LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, NOVEMBER 14, 2023

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

MEETING LOCATION:

LACERS Boardroom
977 N. Broadway
Los Angeles, California 90012

Important Message to the Public

An opportunity for the public to address the Committee in person from the Boardroom and provide comment on items of interest that are within the subject matter jurisdiction of the Committee or on any agenda item will be provided at the beginning of the meeting and before consideration of items on the agenda.

Members of the public who do not wish to attend the meeting in person may listen to the live meeting via one-way audio on Council Phone by calling (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside) or (310) 547-CITY (San Pedro Area).

Disclaimer to Participants

Please be advised that all LACERS Committee meetings are recorded.

LACERS Website Address/link:
www.LACERS.org

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Committee in advance of the meeting may be viewed by clicking on LACERS website at www.LACERS.org, at LACERS' offices, or at the scheduled meeting. In addition, if you would like a copy of a non-exempt record related to an item on the agenda, please call (213) 855-9348 or email at lacers.board@lacers.org.

Chair:	Elizabeth Lee
Committee Members:	Annie Chao Gaylord "Rusty" Roten
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.

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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

II. APPROVAL OF MINUTES FOR THE MEETING OF SEPTEMBER 12, 2023 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. PRESENTATION BY AKSIA LLC OF THE PRIVATE EQUITY PROGRAM 2024 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

V. INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION

VI. CONTINUED DISCUSSION OF PROPOSED INVESTMENT POLICY REGARDING PRIVATE CREDIT INVESTMENTS AND POSSIBLE COMMITTEE ACTION

VII. INVESTMENT PROGRAM GOVERNANCE AND REVIEW PROCESSES AND POSSIBLE COMMITTEE ACTION

VIII. BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023

IX. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO KAYNE ANDERSON CORE REAL ESTATE, L.P. AND POSSIBLE COMMITTEE ACTION

X. OTHER BUSINESS

XI. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, December 12, 2023, at 10:30 a.m., or immediately following the Board Meeting in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

XII. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, NOVEMBER 14, 2023

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President:	Annie Chao
Vice President:	Sung Won Sohn
Commissioners:	Thuy T. Huynh Elizabeth Lee Gaylord "Rusty" Roten Janna Sidley Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
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XII. ADJOURNMENT

Agenda of:	**Nov. 14, 2023**
Item No:	**II**

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

September 12, 2023

12:48 p.m.

PRESENT:	Chair	Elizabeth Lee
	Committee Member:	Annie Chao Gaylord “Rusty” Roten
	Legal Counselor:	Joshua Geller
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian

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 – Chair Lee asked if any persons wished to speak on matters within the Committee’s jurisdiction, to which there were no public comment cards submitted.

II

APPROVAL OF MINUTES FOR THE MEETING OF AUGUST 8, 2023 AND POSSIBLE COMMITTEE ACTION – Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Chao, Roten, and Chair Lee -3; Nays, None.

III

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

- Investment Committee Forward Calendar

IV

INVESTMENT MANGER CONTRACT WITH PGIM, INC. REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKET DEBT PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Jeremiah Paras, Investment Officer I, presented this item to the Committee. Committee Member Chao moved approval, and adopted by the following vote: Ayes, Committee Members Chao, Roten, and Chair Lee -3; Nays, None.

V

PROXY VOTING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023 – Ellen Chen, Investment Officer II, presented this item to the Committee. The report was received by the Committee and filed.

VI

PROPOSED INVESTMENT POLICY REGARDING PRIVATE CREDIT INVESTMENTS AND POSSIBLE COMMITTEE ACTION – Wilkin Ly, Investment Officer III, Trevor Jackson, Managing Director, and Mike Krems, Partner, with Aksia LLC, presented and discussed this item with the Committee for 30 minutes. Committee Member Chao proposed to continue this item to a future Investment Committee meeting, and adopted by the following vote: Ayes, Committee Members Chao, Roten, and Chair Lee -3; Nays, None.

Chair Lee recessed the Regular Meeting at 1:38 p.m. to convene in Closed Session discussion.

VII

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO OAKTREE REAL ESTATE OPPORTUNITIES FUND IX, L.P. AND POSSIBLE COMMITTEE ACTION

Chair Lee reconvened the Regular Meeting at 1:57 p.m.

VIII

OTHER BUSINESS – Chair Lee requested future discussion on items that go to the Investment Committee and items that go directly to the Board and Asset Manager presentation requirements.

IX

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, October 10, 2023, at 10:30 a.m. or immediately following the Board Meeting, in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

X

ADJOURNMENT – There being no further business before the Committee, Chair Lee adjourned the meeting at 2:02 p.m.

Elizabeth Lee
Chair

Neil M. Guglielmo
Manager-Secretary

REPORT TO INVESTMENT COMMITTEE **MEETING: NOVEMBER 14, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **PRESENTATION BY AKSIA LLC OF THE PRIVATE EQUITY PROGRAM 2024 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board the adoption of the Private Equity Program 2024 Strategic Plan.

Discussion

Aksia LLC (Aksia), LACERS' Private Equity Consultant, with input from staff, has developed the proposed Private Equity Program 2024 Strategic Plan, which considers strategic objectives and investment plan recommendations for calendar year 2024. Staff has reviewed the plan and recommends its adoption. Aksia will present the proposed plan.

Strategic Plan Impact Statement

The annual private equity strategic plan assists the Board in building a diversified private equity 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/WL/EC/EP:rm

Attachment: 1. LACERS Private Equity Program 2024 Strategic Plan – Aksia LLC

LACERS Private Equity Program
2024 Strategic Plan
November 2023

Aksia
New York • London • Tokyo

www.aksia.com

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Fundraising Activity – North America

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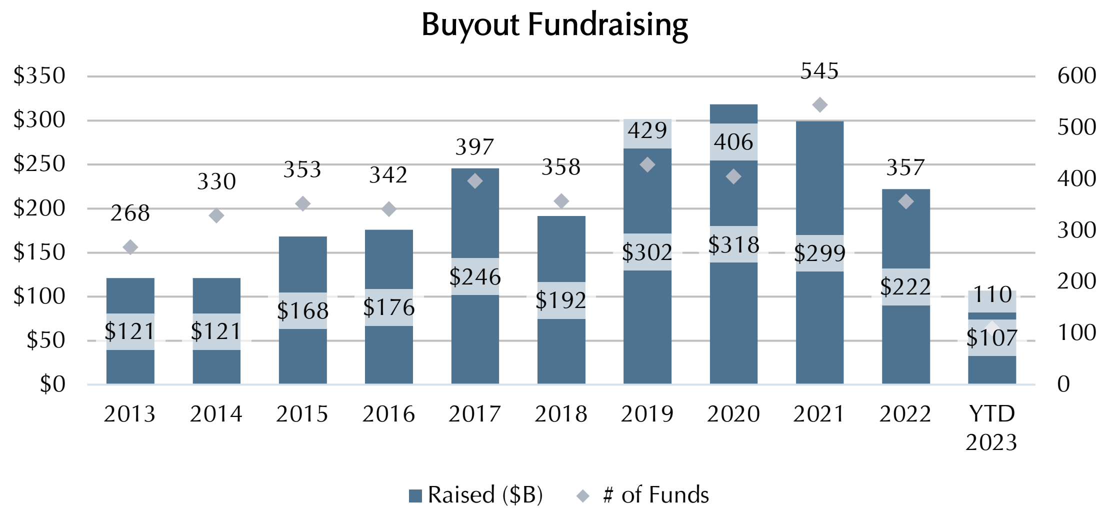
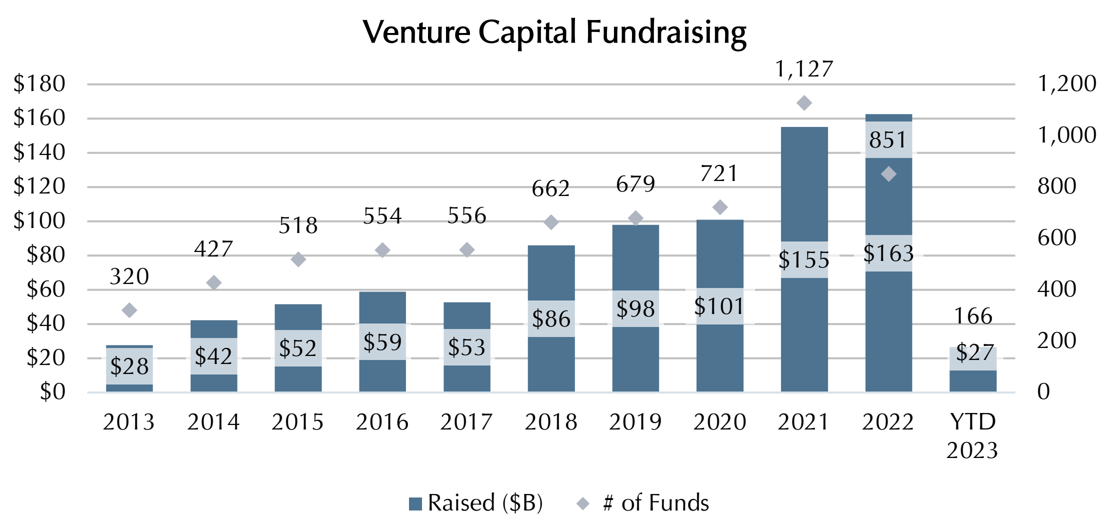
- Buyout fundraising continues to face challenges in 2023 as investors grapple with economic uncertainty. This has resulted in a crowded fundraising market with some managers extending timelines and falling short of targets.



- We have seen larger managers garner more capital as LPs have concentrated their relationships.
- The amount of funds and capital raised during 1H 2023 was approximately one-third the amount raised in 1H 2022. Total 2023 fundraising is on track to be lower.



Source: Pitchbook, as of June 30, 2023. Data has not been reviewed by Pitchbook analysts. The above represents Aksia's market observations. Observations are subject to change.

Aksia

Investment Activity – North America

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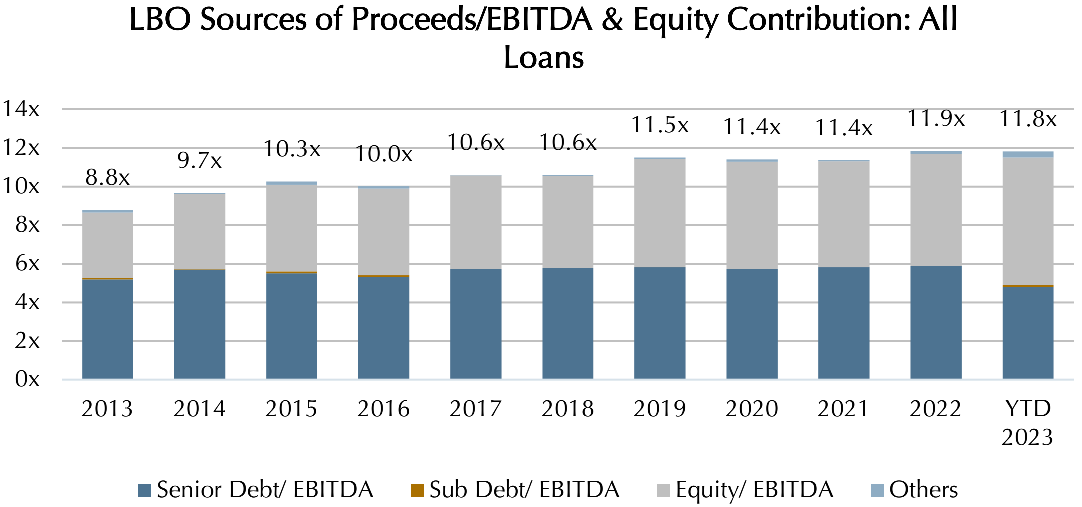
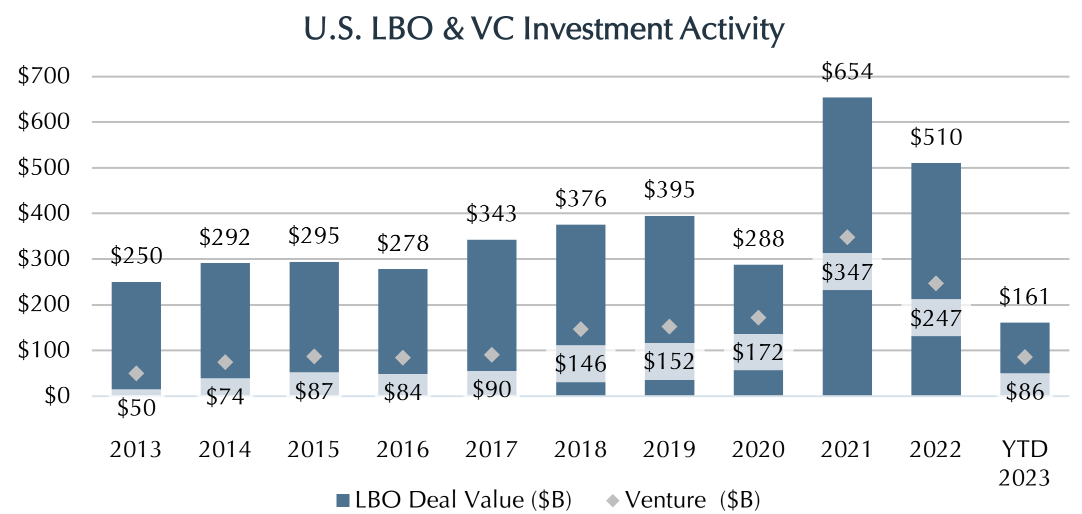
- Private market valuation multiples have remained relatively stable despite the volatility in public equity markets and the increased cost of financing.
- Buyers and sellers' expectations remain wide and as such, higher quality companies have been the main drivers of recent buyout activity.



Source: Leveraged Commentary & Data (LCD), Pitchbook as of June 30, 2023

- Within VC, we noticed founders have avoided down rounds and extended cash runways; however, managers generally expect investment activity to pick up in the second half of 2023.



Investment Activity – U.S.

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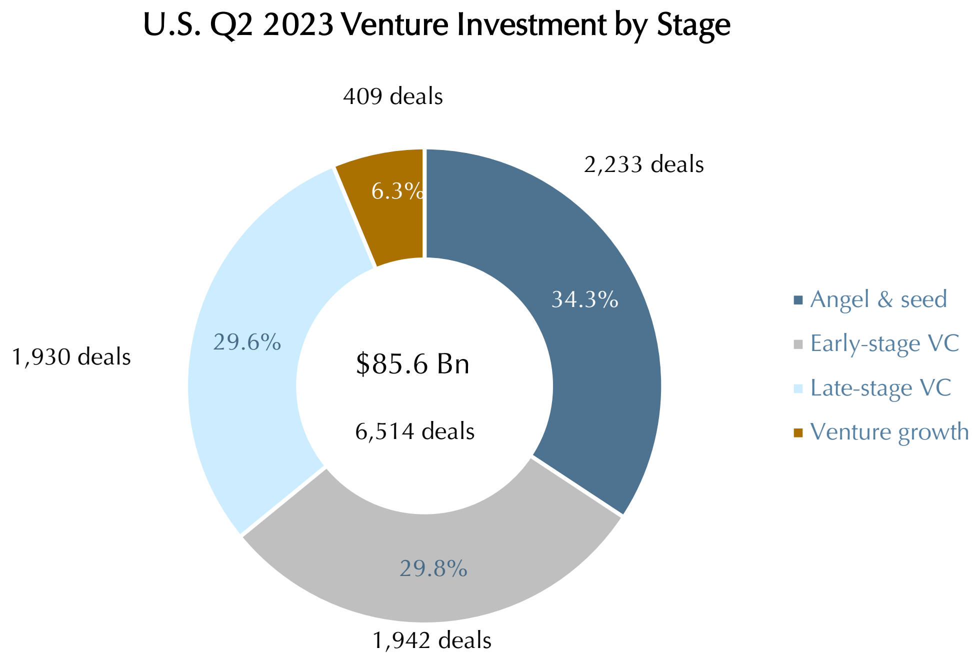

- There has been a slowdown in venture investment activity in 2023; however, capital deployed by VC stage has not changed meaningfully.

Source: Pitchbook & National Venture Capital Association, as of June 30, 2023. Data has not been reviewed by Pitchbook analysts. The above represents Aksia's market observations. Observations are subject to change.

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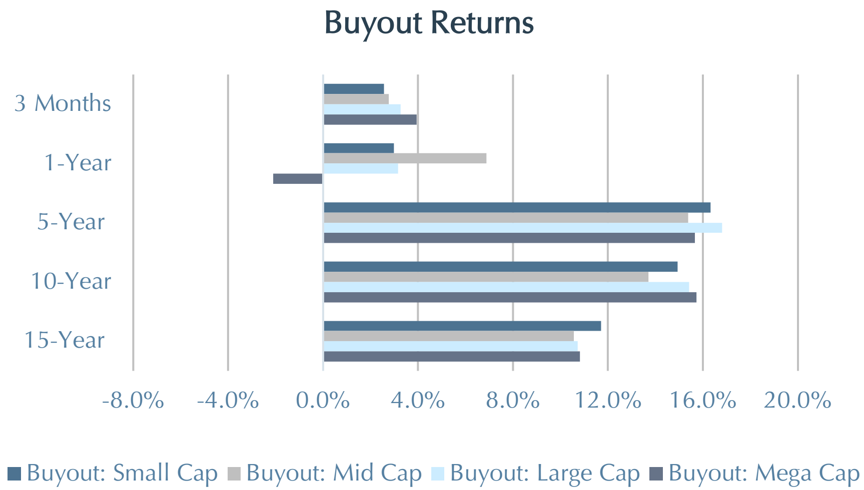
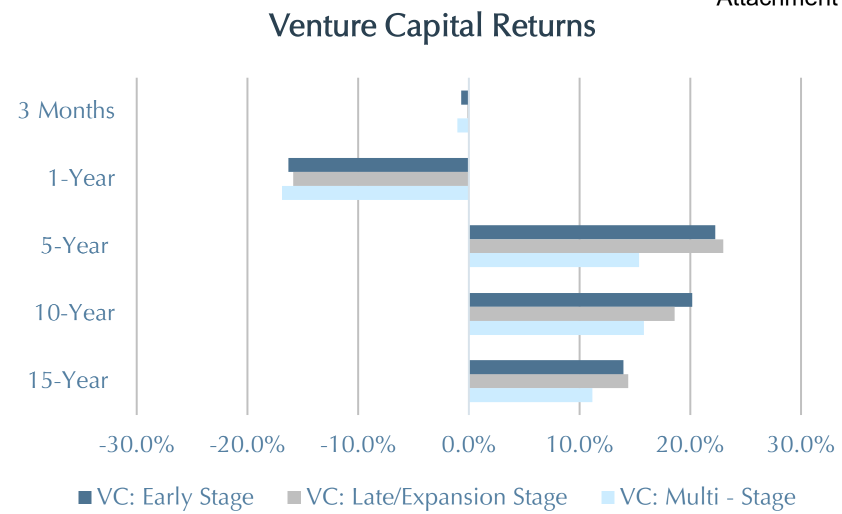
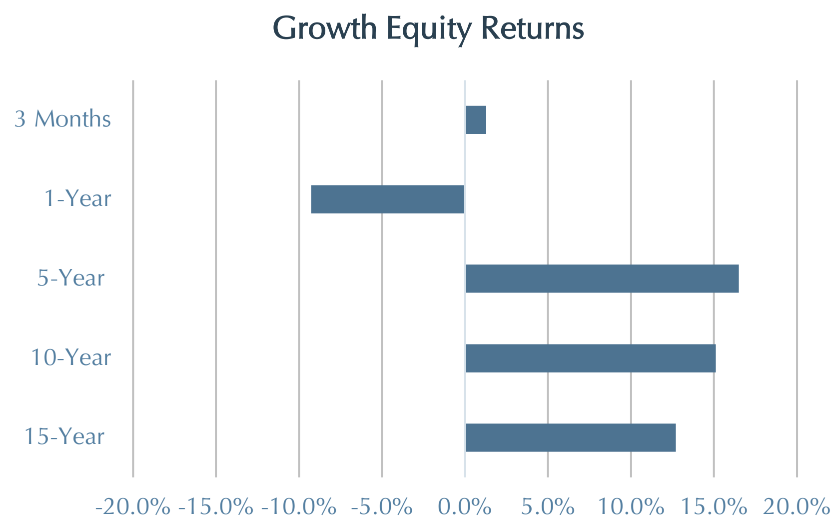
Global Market Performance







- Returns across all buyout segments were largely positive; however, the recent volatility of mega cap funds (both three-month and one-year returns) was in-part driven by its exposure and adjacency to public markets.
- After a steep decline in 2022, both growth equity and venture capital returns were relatively flat over the last three months.

Source: Cambridge Associates via Refinitiv, as of March 31, 2023. Past performance is not indicative of future results. The above represents Aksia's market observations. Observations are subject to change.

Aksia

Private Equity Industry Returns Relative to Public Markets

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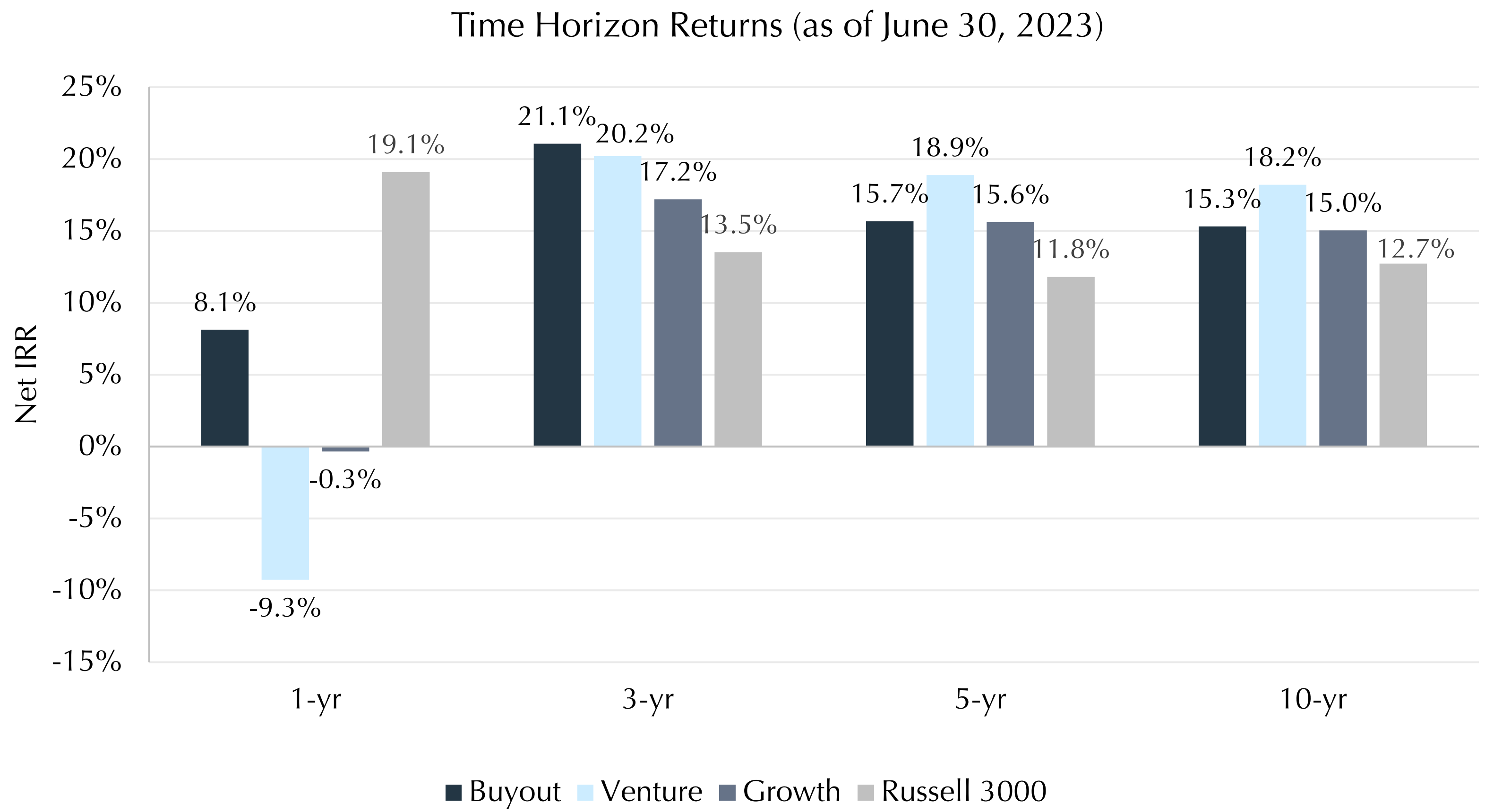
- Venture has outperformed buyouts and public equity in 5Y and 10Y periods
- All private equity strategies outperformed the Russell 3000 over most time horizons excluding 1Y period



Source: Cambridge Associates.

Aksia

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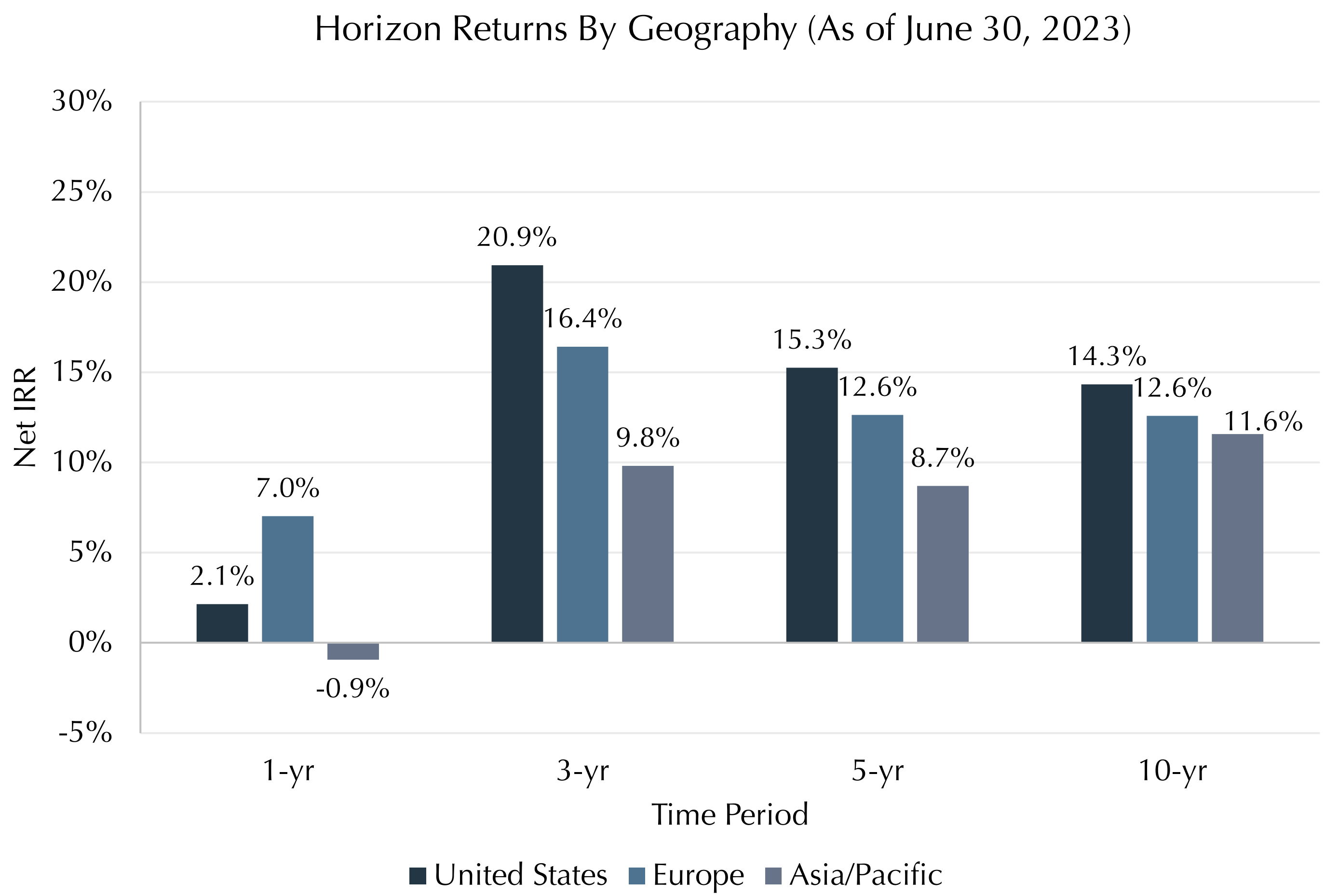
- U.S. Private Equity outperformed both Europe and Asia/Pacific private equity across most time periods as of June 30, 2023, excluding 1Y period

- While risk varies by specific geography, broadly speaking, Europe and Asia/Pacific appear to offer commensurate returns with the U.S. when looking at longer-term returns (i.e. 10-year)

- Adding international exposure can improve diversity in LACERS' PE portfolio without sacrificing risk adjusted returns



Source: Cambridge Associates.

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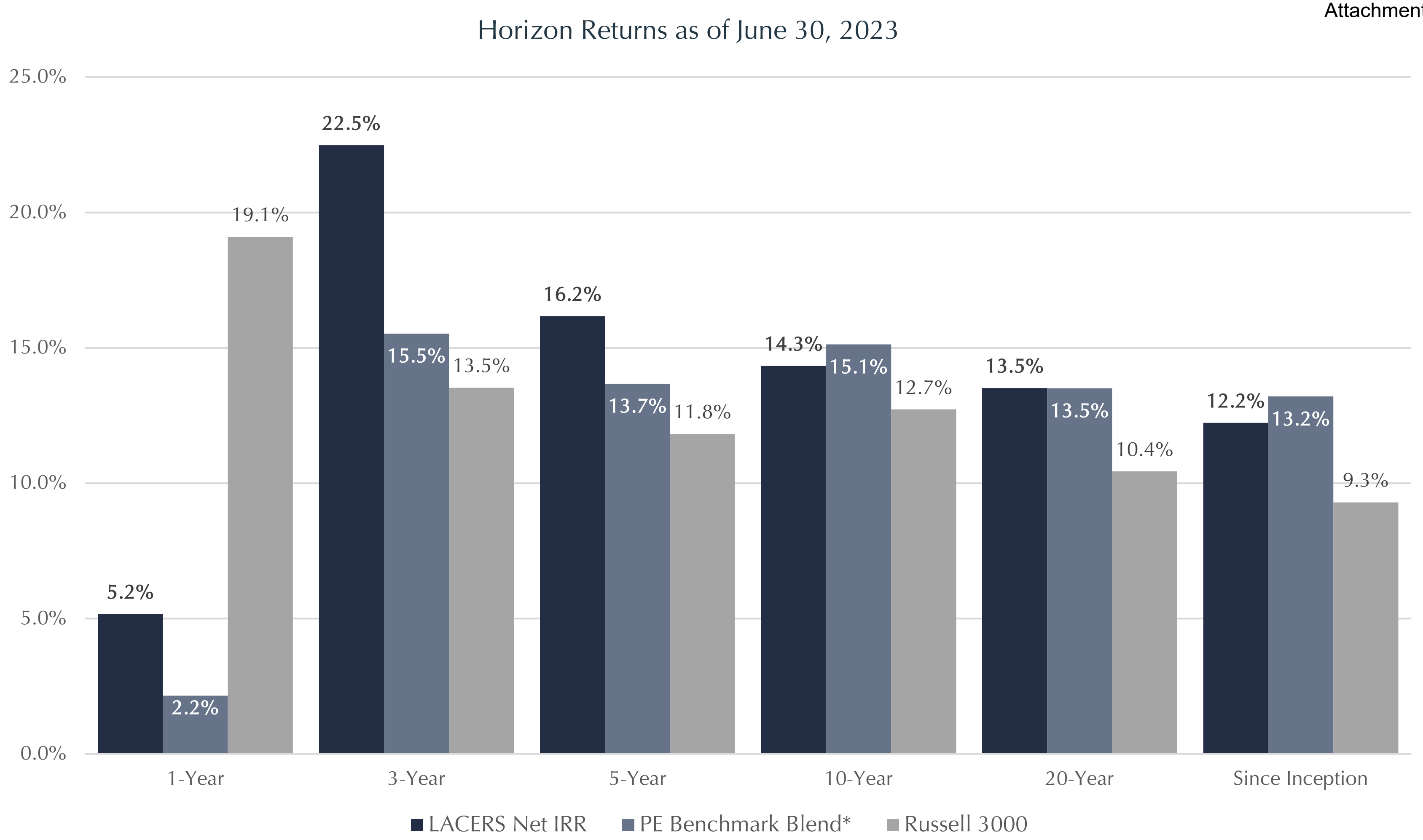

* PE Benchmark Blend includes the Russell 3000 Index + 400bps (inception – January 31, 2012), the Russell 3000 Index + 300bps (February 1, 2012 – December 31, 2021), and the Cambridge Associates Global PE and VC Index beginning January 1, 2022.

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2023 Strategic Plan - Refresher

- Initial Pacing Recommendations
  - Commitment plan of up to $850 million proposed for 2023
  - Commitments in 10-15 firms with a target size of $40-$75 million per commitment / relationship
    - Includes 3-5 investments to various Emerging Managers, achieving no less than 10% of the total commitments, subject to the LACERS Emerging Investment Manager Policy.

- Long-Term Investment Recommendations
  - Develop a framework for the implementation of a co-investment program – both from an investment and policy perspective
  - Develop a framework for a potential secondary sale – both from an investment and policy perspective

- Tactical Investment Recommendations
  - Selectively add exposure internationally – primarily to Europe and Developed Asia
  - Increase exposure to Buyouts relative to other sub-asset classes
  - Consolidate commitments with top performing managers
  - Continue to manage underlying sector exposures
  - Add exposure to strategies designed to outperform in down markets – i.e. Value-Oriented Managers, Turnaround Managers, Distressed Managers

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Commitment Statistics

- **2023 Summary Statistics**

- $430 million in total commitments through September 30, 2023
- Annual target is up to $850 million per 2023 Strategic Plan

- Geographic Breakdown of ITD Commitments
  - ~75% to North American-focused funds
  - ~13% to European-focused funds
  - ~9% to Globally-focused funds
  - ~3% to Asia Pacific-focused funds

- Sector Breakdown of ITD Commitments
  - 60% to Buyout funds
  - 25% to Venture and Growth Equity funds
  - 16% to Credit funds, Real Asset funds, Secondaries, and Fund of Funds

Aggregate Portfolio Summary As Of June 30, 2023

- As of June 30, 2023 the aggregate portfolio's fair market value of $4.2 billion represents 19.3% of Total Plan Assets

Aggregate Portfolio Private Equity Exposure Summary	
Total Plan Market Value	$21.6bn
Private Equity Exposure Target (%)	16.0%
Private Equity Exposure Target ($)	$3.5bn
Private Equity Exposure (%)	19.3%
Fair Market Value ("FMV")	$4.2bn

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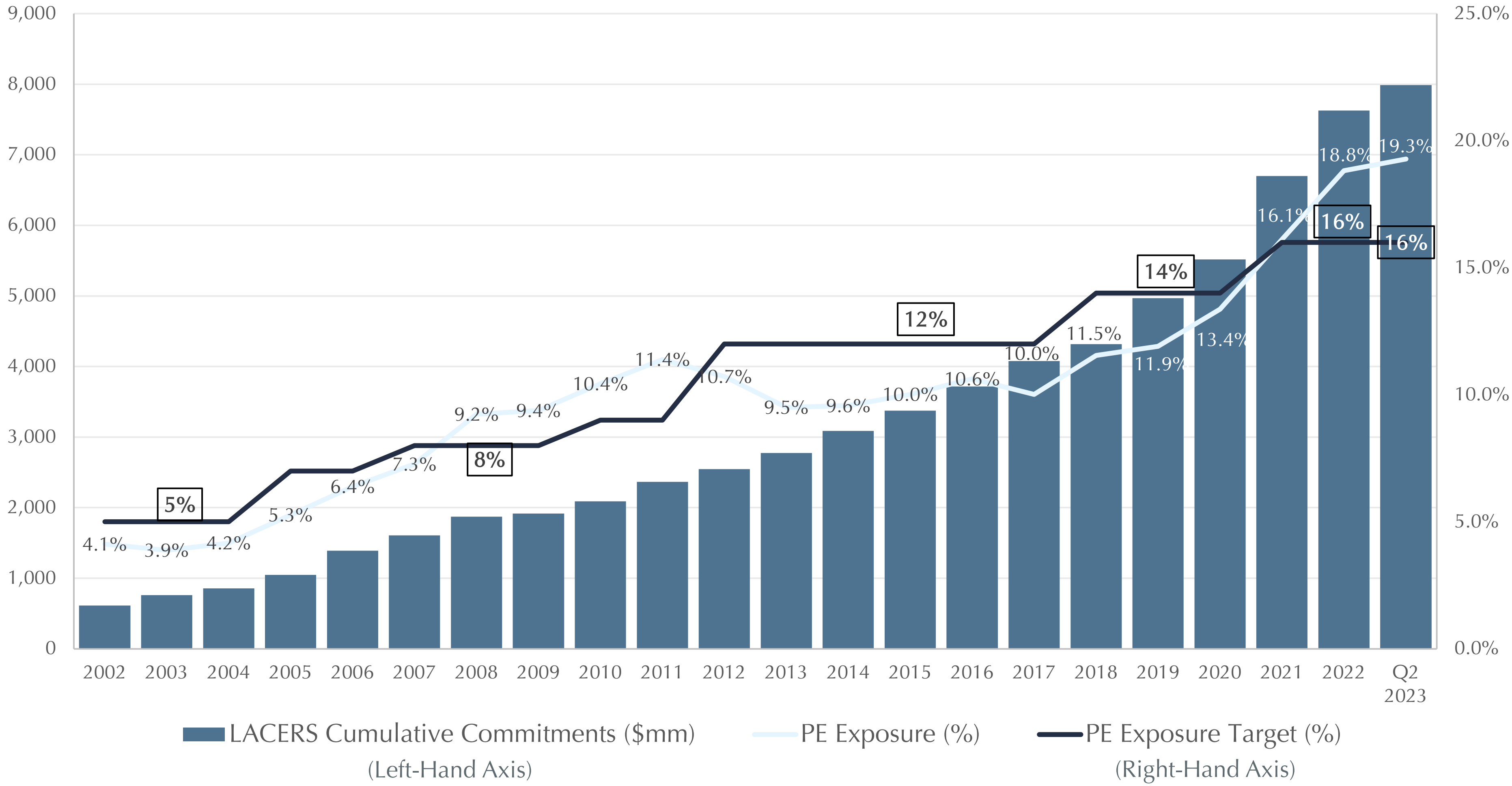
- Since inception (1995), LACERS has committed approximately $8.0 billion to private equity
- Target exposure to private equity is 16.0%



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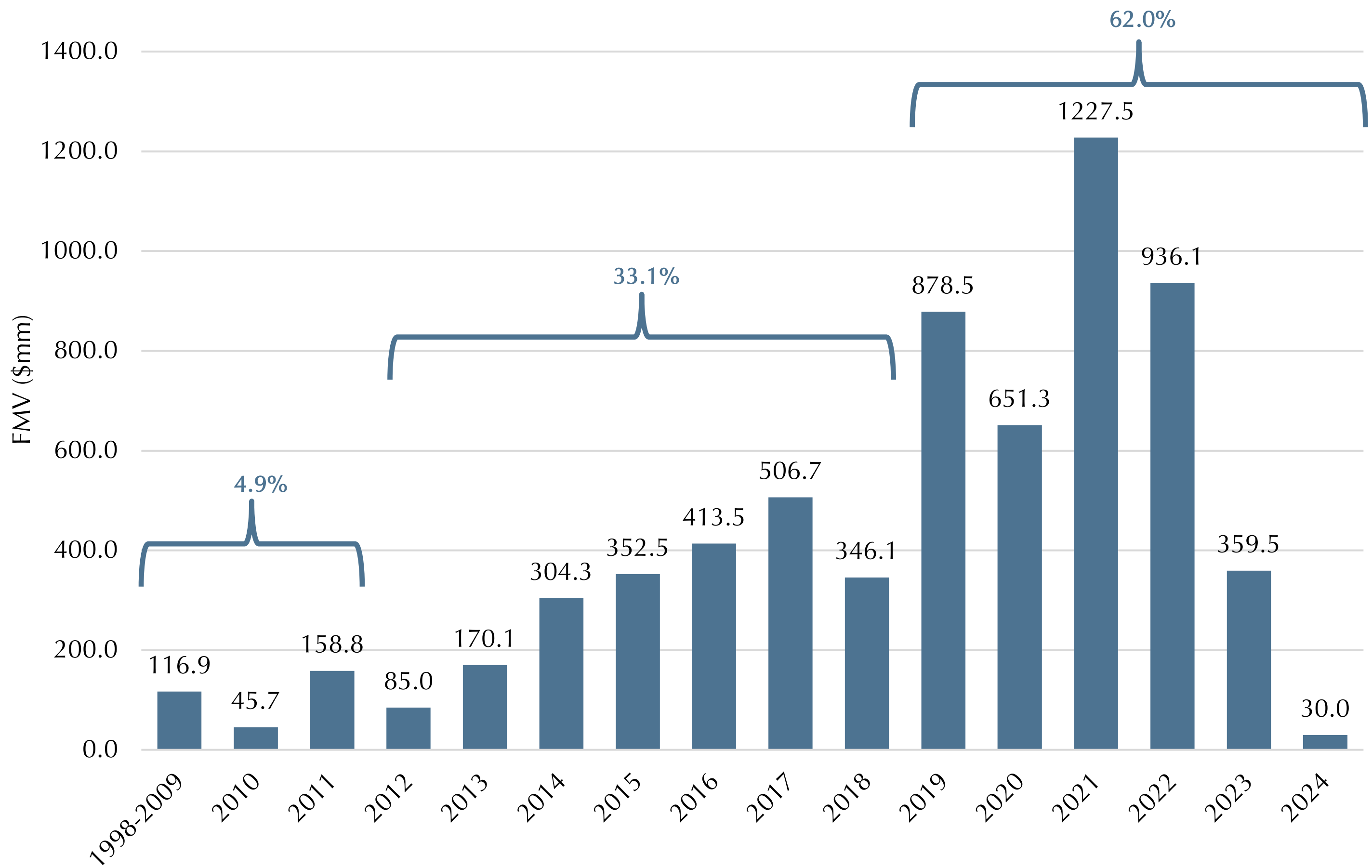
LACERS Private Equity Program - Fair Market Value By Vintage Year

- Legacy exposure (1998 – 2011) accounts for ~4.9% of LACERS total private equity exposure
- The bulk of LACERS current private equity exposure (62.0%) is from funds with vintage years from 2019 – 2024



Aksia

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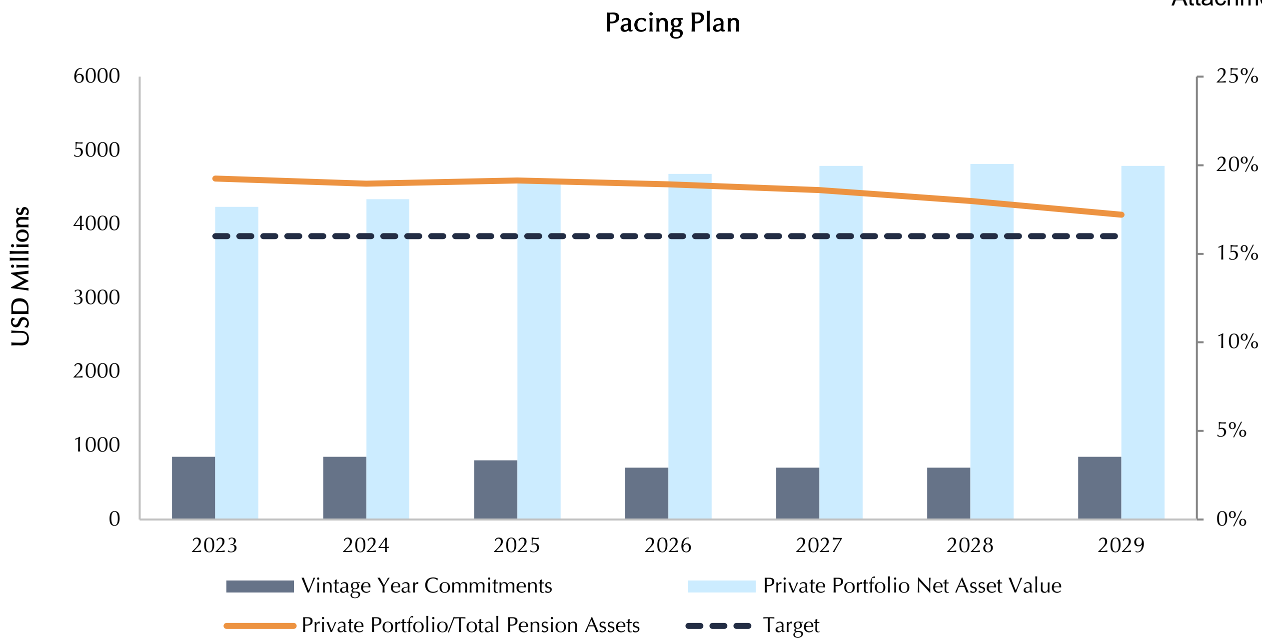
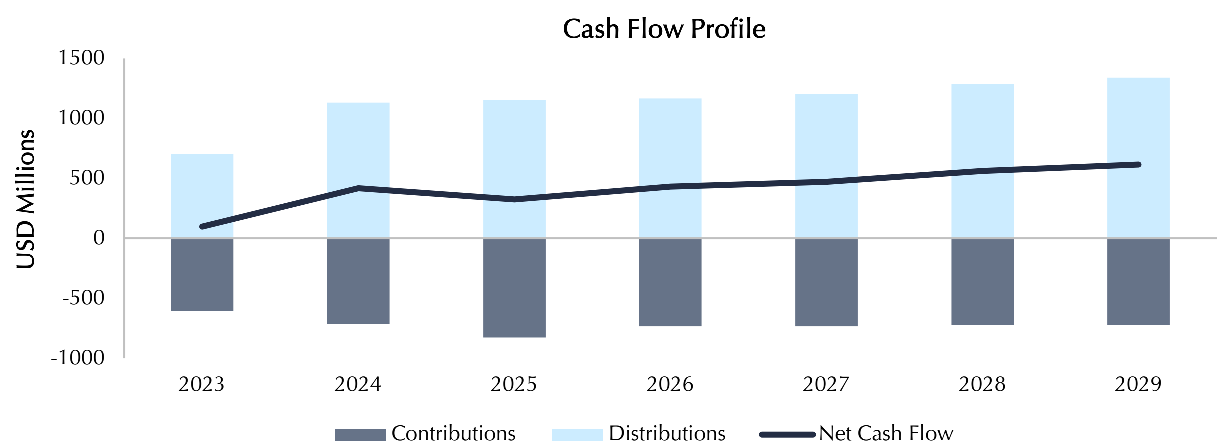
Updated Pacing Model (Base Case) – As of June 30, 2023

- Assumes 4% long-term pension growth
- Includes a $150mm commitment to a co-investment SMA in Q4 2023
- The performance of public markets in the past year and slowdown in distribution activity has contributed to LACERS being overweight in PE
- Maintaining vintage year diversification is a key component of a successful long-term program





Aksia

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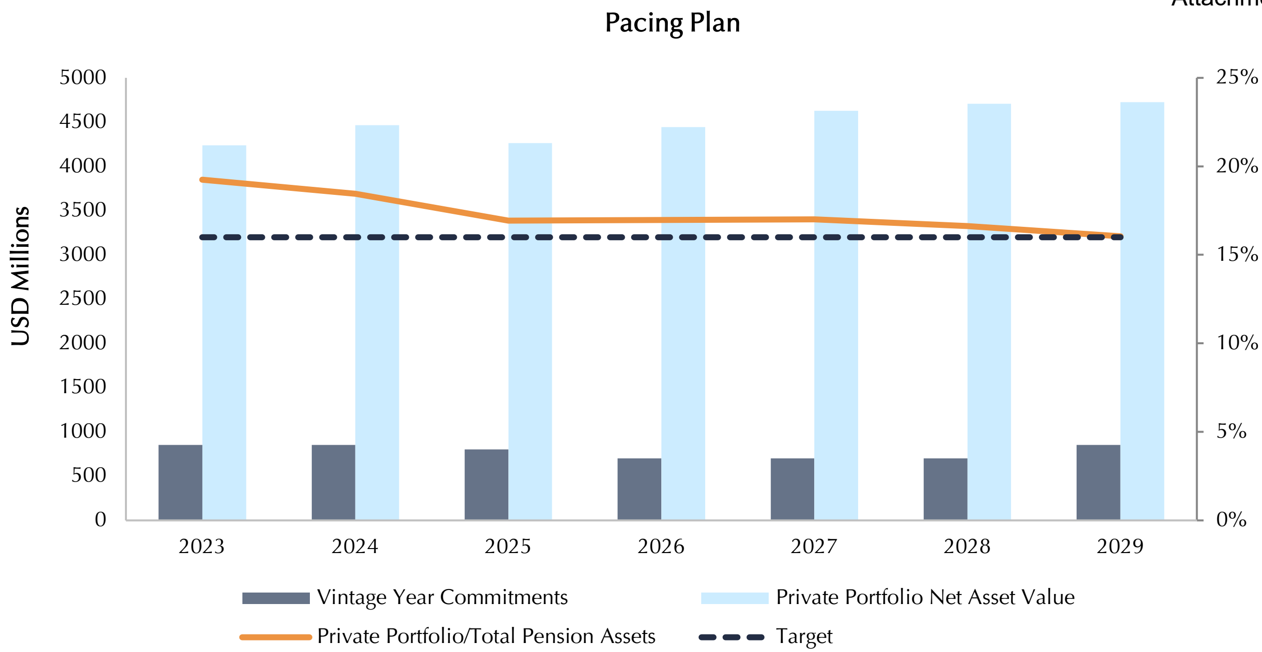
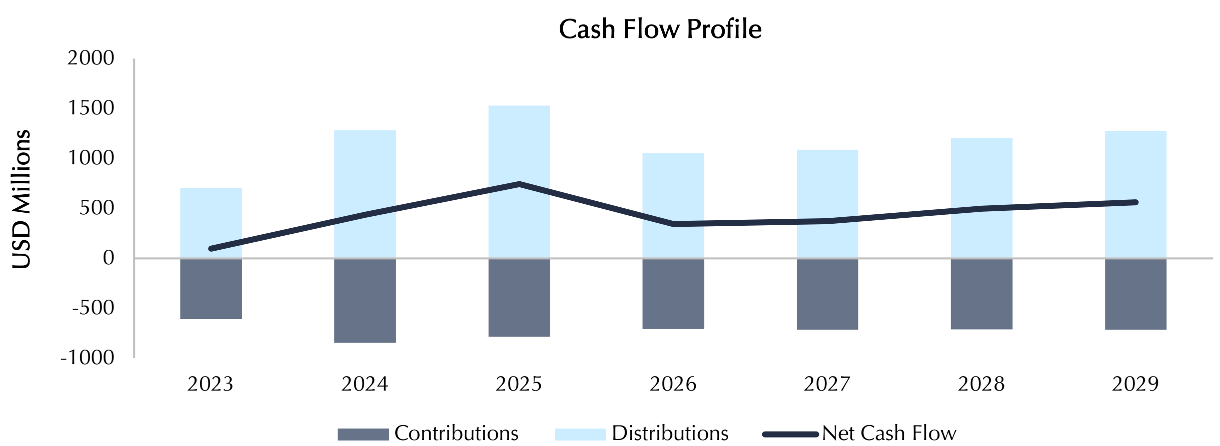
Updated Pacing Model (Recovery Scenario) – As of June 30, 2023

- Assumes 4% long-term pension growth
- Includes a $150mm commitment to a co-investment SMA in Q4 2023
- Assumes an increase in distribution activity in 2024/2025 and recovery in pension value in 2024





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LACERS Private Equity Long-Term Targets

Private Equity Asset and Sub-Asset Classes	LACERS Exposure (%)	Aksia's Suggested Long-Term Target
Buyouts	**57.6%**	**60% – 80%**
Large Buyouts	28.3%	
Medium Buyouts	25.7%	
Small Buyouts	3.5%	
Venture Capital / Growth Equity	**30.0%**	**20% – 40%**
Venture Capital	13.5%	
Growth Equity	16.5%	
Credit / Distressed	**6.2%**	**0% - 10%**
Natural Resources / PE Multi-Manager*	**6.2%**	**0% – 10%**

*PE Multi-Manager includes Secondary funds and Fund of Funds.

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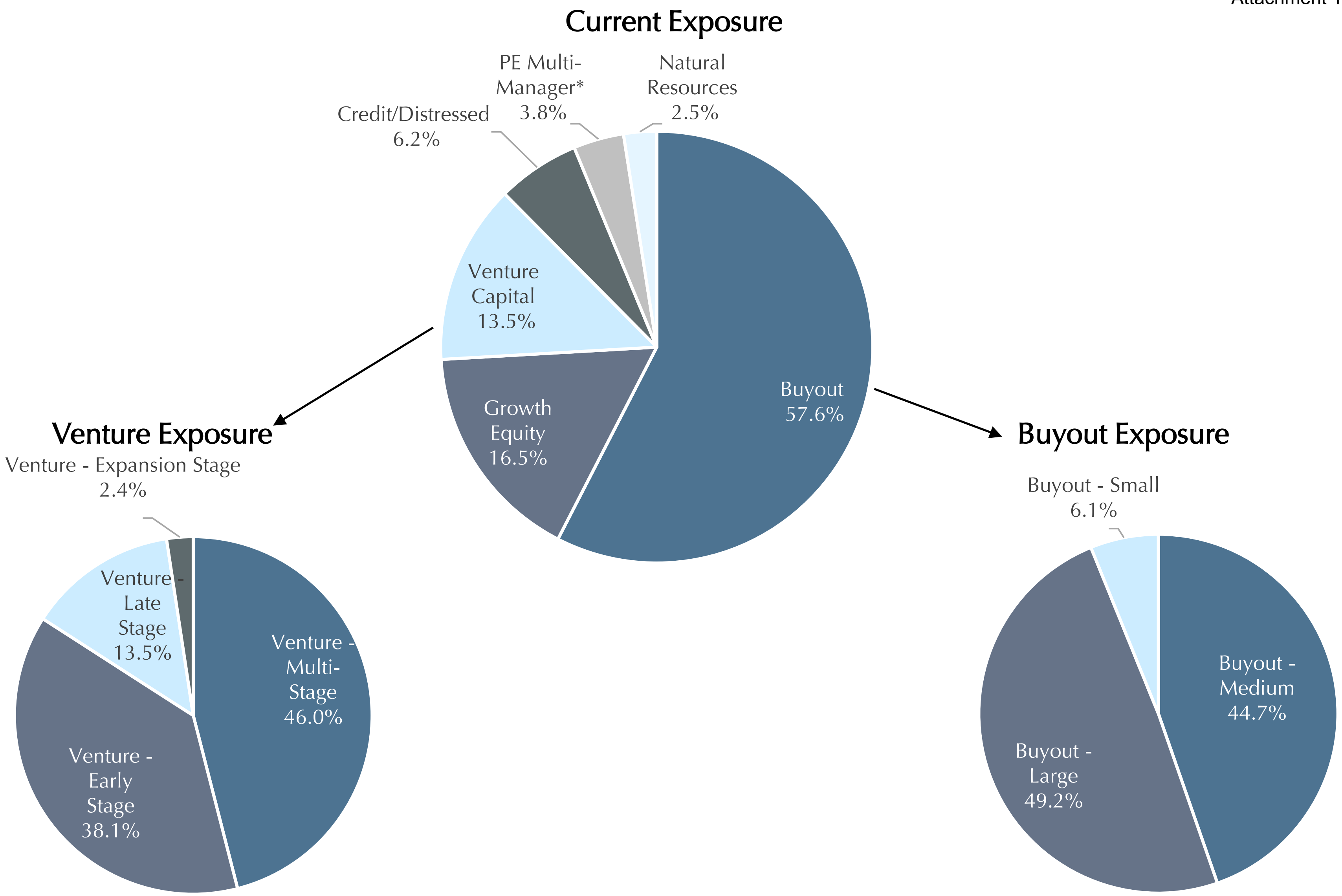
LACERS Exposure / Commitments by Asset Class



All percentages rounded to first decimal. *PE Multi-Manager includes Secondary funds and Fund of Funds.

LACERS Horizon Returns by Sub-Strategy

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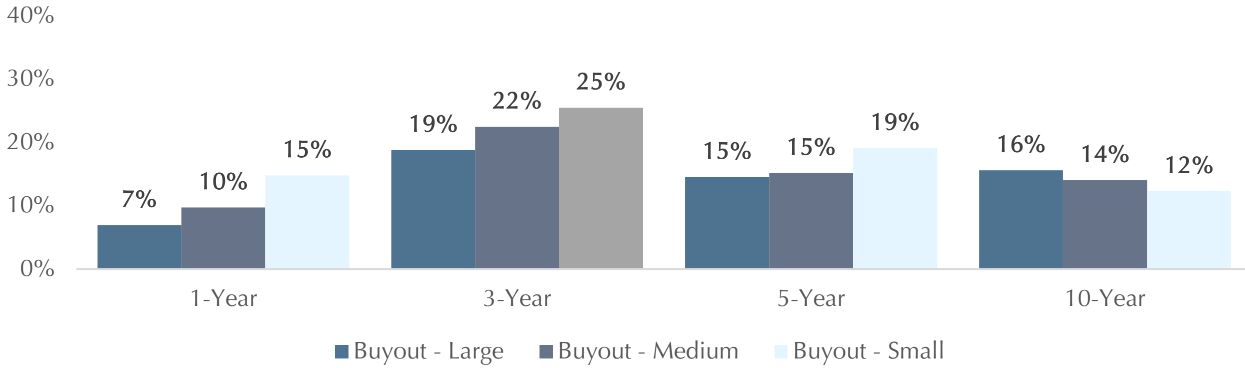
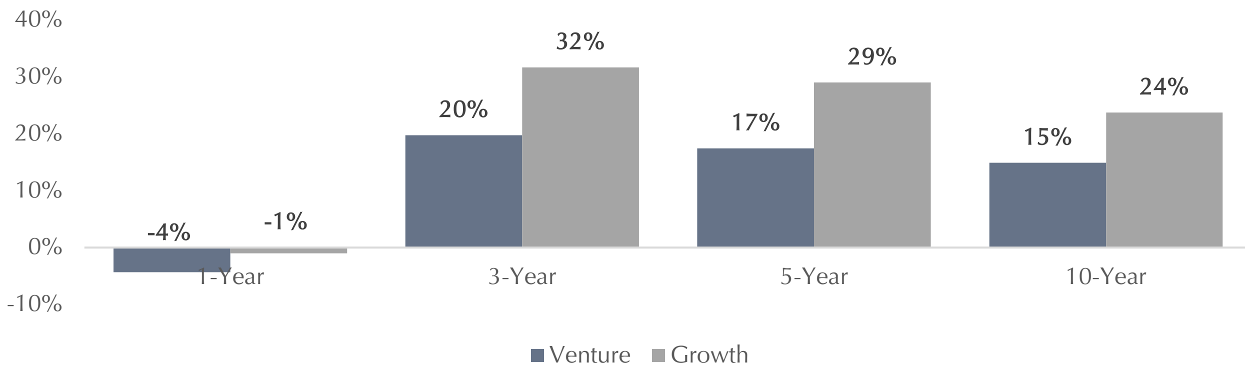
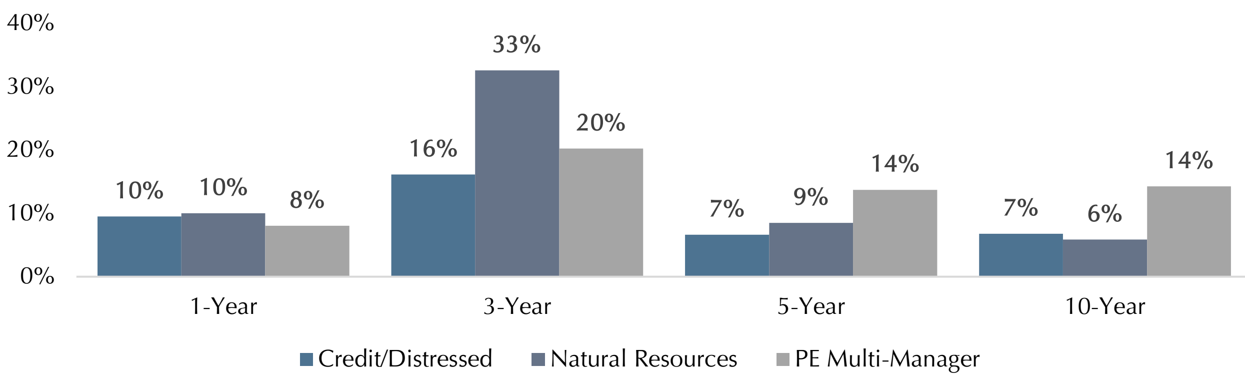
- LACERS' Large Buyout funds underperformed Small and Medium Buyout funds in the short term, but long term periods have shown outperformance (10-year)



- LACERS' Growth Equity investments have outperformed Venture Capital over various time horizons



- LACERS' Credit funds have been challenged over the recent years



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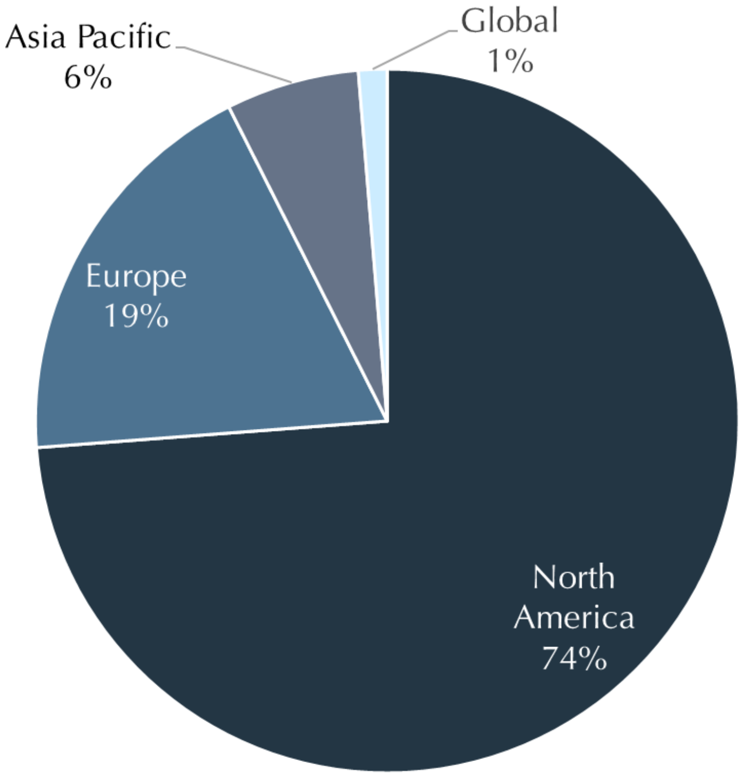
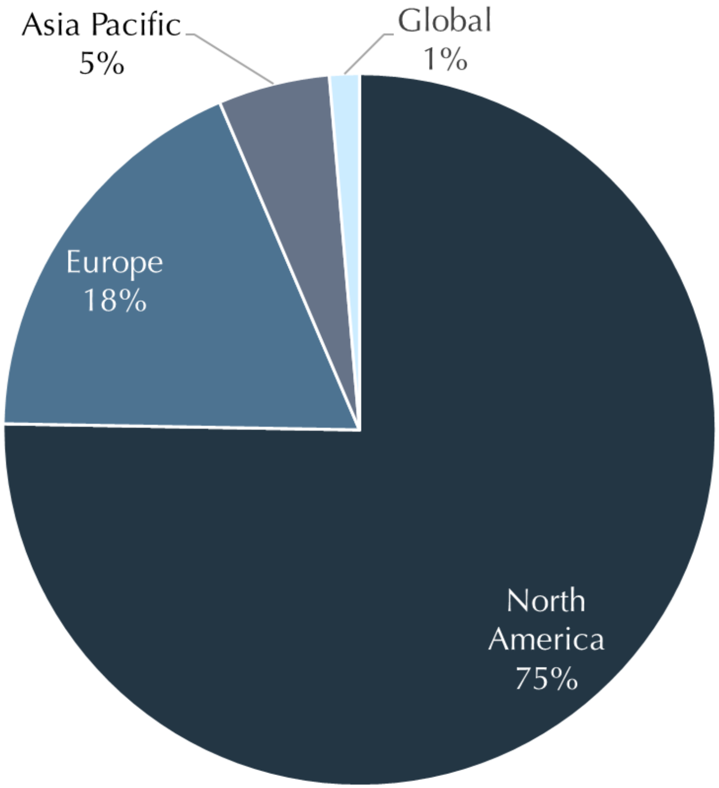
LACERS Commitments by Geography

Fund Commitments – By Geography



Current Exposure – By Geography



All percentages rounded.

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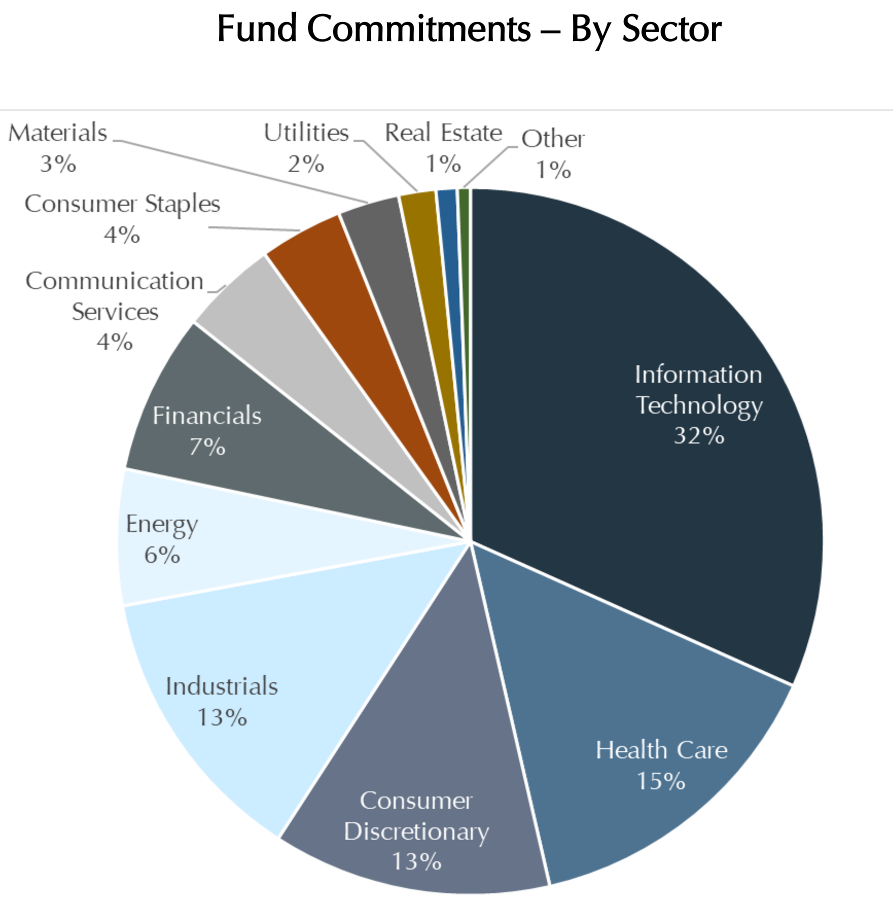
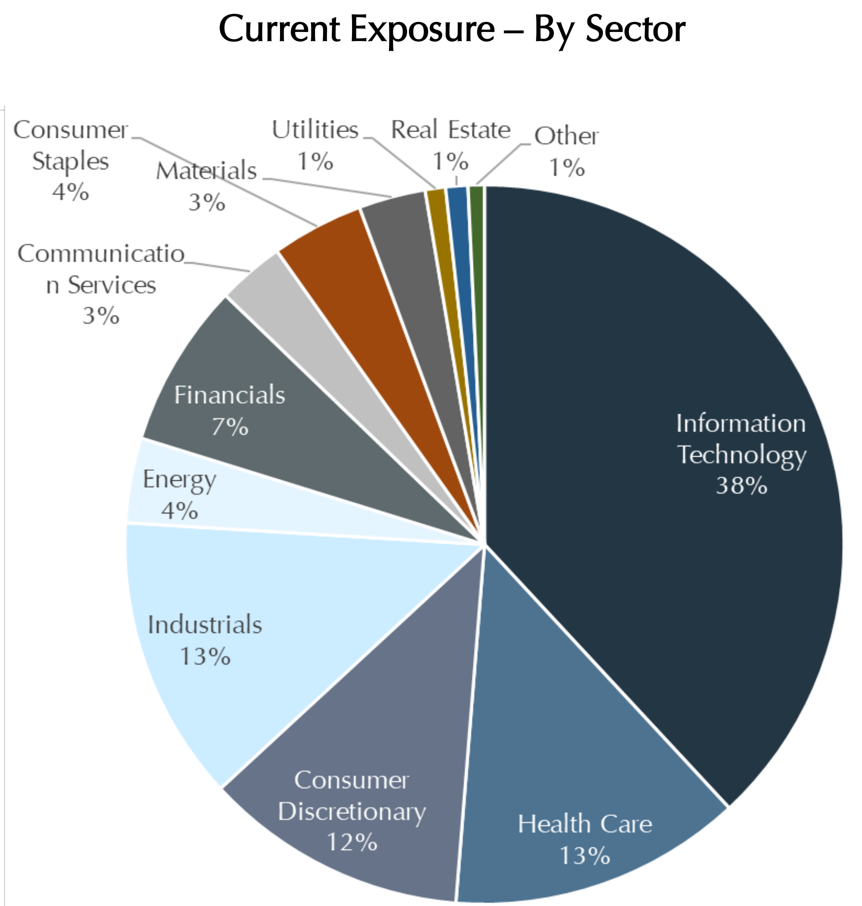
LACERS Commitments and Exposure by Sector





All percentages rounded.

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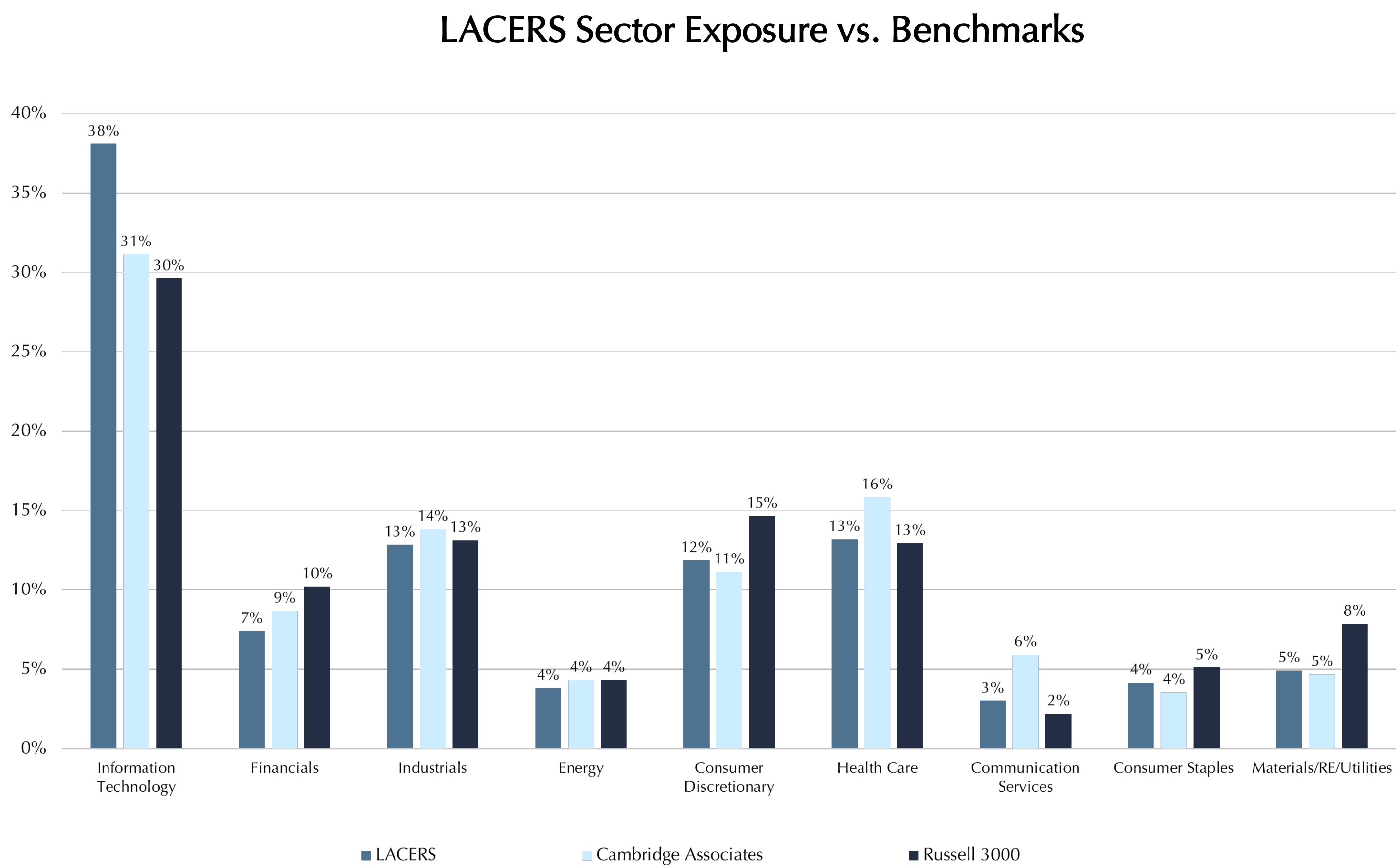
LACERS Exposure by Sector vs. Benchmarks

- When compared to public and private benchmarks, LACERS is over-weight in the Information Technology sector and under-weight in the Financials sector.
- The Information Technology over-weight has also been driving good performance
- LACERS biggest mismatch with the public benchmark is in the Information Technology sector



Source: Cambridge / Aksia research.

Aksia

SWOT Analysis – Strengths & Weaknesses

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- **Strengths**
  - Existing GP Relationships: LACERS currently maintains relationships with a number of high-quality GPs that should continue to scale over time
  - Brand / Reputation: LACERS has a reputation as a long-term sophisticated investor that helps Plan gain access to high-quality GPs, both established and emerging
  - Disciplined Investment Process: LACERS investment process allows for disciplined decision making and consistent deployment regardless of market dislocations
  - Flexible Mandate: LACERS has the ability to invest selectively across a variety of sub-sectors within private equity; This includes the growth of deep tech (e.g. A.I.) represented through venture and growth GPs
  - Sector Exposure: LACERS PE portfolio is currently weighted towards IT (38%) and Healthcare (13%), both sectors which have proven to be resilient in downturns and should benefit going forward from secular market trends
  - Liquidity: LACERS has considerable plan liquidity to maintain the current private equity commitment pacing
  - Co-Investment Program: LACERS is developing a co-investment program that will help blend down the overall PE fee structure as well as educate staff on the implementation and monitoring of a co-investment program long term

- **Weaknesses**
  - Extensive Manager Line-up: LACERS has a large number of relationships that could result in a reversion to the mean given that level of diversification
  - Legacy Performance: The legacy portfolio will continue to be a drag on performance, including the Specialized Portfolio

Aksia

SWOT Analysis – Opportunities & Threats

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Opportunities

- Portfolio Consolidation: LACERS has existing relationships with a number of high-quality GP's, and has the potential to develop long-term relationships with other high-quality GP's including emerging managers
- Co-Investments: LACERS developing co-investment program should increase exposure to core GP's and mitigate costs. Overall, the appetite for co-investment capital is strong in the current market; many of LACERS' GPs provide co-investment opportunities
- Secondary Transactions: The secondary market has evolved as both an investment option as well as a portfolio management tool; Given recent market volatility and rising PE allocations, this part of the market could see accelerated LP interest
- Emerging Managers: Today's emerging managers may be the new generation of top-tier performers. The ability to invest in these managers early on in their life may help with long-term access to outperforming emerging managers
- Market Volatility: Consistent private equity commitment pacing during periods of market volatility has historically proven to deliver some of the best vintage year performance for private equity portfolios

Threats

- Market Volatility: Recent market uncertainty has shrunk portfolio values, especially in public asset classes, and as a result, LACERS longer-term commitment pacing may need to be revisited
- Rising Interest Rates and Inflation: Rising interest rates, wage inflation, and commodity price increases have raised company borrowing costs, put pressure on company margins, and constricted company cash flows
- Disclosures / Regulations: AB2833 and other reporting requirements may be disagreeable to certain top-quartile GPs; a bigger issue in Venture Capital versus other Private Equity strategies
- Political Concern on US IP in certain markets: Given the domestic concern on the use of US intellectual property, including AI, by China and others, there will need to be significant review of managers involved in these type of investments in these regions

2024 Long-Term Strategic Plan Recommendations

- **Pacing**
  - Maintain relatively consistent longer-term pacing despite market volatility
  - Commitment plan of $750 - $850 million proposed for 2024
  - Commitments to 10-15 firms with a target size of $40-$75 million per commitment, excluding co-investment program
  - 3-5 investments to Emerging Managers representing at least 10% of total annual commitments

- **Broad Portfolio Considerations**
  - Continue consolidating commitments with top performing managers
  - Continue to selectively add exposure internationally – primarily to Europe and Developed Asia
  - Continue increasing exposure to buyouts relative to other sub-asset classes (e.g., credit/venture/growth)
  - Continue to manage underlying sector exposures
    - Monitor IT exposure across buyout, growth, and venture
    - Continue to diversify sector exposure, including healthcare and other select cyclical and value-oriented sectors
  - Continue to add exposure to strategies designed to outperform in down, sideways, late cycle markets – i.e. value-oriented managers, turnaround managers, distressed managers

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2024 Short-Term Tactical Recommendations

- **Lean Into the Strengths**
  - Existing GP Relationships: maintain exposure to existing, high conviction managers that are back in market in 2024 where possible; this would include the re-evaluation of the strategic and performance value of these relationships to the overall portfolio
  - Brand / Reputation: Leverage LACERS reputation to initiate new relationships of scale with high quality GPs that are in market in 2024 and where the relationship can be scaled over time; Given portfolio value and market volatility, it will be challenging to allocate to all key current relationship as well as add much new relationships
  - Flexible Mandate: Leverage LACERS ability to invest across sub-asset classes and take advantage of the full spectrum of private equity activities
    - Continue developing a framework for it offers some benefit in the short-term
      - Leverage relationships with commingled secondary funds and potential secondary transaction vendors
  - Sector Exposures: Continue the implementation of a secondary program and/or secondary fund sales as needed given sector exposures; specifically, monitor IT sector portfolio weights while maintaining appropriate diversification across other sectors (i.e. healthcare, industrials, consumer)

Aksia

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2024 Short-Term Tactical Recommendations

- **Capitalize on Opportunities**
  - Market Volatility and Interest Rate Hikes: Continue to review and potentially invest with value-oriented, turnaround, and distressed investment managers
  - Co-investment Program: Implement co-investment program, harvesting LACERS deal flow, while reviewing and investing in proposed active flow from co-investment third party.
  - Emerging Managers: Continue targeting high-quality first-time managers / spin-outs / diverse managers

- **Minimize Weaknesses / Counter Threats**
  - Over-Diversification: Continue to trim relationships and consolidate capital with higher-conviction managers
  - Legacy Performance: Continue to consider and lay the groundwork for a portfolio secondary sale when appropriate

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: NOVEMBER 14, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a one-year contract extension with Axiom Investors, LLC for management of an active non-U.S. emerging markets growth equities portfolio.

Executive Summary

Axiom Investors, LLC (Axiom) has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014. LACERS' portfolio is currently valued at $268 million as of September 30, 2023. Axiom was initially placed on "On Watch" status for performance effective April 17, 2019, but Axiom's performance improved, and the firm no longer triggered "On Watch" status for performance as of June 30, 2020. However, Axiom's watch status was subsequently extended on various dates due to a benchmark change from the MSCI Emerging Markets Growth (MSCI EM Growth) Index to the MSCI Emerging Markets (MSCI EM) Index, the departure of Christopher Lively, Co-lead Portfolio Manager, and the departure of Kurt Polk, President. After monitoring these matters over the past few years, staff and LACERS' General Consultant, NEPC, LLC (NEPC) are satisfied that Axiom has appropriately addressed these issues and have removed Axiom from "On Watch" status as of September 30, 2022. However, Axiom was placed back on "On Watch" status for performance effective April 11, 2023, based on Axiom's December 31, 2022, performance. Staff acknowledges Axiom's under performance relative to the strategy, however to allow Axiom its full one year of "On Watch" status, and considering the timing of the 2024 Asset Allocation study and the high transition cost of a Emerging Markets strategy, Staff and NEPC recommend a one-year contract extension and will continue to monitor the organization and performance of the strategy in accordance with the LACERS Manager Monitoring Policy (Policy).

Discussion

Background
Axiom has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014 and is benchmarked against the MSCI EM Index. Axiom uses a fundamental research-based investment strategy that focuses on companies exhibiting key growth drivers, such as company-specific

improvements and favorable macroeconomic and political factors. Such drivers tend to be indicators of positive company financial and stock price performance. The 13-person investment team is led by four Co-lead Portfolio Managers: Andrew Jacobson, Chief Executive Officer, and Chief Investment Officer (36 years of experience); Donald Elefson, CFA (41 years of experience); Jose Morales, CFA (35 years of experience); and Young Kim (25 years of experience).

The Board hired Axiom through the 2013 Active Emerging Market Growth Equities manager search process and authorized a three-year contract on July 23, 2013; the contract became effective on January 1, 2014. Axiom was awarded a three-year contract renewal on September 27, 2016, and one-year extensions on July 23, 2019; July 28, 2020; October 26, 2021; and on November 22, 2022. The current contract expires on December 31, 2023.

Organization
Axiom is 100% employee-owned, with 61 employees, and is headquartered in Greenwich, Connecticut. As of September 30, 2023, Axiom managed over $16.8 billion in total assets with $4.9 billion in the emerging markets growth equities strategy.

Due Diligence
Staff conducts routine due diligence of the manager that includes quarterly portfolio reviews and ad hoc investment discussions. LACERS staff last conducted an onsite meeting at Axiom's headquarters on October 18, 2023, that included interviews with key personnel across the organization. Staff concluded that Axiom's investment philosophy, strategy, and process have not changed materially over the contract period. In addition, NEPC's research team also conducted an onsite to Axiom in October 2023, NEPC continues to rate Axiom a 1-rated manager (NEPC's highest rating) for emerging markets.

Axiom was initially placed on "On Watch" status for performance on April 17, 2019. After conducting a thorough review of Axiom's underperformance relative to its benchmark in place at the time, the MSCI EM Growth Index, staff and NEPC determined that the MSCI EM Growth Index had become increasingly concentrated in a few stocks since inception of LACERS' account and that the benchmark was no longer an effective measure by which to compare Axiom's strategy. As of June 30, 2020, Axiom no longer triggered watch status due to performance. However, on July 28, 2020, the Board approved a change of Axiom's benchmark from the MSCI EM Growth Index to the more diversified MSCI EM Index with the condition that Axiom remain on watch through August 1, 2021, to monitor Axiom for consistency with its stated strategy. The benchmark change became effective on August 1, 2020.

Subsequently, two material organizational changes at Axiom led to further extensions of Axiom's watch status. First, on September 29, 2020, Axiom announced that Chris Lively would be stepping down from his role as co-lead portfolio manager of the emerging markets growth equities strategy for personal reasons, triggering an extension of Axiom's existing watch status to October 1, 2021. Andrew Jacobson, Axiom's founder, CEO and CIO, and the original architect of the strategy, replaced Mr. Lively as co-lead of the strategy alongside Donald Elefson and Jose Morales. In addition, Axiom hired Young Kim in March 2021 as a fourth co-lead portfolio manager to expand the team's capabilities.

Second, on August 18, 2021, Axiom announced that Kurt Polk, Axiom's President, would be leaving the firm at the end of the year for personal reasons, triggering a further extension of Axiom's existing watch status to October 1, 2022. The firm has no plans to fill the President position. Axiom's existing management committee has assumed Mr. Polk's responsibilities and currently consists of the following members: Edward Azimi, Chief Operating Officer; Lindsay Chamberlain, Managing Director of Client Partnerships; Jonathan Ellis, Director of Research and Portfolio Manager; Andrew Jacobson, CEO and CIO; and Denise Zambardi, Senior Vice President and Chief Compliance Officer and Controller. Further, Axiom has hired additional support personnel for the management committee members.

After closely monitoring and conducting routine due diligence on Axiom's organizational changes and the strategy's benchmark change over the last few years, staff and NEPC are satisfied that Axiom has appropriately addressed these matters. The changes have not resulted in any changes to Axiom's stated investment philosophy and strategy, nor have they had a material adverse impact to the management of the investment strategy and LACERS assets.

Performance
Axiom has underperformed in all periods compared to the Axiom Blended Benchmark as presented in the following table.

Annualized Performance as of 9/30/23 (Net-of-Fees)						
	3 month	1-Year	3-Year	5-Year	7-Year	Since Inception
Axiom	-4.13	4.99	-7.59	-0.44	2.21	1.56
Axiom Blended Benchmark*	-2.93	11.70	-1.73	3.75	5.55	4.12
% of Excess Return	*-1.20*	*-6.71*	*-5.86*	*-4.19*	*-3.34*	*-2.56*
MSCI EM Index	-2.93	11.70	-1.73	0.55	3.22	1.81
% of Excess Return	*-1.20*	*-6.71*	*-5.86*	*-0.99*	*-1.01*	*-0.25*
MSCI EM Growth Index	-4.92	7.71	-7.19	0.63	3.27	2.45
% of Excess Return	*0.79*	*-2.72*	*-0.40*	*-1.07*	*-1.06*	*-0.89*

*Axiom Blended Benchmark incorporates MSCI EM Growth Index returns prior to August 1, 2020 and MSCI EM Index returns from August 1, 2020 to present.

Axiom's underperformance is largely attributed to the following three factors:
1) Growth-to-value rotation
2) Macro policy reversals
3) Outperformance of low-quality State-Owned Enterprises (SOEs) stocks and Chinese energy/materials stocks

The growth-to-value rotation, led by rising inflation, over the past three years represents one of the longest of such rotations in the history of the asset class and the largest spread between growth and value since the Great Financial Crisis (GFC). Since Q4 2020, EM value has outperformed EM growth for 9 of the most recent 12 quarters, including 7 consecutive quarters from Q4 2020 through Q2 2022. The rotation was compounded by the longest bear market in the history of the Emerging Markets asset class. MSCI EM saw quarter-over-quarter declines for a record five consecutive quarters from Q3 2021 through Q3 2022.The underperformance of Axiom's growth-oriented strategy relative to the MSCI EM Index, an index comprised of growth and value stocks, is expected.

In addition, a few events included the Russo-Ukrainian War, COVID-19 Pandemic, policy reversals across China, and inflation impacted the market. The accumulation of events created headwinds for Axiom's process in recent years. Underperformance over the five-year, seven-year, and since inception time periods is due to the high stock concentration of the former MSCI EM Growth benchmark and LACERS' investment guideline limitations that required Axiom's portfolio to be more diversified than the former benchmark. Please refer to the November 22, 2022, Board report (Attachment 1) for a detailed discussion.

SOEs typically underperform the market due to the need to perform national services and often having conflicting corporate priorities and poor governance standards as opposed to a focus on protecting shareholder interest. Since the GFC, non-SOEs have returned 86% compared to SOEs which have returned 59%. While SOEs historically underperform the markets over the longer-term, there are shorter-term periods where they may outperform. SOEs outperformed in 2022 and have continued to do so YTD in 2023. Thus, not owning SOEs has been a headwind relative to the benchmark. Currently, the SOE weight in the MSCI EM Index is 18.1% and has an 8.4% weight in the MSCI EM Growth Index.

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

Calendar Year Performance as of 12/31/22 (Net-of-Fees)									
	2022	2021	2020	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	-31.17	-4.28	32.46	24.70	-17.64	40.56	8.40	-12.44	-2.01
Axiom Blended Benchmark*	-20.09	-2.54	32.02	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*-11.08*	*-1.74*	*0.44*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*

*Axiom Blended Benchmark incorporates MSCI EM Growth Index returns prior to August 1, 2020 and MSCI EM Index returns from August 1, 2020 to present.

Staff recognizes that Axiom's strategy has underperformed and has placed Axiom "On Watch" as of April 11, 2023. According to LACERS' Investment Policy Statement, after the initial one-year period, Staff and General Fund Consultant shall determine whether to remove the manager from "On Watch" status or continue the "On Watch" status. Further, transition costs for Emerging Markets range from 1.5% to 2% (which is approximately $4 to $5.3 million based on the value of LACERS' assets as of September 30, 2023). Finally, December is a costly month to transition due to the various countries' holidays, and it would be more cost efficient to transition after the 2024 Asset Allocation study with other assets, if necessary. To allow Axiom time to complete its one year of Watch status (April 10, 2024) due to performance and in consideration of operational inefficiencies to liquidate this portfolio at this time, staff and NEPC recommend a one-year extension for Axiom.

Staff and NEPC will continue to closely monitor Axiom's performance according to the Policy and take appropriate action as necessary.

Fees
LACERS pays Axiom an effective fee of 60 basis points (0.60%), which is approximately $1.6 million annually based on the value of LACERS' assets as of September 30, 2023. This fee ranks in the 24th percentile among its peers in the eVestment All Emerging Markets Equity Universe (i.e., Axiom's fee is lower than 76% of peers). Since inception, LACERS has paid Axiom a total of $21.1 million in investment manager fees as of September 30, 2023.

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging 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, Director of Private Markets, ESG Risk Officer, Investment Division

NMG/RJ/WL/EC:rm

Attachments:
1. Report to Board of Administration Dated November 22, 2022
2. Consultant Recommendation – NEPC, LLC

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: NOVEMBER 8, 2022**
From: Neil M. Guglielmo, General Manager | **ITEM: VI**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a one-year contract extension with Axiom Investors, LLC for management of an active non-U.S. emerging markets growth equities portfolio.

Executive Summary

Axiom Investors, LLC (Axiom) has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014. LACERS' portfolio is currently valued at $256 million as of September 30, 2022. Axiom was initially placed on "On Watch" status for performance effective April 17, 2019, but Axiom's performance improved, and the firm no longer triggered "On Watch" status for performance as of June 30, 2020. However, Axiom's watch status was subsequently extended on various dates due to a benchmark change from the MSCI Emerging Markets Growth (MSCI EM Growth) Index to the MSCI Emerging Markets (MSCI EM) Index, the departure of Christopher Lively, Co-lead Portfolio Manager, and the departure of Kurt Polk, President. After monitoring these matters over the last two years, staff and LACERS' General Consultant, NEPC, LLC (NEPC) are satisfied that Axiom has appropriately addressed these issues and have removed Axiom from "On Watch" status. While Axiom's performance as of September 30, 2022, lags behind the benchmark's performance over all time periods, Axiom has not breached the metrics required to be placed on "On Watch" status for performance reasons. Staff and NEPC recommend a one-year contract extension and will continue to monitor the organization and performance of the strategy in accordance with the LACERS Manager Monitoring Policy (Policy).

Discussion

Background
Axiom has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014 and is benchmarked against the MSCI EM Index. Axiom uses a fundamental research-based investment strategy that focuses on companies exhibiting key growth drivers, such as company-specific improvements and favorable macroeconomic and political factors. Such drivers tend to be indicators of positive company financial and stock price performance. The 13-person investment team is led by four

Co-lead Portfolio Managers: Andrew Jacobson, Chief Executive Officer and Chief Investment Officer (35 years of experience); Donald Elefson, CFA (40 years of experience); Jose Morales, CFA (34 years of experience); and Young Kim (24 years of experience).

The Board hired Axiom through the 2013 Active Emerging Market Growth Equities manager search process and authorized a three-year contract on July 23, 2013; the contract became effective on January 1, 2014. Axiom was awarded a three-year contract renewal on September 27, 2016, and one-year extensions on July 23, 2019; July 28, 2020; and October 26, 2021. The current contract expires on December 31, 2022. Axiom had been on "On Watch" status since April 17, 2019, and was recently removed from the watch list, as discussed in the Due Diligence section of this report.

Organization

Axiom is 100% employee-owned, with 61 employees, and is headquartered in Greenwich, Connecticut. As of September 30, 2022, the firm managed over $15.4 billion in total assets with $5.4 billion in the emerging markets growth equities strategy.

Due Diligence

Axiom's investment philosophy, strategy, and process have not changed over the one-year contract extension period. Axiom was initially placed on "On Watch" status for performance on April 17, 2019. After conducting a thorough review of Axiom's underperformance relative to its benchmark in place at the time, the MSCI EM Growth Index, staff and NEPC determined that the MSCI EM Growth Index had become increasingly concentrated in a few stocks since inception of LACERS' account and that the benchmark was no longer an effective measure by which to compare Axiom's strategy. As of June 30, 2020, Axiom no longer triggered watch status due to performance. However, on July 28, 2020, the Board approved a change of Axiom's benchmark from the MSCI EM Growth Index to the more diversified MSCI EM Index with the condition that Axiom remain on watch through August 1, 2021, in order to monitor Axiom for consistency with its stated strategy. The benchmark change became effective on August 1, 2020.

Subsequently, two material organizational changes at Axiom led to further extensions of Axiom's watch status. First, on September 29, 2020, Axiom announced that Chris Lively would be stepping down from his role as co-lead portfolio manager of the emerging markets growth equities strategy for personal reasons, triggering an extension of Axiom's existing watch status to October 1, 2021. Andrew Jacobson, Axiom's founder, CEO and CIO, and the original architect of the strategy, replaced Mr. Lively as co-lead of the strategy alongside Donald Elefson and Jose Morales. In addition, Axiom hired Young Kim in March 2021 as a fourth co-lead portfolio manager to expand the team's capabilities.

Second, on August 18, 2021, Axiom announced that Kurt Polk, Axiom's President, would be leaving the firm at the end of the year for personal reasons, triggering a further extension of Axiom's existing watch status to October 1, 2022. The firm has no plans to fill the President position. Axiom's existing management committee has assumed Mr. Polk's responsibilities and currently consists of the following members: Edward Azimi, Chief Operating Officer; Lindsay Chamberlain, Managing Director of Client Partnerships; Jonathan Ellis, Director of Research and Portfolio Manager; Andrew Jacobson, CEO and CIO; and Denise Zambardi, Senior Vice President and Chief Compliance Officer and Controller. Further, Axiom has hired additional support personnel for the management committee members.

After closely monitoring and conducting routine due diligence on Axiom's organizational changes and the strategy's benchmark change over the last two years, staff and NEPC are satisfied that Axiom has appropriately addressed these matters. The changes have not resulted in any changes to Axiom's stated investment philosophy and strategy, nor have they had a material adverse impact to the management of the investment strategy and LACERS assets. Accordingly, staff and NEPC have removed Axiom from "On Watch" status.

Performance

As discussed in the Due Diligence section, Axiom's benchmark was changed from the MSCI EM Growth Index to the MSCI EM Index effective August 1, 2020. Since the effective date of the benchmark change, Axiom has underperformed in all periods compared to the MSCI EM Index as presented in the following table. With the rotation of the market from favoring growth stocks to favoring value stocks that began at the end of 2021, the underperformance of Axiom's growth-oriented strategy relative to the MSCI EM Index, an index comprised of growth and value stocks, is expected. The benchmark change has not resulted in any changes to Axiom's investment process, and the strategy continues to be managed according to the same investment philosophy and process in place at the time of hire.

Annualized Performance as of 9/30/22 (Net-of-Fees)				
	3-month	1-Year	2-Year	Since 8/1/2020
Axiom	-14.25	-36.24	-13.30	-11.32
MSCI EM Index	-11.57	-28.11	-7.82	-7.00
% of Excess Return	*-2.68*	*-8.13*	*-5.48*	*-4.32*

The following table presents Axiom's performance since inception of the account on April 11, 2014, relative to a blended benchmark that incorporates the performance of the previous MSCI EM Growth Index from account inception date to July 31, 2020, and the performance of the MSCI EM Index from August 1, 2020 to September 30, 2022. Axiom's underperformance over the three-year, five-year, and since inception time periods is due to the high stock concentration of the former MSCI EM Growth benchmark and LACERS' investment guideline limitations that required Axiom's portfolio to be more diversified than the former benchmark. Please refer to October 26, 2021, report to the Board (Attachment 1) for a detailed discussion of Axiom's underperformance relative to the MSCI EM Growth Index. In light of the benchmark change, historical blended benchmark performance (the three-year, five-year, and since inception time periods) provides minimal value in evaluating the effectiveness of Axiom's strategy. The current benchmark, the MSCI EM Index, as presented in the preceding table, is a more appropriate measure of Axiom's performance considering portfolio diversification requirements of the investment guidelines.

Annualized Performance as of 9/30/22 (Net-of-Fees)						
	3-month	1-Year	2-Year	3-Year	5-Year	Since Inception
Axiom	-14.25	-36.24	-13.30	-2.66	-2.07	1.17
Axiom Blended Benchmark*	-11.57	-28.11	-7.82	2.14	0.68	3.26
% of Excess Return	*-2.68*	*-8.13*	*-5.48*	*-4.80*	*-2.75*	*-2.09*

*Axiom Blended Benchmark incorporates MSCI EM Growth Index returns prior to August 1, 2020 and MSCI EM Index returns from August 1, 2020 to present.

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

Calendar Year Performance as of 12/31/21 (Net-of-Fees)								
	2021	2020	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	-4.28	32.46	24.70	-17.64	40.56	8.40	-12.44	-2.01
Axiom Blended Benchmark	-2.54	32.02	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*-1.74*	*0.44*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*

Staff recognizes that Axiom's strategy has underperformed since the date of the benchmark change (August 1, 2020) and since inception (April 11, 2014) compared to the blended benchmark. Evaluating Axiom's performance against the watch list criteria, Axiom's performance is currently in compliance with the Policy, which requires both a peer performance metric and information ratio metric to be breached over two consecutive quarters before placing a manager on "On Watch" status for performance. As presented in the following table, Axiom breached the metrics as of September 30, 2022, and was within the established guidelines as of June 30, 2022.

Evaluation of Watch List Status				
Manager	Metric 1 Underperforms (net of fees) trailing 5-year peer median performance (i.e., peer rank between 50th and 100th percentile)		Metric 2 Trailing 5-year Information Ratio falls below 0.20	
	Peer Ranking 9/30/2022	Peer Ranking 6/30/2022	Information Ratio 9/30/2022	Information Ratio 6/30/2022
Axiom	64 (fail)	37 (pass)	-0.03 (fail)	0.51 (pass)

Staff and NEPC will continue to closely monitor Axiom's organization and performance according to the Policy and take appropriate action as necessary.

Fees
LACERS pays Axiom an effective fee of 60 basis points (0.60%), which is approximately $1.5 million annually based on the value of LACERS' assets as of September 30, 2022. This fee ranks in the 22nd percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe (i.e., Axiom's fee is lower than 78% of peers). Since inception, LACERS has paid Axiom a total of $19.1 million in investment manager fees as of June 30, 2022.

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging 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

RJ/BF/EC:rm

Attachments:
1. Report to Board of Administration Dated October 26, 2021
2. Consultant Recommendation – NEPC, LLC

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

From: Investment Committee
Sung Won Sohn, Chair
Elizabeth Lee
Nilza R. Serrano

MEETING: OCTOBER 26, 2021
ITEM: X-C

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board:

1. Approve a one-year contract extension with Axiom Investors, LLC for management of an active non-U.S. emerging markets growth equities portfolio.

2. Authorize the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

Discussion

On October 12, 2021, the Committee considered the attached staff report (Attachment 1) recommending a one-year contract extension with Axiom Investors, LLC (Axiom). The Board hired Axiom through the 2013 Active Emerging Market Growth Equities manager search and authorized a three-year contract on July 23, 2013. The contract became effective on January 1, 2014; the current contract extension expires on December 31, 2021. Since inception, LACERS has paid Axiom a total of $16.9 million in investment management fees as of June 30, 2021. As of September 30, 2021, LACERS' portfolio was valued at $401 million. Axiom is currently on "On Watch" status through October 1, 2022 due to a benchmark change and two organizational changes. Please refer to Attachment 1 for further details on the history of Axiom's watch status.

The Committee inquired about potential actions at the end of the watch period. Staff explained that if Axiom is unable to achieve outperformance relative to the MSCI Emerging Markets Index since the benchmark change date of August 1, 2020, staff may return to the Committee with possible recommendations to terminate the contract and either conduct a search for a replacement active manager or move the assets to a passive strategy. Based on the discussion and responses by staff, the Committee concurred with the recommendation by staff and NEPC, LLC, LACERS' General Fund Consultant.

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to non-U.S. emerging markets growth equities, 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 is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Ellen Chen, Investment Officer I, Investment Division

RJ/BF/EC:rm

Attachments: 1. Investment Committee Recommendation Report dated October 12, 2021
2. Proposed Resolution

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

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

MEETING: OCTOBER 12, 2021
ITEM: VI

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a one-year contract extension with Axiom Investors, LLC for management of an active non-U.S. emerging markets growth equities portfolio.

Executive Summary

Axiom Investors, LLC (Axiom) has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014. LACERS' portfolio is currently valued at $401 million as of September 30, 2021. Axiom was initially placed on "On Watch" status for performance effective April 17, 2019. Axiom's watch status was subsequently extended on various dates due to a change of the benchmark from the MSCI Emerging Markets Growth (MSCI EM Growth) Index to the MSCI Emerging Markets (MSCI EM) Index, the departure of Christopher Lively, Co-lead Portfolio Manager, and the pending departure of Kurt Polk, President. The firm's current watch status expires on October 1, 2022. In light of Axiom's continued "On Watch" status and consistent with the LACERS Manager Monitoring Policy (Policy), staff and LACERS' General Consultant, NEPC, LLC (NEPC) recommend a one-year contract extension and will continue to monitor the organization and performance of the strategy.

Discussion

Background
Axiom has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014, and is benchmarked against the MSCI EM Index. Axiom uses a fundamental research-based investment strategy that focuses on companies exhibiting key growth drivers, such as company-specific improvements and favorable macroeconomic and political factors. Such drivers tend to be indicators of positive company financial and stock price performance. The 13 person investment team is led by four Co-lead Portfolio Managers: Andrew Jacobson, Chief Executive Officer and Chief Investment Officer (33 years of experience), Donald Elefson, CFA (38 years of experience), Jose Morales, CFA (32 years of experience) and Young Kim (22 years of experience).

The Board hired Axiom through the 2013 Active Emerging Market Growth Equities manager search process and authorized a three-year contract on July 23, 2013; the contract became effective on January 1, 2014. Axiom was awarded a three-year contract renewal on September 27, 2016, a one-year extension on July 23, 2019, and a one-year extension on July 28, 2020. The current contract expires on December 31, 2021. Axiom has been on "On Watch" status since April 17, 2019 for performance and organizational reasons as discussed in the Due Diligence and Performance sections of this report.

Organization
Axiom is 100% employee-owned, with 57 employees, and is headquartered in Greenwich, Connecticut. As of September 30, 2021, Axiom managed over $19 billion in total assets with $8 billion in the emerging markets growth equities strategy.

Due Diligence
Axiom's investment philosophy, strategy, and process have not changed over the one-year contract extension period. Axiom was initially placed on "On Watch" status for performance on April 17, 2019. After conducting a thorough review of Axiom's underperformance relative to its benchmark in place at the time, the MSCI EM Growth Index, staff and NEPC determined that the MSCI EM Growth Index had become increasingly concentrated in a few stocks since inception of LACERS' account and that the benchmark was no longer an effective measure by which to compare Axiom's strategy. On July 28, 2020, the Board approved a change of Axiom's benchmark from the MSCI EM Growth Index to the more diversified MSCI EM Index with the condition that Axiom remain on watch through August 1, 2021 in order to monitor Axiom for consistency with its stated strategy. The benchmark change became effective on August 1, 2020.

Subsequently, two material organizational changes at Axiom led to further extensions of Axiom's watch status. First, on September 29, 2020, Axiom announced that Chris Lively would be stepping down from his role as co-lead portfolio manager of the emerging markets growth equities strategy for personal reasons, triggering an extension of Axiom's existing watch status to October 1, 2021. Andrew Jacobson, Axiom's founder, CEO and CIO, and the original architect of the strategy, replaced Mr. Lively as co-lead of the strategy alongside Donald Elefson and Jose Morales. In addition, Axiom hired Young Kim in March 2021 as a fourth co-lead portfolio manager to expand the team's capabilities.

Second, on August 18, 2021, Axiom announced that Kurt Polk, Axiom's President, would be leaving the firm at the end of the year for personal reasons, triggering a further extension of Axiom's existing watch status to October 1, 2022. Axiom will not be filling the vacancy; the existing management committee will assume Mr. Polk's responsibilities. Currently, the management committee consists of the following members: Edward Azimi, Chief Operating Officer; Lindsay Chamberlain, Managing Director of Client Service and Marketing; Jonathan Ellis, Director of Research and Portfolio Manager; Andrew Jacobson, CEO and CIO; Kurt Polk, President (departing firm); and Denise Zambardi, Senior Vice President and Chief Compliance Officer and Controller.

After conducting due diligence on these matters, staff and NEPC do not anticipate these organizational changes to have a material adverse impact to the management of the investment strategy and LACERS assets. However, staff and NEPC will continue to monitor Axiom closely through the expiration of the "On Watch" status on October 1, 2022.

Performance

As discussed in the Due Diligence section, Axiom's benchmark was changed from the MSCI EM Growth Index to the MSCI EM Index effective August 1, 2020. Since the effective date of the benchmark change, Axiom's performance has matched the performance of the MSCI EM Index as presented in the following table. The benchmark change has not resulted in any changes to Axiom's investment process; Axiom continues to manage the strategy according to the same growth oriented investment philosophy and process in place at the time of hire.

Annualized Performance as of 9/30/21 (Unaudited and Net-of-Fees)			
	3-Month	1-Year	Since 8/1/2020
Axiom	-7.79	17.90	14.95
MSCI EM Index	-8.09	18.20	14.96
% of Excess Return	*0.30*	*-0.30*	*-0.01*

The following table presents Axiom's performance since inception of the account on April 11, 2014 relative to a blended benchmark that incorporates the performance of the previous MSCI EM Growth Index from account inception date to July 31, 2020 and the performance of the MSCI EM Index from August 1, 2020 to September 30, 2021. Axiom's underperformance over the two-year, three-year, five-year, and since inception time periods is due to the high stock concentration of the former MSCI EM Growth benchmark and LACERS' investment guideline limitations that required Axiom's portfolio to be more diversified than the former benchmark. Please refer to July 28, 2020 report to the Board (Attachment 1) for a detailed discussion of Axiom's underperformance relative to the MSCI EM Growth Index. The current benchmark, the MSCI EM Index, as presented in the preceding table, is a more appropriate measure of Axiom's performance in light of portfolio diversification requirements.

Annualized Performance as of 9/30/21 (Unaudited and Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception
Axiom	-7.79	17.90	20.27	13.48	11.73	7.61
Axiom Blended Benchmark*	-8.09	18.20	21.74	14.40	12.70	8.38
% of Excess Return	*0.30*	*-0.30*	*-1.47*	*-0.92*	*-0.97*	*-0.77*

*Axiom Blended Benchmark incorporates MSCI EM Growth Index returns prior to August 1, 2020 and MSCI EM Index returns from August 1, 2020 to present.

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

Calendar Year Performance as of 9/30/21 (Net-of-Fees)							
	2020	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	32.46	24.70	-17.64	40.56	8.40	-12.44	-2.01
Axiom Blended Benchmark	32.02	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*0.44*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*

Additionally, as presented on page four of the attached NEPC report (Attachment 2), Axiom's performance ranks in the top quartile of peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe over the three-year, five-year, and since inception time periods. Relative to the MSCI EM Index benchmark and the peer universe, Axiom's performance does not currently trigger the performance criteria of the LACERS Manager Monitoring Policy. However, staff recognizes that Axiom's strategy has returned index-like performance since the date of the benchmark change (August 1, 2020) and the firm remains on "On Watch" status through October 1, 2022. Upon expiration of the watch period, should Axiom be unable to achieve outperformance relative to the MSCI EM Index since the benchmark change date, staff may return to the Committee with a possible recommendation for contract termination.

Fees
LACERS pays Axiom an effective fee of 62 basis points (0.62%), which is approximately $2.5 million annually based on the value of LACERS' assets as of September 30, 2021. This fee ranks in the 25th percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe (i.e. Axiom's fee is lower than 75% of peers). Since inception, LACERS has paid Axiom a total of $16.9 million in investment manager fees as of June 30, 2021.

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging 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 I, Investment Division

RJ/BF/EC

Attachments:
1. Report to Board of Administration Dated July 28, 2020
2. Consultant Recommendation – NEPC, LLC

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

From: Investment Committee
Sung Won Sohn, Chair
Elizabeth Lee
Nilza R. Serrano

MEETING: JULY 28, 2020
ITEM: X – C

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INTERNATIONAL INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board:

1. Approve a change in Axiom International Investors, LLC's benchmark from the MSCI Emerging Markets Growth Index to the MSCI Emerging Markets Index.

2. Approve a one-year contract extension with Axiom International Investors, LLC for management of an active emerging markets growth equities portfolio.

3. Authorize the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

Discussion

On July 14, 2020, the Investment Committee considered the attached staff report (Attachment 1) recommending a benchmark change and a one-year contract extension with Axiom International Investors, LLC (Axiom). Axiom has managed an active emerging markets growth equities portfolio for LACERS since April 2014; the current contract expires on December 31, 2020. As of June 30, 2020, LACERS' portfolio was valued at $464 million. Axiom is currently on "On Watch" status for underperformance relative to the benchmark, pursuant to the LACERS Manager Monitoring Policy. Based on an analysis presented by staff, Axiom's current benchmark, the MSCI Emerging Markets Growth (MSCI EM Growth) Index, is highly concentrated in three stocks, which collectively represent about 34% of the index; this concentration drives benchmark performance and increases risk. Staff and NEPC, LLC (NEPC) recommend changing the benchmark to a more diversified benchmark, the MSCI

Emerging Markets (MSCI EM) Index. This benchmark would better reflect the risk-return profile of Axiom's strategy as governed by LACERS' investment management guidelines.

The Committee inquired about the history of the MSCI EM Growth Index's concentration as well as Axiom's fees. Based on the discussion and responses by staff and NEPC, the Committee concurs with the staff recommendations. Should the Board approve the benchmark change and the contract extension, staff would implement the benchmark change effective as of close of business on July 31, 2020. Staff and NEPC would also extend Axiom's watch status to July 31, 2021 in order to monitor Axiom for consistency with its stated growth strategy and the portfolio's performance in light of the benchmark change.

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to emerging markets growth equities, 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 is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Ellen Chen, Investment Officer I, Investment Division

RJ/BF/EC:jp

Attachments: 1. Investment Committee Recommendation Report dated July 14, 2020
2. Proposed Resolution

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

MEETING: JULY 14, 2020
ITEM: IV

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INTERNATIONAL INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board:

1. A change in Axiom International Investors, LLC's benchmark from the MSCI Emerging Markets Growth Index to the MSCI Emerging Markets Index.

2. A one-year contract extension with Axiom for management of an active emerging markets growth equities portfolio.

Executive Summary

Axiom International Investors, LLC (Axiom) has managed an active emerging markets growth equities portfolio for LACERS since April 2014. LACERS' portfolio is currently valued at $424 million as of May 31, 2020. Axiom was placed "On Watch" for an initial one-year period effective April 17, 2019 due to performance. Due to a high concentration in three stocks in the existing MSCI Emerging Markets Growth (MSCI EM Growth) Index, which skews benchmark performance and increases risk, staff and NEPC, LLC (NEPC) recommend changing the benchmark to the MSCI Emerging Markets (MSCI EM) Index. In light of Axiom's continued "On Watch" status and consistent with the LACERS Manager Monitoring Policy, staff and NEPC recommend a one-year contract extension.

Discussion

Background
Axiom has managed an active emerging markets growth equities portfolio for LACERS since April 2014, and is benchmarked against the MSCI EM Growth Index. Axiom uses a fundamental research-based investment strategy that focuses on companies exhibiting key growth drivers, such as company-specific improvements and favorable macroeconomic and political factors. Such drivers tend to be indicators of positive company financial and stock price performance. The investment team consists of six

professionals including co-portfolio managers Christopher Lively and Don Elefson, who have 33 and 37 years of experience, respectively.

Axiom was hired through the 2013 Active Emerging Market Growth Equities manager search process and a three-year contract was authorized by the Board on July 23, 2013. Axiom was awarded a contract renewal on September 27, 2016 and a one-year extension on July 23, 2019. The current contract expires on December 31, 2020.

Organization
Axiom is 100% employee-owned, with 50 employees, and is headquartered in Greenwich, Connecticut. As of May 31, 2020, Axiom managed over $13 billion in total assets with $5.9 billion in the emerging markets growth equities strategy.

Due Diligence
Axiom's organizational structure, investment philosophy, strategy, and process have not changed over the one-year contract extension period.

Performance
As of May 31, 2020, Axiom has underperformed the MSCI EM Growth Index over all time periods as presented in the table below.

Annualized Performance as of 5/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception[1]
Axiom	-4.07	4.12	-3.43	2.43	2.73	2.85
MSCI EM Growth Index	-3.42	7.45	-2.67	3.72	3.91	3.84
% of Excess Return	*-0.65*	*-3.33*	*-0.76*	*-1.29*	*-1.18*	*-0.99*

[1]*Inception Date: 4/11/14*

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

Calendar Year Performance as of 5/31/20 (Net-of-Fees)							
	1/1/20 - 5/31/20	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	-11.35	24.70	-17.64	40.56	8.40	-12.44	-2.01
MSCI EM Growth Index	-9.95	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*-1.40*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*

Pursuant to the LACERS Manager Monitoring Policy (Policy), Axiom was placed on "On Watch" status for an initial one-year period effective April 17, 2019. The following Policy watch list criteria triggered the "On Watch" status based on the performance as of March 31, 2019.

1. Annualized net underperformance relative to its benchmark for trailing 3 years.
2. Annualized net underperformance relative to its benchmark for trailing 5 years.
3. Annualized net Information Ratio trailing 5 years relative to its benchmark is below .20.

Based on performance as of March 31, 2020, Axiom continued to trigger the same three Policy criteria. Accordingly, staff and NEPC extended Axiom's "On Watch" status for another one-year period effective April 18, 2020.

Benchmark Concentration and Risk

To further understand Axiom's underperformance relative to the MSCI EM Growth Index, staff and NEPC conducted an attribution analysis which revealed a high benchmark concentration in three secular growth stocks: Alibaba Group, Tencent, and Taiwan Semiconductor. Of the 551 stocks in the benchmark, these three stocks collectively comprise about a 34% weight in the benchmark and have driven 99% of benchmark's cumulative three-year performance return (i.e., these stock have produced 11.56% of the benchmark's 11.63% total return, while the remaining stocks in the index have produced 0.07% of the benchmark return, as presented in the following attribution table). LACERS' investment management guidelines specifically limit individual stock holdings to 5% of the portfolio's market value at time of purchase to control risk and ensure sufficient diversification among holdings. This guideline has required Axiom to limit total exposure to Alibaba Group, Tencent, and Taiwan Semiconductor to about half of their current total benchmark weight as illustrated in the table below. As of May 31, 2020, Axiom's total exposure to these three stocks was about 18% of the portfolio, whereas the same three stocks represented about 34% of the index. Over the time period presented in the table, Axiom's underweight to these stocks has contributed a -3.73% cumulative excess return relative to the benchmark, which is more than the cumulative portfolio underperformance of -1.54%. Alternatively stated, Axiom's compliance with LACERS' guidelines has accounted for all of Axiom's underperformance relative to the benchmark.

Los Angeles City Employees' Retirement System vs. MSCI Emerging Markets Growth Attribution of 3 stocks where guideline restriction accounted for more than the overall fund underperformance 3/31/2017-5/31/2020

	LACERS			MSCI EM Growth			Variation			Attribution Analysis		
	Ending Weight	Total Return	Contrib. To Return	Ending Weight	Total Return	Contrib. To Return	Variation in Ending Weight	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection + Interaction	Total Effect
Total	**100.00**	**10.10**	**10.10**	**100.00**	**11.63**	**11.63**	**—**	**-1.54**	**-1.54**	**-0.21**	**-1.32**	**-1.54**
Alibaba	6.32	69.46	2.70	14.35	69.35	4.71	-8.03	0.11	-2.01	-1.58	0.00	-1.57
Tencent	6.41	55.32	2.40	11.18	55.39	3.89	-4.77	-0.06	-1.49	-1.30	-0.01	-1.31
Taiwan Semiconductor	5.45	56.92	2.08	8.83	59.25	2.96	-3.37	-2.32	-0.88	-0.54	-0.31	-0.85
Sum	**18.18**			**34.36**			**-16.17**					**-3.73**

Portfolio guidelines limit each stock to a max 5% position at time of purchase.

3 highly concentrated stocks Compose more than 34% of MSCI EMG benchmark.

Relative underweight per guideline restrictions.

Relative underperformance due to the 3 stocks.

Source: Factset

At the time of Axiom's hiring in 2014, the MSCI EM Growth Index was sufficiently diversified to be a suitable benchmark by which to gauge Axiom's performance. The following table illustrates the growing concentration of Alibaba Group, Tencent, and Taiwan Semiconductor in the LACERS account and the MSCI EM Growth Index, since inception of the account.

	6/30/2014	5/31/2020
Axiom LACERS Account	8.89%	18.18%
MSCI EM Growth	15.86%	31.48%

Staff, NEPC, and Axiom agree that the benchmark's current three stock concentration exposes the benchmark to an imprudent level of risk and that LACERS' guidelines continue to provide appropriate diversification risk controls for Axiom's strategy. To properly reflect the risk-return profile of Axiom's strategy imposed by LACERS guidelines, staff and NEPC recommend changing Axiom's benchmark to the MSCI Emerging Markets (MSCI EM) Index, a diversified index consisting of 1,403 emerging market stocks (the MSCI EM Growth Index is a subset of this index). Such a change would reduce the benchmark concentration risk; the aforementioned stocks account for only 17% of the MSCI EM Index versus 34% for the MSCI EM Growth benchmark. A benchmark change would have no impact on Axiom's process for identifying growth stock opportunities. In fact, it would more accurately reflect Axiom's approach of finding opportunities across a broad range of sectors as Axiom's process begins with the MSCI EM Index as the universe from which to source ideas. Exhibit 1 of Attachment 1 compares the sector allocations of the LACERS account relative to the MSCI EM and EM Growth Indices.

Comparing Axiom's performance to the more diversified MSCI EM Index, Axiom has outperformed over all annualized time periods and most calendar year periods as presented in the tables below. Axiom's performance relative to the MSCI EM Index does not trigger the watch criteria of the Policy.

Annualized Performance as of 5/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception[1]
Axiom	-4.07	4.12	-3.43	2.43	2.73	2.85
MSCI EM Growth Index	-3.42	7.45	-2.67	3.72	3.91	3.84
% of Excess Return	*-0.65*	*-3.33*	*-0.76*	*-1.29*	*-1.18*	*-0.99*
MSCI EM Index	-6.95	-4.39	-6.55	-0.15	0.87	0.98
% of Excess Return	*2.88*	*8.51*	*3.12*	*2.58*	*1.86*	*1.87*

[1]Inception Date: 4/11/14

Calendar Year Performance as of 5/31/20 (Net-of-Fees)							
	1/1/20 - 5/31/20	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	-11.35	24.70	-17.64	40.56	8.40	-12.44	-2.01
MSCI EM Growth Index	-9.95	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*-1.40*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*
MSCI EM Index	-15.96	18.42	-14.57	37.28	11.15	-14.92	-3.89
% of Excess Return	*4.61*	*6.28*	*-3.07*	*3.28*	*-2.75*	*2.48*	*1.88*

Further, with the exception of LACERS, all of Axiom's Emerging Markets Equity clients use either the MSCI EM Index or a custom index based off the MSCI EM Index. None use the MSCI EM Growth Index due to the concentration issue. As of June 25, 2020, Axiom currently has 11 other public fund clients invested in the strategy, totaling $2.3 billion in AUM.

Should the Committee and Board approve a benchmark change and contract extension, staff would implement the benchmark change effective as of close of business on July 31, 2020. Staff and NEPC would also extend Axiom's watch status to July 31, 2021 in order to monitor Axiom for consistency with its stated growth strategy and the portfolio's performance in light of the benchmark change.

Fees
LACERS pays Axiom an effective fee of 62 basis points (0.62%), which is approximately $2.6 million annually based on the value of LACERS' assets as of May 31, 2020. This fee ranks in the 23rd percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe (i.e. Axiom's fee is lower than 77% of peers).

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A benchmark change and contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging 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 I, Investment Division

RJ/BF/EC:jp

Attachments: 1. Consultant Recommendation – NEPC, LLC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: July 14, 2020

Subject: Axiom Investors - Contract extension and benchmark change

Recommendation

NEPC recommends the Los Angeles City Employees' Retirement System ('LACERS') change the portfolio's benchmark to the MSCI Emerging Markets Index from the MSCI Emerging Markets Growth Index. NEPC also recommends that LACERS extend the contract that is currently in place with Axiom Investors ('Axiom') for a period of one year from the date of contract expiry.

Background

Axiom was hired on April 11, 2014 to provide the Plan with public equity exposure across emerging markets. The portfolio's strategy is benchmarked against the MSCI Emerging Markets Growth Index and has a performance inception date of May 1, 2014.

As of May 31, 2020, Axiom managed $424.3 million, or 2.4% of Plan assets in an international emerging markets separately managed account. The performance objective is to outperform the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The account is currently on Watch due to performance under the LACERS' Manager Monitoring Policy.

Axiom has requested a benchmark change from the MSCI Emerging Markets Growth Index to the broader MSCI Emerging Markets Index. Axiom lists the preferred benchmark for the portfolio as the broader MSCI Emerging Markets Index and uses the broader index as the starting point in constructing the portfolio. Axiom's investment process identifies stocks based on positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics which results in a 'growth' oriented portfolio.

As of March 31, 2020, Axiom's portfolio weights compared to the MSCI Emerging Markets Index and the MSCI Emerging Markets Growth Index are shown in Exhibit 1 below.

Exhibit 1

GICS Sector	Portfolio Weight	MSCI EM Index	Excess Weight	MSCI EM Growth Index Weight	Excess Weight
Energy	6.7%	7.4%	-0.7%	2.5%	4.2%
Materials	3.7%	7.3%	-3.7%	4.2%	-0.5%
Industrials	6.2%	5.3%	0.9%	4.6%	1.5%
Consumer Discretionary	16.6%	14.3%	2.3%	22.0%	-5.4%
Consumer Staples	7.4%	6.2%	1.2%	9.3%	-1.8%
Health Care	2.6%	2.7%	-0.1%	3.9%	-1.4%
Financials	24.5%	24.5%	0.0%	14.9%	9.7%
Information Technology	20.0%	15.6%	4.3%	20.4%	-0.4%
Communication Services	10.2%	11.0%	-0.8%	14.9%	-4.8%
Utilities	0.0%	2.6%	-2.6%	2.0%	-2.0%
Real Estate	2.0%	3.0%	-1.0%	1.4%	0.6%
Unclassified	0.2%	0.0%	0.2%	0.0%	0.2%

When Axiom was hired, the MSCI Emerging Markets Growth index was much less concentrated than it is today and therefore it was more acceptable as a performance benchmark for the Axiom portfolio. To demonstrate how the benchmark has changed over time, Exhibit 2 provides a list of the top ten names in the MSCI Emerging Markets Growth at the time LACERS hired Axiom versus today. As of 3/31/2014, the top ten names in the index represented 27% of the total index, while as of April 30, 2020 the top ten names represented 44.5% of the index. In comparison, the concentration in the top ten names in the broader index for similar time periods was 16.4% and 28.1%.

We first started discussing the concentration in the benchmark with Axiom in 2017. Given that the concentration in the growth index has become much worse and our belief that the restriction in LACERS' investment guidelines (i.e., maximum amount in any one stock to be less than 5%) should remain in place to ensure reasonable diversification, we believe that a benchmark change is warranted for the portfolio. We do not believe that Axiom will change their investment style just because the benchmark is different.

Exhibit 2:

31-Mar-14		April 30 2020	
Asset Name	Weight (%)	Asset Name	Weight (%)
SAMSUNG ELECTRONICS CO LTD	7.26%	ALIBABA GROUP HOLDING	12.47%
TAIWAN SEMICONDUCTOR MANUI	4.99%	TENCENT HOLDINGS LTD	10.92%
TENCENT HOLDINGS LTD	3.70%	TAIWAN SEMICONDUCTOR MANUFACT (	8.93%
NASPERS	2.27%	SAMSUNG ELECTRONICS CO LTD	4.51%
ITAU UNIBANCO HOLDING SA	1.96%	NASPERS	2.49%
AMBEV SA	1.84%	SK HYNIX INC	1.33%
CNOOC LTD	1.40%	JD.COM INC	1.13%
SBERBANK ROSSII PAO	1.34%	SBERBANK ROSSII PAO	1.02%
HOUSING DEVELOPMENT FINANCE	1.14%	NETEASE INC	0.87%
CHINA LIFE INSURANCE CO LTD	1.10%	ICICI BANK LTD	0.86%

We believe that by changing Axiom's benchmark, you will have a benchmark that is fair and not overly concentrated in a few names. Additionally, Axiom will have the ability to express a positive view on a large benchmark-weighted name and remain in-line with LACERS' guidelines. Some of the drawbacks of continuing to use the growth benchmark is that Axiom's performance relative to the benchmark will be primarily determined by the performance of a handful of names (i.e., Alibaba Group, Tencent, and Taiwan Semiconductor). There may be times when there is meaningful dispersion in the Axiom portfolio versus the benchmark and it will have nothing to do with Axiom's skill as an investment manager and everything to do with poor benchmark construction. To our knowledge, LACERS is the only client who has requested that Axiom use the growth version of the emerging markets benchmark. We do not want the firm to manage your account any differently than how they manage their other clients' portfolios.

Axiom is an independent employee-owned investment management firm founded in 1998 by Andrew Jacobson. As of March 31, 2020 the firm had $11.1 billion in assets under management and had 50 employees. Prior to forming Axiom, the investment team was responsible for developing and managing the international equity strategy at Columbus Circle Investors, a division of PIMCO Advisors LP. The Axiom Emerging Markets team is led by Chris Lively and co-portfolio manager Donald Elefson. José Morales joined the firm in 2017 as a portfolio manager. The portfolio managers split the emerging markets by region. Chris Lively retains final buy and sell authority, and ultimately decides portfolio positioning and stock weightings. The team also leverages a shared research platform across all of Axiom's non-U.S. equity products.

The Axiom investment philosophy is to invest in quality companies that are growing and evolving better and more rapidly than expected. Critical to the investment process is the ability to identify these changes in growth, prior to them being reflected in expectations or market valuations. Axiom employs a bottom-up, growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The primary emphasis is to isolate those companies that are likely to exceed expectations, which they do by identifying and monitoring the key business drivers of each stock. Key business drivers are essentially the leading indicators of stock price performance. Key drivers can include company specific, industry, macroeconomic and political factors. For each of these drivers, they survey a wide variety of sources to determine investor expectations.

The universe is defined as securities that have a minimum market cap of $1.0 billion, are covered by 1 or more brokerage analysts and have liquidity of over $5 MM/day. About 80% of Axiom's new ideas are typically identified as a consequence of specific, positive, fundamental developments in a company's operations (e.g., favorable sales of a new product, a significant restructuring initiative or a change in industry conditions). Axiom also screens the investment universe on a variety of financial and technical factors to help identify new ideas for further detailed fundamental analysis. These factors include positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics.

Performance

Referring to Exhibit 3, as of May 31, 2020, since the portfolio's inception date of May 1, 2014, the portfolio has underperformed its benchmark by 1.10% (3.11% vs 4.21%). Over the past year, ended May 31, 2020, the portfolio has underperformed the benchmark by 3.33% (4.12% vs. 7.45%). Referring to Exhibit 4, since inception of the Axiom portfolio ended March 31, 2020, the portfolio ranked in the 18th percentile among its peers and underperformed the benchmark by 1.21%. In the trailing one-year ended March 31, 2020, the portfolio ranked in the 8th percentile in its peer group underperforming its benchmark by 1.35%. Since inception, ended March 31, 2020, the information ratio was -0.47 and active risk, as measured by tracking error was 2.56%. Please note that the portfolio's performance exceeds the broader emerging market index for time periods ending March 31, 2020.

Referring to Exhibit 5, since inception, historical cumulative performance has been negative when compared to the growth benchmark. Security selection in the Information Technology, Industrials and Communication Services sectors have been responsible for cumulative negative returns since the first quarter of 2017. Referring to Exhibit 6, Axiom's style box analysis, since inception ending March 31, 2020, reveals that the portfolio is aligned closer to a core portfolio than to a Growth portfolio. This is not surprising given the diversification of the Axiom portfolio and the concentration in names in the MSCI Emerging Markets Growth Index.

Fees

The portfolio has an asset-based fee of 0.62% annually. This fee ranks in the 23rd percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe. In other words, 77% of the 48 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

As of this writing, Axiom has struggled to outperform the MSCI Emerging Markets Growth benchmark over all trailing periods. Much of the underperformance can be attributed to their investment process and focus on diversification versus what has become a significantly concentrated style benchmark since March 31, 2014. We believe in the long-term efficacy of a strategy that focuses on understanding the business fundamentals of companies that are growing faster than markets anticipate. NEPC recommends changing Axiom's benchmark to the MSCI Emerging Markets Index from the MSCI Emerging Markets Growth Index. In addition, NEPC recommends a contract extension for a period of one-year from the period of contract expiry.

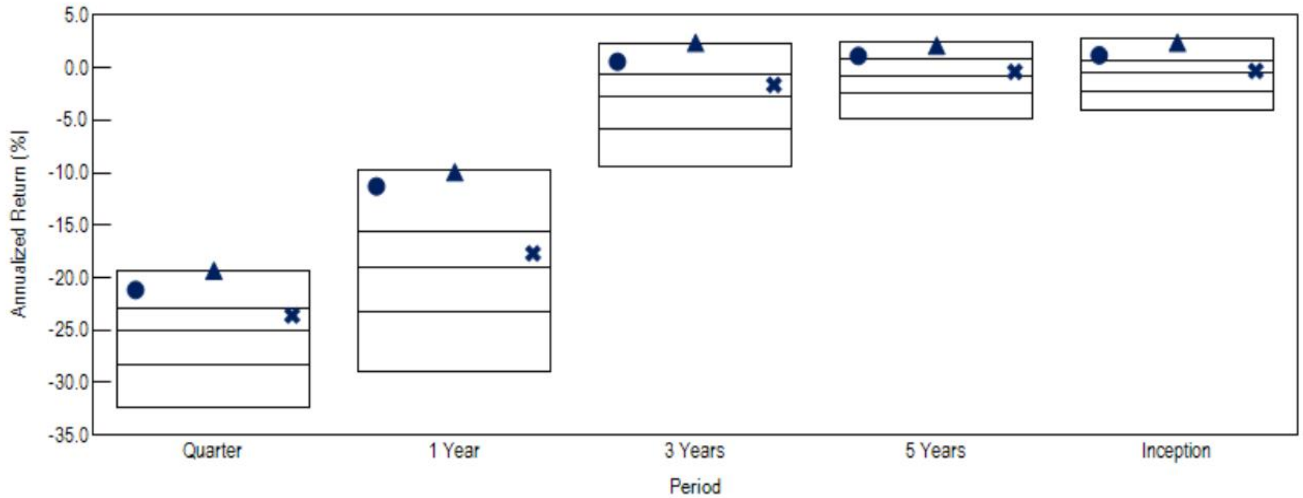
The following tables provide specific performance information, net of fees referenced above.

Exhibit 3

	Ending May 31, 2020 Market Value($)	1 Mo(%)	3 Mo(%)	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	Inception (%)	Inception Date
Axiom Emerging Markets	424,319,079	2.43	-4.07	-11.51	-2.87	4.12	2.43	2.73	--	3.11	14-May
MSCI Emerging Markets Growth NR USD		1.72	-3.42	-9.95	0.28	7.45	3.72	3.91	4.8	4.21	14-May
MSCI Emerging Markets		0.77	-6.95	-15.96	-10	-4.39	-0.15	0.88	2.47	1.29	14-May

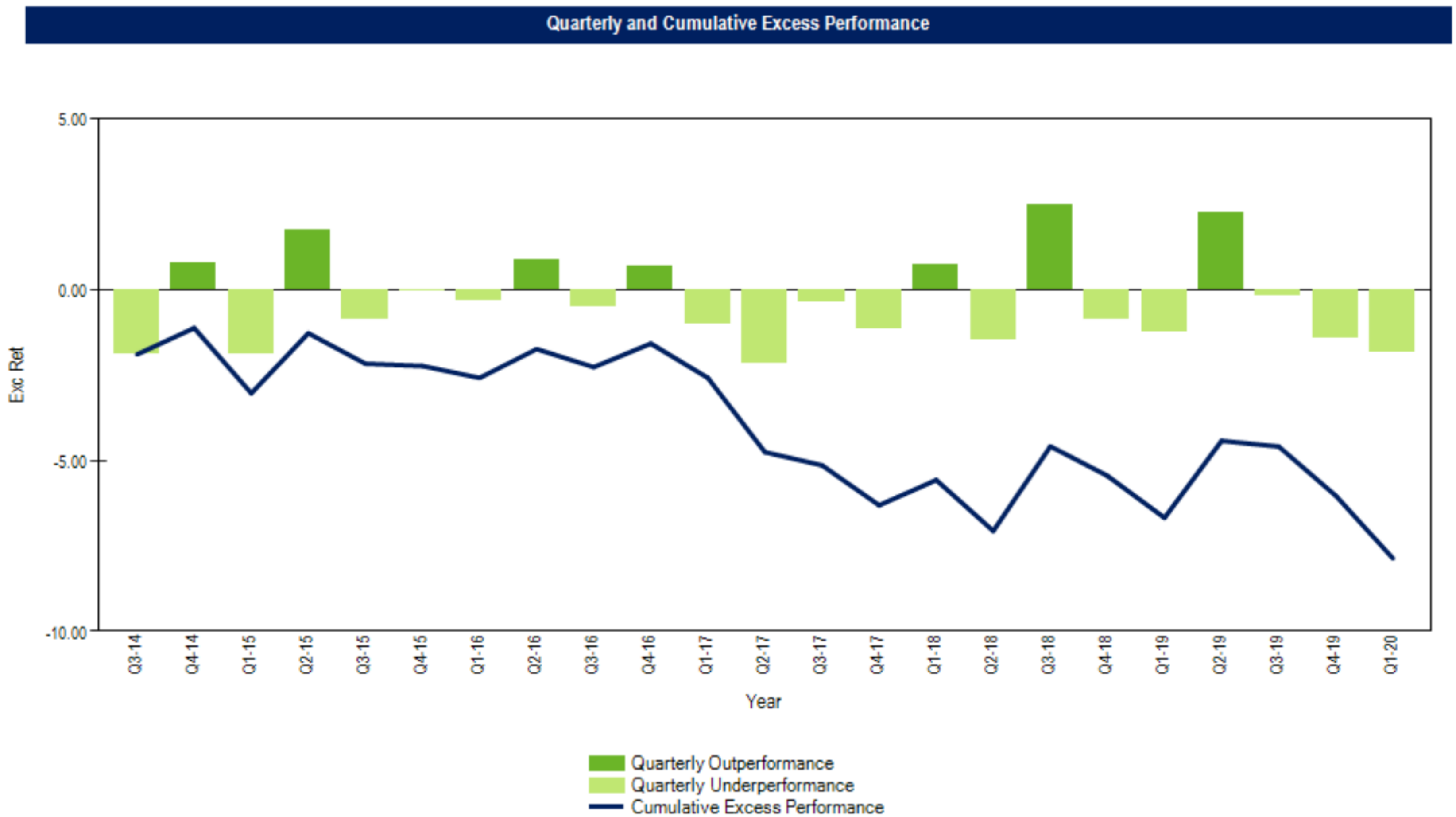
Exhibit 4

eV Emg Mkts Equity Net Return Comparison
Ending March 31, 2020



	Return (Rank)									
5th Percentile	-19.31		-9.69		2.27		2.46		2.72	
25th Percentile	-22.92		-15.55		-0.69		0.76		0.61	
Median	-25.05		-19.10		-2.71		-0.87		-0.53	
75th Percentile	-28.34		-23.21		-5.77		-2.36		-2.26	
95th Percentile	-32.37		-29.04		-9.44		-4.79		-4.00	
# of Portfolios	224		222		198		173		159	
● Axiom Emerging Markets	-21.17	(12)	-11.29	(8)	0.59	(16)	1.14	(22)	1.20	(18)
▲ MSCI Emerging Markets Growth NR USD	-19.34	(6)	-9.94	(6)	2.39	(5)	2.13	(10)	2.41	(8)
✖ MSCI Emerging Markets	-23.60	(35)	-17.69	(40)	-1.62	(32)	-0.37	(41)	-0.29	(46)

Exhibit 5


Quarterly and Cumulative Excess Performance
5.00
0.00
-5.00
-10.00
Exc Ret
Q3-14
Q4-14
Q1-15
Q2-15
Q3-15
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Q1-16
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Q3-16
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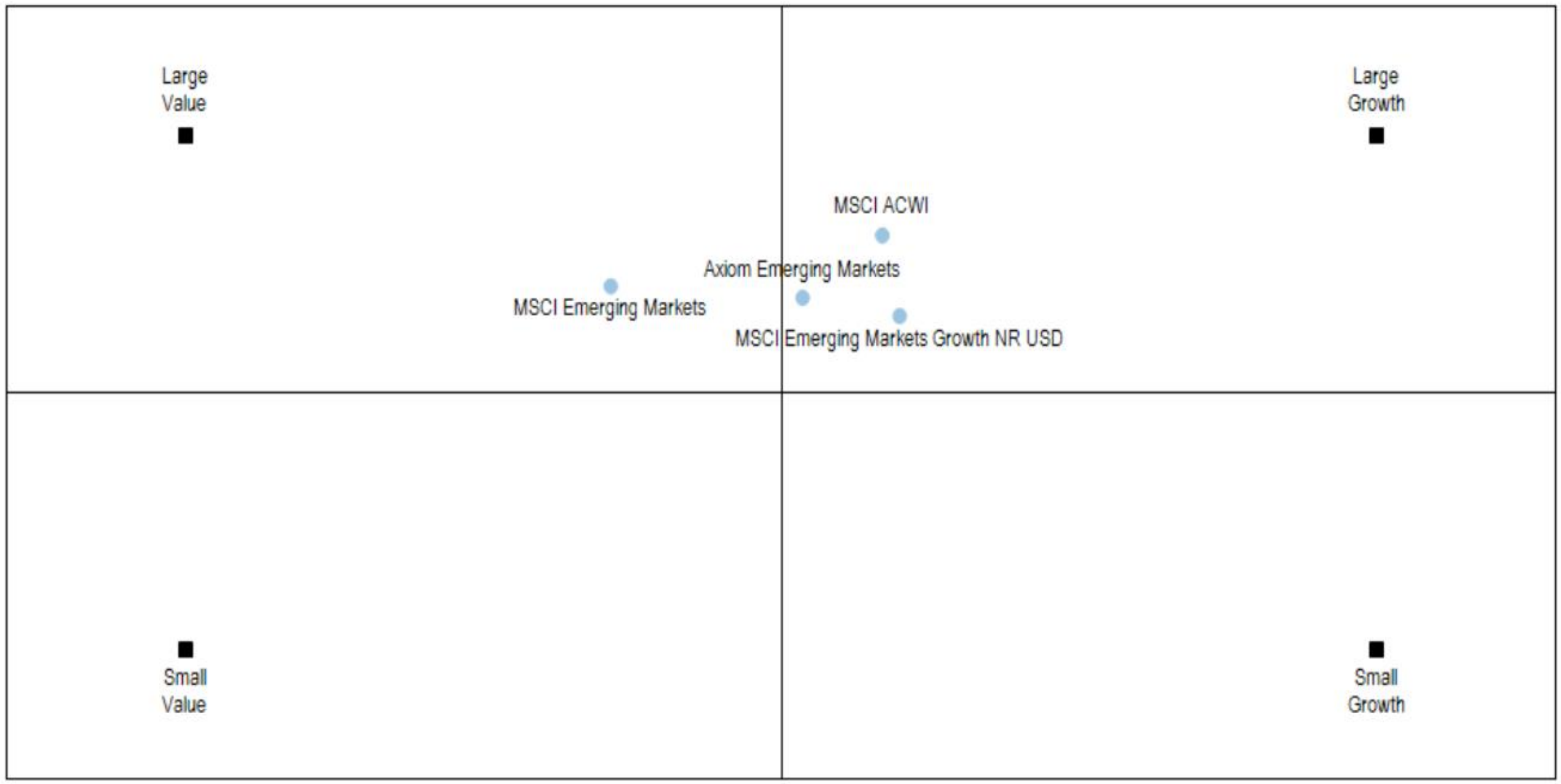
Q2-17
Q3-17
Q4-17
Q1-18
Q2-18
Q3-18
Q4-18
Q1-19
Q2-19
Q3-19
Q4-19
Q1-20
Year
Quarterly Outperformance
Quarterly Underperformance
Cumulative Excess Performance

Exhibit 6

Non U.S. Effective Style Map vs. EAFE
5 Years 11 Months Ending March 31, 2020



CONTRACT EXTENSION
AXIOM INTERNATIONAL INVESTORS, LLC
ACTIVE EMERGING MARKETS GROWTH EQUITIES
PORTFOLIO MANAGEMENT

PROPOSED RESOLUTION

WHEREAS, LACERS' current one-year contract extension with Axiom International Investors, LLC (Axiom) for active emerging markets growth equities portfolio management expires on December 31, 2020; and,

WHEREAS, Axiom is currently "On Watch" for performance pursuant to the LACERS Manager Monitoring Policy; and,

WHEREAS, Axiom's current benchmark, the MSCI Emerging Markets Growth Index, is concentrated in three stocks and does not properly reflect the diversification and risk-return profile of Axiom's strategy, as governed by LACERS' investment management guidelines; and,

WHEREAS, the MSCI Emerging Markets Index will serve as a more suitable benchmark by which to measure Axiom's performance and risk; and,

WHEREAS, a one-year contract extension will provide the necessary time to evaluate Axiom for consistency with its stated growth strategy relative to a new benchmark; and,

WHEREAS, on July 28, 2020, the Board approved the Investment Committee's recommendations to approve a one-year contract extension with Axiom and to approve a benchmark change to the MSCI Emerging Market Index effective end of business day July 31, 2020.

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

Company Name:	Axiom International Investors, LLC
Service Provided:	Active Emerging Markets Growth Equities Portfolio Management
Effective Dates:	January 1, 2021 through December 31, 2021
Duration:	One year
Benchmark:	MSCI Emerging Markets Index
Allocation as of June 30, 2020:	$464 million

July 28, 2020

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: October 12, 2021

Subject: Axiom Investors - Contract Extension

Recommendation

NEPC recommends the Los Angeles City Employees' Retirement System ('LACERS') extend the contract with Axiom Investors ('Axiom') for a period of one year from the date of contract expiry.

Background

Axiom was hired on April 11, 2014 to provide the Plan with public equity exposure to emerging markets. The portfolio's strategy is benchmarked against the MSCI Emerging Markets Index and has a performance inception date of May 1, 2014. As of July 31, 2021, Axiom managed $410.1 million, or 1.8% of Plan assets in a separately managed account. The performance objective is to outperform the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The account is currently on Watch pursuant to the LACERS Manager Monitoring Policy due to the departure of the lead Portfolio Manager in late 2020 as well as a benchmark change.

Axiom's Watch status is a reflection of the changes experienced at the firm as well as the changes to the investment product's benchmark. Recall, that the lead portfolio manager left the firm for medical reasons in late 2020 and was replaced by the firm's Chief Investment Officer, Andrew Jacobson, who re-joined the portfolio management team. Mr. Jacobson was the original architect of the strategy and NEPC was comfortable with the transition given the circumstances. The firm also hired a co-Portfolio manager into the emerging markets team in the first quarter of 2021. In the third quarter of 2021, Kurt Polk, Axiom's President, announced his intention to resign from the firm. His final day will be December 31, 2021. Axiom was founded in Connecticut and Founder, CEO and CIO Andrew Jacobson strongly stands by the structure he implemented with one firm/team in one central location that promotes collaboration. Kurt joined Axiom in 2014 and was one of the 23 equity partners. Upon his departure, he will be selling back his equity stake to the firm at book value.

Additionally, Axiom requested a benchmark change from the MSCI Emerging Markets Growth Index to the broader MSCI Emerging Markets Index in July, 2020. The benchmark change request was granted given the growing level of concentration observed over time in the MSCI Emerging Markets Growth Index; the top 10 names made up 44.5% of the index as of April, 2020. As of August, 2021, the top 10 names made up 40.3% of the index. NEPC recommended granting the change on the basis that we believed the benchmark change would not result in a change in the portfolio's style or strategy. We continue with this belief today.

Axiom is an independent employee-owned investment management firm founded in 1998 by Andrew Jacobson. As of June 30, 2021 the firm had $19.84 billion in assets under management and had 56 employees. Prior to forming Axiom, the investment team was responsible for developing and managing the international equity strategy at Columbus Circle Investors, a division of PIMCO

Advisors LP. The Axiom Emerging Markets team is currently co-led by Andrew Jacobson with three co-Portfolio Managers. Don Elefson and Jose Gerardo Morales have been on the team overseeing the EME strategy since 2012 and 2017 respectively. Young Kim joined the emerging markets team as co-Portfolio manager in the first quarter of 2021. Mr. Kim joined Axiom from Columbia Threadneedle and relocated from Portland, Oregon since Axiom believes in having all team members in one place. Mr. Kim was a co-Portfolio Manager on the Emerging Markets Equity strategy at Columbia Threadneedle which is also 1-rated strategy at NEPC. The portfolio managers split the emerging markets by region and also leverage a shared research platform across all of Axiom's non-U.S. equity products.

The Axiom investment philosophy is to invest in quality companies that are growing and evolving better and more rapidly than expected. Critical to the investment process is the ability to identify these changes in growth, prior to them being reflected in expectations or market valuations. Axiom employs a bottom-up, growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The primary emphasis is to isolate those companies that are likely to exceed expectations, which they do by identifying and monitoring the key business drivers of each stock. Key business drivers are essentially the leading indicators of stock price performance. Key drivers can include company specific, industry, macroeconomic and political factors. For each of these drivers, they survey a wide variety of sources to determine investor expectations.

The universe is defined as securities that have a minimum market cap of $1.0 billion, are covered by 1 or more brokerage analysts and have liquidity of over $5 MM/day. About 80% of Axiom's new ideas are typically identified as a consequence of specific, positive, fundamental developments in a company's operations (e.g., favorable sales of a new product, a significant restructuring initiative or a change in industry conditions). Axiom also screens the investment universe on a variety of financial and technical factors to help identify new ideas for further detailed fundamental analysis. These factors include positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics.

Performance

Referring to Exhibit 1, as of July 31, 2021, since the portfolio's inception date of May 1, 2014, the portfolio has outperformed its benchmark by 2.40% (8.40% vs 2.40%). Over the past year, ended July 31, 2021, the portfolio has outperformed the benchmark by 3.04% (23.68% vs. 20.64%). Referring to Exhibit 2 and comparing the portfolio to its peer group, since inception of the Axiom portfolio ended June 30, 2021, the portfolio ranked in the 21st percentile among its peers and outperformed the benchmark by 2.29%. In the trailing one-year ended June 30, 2021, the portfolio ranked in the 45th percentile in its peer group outperforming its benchmark by 3.49%. Since inception, ended July 31, 2021, the information ratio was 0.76 and active risk, as measured by tracking error was 3.19%.

Referring to Exhibit 2, since inception, the portfolio has added value against its benchmark as the historical cumulative performance has been strongly positive over the past two years. The positive performance is primarily due to the portfolio's focus on growthy stocks in a period of time when growth stocks have been rewarded.

Fees

The portfolio has an asset-based fee of 0.62% annually. This fee ranks in the 25th percentile among its peers in the eVestment All Emerging Markets Equity Universe. In other words, 75% of the 421 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

Axiom has had some turnover in senior-level investment decision making roles and we believe that an ongoing Watch diligence status is warranted. The portfolio has outperformed the MSCI Emerging Markets Index over most trailing periods and importantly has added significant value since inception over the benchmark. NEPC continues to be a believer in the long-term efficacy of this strategy that focuses on understanding business fundamentals of companies that are growing faster than markets anticipate. NEPC recommends a contract extension for a period of one-year from the period of contract expiry and for the firm to remain on Watch status.

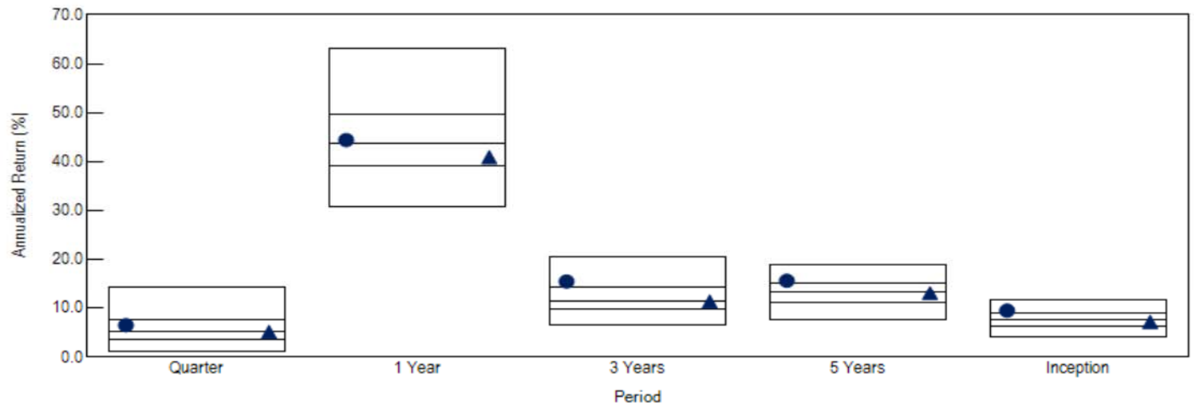
The following tables provide specific performance information, net of fees referenced above.

Exhibit 1: Net of Fee Performance

	Ending July 31, 2021 Market Value($)	3 Mo(%)	YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Inception(%)	Inception Date
Axiom Emerging Markets	410,107,713	-2.64	-0.47	23.68	12.49	13.08	8.40	14-May
MSCI Emerging Markets		-4.40	0.22	20.64	7.93	10.37	6.00	14-May
Excess		*1.76*	*-0.69*	*3.04*	*4.56*	*2.71*	*2.40*	

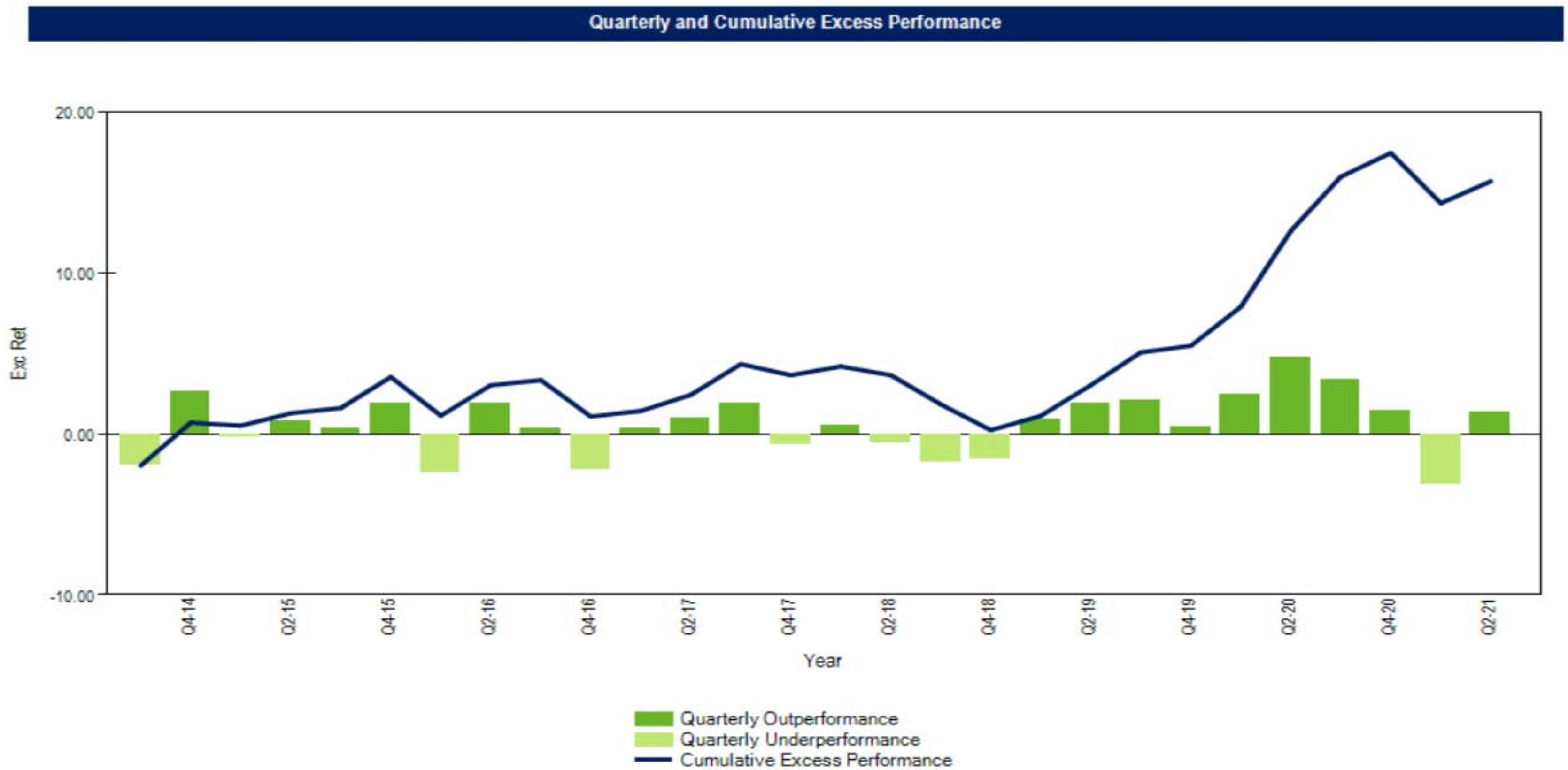
Exhibit 2: Universe Comparison Net of Fees

eV Emg Mkts Equity Net Return Comparison
Ending June 30, 2021



	Return (Rank)									
5th Percentile	14.39		63.09		20.41		18.85		11.59	
25th Percentile	7.42		49.57		14.20		15.18		8.86	
Median	5.15		43.76		11.23		13.13		7.60	
75th Percentile	3.46		39.02		9.57		11.14		6.28	
95th Percentile	1.04		30.86		6.33		7.54		3.94	
# of Portfolios	231		228		207		182		149	
● Axiom Emerging Markets	6.42	(36)	44.39	(45)	15.45	(20)	15.60	(22)	9.39	(21)
▲ MSCI Emerging Markets	5.05	(52)	40.90	(65)	11.27	(50)	13.03	(53)	7.10	(59)

Exhibit 3: Cumulative Excess Performance Net of Fees



CONTRACT EXTENSION
AXIOM INVESTORS, LLC
ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES
PORTFOLIO MANAGEMENT

PROPOSED RESOLUTION

WHEREAS, LACERS' current one-year contract extension with Axiom Investors, LLC (Axiom) for active non-U.S. emerging markets growth equities portfolio management expires on December 31, 2021; and,

WHEREAS, Axiom is currently "On Watch" for a benchmark change and organizational changes pursuant to the LACERS Manager Monitoring Policy; and,

WHEREAS, a one-year contract extension will provide the necessary time to evaluate Axiom's performance with its stated growth strategy relative to its benchmark as well as evaluate the organizational structure of the firm; and,

WHEREAS, on October 26, 2021, the Board approved the Investment Committee's recommendation to approve a one-year contract extension.

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

Company Name:	Axiom Investors, LLC
Service Provided:	Active Non-U.S. Emerging Markets Growth Equities Portfolio Management
Effective Dates:	January 1, 2022 through December 31, 2022
Duration:	One year
Benchmark:	MSCI Emerging Markets Index
Allocation as of September 30, 2021:	$401 million

October 26, 2021

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: November 8, 2022

Subject: Axiom Investors - Contract Extension

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System ('LACERS') extend their contract with Axiom for a period of one year from the date of contract expiry.

Background

Axiom was hired on April 11, 2014 to provide the Plan with public equity exposure to emerging markets. The portfolio's strategy is benchmarked against the MSCI Emerging Markets Index and has a performance inception date of May 1, 2014. As of September 30, 2022, Axiom managed $255.6 million, or 1.3% of Plan assets in a separately managed account. The performance objective is to outperform the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). In October of 2021, Axiom's "Watch" status was extended due to the retirement of their President, Kurt Polk. Prior to this change, the lead portfolio manager on the account left the firm for medical reasons in 2020 and was replaced by the Chief Investment Officer, Andrew Jacobson. Mr. Jacobson was the original architect of the strategy. Additionally, in July of 2020, the benchmark was changed from the MSCI Emerging Markets Growth Index to the broader MSCI Emerging Markets index. The benchmark change request was granted given the growing level of concentration in the growth index. The top ten names made up 45% of the index in April of 2020. The change in the benchmark has not resulted in a change to the portfolio's style or investment strategy.

Mr. Polk was not a member of the investment team or involved with the day-to-day management of client portfolios. His duties have been spread across the members of the firm's Executive Committee. Additional support personnel have also been hired to further support the distinct departments that now handle Mr. Polk's previous responsibilities. Mr. Polk was also not a member of the investment team involved with the day-to-day management of LACERS' portfolio. We are comfortable with how the firm is faring post Mr. Polk's retirement.

With the rotation from growth stocks to value stocks that started at the end of 2021, the portfolio's performance has trailed the broad emerging market benchmark. Given the growth nature of the portfolio, in this market environment we expect that the Axiom portfolio will trail the benchmark. The portfolio's recent performance trails the benchmark and peers.

The current structure of LACERS' total emerging market equity exposure includes an anchor index portfolio, coupled with two style-specific active portfolios including Axiom (growth) and DFA (value). Further, the emerging markets allocation is augmented with an active small cap portfolio with a growth orientation. We note that most active managers have the ability to outperform the MSCI

Emerging Markets index over longer periods of time and we are supportive of maintaining the current structure.

Firm Overview

Axiom is an independent, employee-owned investment management firm with 24 equity partners and it was founded in 1998 by Andrew Jacobson. As of September 30, 2022 the firm had $15.4 billion in assets under management. Prior to forming Axiom, the investment team was responsible for developing and managing the international equity strategy at Columbus Circle Investors, a division of PIMCO Advisors LP. The Axiom Emerging Markets team is currently co-led by Andrew Jacobson with three co-Portfolio Managers. Don Elefson and Jose Gerardo Morales have been on the team overseeing the strategy since 2012 and 2017 respectively. Young Kim joined the emerging markets team as co-Portfolio manager in the first quarter of 2021. The portfolio managers split the research coverage by geographic region and they leverage a shared research platform across all of Axiom's non-U.S. equity products.

The Axiom investment philosophy is to invest in quality companies that are growing and evolving better and more rapidly than expected. Critical to the investment process is the ability to identify these changes in growth, prior to them being reflected in expectations or market valuations. Axiom employs a bottom-up, growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The primary emphasis is to isolate those companies that are likely to exceed expectations, which they do by identifying and monitoring the key business drivers of each stock. They believe key business drivers are the leading indicators of stock price performance. Key drivers can include company specific, industry, macroeconomic and political factors. For each of these drivers, they survey a wide variety of sources to determine investor expectations.

The universe is defined as securities that have a minimum market cap of $1.0 billion, are covered by 1 or more brokerage analysts and have liquidity of over $5 MM/day. About 80% of Axiom's new ideas are typically identified as a consequence of specific, positive, fundamental developments in a company’s operations (e.g., favorable sales of a new product, a significant restructuring initiative or a change in industry conditions). Axiom also screens the investment universe on a variety of financial and technical factors to help identify new ideas for further detailed fundamental analysis. These factors include positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics.

Performance

Referring to Exhibit 1, as of September 30, 2022, since the portfolio’s inception date of May 1, 2014, the portfolio has outperformed its benchmark by 0.4% and has ranked in the 51st percentile in its peer group. Over the past year, ended September 30, 2022, the portfolio has underperformed the benchmark by -8.1% and ranked in the 94th percentile in its peer group. Since inception, ended September 30, 2022, the information ratio was 0.13 and active risk, as measured by tracking error was 3.9%.

Referring to Exhibit 2, since inception, the cumulative effect of the strong underperformance over last five quarters performance has resulted in Axiom’s portfolio underperforming in the trailing one, three and five years. Underperformance in the portfolio began with the rotation from growth to value toward the last half of 2021 and more recently portfolio underperformance was driven by security selection with the portfolio experiencing adverse effects from the supply shock caused by the war in Europe.

Fees

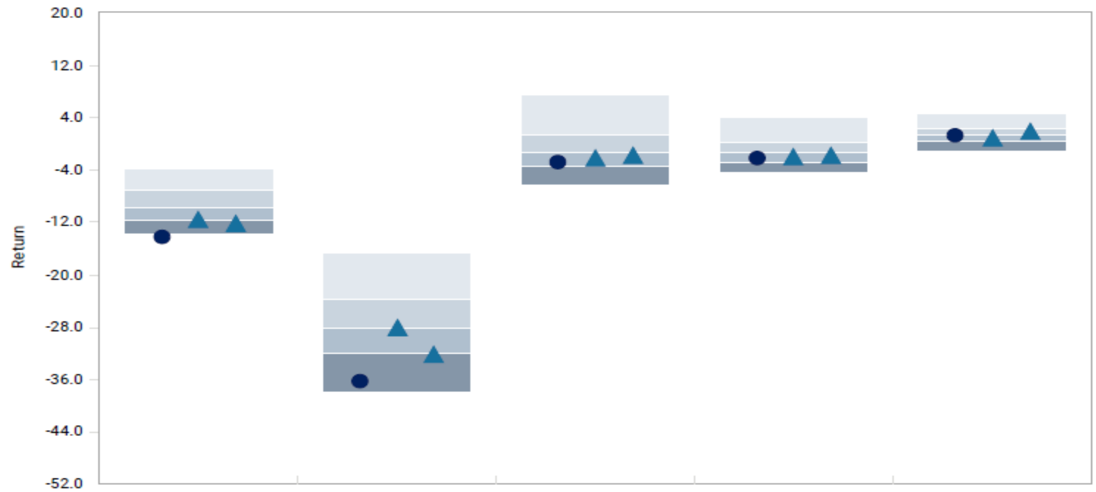
The portfolio has an asset-based fee of 0.60% annually. This fee ranks in the 22nd percentile among its peers in the eVestment All Emerging Markets Equity Universe. In other words, 78% of the products included in the peer universe have a higher fee than the LACERS account.

Conclusion

Axiom has experienced turnover in senior-level management and investment decision making roles and we believe the firm has demonstrated their ability to continue to manage the firm and LACERS portfolio. The portfolio has outperformed the MSCI Emerging Markets Index since inception, however, over most trailing time-periods evaluated the portfolio has underperformed due to weak performance over the last five quarters. NEPC continues to be a believer in the long-term efficacy of this strategy that focuses on understanding business fundamentals of companies that are growing faster than markets anticipate. Axiom has been removed from “Watch” status.

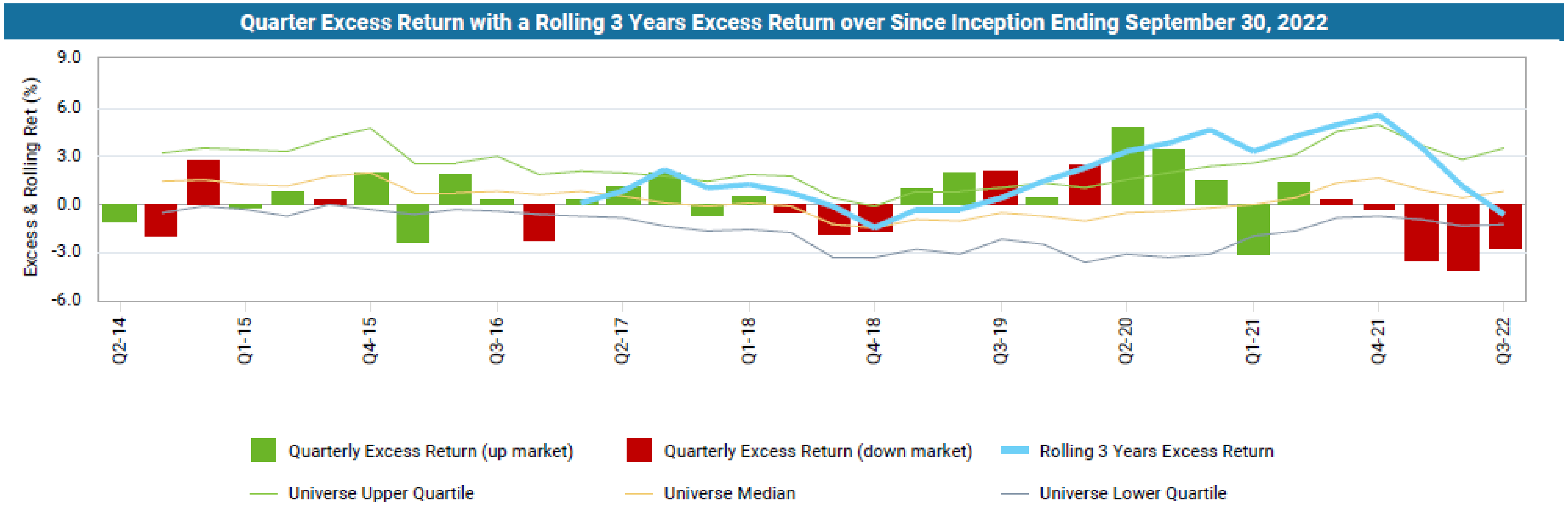
The following tables provide specific performance information, net of fees referenced above.

Exhibit 1: Universe Comparison Net of Fees Ending September 30, 2022



	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)
● Axiom Emerging Markets	-14.3 (98)	-36.2 (94)	-2.7 (70)	-2.1 (64)	1.3 (51)
▲ *MSCI Emerging Markets (Net)*	*-11.6 (73)*	*-28.1 (51)*	*-2.1 (62)*	*-1.8 (61)*	*0.9 (65)*
▲ *MSCI Emerging Markets Growth (Net)*	*-12.1 (81)*	*-32.1 (76)*	*-1.7 (59)*	*-1.6 (57)*	*2.1 (31)*
5th Percentile	-3.7	-16.7	7.5	4.1	4.7
1st Quartile	-7.0	-23.7	1.5	0.4	2.4
Median	-9.8	-28.1	-1.2	-1.3	1.4
3rd Quartile	-11.8	-32.0	-3.3	-2.6	0.6
95th Percentile	-13.7	-37.8	-6.2	-4.3	-1.1
Population	319	314	286	252	196

Exhibit 2: Cumulative Excess Performance Net of Fees Ending September 30, 2022



To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: November 14, 2023

Subject: Axiom Investors – Contract Extension

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) extend their contract with Axiom for a period of one year from the date of contract expiry. Last month NEPC attended two separate onsite meetings at Axiom's offices. NEPC continues to support a 1-rating for the firm and the emerging market equity product. A rating of 1 represents the highest rating. NEPC believes the team is very capable and committed to implementing their growth philosophy.

Background

Axiom was hired on April 11, 2014 to provide the Plan with public equity exposure to emerging markets. The portfolio's strategy is benchmarked against the MSCI Emerging Markets Index and has a performance inception date of May 1, 2014. As of September 30, 2023, Axiom managed $268.4 million, or 1.2% of Plan assets in a separately managed account. The performance objective is to outperform the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years).

The firm has been on and off the "Watch" status for various reasons over the past few years. Their current Watch status was initiated earlier this year for performance reasons. In late 2021, Axiom's President retired and the firm elected to not replace him. His duties were spread across the members of the firm's Executive Committee. In 2020, one of the portfolio managers left the firm due to medical reasons and he was replaced by the Chief Investment Officer, Andrew Jacobson. Mr. Jacobson was the original architect of the strategy. Starting in August of 2020, the benchmark was changed from the MSCI Emerging Markets Growth index to the broader MSCI Emerging Markets index. The benchmark change request was granted given the growing level of concentration in the growth index. The change to the benchmark did not result in a change to the portfolio's style or investment strategy.

The current structure of LACERS' total emerging market equity exposure includes an anchor index portfolio, coupled with two style-specific active portfolios including Axiom (growth) and DFA (value). The emerging markets allocation is rounded out with an active small cap growth portfolio. Emerging markets is an asset class where we see the majority of active managers outperforming the MSCI Emerging Markets index over longer periods of time. We are supportive of maintaining the current structure.

Firm Overview

Axiom is an independent, employee-owned investment management firm with 26 equity partners and it was founded in 1988 by Andres Jacobson. Firm assets under management (AUM) as of September 30, 2023, were $16.8 billion which is down from the firm's peak AUM of $19.8 billion that occurred on June 30, 2021. The Emerging Markets Equity strategy had an AUM of $4.9 billion, which is down from the strategy's peak AUM of $8.9 billion as of June 30, 2021.

The firm had a difficult year in 2022 as not only were markets down, but growth strategies were down significantly more than value and core strategies. Despite these headwinds, the team has seen net inflows into the firm. Most of the asset flow has gone into the global equity strategy. They have recently been added as a sub-advisor to a John Hancock mutual fund using their US Small Cap strategy. Outflows so far in 2023 have been most pronounced in the Emerging Markets product.

The Axiom Emerging Markets team is currently co-led by Andrew Jacobson and three co-Portfolio Managers. Don Elefson and Jose Gerardo Morales have been on the team overseeing the strategy since 2012 and 2017 respectively. Young Kim joined the emerging markets team as co-Portfolio manager in early 2021. The portfolio managers split the research coverage by geographic region and they leverage a shared research platform across all of Axiom's non-U.S. equity products.

The Axiom investment philosophy is to invest in quality companies that are growing and evolving better and more rapidly than expected. Critical to the investment process is the ability to identify these changes in growth, prior to them being reflected in expectations or market valuations. Axiom employs a bottom-up, growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The primary emphasis is to isolate those companies that are likely to exceed expectations, which they do by identifying and monitoring the key business drivers of each stock. They believe key business drivers are the leading indicators of stock price performance. Key drivers can include company specific, industry, macroeconomic and political factors. For each of these drivers, they survey a wide variety of sources to determine investor expectations.

Performance

Referring to Exhibit 1, as of September 30, 2023, since inception (May 1, 2014) the portfolio has trailed the blended benchmark. Over the past year ending September 30 2023, the portfolio has underperformed the benchmark by 670 basis points and ranked in the 94th percentile of its peer group.

Referring to Exhibit 2, the portfolio has exhibited many calendar years of strong performance versus peers and its benchmark. However, performance in 2021, 2022 and year-to-date 2023 trailed peers and the benchmark as this time period has been particularly unkind to growth stocks.

The team does not believe the underperformance is a sign of a larger structure issue with their investment philosophy. They believe the market environment has been difficult for the types of stocks they own. For example, it has been difficult to get a good grasp on Chinese equities because the leadership in China has oscillated numerous times over the past few years. Dynamic Growth companies have not been rewarded in China and they have seen cyclical and State-Owned Enterprises (SOEs) being rewarded. Today they are seeing geopolitical factors playing a much larger role in the emerging markets space. The team believes markets will calm down eventually and focus on the fundamentals of companies, which should bode well for their portfolios.

Fees

The portfolio has an asset-based fee of 0.60% annually. This fee ranks in the 24th percentile among its peers in the eVestment All Emerging Markets Equity universe. In other words, 76% of the products included in the peer universe have a higher fee than the LACERS Account. Furthermore, we compared LACERS' fee to a smaller universe consisting of Emerging Markets Growth managers and the relative ranking improved to the 15th percentile.

Conclusion

NEPC believes the investment team is extremely capable and exhibited their deep commitment to implementing the team's growth investment philosophy. Despite the recent underperformance of the strategy, the team remains committed to their investment philosophy and feel that the most recent market environment is one where their investment philosophy would underperform. They believe their strategy will have difficulty in environments where there are drastic rotations out of growth stocks into value stocks. This type of environment tends to favor cyclical stocks that have less sustainable earnings growth than the Axiom team is looking for in companies. Finally, the strategy will have difficulty in markets driven by extreme policy intervention which has historically discounted typical earnings drivers and caused rotations into distressed stocks.

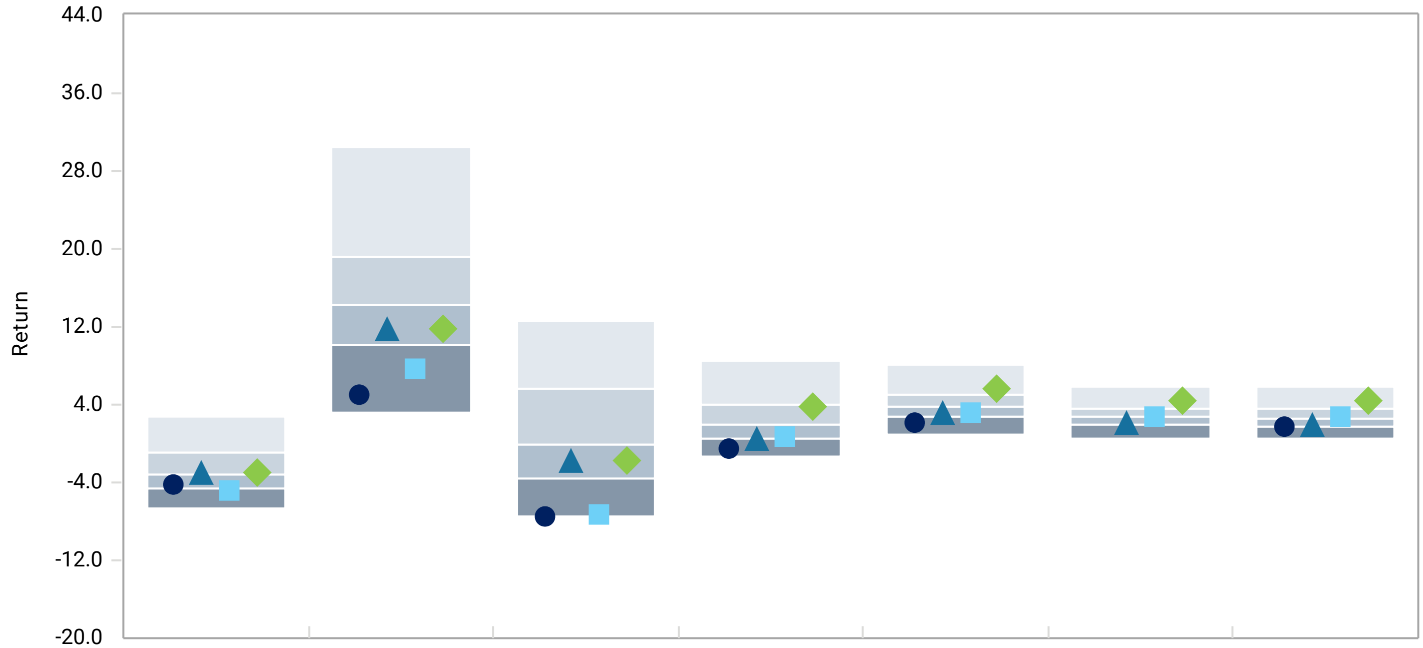
The following tables provide specific performance information, net of fees referenced above.

Los Angeles City Employees' Retirement System

September 30, 2023

AXIOM EMERGING MARKETS

Axiom Emerging Markets vs. eV Emg Mkts Equity



	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)
Axiom Emerging Markets	-4.1 (67)	5.0 (94)	-7.6 (96)	-0.4 (88)	2.2 (84)		1.7 (77)
MSCI Emerging Markets (Net)	*-2.9 (47)*	*11.7 (65)*	*-1.7 (61)*	*0.6 (74)*	*3.2 (64)*	*2.1 (70)*	*2.0 (71)*
MSCI Emerging Markets Growth (Net)	*-4.9 (78)*	*7.7 (88)*	*-7.2 (94)*	*0.6 (73)*	*3.3 (63)*	*2.8 (45)*	*2.7 (49)*
Axiom Custom Blended BM	*-2.9 (47)*	*11.7 (65)*	*-1.7 (61)*	*3.7 (28)*	*5.6 (20)*	*4.4 (16)*	*4.4 (17)*
5th Percentile	2.9	30.4	12.6	8.4	8.1	5.9	5.8
1st Quartile	-1.0	19.1	5.6	4.0	5.1	3.6	3.6
Median	-3.2	14.3	-0.2	1.9	3.7	2.7	2.7
3rd Quartile	-4.7	10.2	-3.5	0.5	2.8	1.9	1.8
95th Percentile	-6.6	3.3	-7.5	-1.3	0.9	0.6	0.6
Population	431	423	391	346	303	245	257

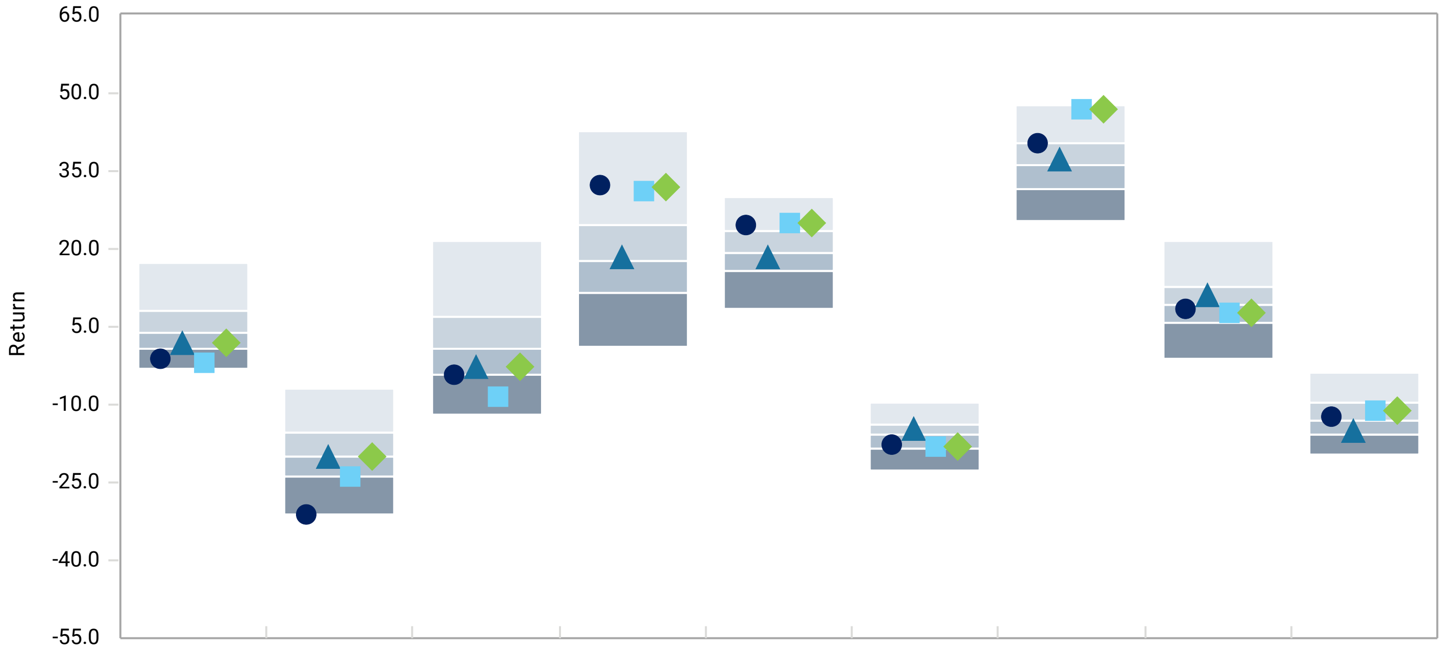
Since inception of 5/1/2014

Los Angeles City Employees' Retirement System

September 30, 2023

AXIOM EMERGING MARKETS

Axiom Emerging Markets vs. eV Emg Mkts Equity



	YTD (%)	2022	2021	2020	2019	2018	2017	2016	2015
● Axiom Emerging Markets	-1.1 (88)	-31.2 (95)	-4.3 (76)	32.5 (13)	24.7 (19)	-17.6 (69)	40.6 (25)	8.4 (55)	-12.4 (45)
▲ *MSCI Emerging Markets (Net)*	*1.8 (65)*	*-20.1 (51)*	*-2.5 (68)*	*18.3 (47)*	*18.4 (57)*	*-14.6 (34)*	*37.3 (41)*	*11.2 (36)*	*-14.9 (67)*
■ *MSCI Emerging Markets Growth (Net)*	*-1.8 (91)*	*-24.0 (76)*	*-8.4 (89)*	*31.3 (14)*	*25.1 (18)*	*-18.3 (75)*	*46.8 (7)*	*7.6 (62)*	*-11.3 (36)*
◆ *Axiom Custom Blended BM*	*1.8 (65)*	*-20.1 (51)*	*-2.5 (68)*	*32.0 (13)*	*25.1 (18)*	*-18.3 (75)*	*46.8 (7)*	*7.6 (62)*	*-11.3 (36)*
5th Percentile	17.4	-6.8	21.4	42.6	29.8	-9.7	47.6	21.6	-3.9
1st Quartile	8.0	-15.3	7.0	24.7	23.6	-13.7	40.4	12.8	-9.7
Median	3.8	-20.1	0.6	17.8	19.3	-15.9	36.2	9.2	-13.0
3rd Quartile	0.9	-23.9	-4.3	11.6	15.8	-18.4	31.4	5.7	-15.7
95th Percentile	-3.1	-31.2	-11.9	1.0	8.5	-22.8	25.3	-1.2	-19.7
Population	426	453	466	464	473	449	437	426	408

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

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

MEETING: NOVEMBER 14,2023
ITEM: VI

SUBJECT: **CONTINUED DISCUSSION OF PROPOSED INVESTMENT POLICY REGARDING PRIVATE CREDIT INVESTMENTS AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee consider and provide comments regarding the proposed Private Credit Investment Policy.

Discussion

The Board approved a new asset allocation on May 11, 2021, that expanded LACERS' exposure to private credit over time to a new target of 5.75% from 3.75%. The expansion of the private credit program, based on attractive expected return assumptions, called for increased exposure into higher yielding strategies such as opportunistic or distressed lending to achieve improved portfolio yield and resilience under a variety of market conditions. To assist with the development of this portfolio, the Board authorized a search for a private credit consultant which concluded with the selection of Aksia LLC (Aksia).

On September 12, 2023, the Committee considered a draft policy revision with a non-discretionary manager selection process, wherein the process for selecting funds would consist of a recommendation by the private credit consultant and staff for approval by the LACERS Board. The Committee was supportive of this policy recommendation, but wished to consider an alternative policy consistent with industry best practices that would provide discretion to staff and the private credit consultant. This proposal would make the private credit manager selection process similar to the existing private equity discretion in-a-box model. The advantages of this approach include a potential for receiving first close discounts, increasing likelihood of receiving the full allocation requested during the commitment process, and improving access to funds that are in high demand with truncated closing deadlines.

The proposed attached policy authorizes Staff, in conjunction with the Private Credit Consultant, to effect investments in amounts up to and including $150 million. Aksia has determined that this amount is consistent with: LACERS program size; prudent risk management that limits exposure to individual underlying portfolio companies; and fund sizes available in the market. While it will be infrequent that LACERS will need to consider investments exceeding this amount, the policy includes Board approval of any investment exceeding $150 million.

In order to clarify the proposed policy amendments, staff made subsequent changes to the following sections in the investment policy: 1) Credit Opportunities; 2) Emerging Managers; 3) Private Credit; and 4) Private Equity.

Strategic Plan Impact Statement

The Private Credit Investment Policy assists LACERS in building a diversified private credit portfolio to help the fund optimize long-term risk adjusted returns (Goal IV). Development of a detailed policy with key risk guidelines is also consistent with Goal V (uphold good governance which affirm transparency, accountability, and fiduciary duty.)

Prepared By: Clark Hoover, Investment Officer I, Investments Division

NMG/RJ/WL/CH:rm

Attachments:
1. Proposed Investment Policy Statement Changes (Redlined Version)
2. Proposed Investment Policy Statement Changes (Clean Version)

(2) No more than 40%, in aggregate, invested in securities of non-U.S. issuers.
(3) No more than 20% of the portfolio invested in loans or bonds that are not first lien secured debt and no more than 10% invested in non-secured debt.
(4) No more than 30% of the portfolio's holdings in loans or bonds with a Moody's issue rating of Caa1 or lower.
(5) No securities shall be purchased on margin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

~~*Direct Lending*~~

~~(1) Portfolio will consist of low-to-middle market (<$75 million EBITDA) senior secured or unitranche direct loans.~~

~~(2) At least 70% of the portfolio will be invested in senior secured loans.~~

~~(3) No more than 10% of the portfolio will be invested in unitranche loans.~~

Private Credit

This portfolio is expected to provide portfolio diversification and additional return to the System's portfolio. Examples of private credit holdings will include direct lending, specialty finance, distressed debt / special situations, mezzanine, real estate credit, and real assets credit. The Private Credit Investment Policy is within Section X of this document.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, ~~distressed debt,~~ and special situations funds. The Private Equity Investment Policy is within Section ~~X~~XI of this document.

D. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

Section 4 EMERGING INVESTMENT MANAGER POLICY

f) Maximum LACERS' Allocation: At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Real Assets (not including Real Estate), Credit Opportunities*

a) Institutional Fund: First-, second-, or third-time institutional fund for a General Partner.

b) Maximum Fund Size: A first-time institutional fund for private equity or venture capital may have investor commitments of no more than $750 million, $1 billion for a second-time institutional fund, and $1.25 billion for a third-time institutional fund. A first-time institutional fund for private credit may have investor commitments of no more than $1 billion, $1.5 billion for a second-time institutional fund, and $2.0 billion for a third-time institutional fund.

c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's committed capital.*

g) Minimum Fund Size: The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.* For a venture capital fund strategy, the Fund shall have a minimum fund size of $75 million in committed capital inclusive of LACERS' pending commitment.*

h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower.

**Excludes co-investments or sidecar investment vehicles.*

3. Private Market Asset Class – *Private Real Estate*

a) Institutional Fund: First-, second-, or third-time institutional fund for a given General Partner.

b) Maximum Fund Size: The institutional fund may have investor commitments of no more than $2 billion.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

X. PRIVATE CREDIT INVESTMENT POLICY

A. Introduction

This Private Credit Investment Policy ("Private Credit Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private credit, including direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private credit.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private credit portfolio ("Private Credit Portfolio") is 200 bps over the CS Leveraged Loan Total Return Index net of fees, expenses, and carried interest.

Returns are measured over the life of the portfolio and become meaningful for periods past the J-Curve. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private Credit investments are generally illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Credit Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Credit Consultant, with Staff concurrence, shall propose new investments, monitor and advise on the sale of existing Private Credit investments and provide recommendations and program advice in accordance with the Private Credit Policy. The Private Credit Policy establishes the framework for the management of the Private Credit Portfolio. The Private Credit Consultant will be evaluated annually as consultant for the Private Credit Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private Credit asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected Private Credit related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

The Private Credit Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F. With a recommendation from the Private Credit Consultant, Staff may effect investments in partnerships and new commitments in managed accounts up to and including $150 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to Private Credit partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Credit Consultant. However, non-U.S. dollar commitments to Private Credit partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs),special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

a) Private credit partnerships – Investments in direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private credit or private equity fund in which the limited partner has also invested. Therefore, the Private Credit Consultant will monitor co-investments for concentration risk and recommend adjustments in the private credit portfolio as needed in order to adequately manage such risk. The Private Credit Consultant will address concentration risk in the Annual Private Credit Strategic Plan.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel), and break-up fees on potential co-investments.

The estimated magnitude of these items shall be reasonable and consistent with industry standards.

c) Secondary market purchases – Purchases of private credit related interests inwhich one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on potential secondary transactions. The estimated magnitude of these items shall be reasonable and consistent with industry standards.

d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).

e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Credit Consultant.

2. Limitation on Percent of Partnership's Total Commitment

LACERS' commitment to any given partnership shall not exceed 15% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. This limitation shall not apply to specially constructed partnerships (such as a fund of one or two); or separately managed accounts (SMAs) where LACERS is the sole limited partner.

3. Diversification

LACERS will seek to appropriately diversify the Private Credit Portfolio in order to manage risk based on the following guidelines:

a) New commitments may not cause exposure to any one manager to be more than 30% of the Private Credit target allocation.

b) New commitments may not cause exposure to any single comingled fund to be more than 15% of the Private Credit target allocation.

c) Up to 25% of the Private Credit Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

d) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio across vintage years when possible.

e) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio with respect to geographic distribution.

f) The Private Credit Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure with the understanding that

Section 5 PRIVATE CREDIT INVESTMENT POLICY

industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

In addition to the diversification criteria listed above, LACERS' Board will adopt optimal sub-asset allocation targets, which will be updated pursuant to the Annual Private Credit Strategic Plan.

4. **Leverage**

LACERS may consider funds which utilize fund or strategy level leverage. As leverage is a significant risk factor, it must be considered as part of each investment and evaluated on a case-by-case basis.

5. **Illiquidity**

Private credit investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the general partner, subject to the provisions of the partnership agreement, decides to sell fund investments and distribute proceeds to limited partners.

6. **Distributions**

Staff is responsible for managing the final disposition of distributions from partnerships.

E. **Review of Investment Guidelines**

The Private Credit Consultant and Staff periodically will review the above private credit investment guidelines at least once every three years and recommend changes if necessary.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Credit Consultant
Strategy/Policy	• Select Private Credit Consultant. • Approve asset class funding level. • Review and approve the Private Credit Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Credit Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Credit Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Credit Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private credit fund investment(s). • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Credit Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Credit Consultant, invest up to and including $150 million in partnerships without Board approval. If Staff opposes and Private Credit Consultant disagrees, refer to Board for decision. • In conjunction with Private Credit Consultant, make recommendations to Board for approval for investments over $150 million. • In conjunction with Private Credit Consultant, review and concur with approval of sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments exceeding $150 million. • Propose investments of up to and including $150 million for Staff concurrence. • Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • Provide investment analysis reports for each new investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

XI. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

~~A. Introduction~~

This Private Equity Investment Policy ("Private Equity Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private equity, including corporate finance/buyout, special situations (including ~~distressed debt~~, distressed turnaround ~~and mezzanine strategies~~), venture capital and growth equity, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private equity.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private equity portfolio ("Private Equity Portfolio") is to outperform the Cambridge Associates Global Private Equity and Venture Capital Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section ~~X~~XI.D.3 below) and due diligence.

~~B.~~A. ~~Scope~~

C. Scope

The Private Equity Consultant, with Staff concurrence, shall ~~select~~propose new investments, monitor and advise on the sale of existing private equity investments, and provide recommendations and program advice in accordance with the Private Equity Policy. The Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and

LACERS Investment Staff ("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected private equity related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Equity Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section ~~X~~XI.F. With Staff concurrence on a recommendation from the Private Equity Consultant, LACERS may effect investments in partnerships up to and including $150 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to private equity partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. However, non-U.S. dollar commitments to private equity partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

~~C.~~D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs), special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

a) Private equity partnerships – Investments in corporate finance/buyout, special situations, venture capital and growth equity, secondaries, and co-investment funds. Special situations is a broad investment strategy, which includes ~~mezzanine~~investments that arise from unique circumstances such as bankruptcies, restructurings, and ~~distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage partnerships~~spin-offs;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

   Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

   Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private

(2) No more than 40%, in aggregate, invested in securities of non-U.S. issuers.
(3) No more than 20% of the portfolio invested in loans or bonds that are not first lien secured debt and no more than 10% invested in non-secured debt.
(4) No more than 30% of the portfolio's holdings in loans or bonds with a Moody's issue rating of Caa1 or lower.
(5) No securities shall be purchased on margin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

Private Credit

This portfolio is expected to provide portfolio diversification and additional return to the System's portfolio. Examples of private credit holdings will include direct lending, specialty finance, distressed debt / special situations, mezzanine, real estate credit, and real assets credit. The Private Credit Investment Policy is within Section X of this document.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, and special situations funds. The Private Equity Investment Policy is within Section XI of this document.

D. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;
2. Inflation hedge;
3. Diversification versus LACERS' two main asset classes: equities and bonds; and,
4. Income

f) Maximum LACERS' Allocation: At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Real Assets (not including Real Estate), Credit Opportunities*

a) Institutional Fund: First-, second-, or third-time institutional fund for a General Partner.

b) Maximum Fund Size: A first-time institutional fund for private equity or venture capital may have investor commitments of no more than $750 million, $1 billion for a second-time institutional fund, and $1.25 billion for a third-time institutional fund. A first-time institutional fund for private credit may have investor commitments of no more than $1 billion, $1.5 billion for a second-time institutional fund, and $2.0 billion for a third-time institutional fund.

c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's committed capital.*

g) Minimum Fund Size: The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.* For a venture capital fund strategy, the Fund shall have a minimum fund size of $75 million in committed capital inclusive of LACERS' pending commitment.*

h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower.

**Excludes co-investments or sidecar investment vehicles.*

3. Private Market Asset Class – *Private Real Estate*

a) Institutional Fund: First-, second-, or third-time institutional fund for a given General Partner.

b) Maximum Fund Size: The institutional fund may have investor commitments of no more than $2 billion.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

X. PRIVATE CREDIT INVESTMENT POLICY

A. Introduction

This Private Credit Investment Policy ("Private Credit Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private credit, including direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private credit.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private credit portfolio ("Private Credit Portfolio") is 200 bps over the CS Leveraged Loan Total Return Index net of fees, expenses, and carried interest.

Returns are measured over the life of the portfolio and become meaningful for periods past the J-Curve. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private Credit investments are generally illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Credit Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Credit Consultant concurrence, with Staff concurrence, shall propose new investments, monitor and advise on the sale of existing Private Credit investments and provide recommendations and program advice in accordance with the Private Credit Policy. The Private Credit Policy establishes the framework for the management of the Private Credit Portfolio. The Private Credit Consultant will be evaluated annually as consultant for the Private Credit Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private Credit asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected Private Credit related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

The Private Credit Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F. With a recommendation from the Private Credit Consultant, Staff may effect investments in partnerships and new commitments in managed accounts up to and including $150 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to Private Credit partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Credit Consultant. However, non-U.S. dollar commitments to Private Credit partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs),special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

a) Private credit partnerships – Investments in direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private credit or private equity fund in which the limited partner has also invested. Therefore, the Private Credit Consultant will monitor co-investments for concentration risk and recommend adjustments in the private credit portfolio as needed in order to adequately manage such risk. The Private Credit Consultant will address concentration risk in the Annual Private Credit Strategic Plan.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel), and break-up fees on potential co-investments.

The estimated magnitude of these items shall be reasonable and consistent with industry standards.

c) Secondary market purchases – Purchases of private credit related interests inwhich one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on potential secondary transactions. The estimated magnitude of these items shall be reasonable and consistent with industry standards.

d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).

e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Credit Consultant.

2. **Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 15% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. This limitation shall not apply to specially constructed partnerships (such as a fund of one or two); or separately managed accounts (SMAs) where LACERS is the sole limited partner.

3. **Diversification**

LACERS will seek to appropriately diversify the Private Credit Portfolio in order to manage risk based on the following guidelines:

a) New commitments may not cause exposure to any one manager to be more than 30% of the Private Credit target allocation.

b) New commitments may not cause exposure to any single comingled fund to be more than 15% of the Private Credit target allocation.

c) Up to 25% of the Private Credit Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

d) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio across vintage years when possible.

e) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio with respect to geographic distribution.

f) The Private Credit Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

In addition to the diversification criteria listed above, LACERS' Board will adopt optimal sub-asset allocation targets, which will be updated pursuant to the Annual Private Credit Strategic Plan.

4. **Leverage**

LACERS may consider funds which utilize fund or strategy level leverage. As leverage is a significant risk factor, it must be considered as part of each investment and evaluated on a case-by-case basis.

5. **Illiquidity**

Private credit investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the general partner, subject to the provisions of the partnership agreement, decides to sell fund investments and distribute proceeds to limited partners.

6. **Distributions**

Staff is responsible for managing the final disposition of distributions from partnerships.

E. **Review of Investment Guidelines**

The Private Credit Consultant and Staff periodically will review the above private credit investment guidelines at least once every three years and recommend changes if necessary.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Credit Consultant
Strategy/Policy	• Select Private Credit Consultant. • Approve asset class funding level. • Review and approve the Private Credit Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Credit Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Credit Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Credit Consultant’s recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private credit fund investment(s). • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

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Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Credit Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Credit Consultant, invest up to and including $150 million in partnerships without Board approval. If Staff opposes and Private Credit Consultant disagrees, refer to Board for decision. • In conjunction with Private Credit Consultant, make recommendations to Board for approval for investments over $150 million. • In conjunction with Private Credit Consultant, review and concur with approval of sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments exceeding $150 million. • Propose investments of up to and including $150 million for Staff concurrence. • Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • Provide investment analysis reports for each new investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

XI. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

This Private Equity Investment Policy ("Private Equity Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private equity, including corporate finance/buyout, special situations (including distressed turnaround), venture capital and growth equity, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private equity.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private equity portfolio ("Private Equity Portfolio") is to outperform the Cambridge Associates Global Private Equity and Venture Capital Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section XI.D.3 below) and due diligence.

C. Scope

The Private Equity Consultant, with Staff concurrence, shall propose new investments, monitor and advise on the sale of existing private equity investments, and provide recommendations and program advice in accordance with the Private Equity Policy. The Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff ("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected private equity related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Equity Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section XI.F. With Staff concurrence on a recommendation from the Private Equity Consultant, LACERS may effect investments in partnerships up to and including $150 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to private equity partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. However, non-U.S. dollar commitments to private equity partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs), special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

a) Private equity partnerships – Investments in corporate finance/buyout, special situations, venture capital and growth equity, secondaries, and co-investment funds. Special situations is a broad investment strategy, which includes investments that arise from unique circumstances such as bankruptcies, restructurings, and spin-offs;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private equity fund in which the limited partner has also invested. Therefore, the Private Equity Consultant will monitor co-investments for concentration risk and recommend adjustments in the private equity portfolio as needed in order

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: NOVEMBER 14, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: VII**

SUBJECT: **INVESTMENT PROGRAM GOVERNANCE AND REVIEW PROCESSES AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee review existing Investment Program governance and review processes and consider changes and make appropriate recommendations to the Board.

Executive Summary

At the Investment Committee meeting of September 12, 2023, the Committee directed staff to review the existing Investment Program governance practices and processes to determine alternative approaches and processes that could lead to a more time- and impact-effective oversight of the Investment Program.

Discussion

Background
LACERS manages a $21 billion comprehensive investment portfolio for the exclusive benefit of its retirees and beneficiaries. The Board of Administration retains plenary authority over plan assets, and directs such assets to be invested pursuant to its investment policies through a variety of investment practices to help generate attractive risk-adjustment performance to pay plan benefits and defraying expenses.

The Board delegates certain investment responsibilities to the Committee pursuant to the LACERS Investment Policy Manual (Duties of the Board or its Designate(s) codified in Section III.A.9. In addition, the Investment Committee Charter (Charter), initially adopted by the Board on March 28, 2017, establishes the Committee's governance framework and outlines its responsibilities. Section V of the Charter requires the Committee and the Board to conduct a review of the Charter at least once every three years to ensure it remains appropriate. On March 24, 2020, and then again on May 9, 2023, the Committee conducted its routine review of the Charter; no changes were recommended by the Committee during both reviews.

In light of time commitment demands of the Committee and to ensure consideration of investment industry best practices with respect to governance and oversight, the Committee requested staff to review the current oversight and Investment Program governance practices and explore recommendations to create more efficiency and with respect to Committee oversight responsibilities.

In an Investment Committee research paper written by investment consultant, RVK, Inc., titled "Investment Committee Best Practices[1]", Investment Committees are tasked with several major governance challenges including defining its scope of authority, selection of committee members, maintaining strategic continuity, and decision making and execution, which the last challenge in the paper makes one particular key point: "Never underestimate the value of brevity."

In staff's quest to meet the Investment Committee's direction to evaluate its current governance practices and to seek possible approaches that create a more time-efficient and impactful Investment Committee, staff reviewed the Investment Committee Charter, the Investment Policy Manual, and Board practices as a basis for assessing current and proposed oversight practices. Further, staff considered time and Committee resources without sacrificing the Board's fiduciary duties.

Staff recommends that the Investment Committee evaluate the information contained in this matrix and consider staff recommendations.

Strategic Plan Impact Statement

Consideration and evaluating the Committee's review of existing Investment Program policies and practices aligns with the Strategic Plan Goal to uphold good governance practices that affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Rod June, Chief Investment Officer, Investment Division

NMG/RJ/WL/EC:jp

Attachments:
1. Investment Program Governance Practices Matrix
2. Investment Committee Charter

[1] *Investment Committee Best Practices*, RVK,Inc., February 2015

Item	Oversight Category	Oversight Activity	CURRENT INVESTMENT COMMITTEE OVERSIGHT OF INVESTMENT PROGRAM: Authority or Source of Current Practice	Frequency	Est. Time Commitment	Frequency	Requires IC Action?	INVESTMENT COMMITTEE PROPOSED OVERSIGHT RECOMMENDATIONS: Staff Recommended Proposed Practice (Proposed Changes in Red Font)	Est. Annual Time Savings	Board or IC Action to Effectuate Change
1	Policy/Strategy	Review Policy Manual/Asset Allocation	IC Charter	Annual/Ad Hoc	30-60 minutes	Varies	Yes	Continue Existing Practice	N/A	None
2	Policy/Strategy	Benchmark Reviews	IC Charter	Ad Hoc	30-60 minutes	Varies	Yes	Continue Existing Practice	N/A	None
3	Policy/Strategy	Review Private Equity Strategic Plan	Historical Practice of IC	Annual	30-60 minutes	Annual	Yes	Continue Existing Practice	N/A	None
4	Policy/Strategy	Review Private Real Estate Strategic Plan	Historical Practice of IC	Annual	30-60 minutes	Annual	Yes	Continue Existing Practice	N/A	None
5	Policy/Strategy	Review Private Credit Strategic Plan (Pending)	Historical Practice of IC	Annual	30-60 minutes	Annual	Yes	Continue Existing Practice	N/A	None
6	Operational	Semi-Finalists Manager Candidate Approval	Historical Practice of IC	Ad Hoc	30-60 minutes	Varies	Yes	Delegate to Staff/Consultant	30-60 min.	Modify Specific RFP
7a	Operational	Conduct Manager Interviews & Selection	Historical Practice of IC	Ad Hoc	>2 hours	Varies	Yes	Delegate to Staff/Consultant	Up to 3 hrs	Modify Specific RFP
7b	Operational	Private Equity Manager Selection	Already Delegated	Ad Hoc	Already Delegated	N/A	No	Continue Existing Practice	N/A	None
7c	Operational	Private Real Estate Manager Selection	Historical Practice of IC	Ad Hoc	30-60 minutes	Varies	Yes	Delegate to Staff/Consultant	Up to 1 hr	None
7d	Operational	Private Credit Manager Selection	Pending	Ad Hoc	None (if delegated)	Pending	N/A	Pending Policy Approval	Up to 3 hrs	None
8	Operational	Manager Contract Renewals	Historical Practice of IC	Contract Exp.	30-60 minutes	Varies	Yes	Delegate to Staff/Consultant	Up to 6 hrs	IC Charter/Policy Change
9	Operational	Consider Proposed Investment Strategies	IC Charter	Ad Hoc	30-60 minutes	Varies	Yes	Continue Existing Practice	N/A	None
10	Operational	Annual Emerging Manager Report Review	IC Charter	Annual	15-30 minutes	Annual	No	Board Receive and File	30 min.	IC Charter/Policy Change
11	Operational	Sec. Lending Program Review	IC Charter	Annual	30-60 minutes	Annual	No	Board Receive and File	30 min.	IC Charter/Policy Change
12	Operational	Proxy Voting Activities Review	IC Charter	Annual	15-30 minutes	Annual	No	Board Receive and File	30 min.	IC Charter/Policy Change
13	Operational	Brokerage Activities Review	IC Charter	Annual	<15 minutes	Annual	No	Board Receive and File	30 min.	IC Charter/Policy Change
14	Education	Investment Manager Presentations	Historical Practice	Mid-Contract	>30 minutes	Varies	No	Arrange on Ad hoc basis	9 hrs	None
15a	Education	Education presented at IC Meeting	IC Charter	Ad Hoc	30-60 minutes	Varies	No	IC or Board depending on topic	N/A	None
15b	Education	Off-Site Education	IC Charter	As Requested	>30 minutes	Varies	No	Continue Existing Practice	N/A	None

Section 3.0 DUTIES AND RESPONSIBILITIES

3.9 Investment Committee Charter

Adoption: March 24, 2020

I. PURPOSE/ROLE

The purpose of the Investment Committee (Committee) is to provide assistance to the Board in fulfilling its fiduciary oversight of the LACERS Investment Program.

II. AUTHORITY

The Committee is authorized by this Investment Committee Charter to:

- Present investment recommendations to the Board for consideration and action.
- Seek information from readily-available research resources to include (but not limited to) LACERS' investment staff, investment consultants, investment managers, master trust custodian, and proxy voting agent.
- Render opinions on investment matters that are either delegated by the Board or delineated in the Investment Policy Statement.

III. COMMITTEE MEETINGS

The Committee shall meet no less than four times a year, and more often as needed. Through the General Manager, the Chief Investment Officer will support the Committee's designated duties and responsibilities. Coordinating through the Commission Assistant, the Chief Investment Officer will assist the Chair of the Committee with administrative tasks, as follows:

- Establish dates and times of the Committee meetings.
- Develop the Committee agenda.
- Review the minutes.
- Draft Committee reports.
- Provide other assistance to prepare for future Committee meetings.

IV. DUTIES AND RESPONSIBILITIES

The Committee's primary duty is to consider investment matters and make appropriate recommendations to the Board for further consideration and action. The Committee's oversight duties and responsibilities extends to three broad but distinct investment functions:

1. <u>Policy and Strategy</u>

    - Review the Investment Policy Statement at least annually; propose revisions and amendments as necessary.
    - Review and monitor the asset allocation policy on a periodic basis.
    - Review investment benchmarks as needed.

Section 3.0 DUTIES AND RESPONSIBILITIES

- Consider other investment matters that are consistent with the Committee Charter.

2. Operations

- Oversee the selection processes for hiring public market investment managers, investment consultants, and third-party investment support providers; make contracting recommendations consistent with the Investment Policy Statement and/or Board direction.
- Monitor public market investment managers, private market funds, investment consultants, and third-party investment support providers.
- Consider the termination of public market investment managers, consultants, and third-party investment support providers consistent with the Investment Policy Statement.
- Review investment activity reports including (but not limited to) the Emerging Investment Manager Program, Securities Lending Program, Proxy Voting, and Brokerage Commissions.
- Provide advisory input to the General Manager regarding the selection of the Chief Investment Officer.
- Consider investment opportunities and strategies as recommended by staff and consultant.
- Refer investment opportunities to staff for further review and consideration.

3. Education

- Request investment education.
- Hear investment manager presentations.
- Receive off-site investment education as necessary.

V. CHARTER REVIEW

The Committee and the Board will review this Charter at least once every three years to ensure it remains appropriate. The Committee will recommend any changes to the Board for review and approval. The Board may amend the Charter at any time.

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

MEETING: NOVEMBER 14, 2023
ITEM: VIII

SUBJECT: **BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023**

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

Recommendation

That the Committee receive and file this report.

Discussion

The LACERS Investment Policy, Section 1.V.C, states:

> Brokerage Policy
> The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution. Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best-efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

LACERS' investment managers are directed by policy and contract to use brokerage services that reduce trading costs and paid commissions that impact net performance. Commission recapture brokers are utilized to the extent that such brokers' costs are equal or less than the net cost of non-recapture broker. Pursuant to policy, LACERS' brokerage commissions paid and amounts recaptured for the period July 1, 2022 to June 30, 2023, are presented in Attachment 1 to this report.

Strategic Plan Impact Statement

Reviewing brokerage commissions is required by the LACERS Investment Policy and aligns with the Strategic Plan Goal to uphold good governance practices, which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Barbara Sandoval, Investment Officer II, Investment Division.

NMG/RJ/WL/BS:rm

Attachment: 1. LACERS' Commissions Paid and Recaptured, July 1, 2022 to June 30, 2023

LACERS' COMMISSIONS PAID AND RECAPTURED
July 1, 2022 to June 30, 2023

Asset Class/Manager	Strategy	Total Commissions Paid ($)	Recaptured Commissions ($)
Domestic Equities			
Copeland Capital Management, LLC	Small Cap Growth	89,955.37	
EAM Investors, LLC	Small Cap Growth	295,628.17	
Granahan Investment Management, Inc.	Small Cap Growth	106,728.40	
Principal Global Investors, LLC	Mid Cap Core	25,411.36	
RhumbLine Advisers Limited Partnership			
	S&P 500 Index	56,597.16	
	Russell 2000 Index	30,984.89	
	Russell 2000 Value Index	27,862.87	
Segall, Bryant, & Hamill, LLC	Small Cap Value	84,163.79	5,694.43
Sub-total		**$717,332.01**	**$5,694.43**
Non-U.S Equities			
Axiom Investors, LLC	Emerging Markets Growth	465,895.54	2,396.23
Barrow, Hanley, Mewhinney & Strauss, LLC	Developed Markets Value	635,605.01	
Dimensional Fund Advisors LP	Emerging Markets Value	77,182.02	
Lazard Asset Management LLC	Developed Markets Core	436,554.84	
MFS Institutional Advisors, Inc.	Developed Markets Growth	76,927.21	
Oberweis Asset Management, Inc.	Small Cap Core	800,598.49	
State Street Global Advisors Trust Company	MSCI World ex-U.S. Index	80,109.53	
Wasatch Advisors, Inc.	Emerging Markets Small Cap	222,978.48	
Sub-total		**$2,795,851.12**	**$2,396.23**

Asset Class/Manager	Strategy	Total Commissions Paid ($)	Recaptured Commissions ($)
Public Real Assets			
CenterSquare Investment Management LLC	U.S. REITS	373.69	
Sub-total		**$373.69**	
Credit Opportunities			
Loomis, Sayles & Company, LP	High Yield Fixed Income	359,893.53	
Sub-total		**$359,893.53**	
Other			
Liquidation of Stock Distributions		40,459.39	
Sub-total		**$40,459.39**	
Combined total		**$3,913,909.74**	**$8,090.66**