



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

MEETING: AUGUST 9, 2022
ITEM: V

SUBJECT: ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendation

That the Investment Committee receive and file this report.

Executive Summary

LACERS' Emerging Investment Manager Program aims to hire and retain Emerging Investment Managers in order to add value to the LACERS investment portfolio. This report highlights the Emerging Investment Manager firms hired, dollar amounts awarded, and staff and consultant efforts to increase Emerging Investment Manager representation in the LACERS investment portfolio in calendar year 2021.

Discussion

Background

LACERS' Emerging Investment Manager Policy (Policy) was adopted on February 14, 2012, and was most recently revised on May 25, 2021. The Policy identifies guidelines and sets goals to hire and retain Emerging Investment Managers that would otherwise not be identified in the standard LACERS investment manager search process in order to add value to the LACERS investment portfolio. Smaller investment management firms may generate superior performance returns due to increased market flexibility associated with smaller asset bases. The Policy sets a goal of funding Emerging Investment Managers at no less than 10% of available capital and provides minimum criteria for firms to qualify as an Emerging Investment Manager.

Pursuant to the Policy, this annual report provides the status of the Emerging Investment Manager Program for the year ending December 31, 2021, including the following information:

1. Names and dollar amounts awarded to Emerging Investment Managers
2. Report of Emerging Investment Manager goal metrics
3. List of all investment manager searches
4. Staff and consultant efforts to increase the visibility of LACERS' investment manager searches and representation of Emerging Investment Managers in the LACERS investment portfolio

5. Performance data for funds managed by Emerging Investment Managers

1. Names and Dollar Amounts Awarded to Emerging Investment Managers in 2021

Manager	Style	Asset Class	Investment/Commitment	Consultant
ULU Ventures Fund III, LP	VC – Early Stage	Private Equity	\$10,000,000	Aksia CA LLC
Mill Point Capital Partners II, LP	Buyout - Small	Private Equity	\$11,000,000	Aksia CA LLC
Avance Investment Partners, LP	Buyout - Small	Private Equity	\$20,000,000	Aksia CA LLC
Biospring Partners Fund, LP	Growth Equity	Private Equity	\$20,000,000	Aksia CA LLC
DEFY Partners III, LP	VC – Early Stage	Private Equity	\$20,000,000	Aksia CA LLC

2. Emerging Investment Manager Goal Metrics

The Policy sets a goal for Emerging Investment Manager exposure in public and private market asset classes at no less than 10%.

Public Markets

For each public markets asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total market value of Emerging Investment Managers within a respective asset class divided by the total market value of the respective asset class; and 2) Manager Search Metric: total dollars awarded to Emerging Investment Managers in a particular public asset class manager search divided by the total dollars awarded for the respective manager search.

In calendar year 2021, one public markets search was initiated for Passive U.S., Non-U.S., and Global Index Strategies. The Core Fixed Income Mandate Search, initiated in 2019, was completed in 2021; no contracts were awarded to Emerging Investment Managers.

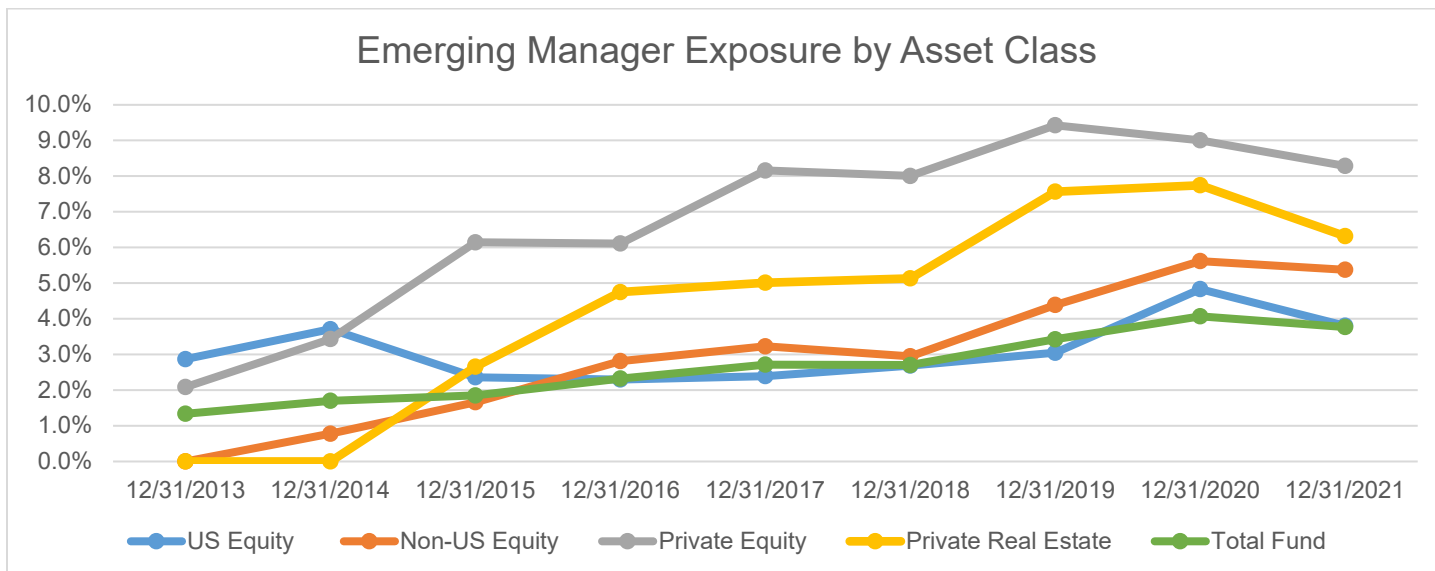
Public Market Asset Classes	Emerging Manager Exposure (Metric 1)	Public Markets Manager Searches (Metric 2)
U.S. Equity	3.8%	N/A
Non-U.S. Equity	5.4%	N/A
Core Fixed Income	0.0%	0.0%
Credit Opportunities	0.0%	N/A
Public Real Assets	0.0%	N/A

Private Markets

For each private markets asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total committed dollars of Emerging Investment Managers within a respective asset class divided by all the dollars within that respective asset class on a market value basis; and 2) Manager Search Metric: the total of all committed capital awarded to Emerging Investment Managers of completed searches within a respective private market asset class divided by all committed capital awarded within the respective private market asset class over a 36-month rolling period ending December 31, 2021.

Private Market Asset Classes	Asset Class (Metric 1)	Manager Search (Metric 2)
Private Equity	8.3%	6.9%
Private Real Estate	6.3%	4.4%

On a fund-number basis for the 36-month period ending December 31, 2021, LACERS authorized commitments to a total of 10 private equity Emerging Investment Managers out of 69 private equity funds (14%) and one real estate Emerging Investment Managers out of 12 real estate funds (8%).



Asset Class	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
U.S. Equity	2.9%	3.7%	2.4%	2.3%	2.4%	2.7%	3.0%	4.8%	3.8%
Non-U.S. Equity	0.0%	0.8%	1.5%	2.8%	3.2%	2.9%	4.4%	5.6%	5.4%
Private Equity*	2.1%	3.4%	6.1%	6.1%	8.2%	8.0%	9.4%	9.0%	8.3%
Private Real Estate*	0.0%	0.0%	2.7%	4.7%	5.0%	5.1%	7.6%	7.7%	6.3%
Total Fund	1.3%	1.7%	1.8%	2.3%	2.7%	2.7%	3.4%	4.1%	3.8%

*Private Equity asset class exposure restated for years 2013, 2016, 2017, 2018, 2019 and 2020. Private Real Estate asset class exposure restated for years 2015, 2017, 2018, 2019, and 2020. Restatements due to incorrect calculation of asset class exposure metrics for these asset classes in prior reports.

3. Searches Conducted in 2021

Searches Initiated:

- Passive U.S., Non-U.S., and Global Index Strategies Mandate Search

Searches Completed:

- Core Fixed Income Mandate Search - \$2.88 billion of assets approved for contract awards.

4. Efforts to Increase Visibility and Representation of Emerging Investment Managers

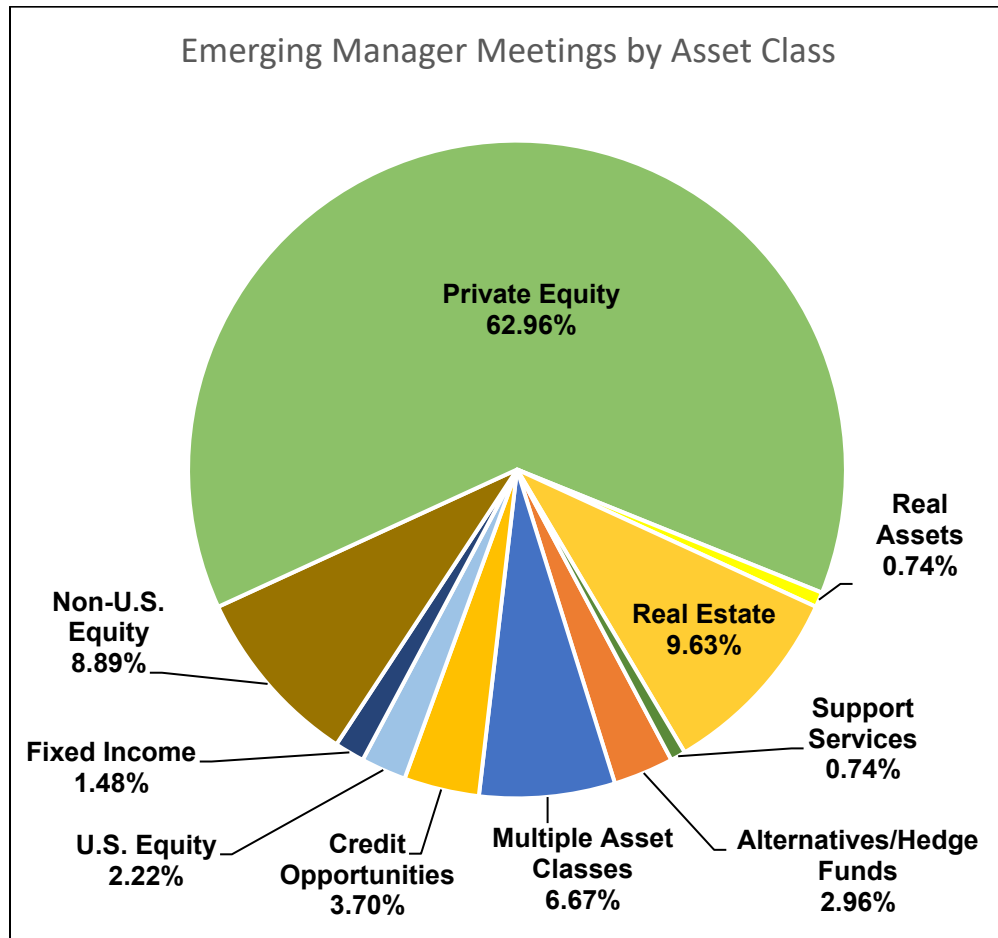
Staff

LACERS actively engages the emerging manager community to help achieve the policy objectives established by the Emerging Investment Manager Policy. During the calendar year 2021, staff participated in the following emerging manager events:

2021 Emerging Manager Events	
March	NASP Regional Conference
March	Girls Who Invest
July	Association of Asian American Investment Managers
July	Sahar Gender Equity in PE Summit
August	Diversity & Inclusion Investment Action Forum
September	SEO
September	Global Fund Women Week
September	100 Women in Finance
October	LACERS Emerging Manager Symposium
December	NAIC & ILPA Diverse Manager Event

On October 20, 2021, LACERS hosted its inaugural Emerging Manager Symposium, a semi-annual event to educate emerging managers about LACERS' Emerging Manager program and investment process. The event was highly successful and well attended by 212 participants. A replay of the symposium, which has been viewed 277 times as of July 25, 2022, is available on the LACERS YouTube channel: https://www.youtube.com/embed/Z_yeQWnYnpU

Additionally, staff regularly meets with emerging managers. During the calendar year 2021, staff held a total of 138 emerging manager meetings depicted by asset classes in the chart below.



Consultants

LACERS retains three investment consultants. The consultants’ respective emerging manager activities for the one-year period ending December 31, 2021, are summarized below.

Consultant	Meetings or Calls	Emerging Manager Conferences	Awarded to Emerging Managers
NEPC, LLC (General)	184	10	\$6.3 billion / 21 managers
Aksia CA LLC (Private Equity)	186	16	\$598.2 million / 13 managers
The Townsend Group (Real Estate)	80	10	\$1.201 billion / 7 managers

Note: The definition of “Emerging Manager” for this matrix is based on the emerging investment manager criteria unique to each consultant.

5. Performance Data of LACERS Emerging Investment Managers (as of 12/31/2021)

Public Markets Managers Performance (Net-of-Fees)	Inception Date	One Year	Two Years	Three Years	Five Years	Since Inception
Oberweis Asset Management, Inc. ¹ MSCI EAFE Small Cap Index	Jan-2014	3.92 10.10	30.76 11.22	29.03 15.62	18.30 11.04	11.46 7.44
<i>Excess Return</i>		-6.18	19.54	13.41	7.26	4.02
EAM Investors LLC ² Russell 2000 Growth Index	Sep-2015	3.77 2.83	22.29 17.66	25.56 21.17	19.08 14.53	16.13 14.17
<i>Excess Return</i>		0.94	4.63	4.39	4.55	1.96
Granahan Investment Management, Inc. Russell 2000 Growth Index	Aug-2020	-0.40 2.83	- -	- -	- -	28.49 25.84
<i>Excess Return</i>		-3.23	-	-	-	2.65

Public Markets Managers Peer Comparison	Universe	Number of Peers in Universe	5-Year Return % (Peer Rank)	5-Year Peer Median Return %	5-Year Sharpe Ratio (Peer Rank)	5-Year Sharpe Ratio Median
Oberweis Asset Management, Inc.	eV EAFE Small Cap Equity Net Median	140	18.30 (4 th)	10.98	0.88 (9 th)	0.60
EAM Investors LLC	eV US Small Cap Growth Equity Net Median	181	19.08 (55 th)	19.44	0.89 (58 th)	0.91
Granahan Investment Management, Inc. ³	eV US Small Cap Growth Equity Net Median	181	35.36 (1 st)	19.44	1.33 (4 th)	0.91

¹ Account funded on January 15, 2014. Manager no longer meets the LACERS definition of an emerging manager as of the fourth quarter of 2015; firm assets under management exceed \$2 billion.

² Account funded on October 1, 2015. Manager no longer meets the LACERS definition of an emerging manager as of the third quarter of 2017; firm assets under management exceed \$2 billion.

³ Composite strategy performance was used to determine the 5-year peer rankings due to the limited track record of LACERS' accounts. Five-year data sourced from eVestment Small Cap Focused Growth composite provided by Granahan.

Private Real Estate Emerging Fund Managers	Vintage Year	Net IRR ⁴	Return Multiple	Sourced By
Gerrity Retail Fund 2, LP	2015	3.9%	1.20x	Townsend Group
Asana Partners Fund I, LP	2017 ⁵	16.3%	1.70x	Townsend Group
Broadview Real Estate Partners Fund, LP	2019	15.9%	1.10x	Townsend Group

Private Equity Emerging Fund Managers	Vintage Year	Net IRR ⁴	Return Multiple	Sourced By
High Road Capital Partners Fund II, LP	2013	15.3%	1.82x	Hamilton Lane
Blue Sea Capital Fund I, LP	2014	19.8%	2.23x	Portfolio Advisors
Oak HC/FT Partners, LP	2014	34.4%	4.17x	Portfolio Advisors
1315 Capital, LP	2015	19.0%	1.88x	Portfolio Advisors
New Water Capital Partners, LP	2015	15.3%	1.57x	Portfolio Advisors
Angeles Equity Partners I, LP	2015	18.7%	1.49x	Portfolio Advisors
CenterGate Capital Partners I, LP	2015	24.2%	1.80x	Portfolio Advisors
Sunstone Partners I, LP	2016	38.5%	2.54x	Portfolio Advisors
Defy Partners I, LP	2016 ⁶	16.0%	1.46x	Portfolio Advisors
NMS Fund III, LP	2017	33.1%	1.77x	Portfolio Advisors
Oak HC/FT Partners II, LP	2017	71.6%	4.00x	Portfolio Advisors
Astra Partners I, LP	2017	-0.6%	0.98x	Portfolio Advisors
Mill Point Capital Partners, LP	2018	29.9%	1.88x	Portfolio Advisors
1315 Capital Fund II, LP	2018	14.9%	1.19x	Portfolio Advisors
DEFY Partners II, LP	2019	58.6%	1.62x	Aksia
P4G Capital Partners I, LP	2019	-39.1%	0.70x	Aksia
Sunstone Partners II, LP	2019	-	1.17x	Aksia
OceanSound Partners Fund, LP	2020	-	1.17x	Aksia
Builders VC Fund II, LP	2020	-	0.99x	Aksia
ULU Ventures Fund III, LP	2021	-	0.98x	Aksia
Mill Point Capital Partners II, LP	2021	-	0.97x	Aksia
Avance Investment Partners, LP	2021	-	0.99x	Aksia
Biospring Partners Fund, LP	2021	-	0.81x	Aksia
DEFY Partners III, LP	2021	58.6%	1.00x	Aksia

⁴ A private market fund typically yields a low or negative IRR during its early life "J Curve" period.

⁵ LACERS committed to fund in calendar year 2016.

⁶ LACERS committed to fund in calendar year 2017.

Strategic Plan Impact Statement

The Emerging Investment Manager Policy aims to add value to the LACERS investment portfolio by hiring Emerging Investment Managers, consistent with Goal IV, which aims to optimize long-term risk adjusted investment returns. The presentation and discussion of the Policy's goals, metrics, manager outreach and manager performance are consistent with Goal V, which aims to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

Prepared By: Ricky Mulawin, Management Analyst, Investment Division

NMG/RJ/BF/RM