

Investment Committee Agenda

REGULAR MEETING

TUESDAY, MARCH 12, 2019

**TIME: 10:30 A.M. OR IMMEDIATELY
FOLLOWING ADJOURNMENT
OF SPECIAL BOARD MEETING**

MEETING LOCATION:

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, CA 90012-4401

Live Committee Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

Legal Counselor: City Attorney's Office
Retirement Benefits Division

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.

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. [APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF FEBRUARY 12, 2019 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [SEMI-FINALISTS OF THE PRIVATE CREDIT INVESTMENT MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION](#)
- V. [REAL ESTATE FISCAL YEAR 2019-20 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION](#)
- VI. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER SALE OF ONE PARTICULAR, SPECIFIC PENSION FUND INVESTMENT AND POSSIBLE COMMITTEE/BOARD ACTION**
- VII. OTHER BUSINESS
- VIII. NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, April 9, 2019, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

IX. ADJOURNMENT

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MARCH 12, 2019

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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

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- IV. SEMI-FINALISTS OF THE PRIVATE CREDIT INVESTMENT MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION
- V. REAL ESTATE FISCAL YEAR 2019-20 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION
- VI. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER SALE OF ONE PARTICULAR, SPECIFIC PENSION FUND INVESTMENT AND POSSIBLE COMMITTEE/BOARD ACTION**

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VIII. NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, April 9, 2019, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

IX. ADJOURNMENT

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

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, California

February 12, 2019

Agenda of: March 12, 2019

Item No: II

2:36 p.m.

PRESENT:	Chair:	Sung Won Sohn
	Committee Members:	Elizabeth Lee Nilza R. Serrano
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counselor:	Anya Freedman

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

I

PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF JANUARY 8, 2019 AND POSSIBLE COMMITTEE ACTION – A Motion to approve the minutes of January 8, 2019 was moved by Committee Member Serrano, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn –3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, shared the 12-month Investment Committee Calendar with the Investment Committee. Mr. June also advised the Committee they have received 45 responses for the Private Credit Search RFP.

IV

PRESENTATION BY DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF AN ACTIVE U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO – Joe

Young, Vice President and David Plecha, Head of Global Fixed Income with Dimensional Fund Advisors LP presented this item to the Committee.

V

PRESENTATION BY DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS VALUE EQUITIES PORTFOLIO – Joe Young, Vice President and Karen Umland, Vice President with Dimensional Fund Advisors LP presented this item to the Committee.

VI

PRESENTATION BY OBERWEIS ASSET MANAGEMENT, INC. REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. SMALL CAP EQUITIES PORTFOLIO – Jeff Papp, Assistant Portfolio Manager and Brian Lee, Director of Marketing & Client Service with Oberweis Asset Management, Inc. presented this item to the Committee.

VII

REPORT ON LACERS COMMISSION RECAPTURE PROGRAM AND SOFT DOLLARS – Barbara Sandoval, Investment Officer II presented this item to the Committee.

VIII

OTHER BUSINESS – There was no other business.

IX

NEXT MEETING – The next Regular Meeting of the Investment Committee is scheduled for Tuesday, March 12, 2019, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

X

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the Meeting at 3:42 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary



Report to Investment Committee

Neil M. Guglielmo

From: Neil M. Guglielmo, General Manager

Agenda of: **MARCH 12, 2019**

ITEM: **IV**

SUBJECT: SEMI-FINALISTS FOR PRIVATE CREDIT INVESTMENT MANAGEMENT SEARCH AND POSSIBLE COMMITTEE ACTION

Recommendation:

That the Committee concur with staff's recommendation to advance Alcentra Limited, Bain Capital Credit, LP, Benefit Street Partners L.L.C., Crescent Capital Group LP, Monroe Capital LLC, and THL Credit Advisors LLC as semi-finalists for the Private Credit Mandate search.

Discussion:

Background

The Board approved a Request for Proposal (RFP) process to evaluate the current marketplace for private credit investment managers on October 9, 2018. Based upon the asset allocation targets approved by the LACERS Board on April 10, 2018, approximately \$670 million (3.75% of total fund assets) will be allocated to this mandate. LACERS seeks one or more qualified private credit managers for separately managed account(s) and/or commingled fund(s). Funding will be derived principally from a reduction to core fixed income allocations.

The search opened on December 10, 2018, and closed on January 18, 2019. The RFP was published on LACERS' website and NEPC's website. The search was advertised in Pensions and Investments and Emerging Manager Monthly publications. The RFP was also advertised online through the following organizations: Association of Asian American Investment Managers, National Association of Investment Companies, and New America Alliance. Further, the RFP was emailed to all contacts within the LACERS Investment RFP/RFI Notification System database.

Search Results

A total of 49 proposals were received, representing 43 firms; and 31 firms met the minimum qualifications (MQs) required to participate in the search, including three emerging investment managers.

Evaluation Criteria and Recommendation

Staff and NEPC evaluated the respondents based on the methodology published in LACERS Manager Search and Selection Policy. The scoring criteria and corresponding weightings established in the RFP are as follows:

Criteria	Weight	Sub-weighting
Qualitative Assessment	70%	
<i>Organization/People</i>		30%
<i>Investment Process</i>		40%
<i>Risk Management</i>		30%
Quantitative Assessment	20%	
Expected Fees	10%	

The attached evaluation report includes the summary findings of all firms as well as additional information for each of the proposed semi-finalists:

- Alcentra Limited
- Bain Capital Credit, LP
- Benefit Street Partners L.L.C.
- Crescent Capital Group LP
- Monroe Capital LLC
- THL Credit Advisors LLC

Upon Investment Committee concurrence of the proposed semi-finalist firms, staff will conduct additional due diligence, which may include on-site visits and reference checks. Following completion of this assessment, staff will recommend finalists for interview and consideration for the Committee, consistent with the process approved by the Board on October 9, 2018.

Strategic Plan Impact Statement

The Request for Proposal (RFP) for private credit investment management assists the fund to optimize long-term risk adjusted investment returns (Goal IV). Implementing a competitive bidding process by issuing an RFP upholds good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

This report was prepared by Jimmy Wang, Investment Officer I.

RJ:BF:WL:JW:sg

Attachment: A) Semi-Finalists of the Private Credit Investment Manager Search

SEMI-FINALISTS OF THE PRIVATE CREDIT INVESTMENT MANAGER SEARCH

LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

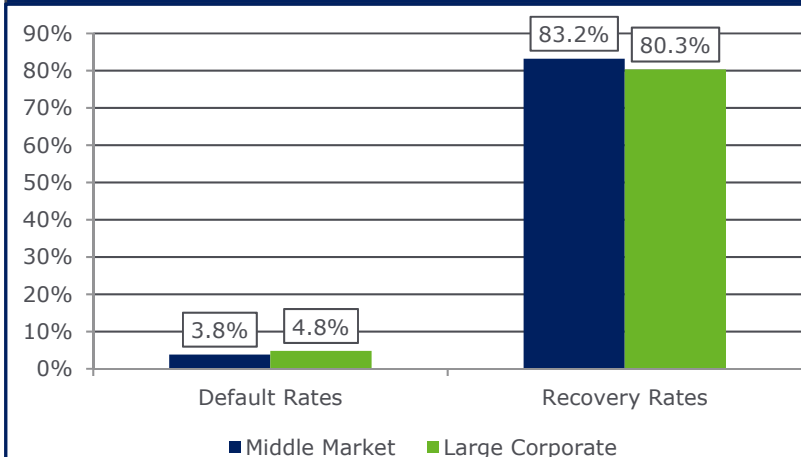
March 12, 2019



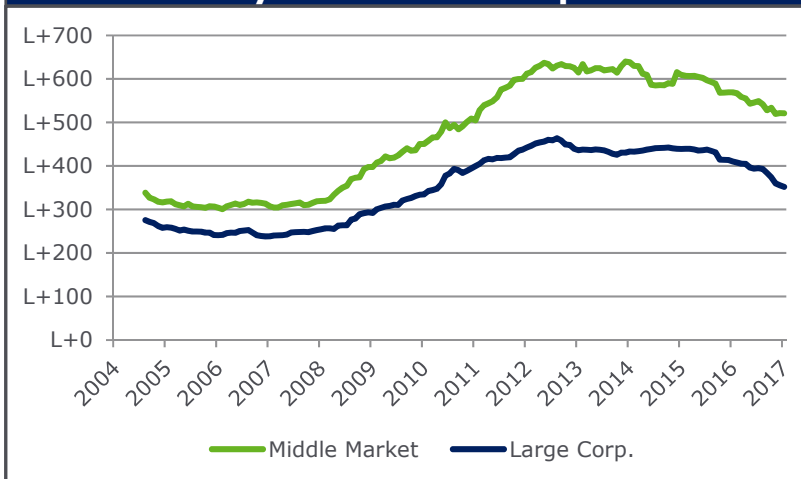
BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

PRIVATE CREDIT OVERVIEW

Historical Default and Recovery Rates



Global Middle Market vs. Broadly Syndicated Loan Spreads



In The Portfolio Context

- **Why is Private Credit Attractive?**
 - Opportunity due to ongoing de-leveraging of global banking system
 - Attractive risk-adjusted returns
- **Target Returns:**
 - US lower middle-market: 7%-8% net unlevered IRRs (9%-11% levered*)
 - US core middle-market: 6%-7% net unlevered returns (8%-10% levered*)
 - European middle-market: 9%-10% net unlevered IRRs (11%-13% levered*)
- **Middle-market direct lending can continue to provide a stronger yield with historically lower default rates when compared to more liquid instruments**
 - US and European diversified direct lending yields continue to outperform more liquid and public market peers
- **Manager selection and fund economics continue to be important as yields compress**

Source: S&P Leveraged Lending Review Q3 2017, NEPC Research

*Assumes 1.0x of leverage at the fund level



PRIVATE CREDIT WITHIN LACERS PORTFOLIO

	Current Target
Total Cash	1.0%
US Equities	19.0%
Non US Equities	27.0%
Private Equity	14.0%
Total Equity	60.0%
Core Fixed Income	13.75%
Credit Opportunities	12.25%
Total Fixed Income	26.0%
Public Real Assets	6.0%
Real Estate	7.0%
Total Real Assets	13.0%
Expected Return 5-7 yrs	7.0%
Expected Return 30 yrs	8.0%
Standard Dev	13.3%
Sharpe Ratio (5-7 years)	0.34
Sharpe Ratio (30 years)	0.38

Based on NEPC 2019 capital market assumptions.

- **Private Credit resides in the Credit Opportunities allocation and represents 3.75% of the overall LACERS portfolio**
 - NEPC’s return expectations for Private Credit have increased year-over-year (2018 = 6.5%; 2019 = 7.6%)
- **Implementation preference remains:**
 - Combination of US and non-US (primarily Europe) exposures
 - Separately Managed Account vehicle (evergreen structure)
 - Investment manager selection leaning towards more conservative strategies
 - Selective deployment of capital, strong underwriting capabilities, prudent use of leverage, etc.

PRIVATE CREDIT SEARCH SUMMARY

Summary

- **LACERS received 49 proposals for private credit mandates from 43 different investment management firms**
 - Nine proposals were submitted from Emerging Firms
- **After a review of the minimum requirements, 31 Proposals passed**
 - Three proposals from Emerging Firms
- **Using the scoring matrix from LACERS' investment policy statement the following firms are presented as semi-finalists**

U.S./North America

- **Benefit Street Partners L.L.C.**
- **Monroe Capital LLC**
- **THL Credit Advisors LLC**

European/Global

- **Alcentra Limited**
- **Bain Capital Credit, LP**
- **Crescent Capital Group LP**



PROPOSALS RECEIVED – MINIMUM QUALIFICATIONS

Firm	Product Proposed	Pass/Fail	Reason
AlbaCore Capital LLP	European Private and Opportunistic Credit	Fail	Incomplete proposal
Alcentra Limited	European Direct Lending	Pass	
Backcast Partners Management LLC*	US Direct Lending/Credit Opportunities	Pass	
Bain Capital Credit, LP	Global Direct Lending	Pass	
Barings LLC	Global Direct Lending	Pass	
Barings LLC	European Direct Lending	Pass	
Benefit Street Partners L.L.C.	US Direct Lending	Pass	
BlackRock	US Direct Lending	Pass	
Breakwater Management LP*	US Direct Lending	Pass	
Brightwood Capital Advisors, LLC	US Direct Lending	Pass	
Carlyle Global Credit Investment Management L.L.C.	Global Credit Middle market senior secured loans SMA	Pass	
Clearwater Capital Partners (Fiera Capital Corporation)	Asia Private Debt	Pass	
CLSA Capital Partners (HK) Limited*	Asia Private Debt	Fail	Didn't meet minimum criteria
Crescent Capital Group LP	European Specialty Lending Fund II	Pass	
Crescent Capital Group LP	Private Credit Partners	Pass	
Crescent Capital Group LP	Private High Yield	Pass	
Cross Ocean Adviser LLP	European Senior Secured Credit (ESS Fund III or SMA)	Pass	
Deerpath Capital Management, LP	US Direct Lending	Fail	Incomplete proposal
EntrustPermal / Blue Ocean GP LLC	Blue Ocean Strategy	Fail	Didn't meet minimum criteria
Goldman Sachs Asset Management, L.P.	US Direct Lending SMA	Pass	
Granite State Capital Management, LP*	US Revolving Credit Facilities	Fail	Incomplete proposal and didn't meet minimum
Guggenheim Partners, LLC	US (90%) and Europe (10%) Private Debt Strategy SMA	Pass	
Kartesia Management S.A.	Kartesia Credit Opportunities V - European private credit	Fail	Incomplete proposal
Kayne Anderson Capital Advisors, L.P.	US Senior Direct Lending - Kayne Senior Credit Fund IV or SMA	Pass	

*Submitted proposal as an Emerging Firm.



PROPOSALS RECEIVED – MINIMUM QUALIFICATIONS

Firm	Product Proposed	Pass/Fail	Reason
Mangetar Capital LLC	Mangetar Constellation Fund V	Fail	Incomplete proposal
Maranon Capital, L.P	US senior direct lending - SMA	Pass	
MB Global Partners, LLC*	MB Special Opportunities Fund II, L.P. ("Fund II") / SMA	Pass	
MC Credit Partners LP*	MC Credit Fund III - US senior direct lending, may offer SMA?	Pass	
Medalist Partners, LP*	Opportunity Fund II / SMA US Asset-backed lending/specialty	Fail	Incomplete proposal
Monroe Capital LLC	US Senior Direct Lending SMA	Pass	
Muzinich & Co., Inc	Muzinich Global Private Debt SMA	Pass	
MV Credit Partners LLP	European Senior Lending SMA	Pass	
New Mountain Capital, LLC	US Senior direct lending SMA	Fail	Incomplete proposal
NXT Capital Investment Advisers, LLC	US Direct lending SMA	Fail	Didn't meet minimum criteria
Oaktree Capital Management, L.P.	US Middle-Market Direct Lending Strategy SMA	Pass	
Oaktree Capital Management, L.P.	European Capital Solutions SMA	Pass	
Owl Rock Capital Partners, LP	US First lien strategy SMA	Fail	Incomplete proposal
Pacific Investment Management Company LLC	Private Income Fund	Fail	Didn't meet minimum criteria
Park Square Capital USA LLC	European middle market lending SMA	Pass	
Pemberton Capital Partners LLP	European Strategic Credit Opportunities strategy SMA	Fail	Didn't meet minimum criteria
Pemberton Capital Partners LLP	European Mid-Market Debt Strategy SMA	Fail	Didn't meet minimum criteria
Pemberton Capital Partners LLP	Blended SMA	Fail	Didn't meet minimum criteria
Pennant Park Investment Advisors, LLC	US Middle market lending SMA	Pass	
Runway Growth Capital LLC*	US Senior secured debt BDC	Fail	Didn't meet minimum criteria
Stellus Capital Management, LLC	US Senior secured loans (lower middle market) SMA	Pass	
THL Credit Advisors LLC	US Middle market direct lending SMA	Pass	
Tor Investment Management (Hong Kong) Limited	Senior secured private debt Asia/Pacific SMA	Fail	Didn't meet minimum criteria
White Oak Global Advisors, LLC	White Oak Yield Spectrum Fund 5, L.P.	Pass	
Willow Tree Credit Partners, LP*	Willow Tree Fund I, LP and Willow Tree Fund I (Offshore), LP	Fail	Incomplete proposal / Didn't meet minimum

*Submitted proposal as an Emerging Firm.



CANDIDATE EVALUATION SCORES – US

Firm	Qualitative (70%)			Quantitative Assessment (20%)	Fees (10%)	Total
	Organization/ People (30%)	Investment Process (40%)	Risk Management (30%)			
Monroe Capital LLC	4.25	4.50	4.25	4.07	2.00	4.06
Benefit Street Partners L.L.C.	4.00	4.50	4.25	3.56	2.00	3.90
THL Credit Advisors LLC	4.00	3.50	3.75	3.77	4.00	3.76
Firm 3	3.50	3.25	3.25	3.29	4.00	3.39
Firm 4	3.50	3.50	3.50	3.57	2.00	3.36
Firm 5	3.25	3.00	3.75	4.01	2.00	3.31
Firm 6	3.50	3.00	3.00	4.03	3.00	3.31
Firm 7	3.25	3.00	3.00	4.38	2.00	3.23
Firm 8	3.00	3.00	3.00	3.13	5.00	3.23
Firm 9	3.25	3.25	3.50	3.89	1.00	3.21
Firm 10	2.50	3.00	3.00	3.72	4.00	3.14
Firm 11	4.00	2.00	3.00	3.50	4.00	3.13
Firm 12	3.00	3.00	3.00	2.50	3.00	2.90
Firm 13	3.00	2.00	3.00	3.00	4.00	2.82
Firm 14	3.00	3.00	2.50	2.06	4.00	2.81
Firm 15	2.00	3.00	3.00	2.94	1.00	2.58
Firm 16	3.00	2.50	3.00	1.25	1.00	2.31

CANDIDATE EVALUATION SCORES – NON-US

Firm	Qualitative (70%)			Quantitative Assessment (20%)	Fees (10%)	Total
	Organization/ People (30%)	Investment Process (40%)	Risk Management (30%)			
Alcentra Limited	3.75	4.00	3.75	3.50	4.00	3.80
Crescent Capital Group LP	3.25	3.75	3.00	3.88	2.00	3.34
Bain Capital Credit, LP	3.75	3.00	3.50	2.83	4.00	3.33
Firm 4	4.00	2.50	3.00	2.67	5.00	3.20
Firm 5	4.00	3.00	3.00	3.46	2.00	3.20
Firm 6	3.00	3.00	3.00	1.40	5.00	2.88
Firm 7	4.00	2.00	3.00	2.20	3.00	2.77
Firm 8	4.00	2.50	4.00	1.22	1.00	2.72
Firm 9	3.00	3.00	3.00	2.43	1.00	2.69
Firm 10	3.00	2.00	2.00	3.75	2.00	2.56
Firm 11	3.00	2.00	3.00	2.20	3.00	2.56
Firm 12	3.00	3.00	3.00	0.95	1.00	2.39
Firm 13	3.00	1.00	3.00	2.00	4.00	2.34
Firm 14	3.00	2.00	3.00	1.00	2.00	2.22
Firm 15	2.00	2.00	3.00	0.00	5.00	2.11

SEMI-FINALIST CANDIDATES – U.S.

data as of 9/30/2018	Benefit Street Partners L.L.C	Monroe Capital LLC	THL Credit Advisors LLC
Fund Name	LACERS Private Credit SMA	LACERS SMA	LACERS SMA
Main Address	9 West 57th Street, Suite 4920 New York, NY 10019	311 South Wacker Drive, 64th Floor Chicago, IL	100 Federal Street, 31st Floor Boston, MA
Additional Offices	Houston, Providence, Raleigh, Charlotte, San Francisco	Atlanta, Boston, Dallas, Los Angeles, New York, San Francisco	Chicago, Dallas, Los Angeles, New York
Firm History / Description	Benefit Street Partners was founded in 2008 and manages \$24.6 billion across multiple credit strategies including: long-short liquid credit, distressed/opportunistic credit, private debt, commercial real estate, collateralized debt obligations, and liquid high yield bonds and leveraged loans.	Monroe Capital was established in 2004 and is a leading private credit asset management firm with approximately \$6.1 billion in committed and managed assets under management.	THL Credit is the alternative credit affiliate of Boston-based private equity firm Thomas H. Lee Partners. The firm is an experienced investment manager for middle market direct lending and tradable credit (CLO's and broadly syndicated loans). The firm was founded in 2007 and is headquartered in Boston.
Assets Under Management	\$26.4 billion	\$7 billion as of 1/1/2019	\$15.8 billion as of 12/31/2018
Private Credit Assets Under Management	\$12.3 billion	\$7 billion as of 1/1/2019	\$1.8 billion as of 12/31/2018
Number of Existing Private Credit Funds and Separate Accounts	There have been five commingled private debt funds that have been raised in the past and seven private debt separate accounts. Benefit Street Partners is also the manager of a Business Development Corporation.	Ten private credit capital funds including four separately managed accounts. One Business Development Company and seven collateralized loan obligation funds.	The firm has raised five direct lending funds, including one Business Development Corporation.
Number of Employees Firm	192	103	95
Number of Employees Product	101	74	43



SEMI-FINALIST CANDIDATES – U.S.

data as of 9/30/2018	Benefit Street Partners L.L.C	Monroe Capital LLC	THL Credit Advisors LLC
Fund Strategy	Direct Lending	Direct Lending	Direct Lending
Industry Focus	Diversified	Diversified	Diversified
Geographic Focus	North America	North America	North America
Target Deal Size	1% - 2% of total assets	\$10 million to \$75 million	\$10 million to \$75 million
Leverage	0.5x, if allowed	1x, if allowed	1x, if allowed
Target Number of Investments	75-100	TBD depending on length and size of fund	35-50
Strategy Description	<p>The Fund will seek to provide investors with current income and long-term capital appreciation by primarily originating senior secured loans for middle and upper-market ("core middle market") companies located in the United States. The majority of these companies will have EBITDA between \$25 million and \$75 million. The strategy will target sponsored and non-sponsored companies.</p>	<p>The Fund will seek to provide LACERS with current income and long-term capital appreciation by originating senior secured loans in lower-middle market companies located in North America. The Fund will primarily invest in US companies with less than \$30 million in EBITDA that require financing to fund a corporate event such as a buyout, refinancing, recapitalization, ownership transfer, or acquisition.</p>	<p>The Fund will seek to make primary secured loans to sponsored backed lower middle market companies in North America. Companies will have EBITDA sizes between \$5-\$50 million and loans will be \$10-\$55 million. They anticipate approximately 75%-85% of loans will be first and second lien loans including unitranche, 15% will be unsecured loans and 5% will be equity co-investment.</p>



SEMI-FINALIST CANDIDATES – NON-U.S.

data as of 9/30/2018			
	Alcentra Limited	Bain Capital Credit, LP	Crescent Capital Group LP
Fund Name	Evergreen European Direct Lending SMA	Senior Direct Lending SMA	Evergreen European SMA
Main Address	160 Queen Victoria Street London, UK	200 Clarendon St. Boston, MA	25 Hanover Square London, UK**
Additional Offices	New York, Boston, San Francisco, Singapore, Hong Kong	London, Hong Kong, New York, Madrid, Dublin, Sydney, Chicago, Guangzhou, Melbourne, Seoul, Mumbai	Los Angeles, Boston, New York
Firm History / Description	Alcentra was formed in 2002 through Alchemy Partners' acquisition of Imperial Credit Asset Management Inc., a US leveraged loan manager. In March 2003, Alcentra Group acquired from Barclays Bank PLC its wholly owned subsidiary, Barclays Capital Asset Management (renamed Alcentra Limited), and investment interests in two collateralized debt obligations. This company became the European operations of Alcentra.	Bain Capital Credit, LP is an affiliate of Bain Capital, LP. The firm was founded as Sankaty Advisors in 1998. Bain Capital Credit invests across the full spectrum of credit strategies including leveraged loans, high yield bonds, distressed debt, direct lending, structured products, non-performing loans and equities.	Crescent was founded and began managing assets in 1991. In 1995, Crescent joined Trust Company of the West (TCW) where the team remained for 15 years. At the beginning of 2011, the founders and other team members of Crescent spun out from TCW as an independent, employee-owned firm.
Assets Under Management	\$37.6 billion as of 11/30/2018	\$41 billion	\$24 billion
Private Credit Assets Under Management	\$34.8 billion*	\$7.3 billion	\$13.6 billion
Number of Existing Private Credit Funds and Separate Accounts	Alcentra currently manages more than 70 vehicles dedicated to sub-investment grade credit strategies across open end funds, closed end funds, separately managed accounts, mutual funds, UCITS funds, exchange listed funds and collateralized loan obligations. Under the direct lending strategy there are 16 different funds including separately managed accounts.	The firm manages 12 senior direct lending portfolios including nine separately managed accounts. The firm manages three mezzanine and junior capital portfolios.	Since its inception, Crescent has raised over 20 private credit funds.
Number of Employees Firm	168	294	169
Number of Employees Product	26	31	11

*Includes private debt strategies like syndicated loans, middle market loans, structured credit, special situations, multi-strategy. Direct lending globally is \$9.4 billion.

**The firm's head office is located in Los Angeles. However, this portfolio would be managed out of the firm's London office.



SEMI-FINALIST CANDIDATES – NON-U.S.

data as of 9/30/2018	Alcentra Limited	Bain Capital Credit, LP	Crescent Capital Group LP
Fund Strategy	Direct Lending	Direct Lending	Direct Lending
Industry Focus	Diversified	Diversified	Diversified
Geographic Focus	Europe	North America and Europe	Europe
Target Deal Size	€30 million to €200 million	1% - 5% of total account	€15 million to €75 million
Leverage	1x, if allowed	0.6x, if allowed	1x, if allowed
Target Number of Investments	60-70	30 - 50	25+
Strategy Description	<p>The Fund will seek to provide LACERS with current income and long-term capital appreciation by originating senior secured loans in lower-middle market companies located in Western Europe and opportunistically to non-European companies.</p>	<p>Focus on the middle market investing in companies ranging from \$10 million to \$150 million in EBITDA. Their approach to making investment generally involves evaluating the following investment characteristics: market definition, market size and growth prospects, competitive analysis, historical financial performance, margin analysis and cost structure, quality of earnings, capital structure, access to capital markets and regulatory, risk analysis, tax and legal matters.</p>	<p>The Fund will invest in a diversified portfolio consisting principally of secured loans of private European companies. The Fund's investments may take form of senior secured term loans, unitranche loans, second lien loans, or subordinated debt (including mezzanine and PIK securities) and the overall mix will have a bias towards more senior secured securities. The Fund will primarily target investments in the debt of mid-market European companies. Most investments will be in directly originated transactions. Occasionally, securities may be sourced in the secondary market. The Fund expects to mainly invest in primary transactions (including direct lending) although it may also invest in securities sourced in the secondary market.</p>





LACERS

LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



Report to Investment Committee

Neil M. Guglielmo

From: Neil M. Guglielmo, General Manager

Agenda of: **MARCH 12, 2019**

ITEM: **V**

SUBJECT: REAL ESTATE FISCAL YEAR 2019-20 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

Recommendation

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2019-20 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2019-20 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

Strategic Plan Impact Statement

The annual real estate strategic plan assists the Board in building a diversified real estate to optimize long-term risk-adjusted return profile (Goal IV). Development and adoption of such a plan also promotes good governance practices (Goal V).

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

RJ:BF:EP

Attachment: A) Proposed Real Estate Portfolio Strategic Plan – The Townsend Group

MEMORANDUM

TO: The Board of Los Angeles City Employees' Retirement System

DATE: March 2019

SUBJECT: Real Estate Strategic & Investment Plan for Fiscal Year 2019-2020 – Executive Summary

FROM: The Townsend Group

Executive Summary

The purpose of this report is to review the Los Angeles City Employees' Retirement System ("LACERS" or the "System") Real Estate Strategic Plan ("Strategic Plan") and outline the corresponding Real Estate Investment Plan ("Investment Plan"). The Investment Plan includes actions which will help LACERS to capitalize on current market opportunities while still meeting the guidelines set forth in the proposed Strategic Plan.

Townsend was re-engaged by LACERS's Board in 2014 to serve as its real estate consultant. Since that time, Townsend has worked with LACERS Staff to successfully transition the Portfolio to reflect a more conservative risk profile. The investment strategy from 2014 to-date has emphasized \$255 million of investment into Core funds, \$130 million into tactical Non-Core funds and close monitoring of pre-GFC underperforming investments which have begun to mature and liquidate.

In April 2018, LACERS Board adopted changes to its Asset Allocation targets, as advised by its general consultant. The impact to real estate was to increase capital from 5.0% of Total Plan Assets to 7.0% of Total Plan Assets.

Townsend has no recommended changes to the Strategic Plan. Investment Plan recommendations are summarized below. A Strategic Plan is provided for reference as **Attachment A**.

2019-2023 Investment Recommendations

The LACERS Program (the "Program") now has a 7.0% allocation target (with an allowable range of \pm 2.0%). As of September 30, 2018, the market value of the Portfolio was \$888 million on a committed and funded basis (5.0% of Total Plan Assets). With the combination of the recently approved increased allocation to real estate, and planned liquidations, LACERS will need to deploy significant capital in order to reach its 7.0% allocation target over the coming years.

The following table depicts a range of capital shortfalls between 2019 and 2023 under three different scenarios:

Portfolio Growth Scenario	Core Growth Assumption	Non-Core Growth Assumption	Total Capital Needed until 2023	Capital per Annum until 2023
Conservative	0%	4%	\$975 million	\$195 million
Baseline	2%	6%	\$850 million	\$170 million
Aggressive	4%	8%	\$725 million	\$145 million

According to the Baseline Scenario, LACERS has capacity to make cumulative commitments of approximately \$850 million over five years in order to reach its 7.0% allocation to Real Estate (targeting approximately \$170 million per year).

Townsend recommends the following 2019-2020 Goals to LACERS for consideration:

LACERS Annual Investment Plan FY 2019-2020	
Core	
Capital	\$40 M - \$60 M
Number of Funds	1-2
Target Average Commitment per Fund	\$50 M
Non-Core	
Capital	\$100 M - \$110 M
Number of Funds	2-3
Target Average Commitment per Fund	\$50 M
Total Annual Commitments	\$140 M - \$170 M

Overall Portfolio Goals

- Refrain from over-committing in peak market vintage years, simply due to the increase in allocation
- For compelling opportunities, consider increasing average commitment size to reflect the new real estate allocation

Core Portfolio Goals

- Evaluate existing Open-End Core fund portfolio and consider rebalancing portfolio to improve diversification and returns, as necessary.

- Maintain relative weightings to Core v. Non-Core to maintain an appropriate level of defensiveness.

Non-Core Portfolio Goals

- Focus on up to three incremental commitments in Non-Core (ranging from \$35 to \$50 million per investment), emphasizing current income and pre-specified portfolios to mitigate J-curve.
- Target commitments to preferred property types and regions based on LACERS Portfolio exposures:
 - **Industrial:** consider increasing and diversifying Industrial exposure through commitments to strategies that focus on different asset sizes and different markets (in the US and abroad) than current investments. LACERS is currently slightly overweight by 80 basis points, and Townsend recommends increasing that overweight further.
 - **US Apartments:** rebalance existing Apartment exposure to optimize returns, and increase exposure to a neutral weight. LACERS is currently underweight by 390 basis points.
 - Consider Core commitments to diversified funds with Apartment overweight.
 - **US Office:** consider tactical investments in high growth markets benefiting from technology, advertising, media, internet, science and technology drivers. LACERS is currently underweight compared to NFI-ODCE by 380 basis points.
- Actively source opportunities from the Emerging Manager universe as available.
- Emphasize current income and pre-specified portfolios to mitigate J-curve.

END OF INVESTMENT RECOMMENDATIONS



TOWNSEND[®]
GROUP

an Aon company

Real Estate Portfolio

Fiscal Year 2019-2020 Investment Plan

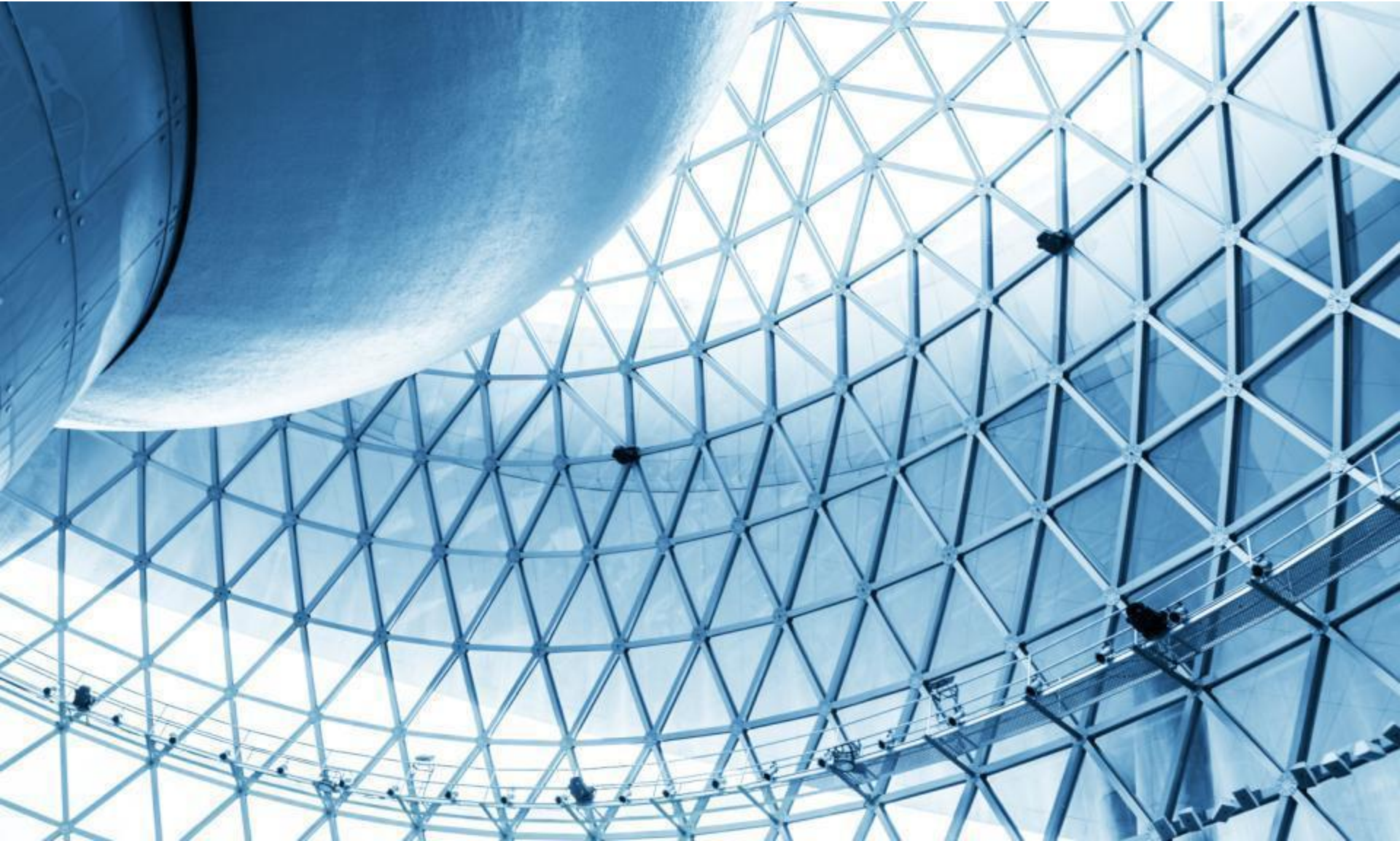




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- A. LACERS Real Estate Program Overview
- B. LACERS Commitment History
- C. LACERS 2019-2023 Objectives and Investment Plan
- D. Sourcing and Deal Flow

A. LACERS Real Estate Program Overview



LACERS Real Estate Program Overview

- LACERS began investing in Real Estate in 1989.
- In April 2018, LACERS' Board elected to increase its real estate allocation from 5.0% to 7.0% of Total Plan Assets (with an allowable range of $\pm 2.0\%$).
- As of September 30, 2018, the market value of the Portfolio was \$787 million (4.4% of Total Plan Assets).
- Forecasts show that several investments will be liquidating from the Portfolio over the next three-year period.

	3Q18 Market Value (\$ millions)*	% LACERS Plan
LACERS Total Plan Assets	17,773	
Real Estate Target	1,244	7.0%
RE Market Value:		
Core	545	
Non-Core	222	
Timber	20	
Total RE Market Value	787	4.4%
Unfunded Commitments	101	0.6%
RE Market Value + Unfunded Commitments	888	5.0%
Remaining Allocation	356	2.0%

*Figures may not add due to rounding. Unfunded commitments exclude commitments made after 9/30/18.

LACERS Real Estate Program Overview (continued)

	<i>Strategic Targets</i>		<i>Portfolio Composition (9/30/2018)*</i>	
	Target Allocation	Tactical Range	Funded	Funded & Committed
Core	60%	40% - 80%	69.2%	61.3%
Non-Core	40%	20% - 60%	28.2%	36.4%
<i>Value Add Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>13.1%</i>	<i>19.7%</i>
<i>Opportunistic Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>15.1%</i>	<i>16.7%</i>
Timber	N/A	N/A	2.6%	2.3%

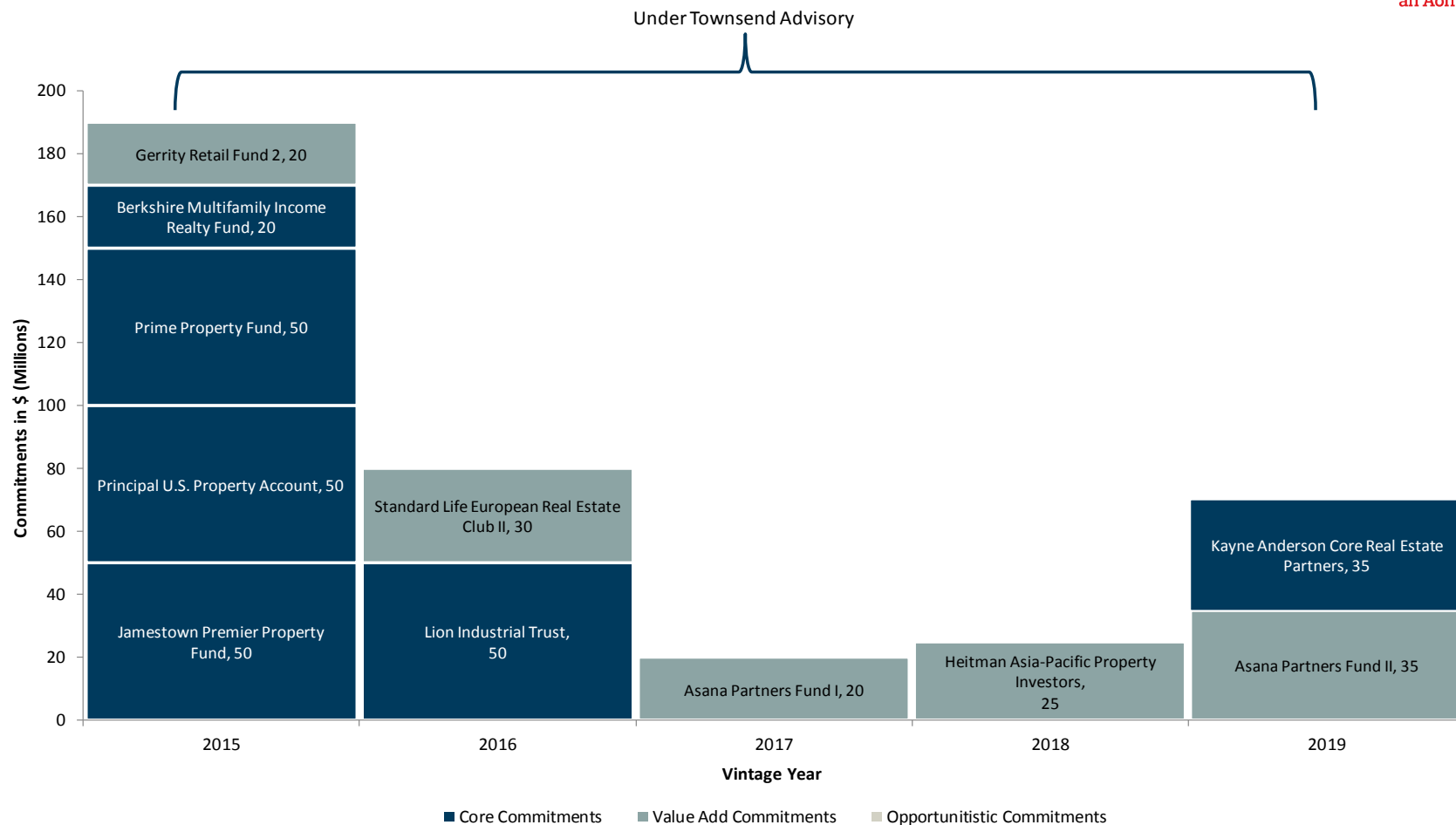
- In May 2014, the Board approved the strategic targets displayed above in order to reflect a more conservative risk profile going-forward. At the time, the Portfolio had 30% exposure to Core and 70% exposure to Non-Core.
- Since 2014, in an effort to transition the Portfolio, the LACERS Board has approved \$255 million in Core commitments, which have all been funded to date with the exception of a \$35 million commitment to Kayne Anderson Core Real Estate Fund approved subsequent to quarter-end.
- The LACERS Board approved \$130 million in Non-Core investments since 2014. These investments mainly focused on Value Add strategies with pre-specified portfolios, embedded value and/or an element of current income.
- On a funded and committed basis, the LACERS Core and Non-Core allocations are in line with the strategic targets.
- The Core Portfolio utilizes 25.7% leverage, measured on a loan-to-value (LTV) basis, well below the 40.0% constraint.
- The Non-Core Portfolio has a 55.2% LTV ratio, well below the 75.0% constraint.

*Figures may not add due to rounding. Funded & Committed figures exclude commitments made after 9/30/18.

B. LACERS Commitment History



LACERS Commitment History – Last Five Years



- LACERS has committed \$505 million since 2012, of which \$315 million (~60%) have been Townsend-initiated activities since 2015 .
- 42% of Non-Core commitments since 2015 (Gerrity and Asana) met LACERS Emerging Manager guidelines. In the Core open-end fund space, there are currently no managers meeting these guidelines.
- Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

C. LACERS 2019-2023 Objectives and Investment Plan



LACERS Investment Plan Summary – Fiscal Year 2019-2020



LACERS Annual Investment Plan FY 2019-2020	
Core	
Capital	\$40 M - \$60 M
Number of Funds	1-2
Target Average Commitment per Fund	\$50 M
Non-Core	
Capital	\$100 M - \$110 M
Number of Funds	2-3
Target Average Commitment per Fund	\$50 M
Total Annual Commitments	\$140 M - \$170 M

LACERS 2019-2023 Objectives

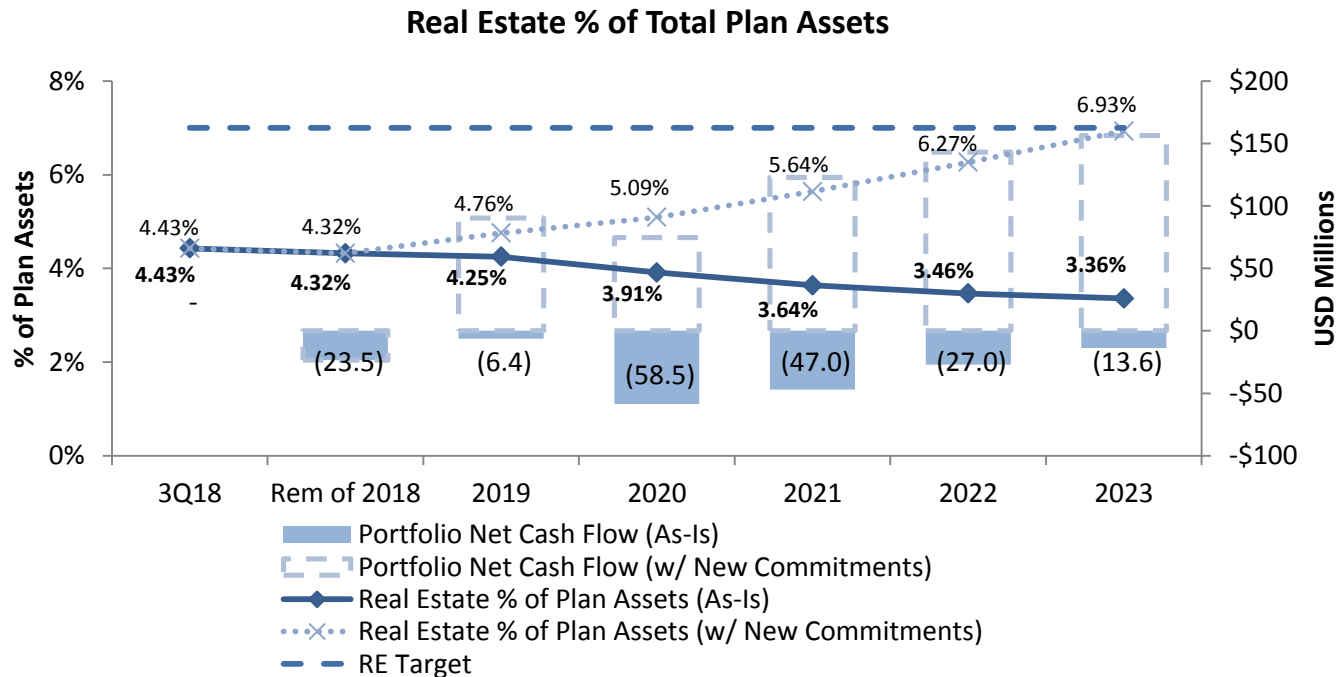
- Townsend ran three scenarios to model real estate capital pacing between 2019 and 2023. All three scenarios assume a Total Plan Growth Rate of 4.0% per annum.
- LACERS has capacity to commit an additional \$725-\$975 million between now and 2023 in order to increase its Real Estate allocation to 7.0% of Total Plan Assets (targeting \$145-\$195 million per year over the next five years).
- Capital pacing was determined based upon LACERS existing manager input, along with various forward-looking return assumptions which may or may not materialize according to plan.
- Townsend will work with LACERS Staff to prudently allocate capital over the next five years, and will exercise discretion in preserving capacity for future out-year investments.

Portfolio Growth Scenario	Core Growth Assumption	Non-Core Growth Assumption	Total Capital Needed until 2023	Capital per Annum until 2023
Conservative	0%	4%	\$975 million	\$195 million
Baseline	2%	6%	\$850 million	\$170 million
Aggressive	4%	8%	\$725 million	\$145 million

LACERS 2019-2023 Objectives

Base Case Growth

- The Base Case Model assumes a 2.0% annual growth rate for Core returns and 6.0% annual growth rate for Non-Core returns, which we view as moderately conservative return assumptions.
- According to Base Case Capital Projections, LACERS has approximately \$850 million of additional private real estate investment capacity in order to grow its allocation to 7.0% of Plan Assets by 2023 (\pm \$170 million per annum over five years).
- Townsend will work with Staff to carefully manage LACERS investment exposure.
 - Preserve investment capacity to allow LACERS take advantage of opportunities during all market cycles (not all capital needs to be deployed at once).
 - Monitor contribution and distribution/withdrawal activities, and forecasts provided by LACERS' managers.
 - Consider Non-Core investments, which may include one or more Emerging Manager commitments.

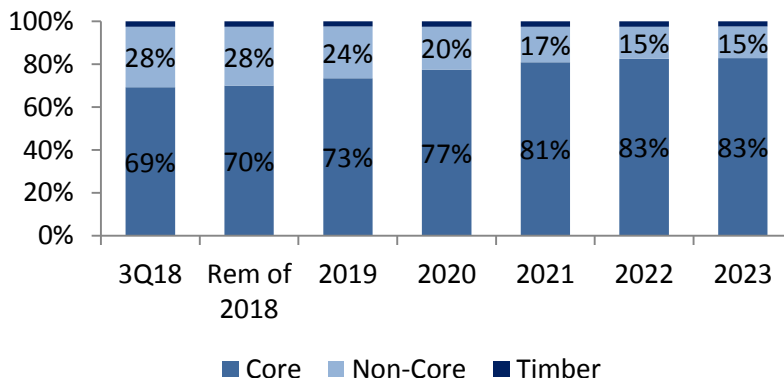


LACERS 2019-2023 Investment Plan

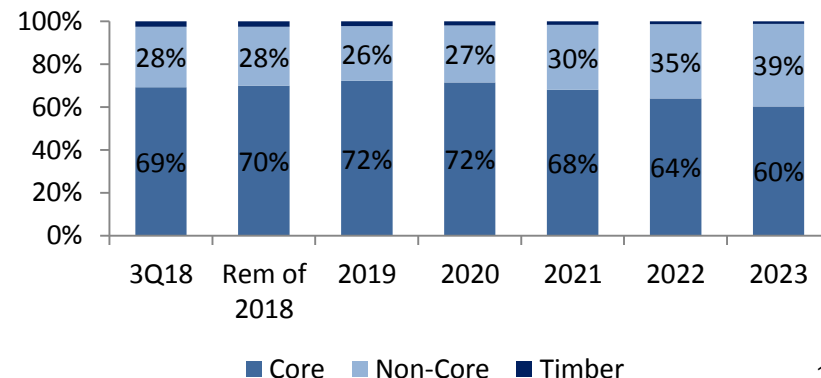
Real Estate Program Proposed Plan

- Vintage year diversification is a tool to control risk by reducing exposure to market cycles.
 - Tactical adjustments to overweight or underweight a particular vintage are based on market views and portfolio exposure relative to the 7.0% allocation target and benchmark.
 - Adjustments may be made based upon specific opportunities presented.
- As the cycle matures, consider a conservation of capital that is available to deploy in later years.
 - This may result in fewer commitments in 2019-2020.
- Identify opportunities to improve the quality and income component of the Portfolio.
 - Target specialist operators to reduce fees and exploit niche expertise and sourcing capabilities.
- Remain mindful of the strategic targets of 60% Core/40% Non-Core, and of the Total Real Estate Benchmark (ODCE+80bps).
 - Currently the portfolio is trending towards the higher end of the Core allocation target range (left chart), which will lead to difficulty outperforming the Benchmark. New proposed annual commitments of approximately \$60M to Core and \$110M to Non-Core strategies would bring the portfolio closer to its target (right chart).

Risk Sector Allocation Change



Risk Sector Allocation Change



LACERS 2019-2023 Investment Plan

2019-2020 Overall Portfolio Activity

- Refrain from over-committing in peak market vintage years, simply due to the increase in allocation
- For compelling opportunities, consider increasing average commitment size to reflect the new real estate allocation

2019-2020 Core Activity

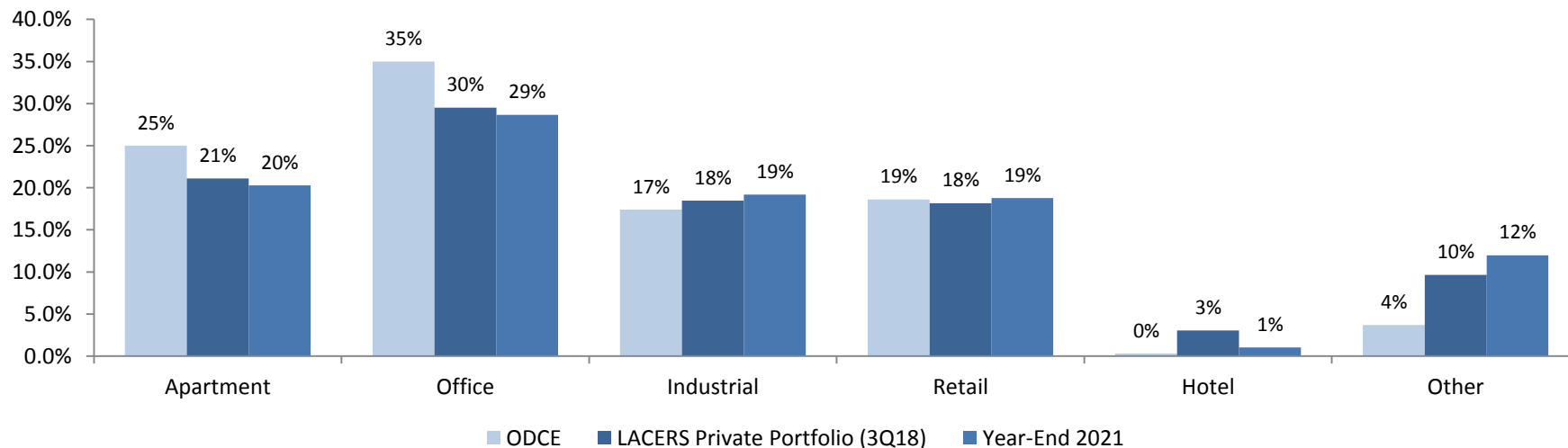
- Evaluate existing Open-End Core fund portfolio and consider rebalancing portfolio to improve diversification and returns, as necessary.
- Maintain relative weightings to Core v. Non-Core to maintain an appropriate level of defensiveness.

2019-2020 Non-Core Activity

- Focus on up to three incremental commitments in Non-Core (ranging from \$35 to \$50 million per investment), emphasizing current income and pre-specified portfolios to mitigate J-curve.
- Target commitments to preferred property types and regions based on LACERS Portfolio exposures:
 - **Industrial:** consider increasing and diversifying Industrial exposure through commitments to strategies that focus on different asset sizes and different markets (in the US and abroad) than current investments. LACERS is currently slightly overweight by 80 basis points, and Townsend recommends increasing that overweight further.
 - **US Apartments:** rebalance existing Apartment exposure to optimize returns, and increase exposure to a neutral weight. LACERS is currently underweight by 390 basis points.
 - Consider Core commitments to diversified funds with Apartment overweight.
 - **US Office:** consider tactical investments in high growth markets benefiting from technology, advertising, media, internet, science and technology drivers. LACERS is currently underweight compared to NFI-ODCE by 380 basis points.
- Actively source opportunities from the Emerging Manager universe as available.

LACERS Diversification Projections

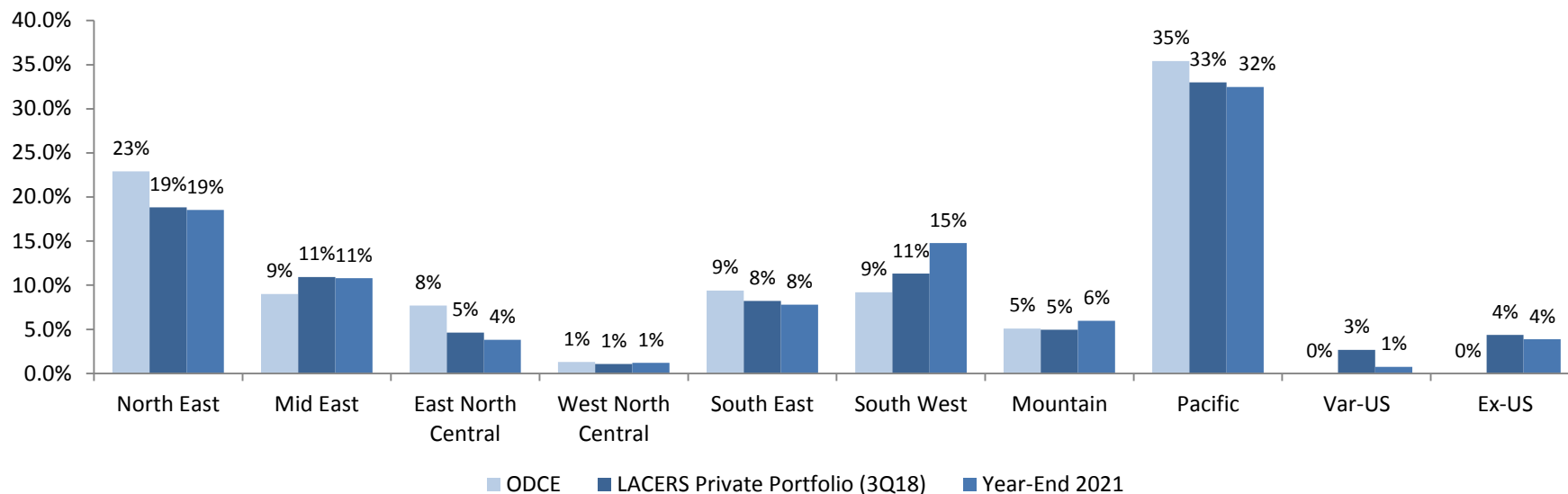
Private Real Estate Portfolio - Property Type Diversification



- LACERS continues to be underweight to Office and Apartment.
 - An Office underweight is supported by Townsend's View of the World, due to the sector's correlation to the economic cycle.
 - An increase in Apartment exposure should be targeted due to the sector's defensive nature.
- LACERS may consider tactically increasing Industrial exposure in the US and consider Ex-US Industrial options as well for further diversification.
- LACERS may also consider small tactical investments into urban office in high growth markets whereby technology, advertising, media, internet, science and technology drivers continue to absorb available space.

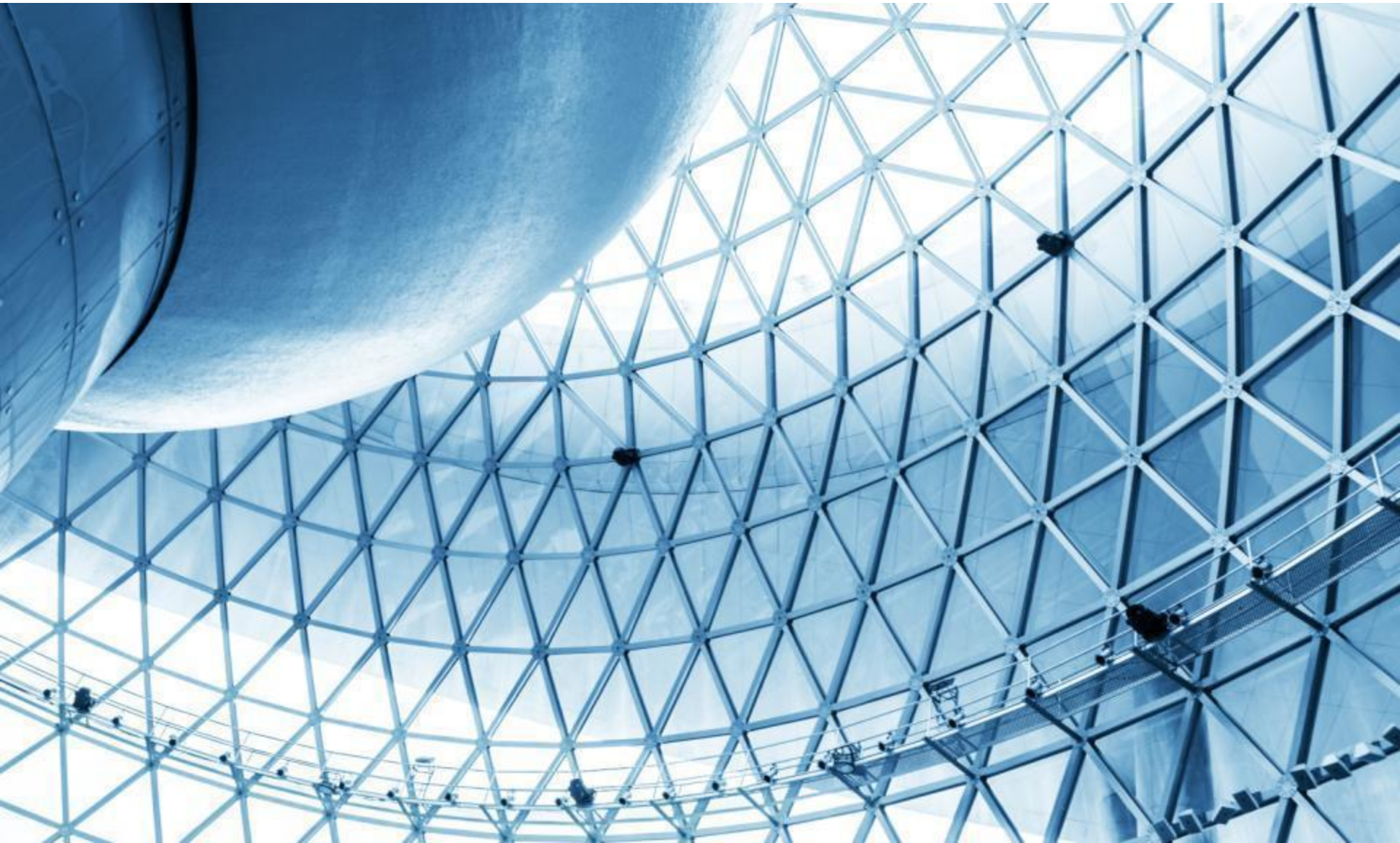
LACERS Diversification Projections

Private Real Estate Portfolio - Geographic Diversification



- LACERS continues to be underweight to the North East, East North Central and the Pacific regions. Pacific, in particular, is a market that has been outperforming and is expected to continue to do so.
 - Continue to seek exposure to the Pacific region.
 - Consider modest tactical opportunities in the North East.
 - Maintain relative underweight to the East North Central region.
- Consider additional Ex-US opportunities to enhance geographic diversification and returns, for example through a commitment to a European Industrial strategy.

D. Sourcing and Deal Flow



Manager Sourcing & Due Diligence

Core and Core Plus Fund Sourcing and Selection

- Townsend's dedicated open-end fund team reviews and monitors the open-end universe on a monthly and quarterly basis.
- As of December 31, 2018, the statistics for the existing open-end fund universe were as follows:
 - 26 Core Diversified Funds,
 - 10 Core Plus Funds,
 - 13 Specialty Funds (Property Type Specific and Debt Funds).
- Townsend also evaluates Core closed-end funds, though fewer exist.
- Comprehensive review, evaluation and selection process:
 - Sourcing and evaluation of new fund launches,
 - Quarterly data collection and analysis,
 - On-site meetings and quarterly reviews,
 - Advisory board participation ,
 - Ongoing platform assessment,
 - Continual due diligence.

Manager Sourcing & Due Diligence

Non-Core Fund Sourcing and Selection

- In addition to the work completed for open-end commingled funds (evaluation process outlined on the previous page), Townsend is continuously analyzing the universe of Non-Core closed-end funds available for investment.
- As of December 31, 2018, Townsend's statistics for the Non-Core fund universe were as follows:
 - 310 funds screened.
 - 112 funds in initial due diligence.
 - 71 funds approved for client investment.
 - 61% North America/Global, 18% Europe, 13% Asia, and 8% Rest of the World.
- Detailed due diligence follows a three-phase due diligence process:
 - Sourcing and evaluation of new fund launches.
 - On-site due diligence meetings.
 - Evaluation of investment characteristics includes, but is not limited to the following:
 - *Executive Summary*: Strategy Overview, Comparative Advantages, Potential Issues and Concerns.
 - *Strategy*: Overview, Leverage, Investment Guidelines, Pipeline.
 - *Sponsor*: Organizational Background/History, Turnover, Compensation, and Retention.
 - *Investment Process*: Overview, Investment Committee, Affiliate Transactions, Limited Partner Advisory Committee, Exclusivity and Allocations, Valuations.
 - *Fund Structure*: Key Terms, Fees and Distributions, Analysis of Fees.
 - *Performance*: Detailed Summary of Prior Vehicles, Vintage Year Comparison, Dispersion of Returns, Investment Highlights.
- Ongoing due diligence includes fund coverage, investment monitoring, reporting, advisory board representation and client advocacy.

Emerging Manager Sourcing Process

Emerging Manager Sourcing

- Townsend focuses on identifying emerging managers during its sourcing and monitoring process.
 - Network and establish new relationships through regular sourcing channels, outreach and conference attendance.
 - Seek new and unique opportunities that align with Townsend View of the World.
 - Uncover experienced niche operating partners interested in raising third-party capital.
 - Oversight and management of dedicated Emerging Manager programs across the firm.
 - Maintain active pipeline of Emerging Manager candidates.
 - Actively vetting new owner/operators as potential Emerging Manager candidates.

LACERS Emerging Manager Efforts

- LACERS has been focused on de-risking the Portfolio over the past four years, resulting in more Core search activity.
- Majority of Emerging Manager opportunity set is in the Non-Core segment:
 - 2014-2015: 50% of LACERS Non-Core commitments qualified under the LACERS Emerging Manager Program.
 - 2016: In 2H2016, Townsend conducted a LACERS-specific Emerging Manager search resulting in the recommendation of a \$20 million Non-Core commitment to Asana Partners I, which was approved by the Board in August 2016.
 - 2019: One Emerging Manager opportunity to be recommended to the Board (Broadview Real Estate Partners).
- In 2019, LACERS updated its Emerging Manager Policy to the following:
 - The General Partner will have no more than \$2 billion in firm-wide assets.
 - First- or second-time institutional fund for a given General Partner.
 - The Fund shall have a minimum size of \$150 million in committed capital inclusive of LACERS pending commitment.
 - The firm must have been in existence for a minimum of one year.
 - The team must have a minimum track record of five years.
 - 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.
 - No client can represent more than 30% of the total Fund's capital.
 - LACERS commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or \$30 million, whichever is lower.