LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, MAY 10, 2022

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

MEETING LOCATION:

In accordance with Government Code Section 54953, subsections (e)(1) and (e)(3), and in light of the State of Emergency proclaimed by the Governor on March 4, 2020 relating to COVID-19 and ongoing concerns that meeting in person would present imminent risks to the health or safety of attendees and/or that the State of Emergency continues to directly impact the ability of members to meet safely in person, the LACERS Investment Committee's May 10, 2022 meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to listen and/or participate:
Dial: (669) 254-5252 or (669) 216-1590
Meeting ID# 161 560 8047

Instructions for call-in participants:

1- Dial in and enter Meeting ID
2- Automatically enter virtual "Waiting Room"
3- Automatically enter Meeting
4- During Public Comment, **press *9** to raise hand
5- Staff will call out the last 3-digits of your phone number to make your comment

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 Public Pensions General Counsel Division

Notice to Paid Representatives

If you are compensated to monitor, attend, or speak at this meeting, City law may require you to register as a lobbyist and report your activity. See Los Angeles Municipal Code §§ 48.01 *et seq*. More information is available at ethics.lacity.org/lobbying. For assistance, please contact the Ethics Commission at (213) 978-1960 or ethics.commission@lacity.org.

Request for Services

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, Telecommunication Relay Services (TRS), 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) 855-9348*** and/or email at ***ani.ghoukassian@lacers.org***.

Disclaimer to Participants

Please be advised that all LACERS Board and Committee Meeting proceedings are audio recorded.

Information to listen only: 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).

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* - **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD**

II. APPROVAL OF MINUTES FOR THE MEETING OF APRIL 12, 2022, AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. REAL ESTATE FISCAL YEAR 2022-23 STRATEGIC PLAN POSSIBLE COMMITTEE ACTION

V. INVESTMENT MANAGER CONTRACT WITH LAZARD ASSET MANAGEMENT LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS CORE PORTFOLIO AND POSSIBLE COMMITTEE ACTION

VI. INVESTMENT MANAGER CONTRACT WITH STATE STREET GLOBAL ADVISORS REGARDING THE MANAGEMENT OF A PASSIVE GLOBAL INDEX STRATEGY AND POSSIBLE COMMITTEE ACTION

VII. ADAPTIVE ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION

VIII. OTHER BUSINESS

IX. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 14, 2022, at 10:30 a.m., or immediately following the Board Meeting, at LACERS, 202 West 1st Street, Suite 500, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while response to public health concerns relating to the novel coronavirus continue.

X. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MAY 10, 2022

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

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President:	Cynthia M. Ruiz
Vice President:	Sung Won Sohn
Commissioners:	Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

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X. ADJOURNMENT

Agenda of:	**<u>May 10, 2022</u>**
Item No:	**<u>II</u>**

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

In accordance with Government Code Section 54953, subsections (e)(1) and (e)(3), and in light of the State of Emergency proclaimed by the Governor on March 4, 2020 relating to COVID-19 and ongoing concerns that meeting in person would present imminent risks to the health or safety of attendees and/or that the State of Emergency continues to directly impact the ability of members to meet safely in person, the LACERS Investment Committee's April 12, 2022 meeting was conducted via telephone and/or videoconferencing.

April 12, 2022

11:26 a.m.

PRESENT via Videoconferencing:	Chair:	Sung Won Sohn
	Committee Member:	Nilza R. Serrano
PRESENT at LACERS Office:	Manager-Secretary:	Neil M. Guglielmo
	Legal Counselor:	Anya Freedman
	Executive Assistant:	Ani Ghoukassian
ABSENT:	Committee Member:	Elizabeth Lee

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

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* – **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD** – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response.

II

APPROVAL OF MINUTES FOR THE MEETING OF MARCH 8, 2022 AND POSSIBLE COMMITTEE ACTION – Committees Member Serrano moved approval, and adopted by the following vote: Ayes, Committee Member Serrano and Chair Sohn -2; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, discussed the following items:

- Investment Committee Meeting Forward Calendar

IV

REAL ESTATE CONSULTANT SEMI-FINALIST INTERVIEWS AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, Wilkin Ly, Investment Officer III, and Eduardo Park, Investment Officer II, introduced this item to the Committee. Jay Morgan, Partner, Thomas Hester, Managing Director, and James Maina, Vice President, with StepStone Group Real Estate LP, presented and discussed their presentation with the Committee for 30 minutes. Chae Hong, Partner, Felix Fels, Associate Partner, and Jamari Omene-Smith, Analyst, with Townsend Holdings LLC, presented and discussed their presentation with the Committee for 30 minutes. The Committee discussed the two semi-finalists with staff. After discussion, Committee Member Serrano moved approval with advancing Townsend Holdings LLC to the full Board for approval, and adopted by the following vote: Ayes, Committee Member Serrano and Chair Sohn -2; Nays, None.

V

INVESTMENT MANAGER CONTRACT WITH OBERWEIS ASSET MANAGEMENT, INC. REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. SMALL CAP EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, presented this item to the Committee. Committee Member Serrano moved approval, and adopted by the following vote: Ayes, Committee Member Serrano and Chair Sohn -2; Nays, None.

VI

OTHER BUSINESS – There were no items discussed.

VII

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, May 10, 2022, at 10:30 a.m. or immediately following the Board Meeting, at LACERS, 202 West 1st Street, Suite 500, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while responding to public health concerns relating to the novel coronavirus continue.

VIII

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 1:03 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: MAY 10, 2022**
From: Neil M. Guglielmo, General Manager | **ITEM: IV**

SUBJECT: **REAL ESTATE FISCAL YEAR 2022-23 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2022-23 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2022-23 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 and total fund portfolio and aligns with the Strategic Plan Goals of optimizing long-term risk adjusted investment returns (Goal IV) and promoting good governance practices (Goal V).

Prepared By: Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/BF/WL/EP:rm

Attachments: 1. Executive Summary – The Townsend Group
2. Proposed Real Estate Strategic Plan – The Townsend Group

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MEMORANDUM

TO:	**The Board of Los Angeles City Employees' Retirement System**
DATE:	May 2022
SUBJECT:	Real Estate Strategic & Investment Plan for Fiscal Year 2022-2023 – 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 serves 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 $305 million of investments into Core funds and $585 million into tactical Non-Core funds.

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 the target from 5.0% of Total Plan Assets to 7.0% of Total Plan Assets. In May 2021, the Board elected to maintain a 7.0% real estate allocation with the adoption of the new asset allocation.

FY 2022-2023 Investment Recommendations

The LACERS Program (the "Program") has a 7.0% allocation target (with an allowable range of ± 2.0%). As of September 30, 2021, the market value of the Portfolio was $947 million on a committed and funded basis (4.1% 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.

Townsend recommends the following 2022-2023 Goals to LACERS for consideration:

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	LACERS Annual Investment Plan FY 2022-2023
Core Capital	Up to $200 M
Non-Core Capital	Up to $250 M
Total Annual Commitments	**Up to $450 M**

Core Portfolio Goals

- Commit to high conviction, specialist funds that can provide LACERS access to attractive property types with high expected risk-adjusted returns (e.g. multifamily, life sciences, etc.).
- Right-size existing Open-End fund exposures.
- Identify opportunities to rebalance the Core portfolio to optimize fees, increase exposure to outperforming managers and desired property types.
- Turn on Dividend Reinvestment Plan (“DRIP”) for Kayne Anderson Core Fund, Lion Industrial Trust, and Prime Property Fund and turn off DRIP for Invesco Core Real Estate to right-size exposures.

Non-Core Portfolio Goals

- Increase commitment size for high conviction opportunities to $60-$75 million.
- Focus on Buy-rated funds with high conviction managers.
- Consider adding to and diversifying industrial and multifamily exposures further (e.g. through adding new regions or differentiated strategies).
- Explore complementary exposures such as life sciences, cold storage, data centers or single family residential if attractive fund options exist.
- Continue to evaluate Emerging Managers that are an appropriate fit for LACERS’ portfolio, without compromising returns.
    - Review LACERS’ Emerging Manager Policy with Townsend Investment Committee and Due Diligence Team.
        - Re-evaluate Emerging Manager universe and policy parameters as necessary.

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    - Townsend will work with staff in ensuring that emerging investment manager criteria reflects the current market and fundraising environment.

- Consider funds that engage emerging managers as operating partners through joint ventures.

    - This would increase the opportunity set by including emerging managers that may not be raising commingled funds and build a pipeline of potential future fund launches.

END OF INVESTMENT RECOMMENDATIONS

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Real Estate Portfolio

Fiscal Year 2022-2023 Investment Plan

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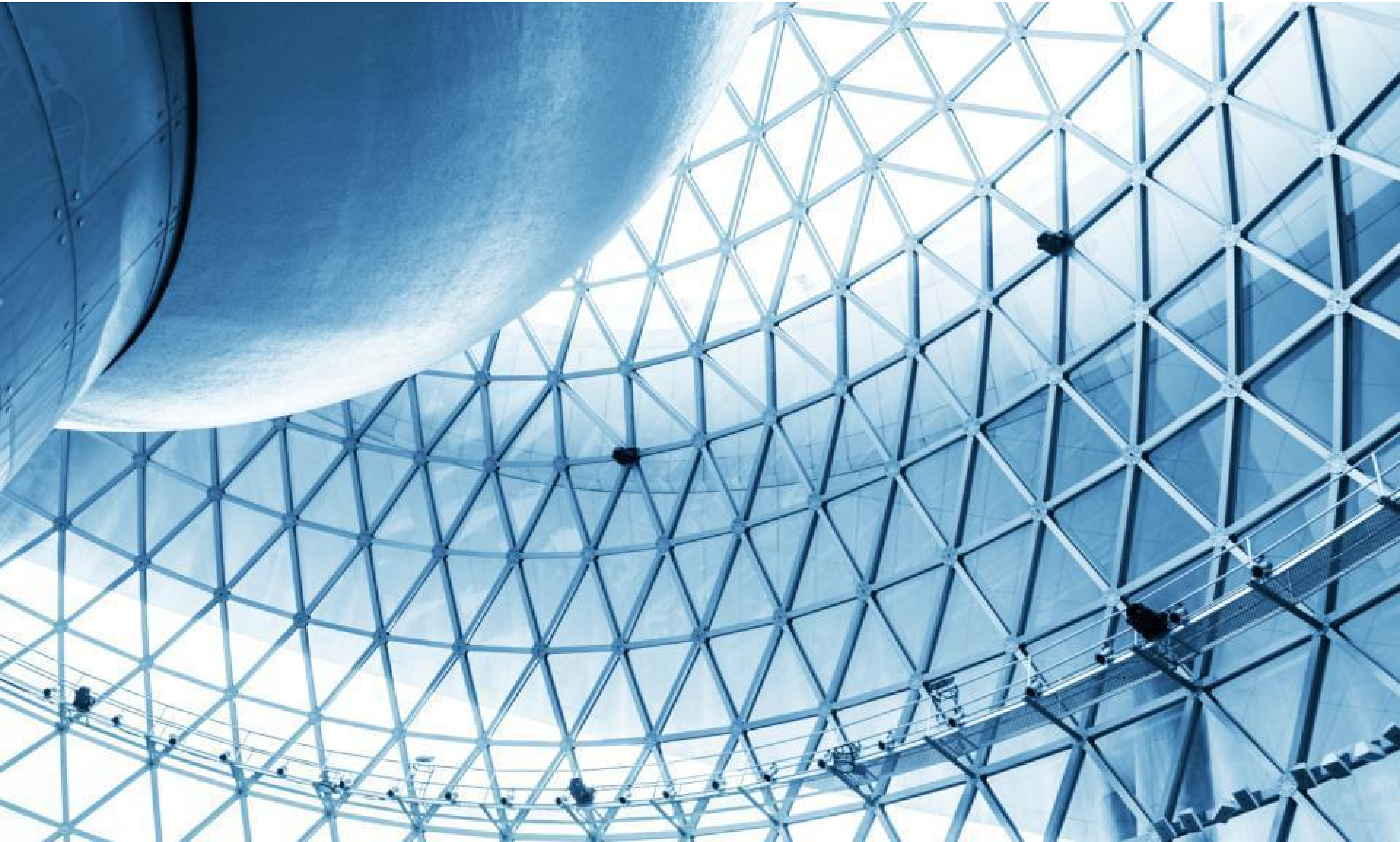
A. Real Estate Market Outlook



Real Estate Transaction Activity and Capital Markets Remain Robust

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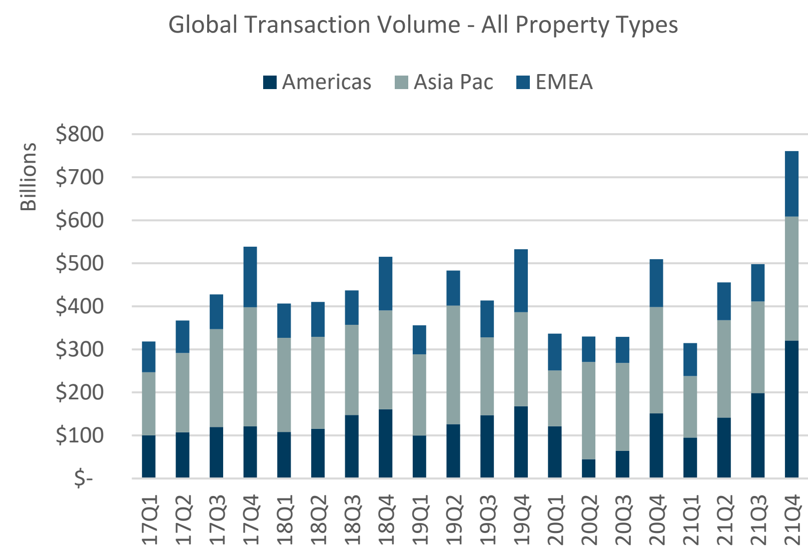
- Investor interest in real estate continues to grow with Q4 2021 investment volume marking a new high
- Real estate allocations among large institutional investors are growing and retail investors are also embracing the asset class
- More recently, the apartment and industrial sectors began accounting for more than 50% of investment activity in real estate
- Investors continue to look for dislocated values in other sectors like office, hotels, and senior housing
- In addition, there is a growing interest in non-traditional sectors like single family rentals, cold storage, life sciences, data centers, medical business offices, and studios
- The capital raising activity remained brisk during 2021 with the large managers gathering most of the assets in the industry, but many sector and regional focused managers have also been successful in raising capital



Real Estate Dry Powder (USD Billions)				
Strategy	2011	2019	2020	2021
Opportunistic	74.7	135.1	131.1	120.4
Value Add	39.7	98.0	112.0	95.1
Debt	17.0	60.6	67.2	70.5
Core	6.7	26.4	35.9	33.5
Core-Plus	9.7	16.7	27.0	22.3
Distressed	10.6	12.2	10.2	15.5
Secondaries	2.5	9.1	10.9	8.4
Fund of Funds	6.9	4.3	5.4	6.1
Co-Investment	0.5	2.8	4.0	2.7
Total	**168.3**	**365.2**	**403.7**	**374.5**

- Source: The Townsend Group, Real Capital Analytics (February 2022)
- Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

United States: Inflationary Pressures A Positive Tailwind For Real Estate

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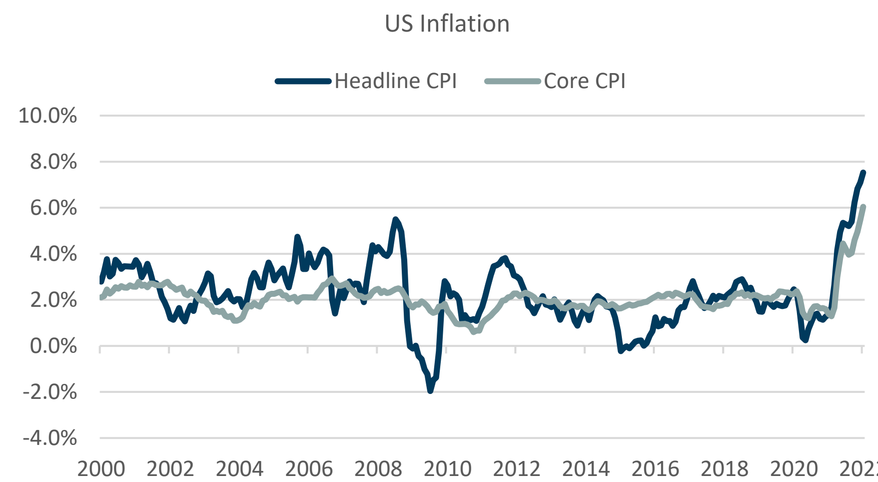
– The strong global economic rebound has stoked inflation beyond economists' expectations and persistent supply chain disruption has been slow to resolve

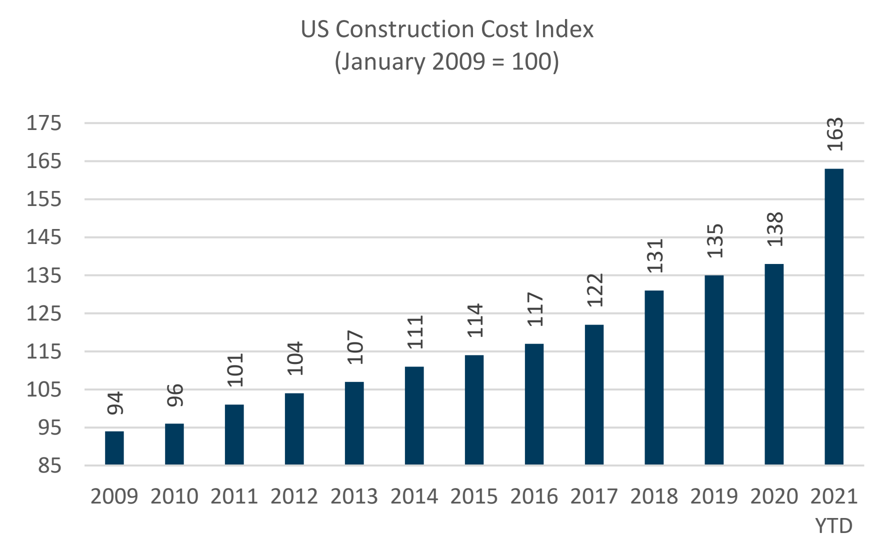
– Commercial real estate construction has been particularly impacted by supply chain disruption and witnessed material prices increases well beyond CPI

– Key materials inputs for commercial and residential construction have seen substantial price increases, including Lumber, Copper, and Steel. Continued skilled labor shortages are leading to a backlog among subcontractors and additional costs and/or lead times for newer projects

– The combination of the above factors is driving meaningful increases in replacement cost for existing assets and presenting a headwind for new supply in a real estate market with historically low vacancy rates across in demand sectors

– Real estate provides an inflationary hedge, and the trend is already prevalent in industrial, apartment, and life sciences in terms of rising rent growth. However, not all sectors will benefit from hedge. Office fundamentals likely to remain weak in the near-term





- Source: The Townsend Group, St. Louis Fed, Mortenson. (February 2022)
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United States: Rising Interest Rates & Impact on Real Estate

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– Rising interest rates will have a negative impact on economics and restrict investors from higher loan-to-value ratios that they had gotten comfortable with in the past

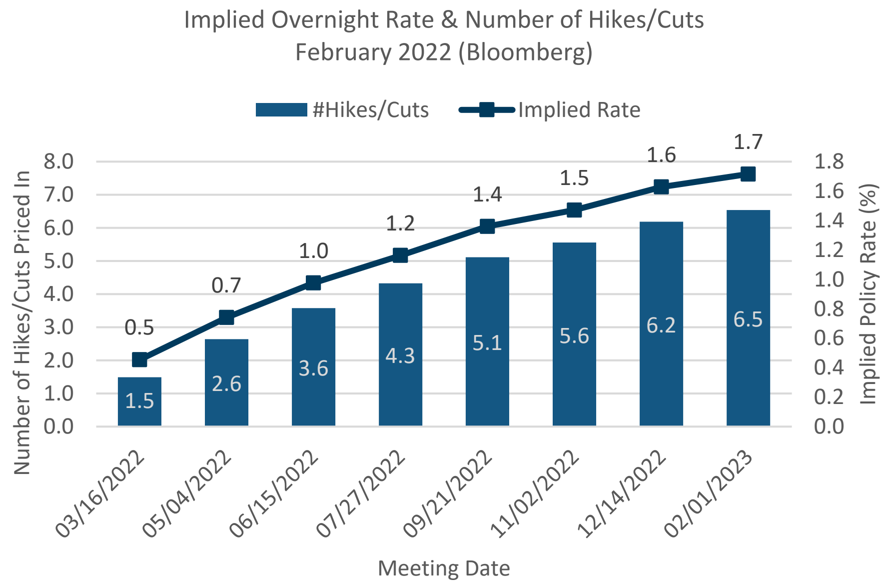
– Operating costs in various real estate sectors could go up, limiting profitability on the operating side. Investors need to be mindful of sustainable growth

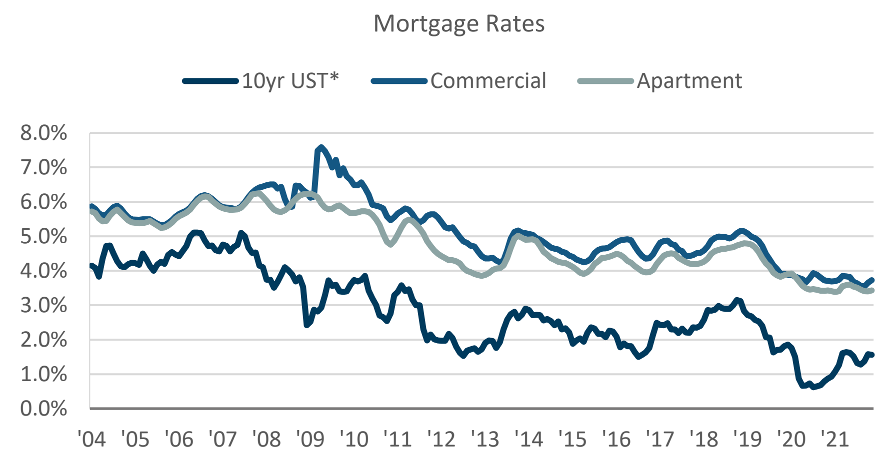
– Mortgage rates compressed to below 3.5% as of year-end 2021, but rates are anticipated to rise

– Rising mortgage rates to hurt the ownership market, but can help the apartment and single-family rental sectors

– A rise in rates will impact bond market pricing and may tilt asset allocation in favor of real estate

– Above all, in light of the Russia/Ukraine crisis, investors need to consider the uncertainty in interest rates as the central banks struggle to balance inflation against slowing economic growth; income generating strategies offer a good balance in such volatile macro-backdrop





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Russia/Ukraine Crisis: Risks To Global Growth And Inflation

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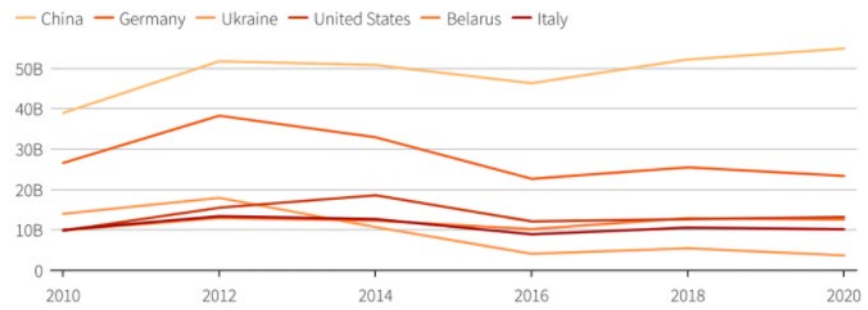
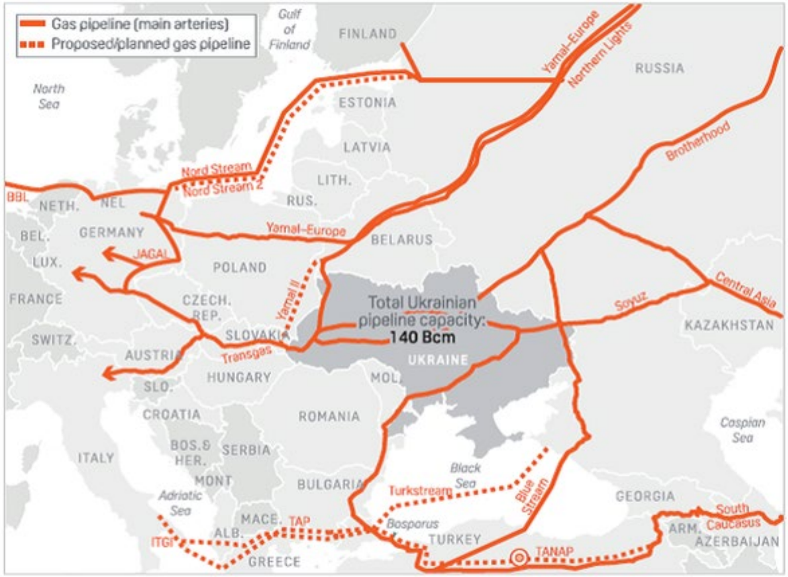
- Global macroeconomic fundamentals were strong prior to Russia's invasion of Ukraine
- Financial linkages between Russia and the developed countries were weak prior to the crisis with China being the only major country to increase its exports to Russia
- However, Russia does play an important role in the global energy markets with its oil and gas exports
- Rise in energy cost will feed the already building inflationary pressures and risks slowing the global economic growth
- Central banks will have the difficult task of balancing inflationary pressures on one hand, and preventing a significant slowdown to post-pandemic economic recovery, leading to heightened macroeconomic volatility
- In major part, due to higher political risk, Townsend had not been actively advising investing in Russia, therefore, the current direct exposure remains insignificant
- On the margin, Europe, given its direct dependency on Russian gas, is likely to be more affected by this crisis
- Commercial real estate, especially the lower to moderate risk strategies, can offer leverage into the growth within select sectors, while at the same time offer protection against unexpected inflation

Top Exporters To Russia



Note: Figures denominated in billions of U.S. dollars
Source: World Bank; U.N. Comtrade

EUROPE'S GAS PIPELINE TIES TO RUSSIA



- Source: World Bank, U.N. Comtrade, Reuters, Central Europe Energy Partners. (February 2022)
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Global Real Estate Investment Themes

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1 Evolution of the Global Supply Chain

Expansion/modernization across the supply chain, including bulk distribution, last mile, and specialized distribution real estate

E-COMMERCE PENETRATION

Logistic infrastructure and technology continue to evolve in response to a continued increase in consumer e-commerce preference

Same day delivery offerings have attracted many more products being bought through e-commerce; Amazon now offering millions of products for same-day delivery in many large cities

ABSORPTION AND NEW SUPPLY

Vacancy rates continue to fall as net absorption levels continue to be high despite rising completions

Given that absorption levels are forecast to remain high, investors may consider investment in select development opportunities

Relative value may exist in secondary markets witnessing population growth as supply chain infrastructure is built out

2 Evolving Work-Life Balance and Work-From-Home

Employee preference for flexibility to work from home, driven by pandemic restrictions and strong labor market

WORK-FROM-HOME

Back to office remains limited and cautious across many major cities

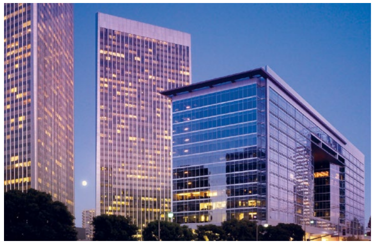
Cities in Asia/Continental Europe have slightly higher rate of employees back in the office, while US/UK markets are more negatively impacted

Office vacancy rates may not peak until 2023-2024 and rent growth is not forecast to gain significant momentum until then

RECOVERY AND RELATIVE VALUE

Select cities like US coastal markets and key Asian markets like Tokyo, Shanghai, Seoul, etc. are leading in-office employment growth in 2022 as they begin to recover

High-quality, long-leased assets continue to see favorable pricing while value-add pricing varies. The NCREIF Office weighted cap rate was 4.4% as of 3Q21, up from 4.1% pre-pandemic



3 Dislocation in Select Property Types

Risk mitigation through avoidance of cyclical real estate sectors and those impacted by pandemic

HOTELS

While RevPARs have recovered significantly, lodging recovery continues to be uncertain

Travel restrictions, technological improvements, and increased adoption of conferencing technologies may impair business travel recovery

Air travel has rebounded since the beginning of 2021 (80% of pre-covid travel levels)

RETAIL

Retail sales have recovered more than footfall leading to higher sales productivity per visit

Strip center/grocery anchored occupancy levels seemed to have bottomed and rent growth for good quality assets is anticipated to improve

While mall fundamentals are also improving, the valuations of good quality malls remain high relative to the inherent risk

- Source: The Townsend Group, NCREIF, (February 2022)
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Global Real Estate Investment Themes (Cont.)

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4 Emergence of Niche Property Types

Niche strategies may offer stable income, differentiated demand dynamics, and upside potential through operating efficiencies

COLD STORAGE

Growth in e-commerce, trend toward fresh food, and rising population has led to a steady tailwind of demand

Half of all US cold storage capacity built prior to 1990. (AEW Research)

Vacancy is sub 4.0%, while new supply is only growing by an annual rate of 1.0%

PRODUCTION STUDIOS

Specialized space that often includes a mix of studio and office space for writers, producers, and supporting staff

Tenants typically sign short-term leases, but recently, creators such as Netflix and Amazon have signed longer-term leases

Fundamentals are driven by growth in content consumption

5 Housing Shortage and Suburban Migration

Shortage of affordable housing stock across most global developed markets

Migration to less urban markets due to remote work and anticipated tax savings

APARTMENT

Per NCREIF, US apartment vacancy was 5.1% in the third quarter 2021, down from 7.4% pre-pandemic

Internationally, the opportunity set is limited, but select opportunities exist in Europe and Japan

SINGLE FAMILY RENTAL

Predominantly a US based opportunity

WFH and demand for larger living space have driven home prices up by +24% since the pandemic, straining homeownership affordability

Single family rental in less urban markets, resulting in 10%+ growth on new leases and over 5% growth in renewals for US REITs

Select opportunities emerging in Australia, and to less extent in the UK

6 Aging Population and Complemental Strategies

Demographics driving demand for healthcare, life sciences, medical office, and senior housing

SENIOR HOUSING AND HEALTHCARE

During the pandemic in the US, occupancy declined from 87% to 75%; recently, though, the occupancy levels have slightly rebounded

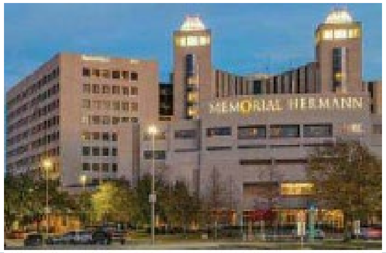
Over the next 10 years, growth in global population aged 65-74 and age 75+ are forecast to increase significantly, leading to more opportunities in senior housing markets like Europe, Japan and healthcare in Australia

LIFE SCIENCES ASSETS

Life Sciences R&D continues to see accelerating growth in funding from an array of sources, including VCs, public funding, and corporates

In the US, the nominal cap rates for life sciences (4.5%) and medical office (5.2%) remain attractive, given high rent growth outlook

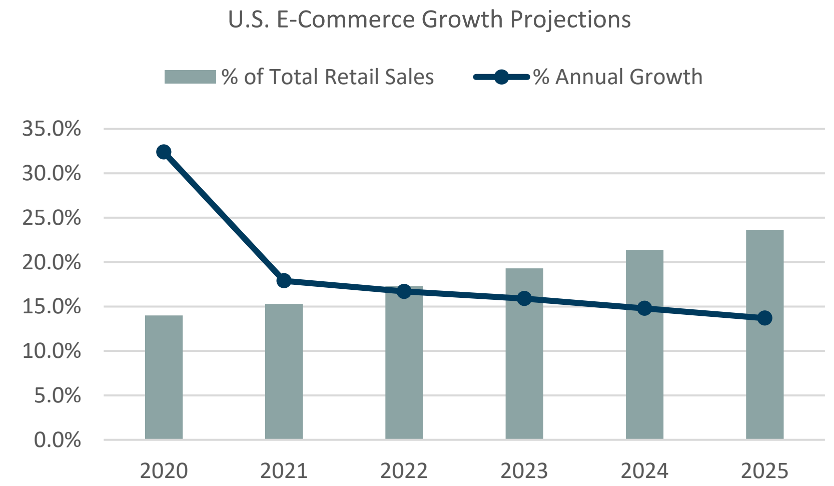
Select opportunities emerging in Europe and Asia, but those markets are less institutionalized

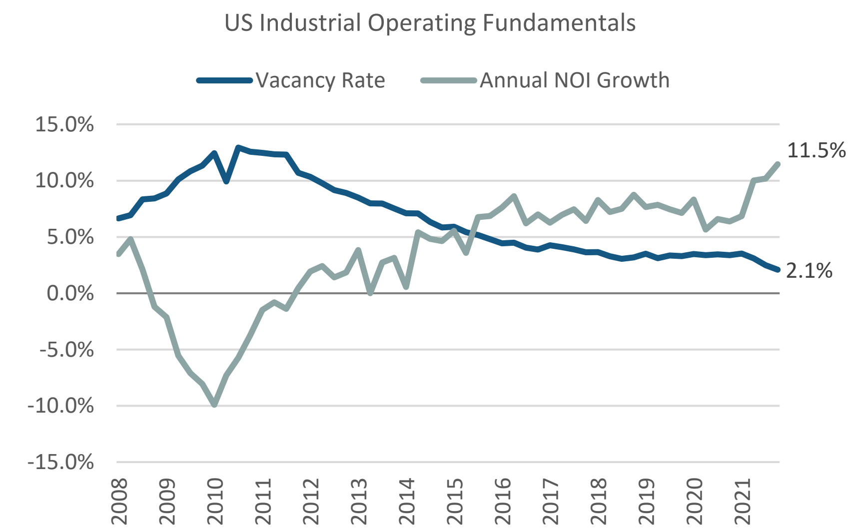


- Source: The Townsend Group, AEW Research, NCREIF (February 2022)
- Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

United States: Evolving Global Supply Chain

- Logistics infrastructure and technology continue to evolve in response to continued growth of e-commerce
- Same day delivery capabilities are increasing the number and variety of products being bought via e-commerce; Amazon is now offering millions of products for same-day delivery in many cities
- Vacancy rates continue to fall as net absorption levels continue to be high despite rising completions
- Expectation of continued growth in rents has led to cap rate compression reducing forecast total returns but given the high growth rate, the risks are also commensurately lower
- Higher cash returns are feasible on product located in secondary cities; due to increasing adoption of work-from-home, the once secondary cities are witnessing population growth supporting investment in logistic assets in these locations
- Given that absorption levels are anticipated to remain high, investors may want to consider investment in select development opportunities





- Source: The Townsend Group, NCREIF, eMarketer (December 2021)
- Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

United States: Work-From-Home

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– Back to office preferences remain cautious across all the major US cities; cities in the south have slightly higher rate of employees back in the office

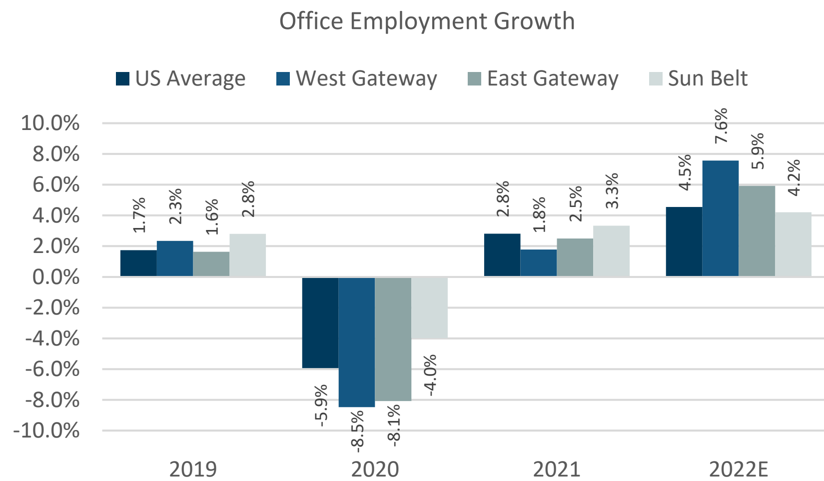
– Office vacancy rates may not peak until early 2023/24 and rent growth is not forecast to gain significant momentum until then

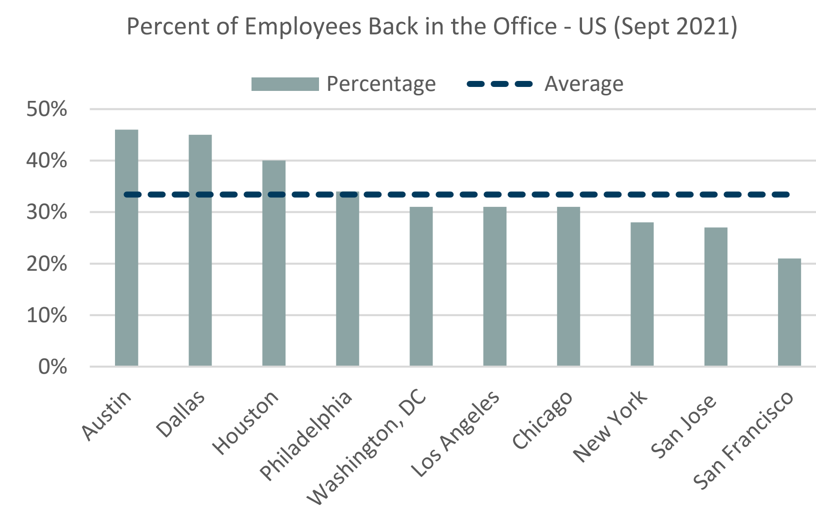
– Gateway markets may face longer recovery period versus non-gateway and Sunbelt markets

– Per NCREIF, US office vacancy was 13% in the third quarter 2021, up from 10% pre-pandemic

– Office employment is increasing, with the West (Los Angeles, San Francisco) and East (Boston, New York City, DC) gateway markets for in-office employment growth forecast in 2022. Sun Belt employment growth was least impacted in 2020.

– High-quality, long-leased office properties continue to see favorable pricing while value-add pricing varies. Per NCREIF, the US Office market weighted cap rate was 4.4% as of third quarter 2021, up from 4.1% pre-pandemic





- Source: The Townsend Group, GreenStreet, NCREIF, Cushman & Wakefield. (February 2022)
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United States: Property Type Dislocation

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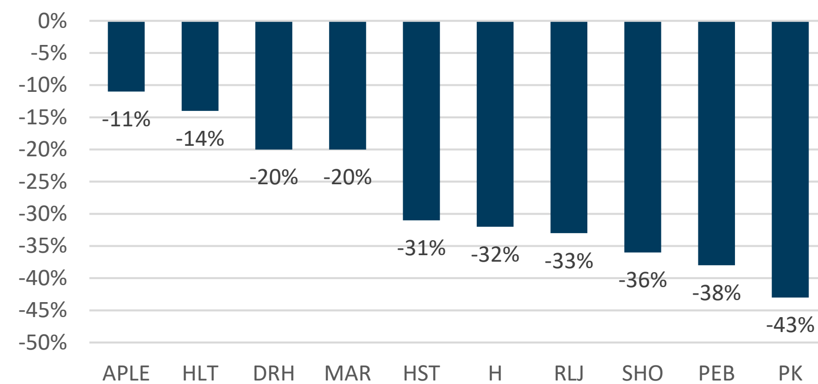
HOTELS

– While RevPars have recovered significantly, lodging recovery continues to be uncertain

– Travel restrictions, technological improvements, and increased adoption of conferencing technologies by major employers may permanently replace future business travel

– Air travel has significantly rebounded since the beginning of 2021 with the vaccine rollout. Current air travel figures are at approximately 80% of pre-covid travel levels.

3Q21 REIT Hotel RevPAR Decline (vs 3Q19)



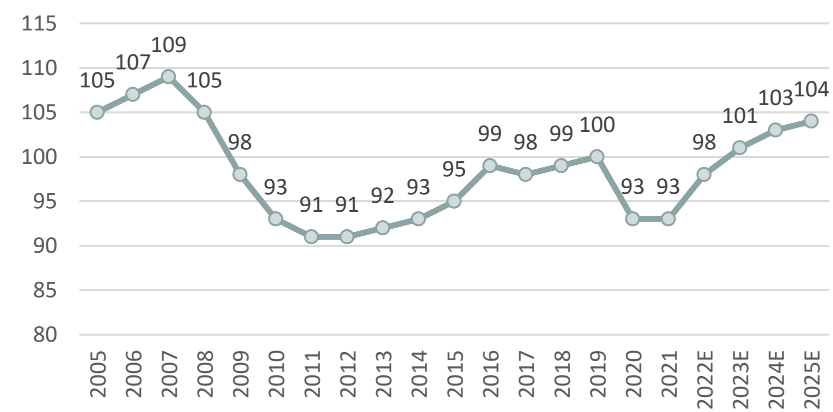
RETAIL

– Retails sales have recovered more than footfall leading to higher sales productivity per visit

– Strip center occupancy levels seemed to have bottomed and the same store rent growth for good quality assets is anticipated to grow

– While mall fundamentals are also improving, the valuations of good quality malls continue to be high

Strip Center Indexed Market RevPAF Growth
('19 Indexed to 100)



- Source: The Townsend Group, GreenStreet (February 2022)
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United States: Emerging Niche Property Types

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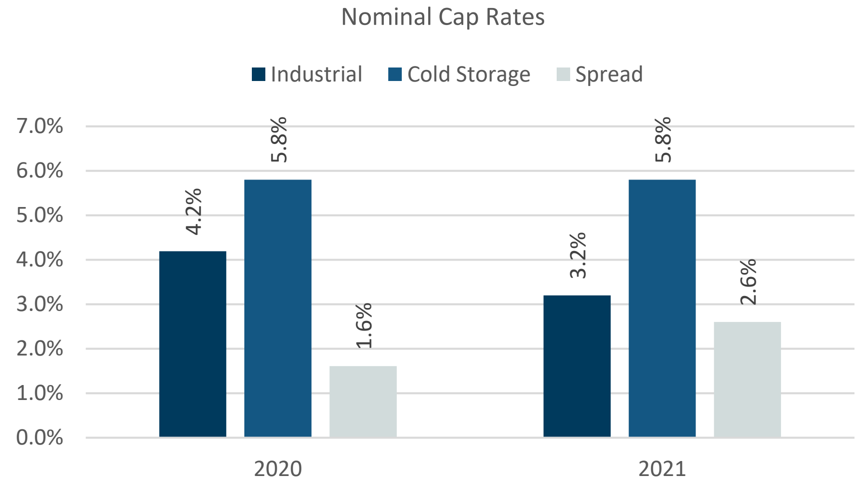
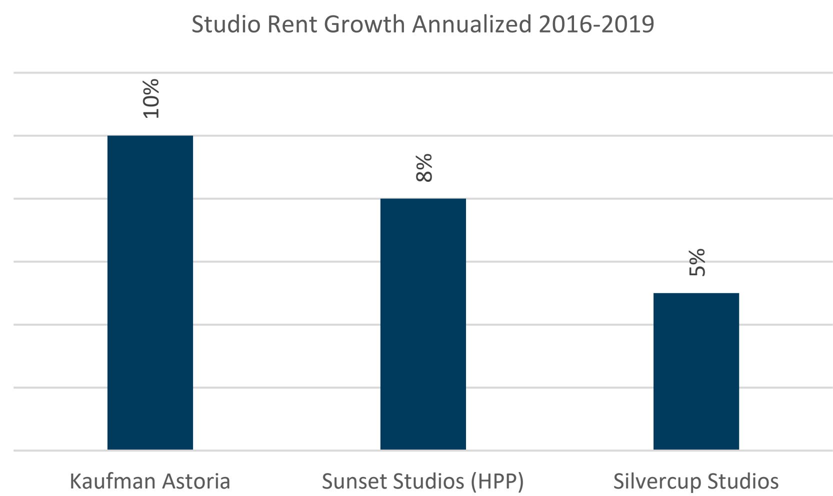
COLD STORAGE

- Growth in e-commerce, trend toward fresh food, and rising population has led to a steady tailwind of demand
- Technological advancements (RFIDs, robotics, etc.) have improved the margins of the operators
- Much of the existing stock is aging, with half of all cold storage capacity build prior to 1990
- Supply has been limited as the facilities are expensive and operations are complex
- Vacancy is sub 4%, while new supply is only growing by an annual rate of 1.0%

STUDIO

- Typically developed in warehouse space and utilized for television, film, and commercial production. Typically includes a mix of studio and office space for writers, producers, and supporting staff
- Capex is typically very low, with all build outs paid by the tenant. Tenants typically sign short-term leases, but in some cases, creators such as Netflix and Amazon sign longer-term leases
- Largest studio markets today include Los Angeles, New York City, London, Toronto, Vancouver, Chicago, and Atlanta
- Sector fundamentals are being driven by growth in content consumption. Average time watching video content per day in the US grew by 28% between 2010 and 2020





- Source: The Townsend Group, Green Street, NCREIF, TREP and Broker Research (February 2022)
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United States: Housing Supply

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APPARTMENT

– Per NCREIF, US apartment vacancy was 5.1% in the third quarter 2021, down from 7.4% pre-pandemic

– US apartment rent growth is forecast to be +7.1% in 2021 and +6.6% in 2022. GreenStreet is forecasting average annual RevPAF growth of +4.5% for 2021-2025

SINGLE FAMILY RENTAL (SFR)

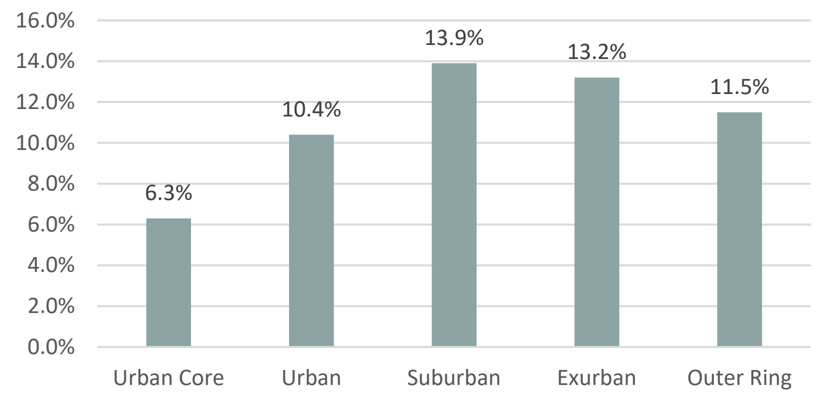
– WFH and the consumer demand for larger living space have driven US Home Prices by +24% since the start of the pandemic, boosting demand for multifamily rentals

– $60 billion has been raised or committed for build-to-rent housing as of September 2021

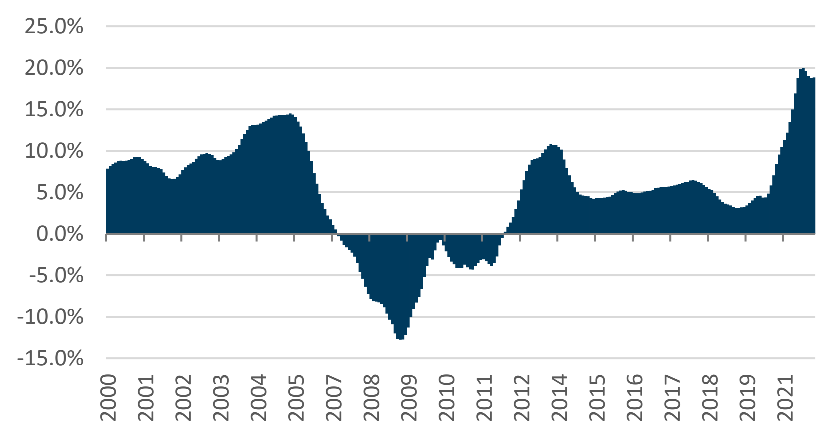
– Only 2.2% of SFR was owned by institutional operators in 2021; significant room for further institutionalization

– SFR REITs have seen 10%+ growth on new leases and over 5% growth on renewals

Current Annual Effective Rent Growth
(As of Q3 2021)*



S&P Case-Shiller U.S. National Home Price Index
Annual % Price Appreciation



- Source: The Townsend Group, NCREIF, Clarion Partners, CBRE, GreenStreet, Zelman & Associates, JP Morgan Asset Management, Cortland Partners, RealPage Axiometrics (February 2022)
- *Select US Markets
- Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

United States: Aging of Population

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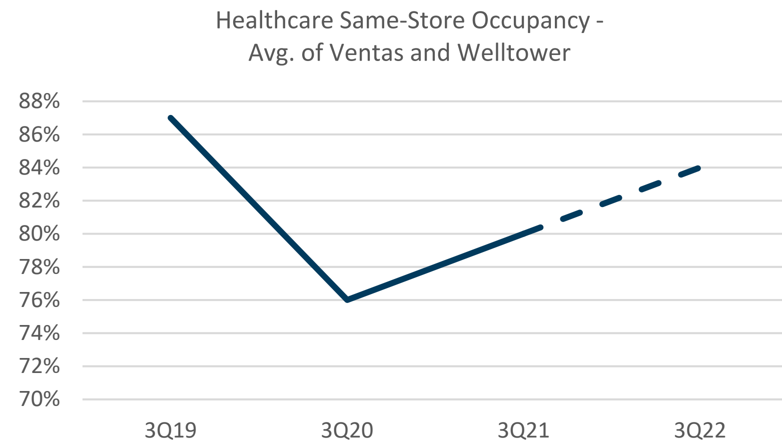
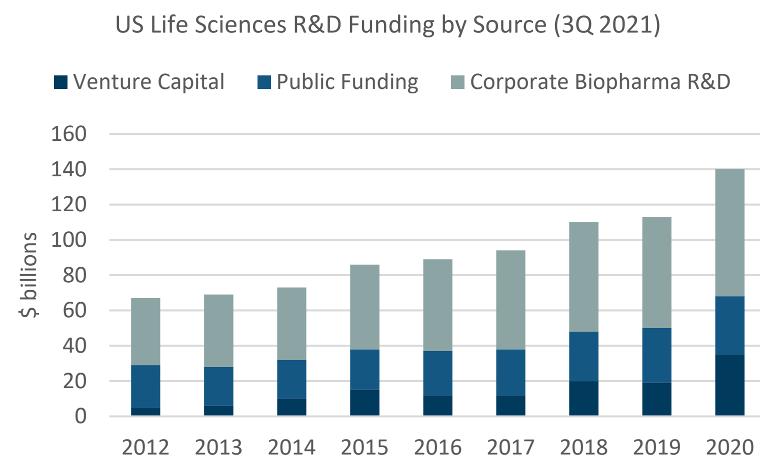
SENIOR HOUSING

- During Covid-19, the asset class suffered disproportionately relative to other sectors with occupancy declining from 87% to 75%; recently, though, occupancy levels have started to rebound
- Over the next 10 years, population aged 65-74 and age 75+ are forecasted to increase by +2 million and +11 million, respectively
- Core/core plus independent living assets offer 140-200 bps cap rate premium over multifamily assets



LIFE SCIENCES ASSETS

- Pharmaceuticals and biotech sectors are witnessing significant capital from venture capital, public funding, and corporates, leading to a strong growth in adequate facilities in key research centers around the US
- Nominal cap rates for life sciences (4.5%) and medical office (5.2%) remain attractive; the lower cap rates in life sciences are supported by higher rent growth of +13.7% YoY growth as of 2Q 2021



- Source: The Townsend Group, GreenStreet, Clarion Partners (February 2022)
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B. Executive Summary

Executive Summary

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LACERS Annual Investment Plan 2022-2023 – Total New Commitments of up to $450 million

Private Real Estate Portfolio

Core Portfolio – Up to $200M

- Commit capital to new and existing core and/or core plus funds to rebalance the portfolio and adjust for return and risk purposes.
- Review and adjust DRIP (Dividend Reinvestment Plan) for several open-end fund holdings to gradually re-balance exposures.

Non-Core Portfolio - Up to $250M

- Commit capital to several new investments at increased amounts ranging between $50 million and $75 million.
    - Consider smaller commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS sizing policies.

C. LACERS Real Estate Program Overview

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LACERS Real Estate Program Overview

(Data as of September 30, 2021)

	Market Value ($ millions)*	% LACERS Plan*
LACERS Total Plan Assets	23,313	
Real Estate Target	1,632	7.0%
RE Market Value:		
Core	656	
Non-Core	272	
Timber	18	
Total RE Market Value	947	4.1%
Unfunded Commitments	415	1.8%
RE Market Value & Unfunded Commitments	1362	5.8%
Remaining Allocation	270	1.2%

*Figures may not add due to rounding. Unfunded commitments exclude $50 million commitment to TPG Real Estate Partners IV which closed in 2Q 2022.

LACERS Real Estate Program Overview (continued)

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	Strategic Targets		*Portfolio Composition (9/30/2021)**	
	Target Allocation	Tactical Range	Market Value	Market Value & Unfunded Commitments
Core	**60%**	**40% - 80%**	**69.3%**	**51.6%**
Non-Core	**40%**	**20% - 60%**	**28.7%**	**47.0%**
Value Add Portfolio	*N/A*	*N/A*	*18.5%*	*25.9%*
Opportunistic Portfolio	*N/A*	*N/A*	*10.3%*	*21.1%*
Timber	**N/A**	**N/A**	**1.9%**	**1.3%**

- 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.
- As of 9/30/21 LACERS is overweight to its Core and underweight to its Non-Core target allocation but within the respective tactical ranges. Unfunded commitments will bring exposures closer to long-term targets.

*Figures may not add due to rounding. Unfunded commitments exclude $50 million commitment to TPG Real Estate Partners IV which closed in 2Q 2022.

LACERS Commitment History

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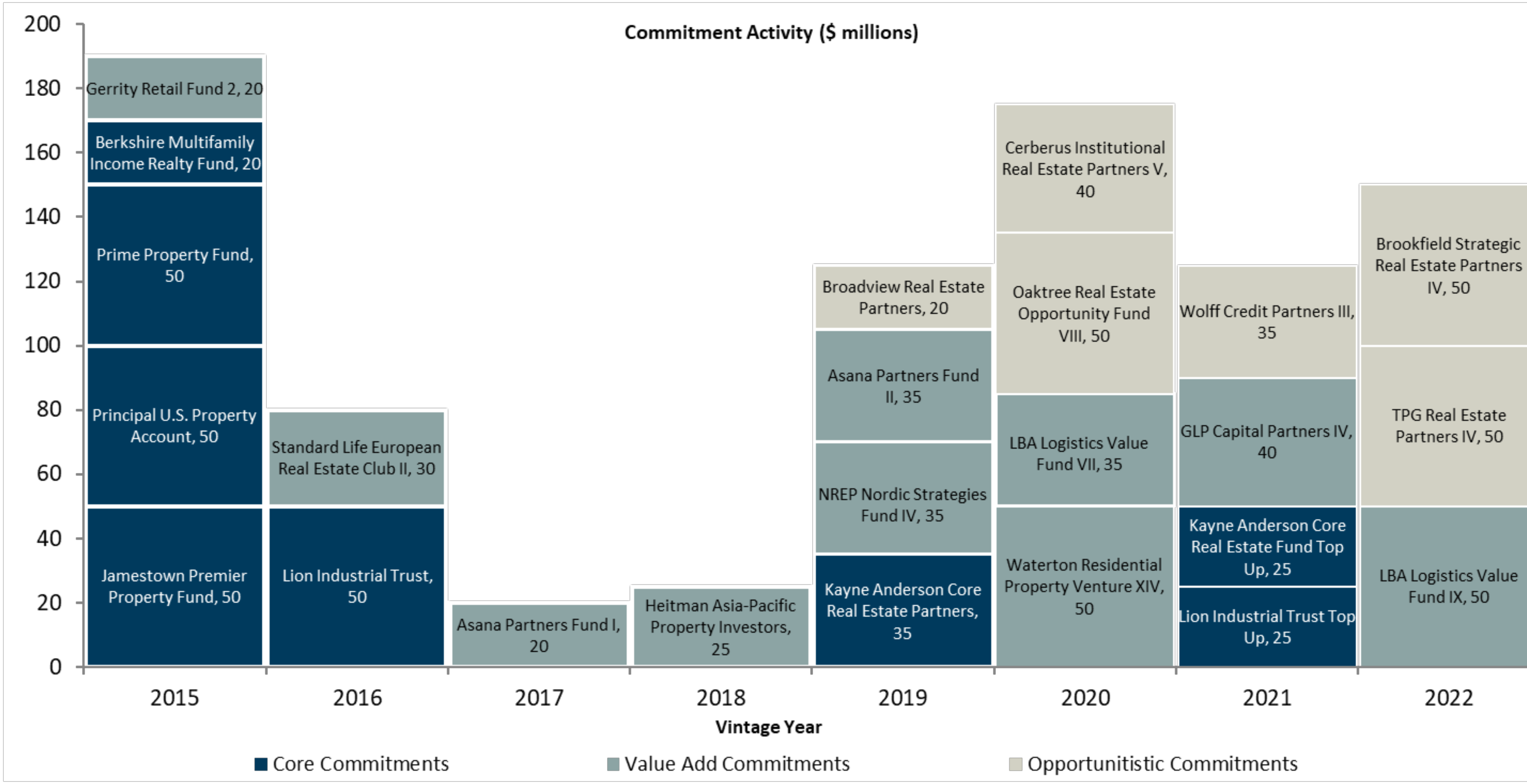
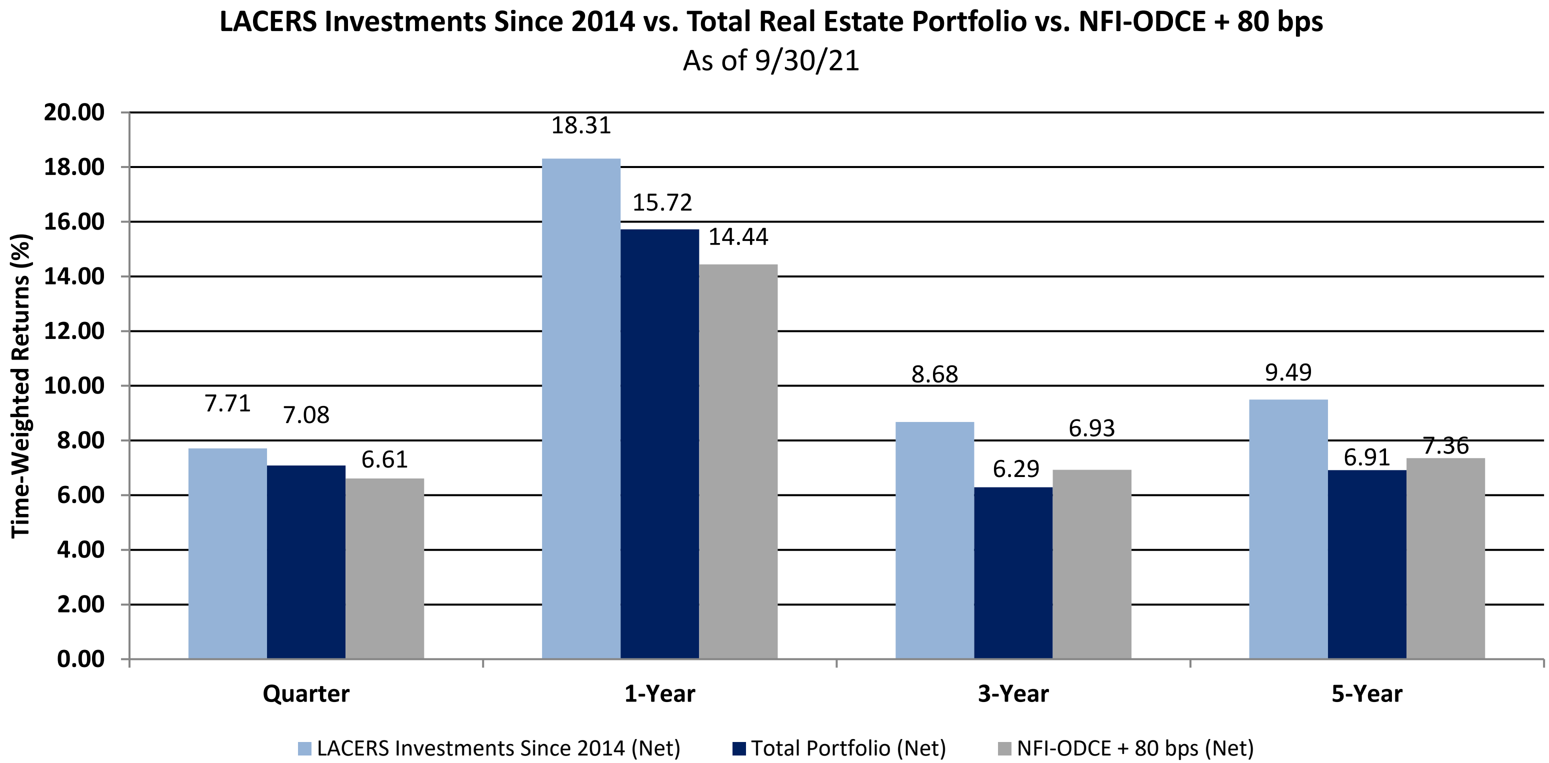


- LACERS has committed $890 million since 2014 while under advisement of Townsend.
- LACERS is currently in the redemption queue for Berkshire Multifamily Income Realty Fund (payments expected in 2022) and Jamestown Premier Property Fund (payments expected in 2023/2024).
- Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

LACERS New Investment Performance



- Investments recommended since the contract start date in 2014 have consistently outperformed the Total Portfolio and the LACERS benchmark.

D. LACERS 2022-2023 Investment Plan

LACERS Real Estate Portfolio Projections

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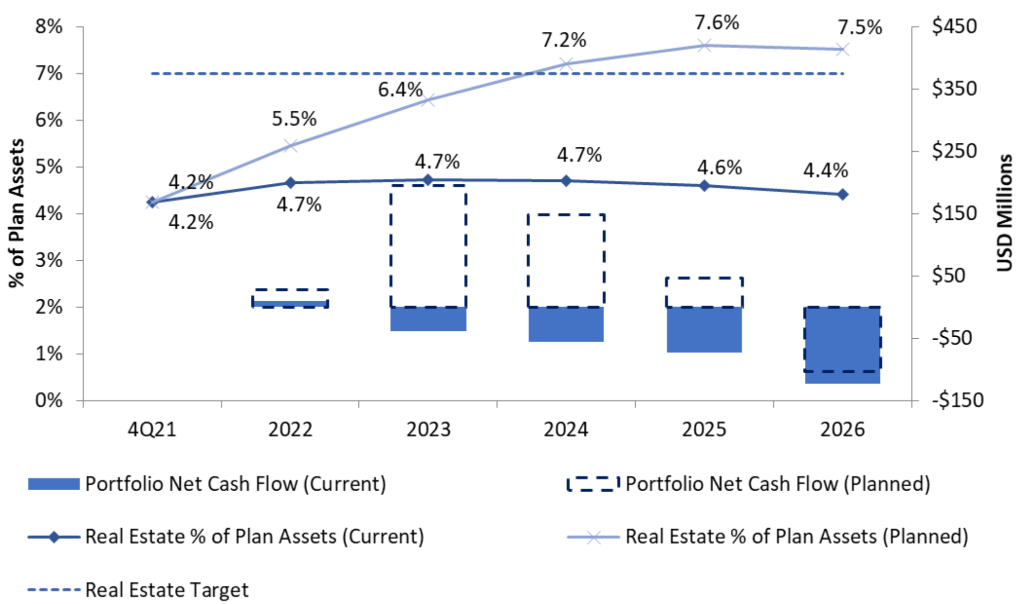
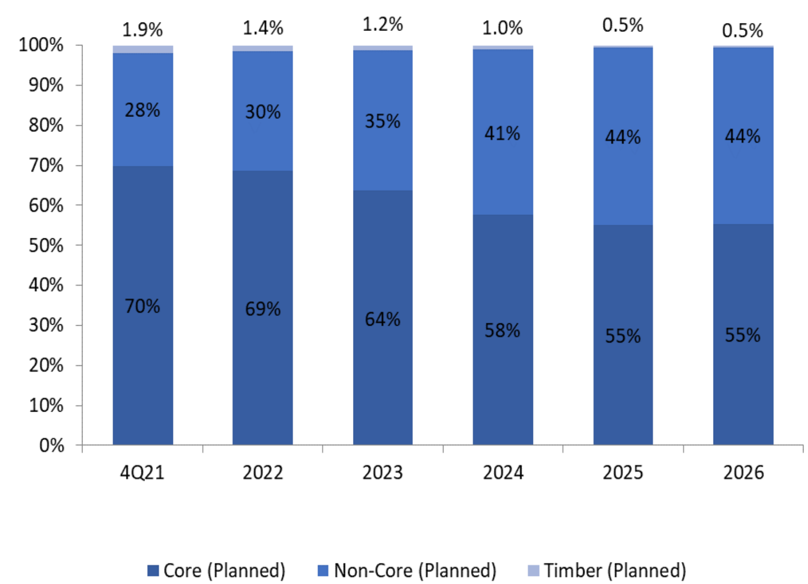
- To build future private portfolio projections for LACERS, Townsend collected forecasted capital calls and distributions from all managers in LACERS' portfolio.
- The 'Planned' Real Estate Portfolio below includes new commitments needed to reach the target allocation and the 60% Core / 40% Non-Core target.
- The real estate portfolio is currently projected to be slightly overweight after 2024; however, Townsend will re-adjust annual pacing assumptions and investment planning as needed to maintain and reach targets and respond to changing market environments.

Real Estate % of Total Plan Assets (All Planned Commitments)



Risk Sector Allocation Change



*For pacing purposes, 4Q21 figures may include 3Q21 data for certain investments that had not provided 4Q21 data at time of submission.

LACERS 2022-2023 Investment Plan – Core Portfolio

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- **Commit up to $200 million* to existing and new Core/Core Plus funds.**
  - Commit to high conviction, specialist funds that can provide LACERS access to attractive property types with high expected risk-adjusted returns (e.g. multifamily, life sciences, etc.).
  - Right-size existing Open-End fund exposures.
  - Identify opportunities to rebalance the Core portfolio to optimize fees, increase exposure to outperforming managers and desired property types.
  - Turn on Dividend Reinvestment Plan ("DRIP") for Kayne Anderson Core Fund, Lion Industrial Trust, and Prime Property Fund and turn off DRIP for Invesco Core Real Estate to right-size exposures.

*Does not include the $80 million remaining uncommitted from last fiscal year's investment plan, for a total of up to $280 million to be committed.

LACERS 2022-2023 Investment Plan – Non-Core Portfolio

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- **Commit up to $250 million* to several non-core funds.**
  - Increase commitment size for high conviction opportunities to $60-$75 million.
  - Focus on Buy-rated funds with high conviction managers.
  - Consider adding to and diversifying industrial and multifamily exposures further (e.g. through adding new regions or differentiated strategies).
  - Explore complementary exposures such as life sciences, cold storage, data centers or single family residential if attractive fund options exist.
- **Continue to evaluate Emerging Managers that are an appropriate fit for LACERS' portfolio, without compromising returns.**
  - Review LACERS' Emerging Manager Policy with Townsend Investment Committee and Due Diligence Team.
    - Re-evaluate Emerging Manager universe and policy parameters as necessary.
    - Townsend will work with staff in ensuring that emerging investment manager criteria reflects the current market and fundraising environment.
  - Consider funds that engage emerging managers as operating partners through joint ventures.
    - This would increase the opportunity set by including emerging managers that may not be raising commingled funds and build a pipeline of potential future fund launches.

*In addition to the already approved $50 million commitment to TPG Real Estate Partners IV.

LACERS Diversification Projections

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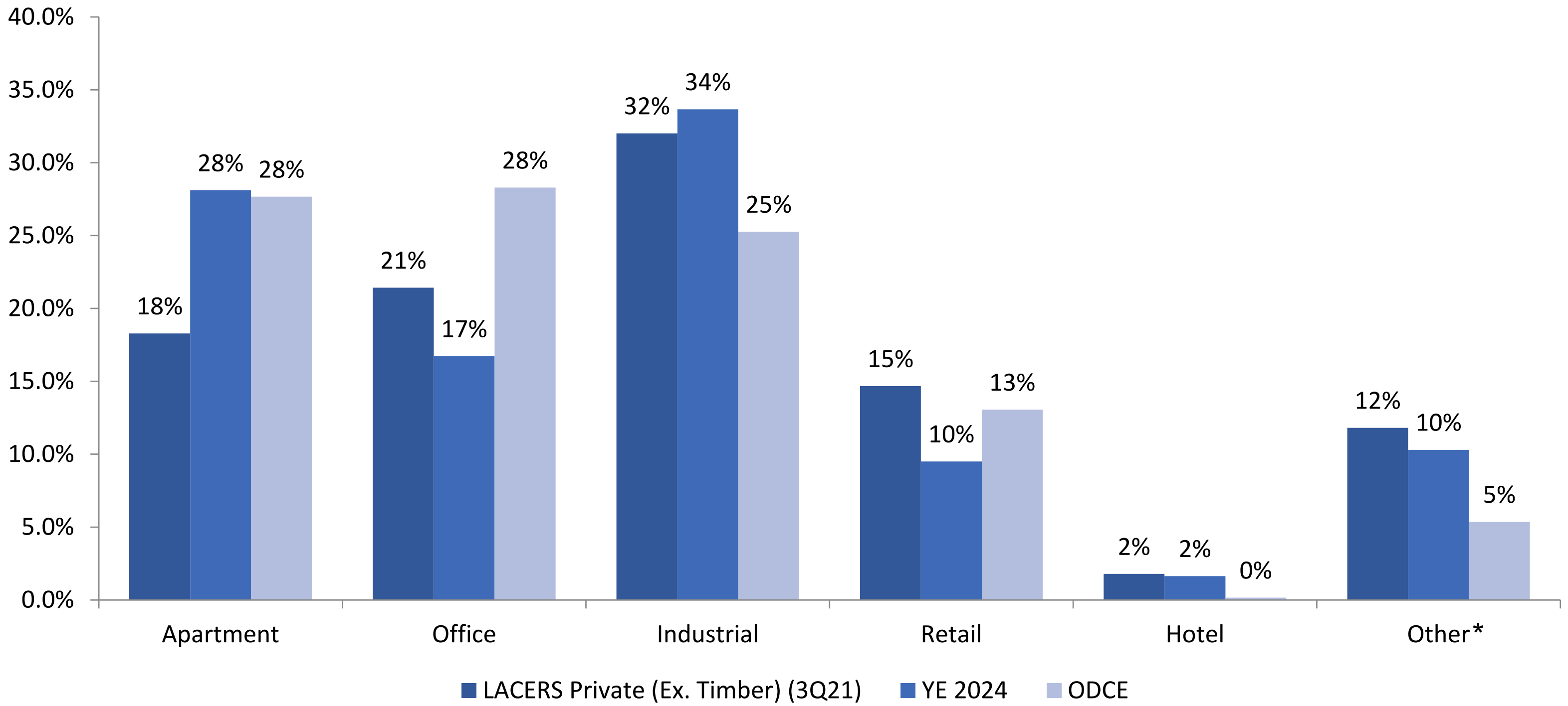
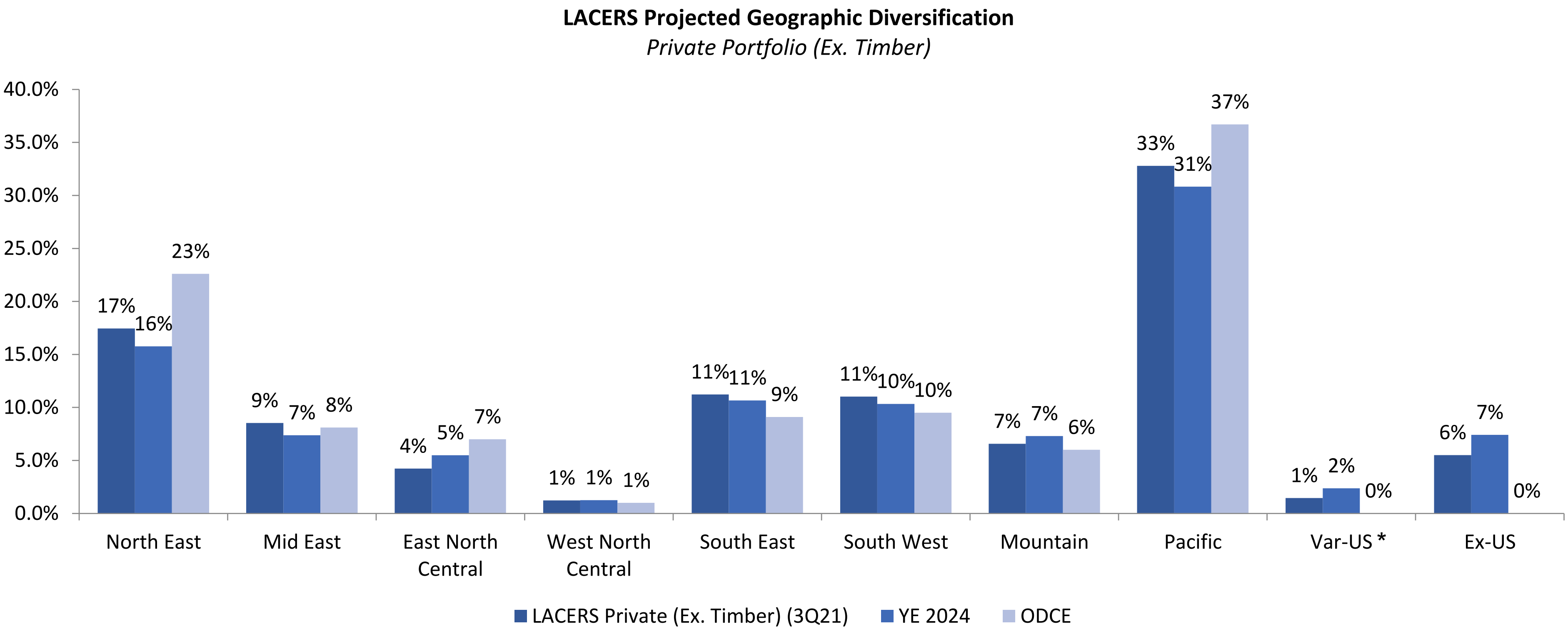
Private Real Estate Exposure - Property Type Diversification
Private Portfolio (Ex. Timber)



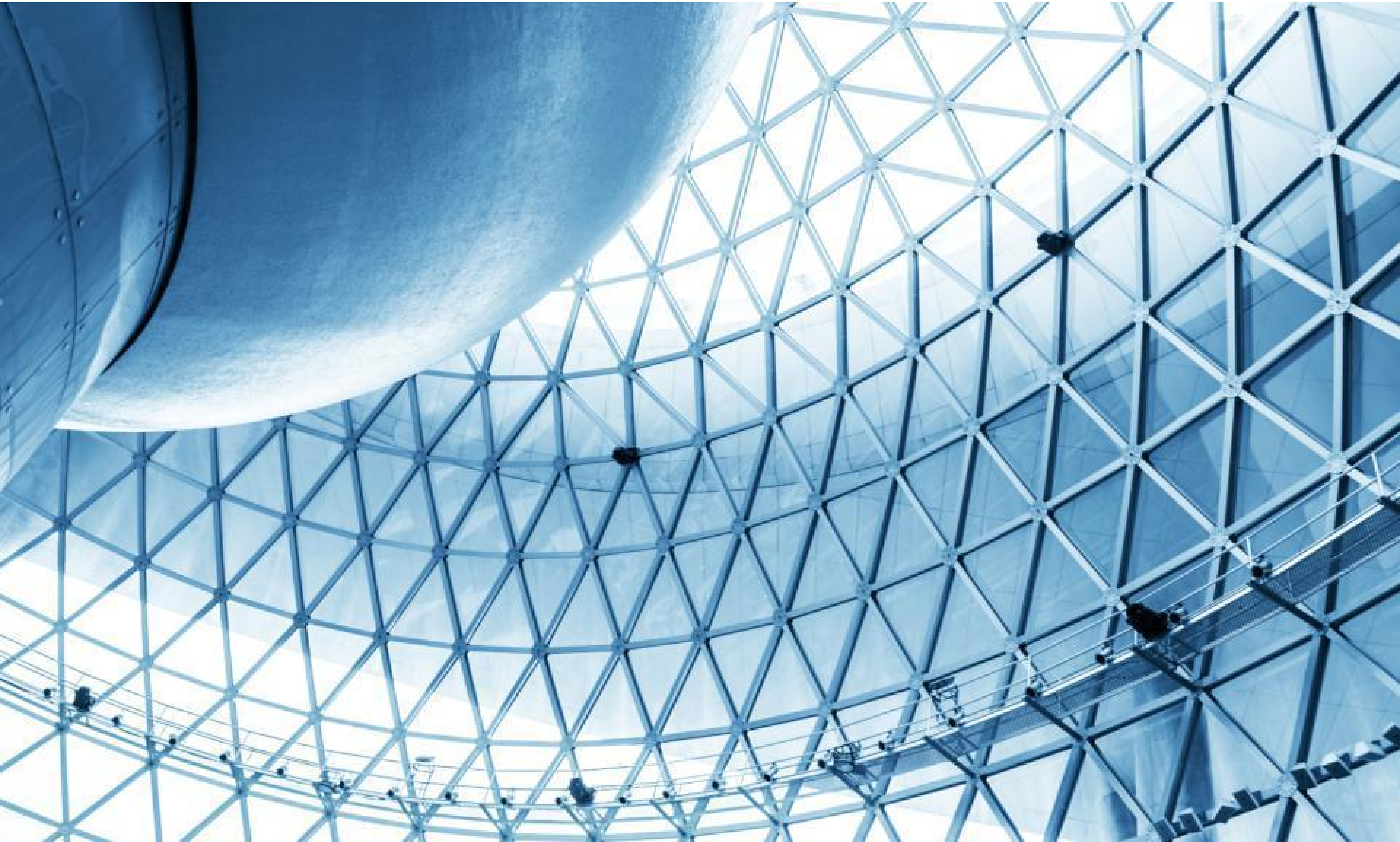
*'Other' reflects properties that do no fit into the traditional classifications (apartment, industrial, office, retail), such as medical office, senior housing, self-storage, student housing, and other property types.

LACERS Diversification Projections



*Var-US includes any investments that are not directly tied to specific regions, such as real estate debt investments through Torchlight or entity-level investments through Almanac.

E. Sourcing & Deal Flow



Manager Sourcing & Due Diligence

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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.
- 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

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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.
- 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

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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

- 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.
    - A $35 million commitment to Asana Partners II was recommended and approved in 2018.
  - 2019: A $20 million commitment to Broadview Real Estate Partners was approved by the Board.
- In 2021, LACERS updated its Emerging Manager Policy to the following:
  - The fund size may not be larger than $2 billion.
  - First, second or third institutional fund for a given General Partner.
  - The firm must have been in existence for a minimum of one year (6 months if all senior staff come from an established manager as part of a spin-out).
  - 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 Limited Partner can represent more than 30% of the total Fund’s capital.
  - The fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment.
  - For first-time institutional funds, LACERS commitment shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower (20% or $40 million for second- and third-time institutional funds).

Disclosures

Disclosures

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GENERAL DISCLOSURES

There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results. Investing involves risk, including possible loss of principal.

Returns reflect the equal-weighted returns calculated during the periods indicated. Note: If including Core, this is value-weighted. In addition, the valuations reflect various assumptions, including assumptions of actual unrealized value existing in such investments at the time of valuation. As a result of portfolio customization/blending and other factors, actual investments made for your account may differ substantially from the investments of portfolios comprising any indices or composites presented.

Due to the customized nature of Townsend's client portfolios, the performance stated may be considered "hypothetical" as it does not reflect the experience of individual client portfolios, but rather aggregate client positions in the stated investment strategy.

NON REGULATORY ASSETS UNDER MANAGEMENT

As of September 30, 2021, Townsend had assets under management of approximately $21.6 billion. When calculating assets under management, Townsend aggregates net asset values and unfunded commitments on a quarterly basis. Townsend relies on third parties to provide asset valuations, which typically takes in excess of 90 days after the quarter end. Therefore, assets under management have been calculated using September 30, 2021 figures where available but may also include June 30, 2021 figures. Assets under management are calculated quarterly and includes discretionary assets under management and non-discretionary client assets where the client's contractual arrangement provides the client with the ability to opt out of or into particular transactions, or provides other ancillary control rights over investment decision-making (a/k/a "quasi-discretionary"). Regulatory AUM is calculated annually and can be made available upon request.

ADVISED ASSETS

As of September 30, 2021, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding $137.9 billion. Advised assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals

TREA STRATEGIES (NON-CORE) employ a global non-core multi strategy approach with 50% or more of the investments invested in non primary fund investments such as co-investments, joint ventures, secondaries and clubs. Strategies are diversified by geography, sector, property type, manager and vintage year.

CORE-PLUS STRATEGIES (CORE) employ a global core/core plus multi strategy approach investing in primary funds, joint ventures, co-investments, secondaries, direct investments, debt strategies and REITs. Strategies are diversified by geography, sector, property type, manager and vintage year.

SEPARATE ACCOUNTS includes all Townsend active discretionary accounts which invest in a variety of investment styles and structures.

Disclosures and Definitions

TOWNSEND® GROUP
an Aon company

The NFI-ODCE Index is a capitalization-weighted, gross of fees, time-weighted return index with an inception date of 1/1/1978. Published reports may also contain equal-weighted and net of fees information. Open-end funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable US operating properties (as defined herein). The NFI-ODCE is a quasi-managed index based on the periodic review by the Index Policy Committee ("IPC") of the index's criteria thresholds.

The S&P 500 Index is an unmanaged market capitalization weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.

The Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Index figures do not reflect deduction of fees, expenses, or taxes. One cannot invest directly in an index.

Value-Added: Funds that generally include a mix of core investments and others that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.

Opportunistic: Funds of preponderantly non-core investments that are expected to derive most of their returns from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of risk factors.

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 10, 2022**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH LAZARD ASSET MANAGEMENT LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS CORE PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Committee recommend to the Board a one-year contract extension with Lazard Asset Management LLC for management of an active non-U.S. equities developed markets core portfolio.

Executive Summary

Lazard Asset Management (Lazard) has managed an active non-U.S. equities developed markets core portfolio for LACERS since November 2013. LACERS' portfolio was valued at $567 million as of March 31, 2022. The firm was placed on "On Watch" status as of August 27, 2021, for an initial one-year period for breaching the performance criteria of the LACERS Manager Monitoring Policy (based on performance as of June 30, 2021). Over the last three calendar quarters of the watch period, Lazard's performance has been in compliance with the Policy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a one-year contract extension to allow Lazard the time to complete the one-year watch period ending August 26, 2022, and to improve performance.

Discussion

Background
Lazard has managed an active non-U.S. equities developed markets core portfolio for LACERS since November 2013, and is benchmarked against the MSCI EAFE Index. Lazard employs a fundamental research-driven investment strategy to identify companies with strong or improving financial productivity at attractive valuations. The strategy is co-led by Mark Little, Managing Director, who has 30 years of industry experience and by Robin Jones, Managing Director, who has 20 years of experience. The three other members of the team include John Reinsberg, Deputy Chairman, International and Global Strategies (41 years of experience); Michael Bennett, Managing Director (36 years of experience); and Jimmie Bork, Director (11 years of experience). LACERS portfolio was valued at $567 million as of March 31, 2022.

Lazard was hired through the 2013 Active Non-U.S. Equities Developed Markets Manager search process and an initial three-year contract was authorized by the Board on June 11, 2013. The contract became effective on October 1, 2013 and was renewed for three-year terms on June 28, 2016, and on June 11, 2019; the current contract expires on September 30, 2022. Lazard representatives Thomas Franzese and Michael Bennett most recently presented a portfolio review to the Committee on August 10, 2021.

Organization
Lazard, a subsidiary of Lazard Freres & Co., manages approximately $240 billion across various equity and fixed income strategies for institutional and individual clients as of December 31, 2021. Lazard has offices in 17 countries across North America, Europe, Asia Pacific, and the Middle East, with over 900 employees including over 300 investment professionals. As of December 31, 2021, the firm managed over $95.7 billion in total non-U.S. equity assets, with $21.8 billion in the International Strategic Equity strategy (Lazard's product name for the strategy LACERS is invested in).

Due Diligence
On February 1, 2022, Robin Jones was promoted to co-lead of the strategy and Jimmie Bork joined the team as a portfolio manager. Robin's promotion formalized his long-time partnership with Mark Little as leaders of the strategy. Jimmie joined Lazard in 2016 and further strengthens the team's investment capabilities; he also serves as a co-lead portfolio manager for Lazard's Global Equity Income strategy and a member of the Global Strategic Equity team.

Lazard announced on April 6, 2022, that Ashish Bhutani, Chief Executive Officer (CEO) of Lazard, will be retiring on June 1, 2022, at which point he will leave the Board of Lazard Inc; he will remain as Chairman of Asset Management and Vice Chairman of Lazard until the end of 2022 to ensure a smooth transition. Evan Russo, who has served as Chief Financial Officer (CFO) of Lazard since 2017, will become Lazard's new CEO. Evan has 15 years of experience in leadership positions at Lazard. Prior to becoming CFO, he was a co-head of the Capital Markets and Capital Structure Advisory business. Staff and NEPC have determined that these organizational changes should not have a material adverse impact to the strategy and management of LACERS' assets.

There have been no other changes to Lazard's organizational structure, key personnel, investment philosophy, strategy, and process since the last contract renewal in 2019.

Performance
As of April 30, 2022, Lazard has underperformed the benchmark over the 3-month, 1-year, 2-year, 3-year, and 7-year periods and has outperformed over the benchmark over the 5-year and since inception period, as presented in the table below.

Annualized Performance as of 4/30/22 (Unaudited and Net-of-Fees)							
	3-Month	1-Year	2-Year	3-Year	5-Year	7- Year	Since Inception*
Lazard	-8.72	-13.48	12.30	3.05	5.57	3.41	4.18
MSCI EAFE ND	-7.53	-8.15	13.35	4.44	4.77	3.52	3.74
% of Excess Return	*-1.19*	*-5.33*	*-1.05*	*-1.39*	*0.80*	*-0.11*	*0.44*

*Performance inception date: November 5, 2013

Due to Lazard's strategy of investing in companies with attractive fundamentals such as high free cash flow, high return on equity, and low valuations, the strategy has a slight value style tilt which has resulted in the underperformance relative to the benchmark in recent years.

Calendar year performance is presented in the table below as supplemental information.

Calendar Year Performance									
	2021	2020	2019	2018	2017	2016	2015	2014	11/5/13-12/31/13
Lazard	7.30	11.50	20.56	-10.77	27.25	-4.95	0.48	-0.25	4.24
MSCI EAFE ND	11.26	7.82	22.01	-13.79	25.03	1.00	-0.81	-4.90	3.23
% of Excess Return	*-3.96*	*3.68*	*-1.45*	*3.02*	*2.22*	*-5.95*	*1.29*	*4.65*	*1.01*

Pursuant to the LACERS Manager Monitoring Policy, Lazard was placed "On Watch" for an initial one-year period effective August 27, 2021. The following Policy watch list criteria triggered the "On Watch" status based on the performance as of June 30, 2021:

1. Annualized net performance below peer median performance for trailing 5 years

2. Annualized net Information Ratio trailing 5 years relative to its benchmark is below 0.20

Subsequent to being placed on the watch list, Lazard's performance had returned to compliance with the Policy as of the quarters ending September, 30, 2021, December 31, 2022, and March 31, 2022; Lazard's watch list evaluation period ends on August 26, 2022. In light of Lazard's improving performance since being placed on watch, staff recommends a one-year extension to the contract to allow Lazard time to complete the watch period. Upon completion, staff and NEPC will reevaluate Lazard's performance and determine whether to maintain or remove Lazard from the watch list, or bring forth a recommendation to the Committee to terminate the contract pursuant to the Policy.

Fees
LACERS pays Lazard an effective fee of 52 basis points (0.52%), which is approximately $2.95 million annually based on the value of LACERS' assets as of March 31, 2022. The fee ranks in the 46th percentile of fees charged by similar managers in the eVestment database (i.e. 54% of like-managers have higher fees). Staff is currently in negotiations with Lazard to obtain a more favorable fee structure. Since inception, LACERS has paid Lazard a total of $22.3 million in investment management fees as of December 31, 2021.

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with Lazard will allow LACERS to maintain a diversified exposure to the non-U.S. equities developed markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared by: Ellen Chen, Investment Officer II, Investment Division.

NMG/RJ/BF/EC:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: May 10, 2022

Subject: Lazard Asset Management, LLC – Contract Extension

Recommendation

NEPC recommends the Los Angeles City Employees' Retirement System ('LACERS') extend the contract that is currently in place with Lazard Asset Management, LLC . ('Lazard') for a period of one year from the date of contract expiry.

Background

Lazard was hired into the Non-U.S. Equity asset class in 2013 to provide the Plan with public equity exposure across international developed countries/markets. The portfolio has a performance inception date of December 1, 2013. As of March 31, 2022, Lazard managed $567.2 million, or 2.5% of Plan assets. The performance objective is to outperform the MSCI EAFE Index, net of fees, annualized over a full market cycle (normally three-to-five years). The Lazard account is currently on Watch as of August 2021 due to performance.

Lazard Asset Management is a wholly-owned subsidiary of Lazard Ltd, which went public in 2005. Lazard has $240.3 billion in assets (as of December 31, 2021). About 30% of the firm is owned by Lazard employees and the rest is publicly owned. Lazard has more than 300 investment personnel and offices in over 20 cities around the globe. They offer investment solutions across the public and alternative investments landscape.

The LACERS account sits within the Lazard International Strategic Equity product, which is a multi-capitalization strategy. The strategy typically invests in 50-70 securities of non-US companies, including those from emerging markets. The benchmark is the MSCI EAFE Index. The portfolio is managed by five portfolio managers, however, day to day the portfolio is run by Mark Little, Portfolio Manager/Analyst and Robin Jones, Portfolio Manager/Analyst and Jimmie Bork, Portfolio Manager/ Analyst. Messrs. Little, Jones and Bork run the product on a day to day basis from the firm's London office and have been with the firm for 25, 20 and 6 years, respectively. Michael Bennett Portfolio Manager/Analyst, John Reinsberg, Deputy Chairman International and Global Strategies, act in client facing roles on the strategy and work from the firm's New York City office.

Lazard employs a bottom-up approach to equity investing. The process seeks to invest in companies that exhibit three characteristics of financial productivity: high and compounding free cash flow, high return on equity, and low valuation. The research process focuses on 1) understanding a company's path to profitability and management's role in sustaining it, and 2) validating the company's accounting statements to verify profitability. Idea generation can come from a variety of sources. Dedicated analysts research industry trends and the long-term impact on profitability. They assess the impact of strategic or management change and seek to identify companies that are earning less than their potential or that have valuations that imply a significant change in returns. In addition, screens on pricing multiples are used by the strategy team to identify ideas at the sector and industry levels. Depending on the groups, different valuation metrics are emphasized. For non-cyclical stocks, they look at Price/Earnings, for financials Price/Book, for capital intensive Price/Cash Flow, and for deep cyclical Price/Sales. They will consider absolute cheapness and relative cheapness.

Portfolio construction is driven by stock selection. The portfolio management team builds the portfolio by selecting one stock at a time. Inclusion of a stock in the portfolio is primarily dependent on a new idea's attractiveness relative to existing portfolio holdings. Sector and regional exposures are a residual of the investment process.

Performance

Referring to Exhibit 1 Performance Summary Net of Fees Ended March 31, 2022, since December 1, 2013 (the first full month of performance after the account inception date of November 5, 2013) the strategy has outperformed the MSCI EAFE Index by 0.2%, returning 4.7%, net of fees. The portfolio ranked in the 86th percentile in its peer universe since inception. In the five-year period ended March 31, 2022, the portfolio outperformed the index by 0.8% and ranked in the 53rd percentile in its peer universe. Over the last three-year and one-year period ended March 31, 2022 the portfolio has underperformed its benchmark by 1.8% and 6.2% respectively. Underperformance in the past three-years, ended March 31, 2022, has been driven by stock selection and the value style tilt in the portfolio. Broadly, the portfolio tends to underperform in market environments like that seen in 2021 where there was a large performance difference between growth and value stocks. On a regional basis, stock selection across Continental Europe and Japan detracted from performance. On an economic sector basis, stock selection across the Consumer Discretionary, Consumer Staples and Utilities sectors detracted from performance.

Fees

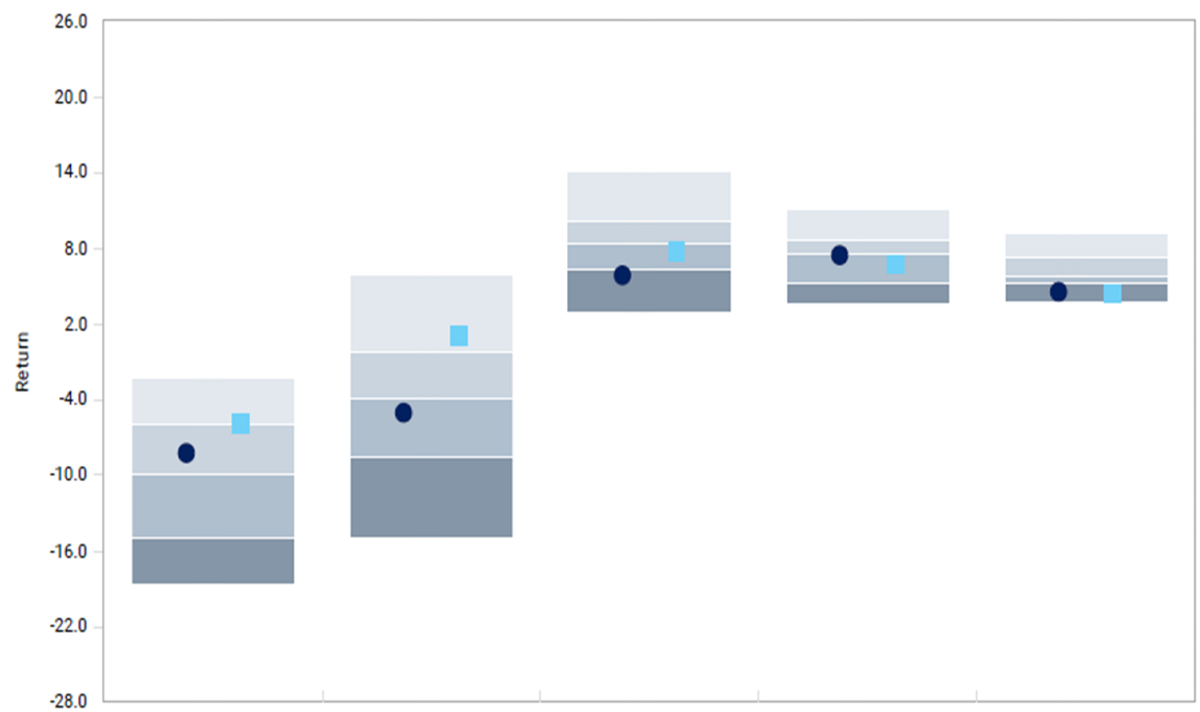
The portfolio has an asset-based fee of 0.52% (52 basis points) annually. This fee ranks in the 46th percentile among its peers in the eVestment All EAFE Universe. In other words, 54% of the products in the peer universe have a higher fee than the LACERS account.

Conclusion

Lazard has performed well against its benchmark over longer time periods including over the past five-years and since inception. The firm has had a well-established, stable team in place, in addition to executing well against its stated investment objectives. With an investment process and philosophy that prioritizes financially productive and inexpensively valued companies, the portfolio is subject to periods of underperformance when the performance disparity between growth and value stocks is wide. NEPC recommends a contract extension for a period of one year from the period of contract expiry.

The following table provides specific net of fees performance information, as referenced above.

Exhibit 1: Performance Summary Net of Fees Ended March 31, 2022



	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)
Lazard Asset Management	-8.2 (41)	-5.0 (62)	6.0 (77)	7.5 (53)	4.7 (86)
MSCI EAFE (Net)	*-5.9 (26)*	*1.2 (21)*	*7.8 (59)*	*6.7 (59)*	*4.5 (89)*
5th Percentile	-2.2	5.9	14.3	11.1	9.3
1st Quartile	-5.9	-0.2	10.1	8.7	7.4
Median	-10.0	-3.9	8.5	7.6	5.8
3rd Quartile	-14.9	-8.4	6.3	5.3	5.3
95th Percentile	-18.7	-14.9	3.0	3.5	3.8
Population	66	66	61	57	36

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 10, 2022**
From: Neil M. Guglielmo, General Manager **ITEM: VI**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH STATE STREET GLOBAL ADVISORS REGARDING THE MANAGEMENT OF A PASSIVE GLOBAL INDEX STRATEGY AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Committee recommend to the Board a one-year contract extension with State Street Global Advisors for management of a passive MSCI World ex-U.S. Investable Markets Index portfolio to allow time for the completion of the 2021-2022 U.S., Non-U.S., and Global Index Strategies investment manager search.

Executive Summary

State Street Global Advisors ("SSgA") has managed a passive MSCI World ex-U.S. Investable Markets Index (IMI) portfolio for LACERS since November 2007. The strategy has outperformed its benchmark for all periods since inception and is in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC, LLC ("NEPC"), LACERS' General Fund Consultant, recommend a one-year contract extension to allow time for the completion of the 2021-2022 U.S., Non-U.S., and Global Index Strategies investment manager search and the transition of assets if needed. The current contract expires on June 30, 2022.

Discussion

Background
In July 1993, the Board hired SSgA to manage a passive MSCI EAFE (Europe, Australasia, and Far East) Index strategy separate account to gain exposure to the non-U.S. developed equities markets. This mandate subsequently was transitioned to an MSCI World ex-U.S. IMI strategy in November 2007 to gain exposure to Canada in addition to the EAFE countries. SSgA's strategy replicates the securities in the MSCI World ex-U.S. IMI, resulting in a portfolio that has a similar risk-return profile as the index. The strategy is managed by Mark Krivitsky, who has 29 years of experience with SSgA. The backup portfolio manager is Kala O'Donnell, who has 26 years of experience with SSgA. The market value of LACERS' portfolio was approximately $2 billion as of March 31, 2022.

In April 2012, the Board authorized an investment search for multiple passive strategies. As a result of this search, the Board retained SSgA to manage the MSCI World ex-U.S. IMI strategy and several other passive strategies for LACERS on an as-needed basis. The current contract for the MSCI World ex-U.S. IMI strategy was executed on July 1, 2014, and expires on June 30, 2022.

LACERS is currently conducting an investment manager search for the MSCI World ex-U.S. IMI strategy, along with various other index strategies, as part of the 2021-2022 U.S., Non-U.S., and Global Index Strategies search. SSgA is a semi-finalist candidate in this search. Accordingly, staff recommends that the current contract with SSgA be extended for one year to maintain exposure to this passive strategy until the search is completed and to allow time for the transition of assets should SSgA not be rehired for this mandate.

Organization
SSgA is headquartered in Boston and is the asset management business of State Street Corporation (NYSE ticker symbol STT). SSgA has 526 investment professionals and 2,339 total employees around the world as of December 31, 2021. SSgA managed approximately $4 trillion in total assets with $10 billion of assets in the MSCI World ex-U.S. IMI strategy as of December 31, 2021.

Due Diligence
Lynn Blake, Chief Investment Officer (CIO), Global Equity Beta Solutions (GEBS), retired in September 2021 after a 34-year career at SSgA. Upon Lynn's retirement, John Tucker was promoted to the role of CIO, GEBS. John began his career at SSgA in 1990 and has held several senior roles within GEBS over the past 20 years. Prior to his promotion, John served as Chief Operating Officer of Investments. Staff and NEPC have deemed these organizational changes to have no material adverse impact to LACERS' portfolio. SSgA investment philosophy, strategy, and process have not changed since the last contract renewal.

Performance
On an annualized basis as of March 31, 2022, SSgA has outperformed the benchmark, for all time periods as presented in the table below. The excess return of the strategy primarily results from differences in foreign country withholding tax rates applied to the benchmark and LACERS. The benchmark uses the highest withholding tax rates on dividends to determine the amount available for reinvestment. LACERS generally is subject to reduced or zero withholding tax rates, resulting in higher dividend amounts reinvested and higher performance relative to the index.

Annualized Performance as of 3/31/22 (Net-of-Fees)									
	3-Month	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	Since 11/30/07[1]	Since Inception[2,3]
SSgA	-4.99	2.84	24.09	9.37	7.82	6.21	6.95	3.29	5.89
MSCI World ex-U.S. IMI[4]	-5.18	2.31	23.25	8.69	7.22	5.69	6.46	2.80	5.69
% of Excess Return	*0.19*	*0.53*	*0.84*	*0.68*	*0.60*	*0.52*	*0.49*	*0.49*	*0.20*

[1] Performance mandate changed from MSCI EAFE Index (8/31/93 to 11/30/07) to MSCI World ex U.S. IMI (11/30/07 to present)

[2] Since inception date: 8/31/93

[3] Performance is a blend of MSCI EAFE Index (8/31/93 to 11/30/07) and the MSCI World ex-US IMI (11/30/07 to present); strategy and index performance data since inception on 8/31/93 provided by SSgA and are gross of investment fees. LACERS custodian bank does not maintain performance records for this strategy prior to 1998

[4] Net Dividends Index - reflects reinvestment of dividends after the deduction of withholding taxes

SSgA's calendar year performance is presented in the table below.

Calendar Year Performance as of 12/31/21 (Net-of-Fees)															
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	12/1/07-12/31/07[5,6]
SSgA	12.86	9.41	23.36	-14.22	25.52	3.37	-1.57	-4.10	22.04	17.03	-12.34	10.73	35.61	-43.24	-2.01
MSCI World ex-U.S. IMI[2]	12.39	8.32	22.91	-14.68	25.17	2.95	-1.95	-4.45	21.57	16.55	-12.66	10.66	35.35	-44.00	-2.03
% of Excess Return	*0.47*	*1.09*	*0.45*	*0.46*	*0.35*	*0.42*	*0.38*	*0.35*	*0.47*	*0.48*	*0.32*	*0.07*	*0.26*	*0.76*	*0.02*

[5] Performance since changing mandate to the MSCI World ex U.S. IMI (11/30/07 to present)

[6] Net Dividends Index

SSgA is in compliance with the LACERS Manager Monitoring Policy.

Fees

LACERS pays SSgA an effective fee of 2.24 basis points (0.0224%), which is approximately $448,000 annually based on the value of LACERS' assets as of March 31, 2022. The fee ranks in the first percentile of fees charged by similar managers in the eVestment database (i.e. 99% of like-managers have higher fees). LACERS paid SSgA a total of $6.4 million in investment management fees from July 1, 1997 (oldest accounting record available) to December 31, 2021.

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with State Street Global Advisors will allow LACERS to maintain a diversified exposure to the non-U.S. equities markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared by: Ellen Chen, Investment Officer II, Investment Division.

NMG/RJ/BF/EC:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: May 10, 2022

Subject: State Street Global Advisors – Contract Extension

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) extend the contract that is currently in place with State Street Global Advisors (SSgA) for a period of one year from the date of contract expiry.

Background

LACERS currently has two contracts with SSgA including one that covers the index management of a portfolio tied to the MSCI World ex U.S. benchmark. SSgA was hired in September of 1993 to manage this portfolio on behalf of LACERS. As of March 31, 2022, the value of the portfolio was $2.04 billion.

SSgA has managed this portfolio with minimal tracking error. The portfolio has an asset-based fee of 0.02% annually. This fee ranks in the first percentile among other non-U.S. developed market index fund providers.

The contract for this mandate is set to expire June 30, 2022. We are requesting a one-year extension in order to provide enough time for the Board to finalize the current search for multi-asset index management.

REPORT TO INVESTMENT COMMITTEE
From: Neil M. Guglielmo, General Manager

MEETING: MAY 10, 2022
ITEM: VII

SUBJECT: **ADAPTIVE ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Committee recommend to the Board a renewal of the Adaptive Asset Allocation Plan for Fiscal Year 2022-2023.

Executive Summary

This report provides an annual update on adaptive rebalancing pursuant to the LACERS Rebalancing Policy and Adaptive Asset Allocation Plan (AAAP) under Sections V.G and V.H of the Investment Policy Manual. No adaptive rebalances have been initiated through April of fiscal year 2021-2022. Staff recommends renewal of the AAAP for fiscal year 2022-2023.

Discussion

The LACERS Rebalancing Policy and AAAP (Sections V.G and V.H of the Investment Policy Manual) authorize staff to conduct adaptive rebalancing. The AAAP, initially adopted by the Board on May 28, 2019, and revised on October 26, 2021, addresses the goals and objectives of adaptive asset allocation, roles and responsibilities of parties involved, decision-making and implementation framework, and reporting requirements.

Pursuant to Section VII of the AAAP, the CIO must provide an annual report to the Investment Committee of all adaptive rebalances initiated in the current fiscal year and provide recommendations to modify, continue, or cease the AAAP. Through April of fiscal year 2021-2022, staff has not identified any opportunities to invoke the AAAP and no adaptive rebalances have been initiated. Staff will continue to monitor market conditions and the investment portfolio for opportunities to adaptively rebalance and recommends a renewal of the AAAP in its current form for fiscal year 2022-2023.

LACERS' Internal Auditor has reviewed this report pursuant to Section II of the AAAP.

Strategic Plan Impact Statement

Renewing the Adaptive Asset Allocation Plan aligns with the Strategic Plan Goals to optimize long-term risk adjusted investment returns (Goal IV) and to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: James Wang, Investment Officer I, Investment Division

NMG/RJ/BF/JW:rm

Attachment: 1. Rebalancing Policy and Adaptive Asset Allocation Plan

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. 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 Adaptive Asset Allocation Plan (AAAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. The Board will consider the approval of a new AAAP or renewal of an existing AAAP within three months prior to the start of each fiscal year. The approved AAAP will be effective on July 1 of each year. Should the Board choose not to renew an AAAP, the existing AAAP may continue to be implemented; however, new AAA positions may not be introduced until a continuance of the existing AAAP or new AAAP 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. Adaptive Asset Allocation Plan

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I. Purpose and Scope

The Adaptive Asset Allocation Plan (AAAP) is an addendum to Section I.V.G of the Investment Policy.

On February 12, 2019, the Board of Administration ("Board") of the Los Angeles City Employees' Retirement System (LACERS) approved revisions to the Investment Policy, which included a revision to the Rebalancing Policy (Section I.V.G). Specifically, a provision was added for Tactical Asset Allocation (TAA). Under the TAA section, staff is authorized to initiate tactical rebalancing pursuant to the Tactical Asset Allocation Plan (TAAP).

On October 26, 2021, the Board approved renaming TAA to Adaptive Asset Allocation (AAA) and the TAAP to the Adaptive Asset Allocation Plan (AAAP).

The Board believes that LACERS Total Fund (Total Fund) is best managed when additional tools are available for staff to address a dynamic and rapidly changing investment market. Adaptive Asset Allocation, pursuant to the Rebalancing Policy and procedures found in the AAAP, is designed to supplement and complement the Rebalancing Policy by adding flexibility to rebalancing decisions within a prudent, decision-making framework based on market and/or internal operational conditions. Rebalancing decisions—strategic and tactical—will be based on the principles of prudence, care, and risk mitigation.

More specifically, the AAAP provides additional approaches to the rebalancing of asset classes within established asset class policy target ranges. Rebalancing under the AAAP must achieve at least one of the following objectives: 1) Enhance Total Fund value; 2) Protect Total Fund value; or 3) Enhance the risk/return profile of the Total Fund pursuant to the Asset Allocation Policy and Risk Budget.

II. Roles and Responsibilities

The Board of Administration

The Board authorizes, provides oversight, and approves amendments to the AAAP. The Board delegates to staff the implementation of AAA within the adopted Rebalancing Policy, Asset Allocation Policy, and Risk Budget. The Board will review and approve the AAAP on or before July 1 of each year.

Investment Committee

The Investment Committee reviews AAAP status reports if applicable, conducts an annual performance evaluation of the AAAP, and recommends amendments to the Board.

Chief Investment Officer

The Chief Investment Officer (CIO) is responsible for the implementation of an Adaptive Asset Allocation rebalancing pursuant to the AAAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated Adaptive Actions as may be necessary. The CIO along with staff is responsible for observing economic and market indicators, assessing internal operational conditions, and working with the General Fund Consultant (and seeking advisement of other Investment Consultants under contract as may be necessary) to seek concurrence with an Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an Adaptive Rebalance.

General Fund Consultant

The General Fund Consultant reviews the CIO's proposed Adaptive Action, and either concurs, amends, or disagrees with the proposed decision within seven business days of presentation of the Adaptive Rebalance Proposal.

Internal Auditor

The Internal Auditor shall review the CIO's annual AAAP report, as provided in Section VII of this plan, prior to presenting the report to the Investment Committee.

III. Terminology

Adaptive Factors – External landscape observations that include economic, market, and valuation factors plus internal operational factors, all of which are to be considered when developing an Adaptive Rebalance Proposal (see Appendix A).

Adaptive Objectives – The driving force that underpins justification for an Adaptive Rebalance. Objectives may include: 1) Enhance Total Fund value; 2) Protect Total Fund value; and 3) Enhance the Risk/Return Profile of the Total Fund.

Adaptive Rebalance Proposal – A written Adaptive Rebalance plan to address one specific Adaptive Asset Allocation (AAA) Rebalance project. The Adaptive Rebalance Proposal shall consider the provisions found in AAAP Sections IV, V, VI, and VII.

Adaptive Rebalance – One or more individual tactical movements of capital between or among asset classes to achieve one or more Adaptive Objectives. An Adaptive Rebalance may take one to 12 months to implement; up to an additional 12 months may be provided if an Adaptive Reversal is included in an Adaptive Rebalance Proposal.

Adaptive Action – One specific, individual movement of capital that adjusts asset holdings due to movements of cash, in-kind asset transfers, or use of derivatives. Derivatives may be used as an alternative to cash or in-kind asset transfers to obtain the equivalent changes in exposure(s), if derivatives are expected to produce more favorable economic and/or risk enhancements. Derivatives may not be used as a form of leverage.

Adaptive Reversal – An optional component of an Adaptive Rebalance Proposal, an Adaptive Reversal is a specific and time-bound plan to partially or fully unwind an Adaptive Rebalance once economic or market conditions, or internal operations, stabilize. An Adaptive Reversal can be an integral component of an Adaptive Rebalance Proposal and may take up to 12 additional months to achieve full implementation.

IV. Adaptive Asset Allocation Considerations

LACERS is a long-term strategic investor and implements the Asset Allocation Policy. AAA allows LACERS flexibility to adjust exposures to established asset classes to achieve one of several aforementioned AAA Objectives. AAA Factors that are considered when contemplating an Adaptive Rebalance include (but are not restricted to): stage of the economic cycle; abrupt or trending market or capital dislocations; excessive or deep under valuations of specific or broad asset types within the Total Fund or in the market; and internal operational factors.

V. Implementation

Implementation of an Adaptive Action will comply with the following procedures, as they may apply:

1. External Landscape Evaluation – Economic market outlook, including economic indicators, monetary and fiscal policies, geo-political events, Federal Reserve Bank actions, interest rates, inflation, etc.
2. Internal Operational Evaluation – Actual asset allocation of the Total Fund compared to policy targets, asset class movements and trends, portfolio valuations, operational cash, future, pending, or existing RFP manager searches and hiring of investment managers, pending investment manager terminations, market and economic landscape commentary or information from investment managers, and compliance with existing Investment Policy
3. General Fund Consultant Discussion and Concurrence (and discussion with other contracted Investment Consultants as warranted)
4. Written Adaptive Rebalance Proposal should include the following decision considerations (as appropriate):
    a. External Landscape and Internal Operational Evaluations;
    b. Projected Impact on Asset Allocation and Asset Classes;
    c. Projected Impact on Total Fund addressing Adaptive Objectives:
        i. Enhancement to Total Fund Value; and/or
        ii. Protection of Total Fund Value; and/or
        iii. Enhanced Risk/Return Profile and Compliance to Risk Budget
    d. Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;
    e. Financial Considerations - Funds directly impacted by an Adaptive Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
    f. Adaptive Reversal (Partial or Full) as needed

5. Implementation of Adaptive Action pursuant to the written Adaptive Rebalance Proposal and AAAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a Adaptive Rebalance
7. Quarterly Status Reporting of Adaptive Rebalancing implementation
8. Internal Monthly Rebalancing and Compliance Staff Reviews per the Rebalancing Policy (Section I.V.G of the LACERS Investment Policy)
9. Annual Investment Committee Review of AAAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of AAAP based on Investment Committee Report as provided in Section VII of this plan

VI. Risk Management Guidelines

The following guidelines are designed to help the CIO manage the implementation of the AAA Policy within a prudent risk-management framework.

1. An Adaptive Rebalance may be initiated when the actual market value weighting of an asset class exceeds 70% of the range from its target weighting to its established bands.
2. An Adaptive Rebalance Proposal shall not exceed 50% of the excess valuation that is over- or under-weight to its policy target at the time the decision to rebalance is made.
3. An Adaptive Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Adaptive Rebalance, which may extend the Adaptive Rebalance up to an additional 12 months.
4. An Adaptive Rebalance may be suspended after the first Adaptive Action is completed if such single Adaptive Action or subsequent Adaptive Actions achieves the Adaptive Objective(s) within the Adaptive Rebalance Proposal pursuant to an Adaptive Rebalancing Proposal.
5. An Adaptive Rebalance Proposal may be modified or suspended by the CIO upon the concurrence of the General Fund Consultant if market conditions or other external landscape factors change or strategic asset class rebalances are necessary that disrupt the orderly implementation of the Adaptive Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Adaptive Rebalance Proposal such that the Adaptive Objectives are no longer achievable within the established Adaptive Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.
6. A specific Adaptive Rebalance should not be initiated if it will cause another asset class to breach its regular Asset Allocation policy upper or lower rebalance threshold.
7. The General Fund Consultant must concur with the Adaptive Rebalance Proposal prior to initiation.

VII. Annual Review of the AAAP

Annual AAAP Review by the Investment Committee

The CIO will prepare an annual report of all Adaptive Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive Rebalances and Adaptive

Actions, and the projected and actual impact of the Adaptive Rebalance(s) including (but not restricted to) performance, capital preservation, and/or risk factors. Staff may also include recommendations to modify, continue or cease the AAAP. The Annual AAAP Review will be presented to the Investment Committee no later than the month of April of each year.

The Investment Committee will determine if the AAAP requires any modifications including repeal. The Investment Committee recommendations will be then sent to the Board of Administration for approval.

Annual AAAP Approval or Repeal by the Board of Administration

The Board of Administration shall review and approve, modify, or repeal the AAAP prior to the beginning of each Fiscal Year.

If the AAAP is repealed, staff may not enter any new Adaptive Rebalances; except Adaptive Reversals that were contemplated in the Adaptive Rebalance Proposal may be implemented according to the implementation sequence of the Adaptive Actions.

VIII. APPENDIX

External Landscape and Internal Operational Considerations

a. *Economic Cycle Consideration* - An Adaptive Action may be appropriate based on the economic cycle, as illustrated below:

   Early Stage Phase - The early stage of the economic cycle is characterized by recovering growth in the gross domestic product (GDP), profit margins, and consumer confidence. Credit and inflation in the economy are typically flat while interest rates start to rise. Stocks tend to be trading at more attractive levels compared to longer term historical averages.

   Early to Mid-Cycle Stage Phase - During the early and mid-cycle phases, equities have the potential to outperform. AAA may attempt to take advantage of expansion stages by shifting exposure to public equities and reducing exposures to core fixed income assets.

   Later and Recession Stage Phases - During late and recession stages, equities have potential to underperform risk-off assets. AAA may attempt to protect the Total Fund by reducing public equities and increasing fixed income assets.

b. *Market Stages Consideration*

   The economy oscillates between stages of expansion (early and middle stages) and contraction (late and recession stages). The early stage of the economic cycle is characterized by recovering growth in the gross domestic product (GDP), profit margins, and consumer confidence. Credit and inflation in the economy are typically flat while interest rates start to rise. Stocks tend to be trading at more attractive levels compared to longer term historical averages.

During the mid-cycle period of the economic cycle, the economy generally experiences expansion in GDP, credit growth, profit margins, and consumer confidence. Interest rates and inflation are typically stable during this period. Stocks tend to recover to levels in-line with long term average valuations.

In the late-cycle period of the economic cycle, the economy typically experiences moderation in GDP growth, profit margins, and credit expansion. Consumer confidence is high and both interest rates and inflation are on the rise. Stocks trade at the higher band of long term averages while volatility tends to be higher than the earlier parts of the cycle.

Finally, during the recession stage of the economic cycle, excesses are purged from the system. GDP, credit, profit margins, interest rates, inflation and consumer confidence are all falling. During this phase of the market, volatility in the stock market increases dramatically while prices tend to fall to below average valuations.

c. *Assessment of Market Conditions*
Staff will evaluate and assess if the market is Early-Cycle, Mid-Cycle, Late-Cycle or in a Recession on a quarterly basis.

This assessment will be based on the factors listed in the chart below.

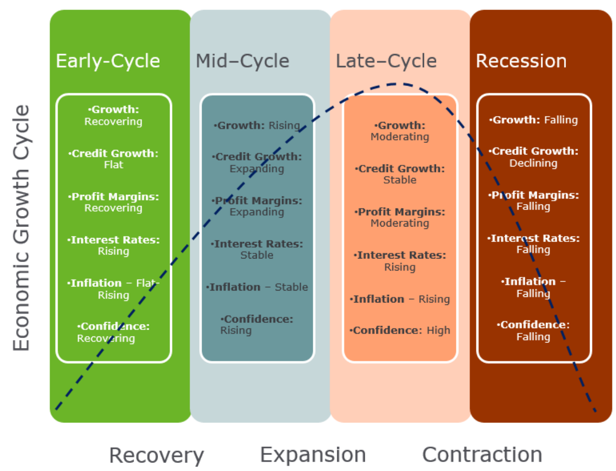

*chart provided by NEPC, LLC

d. *Economic and Market Risk Assessment*
Staff will address one or more of the economic, financial, and market indicators.

- Growth: Year-over-year growth in GDP
- Credit Growth: Year-over-year growth in total credit
- Profit Margins: Corporate profit margins
- Interest Rates: Short, Long, Yield Curve
- Inflation: Consumer Price Index
- Confidence Levels: Consumer Sentiment Index
- Additional factors such as commodity and currency trends, unemployment statistics, building permits, sales, and manufacturing statistics.

e. *Asset Valuations*
Staff will address the relevant market valuation indicators to include (but not restricted to):
- Current to Long-Term Historical Valuations reflected in Price to Earnings, Price to Book, and Dividend Yields
- Interest rate spreads, duration
- Growth versus Value

f. *Internal Operational Considerations*
Staff will evaluate factors to include (but not restricted to):
- Benefits and Consequences of initiating an Adaptive Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact

I. 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.