

Investment Committee Agenda

REGULAR MEETING

TUESDAY, JANUARY 9, 2024

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 Ghokassian

Legal Counselor: City Attorney's Office
Public Pensions General
Counsel Division

Notice to Paid Representatives

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

Request for Services

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- 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 DECEMBER 12, 2023 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [INVESTMENT MANAGER CONTRACT WITH GARCIA HAMILTON & ASSOCIATES, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)
- V. [INVESTMENT MANAGER CONTRACT WITH INCOME RESEARCH & MANAGEMENT REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)
- VI. [CONTINUED DISCUSSION OF INVESTMENT PROGRAM GOVERNANCE AND REVIEW PROCESSES AND POSSIBLE COMMITTEE ACTION](#)
- VII. OTHER BUSINESS
- VIII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, February 13, 2024, at 10:30 a.m., or immediately following the Board Meeting in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.
- IX. ADJOURNMENT



Board of Administration Agenda

SPECIAL MEETING

TUESDAY, JANUARY 9, 2024

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

MEETING LOCATION:

LACERS Boardroom
 977 N. Broadway
 Los Angeles, California 90012

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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 Ghokassian

Legal Counsel: City Attorney's Office
 Public Pensions General
 Counsel Division

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- 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 DECEMBER 12, 2023 AND POSSIBLE COMMITTEE ACTION
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. INVESTMENT MANAGER CONTRACT WITH GARCIA HAMILTON & ASSOCIATES, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION
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- IX. ADJOURNMENT

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

December 12, 2023

12:18 p.m.

PRESENT:	Chair	Elizabeth Lee
	Committee Member:	Annie Chao Gaylord "Rusty" Roten
	Legal Counselor:	Miguel Bahamon
	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.

Items VI and VII were taken out of order.

VI

CONTINUED DISCUSSION OF PROPOSED INVESTMENT POLICY REGARDING PRIVATE CREDIT INVESTMENTS AND POSSIBLE COMMITTEE ACTION – Wilkin Ly, Investment Officer III, and Trevor Jackson, Managing Director with Aksia LLC, presented and discussed this item with the Committee for 10 minutes. After discussion, Committee Member Chao moved approval, and adopted by the following vote: Ayes, Committee Members Chao, Roten, and Chair Lee -3; Nays, None.

VII

PROPOSED INVESTMENT POLICY REGARDING ENFORCEMENT ACTION AND LITIGATION REPORTING AND POSSIBLE COMMITTEE ACTION – James Wang, Investment Officer I, presented this item to the Committee. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Chao, Roten, and Chair Lee -3; Nays, None.

II

APPROVAL OF MINUTES FOR THE MEETING OF NOVEMBER 14, 2023 AND POSSIBLE COMMITTEE ACTION – Committee Member Chao 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.
- Investment Calendar no longer includes routine investment manager presentations. Chair Lee stated that such presentations can always be requested by the IC.
- The Annual Securities Lending Presentation by the lending agent will be scheduled earlier in the year going forward.

IV

PRESENTATION BY NORTHERN TRUST REGARDING SECURITIES LENDING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023 – Jeremiah Paras, Investment Officer I, and Brad Pederson, Vice President, and Enayet Mawla, Senior Relationship Manager, with The Northern Trust Company, presented and discussed this item with the Committee for 10 minutes. This item was received by the Committee and filed.

President Chao left the meeting at 12:44 p.m.

V

INVESTMENT MANAGER CONTRACT WITH CENTERSQUARE INVESTMENT MANAGEMENT LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. REITS PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Jeremiah Paras, Investment Officer I, presented and discussed this item with the Committee. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Roten, and Chair Lee -2; Nays, None.

VIII

OTHER BUSINESS – There was no other business.

IX

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, January 9, 2024, 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 12:52 p.m.

Elizabeth Lee
Chair

Neil M. Guglielmo
Manager-Secretary



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

MEETING: JANUARY 9, 2024
ITEM: IV

Neil M. Guglielmo

SUBJECT: INVESTMENT MANAGER CONTRACT WITH GARCIA HAMILTON & ASSOCIATES, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Garcia Hamilton & Associates, L.P. for management of an active core fixed income portfolio.

Executive Summary

Garcia Hamilton & Associates, L.P. (GHA) has managed an active core fixed income portfolio for LACERS since June 2021. LACERS' portfolio was valued at approximately \$360 million as of November 30, 2023. GHA's current contract expires on April 30, 2024. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal with GHA.

Discussion

Background

GHA manages an active core fixed income portfolio for LACERS benchmarked against the Bloomberg U.S. Aggregate Bond Index. GHA's investment process is top-down oriented and begins with qualitative research based on analysis of the following factors: sentiment, monetary policy, economic environment, valuation and inflation. The analysis of these indicators helps the team anticipate moves in interest rates and informs sector rotation decisions. The team performs both quantitative and qualitative research to set target ranges for duration, yield curve positioning, sector allocations and sectors' contribution to duration. Managing Partner Gilbert Garcia (38 years industry experience, 21 with GHA), alongside Lead Portfolio Managers Karen Tass (18 years industry experience, 12 with GHA) and Jeffrey Detwiler (27 years industry experience, 15 with GHA), lead a team of nine other portfolio managers, strategists and analysts. LACERS' portfolio was valued at \$360 million as of November 30, 2023.

The Board hired GHA through the 2019-2021 Active Core Fixed Income search process and authorized a three-year contract on January 26, 2021; the contract became effective on May 1, 2021. The current contract expires on April 30, 2024.

Organization

Founded in 1988, GHA is a 100% employee-owned asset management company with a focus on high-quality fixed income strategies. The firm currently has 39 employees and is headquartered in Houston. As of November 30, 2023, GHA managed approximately \$19.8 billion of total assets, with \$11.5 billion of assets in the Fixed Income - Aggregate 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 extensive onsite meeting at GHA's headquarters on October 5, 2023, that included interviews with key personnel across the organization. Staff determined that GHA's investment philosophy, strategy, and process have not changed materially since contract inception. GHA was placed on watch status in March 2023 following Managing Partner Gilbert Garcia's filing of candidacy for Mayor of the City of Houston; watch status was rescinded on November 16, 2023, based on the outcome of the mayoral election. Representatives of GHA most recently presented a portfolio review to the Investment Committee on July 11, 2023.

Performance

As of November 30, 2023, GHA underperformed its benchmark over the 3-month and 1-Year time periods but maintains positive excess returns over the 2-Year and Since Inception time periods, as presented in the table below.

Annualized Performance as of 11/30/2023 (Net-of-Fees)				
	3-Month	1-Year	2-Year	Since Inception ¹
GHA	-0.48	-0.23	-5.69	-4.59
Bloomberg U.S. Aggregate Bond Index	0.26	1.18	-6.09	-4.83
<i>% of Excess Return</i>	<i>-0.74</i>	<i>-1.41</i>	<i>0.40</i>	<i>0.24</i>

¹Inception date 6/22/2021

Calendar year performance is presented in the table below.

Calendar Year Performance as of 11/30/2023 (Net-of-Fees)			
	1/1/2023 - 11/30/2023	2022	6/22/2021 - 12/31/2021
GHA	0.51	-11.30	0.00
Bloomberg U.S. Aggregate Bond Index	1.64	-13.01	0.22
<i>% of Excess Return</i>	<i>-1.13</i>	<i>1.71</i>	<i>-0.22</i>

The portfolio outperformed the benchmark by 1.71% in 2022 due to a shorter duration exposure during a period of multi-step interest rate increases. During the latter half of 2022, GHA extended the portfolio's duration. For the year through October 2023, the portfolio underperformed the benchmark by 1.95%, pushing cumulative since inception excess returns negative. This underperformance was largely driven by the portfolio now having a longer duration profile relative to the benchmark as the Federal Reserve

continued its hiking cycle through 2023. For the single month of November 2023, the portfolio outperformed the benchmark by 0.95%, pushing cumulative since inception excess returns positive again. The same longer duration profile relative to its benchmark has now positioned the portfolio to benefit from potential interest rate cuts in 2024.

Fees

LACERS pays GHA an effective fee of 13 basis points (0.13%), which is approximately \$470,000 annually based on the value of LACERS' assets as of November 30, 2023. The fee ranks in the 5th percentile of fees charged by similar core fixed income managers in the eVestment database (i.e., 95% of like-managers have higher fees). Since inception, LACERS has paid GHA a total of \$1.12 million in investment management fees.

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with GHA will allow the fund to maintain a diversified exposure to the active core fixed income market, and aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Jeremiah Paras, Investment Officer I, Investment Division

NMG/RJ/WL/JP:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC



To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: January 9, 2024

Subject: Garcia Hamilton & Associates, L.P. - Contract Renewal

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract with Garcia Hamilton & Associates, L.P. ('GH' and/or 'Garcia Hamilton') for a period of three years from the date of contract expiry.

Background

Garcia Hamilton has been an investment manager for LACERS since June 22, 2021 managing a core fixed income portfolio. As of October 31, 2023, GH managed \$341.8 million, or 1.6% of Plan assets. The portfolio is benchmarked against the Bloomberg U.S. Aggregate Bond Index. The portfolio has a performance objective of outperforming the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The GH portfolio is currently compliant with LACERS' manager monitoring policy.

Garcia Hamilton & Associates was founded June 1, 1988, to provide investment management services to institutional clients. In 2002, Gilbert A. Garcia joined the firm to manage the firm's fixed income strategies and to build the firm's bond business. In 2008, the firm transitioned management and ownership from its founding partners to the next generation of partner-owners. On June 30, 2010, the firm purchased minority ownership interest held in the firm from its institutional investor partner, Affiliated Managers Group ('AMG'), and became 100% employee owned and operated. The Firm continues to be 100% employee-owned and operated by 17 internal partners; 87% held by minority and women partners and approximately 62% held by minority partners (as of March 31, 2023). GH currently has 39 employees located in its Houston, Texas office. GH is a Principles for Responsible Investment (PRI) signatory, and a Task-Force on Climate-Related Financial Disclosures (TCFD) supporter.

The core fixed income strategy focuses on the preservation of principal while maintaining high current income. The firm's high-quality philosophy prevents it from taking unnecessary or unquantifiable risk.

Implementation is focused on highly liquid and higher quality segments of the markets. The predominant sectors utilized are Treasuries, Agency mortgage-backed securities, and A-rated or better corporates with maturities less than 10 years. GH applies additional filters looking to reduce the risk of negative credit events, such as removing yankees, tobacco and small issuers as examples. This creates portfolios that are liquid with relatively low levels of credit risk. Fairly large active risk levels come from duration management, yield curve management and sector management. GH estimates that 60% of excess return comes from sector rotation and 40% from duration and term structure management. The portfolio focuses on top-down market views as the main driver of active

risk and return. Of note, GH's investable universe within credit naturally excludes nearly half of the investment grade credit market. As credit markets have continued to evolve, the BBB-rated cohort has continued to grow. From a credit risk standpoint, the firm's focus on A or better as a limitation is defensive and reduces the risk of idiosyncratic credit mistakes. It also can create higher levels of issuer concentration and may reduce yield in the portfolio, all else being equal.

Mr. Garcia continues to be the driving force at Garcia Hamilton. Mr. Garcia has recruited and developed a devoted team to support him, discuss investment themes and implement/oversee the portfolios on a day-to-day basis. While the talent of the team is not doubted, there was some ambiguity around the anticipated change to the investment process if Mr. Garcia had won the recent mayoral election in Houston. Now that the mayoral race is completed with Mr. Garcia not being elected mayor, the event is behind both the firm and Mr. Garcia. Accordingly, LACERS' Watch status was lifted as of November 16, 2023. Of note, Mr. Garcia is the largest shareholder (29%) in the firm.

Performance

Referring to Exhibit 1, as of October 31, 2023, since the portfolio's performance inception date of July 1, 2021, the portfolio has underperformed its benchmark by 0.1%. Over the past year, the portfolio has underperformed the benchmark by 1.4% and year-to-date the portfolio has underperformed by 1.9%. Referring to Exhibit 1A, over longer periods of time, GH clients in the Fixed Income- Aggregate product have experienced mixed results over longer periods of time with underperformance over five-years and seven-years and outperformance over 10 years and since the product's inception over 31 years ago.

Referring to Exhibit 2, as of September 30, 2023, since inception the portfolio has outperformed its benchmark's return by 0.20% and ranked in the 36th percentile in its peer group. In the past year, ended September 30, 2023, the portfolio underperformed its benchmark return by 1.14% and ranked in the 98th percentile in its peer group.

Referring to Exhibit 3, the cumulative outperformance over the course of 2022 in a down market was led overwhelmingly by the portfolio's relatively shorter duration exposure in addition to exposures to Treasuries and Corporates. Underperformance in 2023 has managed to pull the since inception cumulative results below benchmark returns as of October 31, 2023. Underperformance in 2023 has been led by the portfolio's longer duration profile relative to its benchmark, yield curve positioning and sectoral positioning in the Mortgage-Backed Securities sector.

Fees

The portfolio has an asset-based fee of 0.13% annually. This fee ranks in the 5th percentile among its peers in the eVestment Core Fixed Income universe. In other words, 95% of the products included in the peer universe have a higher fee than the LACERS account.

Conclusion

GH has slightly underperformed its benchmark ending October 31, 2023 since inception (July 1, 2021). The portfolio is designed to be a ballast core fixed income holding within the Core Fixed Income asset class. The firm is stable and in good standing according to LACERS' manager monitoring policy. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

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

Exhibit 1: Performance Comparison Net of Fees as of October 31, 2023

Portfolio Name	1 Month	FYTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception	Inception Date
Garcia Hamilton & Associates	-2.2	-7.0	-4.7	-1.0	-	-	-	-7.0	7/1/2021
Blmbg. U.S. Aggregate Index	-1.6	-4.8	-2.8	0.4	-	-	-	-6.9	
Over/Under	-0.6	-2.2	-1.9	-1.4	-	-	-	-0.1	

Exhibit 1A: Performance Comparison Net of Fees Garcia Hamilton & Associates, L.P. Separately Managed Accounts Composite as of October 31, 2023

Firm Name	Product Name	Returns - QTD (10/2023)	Returns - YTD (10/2023)	Returns - 1 Year (10/2023)	Returns - 3 Years (10/2023)	Returns - 5 Years (10/2023)	Returns - 7 Years (10/2023)	Returns - 10 Years (10/2023)	Returns - Since Inception 31.83 Years 01/1992 - 10/2023
Garcia Hamilton & Associates, L.P.	Fixed Income - Aggregate	-2.35	-4.76	-1.33	-5.92	-0.64	-0.31	1.04	4.83
Bloomberg Fixed Income Index	Bloomberg US Aggregate	-1.58	-2.77	0.36	-5.57	-0.06	-0.21	0.88	4.42
Over/Under		-0.77	-2.00	-1.69	-0.35	-0.58	-0.11	0.15	0.41

*Source: eVestment





Exhibit 2: Universe Performance Comparison Net of Fees Ending September 30, 2023

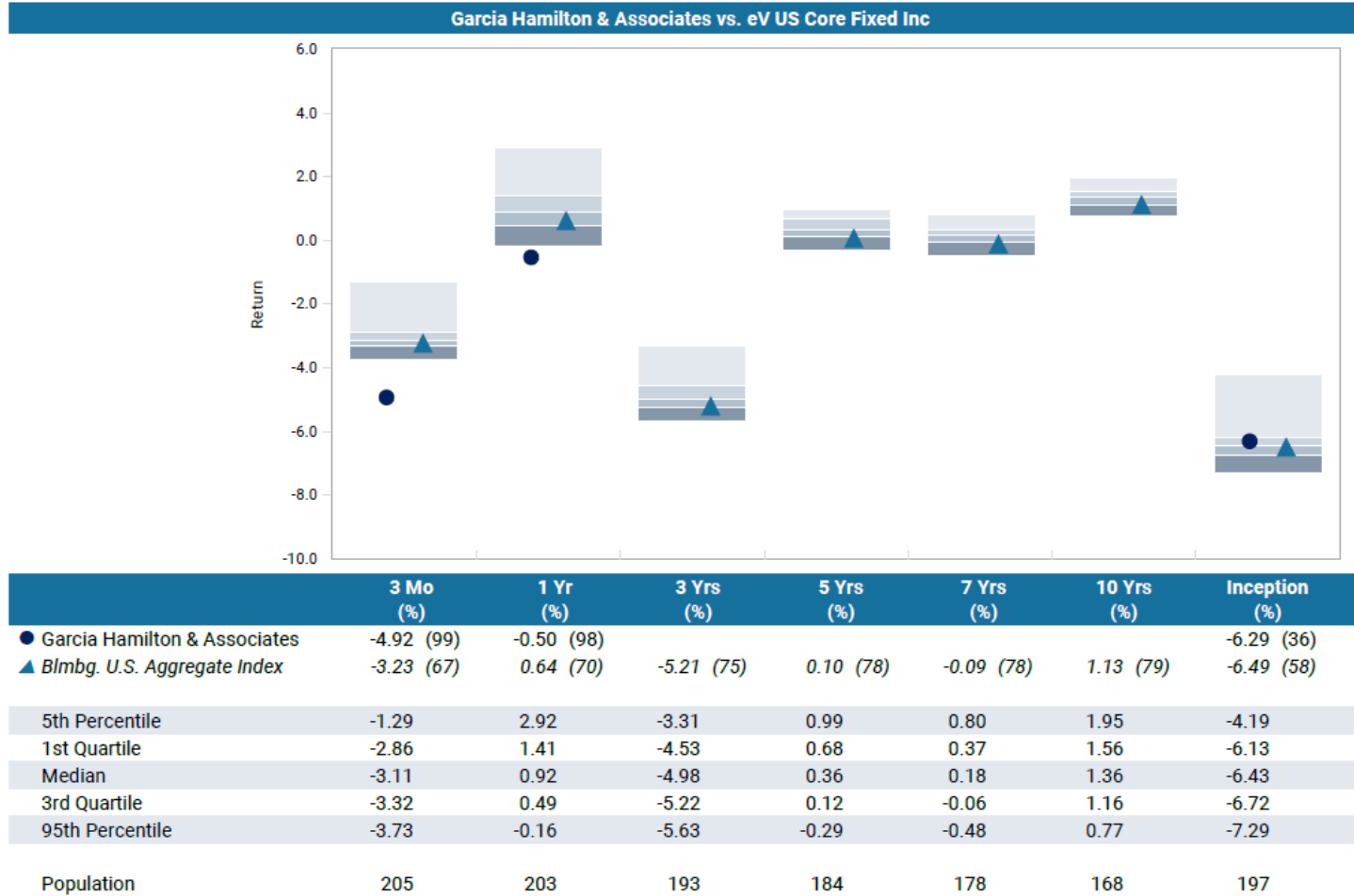
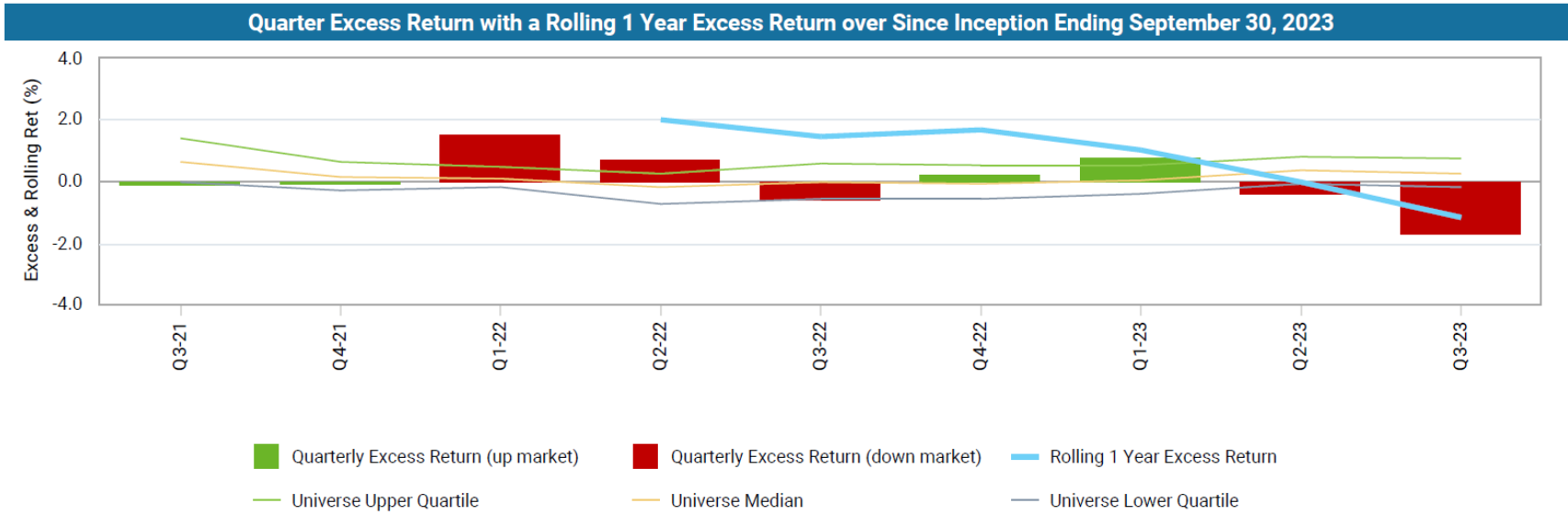


Exhibit 3: Cumulative Excess Performance Net of Fees Ending September 30, 2023





LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM



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

MEETING: JANUARY 9, 2024
ITEM: V

Neil M. Guglielmo

SUBJECT: INVESTMENT MANAGER CONTRACT WITH INCOME RESEARCH & MANAGEMENT REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Income Research & Management for management of an active core fixed income portfolio.

Executive Summary

Income Research & Management (IRM) has managed an active core fixed income portfolio for LACERS since June 2021. LACERS' portfolio was valued at approximately \$435 million as of November 30, 2023. IRM's current contract expires on April 30, 2024. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal with IRM.

Discussion

Background

IRM manages an active core fixed income portfolio for LACERS benchmarked against the Bloomberg U.S. Aggregate Bond Index. IRM's investment process is designed to use bottom-up security selection and constructs portfolios to provide an attractive expected return, reasonable risk exposures, and necessary liquidity. IRM focuses on three key attributes of credit, structure, and price when analyzing every bond for potential investment. The strategy is neutral to the benchmark in terms of duration and yield curve positioning. Portfolio exposures to any particular sector, sub-sector, or specific idea are governed by sector targets and overweight in bond sectors will be the result of capitalizing on market inefficiencies in various spread sectors. CEO and co-CIO William O'Malley (35 years industry experience, 28 with IRM) and co-CIO Jim Gubitosi (19 years industry experience, 16 with IRM) lead the team which oversees the strategy. LACERS' portfolio was valued at \$435 million as of November 30, 2023.

The Board hired IRM through the 2019-2021 Active Core Fixed Income search process and authorized a three-year contract on January 26, 2021; the contract became effective on May 1, 2021. The current contract expires on April 30, 2024.

Organization

IRM is an independent and privately owned fixed income asset management company founded in 1987. The firm has 205 employees and is headquartered in Boston. As November 30, 2023, IRM managed approximately \$94.0 billion of total assets, with \$16.8 billion of assets in the Aggregate 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 extensive onsite meeting at IRM's headquarters on May 8, 2023, that included interviews with key personnel across the organization. Staff determined that IRM's investment philosophy, strategy, and process have not changed materially since contract inception. Staff noted a number of personnel changes within IRM's Management Committee over the course of the contract period, though none were deemed to have created any adverse impact on the management of the strategy. IRM is in compliance with the LACERS Manager Monitoring Policy.

Performance

As of November 30, 2023, IRM outperformed its benchmark over the 1-Year, 2-Year and Since Inception time periods, but underperformed its benchmark over the 3-month period, as presented in the table below.

Annualized Performance as of 11/30/2023 (Net-of-Fees)				
	3-Month	1-Year	2-Year	Since Inception ¹
IRM	0.17	1.72	-5.87	-4.75
Bloomberg U.S. Aggregate Bond Index	0.26	1.18	-6.09	-4.94
<i>% of Excess Return</i>	<i>-0.09</i>	<i>0.54</i>	<i>0.22</i>	<i>0.19</i>

¹Inception date 6/30/2021

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

Calendar Year Performance as of 11/30/2023 (Net-of-Fees)			
	1/1/2023 - 11/30/2023	2022	6/30/2021 - 12/31/2021
IRM	2.10	-12.95	0.03
Bloomberg U.S. Aggregate Bond Index	1.64	-13.01	0.06
<i>% of Excess Return</i>	<i>0.46</i>	<i>0.06</i>	<i>-0.03</i>

Fees

LACERS pays IRM an effective fee of 13 basis points (0.13%), which is approximately \$550,000 annually based on the value of LACERS' assets as of November 30, 2023. The fee ranks in the 5th percentile of fees charged by similar core fixed income managers in the eVestment database (i.e., 95%

of like-managers have higher fees). Since inception, LACERS has paid IRM a total of \$1.16 million in investment management fees.

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with IRM will allow the fund to maintain a diversified exposure to the active core fixed income market, and aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Jeremiah Paras, Investment Officer I, Investment Division

NMG/RJ/WL/JP:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC



To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: January 9, 2024

Subject: Income Research & Management - Contract Renewal

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract with Income Research & Management ('IR&M') for a period of three years from the date of contract expiry.

Background

IR&M has been an investment manager for LACERS since June 30, 2021 managing a core fixed income portfolio. As of October 31, 2023, IR&M managed \$415.9 million, or 2.0% of Plan assets. The portfolio is benchmarked against the Bloomberg U.S. Aggregate Bond Index. The portfolio has a performance objective of outperforming the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The IR&M portfolio is currently compliant with LACERS' manager monitoring policy.

IR&M was founded in 1987 by two of the firm's senior leaders, John and Jack Sommers, to specialize in the US dollar-denominated fixed income market. The firm was registered as an investment adviser with the SEC on May 1, 1987, and began managing assets in June 1987. The firm believes in a culture of collaboration, staying true to a disciplined investment process and remaining diligent about security selection. IR&M has been independent and privately owned since its inception in 1987. As of June 30, 2023, the firm is approximately 84.78% employee owned by 68 employees. Two non-employee members of the Sommers family hold 9.75% of firm ownership. For estate planning purposes, John Sommers (Co-Founder, Chairperson Emeritus, and Board Member) transferred a majority of his shares to his son Jack Sommers (Co-Founder, Executive Chairperson, and Board Member) and his other two sons not involved in the business. Three retired employees held the remaining 5.47% of firm ownership and are transitioning their shares in conjunction with their retirements in January 2023. The ownership trend has been and will continue to be to transfer more and more economic ownership to employees while remaining privately owned.

IR&M's investment philosophy is based on the belief that careful security selection and active portfolio risk management will lead to superior returns over the long-term. They believe that predicting the timing, direction, and magnitude of future interest rate changes is very difficult to get right and therefore they keep duration and yield curve exposure neutral to the benchmark.

IR&M's research process combines quantitative and qualitative analysis and is based on fundamentals. The firm does not use black box models, nor does it rely heavily on quantitative modeling to make investment decisions. IR&M has a team of sector-specialized Research Analysts that drive research efforts across the government, securitized, credit, and municipal sectors.

The firm's investment committee, consisting of two Co-Chief Investment Officers, four Portfolio Managers and the Director of Investment Risk, is responsible for overall risk management at the strategy level. The committee determines overall strategy exposures to any particular sector, sub-sector, or specific idea. Using input and ideas from the sector management teams, who are responsible for assessing relative value within sectors, the committee decides on targets based on available opportunities, relative value and portfolio risk factors. The portfolio management team then works within these targeted exposure ranges to incorporate best ideas when building out portfolios.

The strategy is considered benchmark aware. Factors such as duration and rate exposures are closely controlled. Sector exposures may deviate from the index and individual security weights may exceed their respective index weight as the firm prefers to employ meaningful exposures to its best ideas.

Performance

Referring to Exhibit 1, as of October 31, 2023, since the portfolio's performance inception date of July 1, 2021, the portfolio has outperformed its benchmark by 0.2%. Over the past year and year-to-date, the portfolio has outperformed the benchmark by 0.5%. Referring to Exhibit 1A, IR&M clients in the IR&M - Aggregate product have experienced consistent results over longer periods of time with outperformance over five-years, seven-years, 10 years and since the product's inception over 23 years ago.

Referring to Exhibit 2, as of September 30, 2023, since inception the portfolio has outperformed its benchmark's return by 0.22% and ranked in the 35th percentile in its peer group. In the past year, ended September 30, 2023, the portfolio outperformed its benchmark return by 0.91% and ranked in the 38th percentile in its peer group.

Referring to Exhibit 3, the strategy has outperformed consistently quarter after quarter since inception with results outperforming in down markets and in up markets. The strategy's high-quality non-traditional asset-backed securities exposure added excess yield against the benchmark. Overweight sector exposures in Industrials, Utilities and Municipals contributed to excess returns while Security selection within the Corporates sector contributed to excess returns.

Fees

The portfolio has an asset-based fee of 0.13% annually. This fee ranks in the 5th percentile among its peers in the eVestment Core Fixed Income universe. In other words, 95% of the products included in the peer universe have a higher fee than the LACERS account.

Conclusion

IR&M has consistently outperformed its index and has executed its strategy well since inception. The firm remains stable and has proven that its strategy can add value in down markets as well as up markets. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

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



Exhibit 1: Performance Comparison Net of Fees as of October 31, 2023

Portfolio Name	1 Month	FYTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception	Inception Date
Income Research & Management	-1.6	-4.8	-2.3	0.9	-	-	-	-6.7	7/1/2021
Blmbg. U.S. Aggregate Index	-1.6	-4.8	-2.8	0.4	-	-	-	-6.9	
Over/Under	0.0	0.0	0.5	0.5	-	-	-	0.2	

Exhibit 1A: Performance Comparison Net of Fees Income Research & Management Separately Managed Accounts Composite as of October 31, 2023

Firm Name	Product Name	Returns - QTD (10/2023)	Returns - YTD (10/2023)	Returns - 1 Year (10/2023)	Returns - 3 Years (10/2023)	Returns - 5 Years (10/2023)	Returns - 7 Years (10/2023)	Returns - 10 Years (10/2023)	Returns - Since Inception 23.08 Years 10/2000 - 10/2023
Income Research & Management	IR&M Aggregate	-1.64	-2.59	0.66	-5.43	0.26	0.03	1.17	3.88
Bloomberg Fixed Income Index	Bloomberg US Aggregate	-1.58	-2.77	0.36	-5.57	-0.06	-0.21	0.88	3.54
Over/Under		-0.06	0.17	0.30	0.13	0.32	0.23	0.29	0.34

*Source: eVestment



Exhibit 2: Universe Performance Comparison Net of Fees Ending September 30, 2023

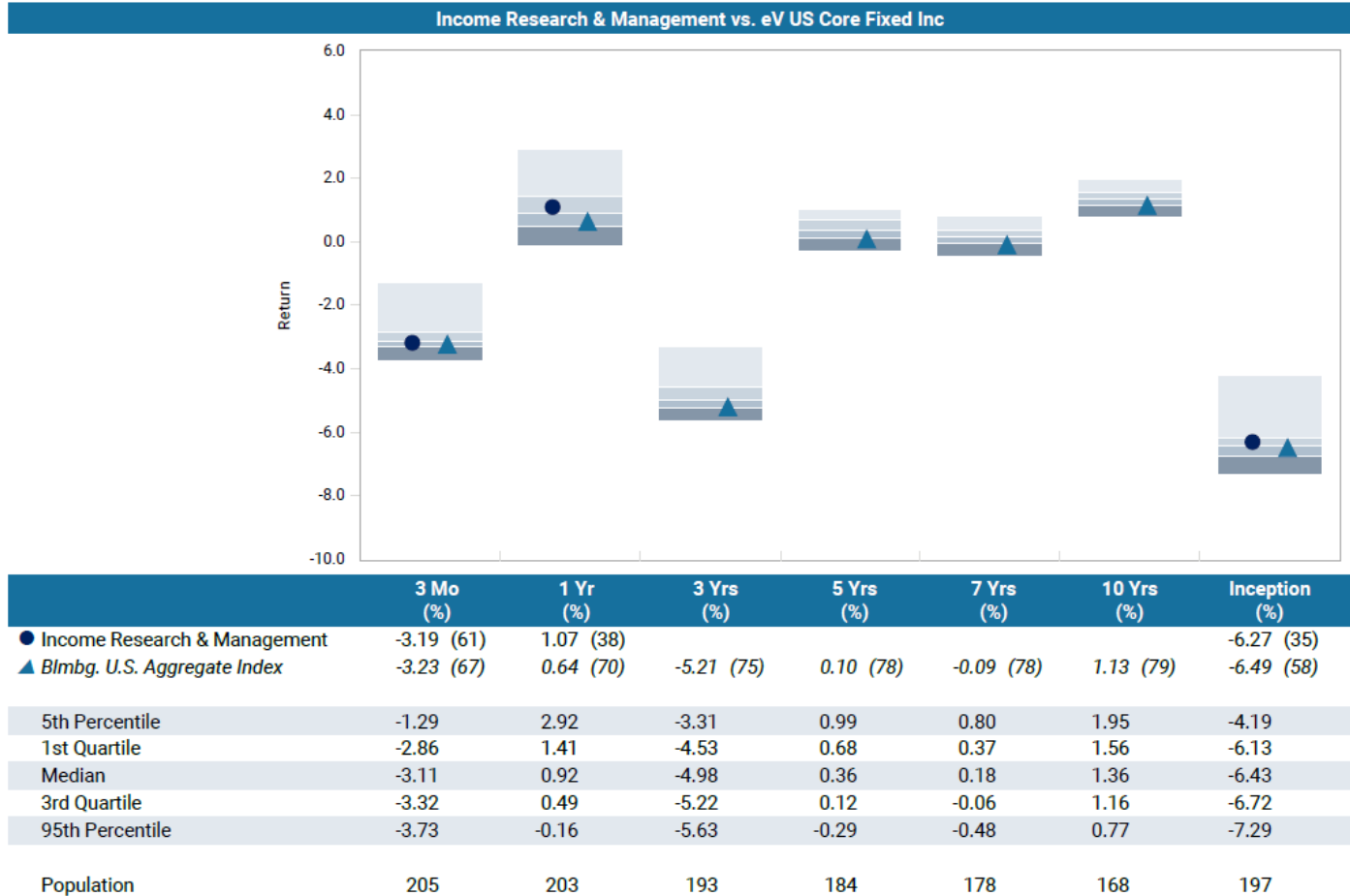
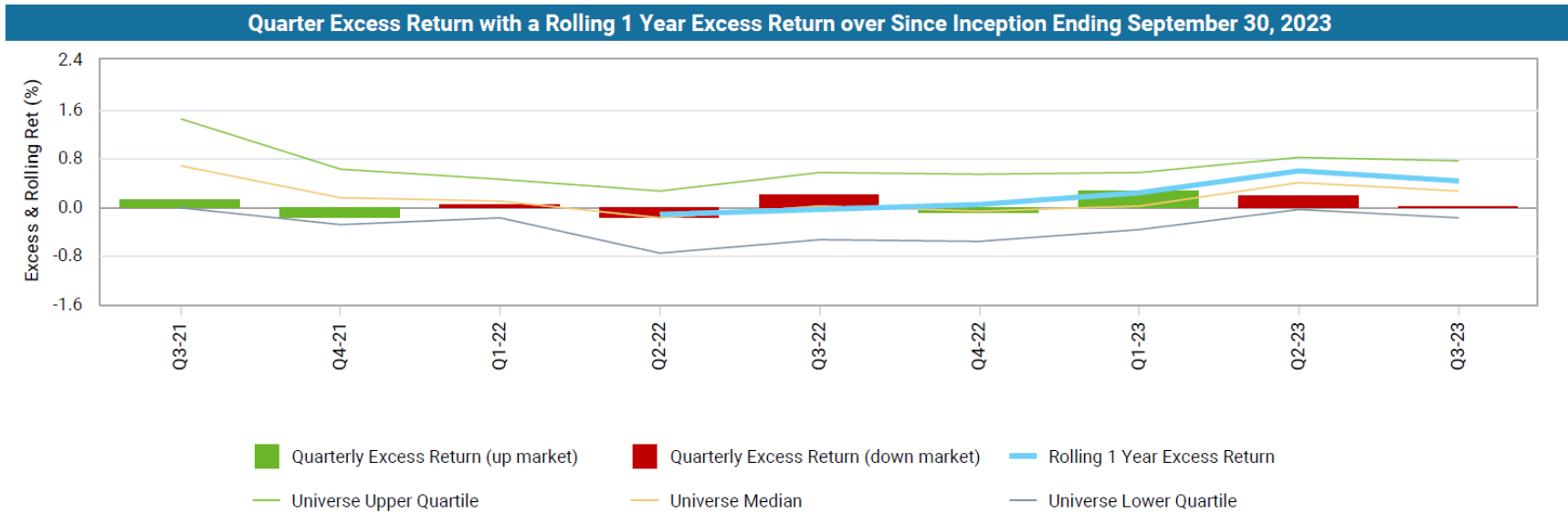


Exhibit 3: Cumulative Excess Performance Net of Fees Ending September 30, 2023





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

MEETING: JANUARY 9, 2024
ITEM: VI

Neil M. Guglielmo

SUBJECT: CONTINUED DISCUSSION OF INVESTMENT PROGRAM GOVERNANCE AND REVIEW PROCESSES AND POSSIBLE COMMITTEE ACTION

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendation

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

Executive Summary

At the Investment Committee (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-efficient and impact-effective oversight of the Investment Program particularly as it relates to the Committee’s time commitment to the investment governance and review processes within their jurisdiction.

Discussion

Background

The Committee met on November 14, 2023, and considered staff recommendations as presented in a written report and verbal discussion. This report contains framing of those discussions based on Committee priorities and industry best practices without sacrificing appropriate fiduciary oversight vested in the Board. In particular, staff recommendations in this report are primarily based with sensitivity to investment policy and strategy, where such focus will have the greatest impact on the success of portfolio management; and allow operational activities and implementation to be the responsibility of the professional investment staff, who in turn perform their functional work within an appropriately designed and controlled performance/risk policy framework to ensure a high likelihood of achieving the Board’s investment policy goals and objectives.

The Committee’s meeting of November 14, 2023, included oversight and process discussion of several key functional areas:

1. Investment Policy
2. Review of Investment Strategic Plans
3. Public Market Manager Search and Selection Process

4. Public Market Investment Manager Presentations
5. Review of Private Equity Policy under limited staff/consultant discretion

Based on that discussion, the following topical sections of this report elaborate more fully on key discussion points entertained by the Committee members with reference to the attached Governance Matrix (attached) to categorize recommendations by Committee functions. Recommendations include those that require no specific action in order to continue an existing practice of the Committee while others may involve modifications to Investment Policy or Investment Committee Charter.

Current Investment Governance Practices – *Continue Existing Practice*

Policy, Benchmarks, Strategic Plans – Governance Matrix items 1-5

Staff recommends that review and consideration of amendments to policies, benchmarks, and annual private market strategic plans, continue under existing practices of Committee pursuant to the Investment Committee Charter. These items were discussed and seemed to be supported by the Committee at their meeting of November 14, 2023.

Private Equity Fund Selection Process – Governance Matrix item 7b

The Private Equity Program Fund Selection Process, which provides limited discretion to staff and the private equity consultant to make fund selection decisions, is codified in the Investment Policy, Section X, with a detailed discussion of selection procedures described in this policy's Subsection F. No action is necessary of the Committee to continue fund selection under the existing Investment Policy.

Private Credit Fund Selection Process – Governance Matrix item 7d

The Private Credit Fund Selection Process as provided in the Committee-reviewed proposed Private Credit Policy awaits Board consideration at their meeting of January 9, 2024. If the Board approves the Committee's recommendation as presented by the Committee, no further Committee action is necessary.

Operations and Education – Governance Matrix items 9 to 15b.

Staff recommends no changes to these eight items as these support fiduciary responsibilities and are considered industry best-practices.

Proposed Investment Governance Practices – *Committee Discussion and Possible Action*

Request for Proposals – Public Market Investment Manager Search Process – Governance Matrix items 6 & 7a

The Committee indicated a preference to make changes in the Public Market Investment Manager Search process including the delegation of investment manager finalist candidate interviews to staff and consultant where the exchange of deep and sometimes proprietary information is best conducted as a part of routine manager selection due diligence. This is one component of the search process that will create more operational efficiency and time savings. Further, the Committee has also indicated further consideration of allowing the use of delegated authority to staff at key decision making points. The critical reasons for supporting this shift are to: 1) ensure consistency to applying search criteria through each major evaluation phase including first-round analysis of minimum qualifications, comprehensive due diligence, and selection of finalist firms proposed for contracts; and 2) ensure a

time-efficient selection process that minimizes the magnitude of exposure risks based on the Board-approved asset allocation policy.

Based on the aforementioned reasons, staff proposes to review the Manager Search and Selection Policy, with particular focus on Section 2.A “Roles and Responsibilities” and Section 2.B “Sequential Search and Selection Process.” Since these are policy changes, staff requests ample time to conduct a review and develop the language changes in a redline version and return to the Committee for consideration. Such policy changes may include Request for Proposal issuing requirements, a limited discretion framework (similar to the private equity fund selection framework), and progress reporting the IC and/or Board. Should the Committee wish to direct staff to pursue this policy and procedure study, staff will return to the Committee with appropriate policy changes that could include a process similar to the example provided in the table below:

Example of a Delegated Authority Manager Selection Process – Public Markets

Step	Responsibility	Activity	Approximate Timing
1	Board	Board approves the Request for Proposal, Announcement, Evaluation Criteria, Timeline. (Responsibilities of Committee and Staff will be codified in a revised selection policy.)	Time 0
2	Investment Committee	Receives a notification report of the Proposals Received; Receives a notification report of the names of firms that meet the minimum qualifications.	Up to 2 months later
3	Investment Committee Staff/Consultant	Receives a notification report of firms that have advanced to semi-finalist firm status along with staff/consultant analysis. Conducts due diligence of semi-finalists; determines finalists proposed for contract.	Up to 2 months later
4	Investment Committee	Receives a notification and analysis report of the finalist firms recommended by staff for contract.	Up to 1 month later
5	Board Staff	Receives a notification report of staff recommendations of finalist firms proposed for contracting. Staff proceeds with contracting with finalist firm(s) within scope of delegated authority criteria. Contracting terms and conditions outside of delegated authority are considered and approved by Board.	Up to 1 month later

	DURATION OF RFP SEARCH	Up to 6 months
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The Committee may also wish to consider directing staff to propose policy language for the termination of investment managers within the scope of delegated authority.

Real Estate Fund Selection Process - Governance Matrix item 7C

The Real Estate Manager Fund Selection process, Section XI.G.1.e, requires Board approval of private real estate funding commitments. Presentations of real estate managers are not required by Policy or the Investment Committee Charter, but has been conducted at the request of the Committee. Staff recommends that the Committee consider amending the Real Estate *Investment Processes and Procedures*, Section XI.G.1.e, to delegate authority to staff to make commitment decisions within a risk-control limited discretion framework that mirrors the current delegated authority found in Private Equity fund selection policy, Section X.F. Upon direction from the Committee, staff will propose policy language that effectuates a delegated authority framework.

Contracting Process – Governance Matrix item 8

LACERS maintains a current practice of specific time-duration contracts for public market investment managers, which is typically three years. Currently, there are 24 actively-managed mandates and 7 passively-managed mandates. Staff presents several options in the monitoring and contracting processes to create greater time efficiencies without sacrificing fiduciary oversight of the Committee.

1. Manager Presentations prior to Contract Expiration – Actively-managed Investment Managers are requested to appear before the Committee to make an informational portfolio presentation at least once during the contract period. In light of the large number of actively-managed mandates, that roughly translates to eight annual investment manager presentations to the Committee. The Committee indicated a preference to only hear manager presentations if requested; otherwise, staff will continue to conduct periodic meetings and hear such presentations by investment managers on the Committee’s behalf as a part of the routine due diligence and risk management processes. No Investment Policy or Investment Committee Charter changes are required.
2. Extended/Evergreen Contracts - In addition to manager presentations, each contract is considered and reviewed by the Committee approximately six months prior to the expiration of actively- and passively- managed contracts. Currently, there are a total of 31 public market investment manager contracts subject to periodic contract renewal. In order to be reduce the time commitment of the Board and Investment Committee with respect to contracts, staff proposes the use of evergreen contracts (i.e., contracts with no specific expiration) subject to certain provisions and conditions including the continued use of a 30-day contract termination clause. As long as the investment manager conforms to specific written performance and other quantitative and qualitative expectations agreed to and approved in advance by the Board, the contract would continue pursuant to evergreen contract terms. With passively-managed investment manager contracts, staff also recommends evergreen contracts subject to the same aforementioned terms and conditions. No Investment Policy or Investment Committee Charter amendments are necessarily required as such contract renewal terms are specific to each investment manager’s contract as approved by the Board. However, the Committee may wish to direct staff to explore with the City Attorney as to

whether adopting an evergreen contract approach conforms to current contracting rules and laws.

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:rm

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

Investment Committee Governance Matrix
January 9, 2024

Bold and Italic Font in matrix designates direction provided by Committee at meeting of November 14, 2023

Red Bold Font in matrix designates staff request for Committee to consider delegated authority of staff in manager/fund selection

			CURRENT I.C. OVERSIGHT OF INVESTMENT PROGRAM					I.C. PROPOSED OVERSIGHT RECOMMENDATIONS		
Oversight Category	Investment Activity		Authority	Frequency	Est. Time Commitment	Frequency	Requires IC Action?	Proposed Practice	Annual Time Savings	Board or IC Action Effectuate Change
1	Policy/Strategy	Review Policy Manual/Amendments	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	Private Equity Strategic Plan	Historical Practice	Annual	30-60 minutes	Annual	Yes	Continue Existing Practice	N/A	None
4	Policy/Strategy	Private Real Estate Strategic Plan	Historical Practice	Annual	30-60 minutes	Annual	Yes	Continue Existing Practice	N/A	None
5	Policy/Strategy	Private Credit Strategic Plan (Pending)	Historical Practice	Annual	30-60 minutes	Annual	Yes	Continue Existing Practice	N/A	None
6	Operational	<i>Approval of Public Market Mgr Semi-Finalists</i>	<i>Historical Practice</i>	<i>Ad Hoc</i>	<i>30-60 minutes</i>	<i>Varies</i>	<i>Yes</i>	<i>Delegate Semi-Finalists to Staff/Consultant</i>	<i>30-60 min.</i>	<i>Modify Specific RFP to delegate to staff</i>
7a	Operational	<i>Public Market Mgr Interviews & Selection</i>	<i>Historical Practice</i>	<i>Ad Hoc</i>	<i>>2 hours</i>	<i>0-3X annually</i>	<i>Yes</i>	<i>Delegate Interviews to Staff/Consultant</i>	<i>Up to 3 hrs</i>	<i>Modify Specific RFP to delegate to staff</i>
7b	Operational	Private Equity Manager Selection	Delegated Authority	Ad Hoc	Not Applicable	N/A	No	Continue Existing Practice	N/A	None
7c	Operational	<i>Private Real Estate Manager Selection</i>	<i>Policy</i>	<i>Ad Hoc</i>	<i>30-60 minutes</i>	<i>0-3X annually</i>	<i>Yes</i>	<i>Delegate to Staff/Consultant</i>	<i>Up to 1 hr</i>	<i>Policy change if delegated to staff</i>
7d	Operational	Private Credit Manager Selection	Pending with Board	Ad Hoc	Not Applicable	Pending	Pending	Delegate to Staff/Consultant	Up to 3 hrs	Board pending
8	Operational	<i>Recommend Renewal of Manager Contracts</i>	<i>Policy</i>	<i>Prior to Contract Exp.</i>	<i>30-60 minutes</i>	<i>Varies</i>	<i>Yes</i>	<i>Delegate to Staff/Consultant including Manager Selection</i>	<i>Up to 6 hrs</i>	<i>IC Charter & Policy changes if delegated to staff</i>
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	IC Charter	Annual	15-30 minutes	Annual	No	Board receives and files report	30 min.	IC Charter Change / *
11	Operational	Sec. Lending Report/Agent Presentation	IC Charter	Annual	30-60 minutes	Annual	No	Board receives and files report	30 min.	IC Charter Change / *
12	Operational	Proxy Voting Activities Report	IC Charter	Annual	15-30 minutes	Annual	No	Board receives and files report	30 min.	IC Charter Change / *
13	Operational	Brokerage Activities Report	IC Charter	Annual	<15 minutes	Annual	No	Board receives and files report	30 min.	IC Charter Change / *
14	Education	<i>Investment Manager Presentations</i>	<i>Historical Practice</i>	<i>Mid-Contract</i>	<i>>30 minutes</i>	<i>Varies</i>	<i>No</i>	<i>Scheduled at Request of IC</i>	<i>9 hrs</i>	<i>None</i>
15a	Education	Education presented at IC Meeting	IC Charter	Ad Hoc	30-60 minutes	Varies	No	Continue Existing Practice	N/A	None
15b	Education	Off-Site Education	IC Charter	As Requested	>30 minutes	Varies	No	Continue Existing Practice	N/A	None

* - IC Chair may waive this item out of Committee and refer it to the Board

ARTICLE I. BOARD GOVERNANCE STATEMENT

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. Policy and Strategy

- 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.

ARTICLE I. BOARD GOVERNANCE STATEMENT

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.