



Investment Committee Agenda

REGULAR MEETING

TUESDAY, OCTOBER 8, 2019

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

MEETING LOCATION:

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

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

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

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

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. [APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF SEPTEMBER 10, 2019 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF PARTNERSHIP INTERESTS IN TWO (2) PARTICULAR, SPECIFIC, REAL ESTATE INVESTMENTS, AND POSSIBLE COMMITTEE ACTION**
- V. [PRIVATE EQUITY PROGRAM 2020 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION](#)
- VI. [BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2018 TO JUNE 30, 2019](#)
- VII. OTHER BUSINESS
- VIII. NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, November 12, 2019, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

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

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

September 10, 2019

Agenda of: Oct. 8, 2019

Item No: II

12:22 p.m.

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

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

I

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

II

APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF AUGUST 13, 2019 AND POSSIBLE COMMITTEE ACTION – A Motion to approve the minutes of August 13, 2019 was moved by Committee Member Serrano, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano and Chair Sohn –3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the 12-month forward calendar for Investment Committee Agenda items. He stated that staff is conducting due diligence on the Active U.S. Small Cap Managers. He stated on today's agenda is the Proxy Voting Report. Future IC agenda items include: Finalists for Active U.S. Small Cap Search, Private Equity Strategic Plan, Committee Education: Cryptocurrency, and Broker Activity Report for FY 2018/19.

IV

PROXY VOTING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2018 TO JUNE 30, 2019 – Rod June, Chief Investment Officer and Eduardo Park, Investment Officer I presented this item to the Committee. After discussion, the report was received by the Committee and filed.

V

OTHER BUSINESS – There was no other business.

VI

NEXT MEETING – The next Regular Meeting of the Investment Committee is scheduled for Tuesday, October 8, 2019, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

VII

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the Meeting at 12:33 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary



REPORT TO INVESTMENT COMMITTEE

From: Neil M. Guglielmo, General Manager

MEETING: OCTOBER 8, 2019

ITEM: V

SUBJECT: PRIVATE EQUITY PROGRAM 2020 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 2020 Strategic Plan.

Executive Summary

A summary of the private equity strategic objectives and investment plan recommendations for calendar year 2020.

Discussion

TorreyCove Capital Partners LLC (TorreyCove), LACERS' Private Equity Consultant, with input from staff, has developed the proposed Private Equity Program 2020 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next calendar year. Staff has reviewed the plan and recommends its adoption. TorreyCove 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 with an attractive risk-adjusted return profile (Goal IV). Development and adoption of such a plan also promotes good governance practices (Goal V).

Prepared by: Wilkin Ly, Investment Officer III, Investment Division.

RJ/BF/WL:sg

Attachment: 1. LACERS Private Equity Program 2020 Strategic Plan – TorreyCove Capital Partners LLC



IC Meeting: 10/08/19
Item V
Attachment 1

CALIFORNIA

10180 Barnes Canyon Road
Suite 200
San Diego, CA 92121

MASSACHUSETTS

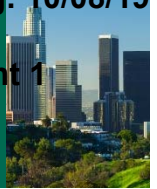
222 Rosewood Drive
3rd Floor
Danvers, MA 01923

A wide-angle photograph of the Los Angeles skyline taken from Griffith Park. The foreground shows a lush green hillside with trees and a path. The middle ground is filled with various skyscrapers of the Los Angeles skyline, including the US Bank Tower. The background shows a clear blue sky.

LACERS Private Equity Program 2020 Strategic Plan

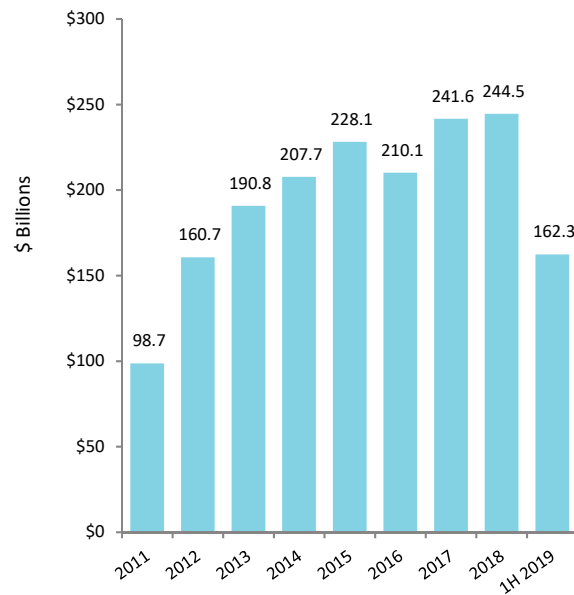
Agenda

- Market Overview
- LACERS Private Equity Program
 - Commitment Pacing
 - Review of the Existing Portfolio
- Review of Commitments through September 2019
- Review of the 2019 Strategic Plan
- Overview of the Proposed 2020 Strategic Plan



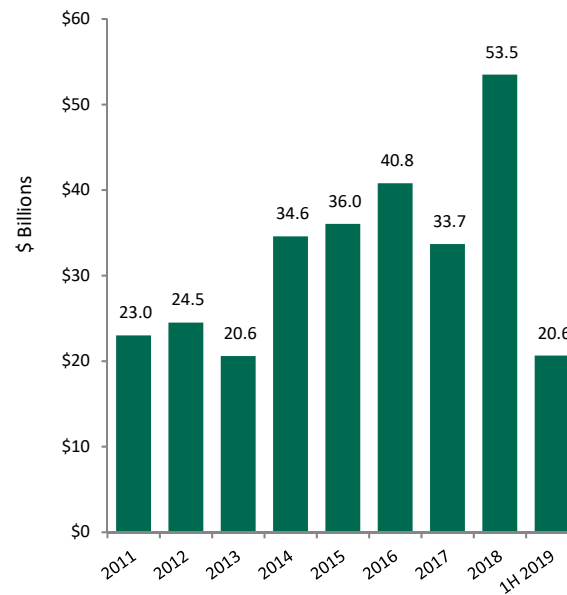
Investor Appetite for Private Equity Continued At Record Levels in 2019

U.S. Buyouts



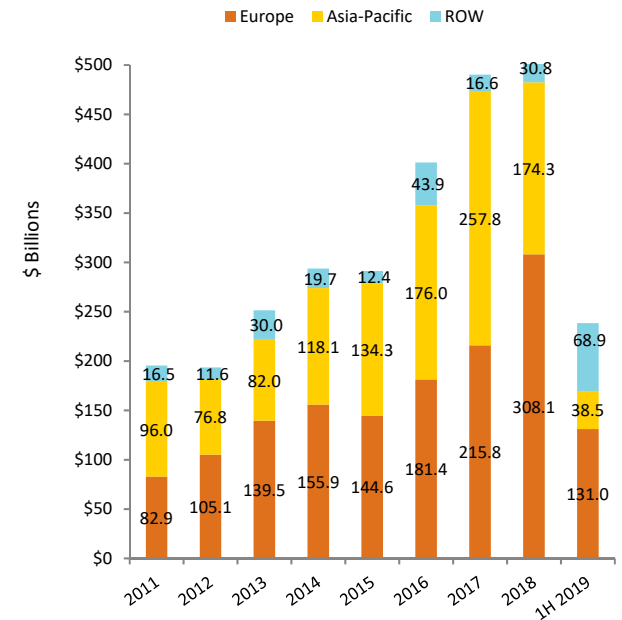
Source: Buyouts Magazine

U.S. Venture Capital



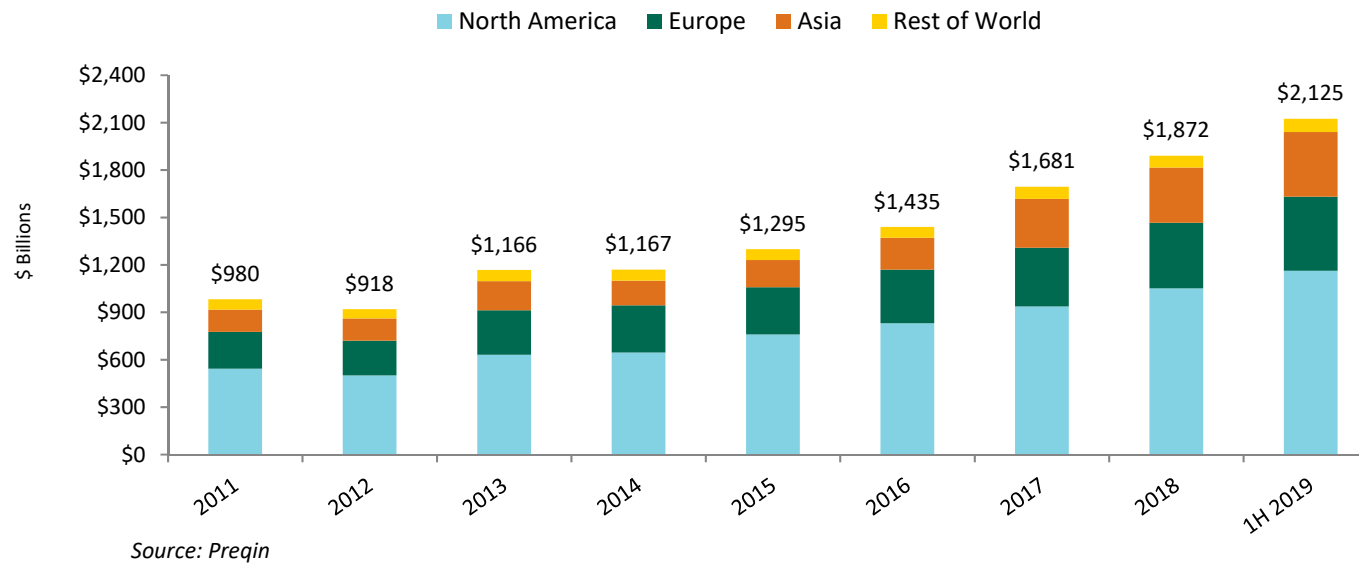
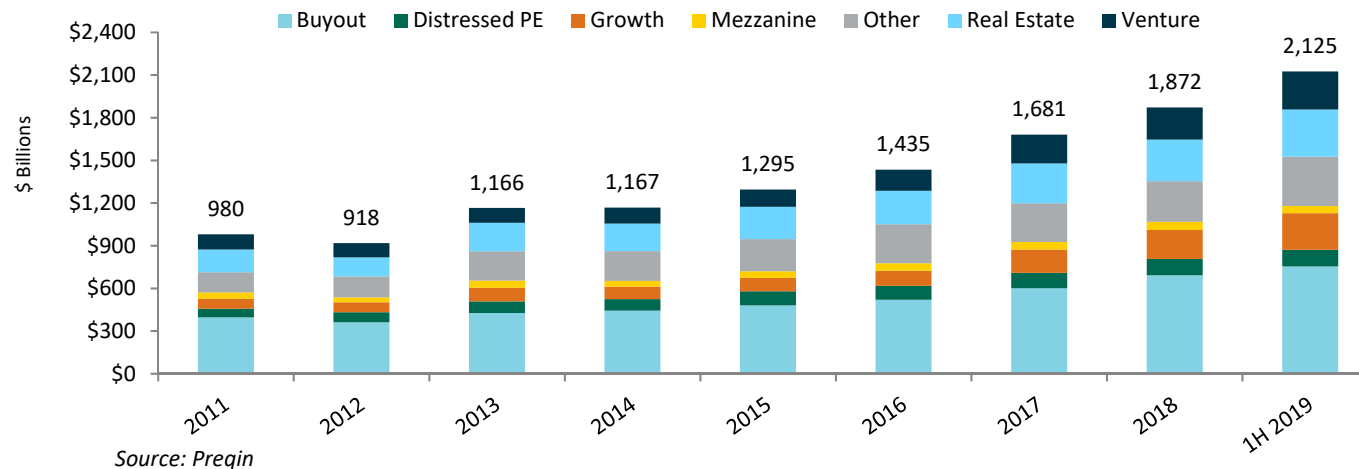
Source: Pitchbook & National Venture Capital Association

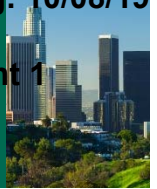
International



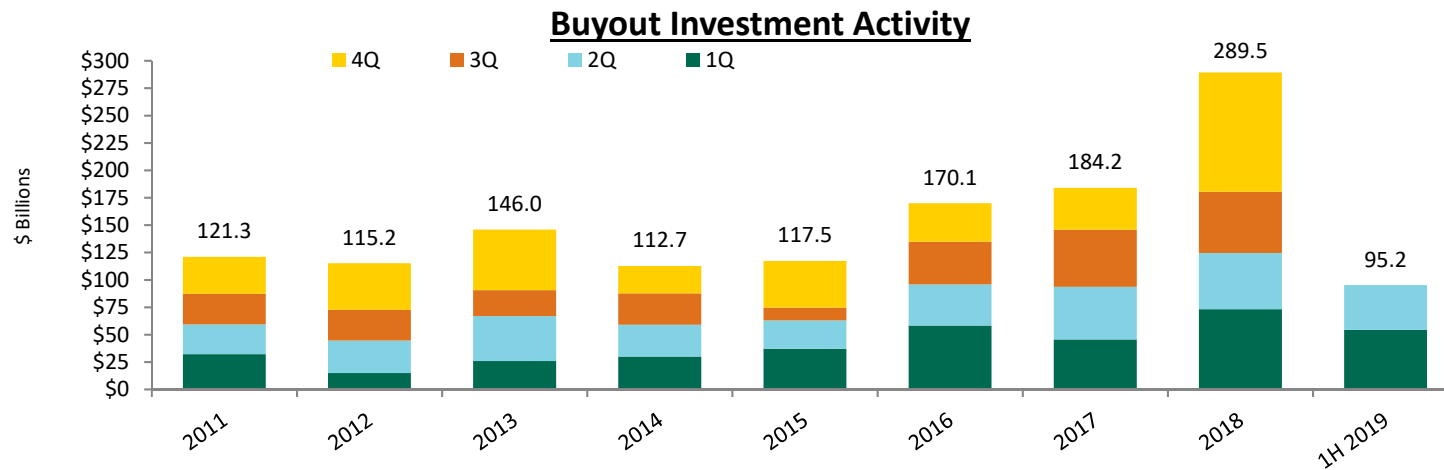
Source: Thompson Reuters, Preqin, AVCI

Global Dry Powder Remained At Record Levels in 2019

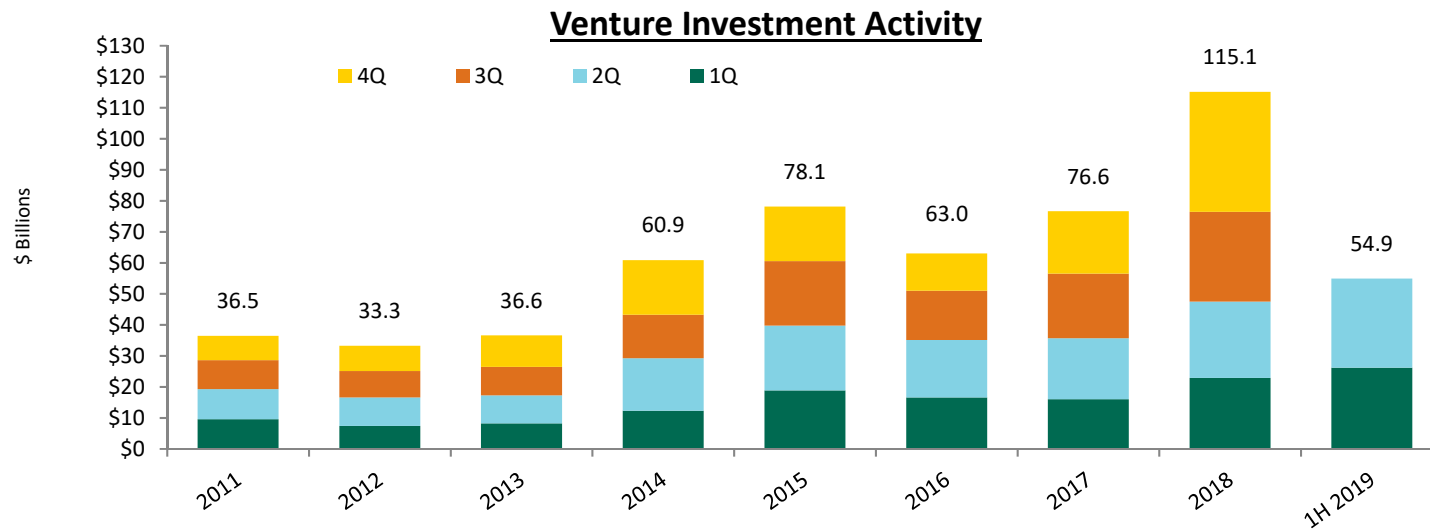




Private Equity Investment Was Robust In 2018 And Maintained Strong Momentum Heading Into 2019

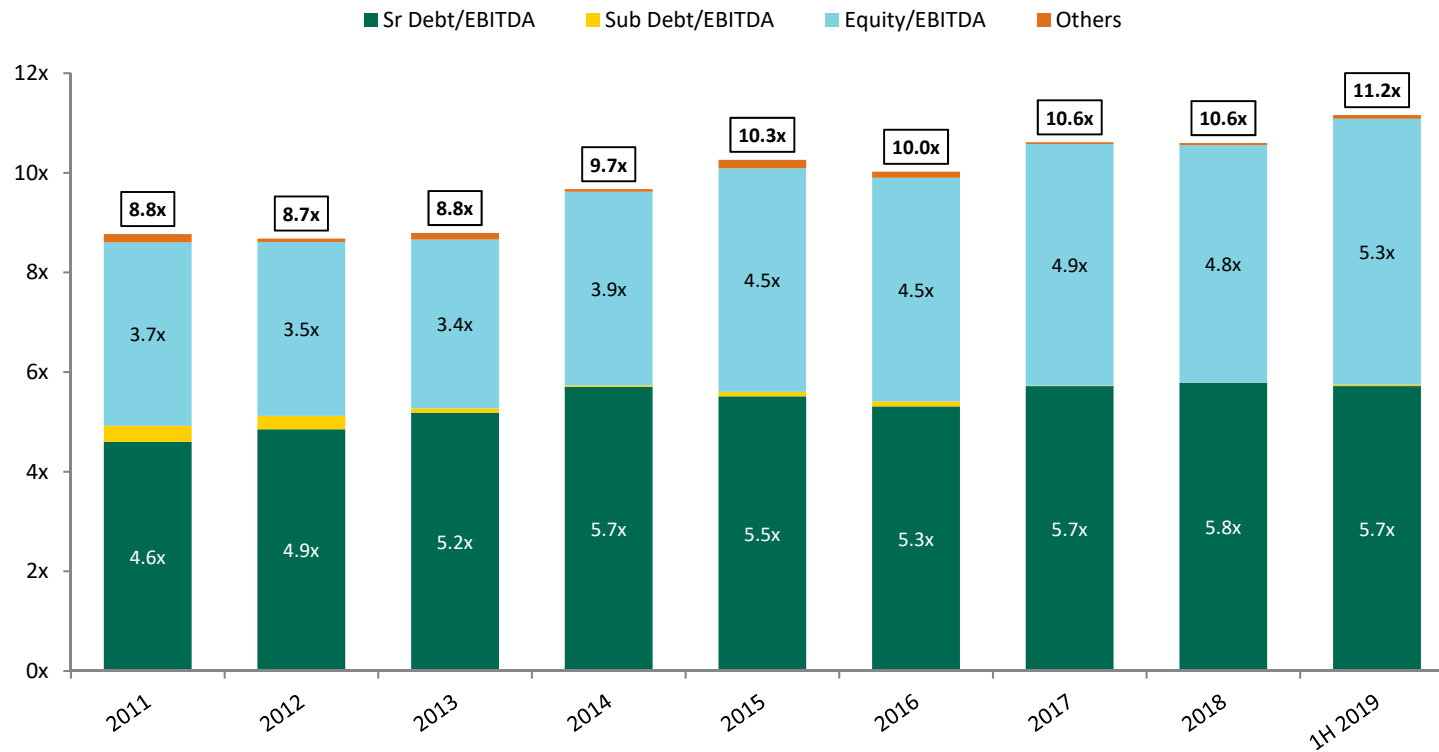


Source: Buyouts Magazine



Source: Buyouts Magazine

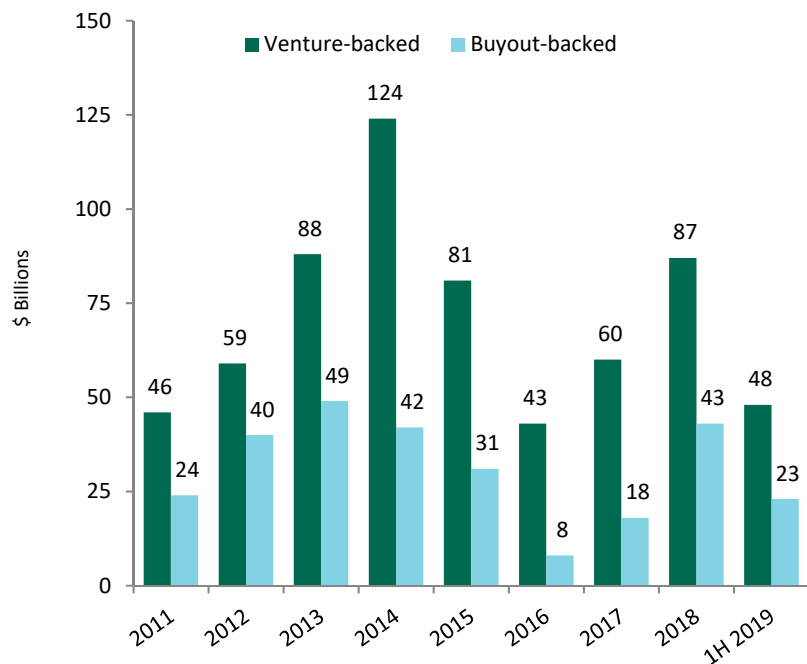
Average Purchase Price Multiples Have Been Steadily Increasing Over Time Aided By Leverage



Source: S&P

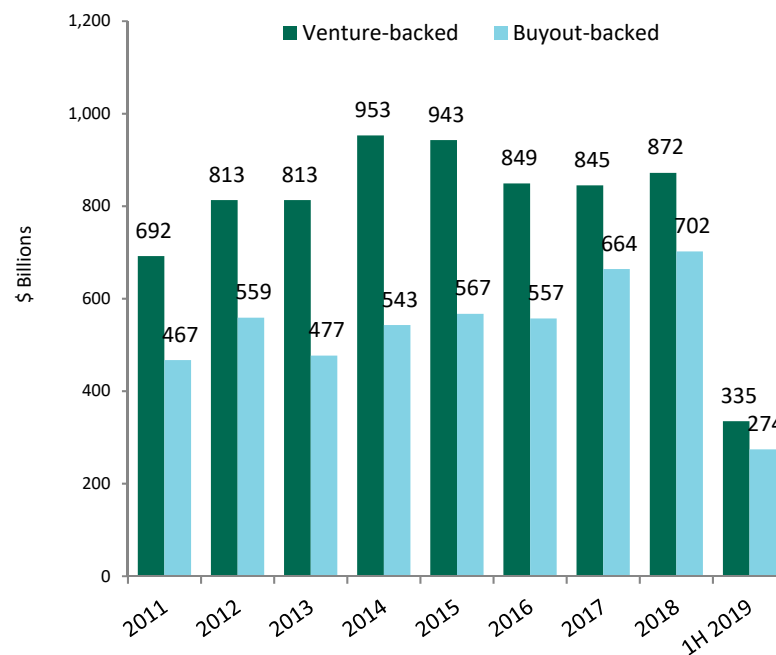


US Initial Public Offerings



Source: Buyouts Magazine & National Venture Capital Association

US M&A Activity

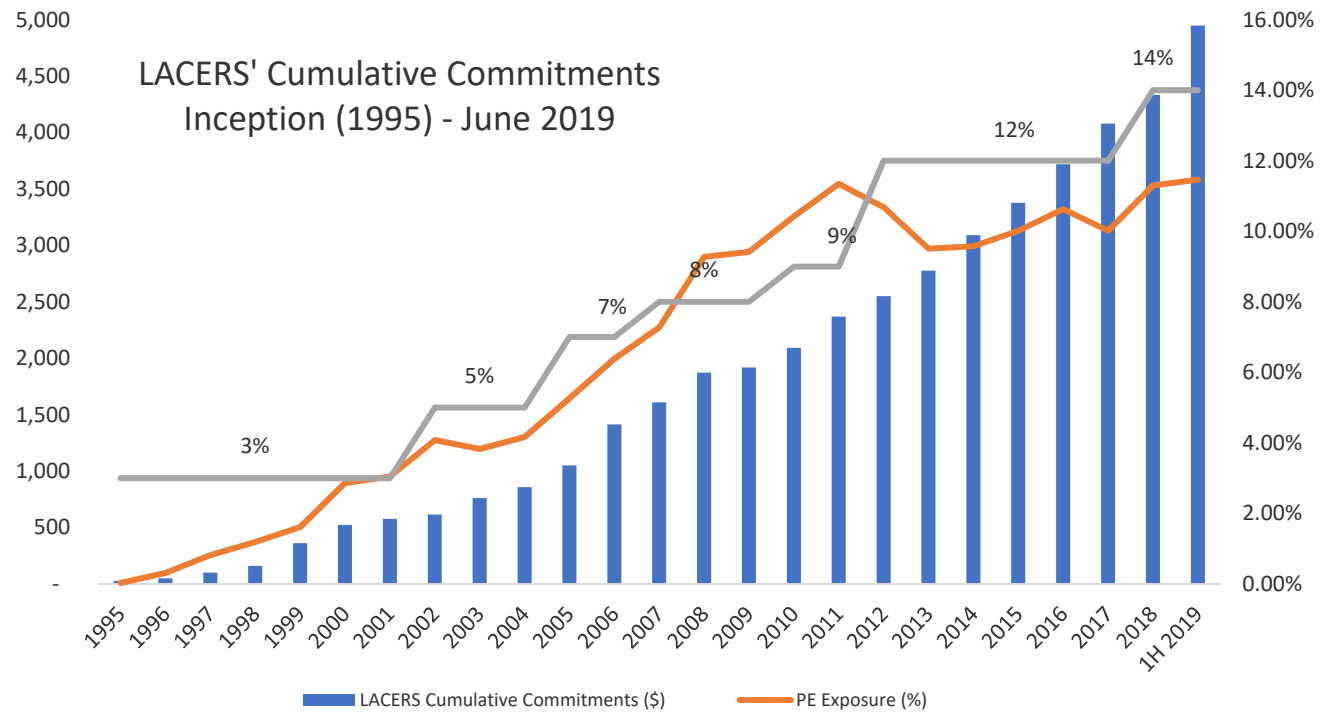


Source: Buyouts Magazine & National Venture Capital Association

LACERS PRIVATE EQUITY PROGRAM

- With the exception of 2008 - 2011, LACERS has consistently been below its targeted allocation to private equity.
- At the current target of 14.0%, the desired exposure to private equity is ~\$2.5 billion.

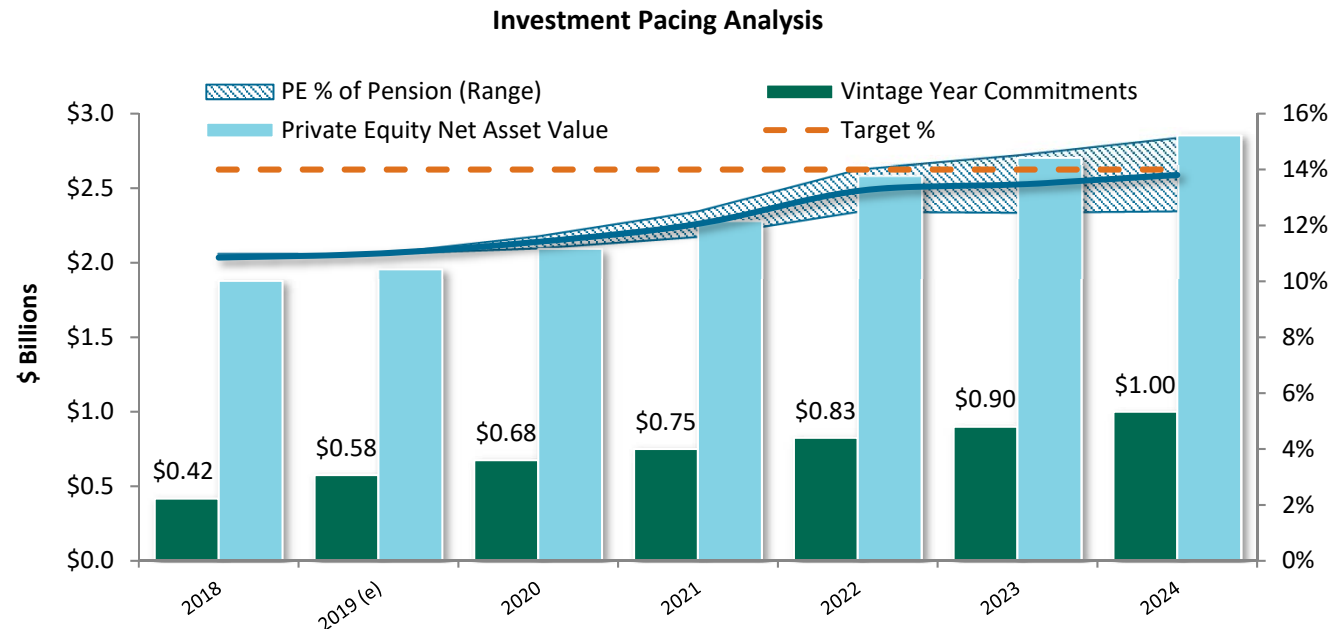
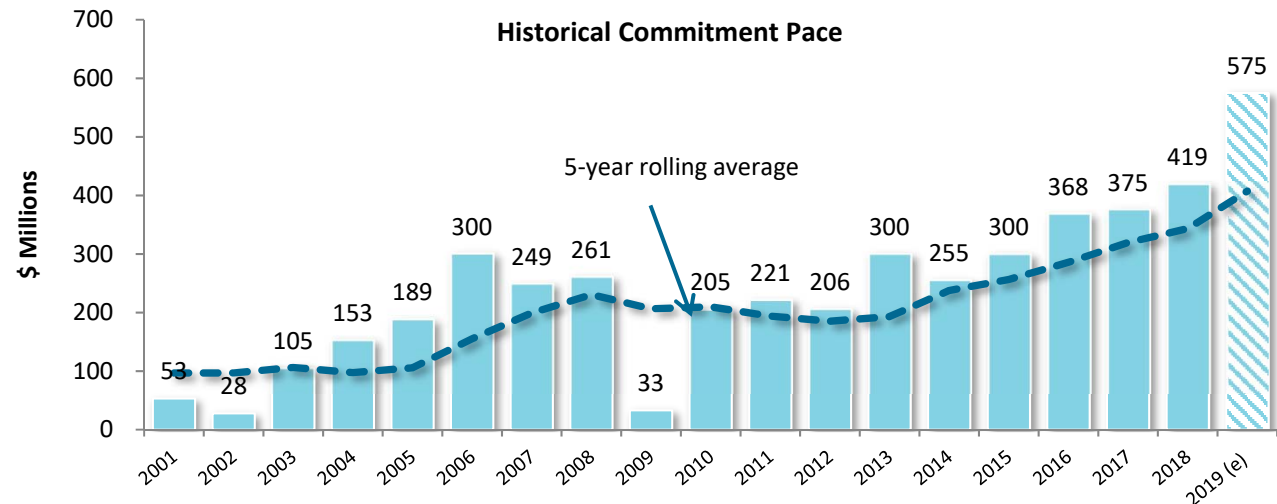
- ❖ LACERS began investing in private equity in 1995 with a 3.0% exposure target. Today the target stands at 14.0%.
- ❖ Total plan assets grew to \$17.7 billion as of June 30, 2019, up from \$4.5 billion at June 30, 1995.
- ❖ As of June 30, 2019, the Private Equity Program had a Fair Market Value of \$2.0 billion, approximately 11.5% of total Plan Assets.



LACERS PRIVATE EQUITY PROGRAM



- LACERS commitments over the last 10 years have varied from a low of \$33 million in 2009 to a high of \$419 million in 2018.
- Preliminary commitment plan of \$625 - \$675 million proposed for 2020.
- Preliminary recommendation to make 10 - 14 commitments of \$50 million to \$100 million per year.



- LACERS has a relatively large number of Sponsor relationships (120+). Going forward, TorreyCove recommends continuing to consolidate exposure with the best performing managers.
- LACERS should continue to explore a potential secondary sale to rationalize the number of relationships and monetize legacy investments.

LACERS PRIVATE EQUITY PROGRAM



LACERS has committed over \$5.0 billion to 272 partnerships and 126 sponsors as of August 31, 2019.

Aggregate Portfolio Snapshot			
Portfolio Since Inception	8/31/19	12/31/18	Net Change
Partnerships	272	256	16
Active	226	213	13
Inactive	46	43	3
Sponsors	126	122	4
Commitments	\$5.0 bn	\$4.5 bn	\$0.5 bn
Fair Market Value ¹	\$2.0 bn	\$1.9 bn	\$0.1 bn
Unfunded ¹	\$1.4 bn	\$1.2 bn	\$0.2 bn
Total Exposure ¹	\$3.5 bn	\$3.0 bn	\$0.5 bn

1. Information is as of June 30, 2019, the latest draft data available.

- LACERS' exposure to Buyouts is at the lower end of TorreyCove's recommended long-term target, while exposure to Venture Capital is near the high end.

SUB-ASSET CLASS EXPOSURES



Suggested Sub-Assets Class Ranges

Private Equity

Private Equity Asset and Sub-Asset Classes	LACERS Exposure (%) ¹	TorreyCove's Suggested Long-Term Target	TorreyCove's Suggested 2020 Tactical Weighting
Buyouts	56.4%	50% - 65%	55% - 70%
Large	22.5%		
Medium	29.9%		
Small	4.0%		
Venture Capital	13.3%	5% - 15%	5% - 10%
VC - Early Stage	4.3%		
VC - Late Stage	3.0%		
VC - Multi-Stage	6.0%		
Growth Equity	12.5%	5% - 15%	10% - 15%
Credit/Distressed	9.4%	5% - 15%	10% - 15%
Distressed	6.6%		
Credit	2.4%		
Mezzanine	0.4%		
Other	8.3%	0% - 10%	0% - 5%
Natural Resources	6.9%		
Secondaries	1.3%		
Fund of Funds	0.1%		

1. Based on Fund-level Total Exposure (FMV + Unfunded) as of 6/30/19

GEOGRAPHIC EXPOSURES

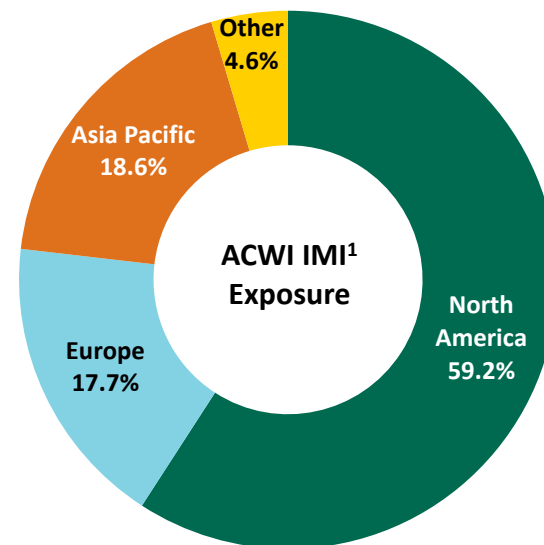
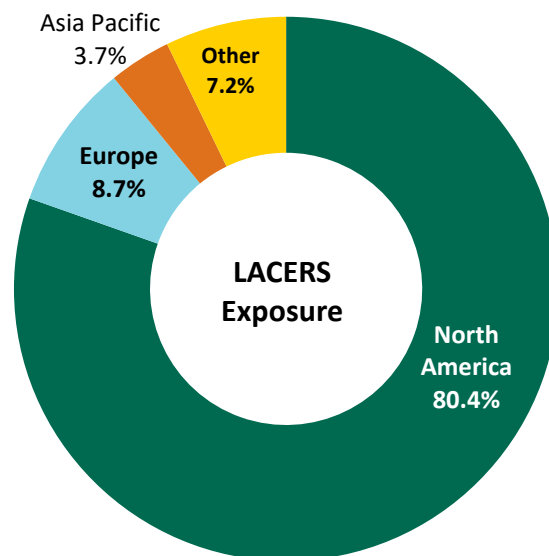
- LACERS' exposure to 'international' investments is underweight relative to TorreyCove's recommended long-term allocation target.
- Including Europe and Asia increases the number of potential investment opportunities while simultaneously increasing diversification.

Suggested vs. Actual Geographical Exposures

Domestic vs. International

Geography	LACERS Exposure (%) ¹	TorreyCove's Suggested Long-Term Target	TorreyCove's Suggested 2020 Tactical Weighting
North America	80.4%	50% - 70%	60% - 70%
International	19.6%	30% - 50%	30% - 40%
Europe	8.7%		
Asia Pacific	3.7%		
Multi-Region / Other	7.2%		

1. Based on Fund-level Total Exposure (FMV + Unfunded) as of 6/30/19

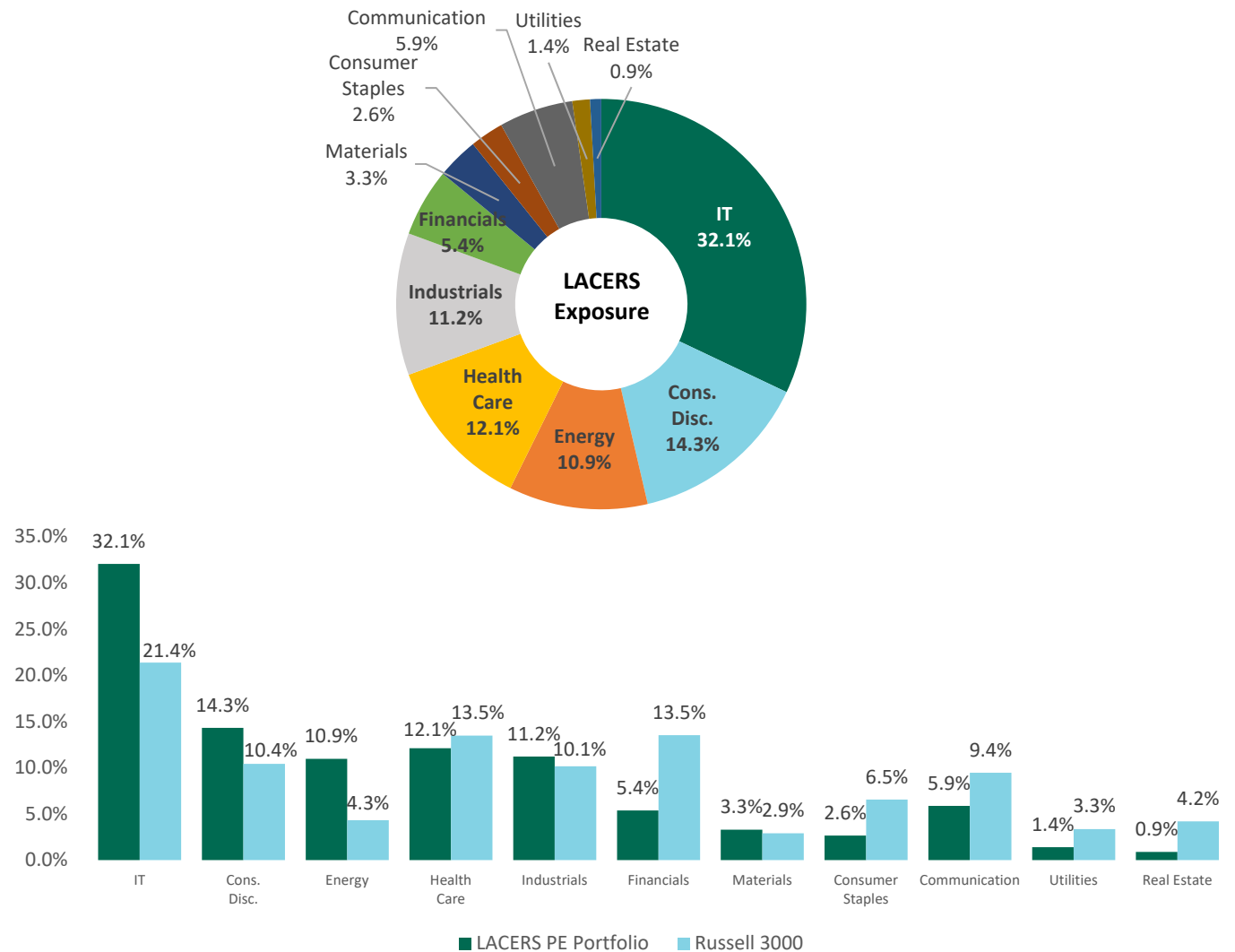


1. MSCI 'All Country World Index – Investable Market Index'

SECTOR EXPOSURES

- The Information Technology (“IT”) sector represents the largest sector exposure in the LACERS private equity portfolio.
- The IT sector also represents the largest overweight when compared to the Russell 3000 sector breakdown.

Sector Exposures – LACERS vs. Russell 3000



Closed Commitments through September 2019

Commitments – 1/1/2019 – 09/30/2019						
Closing Date	Sponsor	Partnership	Fund Size (mn) ¹	New or Existing	Investment Strategy	Commitment Amount (mn)
2/14/2019	Spark Capital	Spark Capital Partners VI	\$400	Existing	VC-Early Stage Growth Equity	\$13.3
		Spark Capital Growth Fund III	\$800			\$26.7
2/21/2019	Genstar Partners	Genstar Capital Partners IX	\$5,000	New	Medium Buyouts	\$50.0
2/28/2019	Gilde Buyout Partners	Gilde Buyout Fund VI	€1,500	Existing	Medium Buyouts	€34.9
3/7/2019	Harvest Partners	Harvest Partners VIII	\$3,250	Existing	Medium Buyouts	\$50.0
3/22/2019	DEFY²	DEFY Partners II	\$225	Existing	VC-Early Stage	\$18.0
5/2/2019	TA Associates	TA XIII	\$7,500	Existing	Growth Equity	\$35.0
5/2/2019	Advent International	Advent International GPE IX	\$17,500	Existing	Large Buyouts	\$45.0
6/25/2019		Advent Global Technology Fund	\$1,750		Medium Buyouts	\$15.0
5/3/2019	Freeman Spogli	FS Equity Partners VIII	\$1,500	New	Medium Buyouts	\$25.0
5/23/2019	Platinum Equity	Platinum Equity Capital Partners V	\$8,000	Existing	Large Buyouts	\$50.0
6/6/2019	NEA	New Enterprise Associates 17	\$3,600	Existing	VC-Multi Stage	\$35.0
7/30/19	P4G²	P4G Capital Fund I	\$300	New	Small Buyouts	\$10.0
7/31/19	Oak HC-FT	Oak HC- FT III	\$700	Existing	VC- Multi Stage	\$25.0
8/16/19	Sunstone²	Sunstone Partners II	\$375	Existing	Growth Equity	\$10.0
Total:	13	15				~\$408.0

¹ Based on target fund size.

² Qualifies as an Emerging Manager based on LACERS' definition.

SCORECARD: 2019 STRATEGIC PLAN



		Positive Progress	Work in Progress	Progress Since 9/30/18
Pacing Recommendations	<ul style="list-style-type: none"> Q4 2018 - commit approximately \$100 million to \$150 million in additional capital for 2018 	X		<ul style="list-style-type: none"> Committed ~\$100 million to four funds and three sponsors in Q4 2018
	<ul style="list-style-type: none"> Preliminary commitment plan of \$550 - \$575 million proposed for 2019 	X		<ul style="list-style-type: none"> Closed on ~\$408 million of commitments through the end of Q3 2019 Additional commitments expected to close in Q4 2019 for a total of ~\$560 million
	<ul style="list-style-type: none"> Preliminary recommendation to make 10 - 12 commitments of \$50 - \$100 million per year 	X		<ul style="list-style-type: none"> 10 sponsor commitments averaging ~\$41 million per sponsor 3 Emerging Manager commitments averaging ~\$13 million per commitment
	<ul style="list-style-type: none"> Increase exposure to private equity to get closer to the policy target of 14.0% of total plan assets 	X		<ul style="list-style-type: none"> LACERS' exposure to private equity has increased to 11.5%, up from ~10.0% as of June 30, 2018.
Investment Recommendations	<ul style="list-style-type: none"> Q4 2018 - Review the Private Equity Policy and Emerging Manager Policy and suggest changes if appropriate 	X		<ul style="list-style-type: none"> Increased policy thresholds to allow for bigger commitments to existing relationships, new relationships, and Emerging Managers
	<ul style="list-style-type: none"> Selectively add exposure to Europe 	X		<ul style="list-style-type: none"> LACERS' Fund-level total exposure to Europe has increased from 8.0% to 8.7%
	<ul style="list-style-type: none"> Selectively add exposure to Asia 		X	<ul style="list-style-type: none"> Potential investments being considered for Q1 2020
	<ul style="list-style-type: none"> Increase exposure to Buyouts relative to other sub-asset classes and decrease Venture Capital exposure 	X		<ul style="list-style-type: none"> LACERS' exposure to 'Buyouts' has increased to 56.4%, up from 54.9% as of June 30, 2018.
	<ul style="list-style-type: none"> Consolidate commitments with best performing managers 	X		<ul style="list-style-type: none"> Commitments of \$50 - \$60 million completed with several high conviction sponsors
	<ul style="list-style-type: none"> Explore the possibility of a secondary sale 	X		<ul style="list-style-type: none"> Education and preliminary planning in process

Q4 2019 / 2020 GOALS AND OBJECTIVES

❖ Pacing Recommendations

Q4 2019

- Finalize several more commitments before year end to reach the commitment target for 2019
- Finalize the forward calendar for 2020

Full Year 2020

- Commitment plan of \$625 - \$675 million proposed for 2020
- 10 -14 commitments of \$50 - \$100 million per year

❖ Investment Recommendations

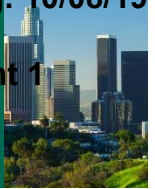
Q4 2019

- Continue to review the potential process for a secondary sale
- Continue to review the potential for a co-investment program

Full Year 2020

- Continue to selectively add exposure internationally – primarily to Europe and Asia
- Continue to increase exposure to Buyouts relative to other sub-asset classes and decrease Venture Capital exposure
- Continue to consolidate commitments with top performing managers
- Continue to manage underlying sector exposures
- Consider adding exposure to strategies designed to outperform in down markets – i.e. Value-Oriented Managers, Turnaround Managers, Distressed Managers

EMERGING MANAGERS - 2019 SCORECARD & 2020 GOALS AND OBJECTIVES



❖ 2019 Emerging Manager Activity

- Committed \$38 million to three different sponsors that qualify as Emerging Managers under LACERS' definition
- Evaluating a fourth commitment, which if closed, would collectively translate into ~\$50 million in total commitments to Emerging Managers, or ~9.0% of total 2019 commitments

❖ 2020 Pacing Recommendations

- Commitment plan of \$50 - \$75 million proposed for 2020, subject to TorreyCove's standard underwriting process
- 3 - 4 commitments of \$10 - \$20 million, subject to TorreyCove's standard underwriting process

❖ 2020 Investment Recommendations

- Continue attending Emerging Manager conferences
- Continue to build the pipeline of potential Emerging Managers
- Continue to track and evaluate managers that have moved past Emerging Manager status



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

MEETING: OCTOBER 8, 2019
ITEM: VI

SUBJECT: BROKERAGE ACTIVITY REPORT FOR THE PERIOD OF JULY 1, 2018 TO JUNE 30, 2019

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

Recommendation

That the Committee receive and file this report.

Executive Summary

A summary of brokerage activity for the period of July 1, 2018 to June 30, 2019.

Discussion

LACERS Investment Policy, Section 1.V.C, adopted on February 12, 2019, 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.

The commissions and recapture credits for the period July 1, 2018 to June 30, 2019 for public equities managers are presented in Attachment 1 to this report.

Strategic Plan Impact Statement

Reviewing brokerage commissions is discussed within Investment Policy and consistent with upholding good governance practices which affirm transparency, accountability and fiduciary duty (Goal V).

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

RJ/BF/BS:sg

Attachment: 1. Commissions and Recapture Credits, July 1, 2018 to June 30, 2019

COMMISSIONS AND RECAPTURE CREDITS
July 1, 2018 to June 30, 2019

The commissions and recapture credits for the period July 1, 2018 to June 30, 2019 for public equities managers are presented in the table below:

Public Market Equity Managers	Total Commission Dollars	Recaptured Dollars
Domestic Equities		
AJO – Large Cap Value	\$51,872	
EAM – Small Cap Growth	\$311,611	
Panagora – Small Cap Value	\$33,848	\$1,237
Principal Global Investors – Mid Cap	\$38,102	
Rhumblin S&P 500 Index	\$59,478	
Rhumblin R1000 Growth Index	\$5,218	
Rhumblin R2000 Index	\$14,046	
Rhumblin R2000 Growth Index	\$9,203	
Rhumblin R2000 Value Index	\$7,319	
Sub-total	\$530,697	\$1,237
Non-U.S. Equities		
AQR – Dev. Mkts Small Cap	\$62,931	
Axiom – Non-U.S. EM Growth	\$651,790	\$15,912
Barrow, Hanley – Developed Markets Value	\$301,580	
DFA – Non-US EM Value	\$64,540	
Lazard – Developed Markets Core	\$362,315	
MFS – Developed Markets Growth	\$67,967	
Oberweis – Dev. Mkts Small Cap	\$662,783	
QMA – Non-US EM Core	\$546,501	
State Street MSCI World Ex-US Index	\$28,701	
Sub-total	\$2,749,108	\$15,912
Combined total	\$3,279,805	\$17,149

