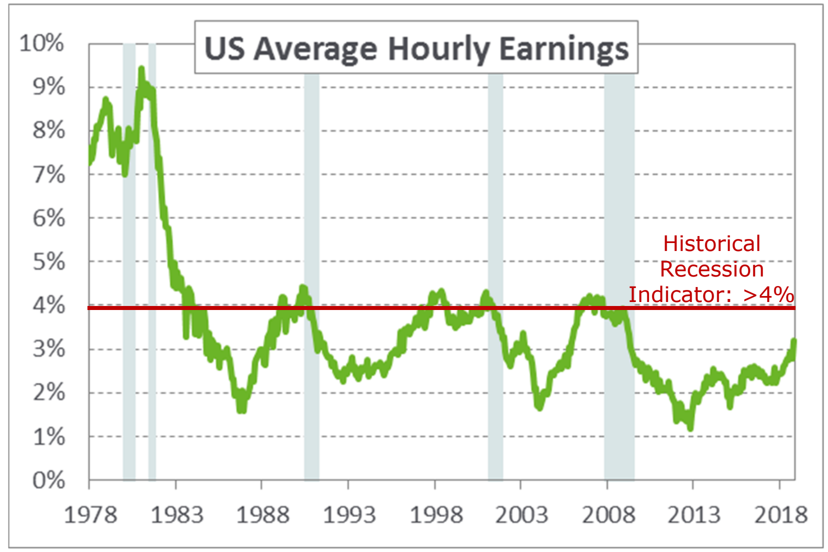
Key indicators are helpful guides, but all business cycles are different

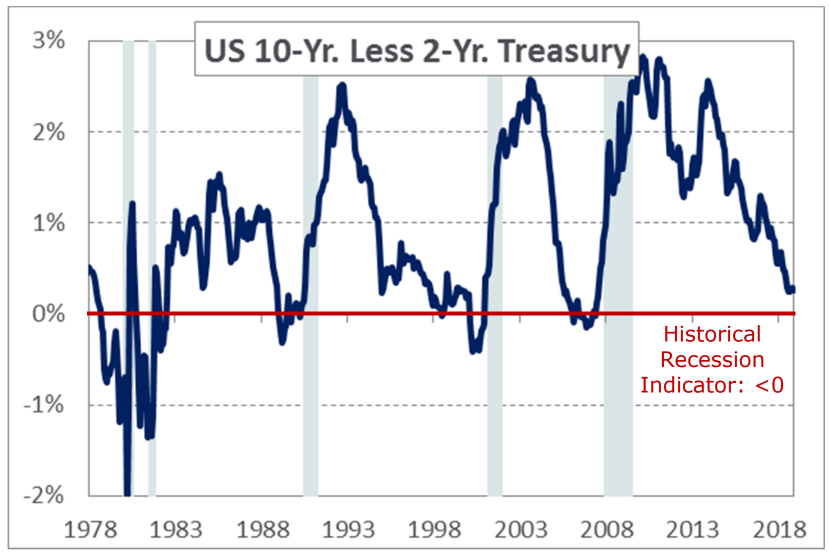
Late-Cycle Dynamics	Growth: This expansion has been the longest ever, but cumulative GDP growth remains well below average. Sustainability of current growth from fiscal stimulus remains unclear.
	Interest Rates: The Fed has methodically increased rates off post-crisis lows. They appear to be on a tightening path to push rates above the long-term neutral rate through 2019 and beyond.
	Inflation: Despite record low unemployment rates, inflation pressures have been slow to materialize relative to history. Yet US inflation is up nearly 2% over the last three years, but remains below historic levels.

We are evaluating market indicators such as the yield curve that would lead us to adopt a defensive outlook

Should the yield curve invert and economic metrics weaken, our recommendation will be to materially increase safe-haven fixed income and reduce equity exposure

There is a greater need to seek portfolio balance in a late cycle, while the increased volatility may offer tactical opportunities





Source: (Top) Bloomberg, NEPC

Source: (Bottom) Federal Reserve Bank of St. Louis, NEPC; Light blue shading indicates recession

KEY MARKET THEMES

Tightening Global Liquidity

The Fed has shifted from a "lower for longer" policy to a more balanced posture of raising rates in line with higher inflation

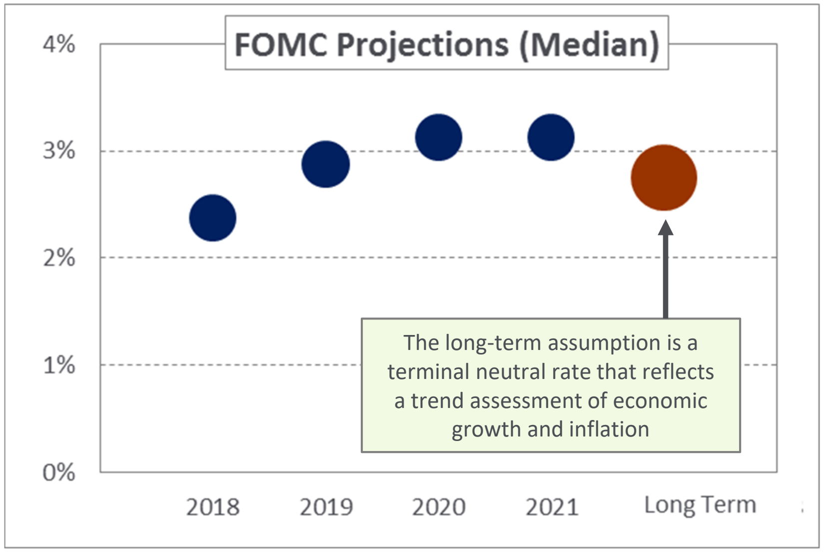
Based on the FOMC projections, the Fed is communicating a tightening path as their forecast for interest rate hikes moves beyond the long-term neutral rate

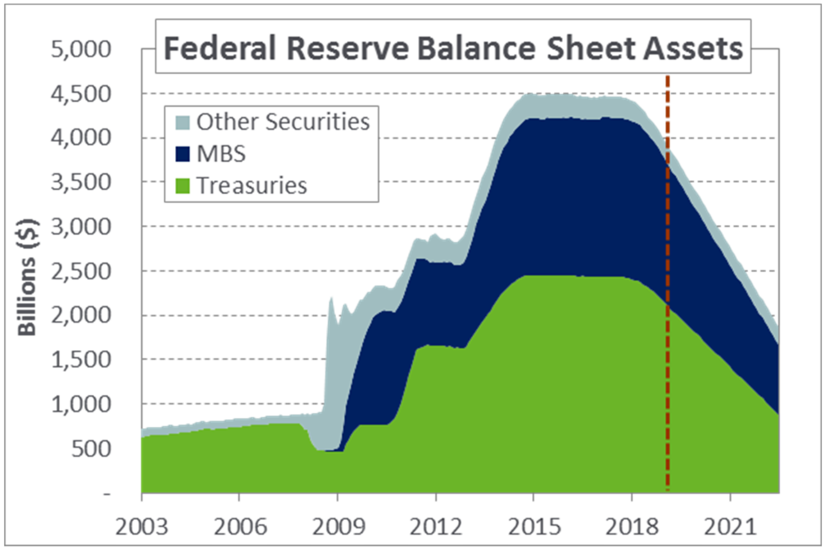
Markets are discounting a muted pace of hikes relative to Fed projections, creating potential for capital market disruption. However, the Fed's bias appears to be to raise rates in the absence of market turmoil

The Fed's balance sheet has shrunk by $400B and will continue to decline by a monthly maximum target of $50B

Normalization of the balance sheet is a form of monetary policy tightening as liquidity is methodically extracted from the system

The impact of the balance sheet reduction is untested – potentially mirroring how the Fed's balance sheet expansion (QE) had easing effects





Source: (Top) Bloomberg, NEPC
Source: (Bottom) Bloomberg, NEPC

KEY MARKET THEMES

Tightening Global Liquidity

Transmission of tighter liquidity is already underway and is felt globally

Slowing money supply growth rates tighten financial conditions and are a headwind for credit and equity markets across the world

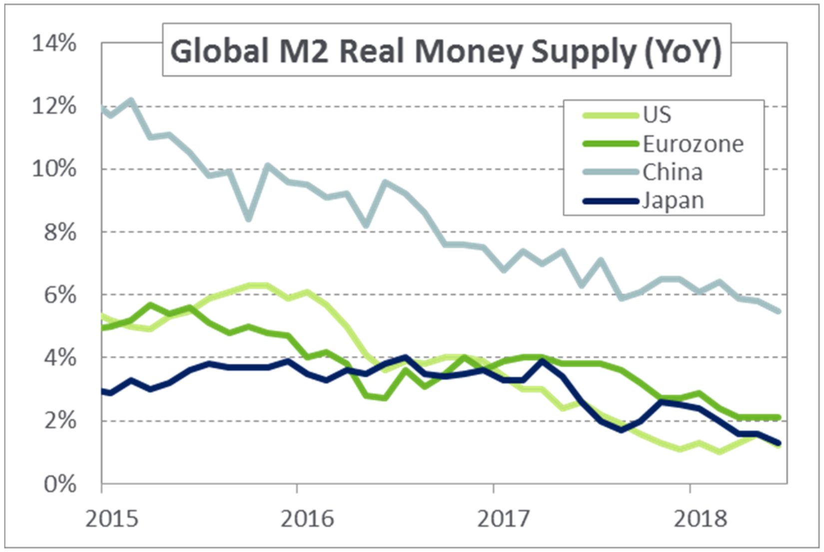
Ability to ease financial conditions is limited outside the US as central banks do not have dry powder with interest rates near historic lows and the ECB restricted in their ability to expand QE purchasing capacity

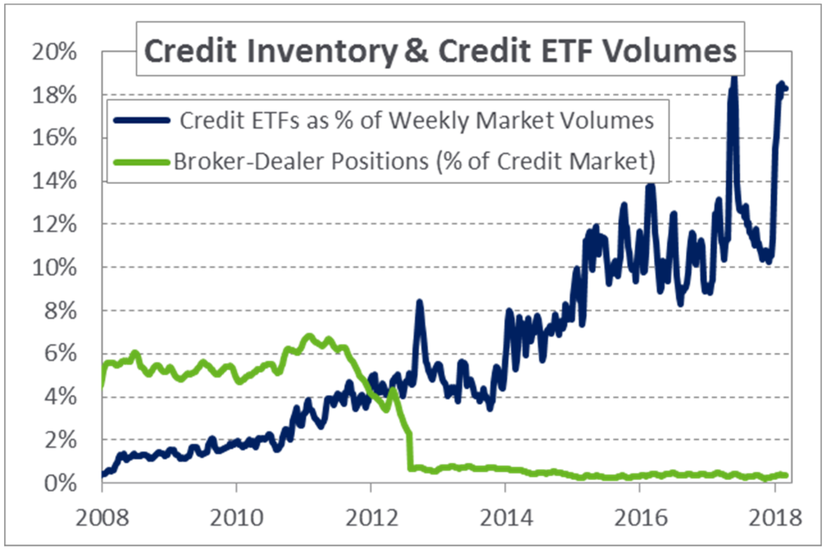
A pause in Fed tightening or a large stimulus program from China are the limited global levers available to ease tighter conditions

The diminishing support from central banks warrants caution regarding liquidity in credit markets

Underlying trading conditions for ETF and credit markets remain fragile and are likely to be severely tested to absorb an exodus from crowded credit positions

The "Fed put" or a reversal of balance sheet normalization may be necessary to avoid a liquidity crisis in a severe market disruption





Source: (Top) Bloomberg, NEPC
Source: (Bottom) Bloomberg, NEPC

KEY MARKET THEMES

China Transitions

China is the global growth engine but faces fundamental transitions

China's economy is transitioning from a focus on production and investment to a service and consumption based economy

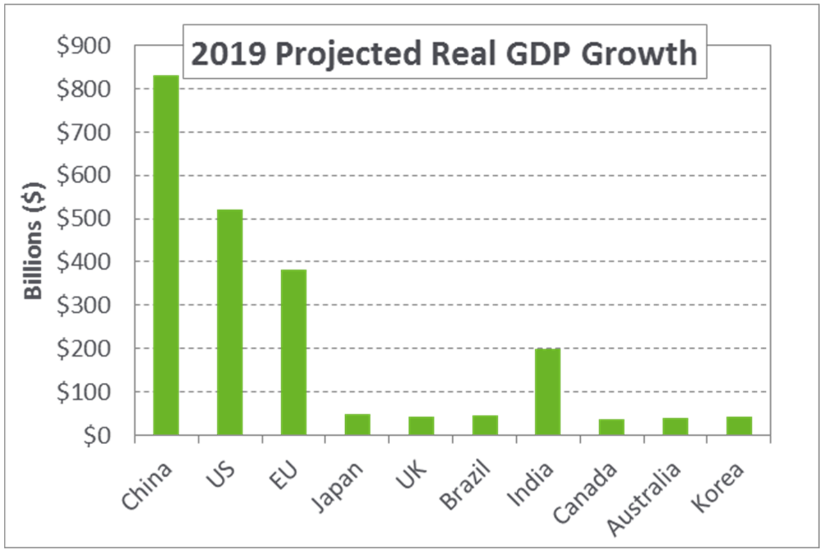
Fixed investment and credit expansion is needed to sustain the "old" production-based economy and support employment as the population shifts to urban centers

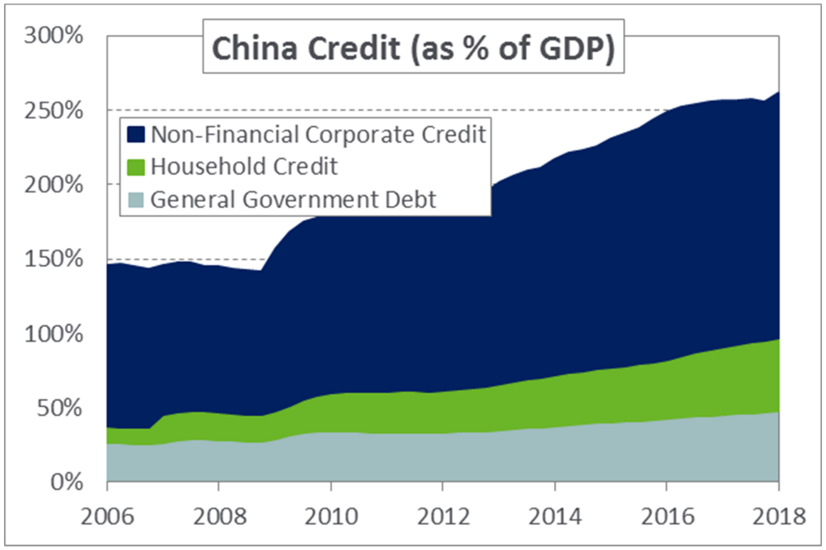
Any disruption to these transitions will be transmitted globally due to China's outsized role in the world economy

Policy makers must continue to balance goals of moderating credit expansion against sustaining healthy economic growth rates

Recent shifts in policy suggest a tilt away from credit moderation to offset the harmful effects of the US-China trade dispute

However, an uncontrolled expansion of credit growth and real estate development pose a future systemic risk to the economy





Source: (Top) Bloomberg, NEPC
Source: (Bottom) BIS, NEPC

KEY MARKET THEMES

China Transitions

China's economy is expected to equal the size of the US within 25 years

China's increased economic and geopolitical prominence on the world stage can be viewed as a threat to US leadership

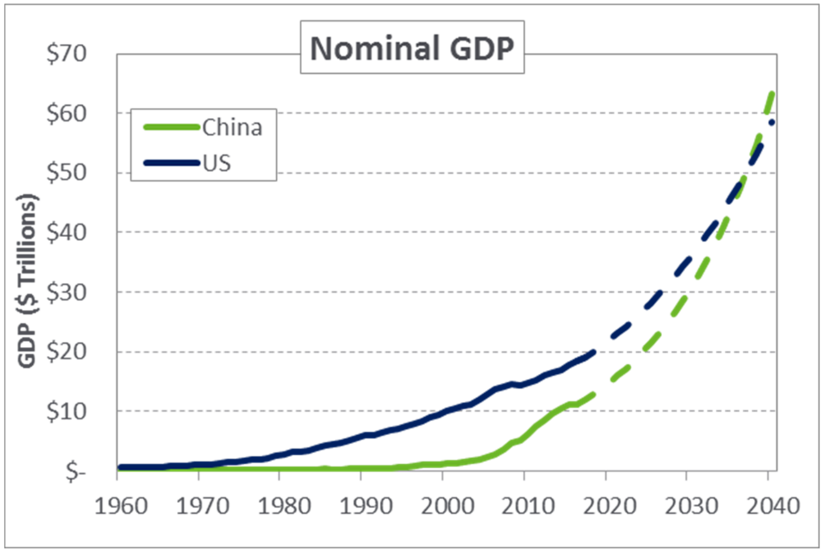
Tariffs and trade conflict are a form of "Thucydides Trap", where a rising power causes fear in an established power

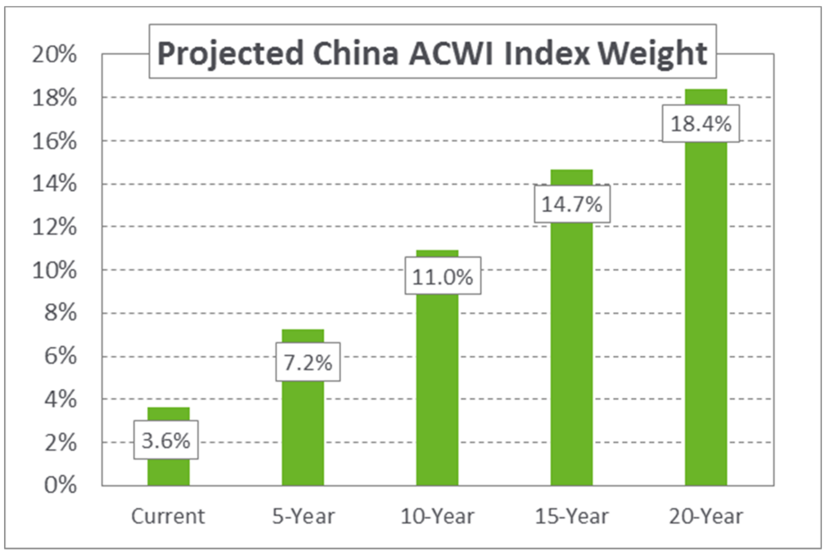
China is in a race against time: *Can they get rich before they get old?* This race may conflict with some US geopolitical interests and risks a zero-sum dynamic of economic competition between the US and China

Access to local financial markets is accelerating and expected to expand

Expansion of Hong Kong-mainland stock connect program broadens access to A-shares and strengthens the case for increasing size of Chinese equities in indices

With limited access for foreign investors, China is looking to slowly open access to the world's third largest fixed income market





Source: (Top) St. Louis Fed, NEPC; China is projected to grow at 7.5% and the US is projected to grow at 5.0%
Source: (Bottom) MSCI, Bloomberg, NEPC

KEY MARKET THEMES

Globalization Backlash

Uneven economic growth and wage gains have fueled political discontent in the developed and emerging world

Fatigue over globalization has led to a turn inward and greater political interest in nationalism, while multilateral relationships are viewed with suspicion

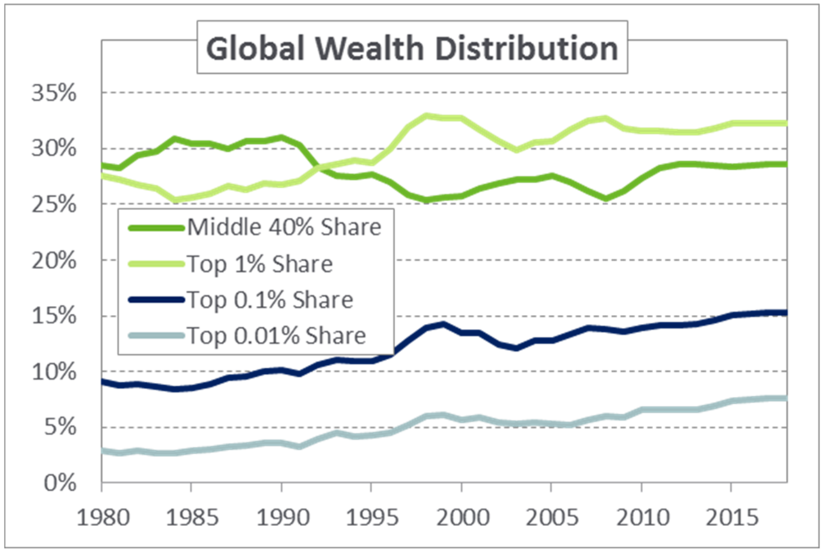
Globalization Backlash is a long-term trend as populist movements lead to shifts away from political/economic orthodoxy, which heightens tail risks

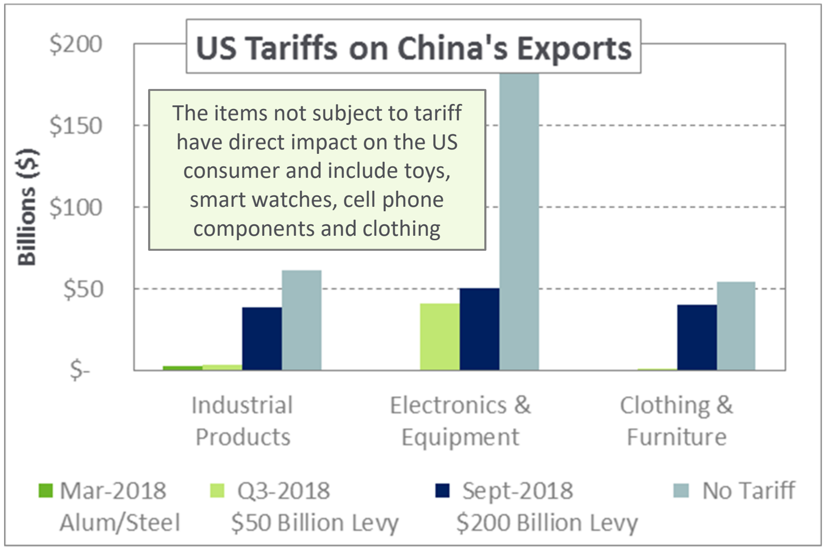
US-China trade tensions are a full expression of our backlash theme

Levying tariffs is a dangerous game as both the US and China look to negotiate an end to the tensions but must demonstrate strength for their domestic audience

In the past, markets have taken the US administration's rhetoric with a grain of salt but the tit-for-tat tariff escalation with China is a concern for market sentiment

We have likely settled into a prolonged "cold war" in the ongoing US-China trade battle





Source: (Top) WID.World, World Inequality Lab
Source: (Bottom) USTR, Bloomberg, NEPC

KEY MARKET THEMES

Globalization Backlash

Expanding protectionism from US trade policy is a material risk to global markets and the economy

US adopted a more restrictive trade policy in 2018 and investor sentiment outside the US deteriorated along with US-China relations

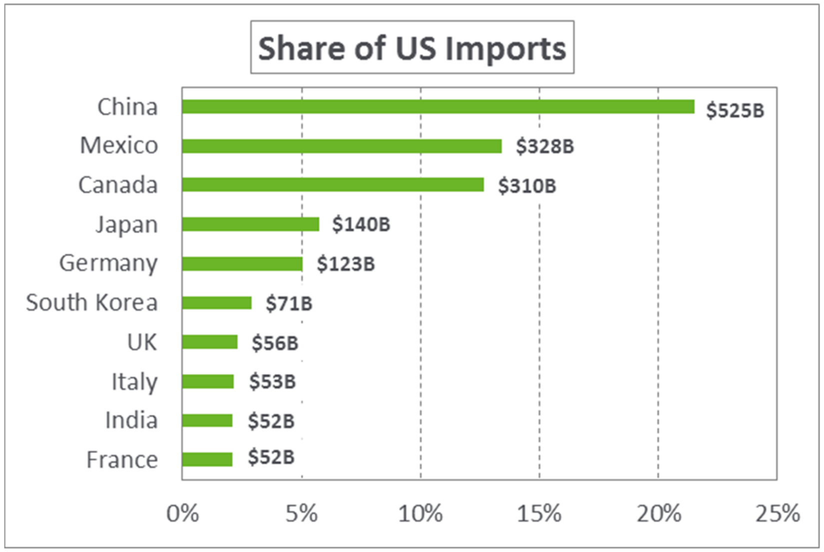
US-China tariffs are the "new normal" and we expect this dynamic to continue for the foreseeable future. We do not anticipate the trade dispute to escalate beyond tariff levies and prohibit the flow of goods and services

The UK serves as a live case study for the effects of globalization backlash

Economic metrics across the country have turned lower in the time since the UK voted to leave the European Union

Deterioration in business and consumer confidence along with potential disruption to the financial sector are a cautionary tale

The economic unease of voters remain and the political instability likely leads to higher levels of currency volatility over time



	Brexit Vote	Current
Real GDP (YoY%)	1.7%	1.5%
Household Consumption	3.3%	1.8%
Exports (YoY%)	1.1%	-1.3%
Imports (YoY%)	3.2%	0.2%
CPI (YoY%)	0.4%	2.5%
Unemployment (%)	4.9%	4.0%
Central Bank Rate	0.50%	0.75%
GBP/USD Exchange Rate	1.49*	1.28
Economic Sentiment	106.9	105.6

Source: (Top) Bloomberg, NEPC

*Source: (Bottom) Bloomberg, NEPC, *Data as of 6/23/16*

CURRENT OPPORTUNITIES

CURRENT OPPORTUNITIES

Rebalance Developed Market Equities
Funding Sources: EAFE equity, lower quality credit, multi-asset strategies

Raise Safe-Haven Fixed Income Exposure
Funding Sources: Lower quality credit, equity, multi-asset strategies

Reduce Lower Quality Credit Exposure
Funding Sources: High yield, bank loans, US direct lending

Maintain Overweight to Emerging Market Equities
Funding Sources: US equity and EAFE equity

Add Long Volatility Exposure
Funding Sources: Multi-asset strategies

Fund Public Midstream Energy Exposure
Funding Sources: Commodities, high yield, equity

Fund Emerging Local Debt
Funding Sources: High yield and equity

CURRENT OPPORTUNITIES

Rebalance Developed Market Equities

Adjust US and EAFE regional exposure to developed market index weights

Continue to recommend an overweight to emerging equity and adopt an index weight for US/EAFE relative to MSCI World

We encourage a global equity target weight of 52% to the US, 33% EAFE, and 15% to the EM. Larger overweight to EM can be funded pro rate from developed equity

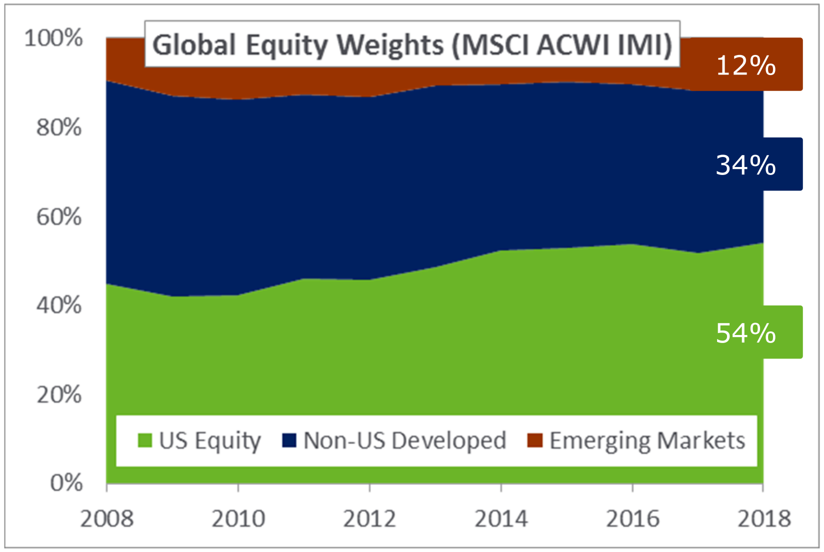
Should US equity declines continue, look to exploit the market volatility and overweight US exposure relative to EAFE index weights

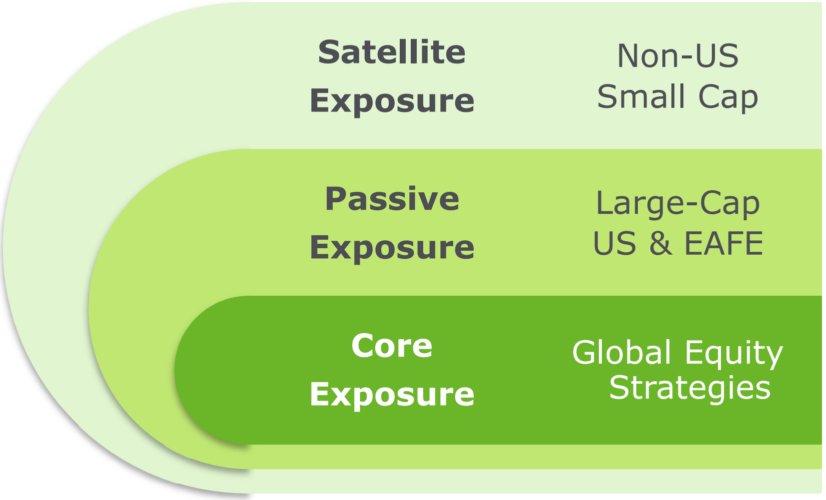
Global equity strategies can serve as the core implementation approach for developed market equity exposure

We remain supportive of pairing active global equity strategies with passive large-cap US and EAFE equity exposure

Within non-US developed markets, we have a strong bias to active small-cap equities

EAFE and US small-cap are a viable funding source for private market commitments





Source: (Top) MSCI, Bloomberg, NEPC; represents free float market cap weights as of 12/31 each year
Source: (Bottom) NEPC

CURRENT OPPORTUNITIES

Raise Safe-Haven Fixed Income Exposure

The potential for an adverse economic outcome appears to have expanded

Safe-haven exposure is an essential asset class exposure to mitigate portfolio risks

We are evaluating market metrics such as the yield curve that would cause us to shift to a more defensive recommendation

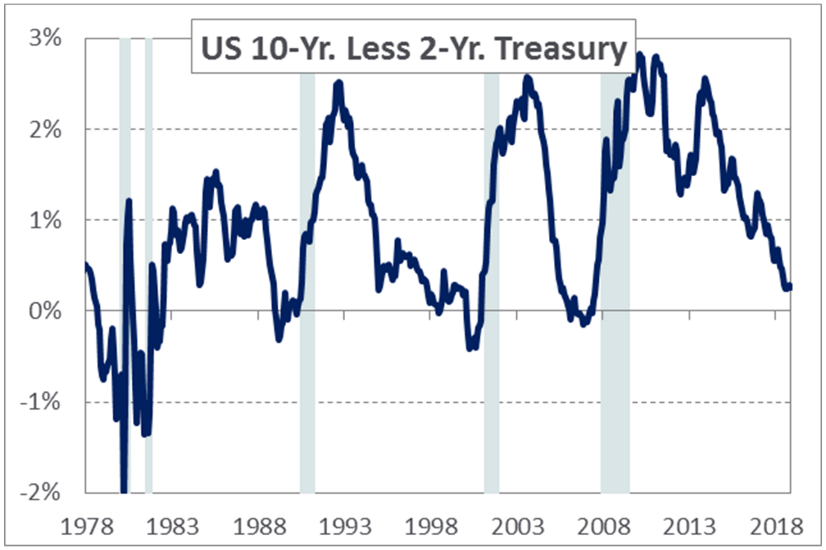
Should the yield curve invert and economic metrics show weakness, we are likely to recommend a material increase to safe-haven fixed income exposure

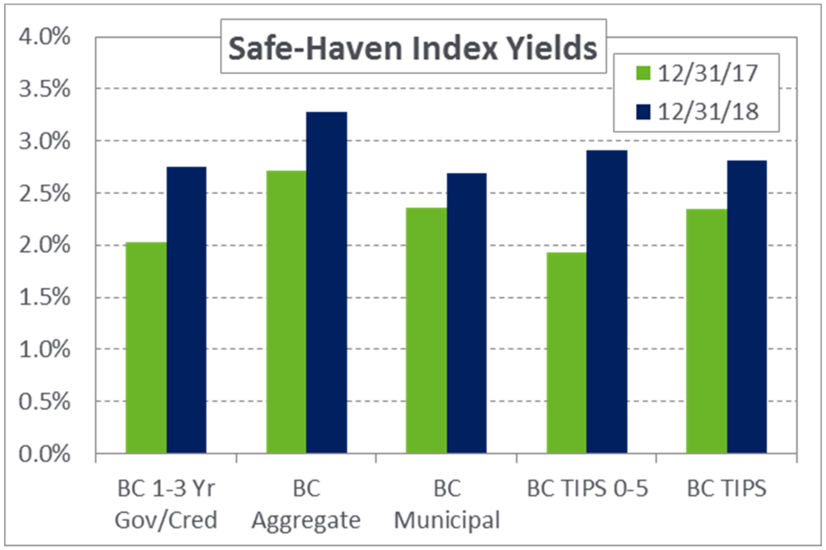
Short duration safe-haven exposure is attractive on a relative value basis

We encourage investors to increase safe-haven fixed income and use lower quality credit exposure as a funding source

Market volatility has depressed long rates and inflation expectations making short duration segments an important part of a safe haven allocation

TIPS continue to have a place in safe-haven fixed income as a strategic allocation





Source: (Top) Federal Reserve Bank of St. Louis, NEPC; Light blue shading indicates recession
Source: (Bottom) Bloomberg, TIPS yield includes CPI accrual

CURRENT OPPORTUNITIES

Reduce Lower Quality Credit Exposure

Lower-rated credit exposure does not adequately compensate investors for the risk relative to safer alternatives

Late-cycle markets generally exhibit higher than average credit default rates, acutely impacting debt rated BBB and below

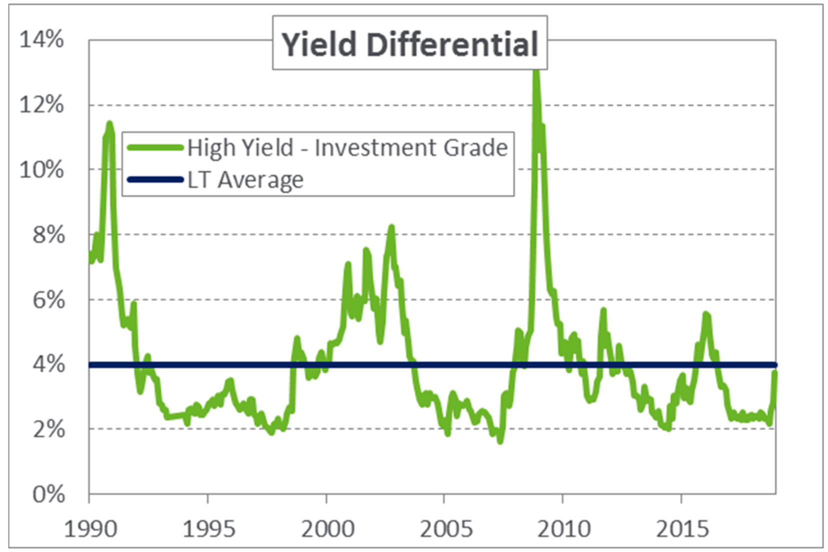
Despite credit spreads trading near median levels, we encourage moving away from lower quality credit and look to alternatives such as safe-haven fixed income, IG CLO's, and higher quality IG corporate bonds

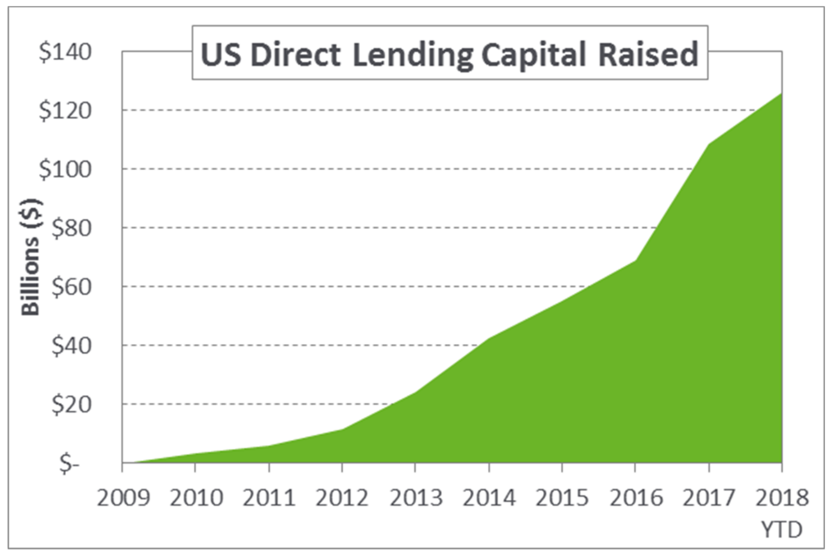
A misaligned risk-return tradeoff also applies to private credit markets

US direct lending is one example as the space has absorbed a large influx of capital over a multi-year horizon

Distressed and niche segments of private markets offer opportunities but require a hyper-focus on underwriting standards

We encourage reducing exposure to credit segments that have performed well over a prolonged period such as high yield, bank loans, and many private debt approaches





Source: (Top) MSCI, Bloomberg
Source: (Bottom) Preqin; represents cumulative capital raised

CURRENT OPPORTUNITIES

Maintain Overweight to Emerging Market Equities

Emerging equities offer the highest total return potential for investors

Valuation levels and fundamentals suggest an overweight relative to global equity market cap weights (e.g. 15% to 20%)

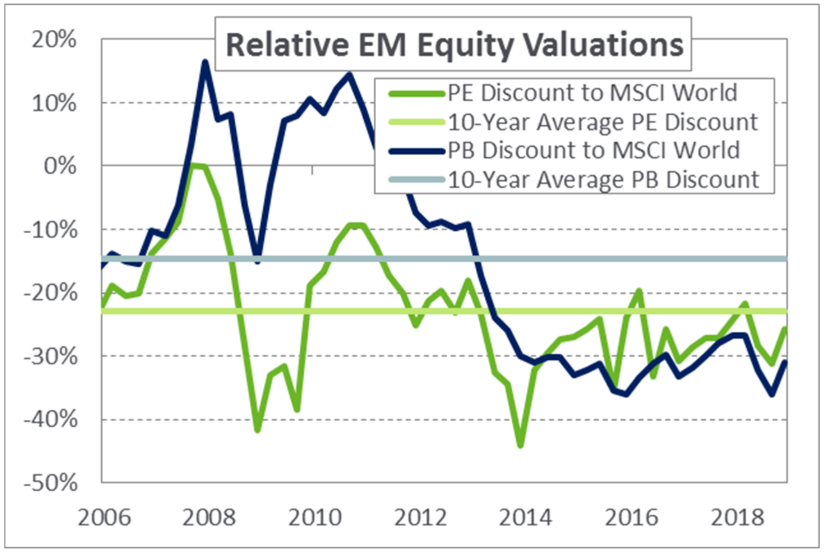
Growth premium relative to the developed world persists as economic conditions in EM remain supportive despite the negative sentiment associated with US trade policies

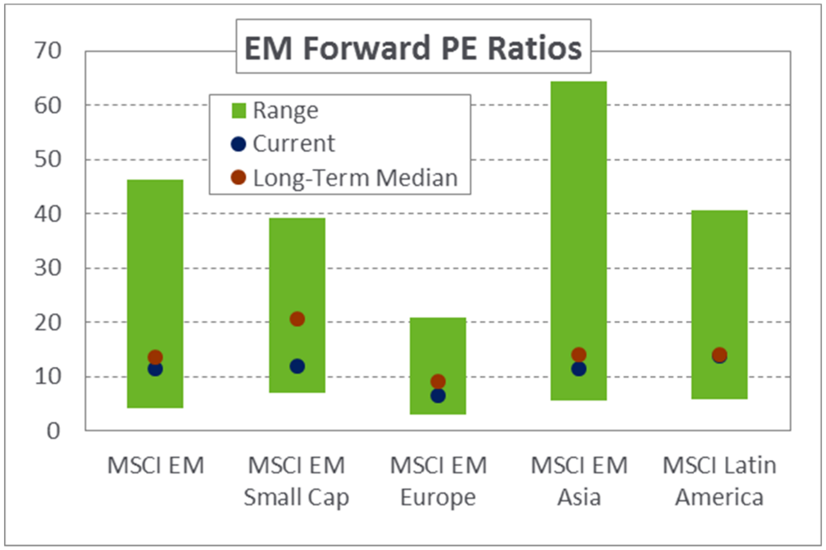
High tracking error strategies offer greater flexibility to invest across emerging countries and are preferred to benchmark focused mandates

Opportunity set for active management and excess return appear more abundant in EM versus developed markets

Strategies that invest down the market cap spectrum offer investors more focused exposure to local country growth rates

We encourage the use of multiple emerging market strategies to mitigate the risk of an unintended value-growth style or size bias





Source: (Top) MSCI, Bloomberg
Source: (Bottom) MSCI, Bloomberg

CURRENT OPPORTUNITIES

Add Long Volatility Exposure

Volatility levels for markets outside equities remain near historic lows

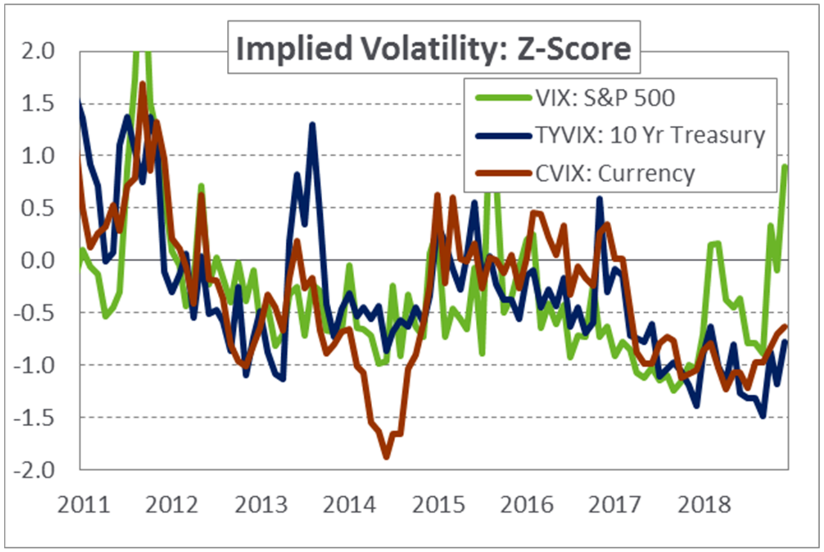
Long volatility exposure positively benefits from rising asset class volatility and an allocation of 1% to 2% can provide a significant return contribution should volatility normalize across global markets

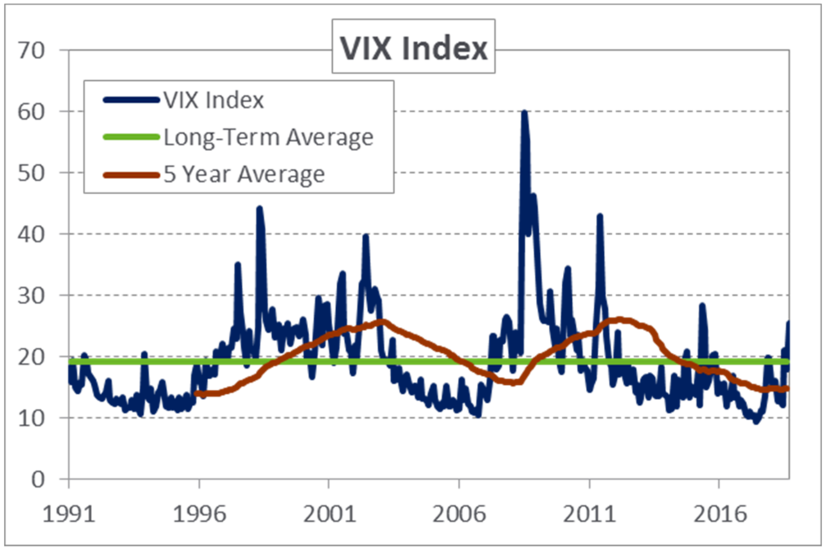
Exposure is not without risk. Losses would be expected if market volatility declines. Discipline of a multi-year time horizon is required should volatility levels move slowly back to normal levels

Long volatility strategies with positive carry are the only implementation option we recommend

Purchasing S&P VIX is a costly method to implement long volatility exposure due to the negative roll yield of the VIX curve

More suited for opportunistic investors willing to fund from multi-asset or other unconstrained strategies





Source: (Top) Bloomberg
Source: (Bottom) Bloomberg

CURRENT OPPORTUNITIES

Fund Public Midstream Energy Exposure

Midstream energy offers an attractive long-term growth potential

Balance sheet reform and a sustainable financing profile has been underappreciated by the market

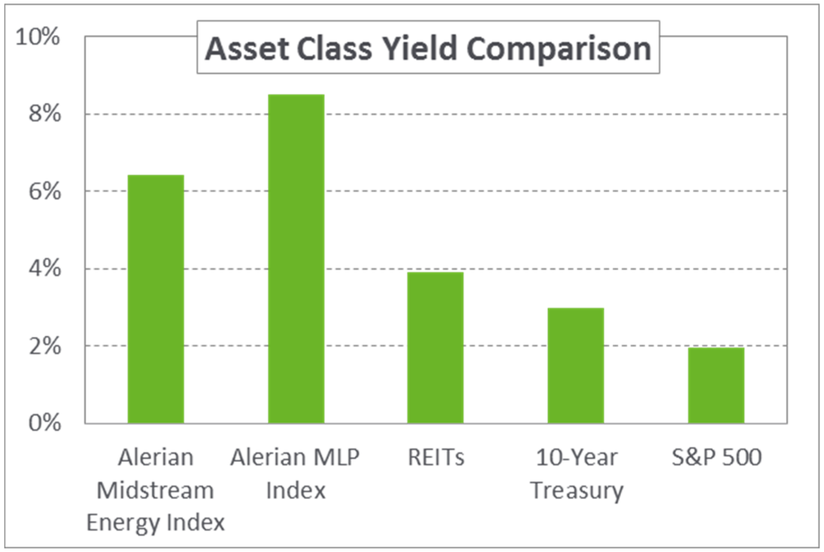
Reform of the MLP operating structure (IDR elimination) offers a more stable business model and improved corporate governance

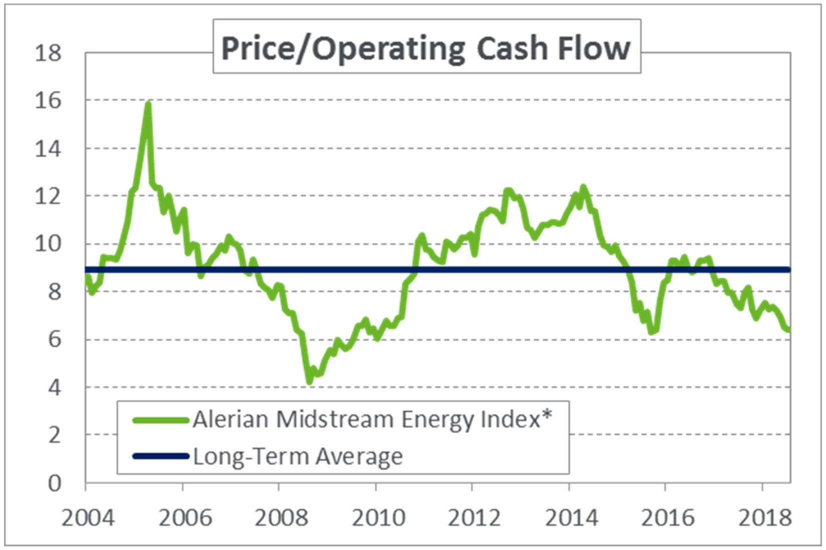
Negative sentiment weighs on the energy infrastructure market as performance has been poor over the last five years and operational concerns remain for some MLPs

Recovery of the energy infrastructure sector offers a compelling total return

Risk assets, such as high yield bonds and equities are an appropriate funding source for new midstream energy allocations

Nearly half of the midstream energy market is made up of MLPs. While down materially from recent years, careful thought must be given for tax-exempt investors as MLPs generate UBTI





Source: (Top) Alerian, NAREIT, Barclays, S&P, Bloomberg; As of 11/30/2018
*Source: (Bottom) Alerian, Bloomberg.*01/31/2018 to present a 50%/50% blend of the Alerian MLP and Midstream Energy Index*

CURRENT OPPORTUNITIES

Fund Emerging Local Debt

EM local debt offers an attractive total return opportunity

The combination of high real rates, lower inflation levels, and low currency valuations represents an attractive investment profile

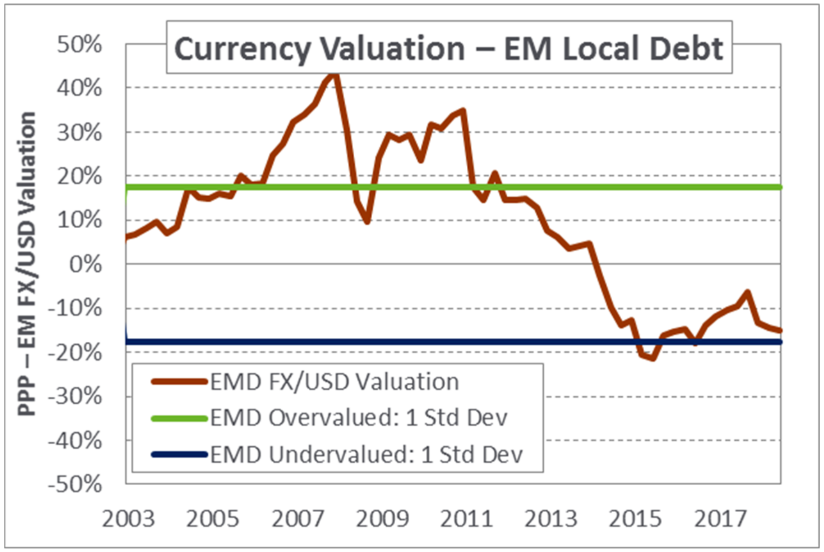
Above average index yields relative to the developed world provide a cushion to offset currency volatility and declines

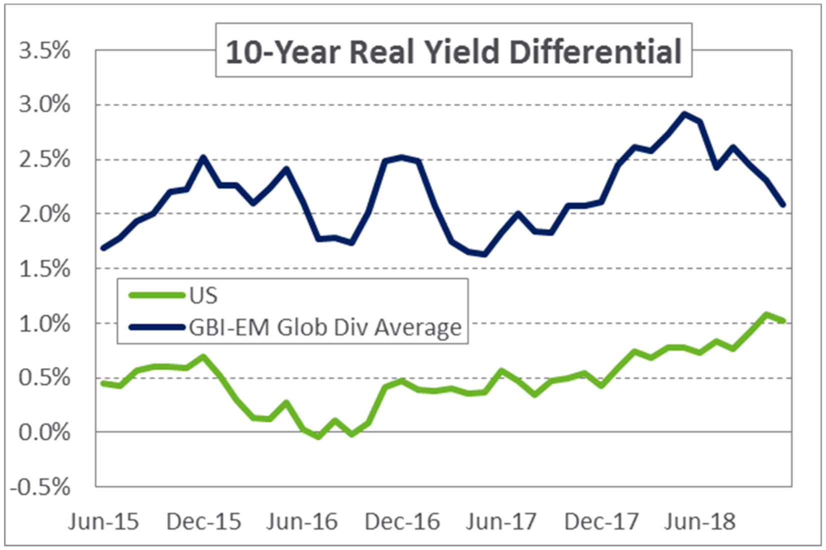
Additional Fed rate hikes not fully priced into market expectations are a risk and was a key source of the negative sentiment that hit the asset class in 2018

For tactical oriented investors, look to fund emerging local debt from high yield and equity exposure

A balanced EMD approach of local currency and dollar denominated debt remains our long-term bias as a strategic allocation

Currently, our preferred implementation is with a stand alone local debt strategy but unique macro or credit hedge funds may offer a unique return opportunity





Source: (Top) JPM, Bloomberg, NEPC
Source: (Bottom) JP Morgan, Bloomberg, NEPC

INFORMATION DISCLAIMER

Past performance is no guarantee of future results.

The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Report to Board of Administration

From: Investment Committee
Sung Won Sohn, Chairperson
Nilza R. Serrano
Elizabeth Lee

Agenda of: **FEBRUARY 12, 2019**

ITEM: **IX-D**

SUBJECT: **REVIEW OF LACERS INVESTMENT POLICY MANUAL AND POSSIBLE BOARD ACTION**

Recommendation

That the Board consider and approve the proposed revisions, as redlined in Attachment A of this report, to the following sections of the Investment Policy:

1) Section X. Private Equity Investment Policy
2) Section VI. General Investment Objectives and Guidelines
3) Section IX. Emerging Investment Manager Policy
4) Section III.F. Duties of Parties Involved in LACERS' Matters (Sexual Harassment and Illegal Discrimination Policy)
5) Section V.G. Rebalancing Policy (Tactical Asset Allocation Policy)

Discussion

At its meeting of January 8, 2019, staff presented the Committee with the draft of the proposed revised LACERS Investment Policy (IP). In addition to the revisions proposed by staff, the Committee requested further revisions to be incorporated in the final draft for the Board's consideration and approval. The substantive proposed revisions are summarized below. They are listed in order of priority for Board approval, based on the need for the IP revision to implement the new asset allocation and current private equity program strategic plan. Proposed minor administrative edits are not discussed in this report, but are redlined in Attachment A.

Section X. Private Equity Investment Policy

- Added language to consider sale of partnership fund interest on the secondary market and increase commitment sizes for new investments and follow-on funds (Attachment A – Pages 199-203)

Staff will return at a future Board meeting with proposed language with regards to granting staff discretionary authority to sell fund interests in the secondary market under certain circumstances.

Section VI. General Investment Objectives and Guidelines

- Updated asset class and strategy benchmarks and included new investment mandates to reflect the new asset allocation policy and implementation plan adopted by the Board on April 10, 2018, and August 14, 2018, respectively (Attachment A – Pages 173-181, 272)

Section IX. Emerging Investment Manager Policy

- Revised the language regarding LACERS' emerging investment manager goals (Attachment A – Pages 195-196)
- Updated the emerging investment manager minimum criteria for private market asset classes (Attachment A – Pages 196-197)

Section III.F. Duties of Parties Involved in LACERS' Matters (Sexual Harassment and Illegal Discrimination Policy)

- Introduced sexual harassment and illegal discrimination language for parties involved in LACERS' matters (Attachment A – Pages 169)

Section V.G. Rebalancing Policy (Tactical Asset Allocation Policy)

- Revised language to LACERS' Rebalancing Policy to include tactical asset allocation (Attachment A – Pages 172-173).

The Tactical Asset Allocation Plan referenced in the proposed revision is a separate procedural document that will be brought forth to the Board for review and approval at a future meeting. It will address, at a minimum, the goals and objectives of tactical asset allocation, roles and responsibilities of parties involved, decision-making framework, benchmarking to measure effectiveness, and reporting requirements.

Upon the Board's approval of the IP, staff may make additional minor administrative edits to be incorporated in the final version.

Strategic Plan Impact Statement

Revising the LACERS Investment Policy Statement will assist LACERS with achieving satisfactory long-term risk adjusted investment returns (Goal IV); upholding good governance practices which affirm transparency, accountability and fiduciary duty (Goal V); and maximizing organizational effectiveness and efficiency (Goal VI).

This report was prepared by Eduardo Park, Investment Officer I, Investment Division.

RJ:BF:EP

Attachments: A) Proposed Investment Policy Statement – Consolidated (Redline Version)
B) Current Investment Policy Statement – Consolidated (Clean Version)

Section 1 INVESTMENT POLICY

1.1 INVESTMENT POLICY

~~Adopted~~Proposed: ~~October 24, 2017~~ February 12, 2019

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Section 1 INVESTMENT POLICY

I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Los Angeles City Employees' Retirement System ("LACERS" and hereafter known as the "System"). Its purpose is to assist the Board of Administration (the "Board") in effectively supervising and monitoring the investments of the System, with the support of the LACERS staff (the "Staff"). Specifically, it will address:

A. The general goals of the investment program;
B. The policies and procedures for the management of the investments;
C. Specific asset allocations, rebalancing procedures, and investment guidelines;
D. Performance objectives; and
E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

> "…to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system."

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

II. INVESTMENT GOAL STATEMENT

The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

D. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

G. Investment actions are expected to comply with "prudent person" standards as described:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (sometimes referred to as the 'prudent person' rule)." [1]

The "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

[1] ERISA 404(a)(1) (B).

III. DUTIES OF RESPONSIBLE PARTIES

A. Duties of the Board or its Designate(s)

The Board has the responsibility for the administration of the System for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

1. The Board develops and approves policies and guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.
2. A formal review of the Board's Investment Policy and investment structure, asset allocation, and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions, or the System's financial condition.
3. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.
4. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.
5. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:
   a) Manager compliance to the Policy guidelines.
   b) Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
   c) Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.
6. The Board shall expect Staff to administer the System's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.

7. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.
8. Voting of proxies in stocks held by the System will be done according to Board policy.
9. The Board may delegate certain duties of the Board to the Investment Committee as specified in the Investment Committee Charter.

B. **Duties of the Staff**

The Board's Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, the Investment Staff oversees and directs the implementation of Board policies and manages the System on a day-to-day basis. Furthermore, staff responsibilities include the following details:

1. Invests the System's cash without requiring Board's permission as set forth elsewhere in the Board's Investment Guidelines.
2. Monitors investment managers for adherence to appropriate policies and guidelines.
3. Evaluates and manages the relationships with brokers, managers, consultants, and custodian(s) to the System to ensure that they are providing all of the necessary assistance to Board and to Staff.
4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.
5. The Staff will manage Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.
7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.
8. The Staff shall advise and keep the Board apprised of any other events of investment significance.

C. **Duties of the Investment Managers**

The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.
2. Provide the Board with proof of liability and fiduciary insurance coverage.
3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.

4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.
6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.
7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:
   a) Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;
   b) Significant changes in ownership, organizational structure, financial condition, or senior personnel;
   c) Any changes in the Portfolio Manager or other personnel assigned to the System;
   d) Each significant client that terminates its relationship with the Investment Manager, within 30 days of such termination;
   e) All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and
   f) Meet with the Board and/or Staff on an as-needed basis.

D. **Duties of the Master Custodian**

The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.
2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
3. Provide in a timely and effective manner a monthly report of the Investment activities implemented by the investment managers. Prepare a quarterly report containing absolute and relative investment performance.
4. Collect all income and realized principal realizable, and properly report it on the periodic statements.
5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.

6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.
7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

E. **Duties of the General Fund Consultant**

The General Fund Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.
2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.
3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.
4. Assist the Board in the selection of a qualified custodian if necessary.
5. Provide topical research and education on investment subjects as requested by the Board or Investment Staff.

F. **Duties of Parties Involved in LACERS' Matters**

The Board is committed to maintaining a workplace that is free of sexual harassment and illegal discrimination. Investment managers, consultants, and other contractors assisting with the implementation of the Board's investment program shall adopt written policies prohibiting sexual harassment and illegal discrimination of any kind to ensure a safe working environment and to protect the System's assets from business risks arising from such misconduct.

Pursuant to this commitment, prior to finalizing its contract with the Board, every public markets contractor shall disclose to the Board all current, pending, and anticipated litigation concerning sexual harassment or related discrimination claims that may have a material impact on the Board's investment(s) managed by said contractor. This disclosure requirement is mandatory for such contracts or amendments dated March 1, 2019 or later.

IV. ASSET ALLOCATION POLICY

The policies and procedures of the Board's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as the System's conditions change and as investment conditions warrant. The Board reviews the Asset Allocation Policy strategically approximately every three years and on a tactical basis more frequently.

Section 1 INVESTMENT POLICY

The Board adopts and implements the Asset Allocation Policy that is predicated on a number of factors, including:

A. A projection of actuarial assets, liabilities, benefit payments, and required contributions;
B. Historical and expected long-term capital market risk and return behavior;
C. An assessment of future economic conditions, including inflation and interest rate levels; and
D. The current and projected funding status of the System.

This policy provides for diversification of assets in an effort to maximize the investment return of the System consistent with market conditions. Asset allocation modeling identifies the asset classes the System will utilize and the percentage that each class represents of the total plan assets. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the Asset Allocation Policy and that periodic revisions will occur. The Board will monitor and assess the actual asset allocation versus policy and will rebalance as appropriate.

The Board will implement the Asset Allocation Policy using investment managers to invest the assets of the System's portfolio components subject to investment guidelines. Equity managers may not hold more than 10% of the market value of their portfolios in cash without Board approval, unless otherwise specified in their manager guidelines. The long-term asset allocation targets and ranges for the investments of the System's assets are presented in the latest Board-approved Asset Liability Study and Asset Allocation Policy.

The Board will allocate segments of the System's assets to each investment manager and specify guidelines, objectives and standards of performance, which are to apply to each manager's portfolio. These decisions will encompass allocating segments of the System assets, and segments of individual asset classes, between active and passive investment management, the active risk of the portfolio and to provide broad market exposure.

V. INVESTMENT POLICY

The Board will retain external investment managers to manage the System's assets using a specific style and methodology. Public external investment managers have been delegated authority for determining investment strategy, security selection, and timing. Public external investment managers are subject to the Board's policy and individual investment manager guidelines, legal restrictions, and other Board direction. Performance objectives will also be developed for each manager. The performance of each portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles. Private market investment managers shall manage the System's assets pursuant to the respective asset class policy and the partnership fund's limited partnership agreement or other applicable legal documents.

Section 1 INVESTMENT POLICY

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board of such material changes within a reasonable timeframe as articulated within their respective investment guidelines.

Investment managers under contract to the Board shall have discretion to establish and execute transactions with securities broker/dealer(s). The investment managers will attempt to obtain best execution with respect to every portfolio transaction. The following transactions will be prohibited: net short sales; selling on margin; writing options other than covered options; "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA); and, transactions that involve a broker acting as a "principal," where such broker is also the investment manager making the transaction. The investments of the Board's assets will be subject to the following general policies.

A. **Manager Selection**

The selection of investment managers is accomplished in accordance with all applicable local, state, and federal laws and regulations. Each investment manager, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations. Section VII describes LACERS' Manager Search and Selection Policy which articulates the process that will be employed for each public markets manager search.

B. **Manager Authority**

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; Board rules or direction, applicable local, state, and federal statutes and regulations and individual management investment plans and executed contracts.

C**.** **Brokerage Policy**

The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution. Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

D. **Proxy Voting**

Proxy voting rights will be managed with the same care, skill, diligence, and prudence as is exercised in managing other assets. Proxy voting rights will be exercised in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board Proxy Voting Policy, which is found in Section XIV of this policy statement.

E. **Securities Lending**

The Board has authorized the execution of a "Securities Lending Program," which may be managed by the Board's custodian or delegated to a third-party provider. The Board will monitor and review the program. This program is described in the Securities Lending Policy (Section XV of this document) and in the Securities Lending Agreement of the securities lending provider. The initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and collateral are denominated in different currencies. Marking to market is performed every business day, and the borrower is required to deliver additional collateral when necessary. Stringent cash and non-cash collateral guidelines specify eligible investments, credit quality standards, and diversification, maturity and liquidity requirements.

F. **Derivatives**

The Board's investment managers may be permitted, under the terms of individual investment guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the movement of the pricing of other securities. The returns are to be consistent with the manager's mandate from the returns of other securities, indices, or allowable derivative instruments that include, but are not limited to, futures and forwards. Examples of appropriate applications of derivative strategies include hedging interest rates and currency risks, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration for fixed income. In no circumstances can managers borrow funds to purchase derivatives. Managers must ascertain and carefully monitor the creditworthiness of any counterparties involved in derivative transactions.

G. **Rebalancing**

The investment portfolio shall, on an ongoing basis in accordance with market fluctuations, be rebalanced to remain within the range of targeted allocations and distributions among investment advisors. The Board has a long-term investment horizon and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs. ~~Recognizing the risks of market timing~~However, the Board may authorize staff to rebalance assets within or among asset classes without breaching Board-established asset allocation policy threshold bands. Such rebalancing would be subject to an annually approved Tactical Asset Allocation Plan (TAAP) in order to enhance incremental performance during periods of market dislocations. The Board will consider the approval of a new TAAP or renewal of an existing TAAP within three months prior to the start of each fiscal year. The approved TAAP will be effective on July 1 of each year. Should the Board choose not to renew a TAAP, the existing TAAP may continue to be implemented; however, new TAA positions may not be introduced until a new TAAP is approved by the Board.

The Board delegates the responsibility of rebalancing to the Chief Investment Officer, who will seek the concurrence of the General Fund Consultant. Rebalancing generally will occur when the market values of asset classes (e.g., equities, fixed income, etc.) or sub-asset classes (e.g., large cap value, emerging markets, etc.) exceed their respective thresholds as established by the Board's approved asset allocation and asset class risk budgets.

The portfolio will be monitored daily, but reviewed by senior investment staff (i.e., Chief Investment Officer or Chief Operating Officer) at the beginning of each month to determine the need to rebalance asset classes or sub-asset classes within approved policy bands. Rebalancing will be conducted in a timely manner, taking into consideration associated costs and operational circumstances and market conditions. Rebalancing will be accomplished by using routine cash flows, such as contributions and benefit payments, by reallocating assets across asset classes, investment mandates, and investment managers.

Asset classes temporarily may remain outside of their ranges due to operational and implementation circumstances to include, but not limited to, illiquidity that prevents immediate rebalancing of certain asset classes such as private equity and private real estate; potential asset shifts pending in the portfolio over the next 12 months such as hiring/termination of a manager(s); an asset allocation review of the entire portfolio; or a structural review of a given asset class.

The Chief Investment Officer shall inform the Board in a timely manner of all rebalancing activity.

H. **Evaluation of Policy**

The Investment Policy Statement shall be reviewed by the Board at least annually, with the assistance of the Staff and investment consultant(s), and revised as necessary.

VI. GENERAL INVESTMENT OBJECTIVES AND GUIDELINES

The general investment objective is to outperform the overall policy portfolio benchmark. The overall policy portfolio benchmark consists of weighted asset class benchmarks for each asset class as determined by the Board. The long term policy benchmarks are listed below:

Asset Class	Benchmark
Domestic Equity	Russell 3000
Non-U.S. Equity	MSCI ACWI ex-U.S.

Fixed Income	BC U.S. Aggregate
Credit Opportunities	~~65~~15% BC U.S. HY Capped + 45% Credit Suisse Leveraged Loans Index + ~~35~~20% J.P. Morgan EMBI-GD + 20% J.P. Morgan GBI EM-GD
Private Equity	Russell 3000 + 300 bps
Private Real Estate	NFI-ODCE + 80 bps
Public Real Assets	U.S. Consumer Price Index + 5%
Cash	90-Day Treasury Bill

The portfolio is formally monitored by the Board quarterly versus its policy benchmark and also compared to the System's actuarial return target. ~~of 7.25%.~~

The Board will utilize the following portfolio investment components to fulfill the asset allocation targets and LACERS total fund performance goals established in this document.

A. **Equities**

The Board expects that over the long run, total returns of equities will be higher than the returns of fixed income securities, but they may be subject to substantial volatility during shorter periods. Equity investment managers retained by the Board will follow specific investment styles and will be evaluated against specific market indices that represent their investment styles. Additionally, in the case of active managers, investment results may also be compared to returns of a peer group of managers with similar styles. The components of the System's equity holdings, the benchmarks for the various equity portfolios, and the general guidelines are listed below:

1. **Domestic Equities**

   a) **Index Funds/Core** – These investments will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

   b) **Large Cap Growth Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. The Board's large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

   c) **Large Cap Value Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

d) **Mid Cap Core Stocks** – The principal characteristic of the mid-cap core stock component is its emphasis in stocks with market capitalization generally ranging from $3.0 billion to $10.0 billion.

e) **Small Cap Core Stocks** – The principal characteristic of the small cap core stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion.

f) **Small Cap Value Stocks** – The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion, which are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

g) **Small Cap Growth Stocks** – The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $250 million to $2.0 billion, which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than value stocks.

The benchmarks for the domestic equity portfolios may include the following indices:

Large Cap Core Stocks	S&P 500 Index
	Russell 1000 Index
Large Cap Value Stocks	Russell 1000 Value Index
Large Cap Growth Stocks	Russell 1000 Growth Index
Mid Cap Core Stocks	Russell Midcap Index
Small Cap Core Stocks	Russell 2000 Index
Small Cap Value Stocks	Russell 2000 Value Index
Small Cap Growth Stocks	Russell 2000 Growth Index

General U.S. equity guidelines for active managers include the following:

(1) No securities shall be purchased on margin or sold short.

(2) American Depository Receipts (ADRs) are permissible investments.

(3) Convertible securities can be held in equity portfolios and will be considered equity holdings.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company.

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

2. **Non-U.S. Equities**

a) **Index Funds/Core Non-U.S. Stocks** – This portfolio provides broadly diversified equity markets outside the U.S. and, consequently, plays a significant role in diversifying the Board's portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a macro approach.

b) **Developed Markets Core** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets.

c) **Developed Markets Value** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Value Index or the MSCI EAFE Value Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having higher than market dividend yields, lower than market book value, and lower than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

d) **Developed Markets Growth** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Growth Index or the MSCI EAFE Growth Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having lower than market dividend yields, higher than market book value, and higher than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

e) **Small Cap Core** – This segment is comprised of non-U.S. stocks of the developed markets countries listed within the MSCI EAFE Small Cap Index. These stocks represent small cap companies which may have global products and customers or which may be dominant firms within their local country/regional markets. These stocks will generally have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus large cap developed market stocks.

f) **Emerging Markets Core** – This component is comprised of equity positions in companies located in emerging, rapidly growing countries around the world. The companies tend to be large cap and may have global products or customers or they may be dominant firms within their local countries/regions. Because these are countries that are typically in the early development stages of economic growth, the returns in these countries are higher and more volatile on a year-to-year basis.

g) **Emerging Markets Value** – This portfolio contains value-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have lower price-to-book, higher dividend yields and lower earnings growth rates.

h) **Emerging Markets Growth** – This portfolio contains growth-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have higher price-to-book, lower dividend yields and higher earnings growth rates.

~~h)~~i) **Emerging Markets Small Cap** – This portfolio contains equity positions in smaller capitalization companies located in emerging, rapidly growing countries around the world. The stocks represent small cap companies and in general will have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus larger capitalization emerging market stocks.

The benchmarks for the international equity portfolios may include the following indices:

Developed Markets Core (Passive)	MSCI World ex-U.S. Index
Developed Markets Core (Active)	MSCI EAFE Index
Developed Markets Value	MSCI EAFE Value Index
Developed Markets Growth	MSCI World ex-U.S. Growth Index
Non-U.S. Small Cap	MSCI EAFE Small Cap Index
Emerging Markets Core	MSCI Emerging Markets Free Index
Emerging Markets Value	MSCI Emerging Markets Value Index
Emerging Markets Growth	MSCI Emerging Markets Growth Index
Emerging Markets Small Cap	MSCI Emerging Small Cap Index

General Non-U.S. equity guidelines for active managers include the following:

(1) Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts, GDR's, ADRs, and equity securities of companies domiciled outside the U.S. including established and emerging countries.

(2) Managers will have discretion to hedge currencies of the countries in which their portfolio is invested to protect the value of the portfolio from currency risk. A manager's hedge ratio may not exceed 100% of the portfolio's value, at market, without obtaining prior approval from the Board.

(3) No securities shall be purchased on margin or sold short.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

B. **Fixed Income**

The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System's investment assets. The fixed income portfolios will be managed on a total return basis, following specific investment styles and evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The fixed income holdings are comprised of the following mandates.

1. **Core Fixed Income** – This segment will provide core exposure to the U.S. fixed income market including Treasury and government agency bonds, corporate debt, mortgages, and asset-backed securities. The portfolio will be primarily comprised of issues with duration within 30% of the benchmark. Overall portfolio quality will be at least investment grade rated.

2. **Index Bonds** – This passive fixed income portfolio is intended to track the characteristics of the benchmark.

3. **Credit Opportunities**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

a) Real return above inflation of between 3% and 5%;
b) Diversification versus LACERS' two main asset classes: equities and bonds; and,
c) Income

The target allocation to Credit Opportunities ~~is 5% with~~will include flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within or ± ~~2~~4% of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The credit opportunities investment program can be comprised of both public and private credit opportunities strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' credit opportunities investment program:

a) **U.S and Non-U.S. High Yield Bonds** – Below investment grade (i.e., <BBB/Baa) rated bonds issued by public corporations with a perceived higher risk of default. Investors in these securities hope to benefit from spread tightening relative to investment grade bonds and from their higher overall yields, i.e., income.

b) **Emerging Markets Debt (Local, Hard, Sovereign and Corporate)** – Debt issued by the governments (“sovereign”) of developing, or emerging, countries. Additionally, debt issued by corporations domiciled within emerging markets countries can be investment grade or below investment grade rated debt. Also can be issued in a foreign external, or “hard”, currency (e.g., U.S. dollars, Euros, etc.) or in the country’s local currency. Investors in these securities hope to benefit from spread tightening relative to investment grade and/or domestic bonds and from their higher overall yields.

c) **Leveraged Loans** – Loans extended to high yield (i.e., below investment grade) or levered borrowers, generally by banks or other financial institutions. The loans are *not* levered – the borrowers are. Hence, there is a perceived higher risk of default. Leveraged loans tend to have short maturities and are higher in the capital structure than regular debt of the company. Investors in these securities hope to achieve higher than investment grade bond returns due to their higher yields.

d) **Distressed Debt** – Debt of issuers that 1) are sufficiently financially impaired where there is a high risk of default or bankruptcy, 2) have already defaulted on financial obligations, or 3) have entered into bankruptcy proceedings. Investors in these securities hope to achieve high returns through financial or other restructuring at the issuing company.

e) **Opportunistic or Special Debt Situations** – Debt which may not fit within the preceding categories that may offer a unique investment opportunity due to broader economic or financial conditions.

~~e)~~f) **Direct Lending** – Includes loans that are primarily floating rate debt obligations made to non-investment grade borrowers. Private direct lending involves a limited number of investors that structure terms of a transaction directly with a middle market or small corporate borrower. There is generally a limited public market with a middle market or small corporate borrower. Additionally, there is generally a limited public market for these loans and they are usually refinanced prior to maturity or held to maturity by one or a relatively small number of investors. Investors expect to earn a yield which is higher than publicly traded corporate debt to compensate for a higher degree of risk.

The primary return objective for the LACERS’ Credit Opportunities program is to outperform a custom weighted benchmark of ~~65~~15% Barclays Capital U.S. High Yield Capped Index plus 45% Credit Suisse Leveraged Loans Index + ~~35~~20% J.P. Morgan ~~Emerging Markets Bond Index – Global Diversified (“~~EMBI Global Diversified Index ~~—GD”)~~ + 20% J.P. Morgan GBI EM Global Diversified Index.~~by 50 basis points net of fees~~ over a market cycle. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Credit Opportunities on the LACERS Total Fund. Returns will be calculated after management fees.

The benchmarks for the various fixed income portfolios may include the following indices:

Core Fixed Income	BC Aggregate Bond Index
Intermediate Fixed Income	BC U.S. Govt/Credit Intermediate Bond Index
High Yield Bonds	BC U.S. High Yield 2% Capped Index
Emerging Market Debt	50% J.P. Morgan EMBI Global Diversified Index + 50% J.P. Morgan GBI EM Global Diversified Index
Bank Loans	Credit Suisse Leveraged Loans Index
Direct Lending	Credit Suisse Leveraged Loans Index

General fixed income guidelines include the following:

a) **Core Fixed Income**

(1) The total portfolio's average rating will be A or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.

(4) No securities shall be purchased on margin or sold short.

b) **Credit Opportunities**

High Yield Bonds

(1) The total portfolio's average rating will be B or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and investment grade bonds are permitted.

(4) No securities shall be purchased on margin or sold short.

Bank Loans

(1) No more than 5% of any single portfolio holding will be invested in any one issuer.
(2) No more than 40%, in aggregate, invested in securities of non-U.S. issuers.
(3) No more than 20% of the portfolio invested in loans or bonds that are not first lien secured debt and no more than 10% invested in non-secured debt.
(4) No more than 30% of the portfolio's holdings in loans or bonds with a Moody's issue rating of Caa1 or lower.

(5) No securities shall be purchased on ma~~r~~rgin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

Direct Lending

(1) Portfolio will consist of low-to-middle market (<$75 million EBITDA) senior secured or unitranche direct loans.

(2) At least 70% of the portfolio will be invested in senior secured loans.

(3) No more than 10% of the portfolio will be invested in unitranche loans.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, distressed debt, and special situations funds. The Private Equity Investment Policy is within Section X of this document.

D. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;
2. Inflation hedge;
3. Diversification versus LACERS' two main asset classes: equities and bonds; and,
4. Income

The target allocation to Real Assets ~~is 10% with~~will include flexible rebalancing given the public/private composition of this asset class. Generally, the public actual allocation will be kept within ~~30% (or~~ ± ~~3~~2%~~)~~ of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The real assets investment program will be comprised of both public and private real asset strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' real assets investment program:

1. **Private Real Estate –** This portfolio is expected to provide portfolio diversification and increase returns due to real estate's low correlation with the returns from equities and fixed income. The Private Real Estate Investment Policy is included in Section XI of this document.
2. **Public Real Estate "REITS"** – Publicly traded companies that trade on major stock exchanges and invest directly in real estate either through properties or mortgages. A distinguishing characteristic of this investment strategy versus private real estate is the improved liquidity and yield orientation.
3. **Treasury Inflation Protection Securities ("TIPS") or Global Inflation-Linked Bonds** – Securities where the principal value adjusts to reflect changes in the U.S. CPI or other sovereign-linked inflation measures upward or downward, but never below the original face amount at maturity. Semi-annual coupon payments are based upon the bond's adjusted principal which provides a direct inflation link.
4. **Commodities/Natural Resources** – Financial instruments, such as individual stocks, stock baskets or futures which represent companies or markets where the prices are directly linked to the ownership or trading of physical commodities/natural resources or companies whose primary source of revenues are tied directly or indirectly to the management, ownership or trading of physical commodities/natural resources. Commodities/natural resources are raw materials which are inputs to the production of goods and services. Thus, changes in commodities/natural resources prices typically lead inflation. Higher commodities/natural resources prices lead to increased prices goods and services, hence, a directly link to inflation.
5. **Timber/Farmland** – These are a hybrid investment strategy in that similar to commodities, they provide final and raw material in the production of goods and services and will tend to lead inflation. However, as private investments, they are similar to private real estate in that a potential increase in property value exists due to changes in supply and demand factors that influence inflation.
6. **Master Limited Partnerships ("MLPs")** – An MLP is a publicly traded partnership that combines individual limited partnerships into one entity to make the ownership interests more marketable with a general partner operating the business. MLPs are high income assets that should provide a consistent yield in between REITS and High Yield Bonds. As equities, they are also expected to earn returns commensurate with traditional public equities. An MLP is a pass-through entity that is taxed at the unit holder (i.e., share holder) level and not subject to tax at the partnership level. However, tax exempt investors may produce Unrelated Business Taxable Income ("UBTI"), which means tax-exempt investors engaged in a 'business' outside of the purpose for their exemption may be subject to UBTI. The businesses of MLPs are related to the extraction, production, and distribution of natural resources or energy infrastructure.
7. **Infrastructure** – Private markets investments in essential physical infrastructure such as toll roads, bridges, airports and utilities accessed by most citizens and designed to provide a steady income stream via tolls, leases, etc. Income stream is periodically adjusted by owners and inflation escalation provisions are often "built in" to provide a

direct link to inflation. Capital appreciation also directly linked to primary economic drivers such as inflation.

8. **Oil and Gas Limited Partnerships** – Private markets investments in limited partnerships which have the objective of exploring/develop/market oil/gas sources. Returns are primarily driven by an income stream as well as from profits earned at the end of the partnership. However, returns are influenced by rate at which oil and gas flow from source. Thus, this is considered a highly risky, speculative investment strategy.
9. **Multi-Asset Real Asset/Return Strategies** – Bundled public markets or combination private/public markets real assets and/or real return strategies where the investment objective is to provide a real return above inflation over a market cycle. The investment manager has the discretion to select the combination of real asset strategies and to establish the exposure to each respective real asset strategy.

The primary return objective for the LACERS' Real Assets program is to outperform the U.S. Consumer Price Index ("CPI") plus 5% over multiple market cycles and to outperform a secondary custom benchmark comprised of the weighted average of the underlying strategy benchmarks over a full market cycle, with appropriate consideration of risk. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Real Assets on the LACERS Total Fund. Returns will be calculated after management fees.

The benchmarks for the various real assets portfolios may include the following indices:

Private Real Estate	NFI-ODCE Index + 80 basis points
Public Real Estate "REITS"	FTSE NAREIT All Equity Index
U.S. TIPS	BC U.S. TIPS Index
Commodities	Bloomberg Commodity Index

General real assets guidelines include the following:

a) **Private Real Estate** (see Private Real Estate Policy within Section XI of this document)

b) **Public Real Estate**

(1) At least 90% of the portfolio investments must be invested in REITS.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) For prudent diversification of the portfolio, the maximum amount that can be invested in any one issue shall be the greater of 7.5% of the portfolio or 125% of the index weight.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 3%. In total, out of benchmark securities shall not exceed 10% of the portfolio market value at time of purchase.

(5) At no time shall the Account own more than 5% of the outstanding voting securities of any one issuer. No issue shall be purchased in the portfolio if more than 15% of the outstanding voting shares of the company are held by LaSalle in the total of all its accounts. All debt and all preferred stock of an issuer are each considered a single class for this purpose.

(6) No more than 50% in any one property type, including Regional Malls, Strip Shopping Centers, Apartments, Offices, Industrial, Healthcare, Manufactured Homes, Factory Outlets, and Other.

(7) No more than 40% in any one geographic region, including Northeast, Mideast, Southeast, Southwest, East North Central, West North Central, Pacific, and Mountain.

c) **Treasury Inflation-Protected Securities ("TIPS")**

(1) The total portfolio's average rating will be AAA by Moody's or Standard & Poor's.

(2) At least 80% of the portfolio investments must be invested in TIPS.

(3) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(4) The maximum effective duration shall be no more than 120% of the benchmark duration.

(5) The maximum asset allocation to a single security shall not exceed 200% of the benchmark weighting.

(6) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

(7) Securities of emerging market country (countries as defined by the J.P. Morgan EMBI Global Diversified Index) issuers are limited to a maximum of 5% of the portfolio market value.

d) **Commodities**

(1) At least 80% of the portfolio investments must be invested in publicly traded commodities.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) The maximum asset allocation to a single security shall not exceed 5%.

Section 1 INVESTMENT POLICY

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

VII. MANAGER SEARCH AND SELECTION POLICY

The purpose of the Manager Search and Selection Policy is to provide a comprehensive framework for the manager search and selection decision making process for the liquid market strategies. It specifically defines responsibilities and processes for the LACERS Board, Staff and General Fund Consultant.

A. Roles and Responsibilities

Role of Board	Role of Staff	Role of General Fund Consultant
• The Board is responsible for the authorization of the search for the investment manager(s). • The Board reviews and adopts the active and passive investment manager minimum qualifications based upon the written recommendation provided by the Staff and General Fund Consultant. • The Board reviews the semifinalist candidates as presented in the investment manager candidate evaluation report prepared by the Staff and General Fund Consultant. • Upon the completion of Staff's due diligence, the Board interviews investment manager finalist candidates. • The Board authorizes the selection and hiring of investment manager(s). • The Board may delegate certain Board duties to the Investment Committee as described in the Investment Committee Charter.	• Staff, with input from the General Fund Consultant, recommends mandates for Board approval. • Staff is responsible for the implementation of the manager search and selection process. • Staff develops a written set of minimum qualifications. Unique criteria not specified in the pre-approved minimum qualifications list will require Board approval. • Upon Staff concurrence of the semi-finalists, Staff and the General Fund Consultant provides the Board a written investment manager candidate evaluation and comparison report which will summarize the methodology for developing the list of semi-finalist candidates from the Qualified Respondents. • Staff conducts due diligence on the semi-finalist firms as reviewed by the Board. • Based on the findings of the due diligence, Staff will present a list of suitable semi-finalist candidates as finalist candidate(s) for the Board to interview.	• The General Fund Consultant works with Staff to develop a manager search initiation recommendation. • The General Fund Consultant works with Staff on additional written minimum qualifications for Board approval as necessary. • The General Fund Consultant applies the System's minimum qualifications and any additional Board-approved criteria in order to arrive at list of "Qualified Respondents" who pass the minimum qualifications. • The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to then review and conduct due diligence upon. The investment manager candidate evaluation process will utilize the Evaluation Criteria as summarized in Section VII.B and may be adjusted as necessary.

B. **Sequential Search and Selection Process**

1. Staff and General Fund Consultant recommend mandate(s) for approval by the Board.
2. The Board authorizes the search of specific mandate(s).
3. Staff and General Fund Consultant develop minimum qualifications for the search and will seek Board approval for unique minimum qualifications not specified in Section VII.C & Section VII.D.
4. The General Fund Consultant applies the minimum qualifications and any additional Board criteria to the Request for Proposal (RFP).
5. The General Fund Consultant develops a list of respondents that meet the minimum qualifications ("Qualified Respondents").
6. The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to review and approve.
7. Staff and General Fund Consultant provide for the Board's review an investment manager candidate evaluation and comparison report which summarizes the methodology for developing a list of semi-finalist candidates from the list of Qualified Respondents.
8. Staff conducts due diligence on the semi-finalist firms.
9. Based on the findings of the due diligence, Staff develops a suitable list of finalist candidate(s) for the Board to interview.
10. The Board interviews the investment manager finalist candidates.
11. The Board authorizes the selection and hiring of investment manager(s) based on the information presented in the interview and Staff's report.

C. **Evaluation Criteria**

Evaluation Criteria - Active		Weighting
Qualitative Assessment		70%
Organization/People	*30%*	
Investment Process	*40%*	
Risk Management	*30%*	
Quantitative Assessment[2]		20%
Expected Fees		10%

Evaluation Criteria - Passive		Weighting
Qualitative Assessment		10%
Organization/People	*50%*	
Product AUM	*50%*	
Tracking Error		40%
Expected Fees		50%

D. **Active Investment Management – Search and Selection Criteria**

Minimum qualifications will focus on the key characteristics required by the LACERS Board and Staff for a candidate firm to receive consideration for hire. The following minimum

[2]The quantitative assessment includes, but is not limited to, a skill test, information ratio, consistency means test and batting average.

qualifications will be applied for all active, liquid market strategy investment manager searches.

a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.

b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.

c) At least 60% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (12 of 20 quarters).

d) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 25% of the proposed product assets.

Staff and the General Fund Consultant submits revised and/or additional minimum qualifications for each active, liquid market investment manager search as deemed appropriate given the mandate and asset class.

E. **Passive Investment Management – Search and Selection Criteria**

The following minimum qualifications will be used for all passive investment manager searches

a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.

b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.

c) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 50% of the proposed product assets.

F. **Emerging Managers**

The recommendation by Staff and the General Fund Consultant to initiate a search will include the expected number of firms that may meet LACERS' investment management search minimum criteria segregated by emerging and non-emerging investment managers. Emerging managers, as defined by LACERS' Emerging Investment Manager Policy (within Section IX of this document), will be highlighted in the investment management candidate evaluation summary report to the Board.

VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

A. Purpose

The purpose of this policy is to:

1. provide a disciplined, methodical process for determining whether to retain or terminate managers of liquid markets strategies due to poor relative performance, organizational or personnel issues, or other factors which reduce LACERS' conviction in the manager/strategy;
2. establish general guidelines for monitoring the effectiveness of implementing the liquid markets investment strategies for which the investment managers are retained;
3. provide a detailed framework and criteria for placing a manager "On Watch" status;
4. provide a systematic, consistent, and objective framework for recommending or electing to retain or terminate a manager.

LACERS' objective is to determine the likelihood of future success of the strategy; therefore, it is important that retention/termination decisions focus on qualitative aspects of each manager's investment philosophy, strategy and process, as well as quantitative assessment of past and current performance.

It is also important to consider that each manager's situation is unique, and must be analyzed on an individual basis, taking into account any unique circumstances affecting the manager and its relationship with LACERS.

Liquid market strategies are strategies where the securities are publicly traded on daily priced exchanges or via the bond auction markets and which are housed within separate account portfolios, mutual funds, or commingled/collective funds with at least monthly liquidity. For investment managers that are not classified as liquid, mainly Private Equity and Real Estate, separate policies have been set up in Section X and XI, respectively.

B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

1. Investment performance relative to a specific benchmark and an appropriate peer group;
2. Investment risk relative to specific benchmark and an appropriate peer group;
3. Performance per unit of risk relative to specific benchmark and an appropriate peer group (information ratio);
4. Adherence to the investment manager's philosophy, process, and stated investment style/strategy;
5. Organizational and personnel continuity;

6. Compliance with Investment Manager Guidelines and Investment Policy.

LACERS' Staff and the General Fund Consultant will review and evaluate investment managers, quantitatively and qualitatively, using the following procedures:

1. Quarterly quantitative review of performance and risk relative to its specific benchmark and an appropriate peer group of active managers over various measurement periods (normally three to five years);
2. Quarterly review of portfolio characteristics, performance trends, style consistency, and risk expectations (standard deviation and tracking error);
3. Annual due diligence meeting at LACERS' office;
4. Every three years (generally) conduct due diligence meeting at the investment manager's office, unless significant organizational change warrants immediate evaluation;
5. More frequent, detailed and formal review of investment managers "On Watch" (see Section VIII.C below).

Following any evaluation, Staff and General Fund Consultant will determine whether the investment managers will be placed "On Watch" if it fails to meet two or more quantitative and/or qualitative factors as listed in Section VIII.E and VIII.F. However, in situations where there is organizational or personnel changes which directly impact the product in which LACERS is invested, no additional factors would be required to place the firm in "On Watch" status.

C. **Managers "On Watch"**

LACERS shall notify investment managers in writing of their status should they be placed "On Watch". Typically, "On Watch" status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period based on the progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

The Board is updated on a quarterly basis of all managers' performance, status, and "On Watch".

Managers "On Watch" will receive no additional funding from rebalancing, contributions or other sources. However, funds may be withdrawn for rebalancing or liquidity needs.

D. **Newly-Hired Managers**

Quantitative factors will be evaluated quarterly, but shall not cause a manager to be placed "On Watch" until three years or more after inception, unless the manager demonstrates performance that is materially inconsistent with expectations or experiences organizational issues.

E. **Quantitative Factors**

Factor	Trigger	Action
Annualized **net** performance relative to its benchmark for trailing **3-years**	Underperforms (net of fees) in 8 of 12 previous quarters	Place “On Watch” and notify manager
Annualized **net** performance relative to its benchmark for trailing **5-years**	Underperforms (net of fees)	Place “On Watch” and notify manager
Moving average tracking error (TE) for **3-years**	Greater than two standard deviations from ‘Since inception’ mean TE[3]	Place “On Watch” and notify manager
Moving average tracking error (TE) **for 5-years**	Greater than two standard deviations from ‘Since inception’ mean TE[4]	Place “On Watch” and notify manager
Moving average **net** Information Ratio for trailing **5-years**	Falls below 0.20.	Place “On Watch”, if fails another quantitative factor
PASSIVE MANDATES Annualized **net** performance relative to its benchmark for trailing **1-year**	Underperforms (net of fees) by more than 0.2%.	Place “On Watch” and notify manager
Annualized average tracking error (TE) for 1-year	Greater than 1%	Place “On Watch” and notify manager

[3] Or over at least a 5-year period using pre-hire data if inception less than five years.
[4] Or over at least a 10-year period using pre-hire data if inception less than ten years.

F. **Qualitative Factors**

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may result in placing the investment manager on the "On Watch" status or an immediate termination.

Criteria	Factor	Action
Organization	Change in firm ownership and/or structure	Place "On Watch", if determined that change might detrimentally affect performance and strategy
	Loss of one or several key personnel, specifically personnel on LACERS portfolio product	Place "On Watch", if determined the turnover will impair the firm's investment capabilities
	Significant loss of clients and/or assets under management	Place "On Watch", if there is a high client turnover and high volume of outflows
	Significant and persistent lack of responsiveness to LACERS requests	Place "On Watch", if service deterioration inhibits ability to monitor
	Regulatory agencies' investigation and/or material litigation	Place "On Watch", if nature, seriousness, and likely impact of charges on the firm and investment product warrant
Strategy and Risk Control	Deviation from stated investment philosophy, style and process	Place "On Watch" if deviation persists for more than 4 quarters. Terminate if no longer consistent with LACERS objective
	Risk management controls and procedures	Place "On Watch" for repeated guideline or policy violations

G. **Courses of Action**

After placing an investment manager "On Watch" status the following steps will be taken:

1. Staff will contact the investment manager and formally inform them of their status in writing. Notification shall indicate the reasons why the firm is "On Watch" and request the investment manager to explain and to provide plan of action to remove itself from "On Watch" status;

2. Staff and/or General Fund Consultant will meet with the investment manager, either in person or telephonically, following receipt of a written response from them;
3. Staff shall monitor the progress of the investment manager's implementation of the plan of action;
4. After the initial one year period, Staff and General Fund Consultant shall determine whether to remove the manager from "On Watch" status or continue the "On Watch" status. Staff may recommend a manager termination subject to the Board's approval.

If deemed necessary, the Board may request the investment manager to appear before the Board to explain the situation. Non-compliance with respect to the Board request shall be cause for an immediate termination recommendation by Staff to the Board.

H. **Halting of Trading Activity**

Investment managers may be required to halt trading activity by the Chief Investment Officer as soon as practicable due to unusual and significant operational risk factors that are deemed to have a material impact on the System; and, without immediate action taken by the Chief Investment officer, could result in material harm or impairment to LACERS' portfolio. Halting of the trading activity is subject to the concurrence of LACERS General Manager and General Fund Consultant. The Chief Investment Officer shall report the action(s) at the next scheduled Board meeting. Authorization to resume trading activity by the Chief Investment Officer requires the concurrence of LACERS General Manager and the General Fund Consultant.

I. **Termination**

The Board reserves the right to terminate an investment manager for any reason regardless of status. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board's portfolio, including holding restricted issues;
2. Failure to achieve performance objectives specified in the manager's guidelines;
3. Significant deviation from the manager's stated investment philosophy and/or process;
4. Loss of key personnel;
5. Evidence of illegal or unethical behavior by the investment management firm;
6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios;
7. Loss of confidence by the Board in the investment manager;
8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in a termination.

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

Upon the Board's approval of termination, Staff will notify the investment manager in writing of the termination process and the date on which to cease all trading based on operational needs. Staff will keep the Board informed of the termination progress.

All of LACERS investment management contracts under the Manager Monitoring Policy (Liquid Markets Strategies) allow LACERS to terminate the manager, with or without cause, after 30 days' written notice.

IX. EMERGING INVESTMENT MANAGER POLICY

A. **Policy Objectives**

The objective of this Emerging Investment Manager Policy ("Policy") is to identify investment firms with the potential to add value to the LACERS investment portfolio ("Fund") that would otherwise not be identified by the standard LACERS institutional investment manager search process. The Board believes that smaller investment management organizations may generate superior performance returns because of the increased market flexibility associated with smaller asset bases. The Policy provides criteria for LACERS to identify appropriate investment management organizations in their early business stages.

Consistent with the Board's fiduciary responsibility, the goal of this Policy is to locate and fund emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk. LACERS may consider an emerging investment manager mandate as part of any investment manager search undertaken by the Board, after Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate.

The Board recognizes that emerging investment managers may not possess the organizational depth and resources of larger investment management firms, and may represent a greater business risk. The Board also recognizes that prudent management of the System requires that emerging investment managers, once retained, will manage significantly smaller amounts of LACERS' assets than larger investment management firms. Each of these issues will result in greater oversight and administrative responsibilities for LACERS' staff, and will consequently be part of the evaluation whenever emerging investment managers are being considered for inclusion in a manager search.

Managers hired pursuant to this Emerging Investment Manager Policy will be held accountable to the same performance, reporting, and retention standards as all other LACERS investment managers within the same asset class.

B. **Emerging Investment Manager Goals**

Public Markets: The Emerging Investment Manager aspirational policy goal for public market asset classes is no less than 10%, provided that Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate . Two metrics will be calculated at least annually to compare actual results versus the goal: 1) Asset Class Metric: total market value of all emerging investment managers accounts within a respective public market asset class divided by total market value of the respective public market asset class; and 2) Manager Search Metric: total dollars approved for contract with an Emerging Manager(s) divided by the total dollars approved for funding the respective investment manager search.

Private Markets: The Emerging Investment Manager aspirational policy goal for private market asset classes is no less than 10%, provided that Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate . Two metrics will be calculated at least annually to compare actual results versus the goal: 1) Asset Class Metric: total dollar commitments of all emerging investment manager partnerships within a respective asset class divided by the total dollar market value of the respective asset class; and 2) Manager Search Metric: total dollar commitments provided to Emerging Managers within a specific private market asset class divided by the total dollar value of all investment commitments in the same private market asset class over rolling 36-month periods.

C. **Emerging Investment Manager Minimum Criteria**

The following minimum criteria for firms to qualify as LACERS Emerging Investment Manager status under this Policy are as follows:

1. Public Market Asset Classes – *U.S. Equities, Non-US Equities, Core Fixed Income*
   a) The firm will have no more than $2 billion in total firm assets under management at the time of hire.
   b) The firm must have a minimum of $50 million assets under management in the strategy being considered.
   c) The firm must have been in existence for a minimum of one year.
   d) The portfolio manager must have a minimum of five years of verifiable experience managing the strategy being considered. The experience must include a GIPS-compliant performance track history attributable to the portfolio manager for the most recent 36-month period of the five-year verifiable experience requirement.
   e) No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.
   f) At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Real Assets (not including Real Estate), Credit Opportunities*
   a) The General Partner will have no more than $~~500 million~~1 billion in firm-wide assets (based on the fair market value) of the previous fund at the time staff concurred on the proposed commitment plus ~~unfunded commitments at the time LACERS makes its commitment.~~ the current amount of the drawdown commitment of the previous fund.
   b) First- or second-time institutional fund for a General Partner.

c) The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.*

d) The firm must have been in existence for a minimum of one year.

e) The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

f) No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

g) No Limited Partner can represent more than 30% of the total Fund's* capital.

h) LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $~~2~~30 million, whichever is lower.

Excludes co-investments or sidecar investment vehicles.

3. Private Market Asset Class – *Private Real Estate*

a) The General Partner will have no more than $~~500 million~~2 billion in firm-wide assets (based on the fair market value) of the previous fund at the time staff concurred on the proposed commitment plus the current amount of the drawdown commitment of the previous fund.

~~a) unfunded commitments at the time LACERS makes its commitment.~~

b) First- or second-time institutional fund for a given General Partner.

~~b)~~c) The Fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment.*

~~c)~~d) The firm must have been in existence for a minimum of one year.

~~d)~~e) The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

~~e)~~f) No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

~~f)~~g) No client can represent more than 30% of the total Fund's* capital.

~~g)~~h) LACERS commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $~~2~~30 million, whichever is lower.

Excludes co-investments or sidecar investments.

D. **Provisions for Post-Emerging Firms**

1. Public Markets

LACERS expects that successful emerging investment management firms will grow beyond the maximum $2 billion in assets under management. An emerging investment manager firm under contract to LACERS that successfully grows its assets under management and meets the minimum investment manager search criteria may be considered for a larger-sized mandate subject to (at minimum) meeting the Manager Search and Selection Criteria provided in the LACERS Manager Search and Selection Policy (Section VII of this document).

2. Private Markets

LACERS expects that successful emerging investment management firms will grow beyond raising first- and second-time partnership funds. Opportunities for participating in subsequent funds may be considered provided that the strategy meets the criteria of LACERS' Private Equity Investment Policy, Private Real Estate Investment Policy, Credit Opportunities Strategy Statement, or another asset class policy unique to a respective private markets mandate.

E. **Reporting**

Staff will report to the Board on the status of Emerging Investment Managers hired and retained on an annual calendar year basis. The annual report will include:

1. Names of Emerging Investment Manager firms hired during the calendar year.
2. Dollar amounts awarded to Emerging Managers.
3. Report of Emerging Investment Manager Goals Metrics pursuant to Section IX.B of this Policy.
4. List of all investment manager searches.
5. Staff and consultant efforts to increase the visibility of LACERS Emerging Investment Manager searches and Emerging Investment Manager representation within the total Fund portfolio.
6. Individual manager performance.

X. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

This Private Equity Investment Policy ("Private Equity Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), venture capital partnerships, co-investments, secondaries, and other privately structured investments with like return and risk characteristics of private equity.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private equity portfolio ("Private Equity Portfolio") is 300 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to reduce risks that are not compensated adequately for by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Equity Consultant is engaged by LACERS to select new investments, monitor existing investments, and provide advice in accordance with the Private Equity Policy. This Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff ("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected private equity related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Equity Consultant has discretion to buy, sell, or otherwise effect investment transactions pursuant to the roles and responsibilities defined in Section X.F, for all new partnerships up to and including $~~2~~50 million and for all follow-on partnerships up to and including $100~~40~~ million. Recommendations that exceed those amounts must be presented by the Private Equity Consultant to Staff for review and evaluation, and to the Board for approval. Non-U.S. dollar commitments to private equity shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. Non-U.S. dollar commitments to private equity may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in top tier limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows:

a) Private equity partnerships – including corporate finance/buyout, special situations, and venture capital. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage "generalist" partnerships;

b) Co-investments – direct investments made alongside a partnership;

c) Direct secondary purchases – purchases of an existing partnership interest or pool of partnership interests from an investor;

d) Other privately structured investments that are deemed appropriate within LACERS' risk profile that may include direct investments;~~.~~

~~d)~~e) Consider sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).

2. **Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 20% of that partnership's total commitments without the Board's approval.

3. **Diversification**

The Private Equity Consultant, on behalf of LACERS, will diversify the following sources of risk in the Private Equity Portfolio.

a) Partnerships

(1) No more than 15% of the Private Equity Portfolio's total exposure (market value plus unfunded commitments) to private equity may be attributable to partnerships by the same manager at the time the commitment is made.

(2) The Private Equity Consultant shall diversify the Portfolio across vintage years when possible.

(3) The geographic distribution of investments shall be monitored for diversification by the Private Equity Consultant.

The Private Equity Consultant shall monitor investments with respect to industry. In the event that the current cost-basis associated with a single industry exceeds 25% of the cost basis of the Private Equity Portfolio, the Private Equity Consultant shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry in question and with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.

b) Sub-asset Classes

(1) Assets committed to venture capital shall be diversified across the stages of venture capital (e.g., early-stage, mid-stage, late-stage, and growth equity).

(2) Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g., mega, large, mid, and small).

In addition to the diversification criteria listed above, LACERS' Board along with the Private Equity Consultant will adopt optimal sub-asset allocation targets, which will be updated periodically to reflect general changes in the economy.

The current optimal sub-asset class allocation ranges and targets for LACERS' private equity investments are highlighted in the most recent Private Equity Annual Strategic Plan.

4. **Illiquidity**

Private equity investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the partnerships, at their discretion, sell investments and distribute proceeds.

5. **Distributions**

Staff is responsible for the final disposition of distributions from partnerships.

E. **Review of Investment Guidelines**

The Private Equity Consultant and Staff periodically will review investment guidelines as set forth in Section X.D (above) and recommend changes if necessary.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $~~2~~50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $~~40~~ 100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $~~2~~50 million for new partnerships, and up to $~~40~~ 100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $~~2~~50 million in new partnerships, or over $~~40~~ 100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $~~2~~50 million for new managers, or over $~~40~~ 100 million in follow-on funds. • With staff concurrence, approve investment of up to $~~2~~50 million for new partnerships, and up to $~~40~~ 100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).~~.~~ • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.

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Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments~~.~~ and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

XI. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Marketing Cessation Policy and in the Third Party Marketing and Referrals Disclosure Policy, as amended from time to time by the Board, or as stated under applicable laws or regulations.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. **Real Estate**

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). As further set forth in this policy, LACERS also may invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case by case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. **Fiduciary Standards**

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. **Scope**

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describes the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

LACERS has engaged the Real Estate Consultant on a non-discretionary basis to assist the Board and Staff to implement and revise this policy when necessary. The Real Estate Consultant's duties and responsibilities, which are further defined in Section XI.H include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to Staff and the Board with respect to the Portfolio. The Real Estate Consultant shall conduct a review of this policy, in conjunction with the Board and Staff, at a minimum of once per year, and set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XI.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value add and core investments.

5. **Inflation-Hedge**

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The Real Estate Portfolio allocation percentage actually achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and control rights generally not available to commingled fund investors.
The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies generally define the three basic risk and return levels ranging from low to high risk associated with institutional real estate investments. These categories or strategies are referred to as core and core plus or non-core, as defined below.

a) **Core and Core Plus**

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 9% range (net of fees) with annual standard deviation near 8.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied. Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, high quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 10% to 14% range (net of fees). Value add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies (“REOCs”). Value add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 15% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk. Opportunistic investments typically have even greater appreciation potential than value add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990’s in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio’s risk/return exposures based on the existing portfolio net asset value.

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XI.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts (“REITs”). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. **Manager/Investment Concentration**

LACERS shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

a) **Maximum Manager Allocation**

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) **Maximum Investment Commitment**

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) **Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $150 million in committed capital inclusive of LACERS pending commitment.

d) **Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. Investment Processes And Procedures

1. Real Estate Manager Selection Process

The following discussion describes the process by which LACERS selects Managers and investments.

a) Universe of Potential Manager Candidates

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will initiate a Manager search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's initial search criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.

b) Minimum Manager Qualifications

The Manager requirements include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) Manager Candidate Summaries

The Real Estate Consultant shall complete a brief summary of the Manager candidates, including descriptions of their meeting Manager criteria established by the Real Estate Consultant and the Staff relating to the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen these summaries and recommend the finalists for further due diligence to the Staff.

d) Due Diligence

After the Staff and the Real Estate Consultant select the finalists, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related factors. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) Selection and Approval

After completing the due diligence report, the Staff and Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties authorized by the Board.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant and the Staff, when available, will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings or in face-to-face or telephone meetings either at the Manager's or the Real Estate Consultant's offices.

Investment Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Quarterly Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

H. **Roles and Responsibilities**

The following duties have been established to manage the risks involved with investing in real estate. Set forth below is the delegation of the major roles and responsibilities of each participant:

1. **Duties of the Board**

a) Establish the role of the real estate investment program in light of the total System objectives.

b) Consider and act upon the allocation to real estate and approve any adjustments to the allocation which may from time to time be necessary.

c) Review, consider, and act upon the Annual Real Estate Policy (objectives, policies and procedures) and the Annual Real Estate Strategic Plan for the real estate program.

d) Interview, consider, and act upon the Staff recommendations for selection, retention and removal of the Managers and/or the Real Estate Consultant and the selection of Manager investments.

e) Review the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan.

2. **Duties of the Staff**

a) Update and communicate with the Board and Investment Managers on issues and matters of the Policy.

b) Provide the Board with education and analysis that is independent from the Real Estate Consultant to the extent time and resources allow.

c) Be familiar with the asset class and stay informed of developments in industry as they occur.

d) Oversee the Real Estate Consultant’s preparation of the Annual Real Estate Strategic Plan for the real estate program. Present and recommend, along with the Real Estate Consultant, the Real Estate Policy and Annual Real Estate Strategic Plan to the Board.

e) Oversee and review the performance of the Real Estate Consultant and the Managers on a periodic basis and discuss findings with the Board.

f) Bring any non-conforming items or significant issues to the attention of the Board.

g) Document and monitor funding procedures.

h) Complete any other activity as directed by the Board.

i) Conduct or assist in conducting due diligence on prospective investment opportunities as LACERS’ resources permit.

j) Prepare investment documentation with the Real Estate Consultant.

3. **Duties of the Manager**

a) Adhere to reporting and performance measurement standards and comply with generally accepted accounting principles (“GAAP”) applied on a fair market value basis.

b) Execute and perform its duties under the terms of the investment vehicle documents.

c) Provide timely requests for capital contributions.

d) Provide quarterly financial statements, annual reports and other investment information requested by the Staff and/or the Real Estate Consultant.

e) Conduct annual meetings to discuss important developments regarding investment and management issues.

4. **Duties of the Real Estate Consultant**

LACERS engaged the Real Estate Consultant on a non-discretionary basis to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the real estate portfolio. The Real Estate Consultant’s services to LACERS may include but are not limited to the following:

a) Report directly to the Board and Staff on matters of policy.

b) Bring any non-conforming items or significant issues to the attention of the Staff and the Board.

c) Complete due diligence on potential investments and preparation of the due diligence report.

d) Monitor the performance of the real estate portfolio and compliance with approved policy.

e) Prepare the Annual Real Estate Strategic Plan for the real estate program, in consultation with the Staff, and present the Annual Real Estate Strategic Plan to the Board for review.

f) Review proposed real estate investments and recommend prudent investments, structure and controls. Monitor investments and ventures through completion and disposition, including satisfaction of conditions to funding, partnership and financial issues.

g) Assist Staff with the review and preparation of documents related to new investments approved by the Board consistent with the Real Estate Consultant’s recommendation.

h) Prepare reports on a periodic basis for the Board to evaluate investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan. The evaluation system shall provide such information as may be required by LACERS to understand and administer its investments.

i) Assist the Staff in the Annual Real Estate Strategic Plan portfolio review.

j) Provide Board and Staff with topical research and education on investment subjects that are relevant to LACERS.

k) Review the Real Estate Policy annually and notify LACERS if any revisions are needed thereto.

l) Monitor and report on risk.

m) Provide ongoing real estate education information and seminars to the Board.

5. **Duties of Legal Counsel**

The legal counsel selected by LACERS along with the Office of the Los Angeles City Attorney will represent LACERS and will review all real estate related documents and provide advice for special investment situations as needed.

XII. RISK MANAGEMENT POLICY

The Board implements its risk management policy by monitoring the portfolio's compliance through the adoption of investment policies, guidelines, and procedures. The Board establishes reasonable risk parameters to ensure prudence and care in the management of the System's assets, while allowing flexibility in capturing investment opportunities as they may occur.

A. **Purpose**

A successful investment process fully integrates practical risk management concepts into a comprehensive framework that applies to all parties that monitor or manage assets on behalf of the System, including the Board, General Fund Consultant, Staff, investment managers, and other third parties involved in the investment of System's assets. Investment risk management is essential to prudent investment of pension plan assets because it improves the likelihood that the System is adequately compensated for the risks taken, and helps to avoid unexpected and unintended investment risk.

The purpose of this Policy is to provide a comprehensive framework for the management of investment risk of the System's assets at the total System, asset class and individual manager level in support of the fiduciary obligations of the Board and consistent with governing principles and other policies of the System. It specifically defines responsibilities, objectives, processes, and risk measures pertinent to investment risks incurred when investing plan assets to meet or exceed stated pension goals and objectives.

This Policy is dynamic and expected to be updated periodically with LACERS plan objectives, technology, and regulatory and/or market environment changes.

B. **Roles and Responsibilities**

1. **Duties of the Board**

   a) The Board adopts and implements the long-term investment strategy through the System's asset allocation policy. This decision drives the long term performance, exposures, and risk of the System. The asset allocation decision provides the basis for monitoring strategic ("beta") investment risk.

   b) The Board is also responsible for the asset class structure decisions. This decision drives the long term excess performance and excess risk for each of the asset classes in which the System invests. The target asset class structure provides the basis for monitoring active ("alpha") investment risk.

2. **Duties of the Staff:**

   a) Staff monitors risks associated with the investment managers in accordance with the Manager Monitoring Policy described in Section VIII. Staff evaluates both qualitative and quantitative risk factors on a regular basis and conducts the due diligence in to the context of the total plan assets.

   b) Staff reviews the asset allocation as determined by the Board, on a daily basis and rebalances the portfolio according to the Rebalancing Policy in Section V.G.

c) Staff also reviews any variance from the manager's investment guidelines and notifies the manager to become compliant.

d) Staff reviews on a quarterly basis industry standard risk and return metrics of the System.

3. **Duties of the Consultant:**

a) The consultant provides quarterly performance and risk metrics for Staff's review.

b) The consultant, as described in the Asset Allocation Policy in Section IV., conducts an asset allocation study every three years, or as needed, with updated risk and return capital market expectations

c) The consultant is responsible for developing the data necessary for the risk budgets to aid in the decision making process for the Board.

The risk management processes and guidelines established below determine the amount of risk the Board may use to implement these key decisions. Consultant and Staff will establish monitoring standards and periodically update these standards as conditions warrant.

C. **Risk Guidelines**

System Level

The largest driver of the System's total risk and return comes from the strategic asset allocation as approved by the Board. The Board determines the appropriate asset allocation through an asset-liability analysis where the Board evaluates multiple decision factors in order to determine the optimal asset allocation policy. The decision factors include, but are not limited to, funding status of The System, distribution of expected returns, new cash flow and distribution of employer cost. As part of that decision making process, the Board evaluates several optimal portfolios with varying risk profiles and takes into account the actuarial discount rate assumption.

Asset Class Risk Budgets

The next greatest driver of the System's return and risk is the asset class structure. Asset class structure decisions involve determining which strategies will be included within the asset class, the allocations to these strategies, and setting the active versus passive exposure.

A "risk budget" represents the amount of active risk the Board is willing to assume for each asset class. The Board adopts a risk budgeting approach to construct, measure, and monitor asset classes that include active and passive strategies. The Board believes that this approach provides an objective and systematic yet flexible means of constructing asset classes in a way which will maximize the probability of meeting long term asset class objectives while managing the risk of its public markets asset classes in a proactive manner.

LACERS' Risk Budgeting Process

In order to arrive at the optimal risk budget objective for each asset class, the Board engages in an objective, disciplined process that will be uniformly applied to all asset classes that include active and passive strategies. This process involves a mean variance optimization approach which employs the following inputs for each strategy under consideration by the Board:

1. Expected excess return over the asset class benchmark
2. Expected excess risk over the asset class benchmark
3. Expected correlations between strategy excess returns
4. Constraints to ensure prudent exposures to strategies and risk factors

The objective of this mean variance optimization exercise is to arrive at an excess risk target (i.e., the risk budget) which maximizes the excess return desired by the Board. The risk budget reflects the amount of excess risk the Board is willing to take for that desired excess return.

Expected Excess Return

The expected excess return (i.e., "alpha") is the excess return a strategy should produce over a market cycle net of fees. This excess return will be forward looking based upon the following criteria:

1. Market efficiency
2. Manager's historical information ratio
3. Strategy characteristics
4. Peer universe historical excess return

Expected Excess Risk

The expected excess risk (i.e., "tracking error") is the excess risk of a strategy as measured by standard deviation of the excess return. This excess risk assumption can be either forward looking or based upon historical actual excess risk as produced by the strategy under consideration versus the asset class benchmark. In order for historical excess risk to be employed in the risk budgeting process, the strategy must have at least 60 months of data points. If the strategy under consideration does not have 60 months of data points, then a forward looking expected excess risk assumption will be employed.

Expected Excess Correlations

Correlation is a measure of the degree to which asset class returns move together. In structuring asset classes, the Board seeks to avoid having too much exposure to common factor risks and to maximize the diversification potential of the strategies ultimately employed within the asset class. Expected excess correlations will be calculated using historical excess (versus the asset class benchmark) returns when available. If an insufficient excess return history exists (i.e., less than 60 months of data), then Consultant or Staff will employ their respective risk analytics to determine a reasonable excess correlation on a forward looking basis.

Framework for Policy Implementation

The risk budgeting process outlined above will be conducted in conjunction with the Board's asset/liability valuation process. The frequency of this process will be at least every three years or sooner if warranted based upon changes in market conditions or benefits to plan participants. The Board may choose at that time to revise or retain its existing risk budget as a result of this process.

The risk budgeting process will also be conducted at any time a strategy or manager change is contemplated so that alternative strategies or managers can be evaluated in the context of the entire asset class structure to determine the impact on the Board's asset class risk budget. This will be done in order to objectively evaluate alternatives in a disciplined, holistic fashion. The Board may choose to revise its risk budget target as a result of this evaluation process. Additionally, the risk budgeting process will be conducted when actual excess risk has been outside of the target risk budget range for four rolling 60-month periods in order to determine whether strategy/manager allocations should be altered or replaced altogether.

D. **Measurement and Monitoring of LACERS Risk Guidelines**

The Board periodically monitors actual strategic and active asset class risks versus the Board's respective risk target and asset class risk budgets. The Board is provided periodic fund risk reports which are used to analyze, evaluate, and detail exposures and drivers of System's risks.

The focus of the Board's monitoring activity is rolling 60-month periods. The Consultant will measure and monitor strategic and active asset class expected risk and return on a quarterly basis, Staff will review the information, and report to the Board its findings, including the key drivers of risk and return, as part of the quarterly performance report.

XIII. GEOPOLITICAL RISK INVESTMENT POLICY

A. Introduction

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

B. LACERS Board's Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members come first, before any other duty.

The System is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Importantly, the System's ownership of securities in a corporation does not signify approval of all of a company's policies, products, or actions.

Investments shall not be selected or rejected based solely on geopolitical risk factors. Accordingly, a company's possible risky geopolitical conduct can only be taken into consideration if the conduct is deemed to demonstrate a negative effect on the investment performance of the company, and ultimately the System.

C. Process for Identifying and Mitigating Corporate Governance Geopolitical Risks to the LACERS Portfolio

1. The LACERS Staff will keep the Board apprised of geopolitical problems and issues, and take into account actions of other like prudent investors.
2. Once identified, the Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's Geopolitical Risk Factors on investment returns.
3. The Board will direct the Staff to solicit feedback from the investment managers holding the security exposed to geopolitical risk as well as conduct independent study to research the impact of the risk.

4. Upon the Board determination of a company's behavior presenting a potential investment loss to the System, the Board shall promptly direct the Staff to seek a change in the company's behavior.
5. Staff will engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.
6. After all reasonable efforts have been made to engage management constructively, the Board may determine whether it is prudent to hold such investments or whether it is prudent to sell such investments.
7. At such time, the System will work with the investment manager whose portfolio holds the investment, consultant(s) and fiduciary counsel to determine a prudent course of action.
8. Should the Board decide to take action to divest, Staff will communicate the decision to all of the System's investment managers to adhere to the Board's actions going forward.

D. **Geopolitical Risk Factors**

Respect for Human Rights • Judicial System • Arbitrary or Unlawful Deprivation of Life • Disappearance • Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment • Arbitrary Arrest, Detention, or Exile • Arbitrary Interference with Privacy, Family, Home, or Correspondence • Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts • Governmental Attitude Regarding International and Non-Governmental Investigation of Alleged Violations of Human Rights
Respect for Civil Liberties • Freedom of Speech and Press • Freedom of Peaceful Assembly and Association • Freedom of Religion • Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation • Civil Unions/Same Sex Marriage
Respect for Political Rights • The Right of Citizens to Change Their Government
Discrimination Based on Race, Sex, Sexual Orientation, Disability, Language, or Social Status • Women/Gender • Children • Persons With Disabilities • National/Racial/Ethnic Minorities • Indigenous People

Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

• Gender Identity • Age Discrimination
Worker Rights • The Right of Association • The Right to Organize and Bargain Collectively • Prohibition of Forced or Bonded Labor • Status of Child Labor Practices and Minimum Age for Employment • Acceptable Conditions of Work • Trafficking in Persons
Environmental • Air Quality • Water Quality • Climate Change • Land Protection
War/Conflicts/Acts of Terrorism • Internal/External Conflict • War • Acts of Terrorism • Party to International Conventions and Protocols

XIV. PROXY VOTING POLICY

A. Introduction

As good corporate governance practices are widely believed to increase shareholder value, public retirement systems across the country are becoming more active in encouraging good corporate governance practices among companies in which they own stock.

As such the core objectives of LACERS Proxy Policy are:

1. Manage proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing other assets.
2. Exercise proxy voting rights in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policy.
3. Provide a framework for voting shares responsibly and in a well-reasoned manner.
4. Align the interests of shareowners and corporate management to build long-term sustainable growth in shareholder value for the benefit of the System.

These primary objectives shall be considered whenever the Board and/or Corporate Governance Committee considers policy, reviews proxy voting issues, recommends corporate governance investment activities, or takes other corporate governance-related actions.

B. Statement of Purpose

The Board has formulated this policy to provide a guideline for proxy voting. This policy is set forth in the best interest of LACERS investment program to support sound corporate governance practices that maximize shareholder value.

All applications of this policy are executed by an outside proxy voting agent. The policy will be reviewed on a bi-annual basis. The proxy voting agent provides quarterly voting reports summarizing all votes cast during that time period. These reports are reviewed for compliance with the proxy voting policy.

Section 9 PROXY VOTING POLICY

1. BOARD OF DIRECTORS

Electing directors is the single most important stock ownership right that shareholders can exercise. Shareholders can promote healthy corporate governance practices and influence long-term shareholder value by electing directors who share shareholder views. In evaluating proxy items related to a company's board, director accountability, independence and competence are of prime importance to ensure that directors are fit for the role and best able to serve shareholders' interests.

No.	Issue	LACERS Position	Rationale
1.1	ELECTION OF DIRECTORS IN UNCONTESTED ELECTIONS	LACERS supports company management in principle VOTING AGENT'S DISCRETION	It is prudent to vote for the prescribed full slate of directors as long as the slate of directors will conduct themselves in the best interest of the shareholders. Director nominees should be evaluated based on accountability, responsiveness to shareholders, independence from company management, and competence and performance.
1.2	BOARD INDEPENDENCE	FOR	At a minimum, a majority of the board should consist of directors who are independent. Corporate boards should strive to obtain board composition made up of a substantial majority (at least two-thirds) of independent directors.[5]
1.3	MAJORITY THRESHOLD VOTING FOR THE ELECTION OF DIRECTORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee wins the seat. Under the majority vote standard, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board. In contested elections where there are more nominees than seats, a carve-out provision for plurality should exist.
1.4	SEPARATE CHAIR AND CEO	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A CEO who also heads a board is less accountable than one who must answer to an independent chairman as well as fellow directors. However, there could be times when it makes sense for one person to wear two hats. On balance, there appears to be more gained and less lost from separating the two jobs at major companies. The Board generally favors the separation of the chairman and CEO. However, the Board believes it may be in the best interests of a corporation and the shareholders to have one person fulfilling both positions in smaller companies.

[5] CalPERS. Global Principles of Accountable Corporate Governance. February 16, 2010. 8.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
1.5	LIMITING BOARD SIZE	FOR	Proposals that allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Shareholders should support management proposals to fix the size of the board at a specific number of directors, thereby preventing management (when facing a proxy contest) from increasing the size of the board without shareholder approval.[6]
1.6	COMMITTEE INDEPENDENCE	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	The key board committees – audit, compensation, and nominating committees – should be composed exclusively of independent directors if they currently do not meet that standard. The company's board (not the CEO) should appoint the committee chairs and members. Committees should be able to select their own service providers to assist them in decision making.
1.7	DIRECTOR QUALIFICATIONS AND RESTRICTIONS Requires directors to own a minimum amount of stock; impose tenure limits; establishing a minimum or maximum age requirement	AGAINST	Establishing a minimum amount of stock ownership could preclude very qualified candidates from sitting on the board. Tenure limits and age restrictions could force out experienced and knowledgeable board members.
1.8	LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS	CASE-BY-CASE VOTING AGENT'S DISCRETION	This indemnifies corporate officers and directors against personal liability suits as a result of their official status. This indemnification is necessary to attract and keep the best-qualified individuals. However, officers' and directors' liability should not be limited or fully indemnified for acts that are serious violations of fiduciary obligations such as gross negligence or intentional misconduct.
1.9	OBLIGATION OF BOARDS TO ACT ON SHAREHOLDER PROPOSALS RECEIVING MAJORITY SUPPORT To ensure that the voices of the owners of the firm are heard.	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Boards are responsible for ensuring that the voices of the owners of the firm are heard. If the majority of shareholders have indicated they desire a particular governance change, the board should support the proposal in question.
1.10	DIRECTOR REMOVAL BY SHAREHOLDERS	FOR	Shareholders should have the right to remove directors or fill director vacancies. Lack of such a policy could allow management to protect themselves from various shareholder initiatives.

[6] LACERA. Domestic Proxy Voting Guidelines. April 22, 2009. 21.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
1.11	SHAREHOLDER ADVISORY COMMITTEES	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	It is often difficult for directors to communicate to and hear from shareholders, because shareholders tend to be numerous, unidentified, dispersed, and silent. This proposal establishes committees of shareholders to make communication easier and more effective. However, establishment of such committees can be time consuming and expensive. The Board prefers the establishment of such committees where there is no other available mechanism to communicate with the company boards.
1.12	PROXY CONTESTS	CASE-BY-CASE VOTING AGENT'S DISCRETION	A proxy contest is a strategy that involves using shareholders' proxy votes to replace the existing members of a company's board of directors. By removing existing board members, the person or company launching the proxy contest can establish a new board of directors that is better aligned with their objectives. Proxy contests should be examined on a case-by-case basis considering factors such as the company's performance relative to peers, strategy of incumbents vs. dissidents, experience of director candidates, current management's track record, etc.
1.13	REIMBURSEMENT OF PROXY SOLICITATION EXPENSES	CASE-BY-CASE VOTING AGENT'S DISCRETION	Most expenditures incurred by incumbents in a proxy contest are paid by the company. In contrast, dissidents are generally reimbursed only for proxy solicitation expenses, if they gain control of the company. Dissidents who have only gained partial representation may also be reimbursed in cases where the board and a majority of shareholders approve. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation.

2. AUDIT-RELATED

Shareholders must rely on company-produced financial statements to assess company performance and the values of their investments. External auditors play an important role by certifying the integrity of these financial reports provided to shareholders. To ensure that an external auditor is acting in shareholders' best interest, the auditor must be independent, objective, and free of potential conflicts of interest.

No.	Issue	LACERS Position	Rationale
2.1	RATIFYING AUDITORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	The Board generally supports a company's choice of audit firms unless an auditor has a financial interest in or association with the company and is therefore not independent; there is reason to believe that the independent auditor has rendered an inaccurate opinion of the company's financial position; or fees are excessive as defined by ISS (Non-audit fee > audit fees + audit related fees + tax compliance/preparation fees).
2.2	LIMITING NON-AUDIT SERVICES BY AUDITORS	FOR	Auditor independence may be impaired if an auditor provides both audit-related and non-audit related services to a company and generates significant revenue from these non-audit services. The Board believes that a company should have policies in place to limit non-audit services and prevent conflicts of interest.
2.3	ROTATION OF AUDITORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A long-standing relationship between a company and an audit firm may compromise auditor independence for various reasons including an auditor's closeness to client management, lack of attention to detail due to staleness and redundancy, and eagerness to please the client.[7] Enron and Anderson is a prime example of this situation. The Board believes it may be prudent to rotate auditors every 5 to 7 years.
2.4	ELECTION OF THE AUDIT COMMITTEE Section 404 of the Sarbanes-Oxley Act requires that companies document and assess the effectiveness of their internal controls. The Audit Committee should be comprised of the independent directors	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Companies with significant material weaknesses identified in the Section 404 disclosures potentially have ineffective internal financial reporting controls, which may lead to inaccurate financial statements, hampering shareholder's ability to make informed investment decisions, and may lead to the destruction in public confidence and shareholder value. The Audit Committee is ultimately responsible for the integrity and reliability of the company's financial information, and its system of internal controls, and should be held accountable.

[7] Arel, Barbara, Brody, Richard G. & Pany, Kurt. "Audit Firm Rotation and Audit Quality."The CPA Journal (January 2005). November 12, 2010.

3. COMPENSATION

The Board endorses executive compensation plans that align management and shareholders' interest. Executive pay programs should be fair, competitive, reasonable, and appropriate. Pay-for-performance plans should be a central tenet of executive compensation and plans should be designed with the intent of increasing long-term shareholder value. Executives should not be incentivized to take excessive risks that could threaten long-term corporate viability and shareholder value.

No.	Issue	LACERS Position	Rationale
3.1	EXECUTIVE COMPENSATION APPROVED BY THE BOARD OF DIRECTORS	FOR	While some corporations allow compensation issues to be left to management, it is more prudent to have a compensation committee, composed of independent directors, approve, on an annual basis, executive compensation, including the right to receive any bonus, severance or other extraordinary payment. If a company does not have a compensation committee, then executive compensation should be approved by a majority vote of independent directors. The Board normally prefers to support the company's recommendation of executive compensation issues.
3.2	INDEPENDENT COMPENSATION CONSULTANT	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A company's board and/or compensation committee should have the power to hire an independent consultant – separate from the compensation consultants working with corporate management – to assist with executive compensation issues to avoid conflicts of interest. Disclosure should be provided about the company's, board's, and/or compensation committee's use of compensation consultants, such as company name, business relationship(s) and fees paid.
3.3	PAY FOR PERFORMANCE	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A significant portion of an executive's pay should be tied to performance over time through the use of short and long-term performance-based incentives to align management and shareholders' interests. From a shareholders' perspective, performance is gauged by the company's stock performance over time. The attainment of executives' incentive goals should ultimately translate into superior shareholder returns in the long-term. Standard stock options and time-vested restricted stock are not considered performance-based since general market volatility alone can increase their value.
3.4	ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – SHAREHOLDER PROPOSALS	FOR	A non-binding "say on pay" vote would encourage the board's compensation committee to be more careful about doling out unduly rich rewards that promote excessive risk-taking. It also would be a quick and effective way for a board to gauge whether shareowners think the company's compensation practices are in their best interests.[8]

[8] "Executive Compensation." Council of Institutional Investors. 2008. November 12, 2010.

No.	Issue	LACERS Position	Rationale
3.5	ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – MANAGEMENT PROPOSALS	CASE-BY-CASE VOTING AGENT'S DISCRETION	The advent of "say on pay" votes for shareholders in the U.S. is providing a new communication mechanism and impetus for constructive engagement between shareholders and managers/directors on pay issues. In general, the management say on pay (MSOP) ballot item is the primary focus of voting on executive pay practices -- dissatisfaction with compensation practices can be expressed by voting against MSOP rather than withholding or voting against the compensation committee.[9]
3.6	SAY ON PAY BALLOT FREQUENCY	FOR	The Board supports an annual MSOP for many of the same reasons it supports annual director elections rather than a classified board structure: because it provides the highest level of accountability and direct communication by enabling the MSOP vote to correspond to the information presented in the accompanying proxy statement for the annual shareholders' meeting. Having MSOP votes only every two or three years, potentially covering all actions occurring between the votes, would make it difficult to create meaningful and coherent communication that the votes are intended to provide.
3.7	STOCK OPTION PLANS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Stock options align the interests of management with the interests of shareholders. The Board prefers that options should be issued at or above fair market value. There should be no re-pricing of underwater options (stock options with little or no value due to poor performance), nor should there be a replenishment feature (automatic increases in the shares available for grant each year). Management must monitor the amount of dilution that stock options create. The total cost of the stock option plan should be reasonable relative to peer companies. The Board normally supports the use of stock options as a part of executive and management compensation.
3.8	HOLDING PERIOD FOR EQUITY COMPENSATION AWARDS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Executives should be required to hold a substantial portion of their equity awards, including shares received from option exercises, while they are employed at a company or even into retirement. Equity compensation awards are intended to align management interests with those of shareholders, and allowing executives to sell or hedge these shares while they are employees of the company undermines this purpose.[10]
3.9	EXCLUDING PENSION FUND INCOME	FOR	Earnings generated by a pension plan should not be included for executive compensation purposes.

9 Institutional Shareholder Services. 2010 U.S. Proxy Voting Guidelines Summary. February 25, 2010. 38.
10 Institutional Shareholder Services. 2010 Public Fund U.S. Proxy Voting Guidelines. 25.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
3.10	CLAWBACK OF INCENTIVE PAY	FOR	A company should recoup incentive payments made to executives and former executives if it is determined that the incentives were calculated from erroneous data, such as fraudulent or misstated financial results, and these incentive payments would not have been earned if correctly calculated.
3.11	GOLDEN PARACHUTES Golden parachutes are compensation arrangements that pay corporate managers after they leave their positions.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Golden parachutes can have a number of positive results: they can reduce management resistance to change, they help attract and retain competent talent, and they provide appropriate severance. Excessive golden parachutes not offered to other employees can damage their morale and can have a dilutive effect on shareholder wealth. A general rule is that the parachute should not exceed three times base salary. The Board is opposed to the payment of excessive executive compensation. Therefore, golden parachute agreements should be submitted to shareholders for ratification.
3.12	CHANGE OF CONTROL TRIGGERING UNJUSTIFIED ACCRUAL OF BENEFITS	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	A change of control event should not result in an acceleration of vesting of all unvested stock options or lapsing of vesting/performance requirements on restricted stock/performance shares, unless there is a loss of employment or substantial change in job duties for an executive.
3.13	GOLDEN COFFINS	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Golden coffins are death-benefit packages awarded to the heirs of high ranking executives who die during employment with a company. Benefits awarded can include, but are not limited to, unearned salary and bonuses, accelerated stock options and perquisites. The Board is against excessive executive compensation, but recognizes that offering golden coffin benefits may be necessary to attract top talent.
3.14	SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS)	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	SERPs are executive-only retirement plans designed as a supplement to employee-wide plans. These plans may be structured to contain special provisions not offered in employee-wide plans such as above market interest rates and excess service credits. Incentive compensation may also be used in calculating retirement benefits, resulting in better benefit formulas than employee-wide plans and increased costs to the company. The Board supports SERPs if these plans do not contain excessive benefits beyond what is offered under employee-wide plans.
3.15	PROPOSALS TO LIMIT EXECUTIVE COMPENSATION OR OTHER BENEFITS	AGAINST	Executive pay should not have a blanket limit such as being capped at a specified multiple of other workers' pay. There should not be an absolute limit to retirement benefits, nor a mandate that stipulates that there be salary reductions based on corporate performance.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
3.16	DIRECTOR COMPENSATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	This is normally automatically approved unless the program is exceptional or abusive. Directors should be compensated with a mix of cash and stock, with the majority, but not all, of the compensation in stock to align their interests with shareholders. There should be no blanket limits on directors' compensation, but pay should be commensurate with expected duties and experience. The Board normally prefers to support company management's decision. The Board prefers that compensation issues be decided by a majority vote of the independent directors.
3.17	NON-EMPLOYEE DIRECTOR RETIREMENT BENEFITS	AGAINST	Since non-employee directors are elected representatives of shareholders and not company employees, they should not be offered retirement benefits, such as defined benefit plans or deferred stock awards, nor should they be entitled to special post-retirement perquisites.[11]
3.18	DISCLOSURE OF EXECUTIVE COMPENSATION	FOR	The Board supports shareholder proposals seeking additional disclosure of executive compensation.
3.19	EMPLOYEE STOCK OWNERSHIP PROGRAMS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	On one hand, ESOPs have the potential for motivating and rewarding employees. On the other hand, there is concern about their use as management entrenchment devices and their potential dilutive effects on existing shareholder value. The Board believes that future purchasers must bear the same risk as current shareholders. Employee wealth obtained through stock ownership should be tied to shareholder value. The Board prefers no retroactive compensation. The Board supports the use of ESOPs.
3.20	401(K) EMPLOYEE BENEFIT PLANS	FOR	A 401(k) plan provides a highly visible benefit to employees that can be used to attract and retain quality personnel. The Board supports proposals to implement a 401(k) savings plan for employees.
3.21	OMNIBUS BUDGET RECONCILIATION ACT (OBRA) OF 1993 - RELATED COMPENSATION PROPOSALS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	IRS Section 162(m) of OBRA, prohibits a company from deducting more than $1 million of an executive's compensation for tax purposes unless certain prescribed actions are taken to link compensation to performance such as establishment of performance goals by a compensation committee of outside directors and shareholder approval of the compensation plan. The Board generally supports proposals to approve new compensation plans or amend existing compensation plans to comply with Section 162(m) if the company can obtain tax benefits and increase shareholder value, and the plans do not result in excessive executive compensation.

[11] Council of Institutional Investors. Corporate Governance Policies. 22.

4. SHAREHOLDER RIGHTS & TAKEOVER DEFENSES

Companies should feature shareholder rights in their corporate governance principles to allow shareholders the opportunity to participate directly in monitoring management. A 2003 study by the National Bureau of Economic Research found that "firms with weaker shareholder rights earned significantly lower returns, were valued lower, had poor operating performance, and engaged in greater capital expenditure and takeover activity."[12]

No.	Issue	LACERS Position	Rationale
4.1	ACCESS TO PROXY PROCESS	FOR	Access proposals allow shareholders who own a significant number of shares to access management's proxy material to evaluate and propose voting recommendations on proxy proposals and director nominees, and to nominate their own candidates to the board. These proposals are based on the belief that shareholder access rights provide for increased corporate accountability and healthy communication.
4.2	ADVANCE NOTICE REQUIREMENTS	LACERS supports this issue in principle. VOTING AGENT'S DISCRETION	Advance notice bylaws, holding requirements, disclosure rules and any other company imposed regulations on the ability of shareholders to solicit proxies beyond those required by law should not be so onerous as to deny sufficient time or otherwise make it impractical for shareholders to submit nominations or proposals and distribute supporting proxy materials.[13]
4.3	CLASSIFIED BOARDS AND STAGGERED BOARDS A structure for a board of directors in which a portion of the directors serve for different term lengths.	LACERS opposes this issue in principle. VOTING AGENT'S DISCRETION	Although shareholders need some form of protection from hostile takeover attempts, and boards need tools and leverage in order to negotiate effectively with potential acquirers, a classified board tips the balance of power too much toward incumbent management at the price of potentially ignoring shareholder interests.
4.4	CONFIDENTIAL VOTING A shareholder's voting position is kept confidential.	FOR	Shareholders over whom management have some power (for example, employee shareholders, money managers who stand to gain or lose company business, banks, insurance companies and companies with interlocking boards) may be deterred from voting against management if they know their votes will become known to management. Companies that can discover who is voting in which way prior to the meeting also have an advantage not enjoyed by any shareholder supporting or opposing any issue on the ballot, and in targeting those shareholders who vote against management and pressuring them to change their votes.

[12] Gompers, Paul, Ishii, Joy & Metrick, Andrew. 2003. "Corporate Governance and Equity Prices," The Quarterly Journal of Economics, MIT Press, vol. 118(1), pages 107-155, February.
[13] Council of Institutional Investors. Corporate Governance Policies. 8.

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No.	Issue	LACERS Position	Rationale
4.5	CUMULATIVE VOTING Allows each shareholder to take the voting rights he or she has with respect to director candidates and accumulates them to vote for only one director, or for a smaller number of directors.	FOR	Cumulative voting enhances shareholders' abilities to elect a single director or a small number of directors, thus increasing their ability to have a voice on the board even when they lack the voting power to affect change-in-control or other major decisions. Some fear that allowing cumulative voting can allow or encourage disruptive or predatory shareholders.
4.6	SHAREHOLDER'S RIGHT TO ACT INDEPENDENTLY OF MANAGEMENT -- CALLING SPECIAL MEETINGS AND ACTING BY WRITTEN CONSENT	FOR	These include giving shareholders the ability to call a special meeting of shareholders without management's consent, and the ability to act by written consent (saving the costs and difficulties of holding a meeting). Most corporations support the retention, restoration, or creation of these rights. Shareholders need realistic mechanisms to protect their interests in situations where their interests are not aligned with management interest.
4.7	SUPERMAJORITY PROVISIONS Voting majority that is higher than those set by state law.	AGAINST	Sets a level of approval for specified actions that is higher than the minimum set by state law. These requirements often exceed the level of shareholder participation at a meeting, making action that requires a supermajority all but impossible.
4.8	LINKED (BUNDLED) PROPOSALS Combining more than one proposal.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Linked proposals often include "sweeteners" to entice shareholders to vote for a proposal (that includes other items) that may not be in the shareholders' best interest. The Board normally opposes linked proposals where one or more of the linked proposals is in opposition to the Board's proxy position.
4.9	VOTES TO ABSTAIN MEANS A CASTED VOTE	FOR	Counting abstained votes in the total pool of all votes cast.
4.10	BROKER VOTING RESTRICTIONS	FOR	Broker non-votes and abstentions should be counted only for purposes of a quorum.
4.11	FAIR PRICING	FOR	Fair price provisions prevent two-tier tender offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest. It is unfair to pay some shareholders (those that did not tender in the first group) less than other shareholders.
4.12	GREEN MAIL Greenmail is the practice of shareholders accumulating a large block of stock in a company, then selling the stock back to the company at an above market price in exchange for agreeing not to attempt to take control for a lengthy period of time.	AGAINST	A vote of the holders of a majority of the outstanding shares of common stock, regardless of class, shall be required to approve any corporate decision related to the finances of a company which will have a material effect upon the financial position of the company and the position of the company's shareholders.

No.	Issue	LACERS Position	Rationale
4.13	POISON PILLS A method used by boards, which prevent anyone from acquiring a large portion of the company stock for a corporate takeover.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Poison pills can consist of a wide variety of provisions adopted by boards without shareholder approval, designed to make it financially unattractive – indeed, often financially devastating – for a shareholder to purchase more than a small percentage of the company's stock, often by triggering the creation of a large number of new stocks or warrants that dilute the offending shareholder's interest to the point of making it virtually valueless. The Board is normally opposed to the use of poison pills.
4.14	NET OPERATING LOSS (NOL) POISON PILLS See 4.13 for poison pill definition.	CASE-BY-CASE VOTING AGENT'S DISCRETION	NOLs may be used to reduce future income tax payments and have become valuable assets to many corporations. If a corporation experiences an ownership change as defined by Section 382 of the tax code, then its ability to use a pre-change NOL in a post-change period could be substantially limited or delayed.[14] NOL pills are adopted as a takeover deterrent to preserve the tax benefit of NOLs.
4.15	POISON PILLS – ALLOW FOR SHAREHOLDER VOTE	FOR	Since poison pills ultimately impact the wealth of shareholders, the Board supports voting measures that allow for the shareholders to vote on matters pertaining to the use of poison pills.
4.16	RE-INCORPORATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Corporations may wish to reincorporate in another state to take advantage of favorable corporate law, while providing maximized shareholder values and operational flexibility. On the other hand, reincorporation laws of other states could be such as to limit shareholder rights or reduce shareholder wealth. The Board normally supports company management's decisions on re-incorporation matters.
4.17	STATE ANTI-TAKEOVER LAWS	CASE-BY-CASE VOTING AGENT'S DISCRETION	State anti-takeover laws seek to deter hostile takeover attempts of state-based corporations with the intent of keeping target companies locally based and preserving jobs. These laws may also complicate friendly mergers and impose great costs and delays on shareholders and stakeholders in the corporation. Most state anti-takeover provisions allow companies to "opt in" or "opt out" of coverage via shareholder vote.
4.18	TARGETED SHARE PLACEMENTS Placing stock in the hands of friendly investors	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Targeted share placements (or "White Squire" placements) occur when a company puts large blocks of stock or convertible securities into the hands of a friendly investor or group of investors. This is often an inexpensive method of raising cash for a company. The Board prefers that company management seeks authorization before establishing a targeted share placement but supports this corporate action.

[14] Nathan, Charles. "Recent Poison Pill Development and Trends." May 12, 2009. The Harvard Law School Forum on Corporate Governance and Financial Regulation.

5. CAPITAL STRUCTURE

Corporate financing decisions can have a significant impact on shareholder value, particularly when these decisions may result in common share dilution. As a result, shareholders must analyze all management proposals to modify capital structure to determine whether these financing decisions are in their best interests.

No.	Issue	LACERS Position	Rationale
5.1	INCREASES IN THE NUMBER OF AUTHORIZED SHARES OF STOCK	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Companies need the flexibility of issuing additional shares for stock splits, stock dividends, financings, acquisitions, employee benefit plans and general corporate purposes. The Board prefers that increases should not exceed three times the number of existing outstanding shares and that the company specify a purpose for the proposed increase.
5.2	ONE SHARE, ONE VOTE Each share of common stock, regardless of its class, shall be entitled to vote in proportion to its relative share of the total common stock equity of the corporation.	FOR	The right to vote is inviolate and may not be abridged by any circumstances or by any action of any person. Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure are required.
5.3	PAR VALUE ADJUSTMENT OF COMMON STOCK	FOR	In extraordinary cases when a stock price falls below its par value, a company wishing to issue additional stock would be unable to do so without reducing par value. Companies may also propose reductions in par value to conform to state legislative changes in the required minimum level of par value.[15]
5.4	PREEMPTIVE RIGHTS Provides current stockholders an option to maintain their relative ownership position.	AGAINST	Preemptive rights require a company issuing new shares to offer them to their existing shareholders first, in proportion to their existing holdings. This gives current shareholders the ability to maintain their relative equity position as a shareholder. Preemptive rights generally have limited importance, given the increase in the size and liquidity of the secondary market and their potential for abuse.
5.5	DEBT RESTRUCTURING	CASE-BY-CASE VOTING AGENT'S DISCRETION	As part of a debt restructuring plan, a company may propose to increase and issue common and/or preferred shares. These proposals should be evaluated considering dilution to existing shareholders, potential changes in company control, the company's current financial position, terms of the offer, whether bankruptcy is imminent and alternatives.

[15] Institutional Shareholder Services. U.S. Proxy Voting Manual. 2006. November 12, 2010.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
5.6	CONVERSION OF SECURITIES	CASE-BY-CASE VOTING AGENT'S DISCRETION	Proposals to convert securities, such as converting preferred stock to common shares, should be evaluated based on the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.
5.7	SHARE REPURCHASES Corporations buy back a portion of the outstanding shares.	FOR	The Board normally favors of share repurchase plans if the company boards feel that the stock is undervalued or there is a legitimate corporate purpose.
5.8	REVERSE STOCK SPLITS	FOR	A reverse stock split reduces the number of shares owned and increases the share price proportionately. A reverse stock split has no effect on the value of what shareholders own. Companies often reverse split their stock when they believe the price of their stock is too low to attract investors to buy their stock or to avoid being delisted.[16] If the number of authorized shares is not proportionately reduced with a reverse stock split, then LACERS treats these proposals as a request to increase authorized shares.
5.9	BLANK CHECK PREFERRED STOCK Blank check preferred stock is authorized stock over which the board has complete discretion to set voting rights, dividend rates, and redemption and conversion privileges.	AGAINST	There is the potential for abusing this kind of stock by the board. Although some guidelines note that blank check preferred stock gives management great flexibility, and this might be valuable and in the corporate interest, in general it is felt that this kind of flexibility, free of shareholder control, is insufficient justification for the creation of this type of stock.

[16] "Reverse Stock Splits." Securities and Exchange Commission. 2000. November 12, 2010. <http://www.sec.gov/answers/reversesplit.htm>.

6. CORPORATE RESTRUCTURINGS

Corporate restructurings, such as mergers and leveraged buyouts, can have a major effect on shareholder value. Many of these transactions require shareholder approval and must be examined carefully to determine whether they are in the best financial interests of the shareholders.

No.	Issue	LACERS Position	Rationale
6.1	ASSET SALES	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Asset sales should be evaluated based on the impact on the balance sheet/working capital, value received for the asset, and potential elimination of inefficiencies. The Board generally supports management decisions to sell assets.
6.2	GOING PRIVATE TRANSACTIONS (LEVERAGED BUYOUTS AND MINORITY SQUEEZEOUTS)	CASE-BY-CASE VOTING AGENT'S DISCRETION	Going private transactions such as leveraged buyouts and minority squeezeouts should be evaluated on a case-by-case basis taking into account the following: offer price and imbedded premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and the risk to shareholders if the attempt to take the company private fails.
6.3	LIQUIDATIONS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Liquidation proposals are generally bad news for long-term investors. They usually occur after a prolonged period of declines in earnings and share prices. However, liquidation may be an attractive option if the sale of the firm's assets on a piece-meal basis can be accomplished at a higher-than-market price. Liquidation proposals should be evaluated based on management's efforts to pursue other alternatives, appraised value of assets, the compensation plan for executives managing the liquidation, and the likelihood of bankruptcy if the liquidation proposal is not approved.[17]
6.4	MERGERS AND ACQUISITIONS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Case-by-case votes are recommended on mergers or acquisitions since the circumstances by which they arise are unique. The Board supports the company management's decision on mergers and acquisitions when such decision is based upon the findings of a thorough due diligence process and is in the best interest of the shareholders.
6.5	SPIN-OFFS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Corporations may seek to streamline their operations by spinning off less productive or unrelated subsidiary businesses. The spun-off companies are expected to be worth more as independent entities than as parts of a larger business. Spin-offs are evaluated case-by-case depending on the tax and regulatory advantages, planned use of sale proceeds, managerial incentives, valuation of spinoff, fairness opinion, benefits to the parent company, conflicts of interest, corporate governance changes, and changes in the capital structure.

[17] Institutional Shareholder Services. U.S. Proxy Voting Manual. 2006. November 12, 2010.

7. MISCELLANEOUS CORPORATE GOVERNANCE			
No.	**Issue**	**LACERS Position**	**Rationale**
7.1	ANNUAL MEETING DATE & LOCATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Mandatory rotation of the annual meeting would not significantly increase stockholders' access to management since there are convenient alternatives available to interested stockholders. It would decrease the company's flexibility without a material benefit to stockholders. The Board normally supports company management's decision on this issue.
7.2	CORPORATE NAME CHANGE	FOR	A company may seek a name change to better portray its strategic image or re-brand itself. The Board supports company management's decision on this issue.
7.3	CORPORATION CHARTER & BYLAW AMENDMENTS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Charters and bylaws should not be amended without shareholder approval unless the changes are of a housekeeping nature such as minor corrections or updates.

8. SOCIAL & ENVIRONMENTAL

On November 13, 2007, the Board adopted the United Nations Principles for Responsible Investment ("Principles"), a policy of global best practices for environmental, social, and governance (“ESG”) investing. LACERS current proxy voting agent, Institutional Shareholder Services, (“ISS”), is a signatory to the Principles and incorporates them into its proxy analysis process. Therefore, when considering how to vote on most ESG proposals, investment staff relies on the research expertise and voting recommendations of ISS.

No.	Issue	LACERS Position	Rationale
8.1	DIVERSIFICATION OF BOARDS	LACERS supports this issue in principle VOTING AGENT’S DISCRETION	Women and minorities have played major and responsible roles not only in government, higher education, law and medicine, but also in communications, electronics, and finance. The Board normally prefers to support diversification on company boards. However, the Board recognizes that such a mandate carried out without regard to the selection of the most highly qualified candidates might not be in the best interest of these companies.
8.2	CORPORATE BOARD MEMBERS SHOULD WEIGH SOCIO-ECONOMIC, LEGAL AND FINANCIAL FACTORS WHEN EVALUATING TAKEOVER BIDS	CASE-BY-CASE BASIS. VOTING AGENT’S DISCRETION	While broad social and environmental issues are of concern to everyone, institutional shareholders acting as representatives of their beneficiaries must consider, specifically, the impact of the proposal on the target company. A decision on whether to support or oppose such proposals shall focus on the financial aspects of social and environmental proposals. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, LACERS would oppose the resolution. Conversely, if a proposal would have a clear and beneficial impact on the company's finances or operations, LACERS would support the proposal.
8.3	INDEPENDENT REVIEW OF COMPANY OR PLANT OPERATIONS	AGAINST	An independent review of company or plant operations which will be provided at company expense to the shareholders to consider the cost of and alternatives to the present or proposed projects on the primary operation. This process would be costly and time-consuming.
8.4	DISCLOSURE OF OFFICERS, DIRECTORS AND INVOLVED OUTSIDERS’ GOVERNMENTAL AFFILIATIONS	AGAINST	Miscellaneous issues include disclosures of lists of officers, directors and involved outsiders who have served in any governmental capacity during the previous five years. In addition, disclosure includes the lists of law firms employed by the companies, rundowns on fees and the revelation as to whether any elected or appointed official have partnership interest in the retained law firms. To the extent that potential conflicts of interest cannot be controlled by corporate procedures, professional ethics, and law, these disclosures will make no difference.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
8.5	CORPORATE AFFIRMATION OF ITS NON-COERCIVE POLITICAL PRACTICES	AGAINST	This affirmation is intended to ensure that the corporation avoids a number of coercive political practices such as distribution of contribution cards in favor of one political party. Since these practices are illegal, the issue is moot.
8.6	LIMITING CORPORATE PHILANTHROPY	AGAINST	These proposals place restrictions and additional reporting obligations upon management's right to make corporate contributions to charitable, educational, community or related organizations. Most companies give money to charity. Because most companies must compete, those that do not contribute to charity risk damaging their good names.
8.7	STAKEHOLDERS' INTEREST BEFORE OR EQUAL WITH SHAREHOLDERS' INTEREST	ABSTAIN	Stakeholders include customers, suppliers, employees, communities, creditors and shareholders. Stakeholders are important to the success of the corporation and therefore the interests of each must be considered by directors and management. However, boards should not put the non-shareholder/stakeholder interests ahead of or on an equal footing with shareholders in terms of the corporation's ultimate purpose.
8.8	ALL OTHER ESG ISSUES	VOTING AGENT'S DISCRETION	Investment staff relies on the research expertise and voting recommendations of ISS for other ESG issues not addressed by this policy.

9. ISSUES NOT ADDRESSED BY POLICY

For proxy issues not addressed by this policy that are market specific, operational or administrative in nature, and likely non-substantive in terms of impact, LACERS gives ISS discretion to vote these items.

Substantive issues not covered by this policy and which may potentially have a significant economic impact for LACERS shall be handled accordingly:

1) ISS shall alert investment staff of substantive proxy issue not covered by policy as soon as practicable;
2) Investment staff and/or the General Manager make shall determine whether the item requires Corporate Governance Committee (“Committee”) and/or Board of Administration (“Board”) consideration;
3) If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
4) If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
5) If time constraints prevent a formal gathering of the Committee and Board, then LACERS Board approved Corporate Governance Actions Protocol, as reprinted below, shall apply and staff will then have the issue voted accordingly.

CORPORATE GOVERNANCE ACTIONS POLICY
Board Adopted December 2008

From time to time LACERS receives requests from other pension funds or from affiliated organizations for support of various corporate governance actions. Many of the actions requested, such as requests to sign action letters, would otherwise appear to be consistent with existing Board policy. However, occasionally there is not adequate time to convene a Committee or Board meeting in advance to consider the matter.

The proposed Corporate Governance Actions Policy requires that one staff member plus one Board member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy. If both agree, the measure will be executed by the General Manager or her designee.

The designated staff person will be the Chief Investment Officer (CIO). The designated Board member will be the Chair of the Corporate Governance Committee. In the absence of the CIO, the General Manager will become the designated staff member. In the absence of the Chair of the Corporate Governance Committee, the Board Chair will become the designated Board member.

XV. SECURITIES LENDING POLICY

A. Objectives

The primary goal of LACERS' Securities Lending Program ("Program") is to enhance returns for the System by lending securities owned by LACERS to qualified borrowers. The Program features customized guidelines for prudent risk controls and is designed to not interfere with LACERS' overall investment strategy.

B. Scope

The securities lending agent ("Agent"), pursuant to the securities lending contract, is responsible for locating creditworthy securities borrowers, facilitating securities lending transactions, managing collateral pledged by borrowers, providing daily mark-to-market, and acting in a fiduciary capacity in carrying out its lending duties on behalf of LACERS. The Agent may manage two distinct types of collateral with the goal to maximize net income, split between the Agent and the System, consistent with the safety of principal, maintenance of liquidity and LACERS' guidelines.

Cash collateral is reinvested by the Agent in a separate account based on LACERS' guidelines. Guidelines for the cash collateral separate account are provided in detail in the securities lending contract and address the eligible investments, credit quality, diversification, liquidity, and trading for the Program.

Non-cash collateral is held in a separate account established expressly for LACERS. Guidelines for the non-cash collateral separate account are provided in detail in the securities lending contract and address collateralization levels, eligible instruments, credit quality, and diversification.

C. Roles and Responsibilities

1. **The Board:**
   a) Reviews and approves the Securities Lending Policy.
   b) Modifies or terminates the Program.
   c) Selects and terminates the Securities Lending Agent.
   d) Reviews the Program's overall performance.
2. **Staff:**
   a) Oversees the performance of the lending agent and the cash collateral investment manager in carrying out the objectives of the Program and complying with pre-determined guidelines.
   b) Consistent with the Program objectives and the securities lending contract, reviews, approves, and removes the counterparties as proposed by the Agent.
   c) If the Board is unable to convene in a timely manner to address unusual and significant risk factors that are deemed to have a material adverse impact (e.g. a material reduction in cash reinvestment market liquidity) on the integrity of the Program, LACERS' General Manager and Chief Investment Officer may decide

jointly to modify or suspend the Program. The Chief Investment Officer shall report the action(s) and reasons for such action(s) at the next scheduled Board meeting.

d) Reports to the Board an annual report summarizing securities lending activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

3. **The Agent:**

a) Ensures that counterparties that borrow LACERS' securities are qualified pursuant to LACERS' approved credit standards.

b) Indemnifies LACERS against borrower default.

c) Accepts and invests collateral according to collateral investment guidelines agreed upon with LACERS.

d) Provides the following reports to LACERS:

Reporting Requirements of the Agent		
Ad hoc Reports	Monthly Reports	Quarterly Reports
• Any borrower defaults within a practicable time frame. • Any violations of LACERS' guidelines with a plan for correction within a practicable time frame.	• Volume and lending spreads for the Program. • Total income received by LACERS and by the Agent for borrowing activity. • Investment management activities and risk characteristics of the collateral investment portfolio including sector allocation, quality exposures, maturity exposures, borrower exposures, average days' liquidity, etc.	• LACERS lending activity, earnings, risk characteristics and general trends in the security lending marketplace.

D. **Potential Risks**

LACERS acknowledges the following primary risks of its securities lending activities:

1. **Counterparty Risk**

Counterparty risk arises when the borrower defaults on the return of the securities on loan to the lender. This risk is mitigated by LACERS' guideline requirements that borrowed securities are over-collateralized and marked to market on a daily basis by the Agent. Additionally, the Agent is bound by the securities lending contract to indemnify LACERS for any shortfalls in collateral in the event of a borrower default.

2. **Cash Reinvestment Risk**

Cash reinvestment risk arises when the investments in the cash collateral separate account become impaired or decrease in value, potentially resulting in a collateral deficiency and loss of principal. LACERS' guidelines are designed to minimize cash reinvestment risk.

3. **Interest Rate Risk**

Interest rate risk arises when the rebate rate that LACERS pays to the borrowers exceeds the return on the cash collateral investments. The Agent monitors and manages the interest rate exposure of the cash collateral pool versus the Agent's current interest rate forecast by using statistical analysis. Any negative earnings that occur as a result of interest rate risk will be shared between LACERS and the Agent at the same percentage as the fee arrangement.

4. **Other Risks**

Trade settlement and operational risks associated with securities lending are assumed by the Agent. Corporate actions such as voting rights remain with the security and will become the right of the borrower when the security is on loan. LACERS can still vote proxies for those shares not on loan or may instruct the Agent to return shares so that any specific proxy can be voted.

XVI. SECURITIES LITIGATION POLICY

A. Purpose

The Board adopts this Securities Litigation Policy to establish procedures and guidelines for monitoring, evaluating, and participating in both securities class actions and other securities-related litigation as appropriate to protect and maximize the recovery value of LACERS' assets.

B. Objective

The objective of the Securities Litigation Policy is to carry out the Board's fiduciary obligation to monitor securities class actions and other securities-related litigation in which LACERS has an interest, and to participate in such actions and recover damages when appropriate to protect and maximize the recovery value of LACERS' assets.

C. Guidelines

1. Use of Outside Experts As Needed

LACERS may engage the services of its custodian bank, third-party vendors, and with the concurrence of the City Attorney's Office, outside counsel, to assist LACERS to monitor securities litigation cases in which LACERS may have an interest, evaluate LACERS' potential losses, provide recommendations concerning whether to take an active role in the litigation, and/or represent LACERS in cases in which the Board has agreed to seek an active role.

2. Threshold for Determinations by the Board to Actively Participate

a) Domestic Securities Actions

The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to take an active role in a particular domestic securities class action, including whether to seek lead plaintiff status or pursue an independent action, where: (1) the estimated recoverable damages to LACERS exceed two million dollars ($2,000,000.00); or (2) the estimated recoverable damages to LACERS exceed one million dollars ($1,000,000.00) and LACERS joins with one or more City of Los Angeles retirement plans in pursuing an independent action. In making its determination, the Board shall weigh the potential damages incurred by the Plan, the potential recovery that may be obtained if such claim is pursued, and the likelihood of the plaintiffs' success in the action based upon the merits of the action.

b) **Foreign Securities Actions**

The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to participate (Opt-In) in a particular foreign securities action—a lawsuit brought or pending outside of the United States involving securities purchased by LACERS or on LACERS' behalf on a foreign securities exchange—where the estimated recoverable damages to LACERS exceed one million U.S. dollars (US$ 1,000,000.00). In foreign securities actions, in addition to the core considerations concerning damages, administrative burdens, and liability, the Board also shall weigh carefully the quality and financial stability of the foreign legal counsel and the defense cost funding guarantor.

3. **Diligent Asset Recovery in All Cases**

In cases in which LACERS has not assumed an active role but has suffered losses, LACERS shall ensure that it obtains its fair share of any recovery in which it has filed a valid claim.

D. **Operational Roles And Responsibilities To Implement The Securities Litigation Policy**

1. **The Board**

a) Pursuant to the Guidelines set forth in Section C.2 of the Securities Litigation Policy, and upon considering the recommendations of Staff, the City Attorney's Office, and/or any outside counsel engaged to assist the City Attorney's Office, the Board shall make the final determination whether to actively participate in a particular action.

b) Consistent with Charter Section 275 and Section D.4 of the Securities Litigation Policy, the Board shall make recommendations of one or more outside law firms to assist the City Attorney's Office in discharging the duties required by the Securities Litigation Policy.

c) As set forth in Charter Section 273(a), the Board shall have the authority to approve or reject any settlement of litigation.

2. **Custodian Bank and/or Third-Party Vendor**

LACERS' Custodian Bank and/or Third-Party Vendor shall be responsible for:

a) Reviewing all securities actions brought or pending within the United States or a foreign jurisdiction in which LACERS has suffered losses.

b) Timely filing complete and accurate proof of claims forms on LACERS' behalf, including the necessary supporting documents and information, necessary to recover damages in every securities class action brought or pending within the United States in which LACERS has suffered losses.

c) Providing timely notice to LACERS of each settlement recovery, with sufficient time to allow LACERS to opt-out of domestic actions, and/or opt-in to foreign actions. LACERS Staff shall have the authority to determine, and to communicate to the

Custodian Bank and/or Third-Party Vendor, the deadline for such notice in each particular case.

d) Providing quarterly reports to LACERS Staff and the City Attorney's Office regarding these functions, including any securities litigation proceeds recovered.

e) Providing outside securities litigation monitoring counsel which has been engaged by LACERS pursuant to Section D.4 of the Securities Litigation Policy with access to LACERS' securities holdings and transaction information in order to enable such counsel to identify losses associated with existing and potential lawsuits.

3. **LACERS Staff**

LACERS Staff shall be responsible for:

a) Monitoring the functions performed by the Custodian Bank and/or Third-Party Vendor as described above and shall keep the Board apprised of any unusual or extraordinary events.

b) Working with the City Attorney's Office to provide support and information regarding securities holdings and activity for litigation purposes.

c) Preparing for the Board an annual report summarizing securities class action activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

d) Assisting the City Attorney's Office to evaluate and recommend to the Board outside counsel law firms to assist the City Attorney's Office in discharging its duties under the Securities Litigation Policy.

e) Assisting the City Attorney's Office to provide recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

4. **The City Attorney's Office**

The City Attorney's Office, assisted by Staff and outside counsel as needed, shall be responsible for:

a) Identifying and recommending to the Board qualified outside law firms to assist the City Attorney's Office with monitoring, evaluating, and recommending cases in which LACERS should consider taking an active role under the Securities Litigation Policy. The Board shall recommend one or more such firms to be engaged as outside securities litigation monitoring counsel to assist the City Attorney, subject to the written consent of the City Attorney's Office. Once engaged, outside securities monitoring counsel shall be authorized to receive access to LACERS' securities holdings and transaction information from the Custodian Bank and/or Third Party Vendor, as provided by Section D.2 of the Securities Litigation Policy.

b) Identifying and recommending to the Board qualified outside law firms that would be competent to serve as lead counsel, supervised by the City Attorney's Office, in a particular securities case in which LACERS has sought to serve as lead plaintiff or as plaintiff in an opt-out case. The Board shall recommend one or more such firms, subject to the written consent of the City Attorney's Office, to be placed upon a list of approved lead counsel candidates that would be eligible to submit proposals to represent LACERS in a particular case.

c) Providing recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

d) Once the Board has made a determination to seek an active role in a particular case, preparing Requests for Proposal for distribution to the firms that have been placed upon the list of approved lead counsel candidates, evaluating proposals, and recommending one or more finalist firms to the Board.

e) Assisting Staff to provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which LACERS is a party and/or lead plaintiff.

f) Assisting LACERS in its role as lead plaintiff in a class action or as a plaintiff in an opt-out case, including supervising the law firm appointed to serve as lead counsel. Such supervision may include participation in significant motions and settlement discussions when permitted by parties or the court, and filing objections concerning attorney fee requests.

XVII. APPENDIX: GLOSSARY

ASSET CATEGORIES

Cash/Cash Equivalent: Cash equivalent securities with a maturity less than or equal to fifteen months are considered to include interest bearing or discount instruments, money market funds, corporate issued commercial paper, bank issued Certificates of Deposit, bankers acceptances, fully collateralized repurchase agreements or participation in commingled (cash equivalents) funds managed by a bank, insurance company, or other professional cash equivalents investment manager. Both U.S. and foreign securities issued in U.S. markets are permissible.

Commodities: Physical commodities are the raw inputs (e.g., oil, wheat, gold, etc.) into the production of goods. Commodities investment is conducted through futures, the prices of which are directly tied to the underlying physical commodity. Commodities are real assets and are expected to provide inflation hedging in commodities-driven inflationary environments.

Convertibles: A preferred stock or bond that can be exchanged for common stock of the issuing company. The conversion is at the investor's option and usually must occur within a specified time limit. Convertibles may be considered fixed income or equity investments when calculating investment returns and determining asset allocation.

Direct Placements: Sale of securities to a long-term institutional investor such as a pension fund without the use of underwriters.

Fixed Income: Debt instruments of corporations, government or agencies characterized by a fixed or variable interest rate and stated maturity date. Included are marketable bonds, cash equivalents and Rule 144A securities. Certain fixed income assets, such as cash equivalents, are often categorized separately.

Preferred Stock: A security which has preference over common stock (but not bonds) with regard to dividends and the distribution of assets in the event of a corporate liquidation. Preferred stock combines elements of both common stock and bond forms of investment.

Private Equity: Equity investments in companies that do not trade publicly on an organized exchange. They may include private equity, venture capital, buyout, mezzanine financing, distressed securities, natural resources and hedge funds. These investments are frequently made in some pooled format, usually a limited partnership or limited liability corporation.

Private Real Estate: Land and all physical property related to it, including buildings, landscaping, and all rights to the air above and earth below the property. Assets not directly associated with the land are considered personal property.

Public Equities: Shares that represent ownership of a publicly traded corporation. Included in this category are publicly traded common stocks, rights, warrants, convertible securities and American and Global Depository Receipts.

REITS: Real Estate Investment Trusts. Publicly-traded stocks of real estate investment companies the assets of which are 100% comprised of income producing real estate such as apartments, shopping centers, etc. or the mortgages of real estate property assets.

Total Fund: All assets of the fund including equities, fixed income, cash equivalents, cash and other securities.

Treasury Inflation Protected Securities (TIPS): Debt instruments of the U.S. Government that adjust monthly for changes in inflation as represented by the non-seasonally adjusted U.S. CPI-Urban. Similar to other fixed income instruments, TIPS have a fixed interest rate component and stated maturity.

<u>EQUITY TERMS</u>

American Depository Receipts (ADRs): Negotiable certificate issued by a U.S. bank for shares of stock issued by a foreign corporation. The securities are held in a custodial account, either at the issuing bank or an agent. ADRs are registered with the Securities and Exchange Commission, and give the holder the same benefits of ownership as shareholders. Two types of American Depository Receipts include sponsored ADRs, which are approved and promoted by the issuing corporation; and unsponsored ADRs, which are not backed by the issuer. ADRs are priced in U.S. dollars, and trade on stock exchanges and over-the-counter markets in the same fashion as U.S. issued securities.

Debt-to-Equity: Quantifies a firm's financial leverage. It is the long-term debt of the company divided by shareholder's equity. Higher levels of debt are often associated with earnings volatility.

Dividend: A payment to owners of common or preferred stock. Dividends are usually paid out of the current earnings of a corporation. On preferred stock shares, the dividend is usually a fixed amount. On common stock shares, the dividend will vary with the fortunes of the corporation. Dividends are usually declared and paid quarterly.

Dividend Growth: Measures the average percentage increase, over the trailing five years, of the per share dividend.

Dividend Yield: The annual per share dividend divided by the market price of the security. Higher dividend yields tend to support the price of the security.

Global Depository Receipts (GDRs): Negotiable certificate held in the bank of one country representing a specific number of shares of a stock traded on an exchange of another country. While American Depositary Receipts allow international companies to offer shares to U.S. citizens, GDR's allow companies in Europe, Asia, the United States and Latin America to offer shares in markets around the world.

Market Capitalization: The number of common shares outstanding multiplied by the per share price of the stock which represents the market's valuation of a company.

Price-Earnings (P/E) Ratio: The market price of a share of common stock divided by the company's earnings per share.

Price-to-Book: The market price of a share of common stock divided by the company's per share book value.

Return on Equity: A firm's net profit divided by its shareholder's equity. It is one of two basic factors (the other being earnings retention ratio) that determine a firm's earnings growth rate.

FIXED INCOME TERMS

Accrued Interest: Interest accumulated on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

Asset Backed Bond: Securities that are formed when similar assets or receivables, such as credit card receivables, auto loan receivables or home equity receivables, are pooled together and undivided interests in the pool are sold. The principal and interest payments are "passed-through" to the bondholders.

Banking Demand (Demand Deposit): Checking account balances or other accounts, which, without prior notice to the bank, can be withdrawn or transferred.

Bid-Ask Spread: The difference between the price a buyer is willing to pay (bid) for a security and the price an owner is willing to receive for the security.

Bond: An interest-bearing or discounted certificate of debt issued by~~s~~ corporations, municipalities, governments and governmental agencies that represent a loan to the issuer and obligates the issuer to pay the bondholder a specified sum of money, usually semiannually, and to repay the principal amount of the loan at maturity.

Certificate of Deposit: A receipt from a bank for funds deposited for a stated period of time and normally paying a stated rate of interest.

Convexity: A measurement of the sensitivity of a fixed income security's duration given changes in interest rates. The higher a bond's convexity, the less sensitive it is to interest rate changes versus a comparable duration security and the opposite is true when comparing lower convexity bonds versus similar duration bonds.

Section 12 GLOSSARY

Coupon: Interest rate on a bond that the issuer agrees to pay to the bondholder until maturity, expressed as an annual percentage of face value. More simply, the periodic interest payment made to bond owners during the life of a bond.

Credit spread: The difference in yield between Treasuries and non-Treasuries of similar maturity, duration, convexity etc. Credit spread is generally viewed as the premium assigned by investors to the default risk of a bond.

Debenture: A promissory note backed by the general credit of a corporation -- usually not secured by a mortgage or lien on any specified property.

Duration: A calculation measuring the price sensitivity of a bond or other financial instrument to changes in interest rates while taking into consideration its coupon and maturity.

Fed: The seven-member governing board that oversees Federal Reserve Banks establishes monetary policy (interest rates, availability of credit, etc.) and monitors the economic health of the country.

Federal Reserve Bank: One of 12 regional banks in the Federal Reserve System. The role of each bank is to monitor the commercial and savings banks in their region to ensure they follow Federal regulations. The reserve banks also provide central bank services such as check collection, access to the Fed's wire network and credit advances from the Fed's discount window. Reserve banks act as depositories for banks in their region.

Inflation: The overall general upward price movement of goods and services in an economy, usually measured by the Consumer Price Index in the U.S. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their investments.

Interest Rate: Cost of money or credit expressed as a percentage rate per period of time usually one year.

Maturity: The date on which a bond becomes due and the issuer redeems or pays the face value or principal.

Mortgage-Backed Asset: Securities that are formed when mortgages are pooled together and undivided interests in the pool are sold. The principal and interest payments are usually "passed-through" to the certificate holders.

Sector Swap: Exchange of one security or asset for another, often done to alter the quality, change the duration, or increase the yield to maturity.

Yield Curve: A graph showing the relationship between yields and maturities of fixed income securities issued by the same or similar issuers having the same risk characteristics. Normally, the curve slopes upward and to the right because short-term investments have lower yields than long-term investments. From time to time, the curve may become inverted, when short-term yields are higher than long-term yields.

DERIVATIVE TERMS

Cash Settlement Contract: The feature of certain futures contracts or options that allows delivery or exercise to be conducted with an exchange of cash rather than the physical transfer of assets.

Covered Option: A strategy in which the writer sells options while simultaneously owning an equivalent position in the underlying security.

Credit Default Swap: A derivative instrument that transfers the credit risk from the buyer to the seller in exchange for a specified premium. The seller receives a quarterly payment from the buyers in exchange for absorbing the risk inherent in owning the credit. The buyer receives payment only when a credit event occurs such as: bankruptcy, failure to pay, obligation acceleration, restructuring or sovereign repudiation/debt moratorium.

Counterparty: Entity, usually an investment bank and/or broker/dealer, through which an OTC financial transaction is completed or traded. Counterparties may be known or unknown to the investor.

Derivative: Instruments or contracts whose value is determined by the price of the asset to which the contract is tied.

Forward Contract: A customized transaction in which two parties agree to the purchase or the sale of a security, currency or commodity at some future time under such conditions as the two agree upon. Those who use forward contracts often expect to make or take physical delivery of the commodity or financial instrument.

Futures Contract: A standardized agreement between two parties to purchase or sell an asset or currency at a later date at a fixed price. The contract trades on a futures exchange and is subject to a daily mark-to-market procedure.

Interest Rate Swap: Agreements between two parties to exchange types of cash flows. They are derivative securities because their payoffs are determined by the price of the underlying financial security. Swaps trade in dealer markets or are directly negotiated.

Option: A contract that gives one party the right, but not the obligation, to buy or sell an asset, currency, or a futures contract for a fixed price over a specific period of time.

Naked (uncovered) Option: A short option position in which the writer does not own an equivalent position in the underlying security.

Over the Counter ("OTC"): Non-exchange traded derivatives, usually swaps, which are established with select counterparties.

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PRIVATE EQUITY TERMS

Additional Fees: The amount of capital an investor pays into a fund/investment that does not count against the investors' commitment. Additional fees typically consist of management fees or late-closing interest expenses.

Capital Committed: An investor's financial obligation to provide a set amount of capital to the investment.

Capital Contributed: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees and partnership expenses.

Capital Distributed: Cash or stock disbursed to the investors of an investment.

Co- Investment: A co-investment is a direct investment made alongside a partnership.

Corporate Finance/Buyout: Partnerships seeking to make controlling and non-controlling investments in established companies that have the potential to achieve greater value through improved performance.

Cost Basis: Capital contributions less return of principal.

Direct Investment: A direct investment is a purchased interest of an operating company.

Fund-Of-Funds: An investment vehicle that invests in other private equity partnerships.

Fund/Investment Size: The total amount of capital committed by investors to a fund.

Investment Category: Used to identify investments in one of the following categories: co-investments, direct investments, fund-of-funds, primary funds, secondary fund-of-funds, or secondary purchases.

Investment Strategy: A sub-classification of a partnership's investment type, such as co-investment, direct investment, corporate finance/buyout, mezzanine, real estate, special situation, or venture capital.

Life Cycle Period: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

J-Curve/J-Curve Effect: Period in which partnerships are making investments and drawing management fees, which results in capital account balances that are less than cumulative contributions.

Section 12 GLOSSARY

Mezzanine: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

Net Internal Rate Of Return ("IRR"): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest.

Originator: The institution responsible for recommending a client commit to an investment.

Ownership Percentage: The investor's percent of ownership as measured by capital committed divided by fund or investment size.

Paid-In Capital: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

Pooled Average IRR: An IRR calculation that aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

Portfolio Holding Exposure: The limited partner's pro-rata allocation to an underlying investment based on its ownership percentage of the partnership.

Primary Fund: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

Private Equity Partnership: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations, and venture capital.

Realized Multiple: Ratio of cumulative distributions to paid-in capital.

Return On Investment ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

Reported Market Value: The investment's capital account balance at quarter end, which includes the general partner's reported value of the underlying holdings and other assets and liabilities.

Secondary Fund-Of-Funds: A private equity vehicle formed to purchase active partnership interests from an investor.

Secondary Purchase: A purchase of an existing partnership interest or pool of partnership interests from an investor.

Special Situation: Partnerships that make investments using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

Top Tier Fund: A fund managed by a general partner that has a demonstrated track record of superior performance measured against its peers by its given strategy or a fund managed by a general partner that, based on the Private Equity Consultant's extensive expertise, has the requisite skill set and market opportunity to prospectively produce superior performance compared to its peers by a given strategy.

Total Exposure: Calculated by the summation of market value and unfunded commitments.

Venture Capital: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

Vintage Year: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.

PRIVATE REAL ESTATE TERMS

The following is a list of commonly used terms in Real Estate Investments and their respective definitions.

Appreciation Return: Expressed as a percentage, the return generated by the Capital Appreciation of a property or portfolio over the period of analysis.

Capital Appreciation: The change in market value of property or portfolio over the period of analysis, adjusted for Capital Improvements and Partial Sales for the period.

Capital Expenditures: Investment of cash or the creation of a liability to acquire or improve an asset, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for expense items that are normally considered part of the current period's operations.

Capital Improvements: Expenditures that cure or arrest deterioration of property or add new improvements and appreciably prolong its life. By comparison, repairs merely maintain property in an efficient operating condition.

Section 12 GLOSSARY

Capitalization Rate: The Capitalization Rate or Cap Rate is a ratio used to estimate the value of income producing properties. It is computed by dividing the annual net operating income by the sales price or value of a property.

Commingled Funds: A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account or other multiple ownership entity.

Open-end Fund: A commingled fund with no finite life that allows continuous entry and exit of investors, and typically engages in on-going investment purchase and sale activities.

Closed-end Fund: A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not re-invest the sales proceeds.

Diversification Attributes:

Equity: Direct undivided ownership in real estate that has not been financed using borrowed funds.

Leveraged Equity: Direct undivided ownership in real estate that has been financed using borrowed funds

Equity Oriented Debt: A mortgage loan with a stated interest rate in addition to equity participation by the lender via annual cash flow and/or sale proceeds or refinancing proceeds.

Traditional Debt: A mortgage loan payable at one or more stated interest rates.

Life Cycle:

Pre-development: Raw land.

Development: Properties under construction including preparation and installation of infrastructure.

Leasing: Completed construction that is less than 60% leased and that has been available for occupancy one year or less.

Operating: Properties with greater than 60% average leasing, or that have been available for occupancy for more than one year.

Section 12 GLOSSARY

Redevelopment: Properties that are undergoing substantial expansion or re-tenanting, rehabilitation or remodeling.

Property Size: Property size categories refer to gross asset value of each property. The dollar amount entered in each category should reflect net asset value within each category.

Property Type:

Office: Low-rise, mid-rise and high-rise office buildings and office parks.

Industrial: Warehouse, manufacturing, office showroom, flex space and research and development.

Retail: Neighborhood center, community center, regional center, super regional center, fashion/specialty center, power center, theme/festival center and outlet center.

Residential: High-rise elevator projects, low-rise projects and garden type projects.

Hotel/Motel: Hotels, resorts and motels.

Timberland: Timber, timberland and mineral rights.

Agriculture: Row crops, permanent crops, pasture/ranch and agribusinesses.

Vacant Land: Undeveloped land.

Other: Mobile home parks, self storage facilities, etc.

Gross Asset Value: The fee simple or leased fee market value of an investment, without regard to the debt balance or ownership percentages.

Gross Income: The income or loss of a portfolio or entity, resulting after deducting all expenses, (except for portfolio and asset management fees), but before realized and unrealized gains and losses on investments.

Income Return: Expressed as a percentage, the component of return derived from property operations during the period of analysis.

Lease Expiration Exposure Schedule: A tabulation listing the total leasable square footage of all current leases that expire in each of the next five years, without regard to renewal options.

Net Assets: Total Assets on a market value basis less total liabilities on a market value basis.

Net Investment Income (Net Income): The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

Net Operating Income: Rental and other income of property, less operating expenses other than Capital Expenditures and mortgage debt service.

Net Sales Proceeds: Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs, and marketing expenses.

Partial Sales: The sale of an interest in real estate which is less than the whole property. This may include, for example, a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment. (See Net Sales Proceeds)

Principal Payments: The return of invested capital to the lender, as compared to interest payments, which represents a return on invested capital.

Separate Accounts: A term applied to an investment vehicle for investors with the ability to commit substantial funds to real estate assets who may prefer to invest through individual portfolios specifically tailored to their unique investment requirements. Separate accounts provide clients with a greater degree of control and enable them to capitalize on specific investment opportunities.

Time Weighted Annual Rate of Return: The yield for a year calculated by geometrically compounding the previous four quarters' returns.

Total Assets: The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the Statement of Assets and Liabilities.

Total Return: The sum of the quarterly income and appreciation returns.

Weighted Average Equity: The denominator of the fraction used to calculate investment level Income, Appreciation, and Total returns on a quarterly basis, consisting of the Net Assets at the beginning of the period adjusted for Weighted Contributions and Distributions.

STATISTICAL TERMS

Active Risk: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with tracking error.

Active Share: A measure of dispersion between a manager's portfolio and the portfolio benchmark based upon the individual portfolio holdings versus volatility, which is used to calculate tracking error, another measure of dispersion. A Yale study[18] found high active share portfolios tended to outperform low active share portfolios.

Alpha: A measure of risk adjusted return that represents that part of a return above or below a benchmark and is typically attributed to investment skill.

Attribution: The result of investment performance analysis whereby the key sources of value-added or detracted versus the benchmark are identified and quantified in terms of the contribution to value-added or detracted from that source.

Basis Point: One one-hundredth of one percent, i.e., 100 basis points = 1%.

Beta: A measure of the extent to which the returns on a given stock or portfolio move with the stock market.

Correlation: A statistic describing the goodness of fit about a linear relationship between two variables (returns). It measures the degree to which two variables (assets) move in tandem, with -1 corresponding to perfect negative correlation (vary inversely) and +1 corresponding to perfect positive correlation (move together). A value of zero would indicate no relationship between the two variables.

Information Coefficient ("IC"): a measure of investment manager skill which, together with a measure of breadth provides the manager information ratio according to the Fundamental Law of Active Management[19]. Similar to the correlation coefficient, the IC ranges between 0 and +1.

Information Ratio: A measure of the level of reward per unit of risk. The information ratio is calculated by dividing the alpha (difference between the portfolio return and the benchmark return) by the standard deviation of the alpha.

Mean: The traditional average; it is calculated by adding up all the numbers and dividing the total by the number of observations.

Mean Absolute Deviation: The average value of differences from the mean, where the differences are evaluated without regard to sign. It is a measure of dispersion.

Median: The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

Negative Semi-variance: This measure considers only downside dispersion. Since measures of dispersion are frequently used to measure risk in securities and portfolios,

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[18] Cremers, K.J. Martijn, and Antii Petajisto, 2009. "How Active is your Fund Manager? A New Measure That Predicts Performance", *Review of Financial Studies* 22 (9): 3329-65
[19] Grinold, Richard C. and Ronald N.Kahn, *Active Portfolio Management*, 2nd ed., New York: McGraw-Hill (2000)

the amount of uncertainty as to future value is one definition of risk. Some investors find this definition difficult to accept because they feel that only below-average expectations represent risk.

Range: The difference between the minimum and maximum in a series.

R-Squared (R2): The proportion of a portfolio's variability that is explained by the relation between the portfolio and the market.

Standard Deviation: This measure is the square root of the variance. The standard deviation is a useful and widely used measure because, for a normal, or bell-shaped, distribution, 68 percent of the observations fall within one standard deviation and 95 percent fall within two standard deviations. Since it is usually reasonable to suggest that distributions in finance are normal, a good estimate of the dispersion of a distribution around its average is provided by the standard deviation measure. In a portfolio context, the higher the standard deviation, the higher the risk associated with a given level of return on that portfolio.

Tracking Error: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with active risk.

Variance: The variance is a true measure of the width of the distribution. Variance relates each observation to the average by squaring each number (multiplying a negative number by itself produces a positive number).

DESCRIPTION OF MANAGER STYLES

Equity Styles

Bottom Up: A method of analysis that begins with fundamental factors at the company or micro economic level.

Currency Overlay: Strategy to use currency futures, forwards, and options as an overlay on existing international portfolios to protect against losses in currency movements.

Enhanced Index: In general, a manager utilizing this style attempts to outperform an index by analyzing quantifiable characteristics of a given stock or sector. The strategy is characterized by low to moderate levels of active risk.

Growth: Seeks investments whose future potential for growth is above the growth expectation for securities in general. From an analytical perspective, growth portfolios will generally exhibit the following characteristics:

Projected Earnings Growth – greater than the index
Price to Earnings Ratio – generally greater than the index
Price to Book Ratio – generally greater than the index

Section 12 GLOSSARY

Five Year Earnings Growth Rate – greater than the index

Index/Passive: An index strategy would strive to match the return of the appropriate index by holding a portfolio of securities that closely tracks the index.

International Equity Active Country and Sector/Passive Security Selection: Through an overall review of economic, social, and political issues worldwide, decisions are made with respect to the allocation of investments among countries and sectors. The investment decisions are implemented through passive security selection.

Large Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell 1000 Index.

Mid Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell Mid Cap Index.

Quantitative: Stock selection and portfolio construction are implemented through computerized models which consistently employ fixed criteria and/or decision rules which may or may not involve manual intervention.

Small Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell 2000 Index.

Top Down: A method of analysis that begins with broad macro economic topics associated with an economy and industry.

Value: Investments in equities whose potential is temporarily unrecognized by other investors. Value stocks typically are companies whose assets, future cash flows, products or services are overly discounted relative to the broader market. Typically, value portfolios will exhibit the following characteristics:

Price to Book Ratio – less than the index
Price to Earnings Ratio – less than the index
Dividend Yield – greater than the index

<u>Fixed Income Styles</u>

Bank Loans: Managers that invest in short and intermediate term senior subordinated debentures of below investment grade issuers. This debt is adjustable rate and may provide modest inflation protection in a rising rate environment. Also, these debentures are higher in the capital structure than high yield bonds, which affords greater creditor protection in stressed environments in addition to a shorter duration.

Core: Seeks investments in the large, more liquid sectors such as governments, mortgage-backs and investment grade corporates, that do not represent significant deviation from a given index in terms of sector, quality, coupon and maturity exposures.

While some over/under weighting may occur in the portfolio, these will result from the manager's security selection process and not represent a deliberate attempt to bias the portfolio.

Core Plus: A core plus manager has the latitude to invest the portfolio in core sectors as well as high yield (below investment grade) non-dollar denominated and/or the debt of emerging markets.

Emerging Market Debt: Seeks investment in either investment grade or below investment grade debt of sovereign or corporate issuers domiciled in emerging market countries. This debt can be "hard currency" (i.e., dollar) denominated or denominated in the local currency of the issuing entity.

High Yield: Seeks investments in below investment grade corporate securities.

Intermediate: Managers that invest in shorter than market duration securities with an average portfolio duration range of between three and four years. Securities invested in will range across sectors and could be either investment grade and/or non-investment grade rated. Portfolios can also include non-U.S. issued securities in addition to securities issued in the U.S.

Medium-Grade: Seeks investments from the complete range of global fixed income sectors. The medium-grade manager has broad latitude to invest the portfolio's assets in opportunistic sectors such as high-yield (below investment grade) non-dollar, emerging markets and convertible debt investments. The manager may use investment grade sectors as a defensive alternative to opportunistic sectors.

Inflation Protected: Invests in fixed instruments that have a real and inflation-linked return component. The securities are typically issued by government entities. An example would be the Treasury Inflation Protected Securities (TIPS) issued by the United States Government.

Structured credit: A traditional bond that has had its repayment structure altered to produce non-traditional payoffs derived from one or more of the underlying assets rather than from the borrower's (i.e., issuer's) cash flow. Structured credits are a blend of bonds and derivatives (usually swaps). Often, downside risk is protected beyond a certain level.

RATES OF RETURN

Capital Appreciation (Depreciation): Both realized and unrealized gains or losses in the market value of a portfolio from beginning to end of the time period being measured.

Dollar-Weighted Return: This rate is also called the internal rate of return (IRR). It is sensitive to the timing and size of cash flows. The rate of return for each sub-period such as a month or a quarter is weighted by the dollars invested in that period. Thus, the cash flows in the fund, as well as investment performance, will have an impact on calculated returns. The dollar-weighted return is important in measuring the actual growth of a fund over time.

Income Return: The rate of return attributable to interest and/or dividends.

Market Value: The market value of an asset is the realizable value at any point in time. In practice, publicly traded stocks are valued at the day's closing price and bonds are generally valued at the day's final bid price. Different pricing services can result in different market prices especially in the bond market.

Real Rate of Return: The rate of return earned from an investment's income/loss and appreciation/depreciation after being adjusted for inflation. The most common measure of inflation is the U.S. Bureau of Labor Statistics' All Urban Consumer Price Index (CPIU).

Time-Weighted Rate of Return: The amount and timing of cash flows do not impact time-weighted rates of returns since the returns for each sub-period are equally weighted. Since investment managers have little control over cash flow, time-weighted returns are an appropriate method of analyzing the manager's performance.

Total Fund Total Rate of Return: The "overall" rate which reflects the combination of income as well as realized and unrealized appreciation or depreciation for all segments or portfolios in the total plan.

<u>TIME PERIODS</u>

Annualized: A rate of return for a time frame that is less than or greater than one year expressed as an average annual return.

Compound Annual: A compound average annual rate of return for a period greater than 1 year expressed in annual terms.

Rolling Time Period: A series of investment returns each covering a specified period of time with each new return in the series encompassing the most recent return of the period and dropping the oldest return of the period. For example, a rolling one-year return, calculated monthly would consist of the previous 12 monthly returns. The next return in the series would be calculated at the end of the following month. It would consist of the current monthly return and the previous 11 months (dropping the oldest return in the series).

Trailing Period: A time period that immediately precedes a specified date. For example, as of December 31, 20X1, the trailing 9 months would include the period April 1, 20X1 to December 31, 20X1.

Unannualized: A rate of return for a period of less than one year or greater than one year. An unannualized return that represents cumulative results that is for a month, quarter, five quarters or any other non-twelve month period.

RELATIVE PERFORMANCE RANKING

Policy Index (Policy Portfolio): A weighted combination of two or more indices. The Policy Index is constructed to match a fund by weighting the indices in the same ratio as the fund's target commitment to the different asset classes such as equities, bonds, real estate and cash.

Median: The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

Percentile Rank: Time-weighted rates of return are percentile ranked against the Universe. For example, a fund's rate of return may rank in the 20th percentile of the sample. This value indicates that 80% of the funds in the sample had worse performance. The highest percentile rank is 1 while the lowest is 100. Bar graphs may be divided by percentiles with the top of each bar denoting the tenth percentile followed by lines for the 25th, 50th, 75th and 90th percentiles.

Quartiles: Percentile rankings are divided by the first, second and third quartiles. The first quartile is the 25th percentile, the second is the 50th percentile (or median) and the third is the 75th percentile.

Reasonable (as it pertains to a portfolio risk level relative to the Index): A reasonable risk level relative to the Index means that, if portfolio risk is substantially above the risk of the Index, portfolio return should also be substantially above the return of the Index. Conversely, if portfolio return were substantially less than the Index, then portfolio risk would also be expected to be less than that of the Index. Under normal market conditions, reasonable means a combination of risk and return that yields a return to risk ratio for the portfolio that is equal to or greater than that of the Index which serves as the portfolio's performance benchmark.

Typical Market Cycle: A typical market cycle is the recurrence of periods of significant appreciation and depreciation of asset values. One cycle extends from a price or market value baseline through one substantial rise and one decline and back to the base line. The length of a typical or fair market cycle varies across asset classes, depending on the frequency and duration of changes in those economic factors that drive the market value of the assets. For those assets that trade on auction markets and are sensitive to short-term business cycle activity, such as equity and fixed income securities, the typical market cycle has historically been approximately three years. For those assets whose market values are not based on quoted prices and which are sensitive to longer-term demographic changes, such as private real estate or private equity, the typical market cycle has historically been approximately seven to ten years.

Section 12 GLOSSARY

INDICES

Fixed Income

Barclays Capital Aggregate: An aggregate of the Government/Corporate Bond Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The index contains fixed rate debt issues with at least one-year maturity, $100 million par value outstanding, and investment grade ratings by Moodys, S&P or Fitch (in that order). Returns are market-value weighted inclusive of accrued interest.

Barclays Capital Universal: This index contains the Barclays Capital Aggregate index bonds plus approximately 10% of the remaining index includes U.S. High Yield, Eurodollar, Emerging Markets, 144A Private Placements, and CMBS bonds.

Barclays Capital U.S. Govt/Credit Intermediate: This index is a sub-component of the Barclays Capital Aggregate index. Bonds consist of the U.S. Treasury, U.S. Agency (non-MBS), and U.S. Investment-grade credit holdings with a maturity range of 1 to 10 years.

Bond Rating Methodology: Bond ratings are intended to characterize the risk associated with holding a particular bond or categories of bonds. These ratings are the risk assessed by the market and that the bond issuer must pay to attract purchasers to the bond. These ratings are expressed as a series of letters and sequences.

Rating Categories in Descending Order:

AAA: The best quality rating, stable cash flows, very protective bond covenant, very low probability of default.

Aa: The second best rating. Stable cash flows, less protective bond covenants, very low probability of default.

A: Stable cash flows, less protective bond covenant, long-term probability of default is higher than AAA or Aa.

Baa: Medium quality rating, reliable cash flows short term, less-reliable cash flows long term, bond covenants offer limited protection. Moderate probability of default. Downgrade to a lower rating is also possible. Baa bonds are the lowest rating still considered ‘investment grade.’

Ba thru B: Highly speculative. Long-term assurance of cash flows and protective elements are low. Purchasers of these bonds generally specialize in assessing credit risk of specific bond issues. Much higher spreads versus investment grade bonds provide the incentive for purchasers. High default or downgrade risk.

Caa thru C: Poor standing. Either close to default or in default. Highly probable loss of principal.

Section 12 GLOSSARY

D: Coupon payments were not paid on the due date which puts the bond In default. Unless both protective covenants and issuer assets are adequate (not likely), holder loses all likelihood of recovering principal.

Equity

Down Jones Industrial Average: This index is the price-weighted average of 30 actively traded blue chip stocks.

NASDAQ: A market value weighted index that measures all domestic and non-U.S. based securities, more than 4700 companies listed on the NASDAQ stock market.

Russell Midcap Value: Contains Russell Midcap stocks having less than average value orientation and are included in the Russell 1000 Growth Index.

Russell Midcap Value: Contains Russell Midcap stocks having less than average growth orientation and are included in the Russell 1000 Value Index.

Russell 1000: Consists of the 1000 largest securities in the Russell 3000 Index. The Russell 1000 is capitalization-weighted.

Russell 1000 Growth: Contains Russell 1000 stocks having greater than average growth orientation. Stocks tend to exhibit lower dividend yields and higher price-to-book ratios, price-earnings ratios and forecast growth values than the Value universe. The index is capitalization-weighted (as opposed to equal-weighted).

Russell 1000 Value: Contains those Russell 1000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe. Russell 1000 Value is capitalization-weighted.

Russell 2000: Contains the smallest 2,000 stocks in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The index is capitalization-weighted (as opposed to equal-weighted).

Russell 2000 Growth: Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.

Russell 2000 Value: Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.

Russell 3000: Measures performance of the 3000 largest U.S. companies based on total market capitalization. This index represents approximately 98% of the investable U.S. equity market. The Russell 3000 is capitalization-weighted.

Standard and Poors 500: The S&P, which represents approximately 75% of NYSE market capitalization and 30% of NYSE issues, contains 500 industrial, utility, transportation and financial companies in the U.S. markets (mostly NYSE issues). The S&P is capitalization-weighted (as opposed to equal-weighted), calculated on a total return basis with dividends reinvested.

FTSE All Share: An arithmetic, market value-weighted average of approx. 680 securities representing 98-99% of the UK market capitalization, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

Morgan Stanley All Country World except USA: An arithmetic, market value-weighted average of approx. 1800 securities from outside the United States. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes.

Morgan Stanley Capital International Emerging Market Free: Contains securities of the following counties which are available to all investors regardless of local status: Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Portugal, South Africa, Sri Lanka, Thailand, Turkey and Venezuela.

Morgan Stanley Capital International EAFE: An arithmetic, market value-weighted average of over 900 securities from Europe, Australia, and the Far East. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes. The following countries are represented: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

Real Assets

Barclays Capital Treasury Inflation Protected Securities Index: The TIPS Index contains approximately 30 U.S. Treasury-issued inflation protected securities of varying maturities up to 20 years.

Bloomberg Commodity Index Total Return (formerly Dow Jones UBS Commodities Index): comprised of 24 commodity futures index constituents including: Natural Gas, WTI Crude Oil, Brent Crude Oil, Unleaded Gasoline, Heating Oil, Live Cattle, Lean Hogs, Wheat, Corn, Soybeans, Soybean Oil, Sugar, Cotton, Coffee, Cocoa, Aluminum, Copper, Zinc, Nickel, Gold, Silver, Lead, Tin and Platinum.

NCREIF Property Index: The NPI contains investment-grade, non-agricultural, income-producing properties which may be financed in excess of 5% gross market value; were acquired on behalf of tax exempt institutions; and are held in a fiduciary environment. Data is collected quarterly from a membership of investment managers and plan sponsors. Returns are gross of fees; include income, realized gains/losses, and appreciation/depreciation; and are market-value weighted. Property values are determined by consistent appraisal methodology and sold properties are removed in the quarter of the sale (the historical data remains). Current quarter performance is preliminary.

Financial Times Securities Exhange ("FTSE") NAREIT U.S. Real Estate Index: Includes all REITS listed on the NYSE and Nasdaq indices. The index excludes LLPs and LLCs. The sectors are as follow: Healthcare, Self-Storage, Office/Industrial, Residential, Retail and Lodging/Resorts.

Cash

90-Day Treasury Bills: An average of the last three 90-day treasury bill issues' monthly return equivalents of yield averages, which are not marked to market. Month-end discount yields are converted to bond-equivalent yields, then a simple average is taken, and that number is decompounded to a monthly return using the actual number of days in the month and a 365-day year.

Policy Benchmarks

Current:

Domestic Equity	19% Russell 3000
Non U.S. Equity	27% MSCI ACWI ex-U.S.
Fixed Income	13.75% BC U.S. Aggregate
Credit Opportunities	12.25% [15% BC U.S. HY Capped + 45% Credit Suisse Leveraged Loans Index + 20% J.P. Morgan EMBI-GD + 20% J.P. Morgan GBI EM-GD]
Private Equity	14% Russell 3000 + 300 bps
Private Real Estate	7% NFI-ODCE + 80 bps
Public Real Assets	6% U.S. Consumer Price Index + 5%
Cash	1% 90-Day Treasury Bill

TOTAL: 19% U.S. Equity; 27% Non-U.S. Equity; 13.75% Fixed Income; 12.25% Credit Opportunities; 14% Private Equity; 7% Private Real Estate; 6% Public Real Assets; 1% Cash

1/10/2012 through ~~???~~April 10, 2018

Domestic Equity	24% Russell 3000
Non U.S. Equity	29% MSCI ACWI ex-U.S.
Fixed Income	19% BC U.S. Aggregate
Credit Opportunities	5% 65% BC U.S. HY Capped+ 35% J.P.EMBI-GD

Private Equity	12% Russell 3000 + 300 bps
Private Real Estate	5% NFI-ODCE + 80 bps
Public Real Assets	5% U.S. Consumer Price Index + 5%
Cash	1% 90-Day Treasury Bill

TOTAL: 24% U.S. Equity; 29% Non-U.S. Equity; 19% Fixed Income; 5% Credit Opportunities; 12% Private Equity; 5% Private Real Estate; 5% Public Real Assets; 1% Cash

7/1/2007 through 12/31/2011:

U.S. Equity	43% Russell 3000
Non U.S. Equity	20% MS ACWI ex U.S. Net Div
Core Fixed Income	24% BC Universal
Real Estate	5% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually. Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.
Cash	1% 90 day Treasury Bill

TOTAL: 43% U.S. Equity: 20% Non U.S. Equity; 24% Core Fixed; 5% Real Estate; 7% Alternative; 1% Cash

1/01/2007 through 6/30/2007:

U.S. Equity	44% Russell 3000
Non-U.S. Equity	20% MS ACWI ex U.S. GD
Core Fixed Income	25% BC Universal
Real Estate	4% NCREIF
Alternative	6% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 44% U.S. Equity; 20% Non-U.S. Equity; 25% Core Fixed; 4% Real Estate; 6% Alternative; 1% Cash

3/31/2006 through 9/30/2006:

U.S. Equity	45% Russell 3000
Non-U.S. Equity	21% MS ACWI ex U.S. GD
Core Fixed Income	25% BC Universal
Real Estate	3% NCREIF
Alternative	5% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 45% U.S. Equity; 21% Non-U.S. Equity; 25% Core Fixed; 3% Real Estate; 5% Alternative; 1% Cash

6/30/2001 through 3/31/2006:

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD
Core Fixed Income	27% BC Universal
Real Estate	7% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 27% Core Fixed; 7% Real Estate; 7% Alternative; 1% Cash

01/01/2001 through 6/30/2001:

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD
U.S. Fixed	25% BC Universal
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	5% NCREIF
Alternative	5% “15%”
Cash	1% 90-day Treasury Bill

TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 5% Real Estate; 5% Alternative; 1% Cash

01/01/2000 through 12/31/2000:

U.S. Equity	43% Russell 3000
Non-U.S. Equity	21% MSCI EAFE
U.S. Fixed	25% BC Aggregate thru 6/30/00, BC Universal as of 7/1/00
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	2% NCREIF
Alternative	2% “15%”
Cash	1% 90-day Treasury Bill

TOTAL: 43% U.S. Equity; 21% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 2% Real Estate; 2% Alternative; 1% Cash

Through 12/31/99:

U.S. Equity	40% consisting of 33.75% S&P 500; 35.0% Russell 1000 Value; 12.5% Russell 1000 Growth; 12.5% Russell 2000 Value; 6.25% Russell 2000 Growth
Non-U.S. Equity	20% consisting of 25% MSCI EAFE; 22.5% MSCI Pacific; 15% TOPIX; 12.5% MSCI Europe; 25% MSCI Emerging Markets Free x Malaysia
U.S. Fixed	25.5% consisting of 17.65% BC Intermediate Government Corporate; 11.76% Intermediate Government; 7.84% BC Long Government Corporate; 3.92% BC Long Government; 58.8% BC Aggregate
Non-U.S. Fixed	7% JPM World

Real Estate	3% NCREIF
Alternative	3% “15%”
Cash	1.5% 90-day Treasury Bills

TOTAL: 40% U.S. Equity; 25.5% Fixed Income; 20% International Equity; 7% JPM Global Hedged; 3% NCRIEF; 3% Alternative 15%; 1.5% Treasury Bills

1 Yr: One-year rate of return. The linked quarterly returns of the previous four quarters.

X Yr Ann: X year annualized rate of return. The one-year equivalent return of the X year cumulative return.

X Yr Cum: X year cumulative rate of return. The linked quarterly returns of the previous X years.

ASSET ALLOCATION

Market $: Net assets at market value including receivables, payables and accrued interest.

Market %: Market value as a percent of the total fund’s market value.

Target %: Investment policy.

Invest %: Market value excluding cash and equivalents as a percent of total market value.

INVESTMENT PERFORMANCE

Time: The internal rate of return (accounting for daily cash flows) monthly based on trade-date, full accrual accounting, and using market values. For periods of greater than one month, a time series of linked monthly returns is maintained, introducing a time weighted effect. The private investment returns are lagged one quarter. The LACERS total fund return is dollar weighted to include private investments.

Market at Target: The weighted return made up of market returns weighted by LACERS’ target allocation.

Market at Actual: The weighted return made up of market returns weighted by LACERS’ actual allocation.

UNIVERSE COMPARISON

Universe comparisons will be specified in the quarterly Portfolio Performance Reports and LACERS will use broadly used universe comparisons as determined by the General Fund Consultant.

INVESTMENT IMPACT

Allocation: Market returns weighted by LACERS' actual asset allocation less market returns weighted by LACERS' target allocation.

Management: The difference between a) market returns weighted by LACERS' sector allocation and b) market returns weighted by LACERS' actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS' sector allocation.

Overall: Actual returns less market returns weighted by LACERS' target allocation.

RISK

Mean Rate of Return: The geometric average of twenty quarterly returns, annualized.

Standard Deviation: The standard deviation (one sigma) of twenty quarterly returns, annualized.

CHARACTERISTICS

Historic Beta: The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

Return on Equity: The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE's of all stocks in the portfolio.

Section 1 INVESTMENT POLICY

1.1 INVESTMENT POLICY

Adopted: October 24, 2017

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Section 1 INVESTMENT POLICY

I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Los Angeles City Employees' Retirement System ("LACERS" and hereafter known as the "System"). Its purpose is to assist the Board of Administration (the "Board") in effectively supervising and monitoring the investments of the System, with the support of the LACERS staff (the "Staff"). Specifically, it will address:

A. The general goals of the investment program;
B. The policies and procedures for the management of the investments;
C. Specific asset allocations, rebalancing procedures, and investment guidelines;
D. Performance objectives; and
E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

> "…to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system."

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

II. INVESTMENT GOAL STATEMENT

The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

D. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

G. Investment actions are expected to comply with "prudent person" standards as described:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (sometimes referred to as the 'prudent person' rule)." [1]

The "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

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[1] ERISA 404(a)(1) (B).

III. DUTIES OF RESPONSIBLE PARTIES

A. Duties of the Board or its Designate(s)

The Board has the responsibility for the administration of the System for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

1. The Board develops and approves policies and guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.
2. A formal review of the Board's Investment Policy and investment structure, asset allocation, and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions, or the System's financial condition.
3. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.
4. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.
5. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:
   a) Manager compliance to the Policy guidelines.
   b) Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
   c) Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.
6. The Board shall expect Staff to administer the System's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.
7. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.

8. Voting of proxies in stocks held by the System will be done according to Board policy.

9. The Board may delegate certain duties of the Board to the Investment Committee as specified in the Investment Committee Charter.

B. **Duties of the Staff**

The Board's Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, the Investment Staff oversees and directs the implementation of Board policies and manages the System on a day-to-day basis. Furthermore, staff responsibilities include the following details:

1. Invests the System's cash without requiring Board's permission as set forth elsewhere in the Board's Investment Guidelines.
2. Monitors investment managers for adherence to appropriate policies and guidelines.
3. Evaluates and manages the relationships with brokers, managers, consultants, and custodian(s) to the System to ensure that they are providing all of the necessary assistance to Board and to Staff.
4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.
5. The Staff will manage Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.
7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.
8. The Staff shall advise and keep the Board apprised of any other events of investment significance.

C. **Duties of the Investment Managers**

The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.
2. Provide the Board with proof of liability and fiduciary insurance coverage.
3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.

4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.
6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.
7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:
   a) Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;
   b) Significant changes in ownership, organizational structure, financial condition, or senior personnel;
   c) Any changes in the Portfolio Manager or other personnel assigned to the System;
   d) Each significant client that terminates its relationship with the Investment Manager, within 30 days of such termination;
   e) All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and
   f) Meet with the Board and/or Staff on an as-needed basis.

D. **Duties of the Master Custodian**

The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.
2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
3. Provide in a timely and effective manner a monthly report of the Investment activities implemented by the investment managers. Prepare a quarterly report containing absolute and relative investment performance.
4. Collect all income and realized principal realizable, and properly report it on the periodic statements.
5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.

6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.
7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

E. **Duties of the General Fund Consultant**

The General Fund Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.
2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.
3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.
4. Assist the Board in the selection of a qualified custodian if necessary.
5. Provide topical research and education on investment subjects as requested by the Board or Investment Staff.

IV. ASSET ALLOCATION POLICY

The policies and procedures of the Board's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as the System's conditions change and as investment conditions warrant. The Board reviews the Asset Allocation Policy strategically approximately every three years and on a tactical basis more frequently.

The Board adopts and implements the Asset Allocation Policy that is predicated on a number of factors, including:

A. A projection of actuarial assets, liabilities, benefit payments, and required contributions;
B. Historical and expected long-term capital market risk and return behavior;
C. An assessment of future economic conditions, including inflation and interest rate levels; and
D. The current and projected funding status of the System.

This policy provides for diversification of assets in an effort to maximize the investment return of the System consistent with market conditions. Asset allocation modeling identifies the asset classes the System will utilize and the percentage that each class represents of the total plan assets. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the Asset Allocation Policy and that periodic revisions will occur. The Board will monitor and assess the actual asset allocation versus policy and will rebalance as appropriate.

The Board will implement the Asset Allocation Policy using investment managers to invest the assets of the System's portfolio components subject to investment guidelines. Equity managers may not hold more than 10% of the market value of their portfolios in cash without Board approval, unless otherwise specified in their manager guidelines. The long-term asset allocation targets and ranges for the investments of the System's assets are presented in the latest Board-approved Asset Liability Study and Asset Allocation Policy.

The Board will allocate segments of the System's assets to each investment manager and specify guidelines, objectives and standards of performance, which are to apply to each manager's portfolio. These decisions will encompass allocating segments of the System assets, and segments of individual asset classes, between active and passive investment management, the active risk of the portfolio and to provide broad market exposure.

V. INVESTMENT POLICY

The Board will retain external investment managers to manage the System's assets using a specific style and methodology. Public external investment managers have been delegated authority for determining investment strategy, security selection, and timing. Public external investment managers are subject to the Board's policy and individual investment manager guidelines, legal restrictions, and other Board direction. Performance objectives will also be developed for each manager. The performance of each portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles. Private market investment managers shall manage the System's assets pursuant to the respective asset class policy and the partnership fund's limited partnership agreement or other applicable legal documents.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board of such material changes within a reasonable timeframe as articulated within their respective investment guidelines.

Investment managers under contract to the Board shall have discretion to establish and execute transactions with securities broker/dealer(s). The investment managers will attempt to obtain best execution with respect to every portfolio transaction. The following transactions will be prohibited: net short sales; selling on margin; writing options other than covered options; "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA); and, transactions that involve a broker acting as a "principal," where such broker is also the investment manager making the transaction. The investments of the Board's assets will be subject to the following general policies.

A. **Manager Selection**

The selection of investment managers is accomplished in accordance with all applicable local, state, and federal laws and regulations. Each investment manager, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations. Section VII describes LACERS' Manager Search and Selection Policy which articulates the process that will be employed for each public markets manager search.

B. **Manager Authority**

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; Board rules or direction, applicable local, state, and federal statutes and regulations and individual management investment plans and executed contracts.

C**. Brokerage Policy**

The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution. Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

D. **Proxy Voting**

Proxy voting rights will be managed with the same care, skill, diligence, and prudence as is exercised in managing other assets. Proxy voting rights will be exercised in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board Proxy Voting Policy, which is found in Section XIV of this policy statement.

E. **Securities Lending**

The Board has authorized the execution of a "Securities Lending Program," which may be managed by the Board's custodian or delegated to a third-party provider. The Board will monitor and review the program. This program is described in the Securities Lending Policy (Section XV of this document) and in the Securities Lending Agreement of the securities lending provider. The initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and collateral are denominated in different currencies. Marking to market is performed every business day, and the borrower is required to deliver additional collateral when necessary. Stringent cash and non-cash collateral guidelines specify eligible investments, credit quality standards, and diversification, maturity and liquidity requirements.

F. **Derivatives**

The Board's investment managers may be permitted, under the terms of individual investment guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the movement of the pricing of other securities. The returns are to be consistent with the manager's mandate from the returns of other securities, indices, or allowable derivative instruments that include, but are not limited to, futures and forwards. Examples of appropriate applications of derivative strategies include hedging interest rates and currency risks, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration for fixed income. In no circumstances can managers borrow funds to purchase derivatives. Managers must ascertain and carefully monitor the creditworthiness of any counterparties involved in derivative transactions.

G. **Rebalancing**

The investment portfolio shall, on an ongoing basis in accordance with market fluctuations, be rebalanced to remain within the range of targeted allocations and distributions among investment advisors. The Board has a long-term investment horizon and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs.

The Board delegates the responsibility of rebalancing to the Chief Investment Officer, who will seek the concurrence of the General Fund Consultant. Rebalancing generally will occur when the market values of asset classes (e.g., equities, fixed income, etc.) or sub-asset classes (e.g., large cap value, emerging markets, etc.) exceed their respective thresholds as established by the Board's approved asset allocation and asset class risk budgets.

The portfolio will be monitored daily, but reviewed by senior investment staff (i.e., Chief Investment Officer or Chief Operating Officer) at the beginning of each month to determine the need to rebalance asset classes or sub-asset classes within approved policy bands. Rebalancing will be conducted in a timely manner, taking into consideration associated costs and operational circumstances and market conditions. Rebalancing will be accomplished by using routine cash flows, such as contributions and benefit payments, by reallocating assets across asset classes, investment mandates, and investment managers.

Asset classes temporarily may remain outside of their ranges due to operational and implementation circumstances to include, but not limited to, illiquidity that prevents immediate rebalancing of certain asset classes such as private equity and private real estate; potential asset shifts pending in the portfolio over the next 12 months such as hiring/termination of a manager(s); an asset allocation review of the entire portfolio; or a structural review of a given asset class.

The Chief Investment Officer shall inform the Board in a timely manner of all rebalancing activity.

H. **Evaluation of Policy**

The Investment Policy Statement shall be reviewed by the Board at least annually, with the assistance of the Staff and investment consultant(s), and revised as necessary.

VI. GENERAL INVESTMENT OBJECTIVES AND GUIDELINES

The general investment objective is to outperform the overall policy portfolio benchmark. The overall policy portfolio benchmark consists of weighted asset class benchmarks for each asset class as determined by the Board. The long term policy benchmarks are listed below:

Asset Class	**Benchmark**
Domestic Equity	Russell 3000
Non-U.S. Equity	MSCI ACWI ex-U.S.
Fixed Income	BC U.S. Aggregate
Credit Opportunities	65% BC U.S. HY Capped + 35% J.P. EMBI-GD
Private Equity	Russell 3000 + 300 bps
Private Real Estate	NFI-ODCE + 80 bps
Public Real Assets	U.S. Consumer Price Index + 5%
Cash	90-Day Treasury Bill

The portfolio is formally monitored by the Board quarterly versus its policy benchmark and also compared to the actuarial return target of 7.5%.

The Board will utilize the following portfolio investment components to fulfill the asset allocation targets and LACERS total fund performance goals established in this document.

A. **Equities**

The Board expects that over the long run, total returns of equities will be higher than the returns of fixed income securities, but they may be subject to substantial volatility during shorter periods. Equity investment managers retained by the Board will follow specific investment styles and will be evaluated against specific market indices that represent their investment styles. Additionally, in the case of active managers, investment results may also be compared to returns of a peer group of managers with similar styles. The components of the System's equity holdings, the benchmarks for the various equity portfolios, and the general guidelines are listed below:

1. **Domestic Equities**

   a) **Index Funds/Core** – These investments will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

   b) **Large Cap Growth Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. The Board's large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

   c) **Large Cap Value Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   d) **Mid Cap Core Stocks** – The principal characteristic of the mid-cap core stock component is its emphasis in stocks with market capitalization generally ranging from $3.0 billion to $10.0 billion.

   e) **Small Cap Core Stocks** – The principal characteristic of the small cap core stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion.

   f) **Small Cap Value Stocks** – The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion, which are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   g) **Small Cap Growth Stocks** – The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $250 million to $2.0 billion, which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than value stocks.

The benchmarks for the domestic equity portfolios may include the following indices:

Large Cap Core Stocks	S&P 500 Index
	Russell 1000 Index
Large Cap Value Stocks	Russell 1000 Value Index

Large Cap Growth Stocks	Russell 1000 Growth Index
Mid Cap Core Stocks	Russell Midcap Index
Small Cap Core Stocks	Russell 2000 Index
Small Cap Value Stocks	Russell 2000 Value Index
Small Cap Growth Stocks	Russell 2000 Growth Index

General U.S. equity guidelines for active managers include the following:

(1) No securities shall be purchased on margin or sold short.

(2) American Depository Receipts (ADRs) are permissible investments.

(3) Convertible securities can be held in equity portfolios and will be considered equity holdings.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company.

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

2. **Non-U.S. Equities**

a) **Index Funds/Core Non-U.S. Stocks** – This portfolio provides broadly diversified equity markets outside the U.S. and, consequently, plays a significant role in diversifying the Board's portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a macro approach.

b) **Developed Markets Core** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets.

c) **Developed Markets Value** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Value Index or the MSCI EAFE Value Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having higher than market dividend yields, lower than market book value, and lower than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

d) **Developed Markets Growth** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Growth Index or the MSCI EAFE

Growth Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having lower than market dividend yields, higher than market book value, and higher than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

e) **Small Cap Core** – This segment is comprised of non-U.S. stocks of the developed markets countries listed within the MSCI EAFE Small Cap Index. These stocks represent small cap companies which may have global products and customers or which may be dominant firms within their local country/regional markets. These stocks will generally have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus large cap developed market stocks.

f) **Emerging Markets Core** – This component is comprised of equity positions in companies located in emerging, rapidly growing countries around the world. The companies tend to be large cap and may have global products or customers or they may be dominant firms within their local countries/regions. Because these are countries that are typically in the early development stages of economic growth, the returns in these countries are higher and more volatile on a year-to-year basis.

g) **Emerging Markets Value** – This portfolio contains value-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have lower price-to-book, higher dividend yields and lower earnings growth rates.

h) **Emerging Markets Growth** – This portfolio contains growth-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have higher price-to-book, lower dividend yields and higher earnings growth rates.

The benchmarks for the international equity portfolios may include the following indices:

Developed Markets Core (Passive)	MSCI World ex-U.S. Index
Developed Markets Core (Active)	MSCI EAFE Index
Developed Markets Value	MSCI EAFE Value Index
Developed Markets Growth	MSCI World ex-U.S. Growth Index
Non-U.S. Small Cap	MSCI EAFE Small Cap Index
Emerging Markets Core	MSCI Emerging Markets Free Index
Emerging Markets Value	MSCI Emerging Markets Value Index
Emerging Markets Growth	MSCI Emerging Markets Growth Index

General Non-U.S. equity guidelines for active managers include the following:

(1) Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts,

GDR's, ADRs, and equity securities of companies domiciled outside the U.S. including established and emerging countries.

(2) Managers will have discretion to hedge currencies of the countries in which their portfolio is invested to protect the value of the portfolio from currency risk. A manager’s hedge ratio may not exceed 100% of the portfolio’s value, at market, without obtaining prior approval from the Board.

(3) No securities shall be purchased on margin or sold short.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

B. **Fixed Income**

The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System’s investment assets. The fixed income portfolios will be managed on a total return basis, following specific investment styles and evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The fixed income holdings are comprised of the following mandates.

1. **Core Fixed Income** – This segment will provide core exposure to the U.S. fixed income market including Treasury and government agency bonds, corporate debt, mortgages, and asset-backed securities. The portfolio will be primarily comprised of issues with duration within 30% of the benchmark. Overall portfolio quality will be at least investment grade rated.

2. **Index Bonds** – This passive fixed income portfolio is intended to track the characteristics of the benchmark.

3. **Credit Opportunities**

   The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

   a) Real return above inflation of between 3% and 5%;
   b) Diversification versus LACERS’ two main asset classes: equities and bonds; and,
   c) Income

The target allocation to Credit Opportunities is 5% with flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within or + 2% of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The credit opportunities investment program can be comprised of both public and private credit opportunities strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' credit opportunities investment program:

a) **U.S and Non-U.S. High Yield Bonds** – Below investment grade (i.e., <BBB/Baa) rated bonds issued by public corporations with a perceived higher risk of default. Investors in these securities hope to benefit from spread tightening relative to investment grade bonds and from their higher overall yields, i.e., income.

b) **Emerging Markets Debt (Local, Hard, Sovereign and Corporate)** – Debt issued by the governments ("sovereign") of developing, or emerging, countries. Additionally, debt issued by corporations domiciled within emerging markets countries can be investment grade or below investment grade rated debt. Also can be issued in a foreign external, or "hard", currency (e.g., U.S. dollars, Euros, etc.) or in the country's local currency. Investors in these securities hope to benefit from spread tightening relative to investment grade and/or domestic bonds and from their higher overall yields.

c) **Leveraged Loans** – Loans extended to high yield (i.e., below investment grade) or levered borrowers, generally by banks or other financial institutions. The loans are *not* levered – the borrowers are. Hence, there is a perceived higher risk of default. Leveraged loans tend to have short maturities and are higher in the capital structure than regular debt of the company. Investors in these securities hope to achieve higher than investment grade bond returns due to their higher yields.

d) **Distressed Debt** – Debt of issuers that 1) are sufficiently financially impaired where there is a high risk of default or bankruptcy, 2) have already defaulted on financial obligations, or 3) have entered into bankruptcy proceedings. Investors in these securities hope to achieve high returns through financial or other restructuring at the issuing company.

e) **Opportunistic or Special Debt Situations** – Debt which may not fit within the preceding categories that may offer a unique investment opportunity due to broader economic or financial conditions.

The primary return objective for the LACERS' Credit Opportunities program is to outperform a custom weighted benchmark of 65% Barclays Capital U.S. High Yield Capped Index plus 35% J.P. Morgan Emerging Markets Bond Index – Global Diversified ("EMBI—GD") by 50 basis points net of fees over a market cycle. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Credit Opportunities on the LACERS Total Fund. Returns will be calculated after management fees.

The benchmarks for the various fixed income portfolios may include the following indices:

Core Fixed Income	BC Aggregate Bond Index
Intermediate Fixed Income	BC U.S. Govt/Credit Intermediate Bond Index
High Yield Bonds	BC U.S. High Yield 2% Capped Index
Emerging Market Debt	J.P. Morgan EMBI Global Diversified Index

General fixed income guidelines include the following:

a) **Core Fixed Income**

(1) The total portfolio's average rating will be A or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.

(4) No securities shall be purchased on margin or sold short.

b) **Credit Opportunities**

High Yield Bonds

(1) The total portfolio's average rating will be B or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and investment grade bonds are permitted.

(4) No securities shall be purchased on margin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, distressed debt, and special situations funds. The Private Equity Investment Policy is within Section X of this document.

D. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;
2. Inflation hedge;
3. Diversification versus LACERS' two main asset classes: equities and bonds; and,
4. Income

The target allocation to Real Assets is 10% with flexible rebalancing given the public/private composition of this asset class. Generally, the actual allocation will be kept within 30% (or $\pm$ 3%) of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The real assets investment program will be comprised of both public and private real asset strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' real assets investment program:

1. **Private Real Estate** – This portfolio is expected to provide portfolio diversification and increase returns due to real estate's low correlation with the returns from equities and fixed income. The Private Real Estate Investment Policy is included in Section XI of this document.
2. **Public Real Estate "REITS"** – Publicly traded companies that trade on major stock exchanges and invest directly in real estate either through properties or mortgages. A distinguishing characteristic of this investment strategy versus private real estate is the improved liquidity and yield orientation.
3. **Treasury Inflation Protection Securities ("TIPS") or Global Inflation-Linked Bonds** – Securities where the principal value adjusts to reflect changes in the U.S. CPI or other sovereign-linked inflation measures upward or downward, but never below the original face amount at maturity. Semi-annual coupon payments are based upon the bond's adjusted principal which provides a direct inflation link.
4. **Commodities/Natural Resources** – Financial instruments, such as individual stocks, stock baskets or futures which represent companies or markets where the prices are directly linked to the ownership or trading of physical commodities/natural resources or companies whose primary source of revenues are tied directly or indirectly to the management, ownership or trading of physical commodities/natural resources. Commodities/natural resources are raw materials which are inputs to the production of goods and services. Thus, changes in commodities/natural resources prices typically

lead inflation. Higher commodities/natural resources prices lead to increased prices goods and services, hence, a directly link to inflation.

5. **Timber/Farmland** – These are a hybrid investment strategy in that similar to commodities, they provide final and raw material in the production of goods and services and will tend to lead inflation. However, as private investments, they are similar to private real estate in that a potential increase in property value exists due to changes in supply and demand factors that influence inflation.
6. **Master Limited Partnerships ("MLPs")** – An MLP is a publicly traded partnership that combines individual limited partnerships into one entity to make the ownership interests more marketable with a general partner operating the business. MLPs are high income assets that should provide a consistent yield in between REITS and High Yield Bonds. As equities, they are also expected to earn returns commensurate with traditional public equities. An MLP is a pass-through entity that is taxed at the unit holder (i.e., share holder) level and not subject to tax at the partnership level. However, tax exempt investors may produce Unrelated Business Taxable Income ("UBTI"), which means tax-exempt investors engaged in a 'business' outside of the purpose for their exemption may be subject to UBTI. The businesses of MLPs are related to the extraction, production, and distribution of natural resources or energy infrastructure.
7. **Infrastructure** – Private markets investments in essential physical infrastructure such as toll roads, bridges, airports and utilities accessed by most citizens and designed to provide a steady income stream via tolls, leases, etc. Income stream is periodically adjusted by owners and inflation escalation provisions are often "built in" to provide a direct link to inflation. Capital appreciation also directly linked to primary economic drivers such as inflation.
8. **Oil and Gas Limited Partnerships** – Private markets investments in limited partnerships which have the objective of exploring/develop/market oil/gas sources. Returns are primarily driven by an income stream as well as from profits earned at the end of the partnership. However, returns are influenced by rate at which oil and gas flow from source. Thus, this is considered a highly risky, speculative investment strategy.
9. **Multi-Asset Real Asset/Return Strategies** – Bundled public markets or combination private/public markets real assets and/or real return strategies where the investment objective is to provide a real return above inflation over a market cycle. The investment manager has the discretion to select the combination of real asset strategies and to establish the exposure to each respective real asset strategy.

The primary return objective for the LACERS' Real Assets program is to outperform the U.S. Consumer Price Index ("CPI") plus 5% over multiple market cycles and to outperform a secondary custom benchmark comprised of the weighted average of the underlying strategy benchmarks over a full market cycle, with appropriate consideration of risk. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Real Assets on the LACERS Total Fund. Returns will be calculated after management fees.

Section 1 INVESTMENT POLICY

The benchmarks for the various real assets portfolios may include the following indices:

Private Real Estate	NFI-ODCE Index + 80 basis points
Public Real Estate "REITS"	FTSE NAREIT All Equity Index
U.S. TIPS	BC U.S. TIPS Index
Commodities	Bloomberg Commodity Index

General real assets guidelines include the following:

a) **Private Real Estate** (see Private Real Estate Policy within Section XI of this document)

b) **Public Real Estate**

(1) At least 90% of the portfolio investments must be invested in REITS.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) For prudent diversification of the portfolio, the maximum amount that can be invested in any one issue shall be the greater of 7.5% of the portfolio or 125% of the index weight.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 3%. In total, out of benchmark securities shall not exceed 10% of the portfolio market value at time of purchase.

(5) At no time shall the Account own more than 5% of the outstanding voting securities of any one issuer. No issue shall be purchased in the portfolio if more than 15% of the outstanding voting shares of the company are held by LaSalle in the total of all its accounts. All debt and all preferred stock of an issuer are each considered a single class for this purpose.

(6) No more than 50% in any one property type, including Regional Malls, Strip Shopping Centers, Apartments, Offices, Industrial, Healthcare, Manufactured Homes, Factory Outlets, and Other.

(7) No more than 40% in any one geographic region, including Northeast, Mideast, Southeast, Southwest, East North Central, West North Central, Pacific, and Mountain.

c) **Treasury Inflation-Protected Securities ("TIPS")**

(1) The total portfolio's average rating will be AAA by Moody's or Standard & Poor's.

(2) At least 80% of the portfolio investments must be invested in TIPS.

(3) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(4) The maximum effective duration shall be no more than 120% of the benchmark duration.

(5) The maximum asset allocation to a single security shall not exceed 200% of the benchmark weighting.

(6) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

(7) Securities of emerging market country (countries as defined by the J.P. Morgan EMBI Global Diversified Index) issuers are limited to a maximum of 5% of the portfolio market value.

d) **Commodities**

(1) At least 80% of the portfolio investments must be invested in publicly traded commodities.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) The maximum asset allocation to a single security shall not exceed 5%.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

VII. MANAGER SEARCH AND SELECTION POLICY

The purpose of the Manager Search and Selection Policy is to provide a comprehensive framework for the manager search and selection decision making process for the liquid market strategies. It specifically defines responsibilities and processes for the LACERS Board, Staff and General Fund Consultant.

A. Roles and Responsibilities

<table>
<tr><th>Role of Board</th><th>Role of Staff</th><th>Role of General Fund Consultant</th></tr>
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The Board is responsible for the authorization of the search for the investment manager(s).
The Board reviews and adopts the active and passive investment manager minimum qualifications based upon the written recommendation provided by the Staff and General Fund Consultant.
The Board reviews the semifinalist candidates as presented in the investment manager candidate evaluation report prepared by the Staff and General Fund Consultant.
Upon the completion of Staff’s due diligence, the Board interviews investment manager finalist candidates.
The Board authorizes the selection and hiring of investment manager(s).
The Board may delegate certain Board duties to the Investment Committee as described in the Investment Committee Charter.

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Staff, with input from the General Fund Consultant, recommends mandates for Board approval.
Staff is responsible for the implementation of the manager search and selection process.
Staff develops a written set of minimum qualifications. Unique criteria not specified in the pre-approved minimum qualifications list will require Board approval.
Upon Staff concurrence of the semi-finalists, Staff and the General Fund Consultant provides the Board a written investment manager candidate evaluation and comparison report which will summarize the methodology for developing the list of semi-finalist candidates from the Qualified Respondents.
Staff conducts due diligence on the semi-finalist firms as reviewed by the Board.
Based on the findings of the due diligence, Staff will present a list of suitable semi-finalist candidates as finalist candidate(s) for the Board to interview.

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The General Fund Consultant works with Staff to develop a manager search initiation recommendation.
The General Fund Consultant works with Staff on additional written minimum qualifications for Board approval as necessary.
The General Fund Consultant applies the System’s minimum qualifications and any additional Board-approved criteria in order to arrive at list of “Qualified Respondents” who pass the minimum qualifications.
The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to then review and conduct due diligence upon. The investment manager candidate evaluation process will utilize the Evaluation Criteria as summarized in Section VII.B and may be adjusted as necessary.

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Section 2 MANAGER SEARCH AND SELECTION POLICY

B. **Sequential Search and Selection Process**

1. Staff and General Fund Consultant recommend mandate(s) for approval by the Board.
2. The Board authorizes the search of specific mandate(s).
3. Staff and General Fund Consultant develop minimum qualifications for the search and will seek Board approval for unique minimum qualifications not specified in Section VII.C & Section VII.D.
4. The General Fund Consultant applies the minimum qualifications and any additional Board criteria to the Request for Proposal (RFP).
5. The General Fund Consultant develops a list of respondents that meet the minimum qualifications ("Qualified Respondents").
6. The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to review and approve.
7. Staff and General Fund Consultant provide for the Board's review an investment manager candidate evaluation and comparison report which summarizes the methodology for developing a list of semi-finalist candidates from the list of Qualified Respondents.
8. Staff conducts due diligence on the semi-finalist firms.
9. Based on the findings of the due diligence, Staff develops a suitable list of finalist candidate(s) for the Board to interview.
10. The Board interviews the investment manager finalist candidates.
11. The Board authorizes the selection and hiring of investment manager(s) based on the information presented in the interview and Staff's report.

C. **Evaluation Criteria**

Evaluation Criteria - Active		**Weighting**
Qualitative Assessment		70%
Organization/People	*30%*	
Investment Process	*40%*	
Risk Management	*30%*	
Quantitative Assessment[2]		20%
Expected Fees		10%

Evaluation Criteria - Passive		**Weighting**
Qualitative Assessment		10%
Organization/People	*50%*	
Product AUM	*50%*	
Tracking Error		40%
Expected Fees		50%

D. **Active Investment Management – Search and Selection Criteria**

Minimum qualifications will focus on the key characteristics required by the LACERS Board and Staff for a candidate firm to receive consideration for hire. The following minimum

[2]The quantitative assessment includes, but is not limited to, a skill test, information ratio, consistency means test and batting average.

qualifications will be applied for all active, liquid market strategy investment manager searches.

a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.

b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.

c) At least 60% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (12 of 20 quarters).

d) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 25% of the proposed product assets.

Staff and the General Fund Consultant submits revised and/or additional minimum qualifications for each active, liquid market investment manager search as deemed appropriate given the mandate and asset class.

E. **Passive Investment Management** – **Search and Selection Criteria**

The following minimum qualifications will be used for all passive investment manager searches

a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.

b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.

c) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 50% of the proposed product assets.

F. **Emerging Managers**

The recommendation by Staff and the General Fund Consultant to initiate a search will include the expected number of firms that may meet LACERS' investment management search minimum criteria segregated by emerging and non-emerging investment managers. Emerging managers, as defined by LACERS' Emerging Investment Manager Policy (within Section IX of this document), will be highlighted in the investment management candidate evaluation summary report to the Board.

VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

A. Purpose

The purpose of this policy is to:

1. provide a disciplined, methodical process for determining whether to retain or terminate managers of liquid markets strategies due to poor relative performance, organizational or personnel issues, or other factors which reduce LACERS' conviction in the manager/strategy;
2. establish general guidelines for monitoring the effectiveness of implementing the liquid markets investment strategies for which the investment managers are retained;
3. provide a detailed framework and criteria for placing a manager "On Watch" status;
4. provide a systematic, consistent, and objective framework for recommending or electing to retain or terminate a manager.

LACERS' objective is to determine the likelihood of future success of the strategy; therefore, it is important that retention/termination decisions focus on qualitative aspects of each manager's investment philosophy, strategy and process, as well as quantitative assessment of past and current performance.

It is also important to consider that each manager's situation is unique, and must be analyzed on an individual basis, taking into account any unique circumstances affecting the manager and its relationship with LACERS.

Liquid market strategies are strategies where the securities are publicly traded on daily priced exchanges or via the bond auction markets and which are housed within separate account portfolios, mutual funds, or commingled/collective funds with at least monthly liquidity. For investment managers that are not classified as liquid, mainly Private Equity and Real Estate, separate policies have been set up in Section X and XI, respectively.

B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

1. Investment performance relative to a specific benchmark and an appropriate peer group;
2. Investment risk relative to specific benchmark and an appropriate peer group;
3. Performance per unit of risk relative to specific benchmark and an appropriate peer group (information ratio);
4. Adherence to the investment manager's philosophy, process, and stated investment style/strategy;
5. Organizational and personnel continuity;

6. Compliance with Investment Manager Guidelines and Investment Policy.

LACERS' Staff and the General Fund Consultant will review and evaluate investment managers, quantitatively and qualitatively, using the following procedures:

1. Quarterly quantitative review of performance and risk relative to its specific benchmark and an appropriate peer group of active managers over various measurement periods (normally three to five years);
2. Quarterly review of portfolio characteristics, performance trends, style consistency, and risk expectations (standard deviation and tracking error);
3. Annual due diligence meeting at LACERS' office;
4. Every three years (generally) conduct due diligence meeting at the investment manager's office, unless significant organizational change warrants immediate evaluation;
5. More frequent, detailed and formal review of investment managers "On Watch" (see Section VIII.C below).

Following any evaluation, Staff and General Fund Consultant will determine whether the investment managers will be placed "On Watch" if it fails to meet two or more quantitative and/or qualitative factors as listed in Section VIII.E and VIII.F. However, in situations where there is organizational or personnel changes which directly impact the product in which LACERS is invested, no additional factors would be required to place the firm in "On Watch" status.

C. **Managers "On Watch"**

LACERS shall notify investment managers in writing of their status should they be placed "On Watch". Typically, "On Watch" status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period based on the progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

The Board is updated on a quarterly basis of all managers' performance, status, and "On Watch".

Managers "On Watch" will receive no additional funding from rebalancing, contributions or other sources. However, funds may be withdrawn for rebalancing or liquidity needs.

D. **Newly-Hired Managers**

Quantitative factors will be evaluated quarterly, but shall not cause a manager to be placed "On Watch" until three years or more after inception, unless the manager demonstrates performance that is materially inconsistent with expectations or experiences organizational issues.

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

E. Quantitative Factors

Factor	Trigger	Action
Annualized **net** performance relative to its benchmark for trailing **3-years**	Underperforms (net of fees) in 8 of 12 previous quarters	Place “On Watch” and notify manager
Annualized **net** performance relative to its benchmark for trailing **5-years**	Underperforms (net of fees)	Place “On Watch” and notify manager
Moving average tracking error (TE) for **3-years**	Greater than two standard deviations from ‘Since inception’ mean TE[3]	Place “On Watch” and notify manager
Moving average tracking error (TE) **for 5-years**	Greater than two standard deviations from ‘Since inception’ mean TE[4]	Place “On Watch” and notify manager
Moving average **net** Information Ratio for trailing **5-years**	Falls below 0.20.	Place “On Watch”, if fails another quantitative factor
PASSIVE MANDATES Annualized **net** performance relative to its benchmark for trailing **1-year**	Underperforms (net of fees) by more than 0.2%.	Place “On Watch” and notify manager
Annualized average tracking error (TE) for 1-year	Greater than 1%	Place “On Watch” and notify manager

[3] Or over at least a 5-year period using pre-hire data if inception less than five years.

[4] Or over at least a 10-year period using pre-hire data if inception less than ten years.

F. **Qualitative Factors**

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may result in placing the investment manager on the "On Watch" status or an immediate termination.

Criteria	Factor	Action
Organization	Change in firm ownership and/or structure	Place "On Watch", if determined that change might detrimentally affect performance and strategy
	Loss of one or several key personnel, specifically personnel on LACERS portfolio product	Place "On Watch", if determined the turnover will impair the firm's investment capabilities
	Significant loss of clients and/or assets under management	Place "On Watch", if there is a high client turnover and high volume of outflows
	Significant and persistent lack of responsiveness to LACERS requests	Place "On Watch", if service deterioration inhibits ability to monitor
	Regulatory agencies' investigation and/or material litigation	Place "On Watch", if nature, seriousness, and likely impact of charges on the firm and investment product warrant
Strategy and Risk Control	Deviation from stated investment philosophy, style and process	Place "On Watch" if deviation persists for more than 4 quarters. Terminate if no longer consistent with LACERS objective
	Risk management controls and procedures	Place "On Watch" for repeated guideline or policy violations

G. **Courses of Action**

After placing an investment manager "On Watch" status the following steps will be taken:

1. Staff will contact the investment manager and formally inform them of their status in writing. Notification shall indicate the reasons why the firm is "On Watch" and request the investment manager to explain and to provide plan of action to remove itself from "On Watch" status;

2. Staff and/or General Fund Consultant will meet with the investment manager, either in person or telephonically, following receipt of a written response from them;
3. Staff shall monitor the progress of the investment manager's implementation of the plan of action;
4. After the initial one year period, Staff and General Fund Consultant shall determine whether to remove the manager from "On Watch" status or continue the "On Watch" status. Staff may recommend a manager termination subject to the Board's approval.

If deemed necessary, the Board may request the investment manager to appear before the Board to explain the situation. Non-compliance with respect to the Board request shall be cause for an immediate termination recommendation by Staff to the Board.

H. **Halting of Trading Activity**

Investment managers may be required to halt trading activity by the Chief Investment Officer as soon as practicable due to unusual and significant operational risk factors that are deemed to have a material impact on the System; and, without immediate action taken by the Chief Investment officer, could result in material harm or impairment to LACERS' portfolio. Halting of the trading activity is subject to the concurrence of LACERS General Manager and General Fund Consultant. The Chief Investment Officer shall report the action(s) at the next scheduled Board meeting. Authorization to resume trading activity by the Chief Investment Officer requires the concurrence of LACERS General Manager and the General Fund Consultant.

I. **Termination**

The Board reserves the right to terminate an investment manager for any reason regardless of status. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board's portfolio, including holding restricted issues;
2. Failure to achieve performance objectives specified in the manager's guidelines;
3. Significant deviation from the manager's stated investment philosophy and/or process;
4. Loss of key personnel;
5. Evidence of illegal or unethical behavior by the investment management firm;
6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios;
7. Loss of confidence by the Board in the investment manager;
8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in a termination.

Upon the Board's approval of termination, Staff will notify the investment manager in writing of the termination process and the date on which to cease all trading based on operational needs. Staff will keep the Board informed of the termination progress.

All of LACERS investment management contracts under the Manager Monitoring Policy (Liquid Markets Strategies) allow LACERS to terminate the manager, with or without cause, after 30 days' written notice.

IX. EMERGING INVESTMENT MANAGER POLICY

A. Policy Objectives

The objective of this Emerging Investment Manager Policy ("Policy") is to identify investment firms with the potential to add value to the LACERS investment portfolio ("Fund") that would otherwise not be identified by the standard LACERS institutional investment manager search process. The Board believes that smaller investment management organizations may generate superior performance returns because of the increased market flexibility associated with smaller asset bases. The Policy provides criteria for LACERS to identify appropriate investment management organizations in their early business stages.

Consistent with the Board's fiduciary responsibility, the goal of this Policy is to locate and fund emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk. LACERS may consider an emerging investment manager mandate as part of any investment manager search undertaken by the Board, after Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate.

The Board recognizes that emerging investment managers may not possess the organizational depth and resources of larger investment management firms, and may represent a greater business risk. The Board also recognizes that prudent management of the System requires that emerging investment managers, once retained, will manage significantly smaller amounts of LACERS' assets than larger investment management firms. Each of these issues will result in greater oversight and administrative responsibilities for LACERS' staff, and will consequently be part of the evaluation whenever emerging investment managers are being considered for inclusion in a manager search.

Managers hired pursuant to this Emerging Investment Manager Policy will be held accountable to the same performance, reporting, and retention standards as all other LACERS investment managers within the same asset class.

B. Emerging Investment Manager Goals

Public Markets: The Emerging Investment Manager aspirational policy goal for public market asset classes is 10%. Two metrics will be calculated at least annually to compare actual results versus the goal: 1) Asset Class Metric: total market value of all emerging investment managers accounts within a respective public market asset class divided by total market value of the respective public market asset class; and 2) Manager Search Metric: total dollars approved for contract with an Emerging Manager(s) divided by the total dollars approved for funding the respective investment manager search.

Private Markets: The Emerging Investment Manager aspirational policy goal for private market asset classes is 10%. Two metrics will be calculated at least annually to compare actual results versus the goal: 1) Asset Class Metric: total dollar commitments of all emerging investment manager partnerships within a respective asset class divided by the total dollar market value of the respective asset class; and 2) Manager Search Metric: total dollar commitments provided to Emerging Managers within a specific private market asset class divided by the total dollar value of all investment commitments in the same private market asset class over rolling 36-month periods.

C. **Emerging Investment Manager Minimum Criteria**

The following minimum criteria for firms to qualify as LACERS Emerging Investment Manager status under this Policy are as follows:

1. Public Market Asset Classes – *U.S. Equities, Non-US Equities, Core Fixed Income*

    a) The firm will have no more than $2 billion in total firm assets under management at the time of hire.

    b) The firm must have a minimum of $50 million assets under management in the strategy being considered.

    c) The firm must have been in existence for a minimum of one year.

    d) The portfolio manager must have a minimum of five years of verifiable experience managing the strategy being considered. The experience must include a GIPS-compliant performance track history attributable to the portfolio manager for the most recent 36-month period of the five-year verifiable experience requirement.

    e) No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

    f) At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Real Assets (not including Real Estate), Credit Opportunities*

    a) The General Partner will have no more than $500 million in firm-wide assets plus unfunded commitments at the time LACERS makes its commitment.

    b) First- or second-time institutional fund for a General Partner.

    c) The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.*

    d) The firm must have been in existence for a minimum of one year.

    e) The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

f) No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

g) No Limited Partner can represent more than 30% of the total Fund's* capital.

h) LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $20 million, whichever is lower.

**Excludes co-investments or sidecar investment vehicles.*

3. Private Market Asset Class – *Private Real Estate*

a) The General Partner will have no more than $500 million in firm-wide assets plus unfunded commitments at the time LACERS makes its commitment.

b) First- or second-time institutional fund for a given General Partner.

c) The Fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment.*

d) The firm must have been in existence for a minimum of one year.

e) The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

f) No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

g) No client can represent more than 30% of the total Fund's* capital.

h) LACERS commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $20 million, whichever is lower.

**Excludes co-investments or sidecar investments.*

D. **Provisions for Post-Emerging Firms**

1. Public Markets

LACERS expects that successful emerging investment management firms will grow beyond the maximum $2 billion in assets under management. An emerging investment manager firm under contract to LACERS that successfully grows its assets under management and meets the minimum investment manager search criteria may be considered for a larger-sized mandate subject to (at minimum) meeting the Manager Search and Selection Criteria provided in the LACERS Manager Search and Selection Policy (Section VII of this document).

2. Private Markets

LACERS expects that successful emerging investment management firms will grow beyond raising first- and second-time partnership funds. Opportunities for participating in subsequent funds may be considered provided that the strategy meets the criteria of

LACERS’ Private Equity Investment Policy, Private Real Estate Investment Policy, Credit Opportunities Strategy Statement, or another asset class policy unique to a respective private markets mandate.

E. **Reporting**

Staff will report to the Board on the status of Emerging Investment Managers hired and retained on an annual calendar year basis. The annual report will include:

1. Names of Emerging Investment Manager firms hired during the calendar year.
2. Dollar amounts awarded to Emerging Managers.
3. Report of Emerging Investment Manager Goals Metrics pursuant to Section IX.B of this Policy.
4. List of all investment manager searches.
5. Staff and consultant efforts to increase the visibility of LACERS Emerging Investment Manager searches and Emerging Investment Manager representation within the total Fund portfolio.
6. Individual manager performance.

X. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

This Private Equity Investment Policy ("Private Equity Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), venture capital partnerships, co-investments, secondaries, and other privately structured investments with like return and risk characteristics of private equity.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private equity portfolio ("Private Equity Portfolio") is 300 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to reduce risks that are not compensated adequately for by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Equity Consultant is engaged by LACERS to select new investments, monitor existing investments, and provide advice in accordance with the Private Equity Policy. This Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff ("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected private equity related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Equity Consultant has discretion to buy, sell, or otherwise effect investment transactions pursuant to the roles and responsibilities defined in Section X.F, for all new partnerships up to and including $25 million and for all follow-on partnerships up to and including $40 million. Recommendations that exceed those amounts must be presented by the Private Equity Consultant to Staff for review and evaluation, and to the Board for approval. Non-U.S. dollar commitments to private equity shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. Non-U.S. dollar commitments to private equity may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in top tier limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows:

a) Private equity partnerships – including corporate finance/buyout, special situations, and venture capital. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage "generalist" partnerships;

b) Co-investments – direct investments made alongside a partnership;

c) Direct secondary purchases – purchases of an existing partnership interest or pool of partnership interests from an investor;

d) Other privately structured investments that are deemed appropriate within LACERS' risk profile that may include direct investments.

2. **Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 20% of that partnership's total commitments without the Board's approval.

3. **Diversification**

The Private Equity Consultant, on behalf of LACERS, will diversify the following sources of risk in the Private Equity Portfolio.

a) Partnerships

(1) No more than 15% of the Private Equity Portfolio's total exposure (market value plus unfunded commitments) to private equity may be attributable to partnerships by the same manager at the time the commitment is made.

(2) The Private Equity Consultant shall diversify the Portfolio across vintage years when possible.

(3) The geographic distribution of investments shall be monitored for diversification by the Private Equity Consultant.

The Private Equity Consultant shall monitor investments with respect to industry. In the event that the current cost-basis associated with a single industry exceeds 25% of the cost basis of the Private Equity Portfolio, the Private Equity Consultant shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry in question and with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.

b) Sub-asset Classes

(1) Assets committed to venture capital shall be diversified across the stages of venture capital (e.g., early-stage, mid-stage, late-stage, and growth equity).

(2) Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g., mega, large, mid, and small).

In addition to the diversification criteria listed above, LACERS' Board along with the Private Equity Consultant will adopt optimal sub-asset allocation targets, which will be updated periodically to reflect general changes in the economy.

The current optimal sub-asset class allocation ranges and targets for LACERS' private equity investments are highlighted in the most recent Private Equity Annual Strategic Plan.

4. **Illiquidity**

Private equity investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the partnerships, at their discretion, sell investments and distribute proceeds.

5. **Distributions**

Staff is responsible for the final disposition of distributions from partnerships.

E. **Review of Investment Guidelines**

The Private Equity Consultant and Staff periodically will review investment guidelines as set forth in Section X.D (above) and recommend changes if necessary.

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $25 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $40 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $25 million for new partnerships, and up to $40 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $25 million in new partnerships, or over $40 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $25 million for new managers, or over $40 million in follow-on funds. • With staff concurrence, approve investment of up to $25 million for new partnerships, and up to $40 million in follow-on funds. • Provide investment analysis report for each new investment. • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments. • Execute amendments to agreements and consents.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

XI. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Marketing Cessation Policy and in the Third Party Marketing and Referrals Disclosure Policy, as amended from time to time by the Board, or as stated under applicable laws or regulations.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. **Real Estate**

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). As further set forth in this policy, LACERS also may invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case by case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. **Fiduciary Standards**

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. **Scope**

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describes the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

LACERS has engaged the Real Estate Consultant on a non-discretionary basis to assist the Board and Staff to implement and revise this policy when necessary. The Real Estate Consultant's duties and responsibilities, which are further defined in Section XI.H include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to Staff and the Board with respect to the Portfolio. The Real Estate Consultant shall conduct a review of this policy, in conjunction with the Board and Staff, at a minimum of once per year, and set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XI.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value add and core investments.

5. **Inflation-Hedge**

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The Real Estate Portfolio allocation percentage actually achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and control rights generally not available to commingled fund investors.
The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies generally define the three basic risk and return levels ranging from low to high risk associated with institutional real estate investments. These categories or strategies are referred to as core and core plus or non-core, as defined below.

a) **Core and Core Plus**

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 9% range (net of fees) with annual standard deviation near 8.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied. Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, high quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 10% to 14% range (net of fees). Value add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies (“REOCs”). Value add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 15% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk. Opportunistic investments typically have even greater appreciation potential than value add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XI.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts (“REITs”). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. **Manager/Investment Concentration**

LACERS shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

a) **Maximum Manager Allocation**

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) **Maximum Investment Commitment**

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) **Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $150 million in committed capital inclusive of LACERS pending commitment.

d) **Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. **Investment Processes And Procedures**

1. **Real Estate Manager Selection Process**

The following discussion describes the process by which LACERS selects Managers and investments.

a) **Universe of Potential Manager Candidates**

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will initiate a Manager search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's initial search criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.

b) **Minimum Manager Qualifications**

The Manager requirements include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) **Manager Candidate Summaries**

The Real Estate Consultant shall complete a brief summary of the Manager candidates, including descriptions of their meeting Manager criteria established by the Real Estate Consultant and the Staff relating to the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen these summaries and recommend the finalists for further due diligence to the Staff.

d) **Due Diligence**

After the Staff and the Real Estate Consultant select the finalists, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related factors. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

After completing the due diligence report, the Staff and Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties authorized by the Board.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant and the Staff, when available, will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings or in face-to-face or telephone meetings either at the Manager's or the Real Estate Consultant's offices.

Investment Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Quarterly Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

H. **Roles and Responsibilities**

The following duties have been established to manage the risks involved with investing in real estate. Set forth below is the delegation of the major roles and responsibilities of each participant:

1. **Duties of the Board**
    a) Establish the role of the real estate investment program in light of the total System objectives.
    b) Consider and act upon the allocation to real estate and approve any adjustments to the allocation which may from time to time be necessary.
    c) Review, consider, and act upon the Annual Real Estate Policy (objectives, policies and procedures) and the Annual Real Estate Strategic Plan for the real estate program.
    d) Interview, consider, and act upon the Staff recommendations for selection, retention and removal of the Managers and/or the Real Estate Consultant and the selection of Manager investments.
    e) Review the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan.

2. **Duties of the Staff**
    a) Update and communicate with the Board and Investment Managers on issues and matters of the Policy.
    b) Provide the Board with education and analysis that is independent from the Real Estate Consultant to the extent time and resources allow.
    c) Be familiar with the asset class and stay informed of developments in industry as they occur.
    d) Oversee the Real Estate Consultant's preparation of the Annual Real Estate Strategic Plan for the real estate program. Present and recommend, along with the Real Estate Consultant, the Real Estate Policy and Annual Real Estate Strategic Plan to the Board.
    e) Oversee and review the performance of the Real Estate Consultant and the Managers on a periodic basis and discuss findings with the Board.
    f) Bring any non-conforming items or significant issues to the attention of the Board.
    g) Document and monitor funding procedures.
    h) Complete any other activity as directed by the Board.
    i) Conduct or assist in conducting due diligence on prospective investment opportunities as LACERS' resources permit.

j) Prepare investment documentation with the Real Estate Consultant.

3. **Duties of the Manager**

a) Adhere to reporting and performance measurement standards and comply with generally accepted accounting principles ("GAAP") applied on a fair market value basis.

b) Execute and perform its duties under the terms of the investment vehicle documents.

c) Provide timely requests for capital contributions.

d) Provide quarterly financial statements, annual reports and other investment information requested by the Staff and/or the Real Estate Consultant.

e) Conduct annual meetings to discuss important developments regarding investment and management issues.

4. **Duties of the Real Estate Consultant**

LACERS engaged the Real Estate Consultant on a non-discretionary basis to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the real estate portfolio. The Real Estate Consultant's services to LACERS may include but are not limited to the following:

a) Report directly to the Board and Staff on matters of policy.

b) Bring any non-conforming items or significant issues to the attention of the Staff and the Board.

c) Complete due diligence on potential investments and preparation of the due diligence report.

d) Monitor the performance of the real estate portfolio and compliance with approved policy.

e) Prepare the Annual Real Estate Strategic Plan for the real estate program, in consultation with the Staff, and present the Annual Real Estate Strategic Plan to the Board for review.

f) Review proposed real estate investments and recommend prudent investments, structure and controls. Monitor investments and ventures through completion and disposition, including satisfaction of conditions to funding, partnership and financial issues.

g) Assist Staff with the review and preparation of documents related to new investments approved by the Board consistent with the Real Estate Consultant's recommendation.

h) Prepare reports on a periodic basis for the Board to evaluate investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan. The evaluation system shall provide such information as may be required by LACERS to understand and administer its investments.

i) Assist the Staff in the Annual Real Estate Strategic Plan portfolio review.

j) Provide Board and Staff with topical research and education on investment subjects that are relevant to LACERS.

k) Review the Real Estate Policy annually and notify LACERS if any revisions are needed thereto.

l) Monitor and report on risk.

m) Provide ongoing real estate education information and seminars to the Board.

5. **Duties of Legal Counsel**

The legal counsel selected by LACERS along with the Office of the Los Angeles City Attorney will represent LACERS and will review all real estate related documents and provide advice for special investment situations as needed.

XII. RISK MANAGEMENT POLICY

The Board implements its risk management policy by monitoring the portfolio's compliance through the adoption of investment policies, guidelines, and procedures. The Board establishes reasonable risk parameters to ensure prudence and care in the management of the System's assets, while allowing flexibility in capturing investment opportunities as they may occur.

A. Purpose

A successful investment process fully integrates practical risk management concepts into a comprehensive framework that applies to all parties that monitor or manage assets on behalf of the System, including the Board, General Fund Consultant, Staff, investment managers, and other third parties involved in the investment of System's assets. Investment risk management is essential to prudent investment of pension plan assets because it improves the likelihood that the System is adequately compensated for the risks taken, and helps to avoid unexpected and unintended investment risk.

The purpose of this Policy is to provide a comprehensive framework for the management of investment risk of the System's assets at the total System, asset class and individual manager level in support of the fiduciary obligations of the Board and consistent with governing principles and other policies of the System. It specifically defines responsibilities, objectives, processes, and risk measures pertinent to investment risks incurred when investing plan assets to meet or exceed stated pension goals and objectives.

This Policy is dynamic and expected to be updated periodically with LACERS plan objectives, technology, and regulatory and/or market environment changes.

B. Roles and Responsibilities

1. **Duties of the Board**
    a) The Board adopts and implements the long-term investment strategy through the System's asset allocation policy. This decision drives the long term performance, exposures, and risk of the System. The asset allocation decision provides the basis for monitoring strategic ("beta") investment risk.
    b) The Board is also responsible for the asset class structure decisions. This decision drives the long term excess performance and excess risk for each of the asset classes in which the System invests. The target asset class structure provides the basis for monitoring active ("alpha") investment risk.
2. **Duties of the Staff:**
    a) Staff monitors risks associated with the investment managers in accordance with the Manager Monitoring Policy described in Section VIII. Staff evaluates both qualitative and quantitative risk factors on a regular basis and conducts the due diligence in to the context of the total plan assets.
    b) Staff reviews the asset allocation as determined by the Board, on a daily basis and rebalances the portfolio according to the Rebalancing Policy in Section V.G.

c) Staff also reviews any variance from the manager's investment guidelines and notifies the manager to become compliant.

d) Staff reviews on a quarterly basis industry standard risk and return metrics of the System.

3. **Duties of the Consultant:**

a) The consultant provides quarterly performance and risk metrics for Staff's review.

b) The consultant, as described in the Asset Allocation Policy in Section IV., conducts an asset allocation study every three years, or as needed, with updated risk and return capital market expectations

c) The consultant is responsible for developing the data necessary for the risk budgets to aid in the decision making process for the Board.

The risk management processes and guidelines established below determine the amount of risk the Board may use to implement these key decisions. Consultant and Staff will establish monitoring standards and periodically update these standards as conditions warrant.

C. **Risk Guidelines**

System Level

The largest driver of the System's total risk and return comes from the strategic asset allocation as approved by the Board. The Board determines the appropriate asset allocation through an asset-liability analysis where the Board evaluates multiple decision factors in order to determine the optimal asset allocation policy. The decision factors include, but are not limited to, funding status of The System, distribution of expected returns, new cash flow and distribution of employer cost. As part of that decision making process, the Board evaluates several optimal portfolios with varying risk profiles and takes into account the actuarial discount rate assumption.

Asset Class Risk Budgets

The next greatest driver of the System's return and risk is the asset class structure. Asset class structure decisions involve determining which strategies will be included within the asset class, the allocations to these strategies, and setting the active versus passive exposure.

A "risk budget" represents the amount of active risk the Board is willing to assume for each asset class. The Board adopts a risk budgeting approach to construct, measure, and monitor asset classes that include active and passive strategies. The Board believes that this approach provides an objective and systematic yet flexible means of constructing asset classes in a way which will maximize the probability of meeting long term asset class objectives while managing the risk of its public markets asset classes in a proactive manner.

LACERS' Risk Budgeting Process

In order to arrive at the optimal risk budget objective for each asset class, the Board engages in an objective, disciplined process that will be uniformly applied to all asset classes that include active and passive strategies. This process involves a mean variance optimization approach which employs the following inputs for each strategy under consideration by the Board:

1. Expected excess return over the asset class benchmark
2. Expected excess risk over the asset class benchmark
3. Expected correlations between strategy excess returns
4. Constraints to ensure prudent exposures to strategies and risk factors

The objective of this mean variance optimization exercise is to arrive at an excess risk target (i.e., the risk budget) which maximizes the excess return desired by the Board. The risk budget reflects the amount of excess risk the Board is willing to take for that desired excess return.

<u>Expected Excess Return</u>
The expected excess return (i.e., “alpha”) is the excess return a strategy should produce over a market cycle net of fees. This excess return will be forward looking based upon the following criteria:

1. Market efficiency
2. Manager’s historical information ratio
3. Strategy characteristics
4. Peer universe historical excess return

<u>Expected Excess Risk</u>
The expected excess risk (i.e., “tracking error”) is the excess risk of a strategy as measured by standard deviation of the excess return. This excess risk assumption can be either forward looking or based upon historical actual excess risk as produced by the strategy under consideration versus the asset class benchmark. In order for historical excess risk to be employed in the risk budgeting process, the strategy must have at least 60 months of data points. If the strategy under consideration does not have 60 months of data points, then a forward looking expected excess risk assumption will be employed.

<u>Expected Excess Correlations</u>
Correlation is a measure of the degree to which asset class returns move together. In structuring asset classes, the Board seeks to avoid having too much exposure to common factor risks and to maximize the diversification potential of the strategies ultimately employed within the asset class. Expected excess correlations will be calculated using historical excess (versus the asset class benchmark) returns when available. If an insufficient excess return history exists (i.e., less than 60 months of data), then Consultant or Staff will employ their respective risk analytics to determine a reasonable excess correlation on a forward looking basis.

Section 7 RISK MANAGEMENT POLICY

Framework for Policy Implementation
The risk budgeting process outlined above will be conducted in conjunction with the Board's asset/liability valuation process. The frequency of this process will be at least every three years or sooner if warranted based upon changes in market conditions or benefits to plan participants. The Board may choose at that time to revise or retain its existing risk budget as a result of this process.

The risk budgeting process will also be conducted at any time a strategy or manager change is contemplated so that alternative strategies or managers can be evaluated in the context of the entire asset class structure to determine the impact on the Board's asset class risk budget. This will be done in order to objectively evaluate alternatives in a disciplined, holistic fashion. The Board may choose to revise its risk budget target as a result of this evaluation process. Additionally, the risk budgeting process will be conducted when actual excess risk has been outside of the target risk budget range for four rolling 60-month periods in order to determine whether strategy/manager allocations should be altered or replaced altogether.

D. **Measurement and Monitoring of LACERS Risk Guidelines**

The Board periodically monitors actual strategic and active asset class risks versus the Board's respective risk target and asset class risk budgets. The Board is provided periodic fund risk reports which are used to analyze, evaluate, and detail exposures and drivers of System's risks.

The focus of the Board's monitoring activity is rolling 60-month periods. The Consultant will measure and monitor strategic and active asset class expected risk and return on a quarterly basis, Staff will review the information, and report to the Board its findings, including the key drivers of risk and return, as part of the quarterly performance report.

XIII. GEOPOLITICAL RISK INVESTMENT POLICY

A. Introduction

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

B. LACERS Board's Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members come first, before any other duty.

The System is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Importantly, the System's ownership of securities in a corporation does not signify approval of all of a company's policies, products, or actions.

Investments shall not be selected or rejected based solely on geopolitical risk factors. Accordingly, a company's possible risky geopolitical conduct can only be taken into consideration if the conduct is deemed to demonstrate a negative effect on the investment performance of the company, and ultimately the System.

C. Process for Identifying and Mitigating Corporate Governance Geopolitical Risks to the LACERS Portfolio

1. The LACERS Staff will keep the Board apprised of geopolitical problems and issues, and take into account actions of other like prudent investors.
2. Once identified, the Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's Geopolitical Risk Factors on investment returns.
3. The Board will direct the Staff to solicit feedback from the investment managers holding the security exposed to geopolitical risk as well as conduct independent study to research the impact of the risk.

4. Upon the Board determination of a company's behavior presenting a potential investment loss to the System, the Board shall promptly direct the Staff to seek a change in the company's behavior.
5. Staff will engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.
6. After all reasonable efforts have been made to engage management constructively, the Board may determine whether it is prudent to hold such investments or whether it is prudent to sell such investments.
7. At such time, the System will work with the investment manager whose portfolio holds the investment, consultant(s) and fiduciary counsel to determine a prudent course of action.
8. Should the Board decide to take action to divest, Staff will communicate the decision to all of the System's investment managers to adhere to the Board's actions going forward.

D. **Geopolitical Risk Factors**

Respect for Human Rights • Judicial System • Arbitrary or Unlawful Deprivation of Life • Disappearance • Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment • Arbitrary Arrest, Detention, or Exile • Arbitrary Interference with Privacy, Family, Home, or Correspondence • Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts • Governmental Attitude Regarding International and Non-Governmental Investigation of Alleged Violations of Human Rights
Respect for Civil Liberties • Freedom of Speech and Press • Freedom of Peaceful Assembly and Association • Freedom of Religion • Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation • Civil Unions/Same Sex Marriage
Respect for Political Rights • The Right of Citizens to Change Their Government
Discrimination Based on Race, Sex, Sexual Orientation, Disability, Language, or Social Status • Women/Gender • Children • Persons With Disabilities • National/Racial/Ethnic Minorities • Indigenous People

Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

• Gender Identity • Age Discrimination
Worker Rights • The Right of Association • The Right to Organize and Bargain Collectively • Prohibition of Forced or Bonded Labor • Status of Child Labor Practices and Minimum Age for Employment • Acceptable Conditions of Work • Trafficking in Persons
Environmental • Air Quality • Water Quality • Climate Change • Land Protection
War/Conflicts/Acts of Terrorism • Internal/External Conflict • War • Acts of Terrorism • Party to International Conventions and Protocols

XIV. PROXY VOTING POLICY

A. Introduction

As good corporate governance practices are widely believed to increase shareholder value, public retirement systems across the country are becoming more active in encouraging good corporate governance practices among companies in which they own stock.

As such the core objectives of LACERS Proxy Policy are:

1. Manage proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing other assets.
2. Exercise proxy voting rights in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policy.
3. Provide a framework for voting shares responsibly and in a well-reasoned manner.
4. Align the interests of shareowners and corporate management to build long-term sustainable growth in shareholder value for the benefit of the System.

These primary objectives shall be considered whenever the Board and/or Corporate Governance Committee considers policy, reviews proxy voting issues, recommends corporate governance investment activities, or takes other corporate governance-related actions.

B. Statement of Purpose

The Board has formulated this policy to provide a guideline for proxy voting. This policy is set forth in the best interest of LACERS investment program to support sound corporate governance practices that maximize shareholder value.

All applications of this policy are executed by an outside proxy voting agent. The policy will be reviewed on a bi-annual basis. The proxy voting agent provides quarterly voting reports summarizing all votes cast during that time period. These reports are reviewed for compliance with the proxy voting policy.

Section 9 PROXY VOTING POLICY

1. BOARD OF DIRECTORS
Electing directors is the single most important stock ownership right that shareholders can exercise. Shareholders can promote healthy corporate governance practices and influence long-term shareholder value by electing directors who share shareholder views. In evaluating proxy items related to a company's board, director accountability, independence and competence are of prime importance to ensure that directors are fit for the role and best able to serve shareholders' interests.

No.	Issue	LACERS Position	Rationale
1.1	ELECTION OF DIRECTORS IN UNCONTESTED ELECTIONS	LACERS supports company management in principle VOTING AGENT'S DISCRETION	It is prudent to vote for the prescribed full slate of directors as long as the slate of directors will conduct themselves in the best interest of the shareholders. Director nominees should be evaluated based on accountability, responsiveness to shareholders, independence from company management, and competence and performance.
1.2	BOARD INDEPENDENCE	FOR	At a minimum, a majority of the board should consist of directors who are independent. Corporate boards should strive to obtain board composition made up of a substantial majority (at least two-thirds) of independent directors.[5]
1.3	MAJORITY THRESHOLD VOTING FOR THE ELECTION OF DIRECTORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee wins the seat. Under the majority vote standard, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board. In contested elections where there are more nominees than seats, a carve-out provision for plurality should exist.
1.4	SEPARATE CHAIR AND CEO	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A CEO who also heads a board is less accountable than one who must answer to an independent chairman as well as fellow directors. However, there could be times when it makes sense for one person to wear two hats. On balance, there appears to be more gained and less lost from separating the two jobs at major companies. The Board generally favors the separation of the chairman and CEO. However, the Board believes it may be in the best interests of a corporation and the shareholders to have one person fulfilling both positions in smaller companies.

[5] CalPERS. Global Principles of Accountable Corporate Governance. February 16, 2010. 8.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
1.5	LIMITING BOARD SIZE	FOR	Proposals that allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Shareholders should support management proposals to fix the size of the board at a specific number of directors, thereby preventing management (when facing a proxy contest) from increasing the size of the board without shareholder approval.[6]
1.6	COMMITTEE INDEPENDENCE	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	The key board committees – audit, compensation, and nominating committees – should be composed exclusively of independent directors if they currently do not meet that standard. The company's board (not the CEO) should appoint the committee chairs and members. Committees should be able to select their own service providers to assist them in decision making.
1.7	DIRECTOR QUALIFICATIONS AND RESTRICTIONS Requires directors to own a minimum amount of stock; impose tenure limits; establishing a minimum or maximum age requirement	AGAINST	Establishing a minimum amount of stock ownership could preclude very qualified candidates from sitting on the board. Tenure limits and age restrictions could force out experienced and knowledgeable board members.
1.8	LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS	CASE-BY-CASE VOTING AGENT'S DISCRETION	This indemnifies corporate officers and directors against personal liability suits as a result of their official status. This indemnification is necessary to attract and keep the best-qualified individuals. However, officers' and directors' liability should not be limited or fully indemnified for acts that are serious violations of fiduciary obligations such as gross negligence or intentional misconduct.
1.9	OBLIGATION OF BOARDS TO ACT ON SHAREHOLDER PROPOSALS RECEIVING MAJORITY SUPPORT To ensure that the voices of the owners of the firm are heard.	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Boards are responsible for ensuring that the voices of the owners of the firm are heard. If the majority of shareholders have indicated they desire a particular governance change, the board should support the proposal in question.
1.10	DIRECTOR REMOVAL BY SHAREHOLDERS	FOR	Shareholders should have the right to remove directors or fill director vacancies. Lack of such a policy could allow management to protect themselves from various shareholder initiatives.

[6] LACERA. Domestic Proxy Voting Guidelines. April 22, 2009. 21.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
1.11	SHAREHOLDER ADVISORY COMMITTEES	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	It is often difficult for directors to communicate to and hear from shareholders, because shareholders tend to be numerous, unidentified, dispersed, and silent. This proposal establishes committees of shareholders to make communication easier and more effective. However, establishment of such committees can be time consuming and expensive. The Board prefers the establishment of such committees where there is no other available mechanism to communicate with the company boards.
1.12	PROXY CONTESTS	CASE-BY-CASE VOTING AGENT'S DISCRETION	A proxy contest is a strategy that involves using shareholders' proxy votes to replace the existing members of a company's board of directors. By removing existing board members, the person or company launching the proxy contest can establish a new board of directors that is better aligned with their objectives. Proxy contests should be examined on a case-by-case basis considering factors such as the company's performance relative to peers, strategy of incumbents vs. dissidents, experience of director candidates, current management's track record, etc.
1.13	REIMBURSEMENT OF PROXY SOLICITATION EXPENSES	CASE-BY-CASE VOTING AGENT'S DISCRETION	Most expenditures incurred by incumbents in a proxy contest are paid by the company. In contrast, dissidents are generally reimbursed only for proxy solicitation expenses, if they gain control of the company. Dissidents who have only gained partial representation may also be reimbursed in cases where the board and a majority of shareholders approve. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation.

2. AUDIT-RELATED

Shareholders must rely on company-produced financial statements to assess company performance and the values of their investments. External auditors play an important role by certifying the integrity of these financial reports provided to shareholders. To ensure that an external auditor is acting in shareholders' best interest, the auditor must be independent, objective, and free of potential conflicts of interest.

No.	Issue	LACERS Position	Rationale
2.1	RATIFYING AUDITORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	The Board generally supports a company's choice of audit firms unless an auditor has a financial interest in or association with the company and is therefore not independent; there is reason to believe that the independent auditor has rendered an inaccurate opinion of the company's financial position; or fees are excessive as defined by ISS (Non-audit fee > audit fees + audit related fees + tax compliance/preparation fees).
2.2	LIMITING NON-AUDIT SERVICES BY AUDITORS	FOR	Auditor independence may be impaired if an auditor provides both audit-related and non-audit related services to a company and generates significant revenue from these non-audit services. The Board believes that a company should have policies in place to limit non-audit services and prevent conflicts of interest.
2.3	ROTATION OF AUDITORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A long-standing relationship between a company and an audit firm may compromise auditor independence for various reasons including an auditor's closeness to client management, lack of attention to detail due to staleness and redundancy, and eagerness to please the client.[7] Enron and Anderson is a prime example of this situation. The Board believes it may be prudent to rotate auditors every 5 to 7 years.
2.4	ELECTION OF THE AUDIT COMMITTEE Section 404 of the Sarbanes-Oxley Act requires that companies document and assess the effectiveness of their internal controls. The Audit Committee should be comprised of the independent directors	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Companies with significant material weaknesses identified in the Section 404 disclosures potentially have ineffective internal financial reporting controls, which may lead to inaccurate financial statements, hampering shareholder's ability to make informed investment decisions, and may lead to the destruction in public confidence and shareholder value. The Audit Committee is ultimately responsible for the integrity and reliability of the company's financial information, and its system of internal controls, and should be held accountable.

[7] Arel, Barbara, Brody, Richard G. & Pany, Kurt. "Audit Firm Rotation and Audit Quality."The CPA Journal (January 2005). November 12, 2010.

3. COMPENSATION

The Board endorses executive compensation plans that align management and shareholders' interest. Executive pay programs should be fair, competitive, reasonable, and appropriate. Pay-for-performance plans should be a central tenet of executive compensation and plans should be designed with the intent of increasing long-term shareholder value. Executives should not be incentivized to take excessive risks that could threaten long-term corporate viability and shareholder value.

No.	Issue	LACERS Position	Rationale
3.1	EXECUTIVE COMPENSATION APPROVED BY THE BOARD OF DIRECTORS	FOR	While some corporations allow compensation issues to be left to management, it is more prudent to have a compensation committee, composed of independent directors, approve, on an annual basis, executive compensation, including the right to receive any bonus, severance or other extraordinary payment. If a company does not have a compensation committee, then executive compensation should be approved by a majority vote of independent directors. The Board normally prefers to support the company's recommendation of executive compensation issues.
3.2	INDEPENDENT COMPENSATION CONSULTANT	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A company's board and/or compensation committee should have the power to hire an independent consultant – separate from the compensation consultants working with corporate management – to assist with executive compensation issues to avoid conflicts of interest. Disclosure should be provided about the company's, board's, and/or compensation committee's use of compensation consultants, such as company name, business relationship(s) and fees paid.
3.3	PAY FOR PERFORMANCE	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A significant portion of an executive's pay should be tied to performance over time through the use of short and long-term performance-based incentives to align management and shareholders' interests. From a shareholders' perspective, performance is gauged by the company's stock performance over time. The attainment of executives' incentive goals should ultimately translate into superior shareholder returns in the long-term. Standard stock options and time-vested restricted stock are not considered performance-based since general market volatility alone can increase their value.
3.4	ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – SHAREHOLDER PROPOSALS	FOR	A non-binding "say on pay" vote would encourage the board's compensation committee to be more careful about doling out unduly rich rewards that promote excessive risk-taking. It also would be a quick and effective way for a board to gauge whether shareowners think the company's compensation practices are in their best interests.[8]
No.	Issue	LACERS Position	Rationale

[8] "Executive Compensation." Council of Institutional Investors. 2008. November 12, 2010.

3.5	ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – MANAGEMENT PROPOSALS	CASE-BY-CASE VOTING AGENT'S DISCRETION	The advent of "say on pay" votes for shareholders in the U.S. is providing a new communication mechanism and impetus for constructive engagement between shareholders and managers/directors on pay issues. In general, the management say on pay (MSOP) ballot item is the primary focus of voting on executive pay practices -- dissatisfaction with compensation practices can be expressed by voting against MSOP rather than withholding or voting against the compensation committee.[9]
3.6	SAY ON PAY BALLOT FREQUENCY	FOR	The Board supports an annual MSOP for many of the same reasons it supports annual director elections rather than a classified board structure: because it provides the highest level of accountability and direct communication by enabling the MSOP vote to correspond to the information presented in the accompanying proxy statement for the annual shareholders' meeting. Having MSOP votes only every two or three years, potentially covering all actions occurring between the votes, would make it difficult to create meaningful and coherent communication that the votes are intended to provide.
3.7	STOCK OPTION PLANS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Stock options align the interests of management with the interests of shareholders. The Board prefers that options should be issued at or above fair market value. There should be no re-pricing of underwater options (stock options with little or no value due to poor performance), nor should there be a replenishment feature (automatic increases in the shares available for grant each year). Management must monitor the amount of dilution that stock options create. The total cost of the stock option plan should be reasonable relative to peer companies. The Board normally supports the use of stock options as a part of executive and management compensation.
3.8	HOLDING PERIOD FOR EQUITY COMPENSATION AWARDS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Executives should be required to hold a substantial portion of their equity awards, including shares received from option exercises, while they are employed at a company or even into retirement. Equity compensation awards are intended to align management interests with those of shareholders, and allowing executives to sell or hedge these shares while they are employees of the company undermines this purpose.[10]
3.9	EXCLUDING PENSION FUND INCOME	FOR	Earnings generated by a pension plan should not be included for executive compensation purposes.

[9] Institutional Shareholder Services. 2010 U.S. Proxy Voting Guidelines Summary. February 25, 2010. 38.
[10] Institutional Shareholder Services. 2010 Public Fund U.S. Proxy Voting Guidelines. 25.

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No.	Issue	LACERS Position	Rationale
3.10	CLAWBACK OF INCENTIVE PAY	FOR	A company should recoup incentive payments made to executives and former executives if it is determined that the incentives were calculated from erroneous data, such as fraudulent or misstated financial results, and these incentive payments would not have been earned if correctly calculated.
3.11	GOLDEN PARACHUTES Golden parachutes are compensation arrangements that pay corporate managers after they leave their positions.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Golden parachutes can have a number of positive results: they can reduce management resistance to change, they help attract and retain competent talent, and they provide appropriate severance. Excessive golden parachutes not offered to other employees can damage their morale and can have a dilutive effect on shareholder wealth. A general rule is that the parachute should not exceed three times base salary. The Board is opposed to the payment of excessive executive compensation. Therefore, golden parachute agreements should be submitted to shareholders for ratification.
3.12	CHANGE OF CONTROL TRIGGERING UNJUSTIFIED ACCRUAL OF BENEFITS	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	A change of control event should not result in an acceleration of vesting of all unvested stock options or lapsing of vesting/performance requirements on restricted stock/performance shares, unless there is a loss of employment or substantial change in job duties for an executive.
3.13	GOLDEN COFFINS	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Golden coffins are death-benefit packages awarded to the heirs of high ranking executives who die during employment with a company. Benefits awarded can include, but are not limited to, unearned salary and bonuses, accelerated stock options and perquisites. The Board is against excessive executive compensation, but recognizes that offering golden coffin benefits may be necessary to attract top talent.
3.14	SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS)	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	SERPs are executive-only retirement plans designed as a supplement to employee-wide plans. These plans may be structured to contain special provisions not offered in employee-wide plans such as above market interest rates and excess service credits. Incentive compensation may also be used in calculating retirement benefits, resulting in better benefit formulas than employee-wide plans and increased costs to the company. The Board supports SERPs if these plans do not contain excessive benefits beyond what is offered under employee-wide plans.
3.15	PROPOSALS TO LIMIT EXECUTIVE COMPENSATION OR OTHER BENEFITS	AGAINST	Executive pay should not have a blanket limit such as being capped at a specified multiple of other workers' pay. There should not be an absolute limit to retirement benefits, nor a mandate that stipulates that there be salary reductions based on corporate performance.

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No.	Issue	LACERS Position	Rationale
3.16	DIRECTOR COMPENSATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	This is normally automatically approved unless the program is exceptional or abusive. Directors should be compensated with a mix of cash and stock, with the majority, but not all, of the compensation in stock to align their interests with shareholders. There should be no blanket limits on directors' compensation, but pay should be commensurate with expected duties and experience. The Board normally prefers to support company management's decision. The Board prefers that compensation issues be decided by a majority vote of the independent directors.
3.17	NON-EMPLOYEE DIRECTOR RETIREMENT BENEFITS	AGAINST	Since non-employee directors are elected representatives of shareholders and not company employees, they should not be offered retirement benefits, such as defined benefit plans or deferred stock awards, nor should they be entitled to special post-retirement perquisites.[11]
3.18	DISCLOSURE OF EXECUTIVE COMPENSATION	FOR	The Board supports shareholder proposals seeking additional disclosure of executive compensation.
3.19	EMPLOYEE STOCK OWNERSHIP PROGRAMS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	On one hand, ESOPs have the potential for motivating and rewarding employees. On the other hand, there is concern about their use as management entrenchment devices and their potential dilutive effects on existing shareholder value. The Board believes that future purchasers must bear the same risk as current shareholders. Employee wealth obtained through stock ownership should be tied to shareholder value. The Board prefers no retroactive compensation. The Board supports the use of ESOPs.
3.20	401(K) EMPLOYEE BENEFIT PLANS	FOR	A 401(k) plan provides a highly visible benefit to employees that can be used to attract and retain quality personnel. The Board supports proposals to implement a 401(k) savings plan for employees.
3.21	OMNIBUS BUDGET RECONCILIATION ACT (OBRA) OF 1993 - RELATED COMPENSATION PROPOSALS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	IRS Section 162(m) of OBRA, prohibits a company from deducting more than $1 million of an executive's compensation for tax purposes unless certain prescribed actions are taken to link compensation to performance such as establishment of performance goals by a compensation committee of outside directors and shareholder approval of the compensation plan. The Board generally supports proposals to approve new compensation plans or amend existing compensation plans to comply with Section 162(m) if the company can obtain tax benefits and increase shareholder value, and the plans do not result in excessive executive compensation.

[11] Council of Institutional Investors. Corporate Governance Policies. 22.

4. SHAREHOLDER RIGHTS & TAKEOVER DEFENSES

Companies should feature shareholder rights in their corporate governance principles to allow shareholders the opportunity to participate directly in monitoring management. A 2003 study by the National Bureau of Economic Research found that "firms with weaker shareholder rights earned significantly lower returns, were valued lower, had poor operating performance, and engaged in greater capital expenditure and takeover activity."[12]

No.	Issue	LACERS Position	Rationale
4.1	ACCESS TO PROXY PROCESS	FOR	Access proposals allow shareholders who own a significant number of shares to access management's proxy material to evaluate and propose voting recommendations on proxy proposals and director nominees, and to nominate their own candidates to the board. These proposals are based on the belief that shareholder access rights provide for increased corporate accountability and healthy communication.
4.2	ADVANCE NOTICE REQUIREMENTS	LACERS supports this issue in principle. VOTING AGENT'S DISCRETION	Advance notice bylaws, holding requirements, disclosure rules and any other company imposed regulations on the ability of shareholders to solicit proxies beyond those required by law should not be so onerous as to deny sufficient time or otherwise make it impractical for shareholders to submit nominations or proposals and distribute supporting proxy materials.[13]
4.3	CLASSIFIED BOARDS AND STAGGERED BOARDS A structure for a board of directors in which a portion of the directors serve for different term lengths.	LACERS opposes this issue in principle. VOTING AGENT'S DISCRETION	Although shareholders need some form of protection from hostile takeover attempts, and boards need tools and leverage in order to negotiate effectively with potential acquirers, a classified board tips the balance of power too much toward incumbent management at the price of potentially ignoring shareholder interests.
4.4	CONFIDENTIAL VOTING A shareholder's voting position is kept confidential.	FOR	Shareholders over whom management have some power (for example, employee shareholders, money managers who stand to gain or lose company business, banks, insurance companies and companies with interlocking boards) may be deterred from voting against management if they know their votes will become known to management. Companies that can discover who is voting in which way prior to the meeting also have an advantage not enjoyed by any shareholder supporting or opposing any issue on the ballot, and in targeting those shareholders who vote against management and pressuring them to change their votes.

[12] Gompers, Paul, Ishii, Joy & Metrick, Andrew. 2003. "Corporate Governance and Equity Prices," The Quarterly Journal of Economics, MIT Press, vol. 118(1), pages 107-155, February.

[13] Council of Institutional Investors. Corporate Governance Policies. 8.

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No.	Issue	LACERS Position	Rationale
4.5	CUMULATIVE VOTING Allows each shareholder to take the voting rights he or she has with respect to director candidates and accumulates them to vote for only one director, or for a smaller number of directors.	FOR	Cumulative voting enhances shareholders' abilities to elect a single director or a small number of directors, thus increasing their ability to have a voice on the board even when they lack the voting power to affect change-in-control or other major decisions. Some fear that allowing cumulative voting can allow or encourage disruptive or predatory shareholders.
4.6	SHAREHOLDER'S RIGHT TO ACT INDEPENDENTLY OF MANAGEMENT -- CALLING SPECIAL MEETINGS AND ACTING BY WRITTEN CONSENT	FOR	These include giving shareholders the ability to call a special meeting of shareholders without management's consent, and the ability to act by written consent (saving the costs and difficulties of holding a meeting). Most corporations support the retention, restoration, or creation of these rights. Shareholders need realistic mechanisms to protect their interests in situations where their interests are not aligned with management interest.
4.7	SUPERMAJORITY PROVISIONS Voting majority that is higher than those set by state law.	AGAINST	Sets a level of approval for specified actions that is higher than the minimum set by state law. These requirements often exceed the level of shareholder participation at a meeting, making action that requires a supermajority all but impossible.
4.8	LINKED (BUNDLED) PROPOSALS Combining more than one proposal.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Linked proposals often include "sweeteners" to entice shareholders to vote for a proposal (that includes other items) that may not be in the shareholders' best interest. The Board normally opposes linked proposals where one or more of the linked proposals is in opposition to the Board's proxy position.
4.9	VOTES TO ABSTAIN MEANS A CASTED VOTE	FOR	Counting abstained votes in the total pool of all votes cast.
4.10	BROKER VOTING RESTRICTIONS	FOR	Broker non-votes and abstentions should be counted only for purposes of a quorum.
4.11	FAIR PRICING	FOR	Fair price provisions prevent two-tier tender offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest. It is unfair to pay some shareholders (those that did not tender in the first group) less than other shareholders.
4.12	GREEN MAIL Greenmail is the practice of shareholders accumulating a large block of stock in a company, then selling the stock back to the company at an above market price in exchange for agreeing not to attempt to take control for a lengthy period of time.	AGAINST	A vote of the holders of a majority of the outstanding shares of common stock, regardless of class, shall be required to approve any corporate decision related to the finances of a company which will have a material effect upon the financial position of the company and the position of the company's shareholders.

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No.	Issue	LACERS Position	Rationale
4.13	POISON PILLS A method used by boards, which prevent anyone from acquiring a large portion of the company stock for a corporate takeover.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Poison pills can consist of a wide variety of provisions adopted by boards without shareholder approval, designed to make it financially unattractive – indeed, often financially devastating – for a shareholder to purchase more than a small percentage of the company's stock, often by triggering the creation of a large number of new stocks or warrants that dilute the offending shareholder's interest to the point of making it virtually valueless. The Board is normally opposed to the use of poison pills.
4.14	NET OPERATING LOSS (NOL) POISON PILLS See 4.13 for poison pill definition.	CASE-BY-CASE VOTING AGENT'S DISCRETION	NOLs may be used to reduce future income tax payments and have become valuable assets to many corporations. If a corporation experiences an ownership change as defined by Section 382 of the tax code, then its ability to use a pre-change NOL in a post-change period could be substantially limited or delayed.[14] NOL pills are adopted as a takeover deterrent to preserve the tax benefit of NOLs.
4.15	POISON PILLS – ALLOW FOR SHAREHOLDER VOTE	FOR	Since poison pills ultimately impact the wealth of shareholders, the Board supports voting measures that allow for the shareholders to vote on matters pertaining to the use of poison pills.
4.16	RE-INCORPORATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Corporations may wish to reincorporate in another state to take advantage of favorable corporate law, while providing maximized shareholder values and operational flexibility. On the other hand, reincorporation laws of other states could be such as to limit shareholder rights or reduce shareholder wealth. The Board normally supports company management's decisions on re-incorporation matters.
4.17	STATE ANTI-TAKEOVER LAWS	CASE-BY-CASE VOTING AGENT'S DISCRETION	State anti-takeover laws seek to deter hostile takeover attempts of state-based corporations with the intent of keeping target companies locally based and preserving jobs. These laws may also complicate friendly mergers and impose great costs and delays on shareholders and stakeholders in the corporation. Most state anti-takeover provisions allow companies to "opt in" or "opt out" of coverage via shareholder vote.
4.18	TARGETED SHARE PLACEMENTS Placing stock in the hands of friendly investors	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Targeted share placements (or "White Squire" placements) occur when a company puts large blocks of stock or convertible securities into the hands of a friendly investor or group of investors. This is often an inexpensive method of raising cash for a company. The Board prefers that company management seeks authorization before establishing a targeted share placement but supports this corporate action.

[14] Nathan, Charles. "Recent Poison Pill Development and Trends." May 12, 2009. The Harvard Law School Forum on Corporate Governance and Financial Regulation.

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5. CAPITAL STRUCTURE

Corporate financing decisions can have a significant impact on shareholder value, particularly when these decisions may result in common share dilution. As a result, shareholders must analyze all management proposals to modify capital structure to determine whether these financing decisions are in their best interests.

No.	Issue	LACERS Position	Rationale
5.1	INCREASES IN THE NUMBER OF AUTHORIZED SHARES OF STOCK	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Companies need the flexibility of issuing additional shares for stock splits, stock dividends, financings, acquisitions, employee benefit plans and general corporate purposes. The Board prefers that increases should not exceed three times the number of existing outstanding shares and that the company specify a purpose for the proposed increase.
5.2	ONE SHARE, ONE VOTE Each share of common stock, regardless of its class, shall be entitled to vote in proportion to its relative share of the total common stock equity of the corporation.	FOR	The right to vote is inviolate and may not be abridged by any circumstances or by any action of any person. Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure are required.
5.3	PAR VALUE ADJUSTMENT OF COMMON STOCK	FOR	In extraordinary cases when a stock price falls below its par value, a company wishing to issue additional stock would be unable to do so without reducing par value. Companies may also propose reductions in par value to conform to state legislative changes in the required minimum level of par value.[15]
5.4	PREEMPTIVE RIGHTS Provides current stockholders an option to maintain their relative ownership position.	AGAINST	Preemptive rights require a company issuing new shares to offer them to their existing shareholders first, in proportion to their existing holdings. This gives current shareholders the ability to maintain their relative equity position as a shareholder. Preemptive rights generally have limited importance, given the increase in the size and liquidity of the secondary market and their potential for abuse.
5.5	DEBT RESTRUCTURING	CASE-BY-CASE VOTING AGENT'S DISCRETION	As part of a debt restructuring plan, a company may propose to increase and issue common and/or preferred shares. These proposals should be evaluated considering dilution to existing shareholders, potential changes in company control, the company's current financial position, terms of the offer, whether bankruptcy is imminent and alternatives.

[15] Institutional Shareholder Services. U.S. Proxy Voting Manual. 2006. November 12, 2010.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
5.6	CONVERSION OF SECURITIES	CASE-BY-CASE VOTING AGENT'S DISCRETION	Proposals to convert securities, such as converting preferred stock to common shares, should be evaluated based on the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.
5.7	SHARE REPURCHASES Corporations buy back a portion of the outstanding shares.	FOR	The Board normally favors of share repurchase plans if the company boards feel that the stock is undervalued or there is a legitimate corporate purpose.
5.8	REVERSE STOCK SPLITS	FOR	A reverse stock split reduces the number of shares owned and increases the share price proportionately. A reverse stock split has no effect on the value of what shareholders own. Companies often reverse split their stock when they believe the price of their stock is too low to attract investors to buy their stock or to avoid being delisted.[16] If the number of authorized shares is not proportionately reduced with a reverse stock split, then LACERS treats these proposals as a request to increase authorized shares.
5.9	BLANK CHECK PREFERRED STOCK Blank check preferred stock is authorized stock over which the board has complete discretion to set voting rights, dividend rates, and redemption and conversion privileges.	AGAINST	There is the potential for abusing this kind of stock by the board. Although some guidelines note that blank check preferred stock gives management great flexibility, and this might be valuable and in the corporate interest, in general it is felt that this kind of flexibility, free of shareholder control, is insufficient justification for the creation of this type of stock.

[16] “Reverse Stock Splits.” Securities and Exchange Commission. 2000. November 12, 2010. <http://www.sec.gov/answers/reversesplit.htm>.

6. CORPORATE RESTRUCTURINGS

Corporate restructurings, such as mergers and leveraged buyouts, can have a major effect on shareholder value. Many of these transactions require shareholder approval and must be examined carefully to determine whether they are in the best financial interests of the shareholders.

No.	Issue	LACERS Position	Rationale
6.1	ASSET SALES	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Asset sales should be evaluated based on the impact on the balance sheet/working capital, value received for the asset, and potential elimination of inefficiencies. The Board generally supports management decisions to sell assets.
6.2	GOING PRIVATE TRANSACTIONS (LEVERAGED BUYOUTS AND MINORITY SQUEEZEOUTS)	CASE-BY-CASE VOTING AGENT'S DISCRETION	Going private transactions such as leveraged buyouts and minority squeezeouts should be evaluated on a case-by-case basis taking into account the following: offer price and imbedded premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and the risk to shareholders if the attempt to take the company private fails.
6.3	LIQUIDATIONS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Liquidation proposals are generally bad news for long-term investors. They usually occur after a prolonged period of declines in earnings and share prices. However, liquidation may be an attractive option if the sale of the firm's assets on a piece-meal basis can be accomplished at a higher-than-market price. Liquidation proposals should be evaluated based on management's efforts to pursue other alternatives, appraised value of assets, the compensation plan for executives managing the liquidation, and the likelihood of bankruptcy if the liquidation proposal is not approved.[17]
6.4	MERGERS AND ACQUISITIONS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Case-by-case votes are recommended on mergers or acquisitions since the circumstances by which they arise are unique. The Board supports the company management's decision on mergers and acquisitions when such decision is based upon the findings of a thorough due diligence process and is in the best interest of the shareholders.
6.5	SPIN-OFFS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Corporations may seek to streamline their operations by spinning off less productive or unrelated subsidiary businesses. The spun-off companies are expected to be worth more as independent entities than as parts of a larger business. Spin-offs are evaluated case-by-case depending on the tax and regulatory advantages, planned use of sale proceeds, managerial incentives, valuation of spinoff, fairness opinion, benefits to the parent company, conflicts of interest, corporate governance changes, and changes in the capital structure.

[17] Institutional Shareholder Services. U.S. Proxy Voting Manual. 2006. November 12, 2010.

7. MISCELLANEOUS CORPORATE GOVERNANCE			
No.	**Issue**	**LACERS Position**	**Rationale**
7.1	ANNUAL MEETING DATE & LOCATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Mandatory rotation of the annual meeting would not significantly increase stockholders' access to management since there are convenient alternatives available to interested stockholders. It would decrease the company's flexibility without a material benefit to stockholders. The Board normally supports company management's decision on this issue.
7.2	CORPORATE NAME CHANGE	FOR	A company may seek a name change to better portray its strategic image or re-brand itself. The Board supports company management's decision on this issue.
7.3	CORPORATION CHARTER & BYLAW AMENDMENTS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Charters and bylaws should not be amended without shareholder approval unless the changes are of a housekeeping nature such as minor corrections or updates.

8. SOCIAL & ENVIRONMENTAL

On November 13, 2007, the Board adopted the United Nations Principles for Responsible Investment ("Principles"), a policy of global best practices for environmental, social, and governance (“ESG”) investing. LACERS current proxy voting agent, Institutional Shareholder Services, (“ISS”), is a signatory to the Principles and incorporates them into its proxy analysis process. Therefore, when considering how to vote on most ESG proposals, investment staff relies on the research expertise and voting recommendations of ISS.

No.	Issue	LACERS Position	Rationale
8.1	DIVERSIFICATION OF BOARDS	LACERS supports this issue in principle VOTING AGENT’S DISCRETION	Women and minorities have played major and responsible roles not only in government, higher education, law and medicine, but also in communications, electronics, and finance. The Board normally prefers to support diversification on company boards. However, the Board recognizes that such a mandate carried out without regard to the selection of the most highly qualified candidates might not be in the best interest of these companies.
8.2	CORPORATE BOARD MEMBERS SHOULD WEIGH SOCIO-ECONOMIC, LEGAL AND FINANCIAL FACTORS WHEN EVALUATING TAKEOVER BIDS	CASE-BY-CASE BASIS. VOTING AGENT’S DISCRETION	While broad social and environmental issues are of concern to everyone, institutional shareholders acting as representatives of their beneficiaries must consider, specifically, the impact of the proposal on the target company. A decision on whether to support or oppose such proposals shall focus on the financial aspects of social and environmental proposals. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, LACERS would oppose the resolution. Conversely, if a proposal would have a clear and beneficial impact on the company's finances or operations, LACERS would support the proposal.
8.3	INDEPENDENT REVIEW OF COMPANY OR PLANT OPERATIONS	AGAINST	An independent review of company or plant operations which will be provided at company expense to the shareholders to consider the cost of and alternatives to the present or proposed projects on the primary operation. This process would be costly and time-consuming.
8.4	DISCLOSURE OF OFFICERS, DIRECTORS AND INVOLVED OUTSIDERS’ GOVERNMENTAL AFFILIATIONS	AGAINST	Miscellaneous issues include disclosures of lists of officers, directors and involved outsiders who have served in any governmental capacity during the previous five years. In addition, disclosure includes the lists of law firms employed by the companies, rundowns on fees and the revelation as to whether any elected or appointed official have partnership interest in the retained law firms. To the extent that potential conflicts of interest cannot be controlled by corporate procedures, professional ethics, and law, these disclosures will make no difference.

Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
8.5	CORPORATE AFFIRMATION OF ITS NON-COERCIVE POLITICAL PRACTICES	AGAINST	This affirmation is intended to ensure that the corporation avoids a number of coercive political practices such as distribution of contribution cards in favor of one political party. Since these practices are illegal, the issue is moot.
8.6	LIMITING CORPORATE PHILANTHROPY	AGAINST	These proposals place restrictions and additional reporting obligations upon management's right to make corporate contributions to charitable, educational, community or related organizations. Most companies give money to charity. Because most companies must compete, those that do not contribute to charity risk damaging their good names.
8.7	STAKEHOLDERS' INTEREST BEFORE OR EQUAL WITH SHAREHOLDERS' INTEREST	ABSTAIN	Stakeholders include customers, suppliers, employees, communities, creditors and shareholders. Stakeholders are important to the success of the corporation and therefore the interests of each must be considered by directors and management. However, boards should not put the non-shareholder/stakeholder interests ahead of or on an equal footing with shareholders in terms of the corporation's ultimate purpose.
8.8	ALL OTHER ESG ISSUES	VOTING AGENT'S DISCRETION	Investment staff relies on the research expertise and voting recommendations of ISS for other ESG issues not addressed by this policy.

Section 9 PROXY VOTING POLICY

9. ISSUES NOT ADDRESSED BY POLICY

For proxy issues not addressed by this policy that are market specific, operational or administrative in nature, and likely non-substantive in terms of impact, LACERS gives ISS discretion to vote these items.

Substantive issues not covered by this policy and which may potentially have a significant economic impact for LACERS shall be handled accordingly:

1) ISS shall alert investment staff of substantive proxy issue not covered by policy as soon as practicable;
2) Investment staff and/or the General Manager make shall determine whether the item requires Corporate Governance Committee (“Committee”) and/or Board of Administration (“Board”) consideration;
3) If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
4) If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
5) If time constraints prevent a formal gathering of the Committee and Board, then LACERS Board approved Corporate Governance Actions Protocol, as reprinted below, shall apply and staff will then have the issue voted accordingly.

CORPORATE GOVERNANCE ACTIONS POLICY
Board Adopted December 2008

From time to time LACERS receives requests from other pension funds or from affiliated organizations for support of various corporate governance actions. Many of the actions requested, such as requests to sign action letters, would otherwise appear to be consistent with existing Board policy. However, occasionally there is not adequate time to convene a Committee or Board meeting in advance to consider the matter.

The proposed Corporate Governance Actions Policy requires that one staff member plus one Board member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy. If both agree, the measure will be executed by the General Manager or her designee.

The designated staff person will be the Chief Investment Officer (CIO). The designated Board member will be the Chair of the Corporate Governance Committee. In the absence of the CIO, the General Manager will become the designated staff member. In the absence of the Chair of the Corporate Governance Committee, the Board Chair will become the designated Board member.

XV. SECURITIES LENDING POLICY

A. Objectives

The primary goal of LACERS' Securities Lending Program ("Program") is to enhance returns for the System by lending securities owned by LACERS to qualified borrowers. The Program features customized guidelines for prudent risk controls and is designed to not interfere with LACERS' overall investment strategy.

B. Scope

The securities lending agent ("Agent"), pursuant to the securities lending contract, is responsible for locating creditworthy securities borrowers, facilitating securities lending transactions, managing collateral pledged by borrowers, providing daily mark-to-market, and acting in a fiduciary capacity in carrying out its lending duties on behalf of LACERS. The Agent may manage two distinct types of collateral with the goal to maximize net income, split between the Agent and the System, consistent with the safety of principal, maintenance of liquidity and LACERS' guidelines.

Cash collateral is reinvested by the Agent in a separate account based on LACERS' guidelines. Guidelines for the cash collateral separate account are provided in detail in the securities lending contract and address the eligible investments, credit quality, diversification, liquidity, and trading for the Program.

Non-cash collateral is held in a separate account established expressly for LACERS. Guidelines for the non-cash collateral separate account are provided in detail in the securities lending contract and address collateralization levels, eligible instruments, credit quality, and diversification.

C. Roles and Responsibilities

1. **The Board:**
   a) Reviews and approves the Securities Lending Policy.
   b) Modifies or terminates the Program.
   c) Selects and terminates the Securities Lending Agent.
   d) Reviews the Program's overall performance.
2. **Staff:**
   a) Oversees the performance of the lending agent and the cash collateral investment manager in carrying out the objectives of the Program and complying with pre-determined guidelines.
   b) Consistent with the Program objectives and the securities lending contract, reviews, approves, and removes the counterparties as proposed by the Agent.
   c) If the Board is unable to convene in a timely manner to address unusual and significant risk factors that are deemed to have a material adverse impact (e.g. a material reduction in cash reinvestment market liquidity) on the integrity of the Program, LACERS' General Manager and Chief Investment Officer may decide

jointly to modify or suspend the Program. The Chief Investment Officer shall report the action(s) and reasons for such action(s) at the next scheduled Board meeting.

d) Reports to the Board an annual report summarizing securities lending activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

3. **The Agent:**

a) Ensures that counterparties that borrow LACERS' securities are qualified pursuant to LACERS' approved credit standards.

b) Indemnifies LACERS against borrower default.

c) Accepts and invests collateral according to collateral investment guidelines agreed upon with LACERS.

d) Provides the following reports to LACERS:

Reporting Requirements of the Agent		
Ad hoc Reports	Monthly Reports	Quarterly Reports
• Any borrower defaults within a practicable time frame. • Any violations of LACERS' guidelines with a plan for correction within a practicable time frame.	• Volume and lending spreads for the Program. • Total income received by LACERS and by the Agent for borrowing activity. • Investment management activities and risk characteristics of the collateral investment portfolio including sector allocation, quality exposures, maturity exposures, borrower exposures, average days' liquidity, etc.	• LACERS lending activity, earnings, risk characteristics and general trends in the security lending marketplace.

D. **Potential Risks**

LACERS acknowledges the following primary risks of its securities lending activities:

1. **Counterparty Risk**

Counterparty risk arises when the borrower defaults on the return of the securities on loan to the lender. This risk is mitigated by LACERS' guideline requirements that borrowed securities are over-collateralized and marked to market on a daily basis by the Agent. Additionally, the Agent is bound by the securities lending contract to indemnify LACERS for any shortfalls in collateral in the event of a borrower default.

2. **Cash Reinvestment Risk**

Cash reinvestment risk arises when the investments in the cash collateral separate account become impaired or decrease in value, potentially resulting in a collateral deficiency and loss of principal. LACERS' guidelines are designed to minimize cash reinvestment risk.

3. **Interest Rate Risk**

Interest rate risk arises when the rebate rate that LACERS pays to the borrowers exceeds the return on the cash collateral investments. The Agent monitors and manages the interest rate exposure of the cash collateral pool versus the Agent's current interest rate forecast by using statistical analysis. Any negative earnings that occur as a result of interest rate risk will be shared between LACERS and the Agent at the same percentage as the fee arrangement.

4. **Other Risks**

Trade settlement and operational risks associated with securities lending are assumed by the Agent. Corporate actions such as voting rights remain with the security and will become the right of the borrower when the security is on loan. LACERS can still vote proxies for those shares not on loan or may instruct the Agent to return shares so that any specific proxy can be voted.

XVI. SECURITIES LITIGATION POLICY

A. Purpose

The Board adopts this Securities Litigation Policy to establish procedures and guidelines for monitoring, evaluating, and participating in both securities class actions and other securities-related litigation as appropriate to protect and maximize the recovery value of LACERS' assets.

B. Objective

The objective of the Securities Litigation Policy is to carry out the Board's fiduciary obligation to monitor securities class actions and other securities-related litigation in which LACERS has an interest, and to participate in such actions and recover damages when appropriate to protect and maximize the recovery value of LACERS' assets.

C. Guidelines

1. Use of Outside Experts As Needed

LACERS may engage the services of its custodian bank, third-party vendors, and with the concurrence of the City Attorney's Office, outside counsel, to assist LACERS to monitor securities litigation cases in which LACERS may have an interest, evaluate LACERS' potential losses, provide recommendations concerning whether to take an active role in the litigation, and/or represent LACERS in cases in which the Board has agreed to seek an active role.

2. Threshold for Determinations by the Board to Actively Participate

a) Domestic Securities Actions

The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to take an active role in a particular domestic securities class action, including whether to seek lead plaintiff status or pursue an independent action, where: (1) the estimated recoverable damages to LACERS exceed two million dollars ($2,000,000.00); or (2) the estimated recoverable damages to LACERS exceed one million dollars ($1,000,000.00) and LACERS joins with one or more City of Los Angeles retirement plans in pursuing an independent action. In making its determination, the Board shall weigh the potential damages incurred by the Plan, the potential recovery that may be obtained if such claim is pursued, and the likelihood of the plaintiffs' success in the action based upon the merits of the action.

b) **Foreign Securities Actions**

The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to participate (Opt-In) in a particular foreign securities action—a lawsuit brought or pending outside of the United States involving securities purchased by LACERS or on LACERS' behalf on a foreign securities exchange—where the estimated recoverable damages to LACERS exceed one million U.S. dollars (US$ 1,000,000.00). In foreign securities actions, in addition to the core considerations concerning damages, administrative burdens, and liability, the Board also shall weigh carefully the quality and financial stability of the foreign legal counsel and the defense cost funding guarantor.

3. **Diligent Asset Recovery in All Cases**

In cases in which LACERS has not assumed an active role but has suffered losses, LACERS shall ensure that it obtains its fair share of any recovery in which it has filed a valid claim.

D. **Operational Roles And Responsibilities To Implement The Securities Litigation Policy**

1. **The Board**

a) Pursuant to the Guidelines set forth in Section C.2 of the Securities Litigation Policy, and upon considering the recommendations of Staff, the City Attorney's Office, and/or any outside counsel engaged to assist the City Attorney's Office, the Board shall make the final determination whether to actively participate in a particular action.

b) Consistent with Charter Section 275 and Section D.4 of the Securities Litigation Policy, the Board shall make recommendations of one or more outside law firms to assist the City Attorney's Office in discharging the duties required by the Securities Litigation Policy.

c) As set forth in Charter Section 273(a), the Board shall have the authority to approve or reject any settlement of litigation.

2. **Custodian Bank and/or Third-Party Vendor**

LACERS' Custodian Bank and/or Third-Party Vendor shall be responsible for:

a) Reviewing all securities actions brought or pending within the United States or a foreign jurisdiction in which LACERS has suffered losses.

b) Timely filing complete and accurate proof of claims forms on LACERS' behalf, including the necessary supporting documents and information, necessary to recover damages in every securities class action brought or pending within the United States in which LACERS has suffered losses.

c) Providing timely notice to LACERS of each settlement recovery, with sufficient time to allow LACERS to opt-out of domestic actions, and/or opt-in to foreign actions. LACERS Staff shall have the authority to determine, and to communicate to the

Custodian Bank and/or Third-Party Vendor, the deadline for such notice in each particular case.

d) Providing quarterly reports to LACERS Staff and the City Attorney's Office regarding these functions, including any securities litigation proceeds recovered.

e) Providing outside securities litigation monitoring counsel which has been engaged by LACERS pursuant to Section D.4 of the Securities Litigation Policy with access to LACERS' securities holdings and transaction information in order to enable such counsel to identify losses associated with existing and potential lawsuits.

3. **LACERS Staff**

LACERS Staff shall be responsible for:

a) Monitoring the functions performed by the Custodian Bank and/or Third-Party Vendor as described above and shall keep the Board apprised of any unusual or extraordinary events.

b) Working with the City Attorney's Office to provide support and information regarding securities holdings and activity for litigation purposes.

c) Preparing for the Board an annual report summarizing securities class action activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

d) Assisting the City Attorney's Office to evaluate and recommend to the Board outside counsel law firms to assist the City Attorney's Office in discharging its duties under the Securities Litigation Policy.

e) Assisting the City Attorney's Office to provide recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

4. **The City Attorney's Office**

The City Attorney's Office, assisted by Staff and outside counsel as needed, shall be responsible for:

a) Identifying and recommending to the Board qualified outside law firms to assist the City Attorney's Office with monitoring, evaluating, and recommending cases in which LACERS should consider taking an active role under the Securities Litigation Policy. The Board shall recommend one or more such firms to be engaged as outside securities litigation monitoring counsel to assist the City Attorney, subject to the written consent of the City Attorney's Office. Once engaged, outside securities monitoring counsel shall be authorized to receive access to LACERS' securities holdings and transaction information from the Custodian Bank and/or Third Party Vendor, as provided by Section D.2 of the Securities Litigation Policy.

b) Identifying and recommending to the Board qualified outside law firms that would be competent to serve as lead counsel, supervised by the City Attorney's Office, in a particular securities case in which LACERS has sought to serve as lead plaintiff or as plaintiff in an opt-out case. The Board shall recommend one or more such firms, subject to the written consent of the City Attorney's Office, to be placed upon a list of approved lead counsel candidates that would be eligible to submit proposals to represent LACERS in a particular case.

c) Providing recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

d) Once the Board has made a determination to seek an active role in a particular case, preparing Requests for Proposal for distribution to the firms that have been placed upon the list of approved lead counsel candidates, evaluating proposals, and recommending one or more finalist firms to the Board.

e) Assisting Staff to provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which LACERS is a party and/or lead plaintiff.

f) Assisting LACERS in its role as lead plaintiff in a class action or as a plaintiff in an opt-out case, including supervising the law firm appointed to serve as lead counsel. Such supervision may include participation in significant motions and settlement discussions when permitted by parties or the court, and filing objections concerning attorney fee requests.

XVII. APPENDIX: GLOSSARY

ASSET CATEGORIES

Cash/Cash Equivalent: Cash equivalent securities with a maturity less than or equal to fifteen months are considered to include interest bearing or discount instruments, money market funds, corporate issued commercial paper, bank issued Certificates of Deposit, bankers acceptances, fully collateralized repurchase agreements or participation in commingled (cash equivalents) funds managed by a bank, insurance company, or other professional cash equivalents investment manager. Both U.S. and foreign securities issued in U.S. markets are permissible.

Commodities: Physical commodities are the raw inputs (e.g., oil, wheat, gold, etc.) into the production of goods. Commodities investment is conducted through futures, the prices of which are directly tied to the underlying physical commodity. Commodities are real assets and are expected to provide inflation hedging in commodities-driven inflationary environments.

Convertibles: A preferred stock or bond that can be exchanged for common stock of the issuing company. The conversion is at the investor's option and usually must occur within a specified time limit. Convertibles may be considered fixed income or equity investments when calculating investment returns and determining asset allocation.

Direct Placements: Sale of securities to a long-term institutional investor such as a pension fund without the use of underwriters.

Fixed Income: Debt instruments of corporations, government or agencies characterized by a fixed or variable interest rate and stated maturity date. Included are marketable bonds, cash equivalents and Rule 144A securities. Certain fixed income assets, such as cash equivalents, are often categorized separately.

Preferred Stock: A security which has preference over common stock (but not bonds) with regard to dividends and the distribution of assets in the event of a corporate liquidation. Preferred stock combines elements of both common stock and bond forms of investment.

Private Equity: Equity investments in companies that do not trade publicly on an organized exchange. They may include private equity, venture capital, buyout, mezzanine financing, distressed securities, natural resources and hedge funds. These investments are frequently made in some pooled format, usually a limited partnership or limited liability corporation.

Private Real Estate: Land and all physical property related to it, including buildings, landscaping, and all rights to the air above and earth below the property. Assets not directly associated with the land are considered personal property.

Public Equities: Shares that represent ownership of a publicly traded corporation. Included in this category are publicly traded common stocks, rights, warrants, convertible securities and American and Global Depository Receipts.

REITS: Real Estate Investment Trusts. Publicly-traded stocks of real estate investment companies the assets of which are 100% comprised of income producing real estate such as apartments, shopping centers, etc. or the mortgages of real estate property assets.

Total Fund: All assets of the fund including equities, fixed income, cash equivalents, cash and other securities.

Treasury Inflation Protected Securities (TIPS): Debt instruments of the U.S. Government that adjust monthly for changes in inflation as represented by the non-seasonally adjusted U.S. CPI-Urban. Similar to other fixed income instruments, TIPS have a fixed interest rate component and stated maturity.

<u>EQUITY TERMS</u>

American Depository Receipts (ADRs): Negotiable certificate issued by a U.S. bank for shares of stock issued by a foreign corporation. The securities are held in a custodial account, either at the issuing bank or an agent. ADRs are registered with the Securities and Exchange Commission, and give the holder the same benefits of ownership as shareholders. Two types of American Depository Receipts include sponsored ADRs, which are approved and promoted by the issuing corporation; and unsponsored ADRs, which are not backed by the issuer. ADRs are priced in U.S. dollars, and trade on stock exchanges and over-the-counter markets in the same fashion as U.S. issued securities.

Debt-to-Equity: Quantifies a firm's financial leverage. It is the long-term debt of the company divided by shareholder's equity. Higher levels of debt are often associated with earnings volatility.

Dividend: A payment to owners of common or preferred stock. Dividends are usually paid out of the current earnings of a corporation. On preferred stock shares, the dividend is usually a fixed amount. On common stock shares, the dividend will vary with the fortunes of the corporation. Dividends are usually declared and paid quarterly.

Dividend Growth: Measures the average percentage increase, over the trailing five years, of the per share dividend.

Dividend Yield: The annual per share dividend divided by the market price of the security. Higher dividend yields tend to support the price of the security.

Global Depository Receipts (GDRs): Negotiable certificate held in the bank of one country representing a specific number of shares of a stock traded on an exchange of another country. While American Depositary Receipts allow international companies to offer shares to U.S. citizens, GDR's allow companies in Europe, Asia, the United States and Latin America to offer shares in markets around the world.

Market Capitalization: The number of common shares outstanding multiplied by the per share price of the stock which represents the market's valuation of a company.

Price-Earnings (P/E) Ratio: The market price of a share of common stock divided by the company's earnings per share.

Price-to-Book: The market price of a share of common stock divided by the company's per share book value.

Return on Equity: A firm's net profit divided by its shareholder's equity. It is one of two basic factors (the other being earnings retention ratio) that determine a firm's earnings growth rate.

FIXED INCOME TERMS

Accrued Interest: Interest accumulated on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

Asset Backed Bond: Securities that are formed when similar assets or receivables, such as credit card receivables, auto loan receivables or home equity receivables, are pooled together and undivided interests in the pool are sold. The principal and interest payments are "passed-through" to the bondholders.

Banking Demand (Demand Deposit): Checking account balances or other accounts, which, without prior notice to the bank, can be withdrawn or transferred.

Bid-Ask Spread: The difference between the price a buyer is willing to pay (bid) for a security and the price an owner is willing to receive for the security.

Bond: An interest-bearing or discounted certificate of debt issued by~~s~~ corporations, municipalities, governments and governmental agencies that represent a loan to the issuer and obligates the issuer to pay the bondholder a specified sum of money, usually semiannually, and to repay the principal amount of the loan at maturity.

Certificate of Deposit: A receipt from a bank for funds deposited for a stated period of time and normally paying a stated rate of interest.

Convexity: A measurement of the sensitivity of a fixed income security's duration given changes in interest rates. The higher a bond's convexity, the less sensitive it is to interest rate changes versus a comparable duration security and the opposite is true when comparing lower convexity bonds versus similar duration bonds.

Section 12 GLOSSARY

Coupon: Interest rate on a bond that the issuer agrees to pay to the bondholder until maturity, expressed as an annual percentage of face value. More simply, the periodic interest payment made to bond owners during the life of a bond.

Credit spread: The difference in yield between Treasuries and non-Treasuries of similar maturity, duration, convexity etc. Credit spread is generally viewed as the premium assigned by investors to the default risk of a bond.

Debenture: A promissory note backed by the general credit of a corporation -- usually not secured by a mortgage or lien on any specified property.

Duration: A calculation measuring the price sensitivity of a bond or other financial instrument to changes in interest rates while taking into consideration its coupon and maturity.

Fed: The seven-member governing board that oversees Federal Reserve Banks establishes monetary policy (interest rates, availability of credit, etc.) and monitors the economic health of the country.

Federal Reserve Bank: One of 12 regional banks in the Federal Reserve System. The role of each bank is to monitor the commercial and savings banks in their region to ensure they follow Federal regulations. The reserve banks also provide central bank services such as check collection, access to the Fed's wire network and credit advances from the Fed's discount window. Reserve banks act as depositories for banks in their region.

Inflation: The overall general upward price movement of goods and services in an economy, usually measured by the Consumer Price Index in the U.S. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their investments.

Interest Rate: Cost of money or credit expressed as a percentage rate per period of time usually one year.

Maturity: The date on which a bond becomes due and the issuer redeems or pays the face value or principal.

Mortgage-Backed Asset: Securities that are formed when mortgages are pooled together and undivided interests in the pool are sold. The principal and interest payments are usually "passed-through" to the certificate holders.

Sector Swap: Exchange of one security or asset for another, often done to alter the quality, change the duration, or increase the yield to maturity.

Yield Curve: A graph showing the relationship between yields and maturities of fixed income securities issued by the same or similar issuers having the same risk characteristics. Normally, the curve slopes upward and to the right because short-term investments have lower yields than long-term investments. From time to time, the curve may become inverted, when short-term yields are higher than long-term yields.

DERIVATIVE TERMS

Cash Settlement Contract: The feature of certain futures contracts or options that allows delivery or exercise to be conducted with an exchange of cash rather than the physical transfer of assets.

Covered Option: A strategy in which the writer sells options while simultaneously owning an equivalent position in the underlying security.

Credit Default Swap: A derivative instrument that transfers the credit risk from the buyer to the seller in exchange for a specified premium. The seller receives a quarterly payment from the buyers in exchange for absorbing the risk inherent in owning the credit. The buyer receives payment only when a credit event occurs such as: bankruptcy, failure to pay, obligation acceleration, restructuring or sovereign repudiation/debt moratorium.

Counterparty: Entity, usually an investment bank and/or broker/dealer, through which an OTC financial transaction is completed or traded. Counterparties may be known or unknown to the investor.

Derivative: Instruments or contracts whose value is determined by the price of the asset to which the contract is tied.

Forward Contract: A customized transaction in which two parties agree to the purchase or the sale of a security, currency or commodity at some future time under such conditions as the two agree upon. Those who use forward contracts often expect to make or take physical delivery of the commodity or financial instrument.

Futures Contract: A standardized agreement between two parties to purchase or sell an asset or currency at a later date at a fixed price. The contract trades on a futures exchange and is subject to a daily mark-to-market procedure.

Interest Rate Swap: Agreements between two parties to exchange types of cash flows. They are derivative securities because their payoffs are determined by the price of the underlying financial security. Swaps trade in dealer markets or are directly negotiated.

Option: A contract that gives one party the right, but not the obligation, to buy or sell an asset, currency, or a futures contract for a fixed price over a specific period of time.

Naked (uncovered) Option: A short option position in which the writer does not own an equivalent position in the underlying security.

Over the Counter (“OTC”): Non-exchange traded derivatives, usually swaps, which are established with select counterparties.

Section 12 GLOSSARY

PRIVATE EQUITY TERMS

Additional Fees: The amount of capital an investor pays into a fund/investment that does not count against the investors' commitment. Additional fees typically consist of management fees or late-closing interest expenses.

Capital Committed: An investor's financial obligation to provide a set amount of capital to the investment.

Capital Contributed: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees and partnership expenses.

Capital Distributed: Cash or stock disbursed to the investors of an investment.

Co- Investment: A co-investment is a direct investment made alongside a partnership.

Corporate Finance/Buyout: Partnerships seeking to make controlling and non-controlling investments in established companies that have the potential to achieve greater value through improved performance.

Cost Basis: Capital contributions less return of principal.

Direct Investment: A direct investment is a purchased interest of an operating company.

Fund-Of-Funds: An investment vehicle that invests in other private equity partnerships.

Fund/Investment Size: The total amount of capital committed by investors to a fund.

Investment Category: Used to identify investments in one of the following categories: co-investments, direct investments, fund-of-funds, primary funds, secondary fund-of-funds, or secondary purchases.

Investment Strategy: A sub-classification of a partnership's investment type, such as co-investment, direct investment, corporate finance/buyout, mezzanine, real estate, special situation, or venture capital.

Life Cycle Period: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

J-Curve/J-Curve Effect: Period in which partnerships are making investments and drawing management fees, which results in capital account balances that are less than cumulative contributions.

Section 12 GLOSSARY

Mezzanine: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

Net Internal Rate Of Return ("IRR"): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest.

Originator: The institution responsible for recommending a client commit to an investment.

Ownership Percentage: The investor's percent of ownership as measured by capital committed divided by fund or investment size.

Paid-In Capital: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

Pooled Average IRR: An IRR calculation that aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

Portfolio Holding Exposure: The limited partner's pro-rata allocation to an underlying investment based on its ownership percentage of the partnership.

Primary Fund: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

Private Equity Partnership: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations, and venture capital.

Realized Multiple: Ratio of cumulative distributions to paid-in capital.

Return On Investment ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

Reported Market Value: The investment's capital account balance at quarter end, which includes the general partner's reported value of the underlying holdings and other assets and liabilities.

Secondary Fund-Of-Funds: A private equity vehicle formed to purchase active partnership interests from an investor.

Secondary Purchase: A purchase of an existing partnership interest or pool of partnership interests from an investor.

Special Situation: Partnerships that make investments using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

Top Tier Fund: A fund managed by a general partner that has a demonstrated track record of superior performance measured against its peers by its given strategy or a fund managed by a general partner that, based on the Private Equity Consultant's extensive expertise, has the requisite skill set and market opportunity to prospectively produce superior performance compared to its peers by a given strategy.

Total Exposure: Calculated by the summation of market value and unfunded commitments.

Venture Capital: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

Vintage Year: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.

PRIVATE REAL ESTATE TERMS

The following is a list of commonly used terms in Real Estate Investments and their respective definitions.

Appreciation Return: Expressed as a percentage, the return generated by the Capital Appreciation of a property or portfolio over the period of analysis.

Capital Appreciation: The change in market value of property or portfolio over the period of analysis, adjusted for Capital Improvements and Partial Sales for the period.

Capital Expenditures: Investment of cash or the creation of a liability to acquire or improve an asset, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for expense items that are normally considered part of the current period's operations.

Capital Improvements: Expenditures that cure or arrest deterioration of property or add new improvements and appreciably prolong its life. By comparison, repairs merely maintain property in an efficient operating condition.

Section 12 GLOSSARY

Capitalization Rate: The Capitalization Rate or Cap Rate is a ratio used to estimate the value of income producing properties. It is computed by dividing the annual net operating income by the sales price or value of a property.

Commingled Funds: A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account or other multiple ownership entity.

Open-end Fund: A commingled fund with no finite life that allows continuous entry and exit of investors, and typically engages in on-going investment purchase and sale activities.

Closed-end Fund: A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not re-invest the sales proceeds.

Diversification Attributes:

Equity: Direct undivided ownership in real estate that has not been financed using borrowed funds.

Leveraged Equity: Direct undivided ownership in real estate that has been financed using borrowed funds

Equity Oriented Debt: A mortgage loan with a stated interest rate in addition to equity participation by the lender via annual cash flow and/or sale proceeds or refinancing proceeds.

Traditional Debt: A mortgage loan payable at one or more stated interest rates.

Life Cycle:

Pre-development: Raw land.

Development:	Properties under construction including preparation and installation of infrastructure.
Leasing:	Completed construction that is less than 60% leased and that has been available for occupancy one year or less.
Operating:	Properties with greater than 60% average leasing, or that have been available for occupancy for more than one year.

Section 12 GLOSSARY

Redevelopment: Properties that are undergoing substantial expansion or re-tenanting, rehabilitation or remodeling.

Property Size: Property size categories refer to gross asset value of each property. The dollar amount entered in each category should reflect net asset value within each category.

Property Type:

Office: Low-rise, mid-rise and high-rise office buildings and office parks.

Industrial: Warehouse, manufacturing, office showroom, flex space and research and development.

Retail: Neighborhood center, community center, regional center, super regional center, fashion/specialty center, power center, theme/festival center and outlet center.

Residential: High-rise elevator projects, low-rise projects and garden type projects.

Hotel/Motel: Hotels, resorts and motels.

Timberland: Timber, timberland and mineral rights.

Agriculture: Row crops, permanent crops, pasture/ranch and agribusinesses.

Vacant Land: Undeveloped land.

Other: Mobile home parks, self storage facilities, etc.

Gross Asset Value: The fee simple or leased fee market value of an investment, without regard to the debt balance or ownership percentages.

Gross Income: The income or loss of a portfolio or entity, resulting after deducting all expenses, (except for portfolio and asset management fees), but before realized and unrealized gains and losses on investments.

Income Return: Expressed as a percentage, the component of return derived from property operations during the period of analysis.

Lease Expiration Exposure Schedule: A tabulation listing the total leasable square footage of all current leases that expire in each of the next five years, without regard to renewal options.

Net Assets: Total Assets on a market value basis less total liabilities on a market value basis.

Net Investment Income (Net Income): The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

Net Operating Income: Rental and other income of property, less operating expenses other than Capital Expenditures and mortgage debt service.

Net Sales Proceeds: Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs, and marketing expenses.

Partial Sales: The sale of an interest in real estate which is less than the whole property. This may include, for example, a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment. (See Net Sales Proceeds)

Principal Payments: The return of invested capital to the lender, as compared to interest payments, which represents a return on invested capital.

Separate Accounts: A term applied to an investment vehicle for investors with the ability to commit substantial funds to real estate assets who may prefer to invest through individual portfolios specifically tailored to their unique investment requirements. Separate accounts provide clients with a greater degree of control and enable them to capitalize on specific investment opportunities.

Time Weighted Annual Rate of Return: The yield for a year calculated by geometrically compounding the previous four quarters' returns.

Total Assets: The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the Statement of Assets and Liabilities.

Total Return: The sum of the quarterly income and appreciation returns.

Weighted Average Equity: The denominator of the fraction used to calculate investment level Income, Appreciation, and Total returns on a quarterly basis, consisting of the Net Assets at the beginning of the period adjusted for Weighted Contributions and Distributions.

STATISTICAL TERMS

Active Risk: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with tracking error.

Active Share: A measure of dispersion between a manager’s portfolio and the portfolio benchmark based upon the individual portfolio holdings versus volatility, which is used to calculate tracking error, another measure of dispersion. A Yale study[18] found high active share portfolios tended to outperform low active share portfolios.

Alpha: A measure of risk adjusted return that represents that part of a return above or below a benchmark and is typically attributed to investment skill.

Attribution: The result of investment performance analysis whereby the key sources of value-added or detracted versus the benchmark are identified and quantified in terms of the contribution to value-added or detracted from that source.

Basis Point: One one-hundredth of one percent, i.e., 100 basis points = 1%.

Beta: A measure of the extent to which the returns on a given stock or portfolio move with the stock market.

Correlation: A statistic describing the goodness of fit about a linear relationship between two variables (returns). It measures the degree to which two variables (assets) move in tandem, with -1 corresponding to perfect negative correlation (vary inversely) and +1 corresponding to perfect positive correlation (move together). A value of zero would indicate no relationship between the two variables.

Information Coefficient ("IC"): a measure of investment manager skill which, together with a measure of breadth provides the manager information ratio according to the Fundamental Law of Active Management[19]. Similar to the correlation coefficient, the IC ranges between 0 and +1.

Information Ratio: A measure of the level of reward per unit of risk. The information ratio is calculated by dividing the alpha (difference between the portfolio return and the benchmark return) by the standard deviation of the alpha.

Mean: The traditional average; it is calculated by adding up all the numbers and dividing the total by the number of observations.

Mean Absolute Deviation: The average value of differences from the mean, where the differences are evaluated without regard to sign. It is a measure of dispersion.

Median: The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

Negative Semi-variance: This measure considers only downside dispersion. Since measures of dispersion are frequently used to measure risk in securities and portfolios,

[18] Cremers, K.J. Martijn, and Antii Petajisto, 2009. "How Active is your Fund Manager? A New Measure That Predicts Performance", *Review of Financial Studies* 22 (9): 3329-65

[19] Grinold, Richard C. and Ronald N.Kahn, *Active Portfolio Management*, 2nd ed., New York: McGraw-Hill (2000)

the amount of uncertainty as to future value is one definition of risk. Some investors find this definition difficult to accept because they feel that only below-average expectations represent risk.

Range: The difference between the minimum and maximum in a series.

R-Squared (R2): The proportion of a portfolio's variability that is explained by the relation between the portfolio and the market.

Standard Deviation: This measure is the square root of the variance. The standard deviation is a useful and widely used measure because, for a normal, or bell-shaped, distribution, 68 percent of the observations fall within one standard deviation and 95 percent fall within two standard deviations. Since it is usually reasonable to suggest that distributions in finance are normal, a good estimate of the dispersion of a distribution around its average is provided by the standard deviation measure. In a portfolio context, the higher the standard deviation, the higher the risk associated with a given level of return on that portfolio.

Tracking Error: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with active risk.

Variance: The variance is a true measure of the width of the distribution. Variance relates each observation to the average by squaring each number (multiplying a negative number by itself produces a positive number).

DESCRIPTION OF MANAGER STYLES

Equity Styles

Bottom Up: A method of analysis that begins with fundamental factors at the company or micro economic level.

Currency Overlay: Strategy to use currency futures, forwards, and options as an overlay on existing international portfolios to protect against losses in currency movements.

Enhanced Index: In general, a manager utilizing this style attempts to outperform an index by analyzing quantifiable characteristics of a given stock or sector. The strategy is characterized by low to moderate levels of active risk.

Growth: Seeks investments whose future potential for growth is above the growth expectation for securities in general. From an analytical perspective, growth portfolios will generally exhibit the following characteristics:

Projected Earnings Growth – greater than the index
Price to Earnings Ratio – generally greater than the index
Price to Book Ratio – generally greater than the index

Five Year Earnings Growth Rate – greater than the index

Index/Passive: An index strategy would strive to match the return of the appropriate index by holding a portfolio of securities that closely tracks the index.

International Equity Active Country and Sector/Passive Security Selection: Through an overall review of economic, social, and political issues worldwide, decisions are made with respect to the allocation of investments among countries and sectors. The investment decisions are implemented through passive security selection.

Large Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell 1000 Index.

Mid Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell Mid Cap Index.

Quantitative: Stock selection and portfolio construction are implemented through computerized models which consistently employ fixed criteria and/or decision rules which may or may not involve manual intervention.

Small Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell 2000 Index.

Top Down: A method of analysis that begins with broad macro economic topics associated with an economy and industry.

Value: Investments in equities whose potential is temporarily unrecognized by other investors. Value stocks typically are companies whose assets, future cash flows, products or services are overly discounted relative to the broader market. Typically, value portfolios will exhibit the following characteristics:

Price to Book Ratio – less than the index
Price to Earnings Ratio – less than the index
Dividend Yield – greater than the index

Fixed Income Styles

Bank Loans: Managers that invest in short and intermediate term senior subordinated debentures of below investment grade issuers. This debt is adjustable rate and may provide modest inflation protection in a rising rate environment. Also, these debentures are higher in the capital structure than high yield bonds, which affords greater creditor protection in stressed environments in addition to a shorter duration.

Core: Seeks investments in the large, more liquid sectors such as governments, mortgage-backs and investment grade corporates, that do not represent significant deviation from a given index in terms of sector, quality, coupon and maturity exposures.

While some over/under weighting may occur in the portfolio, these will result from the manager's security selection process and not represent a deliberate attempt to bias the portfolio.

Core Plus: A core plus manager has the latitude to invest the portfolio in core sectors as well as high yield (below investment grade) non-dollar denominated and/or the debt of emerging markets.

Emerging Market Debt: Seeks investment in either investment grade or below investment grade debt of sovereign or corporate issuers domiciled in emerging market countries. This debt can be "hard currency" (i.e., dollar) denominated or denominated in the local currency of the issuing entity.

High Yield: Seeks investments in below investment grade corporate securities.

Intermediate: Managers that invest in shorter than market duration securities with an average portfolio duration range of between three and four years. Securities invested in will range across sectors and could be either investment grade and/or non-investment grade rated. Portfolios can also include non-U.S. issued securities in addition to securities issued in the U.S.

Medium-Grade: Seeks investments from the complete range of global fixed income sectors. The medium-grade manager has broad latitude to invest the portfolio's assets in opportunistic sectors such as high-yield (below investment grade) non-dollar, emerging markets and convertible debt investments. The manager may use investment grade sectors as a defensive alternative to opportunistic sectors.

Inflation Protected: Invests in fixed instruments that have a real and inflation-linked return component. The securities are typically issued by government entities. An example would be the Treasury Inflation Protected Securities (TIPS) issued by the United States Government.

Structured credit: A traditional bond that has had its repayment structure altered to produce non-traditional payoffs derived from one or more of the underlying assets rather than from the borrower's (i.e., issuer's) cash flow. Structured credits are a blend of bonds and derivatives (usually swaps). Often, downside risk is protected beyond a certain level.

RATES OF RETURN

Capital Appreciation (Depreciation): Both realized and unrealized gains or losses in the market value of a portfolio from beginning to end of the time period being measured.

Dollar-Weighted Return: This rate is also called the internal rate of return (IRR). It is sensitive to the timing and size of cash flows. The rate of return for each sub-period such as a month or a quarter is weighted by the dollars invested in that period. Thus, the cash flows in the fund, as well as investment performance, will have an impact on calculated returns. The dollar-weighted return is important in measuring the actual growth of a fund over time.

Income Return: The rate of return attributable to interest and/or dividends.

Market Value: The market value of an asset is the realizable value at any point in time. In practice, publicly traded stocks are valued at the day's closing price and bonds are generally valued at the day's final bid price. Different pricing services can result in different market prices especially in the bond market.

Real Rate of Return: The rate of return earned from an investment's income/loss and appreciation/depreciation after being adjusted for inflation. The most common measure of inflation is the U.S. Bureau of Labor Statistics' All Urban Consumer Price Index (CPIU).

Time-Weighted Rate of Return: The amount and timing of cash flows do not impact time-weighted rates of returns since the returns for each sub-period are equally weighted. Since investment managers have little control over cash flow, time-weighted returns are an appropriate method of analyzing the manager's performance.

Total Fund Total Rate of Return: The "overall" rate which reflects the combination of income as well as realized and unrealized appreciation or depreciation for all segments or portfolios in the total plan.

<u>TIME PERIODS</u>

Annualized: A rate of return for a time frame that is less than or greater than one year expressed as an average annual return.

Compound Annual: A compound average annual rate of return for a period greater than 1 year expressed in annual terms.

Rolling Time Period: A series of investment returns each covering a specified period of time with each new return in the series encompassing the most recent return of the period and dropping the oldest return of the period. For example, a rolling one-year return, calculated monthly would consist of the previous 12 monthly returns. The next return in the series would be calculated at the end of the following month. It would consist of the current monthly return and the previous 11 months (dropping the oldest return in the series).

Trailing Period: A time period that immediately precedes a specified date. For example, as of December 31, 20X1, the trailing 9 months would include the period April 1, 20X1 to December 31, 20X1.

Unannualized: A rate of return for a period of less than one year or greater than one year. An unannualized return that represents cumulative results that is for a month, quarter, five quarters or any other non-twelve month period.

RELATIVE PERFORMANCE RANKING

Policy Index (Policy Portfolio): A weighted combination of two or more indices. The Policy Index is constructed to match a fund by weighting the indices in the same ratio as the fund's target commitment to the different asset classes such as equities, bonds, real estate and cash.

Median: The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

Percentile Rank: Time-weighted rates of return are percentile ranked against the Universe. For example, a fund's rate of return may rank in the 20th percentile of the sample. This value indicates that 80% of the funds in the sample had worse performance. The highest percentile rank is 1 while the lowest is 100. Bar graphs may be divided by percentiles with the top of each bar denoting the tenth percentile followed by lines for the 25th, 50th, 75th and 90th percentiles.

Quartiles: Percentile rankings are divided by the first, second and third quartiles. The first quartile is the 25th percentile, the second is the 50th percentile (or median) and the third is the 75th percentile.

Reasonable (as it pertains to a portfolio risk level relative to the Index): A reasonable risk level relative to the Index means that, if portfolio risk is substantially above the risk of the Index, portfolio return should also be substantially above the return of the Index. Conversely, if portfolio return were substantially less than the Index, then portfolio risk would also be expected to be less than that of the Index. Under normal market conditions, reasonable means a combination of risk and return that yields a return to risk ratio for the portfolio that is equal to or greater than that of the Index which serves as the portfolio's performance benchmark.

Typical Market Cycle: A typical market cycle is the recurrence of periods of significant appreciation and depreciation of asset values. One cycle extends from a price or market value baseline through one substantial rise and one decline and back to the base line. The length of a typical or fair market cycle varies across asset classes, depending on the frequency and duration of changes in those economic factors that drive the market value of the assets. For those assets that trade on auction markets and are sensitive to short-term business cycle activity, such as equity and fixed income securities, the typical market cycle has historically been approximately three years. For those assets whose market values are not based on quoted prices and which are sensitive to longer-term demographic changes, such as private real estate or private equity, the typical market cycle has historically been approximately seven to ten years.

Section 12 GLOSSARY

INDICES

Fixed Income

Barclays Capital Aggregate: An aggregate of the Government/Corporate Bond Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The index contains fixed rate debt issues with at least one-year maturity, $100 million par value outstanding, and investment grade ratings by Moodys, S&P or Fitch (in that order). Returns are market-value weighted inclusive of accrued interest.

Barclays Capital Universal: This index contains the Barclays Capital Aggregate index bonds plus approximately 10% of the remaining index includes U.S. High Yield, Eurodollar, Emerging Markets, 144A Private Placements, and CMBS bonds.

Barclays Capital U.S. Govt/Credit Intermediate: This index is a sub-component of the Barclays Capital Aggregate index. Bonds consist of the U.S. Treasury, U.S. Agency (non-MBS), and U.S. Investment-grade credit holdings with a maturity range of 1 to 10 years.

Bond Rating Methodology: Bond ratings are intended to characterize the risk associated with holding a particular bond or categories of bonds. These ratings are the risk assessed by the market and that the bond issuer must pay to attract purchasers to the bond. These ratings are expressed as a series of letters and sequences.

Rating Categories in Descending Order:

AAA: The best quality rating, stable cash flows, very protective bond covenant, very low probability of default.

Aa: The second best rating. Stable cash flows, less protective bond covenants, very low probability of default.

A: Stable cash flows, less protective bond covenant, long-term probability of default is higher than AAA or Aa.

Baa: Medium quality rating, reliable cash flows short term, less-reliable cash flows long term, bond covenants offer limited protection. Moderate probability of default. Downgrade to a lower rating is also possible. Baa bonds are the lowest rating still considered 'investment grade.'

Ba thru B: Highly speculative. Long-term assurance of cash flows and protective elements are low. Purchasers of these bonds generally specialize in assessing credit risk of specific bond issues. Much higher spreads versus investment grade bonds provide the incentive for purchasers. High default or downgrade risk.

Caa thru C: Poor standing. Either close to default or in default. Highly probable loss of principal.

Section 12 GLOSSARY

D: Coupon payments were not paid on the due date which puts the bond In default. Unless both protective covenants and issuer assets are adequate (not likely), holder loses all likelihood of recovering principal.

<u>Equity</u>

Down Jones Industrial Average: This index is the price-weighted average of 30 actively traded blue chip stocks.

NASDAQ: A market value weighted index that measures all domestic and non-U.S. based securities, more than 4700 companies listed on the NASDAQ stock market.

Russell Midcap Value: Contains Russell Midcap stocks having less than average value orientation and are included in the Russell 1000 Growth Index.

Russell Midcap Value: Contains Russell Midcap stocks having less than average growth orientation and are included in the Russell 1000 Value Index.

Russell 1000: Consists of the 1000 largest securities in the Russell 3000 Index. The Russell 1000 is capitalization-weighted.

Russell 1000 Growth: Contains Russell 1000 stocks having greater than average growth orientation. Stocks tend to exhibit lower dividend yields and higher price-to-book ratios, price-earnings ratios and forecast growth values than the Value universe. The index is capitalization-weighted (as opposed to equal-weighted).

Russell 1000 Value: Contains those Russell 1000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe. Russell 1000 Value is capitalization-weighted.

Russell 2000: Contains the smallest 2,000 stocks in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The index is capitalization-weighted (as opposed to equal-weighted).

Russell 2000 Growth: Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.

Russell 2000 Value: Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.

Russell 3000: Measures performance of the 3000 largest U.S. companies based on total market capitalization. This index represents approximately 98% of the investable U.S. equity market. The Russell 3000 is capitalization-weighted.

Standard and Poors 500: The S&P, which represents approximately 75% of NYSE market capitalization and 30% of NYSE issues, contains 500 industrial, utility, transportation and financial companies in the U.S. markets (mostly NYSE issues). The S&P is capitalization-weighted (as opposed to equal-weighted), calculated on a total return basis with dividends reinvested.

FTSE All Share: An arithmetic, market value-weighted average of approx. 680 securities representing 98-99% of the UK market capitalization, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

Morgan Stanley All Country World except USA: An arithmetic, market value-weighted average of approx. 1800 securities from outside the United States. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes.

Morgan Stanley Capital International Emerging Market Free: Contains securities of the following counties which are available to all investors regardless of local status: Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Portugal, South Africa, Sri Lanka, Thailand, Turkey and Venezuela.

Morgan Stanley Capital International EAFE: An arithmetic, market value-weighted average of over 900 securities from Europe, Australia, and the Far East. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes. The following countries are represented: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

Real Assets

Barclays Capital Treasury Inflation Protected Securities Index: The TIPS Index contains approximately 30 U.S. Treasury-issued inflation protected securities of varying maturities up to 20 years.

Bloomberg Commodity Index Total Return (formerly Dow Jones UBS Commodities Index): comprised of 24 commodity futures index constituents including: Natural Gas, WTI Crude Oil, Brent Crude Oil, Unleaded Gasoline, Heating Oil, Live Cattle, Lean Hogs, Wheat, Corn, Soybeans, Soybean Oil, Sugar, Cotton, Coffee, Cocoa, Aluminum, Copper, Zinc, Nickel, Gold, Silver, Lead, Tin and Platinum.

Section 12 GLOSSARY

NCREIF Property Index: The NPI contains investment-grade, non-agricultural, income-producing properties which may be financed in excess of 5% gross market value; were acquired on behalf of tax exempt institutions; and are held in a fiduciary environment. Data is collected quarterly from a membership of investment managers and plan sponsors. Returns are gross of fees; include income, realized gains/losses, and appreciation/depreciation; and are market-value weighted. Property values are determined by consistent appraisal methodology and sold properties are removed in the quarter of the sale (the historical data remains). Current quarter performance is preliminary.

Financial Times Securities Exhange ("FTSE") NAREIT U.S. Real Estate Index: Includes all REITS listed on the NYSE and Nasdaq indices. The index excludes LLPs and LLCs. The sectors are as follow: Healthcare, Self-Storage, Office/Industrial, Residential, Retail and Lodging/Resorts.

Cash

90-Day Treasury Bills: An average of the last three 90-day treasury bill issues' monthly return equivalents of yield averages, which are not marked to market. Month-end discount yields are converted to bond-equivalent yields, then a simple average is taken, and that number is decompounded to a monthly return using the actual number of days in the month and a 365-day year.

Policy Benchmarks

Current:

Domestic Equity	24% Russell 3000
Non U.S. Equity	29% MSCI ACWI ex-U.S.
Fixed Income	19% BC U.S. Aggregate
Credit Opportunities	5% 65% BC U.S. HY Capped+ 35% J.P.EMBI-GD
Private Equity	12% Russell 3000 + 300 bps
Private Real Estate	5% NFI-ODCE + 80 bps
Public Real Assets	5% U.S. Consumer Price Index + 5%
Cash	1% 90-Day Treasury Bill

TOTAL: 24% U.S. Equity; 29% Non-U.S. Equity; 19% Fixed Income; 5% Credit Opportunities; 12% Private Equity; 5% Private Real Estate; 5% Public Real Assets; 1% Cash

7/1/2007 through 12/31/2011:

U.S. Equity	43% Russell 3000
Non U.S. Equity	20% MS ACWI ex U.S. Net Div
Core Fixed Income	24% BC Universal
Real Estate	5% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually. Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.

Cash	1% 90 day Treasury Bill

TOTAL: 43% U.S. Equity: 20% Non U.S. Equity; 24% Core Fixed; 5% Real Estate; 7% Alternative; 1% Cash

<u>1/01/2007 through 6/30/2007:</u>

U.S. Equity	44% Russell 3000
Non-U.S. Equity	20% MS ACWI ex U.S. GD
Core Fixed Income	25% BC Universal
Real Estate	4% NCREIF
Alternative	6% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 44% U.S. Equity; 20% Non-U.S. Equity; 25% Core Fixed; 4% Real Estate; 6% Alternative; 1% Cash

<u>3/31/2006 through 9/30/2006:</u>

U.S. Equity	45% Russell 3000
Non-U.S. Equity	21% MS ACWI ex U.S. GD
Core Fixed Income	25% BC Universal
Real Estate	3% NCREIF
Alternative	5% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 45% U.S. Equity; 21% Non-U.S. Equity; 25% Core Fixed; 3% Real Estate; 5% Alternative; 1% Cash

<u>6/30/2001 through 3/31/2006:</u>

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD
Core Fixed Income	27% BC Universal
Real Estate	7% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 27% Core Fixed; 7% Real Estate; 7% Alternative; 1% Cash

<u>01/01/2001 through 6/30/2001:</u>

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD
U.S. Fixed	25% BC Universal
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	5% NCREIF

Alternative	5% “15%”
Cash	1% 90-day Treasury Bill

TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 5% Real Estate; 5% Alternative; 1% Cash

01/01/2000 through 12/31/2000:

U.S. Equity	43% Russell 3000
Non-U.S. Equity	21% MSCI EAFE
U.S. Fixed	25% BC Aggregate thru 6/30/00, BC Universal as of 7/1/00
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	2% NCREIF
Alternative	2% “15%”
Cash	1% 90-day Treasury Bill

TOTAL: 43% U.S. Equity; 21% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 2% Real Estate; 2% Alternative; 1% Cash

Through 12/31/99:

U.S. Equity	40% consisting of 33.75% S&P 500; 35.0% Russell 1000 Value; 12.5% Russell 1000 Growth; 12.5% Russell 2000 Value; 6.25% Russell 2000 Growth
Non-U.S. Equity	20% consisting of 25% MSCI EAFE; 22.5% MSCI Pacific; 15% TOPIX; 12.5% MSCI Europe; 25% MSCI Emerging Markets Free x Malaysia
U.S. Fixed	25.5% consisting of 17.65% BC Intermediate Government Corporate; 11.76% Intermediate Government; 7.84% BC Long Government Corporate; 3.92% BC Long Government; 58.8% BC Aggregate
Non-U.S. Fixed	7% JPM World
Real Estate	3% NCREIF
Alternative	3% “15%”
Cash	1.5% 90-day Treasury Bills

TOTAL: 40% U.S. Equity; 25.5% Fixed Income; 20% International Equity; 7% JPM Global Hedged; 3% NCRIEF; 3% Alternative 15%; 1.5% Treasury Bills

1 Yr: One-year rate of return. The linked quarterly returns of the previous four quarters.

X Yr Ann: X year annualized rate of return. The one-year equivalent return of the X year cumulative return.

X Yr Cum: X year cumulative rate of return. The linked quarterly returns of the previous X years.

Section 12 GLOSSARY

ASSET ALLOCATION

Market $: Net assets at market value including receivables, payables and accrued interest.

Market %: Market value as a percent of the total fund's market value.

Target %: Investment policy.

Invest %: Market value excluding cash and equivalents as a percent of total market value.

INVESTMENT PERFORMANCE

Time: The internal rate of return (accounting for daily cash flows) monthly based on trade-date, full accrual accounting, and using market values. For periods of greater than one month, a time series of linked monthly returns is maintained, introducing a time weighted effect. The private investment returns are lagged one quarter. The LACERS total fund return is dollar weighted to include private investments.

Market at Target: The weighted return made up of market returns weighted by LACERS' target allocation.

Market at Actual: The weighted return made up of market returns weighted by LACERS' actual allocation.

UNIVERSE COMPARISON

Universe comparisons will be specified in the quarterly Portfolio Performance Reports and LACERS will use broadly used universe comparisons as determined by the General Fund Consultant.

INVESTMENT IMPACT

Allocation: Market returns weighted by LACERS' actual asset allocation less market returns weighted by LACERS' target allocation.

Management: The difference between a) market returns weighted by LACERS' sector allocation and b) market returns weighted by LACERS' actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS' sector allocation.

Overall: Actual returns less market returns weighted by LACERS' target allocation.

RISK

Mean Rate of Return: The geometric average of twenty quarterly returns, annualized.

Standard Deviation: The standard deviation (one sigma) of twenty quarterly returns, annualized.

CHARACTERISTICS

Historic Beta: The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

Return on Equity: The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE’s of all stocks in the portfolio.

Legal Framework for Implementing ESG Factors into Investment Strategy

Anya Freedman, Assistant City Attorney
Miguel Bahamon, Deputy City Attorney

LACERS Board Meeting
February 12, 2019

Sources of Board's Fiduciary Duties

- Board members are trustees of Fund who are bound by their fiduciary duties to the Fund in every investment decision.
  - California Constitution (Art. XVI, §17)
  - Los Angeles City Charter (§1106)
  - Federal tax law and regulations
  - Common law of trusts and uniform trust laws
  - *ERISA and related Department of Labor Guidelines provide helpful guidance*

Duty of Primary Loyalty

- LACERS Board must act "solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system."
  - Cannot make investment decisions to serve any other interests or policy goals—however laudable.
- The Board's "duty to [LACERS] participants and their beneficiaries shall take precedence over any other duty." Cal Const. Art. XVI, §17(b); L.A. Charter §1106(a)

Prudent Investor Principle

- Board required to make all investment decisions "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use" in a similar situation. Cal Const. Art. XVI, §17(b); L.A. Charter §1106(c).
  - Must consider same factors as a prudent investor: diversification, cash flow requirements, opportunity costs, and projected risk-adjusted returns.

Department of Labor Guidelines

- **1994**: ERISA plan may make ESG investment if it has same expected rate of return as non-ESG alternative.
  - “All things being equal” test
- **2008**: Consideration of non-economic factors permitted but should be rare.
  - ESG investment decisions need to be documented as complying with rigorous fiduciary standards.

Department of Labor Guidelines

- **2015 (current)**: May consider ESG factors that affect expected return *and* may make ESG investment where same expected return as non-ESG alternative.
  - Reinstated 1994 Guidelines.
  - *All* investment decisions need to be sufficiently documented.

Summary

- Multiple legal frameworks require Board to act as Plan fiduciary.
- Board's primary duty is to LACERS members and beneficiaries.
  - Cannot make investment decisions to serve any other interests or policy goals—however laudable.
- Board held to "prudent expert" standard for investment decisions.
  - Must consider same factors as a prudent investor: diversification, cash flow requirements, opportunity costs, and projected risk-adjusted returns.
- Per ERISA Guidelines:
  - Board may consider ESG impact on returns just as it would consider other economic factors; *and*
  - Board may select ESG investment where its expected returns are same as non-ESG alternative.