



Board of Administration Agenda

REGULAR MEETING
TUESDAY, OCTOBER 23, 2018
TIME: 10:00 A.M.
MEETING LOCATION:

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

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.

President:	Cynthia M. Ruiz
Vice President:	Elizabeth L. Greenwood
Commissioners:	Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghokassian
Legal Counsel:	City Attorney's Office Retirement Benefits Division

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION
- II. [APPROVAL OF MINUTES FOR REGULAR BOARD MEETING OF OCTOBER 9, 2018 AND POSSIBLE BOARD ACTION](#)
- III. BOARD PRESIDENT VERBAL REPORT
- IV. GENERAL MANAGER VERBAL REPORT
 - A. REPORT ON DEPARTMENT OPERATIONS
 - B. UPCOMING AGENDA ITEMS
 - C. GENERAL MANAGER RESPONSE TO BOARD ON QUESTION REGARDING PROPOSITION 8
- V. CONSENT AGENDA
 - A. [MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR SEPTEMBER 2018](#)

- B. [RECEIVE AND FILE – COMMISSIONER ELIZABETH LEE BOARD EDUCATION EVALUATION ON THE FIDUCIARY INVESTORS SYMPOSIUM, STANFORD, CALIFORNIA, SEPTEMBER 30 – OCTOBER 2, 2018](#)
- VI. COMMITTEE REPORT(S)
- A. AUDIT COMMITTEE VERBAL REPORT ON THE MEETING OF OCTOBER 23, 2018
- VII. INVESTMENTS
- A. CHIEF INVESTMENT OFFICER VERBAL REPORT
 - B. [INVESTMENT MANAGER SEARCHES FOR MULTIPLE ASSET CLASS MANDATES AND POSSIBLE BOARD ACTION](#)
 - C. [PRIVATE EQUITY PROGRAM 2019 STRATEGIC PLAN AND POSSIBLE BOARD ACTION](#)
 - D. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF ONE (1) PARTICULAR, SPECIFIC REAL ESTATE INVESTMENT AND POSSIBLE BOARD ACTION**
- VIII. DISABILITY RETIREMENT APPLICATION(S)
- A. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF CHRISTOPHER BERNARD AND POSSIBLE BOARD ACTION**
 - B. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF ELAINE GOOD RAMIREZ AND POSSIBLE BOARD ACTION**
- IX. LEGAL/LITIGATION
- A. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9 (D)(4) TO CONFER WITH AND RECEIVE ADVICE FROM LEGAL COUNSEL REGARDING PENDING LITIGATION (ONE CASE) AND POSSIBLE BOARD ACTION**
- X. OTHER BUSINESS
- XI. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, November 13, 2018 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.
- XII. ADJOURNMENT

MINUTES OF THE REGULAR MEETING
BOARD OF ADMINISTRATION
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

LACERS Ken Spiker Boardroom
202 West First Street, Fifth Floor
Los Angeles, California

October 9, 2018

10:02 a.m.

Agenda of: Oct. 23, 2018

Item No: II

PRESENT:	President:	Cynthia M. Ruiz
	Vice President:	Elizabeth L. Greenwood <small>(arrived at 10:18 a.m.)</small>
	Commissioners:	Elizabeth Lee Nilza R. Serrano Sung Won Sohn Michael R. Wilkinson
	Acting Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counsel:	Anya Freedman
ABSENT:	Commissioners:	Sandra Lee

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

I

PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION – President Ruiz asked if there were any persons who wished to speak on matters within the Board's jurisdiction, to which there was no response and no public comment cards were received.

II

APPROVAL OF MINUTES FOR REGULAR BOARD MEETING OF SEPTEMBER 25, 2018 AND POSSIBLE BOARD ACTION – A motion to approve the Regular Board Meeting minutes of September 25, 2018 was moved by Commissioner Serrano, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Serrano, Sohn, Wilkinson and President Ruiz -5; Nays, None.

III

BOARD PRESIDENT VERBAL REPORT – President Ruiz stated that she is looking forward to the Environmental, Social, Governance (ESG) presentation on the agenda for the Board.

IV

GENERAL MANAGER VERBAL REPORT

- A. REPORT ON DEPARTMENT OPERATIONS – Neil M. Guglielmo, General Manager, discussed the following items:
- Off-Site Strategic Plan Workshop on October 16, 2018 at 9:00 a.m. at the Los Angeles Zoo.
 - New call-back feature for incoming calls to LACERS is now active.
 - Early career retirement counseling has been requested by newer members.
 - Open Enrollment begins on Monday, October 15, 2018, meetings in various locations are scheduled.
 - Ad-Hoc Cyber Security Meeting planned for November 2018.
- B. UPCOMING AGENDA ITEMS – Neil M. Guglielmo, General Manager, stated the Divisional Spotlight on the agenda is for the Service Retirement Unit. Mr. Guglielmo stated this item will continue to appear on the agenda with a different unit every month.

V

CONSENT AGENDA

- A. BENEFITS PAYMENTS APPROVED BY GENERAL MANAGER – The report was received by the Board and filed.
- B. MARKETING CESSATION NOTIFICATION – The report was received by the Board and filed.
- C. RECEIVE AND FILE – COMMISSIONER RUIZ BOARD EDUCATION EVALUATION ON THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) – The report was received by the Board and filed.

VI

BOARD/DEPARTMENT ADMINISTRATION

- A. SOLE SOURCE CONTRACT WITH CEM BENCHMARKING, INC. FOR PENSION ADMINISTRATION BENCHMARKING SERVICES AND POSSIBLE BOARD ACTION – Edeliza Fang, Senior Management Analyst II and Dan Goto, Management Analyst with Administrative Services Division, presented this item to the Board. After discussion, Commissioner Elizabeth Lee moved approval of the following Resolution:

**CONTRACT WITH
CEM BENCHMARKING INC.
FOR PENSION ADMINISTRATION BENCHMARKING SERVICES**

RESOLUTION 181009-A

WHEREAS, the CEM Benchmarking Inc. (CEM) study will provide LACERS with an objective cost and performance benchmarking analysis of its pension administration costs;

WHEREAS, LACERS staff lacks the expertise necessary to perform this work;

WHEREAS, CEM has expertise and accumulated datasets in this area that are unique and cannot be acquired through any other service provider;

WHEREAS, the Board determined CEM to be a sole source for this work due to the unique nature of professional services to be provided and the impracticality of engaging in a competitive bidding or Request for Proposal process given the relatively low contract amount;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby authorizes an expenditure of \$25,000 to CEM to perform a cost and performance benchmarking analysis of the LACERS Plan; and, authorizes the General Manager to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following:

<u>Company Name:</u>	CEM Benchmarking Inc.
<u>Service Provided:</u>	Pension Administration Comparison and Analysis
<u>Duration:</u>	One year
<u>Contract Ceiling:</u>	\$25,000

Which motion was seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Serrano, Sohn, Wilkinson, Vice President Greenwood and President Ruiz -6; Nays, None.

- B. LEGISLATIVE UPDATE OF OCTOBER 2018 – Dale Wong-Nguyen, Chief Benefits Analyst and Chhintana Kurimoto, Management Analyst with Administrative Services Division presented this item to the Board and the report was received by the Board and filed.
- C. SPOTLIGHT – SERVICE RETIREMENT UNIT – Karen Freire, Chief Benefits Analyst and Ferralyn Sneed, Senior Management Analyst II with Retirement Services Division introduced the presenters for the Spotlight. Delia Hernandez and James Kawashima, Management Analysts with Retirement Services Division presented the Spotlight on the Service Retirement Unit to the Board.

VII

INVESTMENTS

- A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value, \$17.44 Billion as of October 8, 2018. Mr. June stated that the Private Credit RFP and a report on Environmental, Social, Governance (ESG) are on the Board Agenda today. He stated that during the December 2017 Investment Committee Meeting Portfolio Advisers introduced a strategic plan to increase LACERS commitment to Private Equity to \$400 to \$450 million in 2018 and wanted the Board to be aware of that figure. Mr. June reviewed the Asset Allocation with the Board. He stated future Board Agenda items include multiple RFP's and the Private Equity Program Strategic Plan.
- B. INVESTMENT MANAGER SEARCH FOR PRIVATE CREDIT MANDATE AND POSSIBLE BOARD ACTION – Bryan Fujita, Chief Operating Officer and Jimmy Wang, Investment Officer

presented this item to the Board. Commissioner Serrano requested disclosures on Sexual Harassment Policies and Vice President Greenwood requested clarification on what the code of conduct covers. Vice President Greenwood moved approval, as amended, seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Serrano, Sohn, Wilkinson, Vice President Greenwood and President Ruiz -6; Nays, None.

- C. REPORT ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS – Rod June, Chief Investment Officer and Ron Aubert, Investment Officer, presented this item to the Board. After discussion, President Ruiz requested a legal briefing from the City Attorney regarding this issue.

VIII

BENEFITS ADMINISTRATION

- A. ALEX ONLINE BENEFITS COUNSELOR DEMONSTRATION – Alex Rabrenovich, Chief Benefits Analyst with Health Benefits & Communications Division, demonstrated the Alex Online Benefits Counselor program to the Board.

President Ruiz adjourned the Regular Meeting at 12:02 p.m. to convene in Closed Session. Jim Napier, Deputy City Attorney, was present for the Closed Session items for Disability Retirement Applications.

IX

DISABILITY RETIREMENT APPLICATION(S)

- A. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION FOR ADRIENNE ELLOIE AND POSSIBLE BOARD ACTION**
- B. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION FOR ARNOLD STOVALL AND POSSIBLE BOARD ACTION**

X

LEGAL/LITIGATION

Assistant City Attorney Anya Freedman was present for the Closed Session item for Legal/Litigation.

- A. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(4) TO CONFER WITH COUNSEL REGARDING PENDING LITIGATION IN ONE CASE AND POSSIBLE BOARD ACTION:**
 - 1. **IN RE: PROPOSED OPT-IN INVESTOR GROUP ACTION IN THE NETHERLANDS AGAINST STEINHOFF INTERNATIONAL HOLDINGS N.V.**

President Ruiz reconvened the Regular Meeting at 12:28 p.m. and announced that during Closed Session the Board unanimously approved the the Disability Retirement Applications of Adrienne Elloie

and Arnold Stovall. President Ruiz also announced that the Board conferred with City Attorney on pending litigation.

XI

OTHER BUSINESS – Vice President Greenwood stated that the annual renewal for Pacific Pension & Investment Institute (PPI) was not renewed by staff. She stated that this is an important and useful membership and requests that the membership be renewed. After discussion, the Board decided to add this item to a future agenda for discussion.

XII

NEXT MEETING: A Special Board Meeting is scheduled for Tuesday, October 16, 2018 at 9:00 a.m. at the Los Angeles Zoo, 5333 Zoo Drive, Los Angeles, CA 90027.

The next Regular meeting of the Board is scheduled for Tuesday, October 23, 2018 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

XIII

ADJOURNMENT – There being no further discussion before the Board, President Ruiz adjourned the meeting at 12:35 p.m.

Cynthia M. Ruiz
President

Neil M. Guglielmo
Manager-Secretary

Agenda of: OCT. 23, 2018

Item No: V-A

**MONTHLY REPORT ON SEMINARS AND CONFERENCES
ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS
(FOR THE MONTH OF SEPTEMBER 2018)**

In accordance with Section V.H.2 of the approved Board Education and Travel Policy, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, seminars and conferences they attended as a LACERS representative or in the capacity of a LACERS Board Member which are either complimentary (no cost involved) or with expenses fully covered by the Board Member. This monthly report shall include all seminars and conferences attended during the 4-week period preceding the Board meeting wherein the report is to be presented.

BOARD MEMBER:

President Cynthia M. Ruiz
Vice President Elizabeth L. Greenwood

Commissioner Elizabeth Lee
Commissioner Sandra Lee
Commissioner Nilza R. Serrano
Commissioner Sung Won Sohn
Commissioner Michael R. Wilkinson

DATE(S) OF EVENT	SEMINAR / CONFERENCE TITLE	EVENT SPONSOR (ORGANIZATION)	LOCATION (CITY, STATE)
	NOTHING TO REPORT		

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS)
 BOARD MEMBER EDUCATION EVALUATION FORM**

Board Member Name:	Elizabeth Lee
Conference/Seminar Title	Fiduciary Investors Symposium
Date	Sept. 30 to October 2, 2018
Location (City/State)	Palo Alto, CA
TOTAL EDUCATION HOURS:	20 hours
Level of complexity of the Conference/Seminar:	<input type="checkbox"/> Introductory <input checked="" type="checkbox"/> Intermediate <input type="checkbox"/> Advanced <input type="checkbox"/> Others: _____
Conference/Seminar Category:	<input checked="" type="checkbox"/> Finance/Investments <input type="checkbox"/> Benefits (Retirement/Healthcare) <input checked="" type="checkbox"/> Legislative/Fiduciary Law <input checked="" type="checkbox"/> Corporate Governance <input type="checkbox"/> Others: _____

SEMINAR CONTENT

Please provide an evaluation on the quality of the conference or seminar and its relevance to you as a Board member.

1. What letter grade would you give to the overall educational value of the conference/seminar? <i>Rate seminar with A (excellent), B (very good), C (good), D (not beneficial).</i>	A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> Comments: _____
2. Would you recommend your fellow trustees attend this conference?	Never <input type="checkbox"/> At least Once <input type="checkbox"/> Annually <input checked="" type="checkbox"/> Every other year <input checked="" type="checkbox"/> Other <input type="checkbox"/> Comments: <u>Either annually or every other year</u>
3. Do you feel the conference was a good use of your time?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Why? _____
4. Are there other conferences addressing this subject area that you feel would be a better investment than this conference?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Please provide the name/title of the recommended conference: _____

Additional Comments: FIS was very well organized. The topics were led by prominent academics, industry professionals, and thought leaders who presented current and future issues related to risk management, investment trends and models, asset allocation strategies, etc. It also encouraged discussion and exchange of ideas among participants.



Report to Board of Administration

Neil M. Guglielmo

Agenda of: **OCTOBER 23, 2018**

From: Neil M. Guglielmo, General Manager

ITEM: **VII-B**

SUBJECT: INVESTMENT MANAGER SEARCHES FOR MULTIPLE ASSET CLASS MANDATES AND POSSIBLE BOARD ACTION

Recommendation

That the Board:

1. Authorize staff to conduct a search pursuant to the LACERS Manager Search and Selection Policy for one or more active investment managers for:
 - a. High yield/bank loan credit mandate (high yield and hybrid high yield/bank loan);
 - b. U.S. small cap equities mandate (core, growth, and value);
 - c. Emerging markets small cap equities mandate;
 - d. Emerging market debt mandate (local and hard currency blend);
 - e. Core fixed income mandate;
2. Approve amendments to minimum qualifications for each mandate;
3. Approve the process for evaluating candidates and;
4. Authorize the General Manager to release RFPs on LACERS' website and advertise the RFPs in industry publications.

Discussion

Background

On April 10, 2018, the Board approved a new asset allocation mix presented by NEPC, LLC (NEPC), LACERS' General Fund Consultant. The Board further approved NEPC's implementation plan on August 14, 2018. Pursuant to the adopted implementation plan, and consistent with LACERS' contracting practices, staff recommends conducting RFP processes to evaluate the current marketplace for the following mandates: high yield/bank loan credit (high yield and hybrid high yield/bank loan), U.S. small cap equities (core, growth, and value), emerging markets small cap equities, emerging market debt (local and hard currency blend), and core fixed income. Existing LACERS managers in the aforementioned mandates are required to submit RFP responses to be considered for possible mandate assignments.

Emerging Managers (as defined by LACERS Emerging Investment Manager Policy) are encouraged to participate in these manager searches, subject to LACERS Manager Search and Selection Policy (Policy). Fund of funds managers are also encouraged to participate subject to the Policy.

RFPs and Timeline of Events

A tentative timeline for each RFP process is provided below for further clarification.

	RFP	Tentative Timeline
A	High yield/bank loan credit mandate (high yield and hybrid high yield/bank loan);	January 2019 – June 2019
B	U.S. small cap equities mandate (core, growth, and value);	January 2019 – June 2019
C	Emerging markets small cap mandate	February 2019 – July 2019
D	Emerging market debt mandate (local and hard currency blend);	March 2019 – August 2019
E	Core fixed income mandate	May 2019 – October 2019

Estimated Mandate Allocations

Based upon the Asset Allocation and Risk Budgeting Review approved by the Board on August 14, 2018, the estimated mandate allocations are provided below. Estimated total target allocation amounts to \$4.49 billion (25.2% of total plan assets).

	RFP	Estimated Policy Target Allocation (\$) (as of 9/30/2018)	Estimated Policy Target Allocation of Total Plan (%) (as of 9/30/2018)
A	High yield credit mandate	\$235 million	1.33%
	Hybrid high yield/bank loan credit mandate	\$235 million	1.33%
B	U.S. small cap equities core mandate*	\$178 million	1.00%
	U.S. small cap equities growth mandate*	\$178 million	1.00%
	U.S. small cap equities value mandate*	\$178 million	1.00%
C	Emerging markets small cap mandate	\$240 million	1.35%
D	Emerging markets debt mandate (local and hard currency blend);	\$800 million	4.50%
E	Core fixed income mandate	\$2.44 billion	13.75%

*U.S. small cap equity mandates, together, include \$150 million allocation targeted for Emerging Managers

Minimum Qualifications

Staff and NEPC will execute the searches according to the Policy adopted on October 4, 2017, subject to the amendments proposed in this Board report. The Policy establishes four pre-approved minimum qualifications to be used in all active, public markets investment manager searches:

1. Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption;
2. Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end;
3. At least 60% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (12 of 20 quarters);
4. Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 25% of the proposed product assets inclusive of LACERS assets.

Candidates must meet these minimum qualifications to be considered to advance in the selection process. Prior to the release of each RFP, staff and NEPC may revise the attached questionnaire (Attachment A) as necessary to better evaluate candidates, to clarify questions, and to be more inclusive.

Amendments to Minimum Qualifications for U.S. Small Cap Equities and Emerging Market Small Cap
In order to seek a broader universe of potential respondents, staff and NEPC recommend amending Minimum Qualification No. 3 (listed above) for the U.S. Small Cap mandates (core, growth, and value) and for the Emerging Market Small Cap and would be applicable to only these searches.

3. At least 50% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (10 of 20 quarters);

Proposed Additional Minimum Qualifications for all RFPs

In order to provide a selection of well-qualified candidates, staff and NEPC recommend the Board approve the following additional minimum qualifications for all the RFPs:

1. The proposer must be directly responsible for the management of the account, and all personnel responsible for the account must be employees of the firm or a legal joint venture partner.
2. The senior members of the investment team must have worked together at the firm for at least one year as a legal entity.
3. The manager must have a minimum of five years of verifiable GIPS-compliant performance history actively managing the proposed product for institutional clients. Emerging Managers (as defined by the LACERS Emerging Investment Manager Policy) with a GIPS-compliant track record of less than five years for the proposed strategy may submit this track record and a supplemental track record established at a prior firm when performance can clearly be attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.
4. Candidates must submit their monthly and quarterly product composite returns and quarterly portfolio characteristics since inception through the latest quarter-end prior to release of RFP, to NEPC's designated product database via eVestment. The latest quarter-end date will be

specified in each RFP. LACERS staff reserves the right to request more recent returns and portfolio information from candidates subsequent to receiving RFP responses.

5. The composite performance history submitted to eVestment, NEPC's manager product database, must be actual results (not simulated or back-tested). For existing LACERS investment managers, the actual LACERS track record may be used.
6. The firm must have a minimum of \$50 million under management in the proposed product as of the latest quarter-end prior to the release of the RFP.

Performance Objective for each RFP Mandate

Candidates must accept the following benchmarks and performance objectives.

	RFP	Benchmark	Outperform objective**
A	High yield/bank loan credit mandate (high yield and hybrid high yield/bank loan);	Bloomberg Barclays US High Yield 2% Capped Index or a blended benchmark of BB US High Yield 2% Capped Index and Credit Suisse Leveraged Loan Index	+50 bps
B	U.S. small cap equities mandate (core, growth, and value);	Russell 2000, Russell 2000 Value or Russell 2000 Growth	+150 bps
C	Emerging markets small cap mandate	MSCI Emerging Markets Small Cap ND	+150 bps
D	Emerging market debt mandate (local and hard currency blend);	Blended benchmark of JPM EMBI Global Diversified and JPM GBI-EM Global Diversified	+50 bps
E	Core fixed income mandate	Bloomberg Barclays Aggregate Bond Index	+25 bps

**Annualized over a full market cycle (normally three-to-five years).

Search Process

Following Board approval of the minimum qualifications, the searches will be conducted according to the process outlined below:

1. The investment manager search documents, which detail the requirements to participate in the process and request supplemental firm and product information, will be published in the following print and digital media: LACERS' website, NEPC's website, Pensions & Investments, Emerging Manager Monthly, and other publications and websites targeting emerging managers. Staff will also distribute the RFP to all firms subscribed to the LACERS RFP/RFI Notification Service. Additionally, NEPC will screen its database for potential candidates.
2. Staff and NEPC will evaluate the responses and develop a proposed semi-finalist candidate list.
3. Investment Committee (IC) will review and consider the proposed semi-finalist candidate list and determine semi-finalists to move forward in the process.
4. Staff will conduct due diligence on the semi-finalists and collaborate with NEPC to develop proposed finalist recommendation(s) for the IC.

5. IC will interview the finalists and develop a list of firm(s) for Board consideration.
6. Board will consider IC recommended finalist(s) for contract award.
7. Authorize staff to execute the contract(s) subject to satisfactory business terms.

As of 6/30/2018, NEPC's database contained the following number of managers for each mandate:

	RFP	Total Investment managers in the Asset Class	Potential qualifying non-Emerging Managers/products in the Asset Class	Potential qualifying Emerging Managers/products in the Asset Class***
A	High yield/bank loan credit mandate (high yield and hybrid high yield/bank loan);	147 High yield, 168 combination of High Yield and Bank Loans	29 High yield, 54 combination high yield and bank loans	1 High yield
B	U.S. small cap equities mandate(core, growth, and value);	173 Core, 168 Growth, 214 Value	32 Core, 25 Growth, 44 Value	2 Core, 10 Growth, 3 Value
C	Emerging markets small cap mandate	69	12	1
D	Emerging market debt mandate (local and hard currency blend);	55	20	0
E	Core fixed income mandate	202	140	1

***As defined by the LACERS Emerging Investment Manager Policy

Strategic Plan Impact Statement

The Request for Proposal (RFP) for investment management services assist the fund with achieving satisfactory long-term risk adjusted investment returns (Goal IV). Implementing a competitive bidding process by issuing an RFP is in line with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, Jimmy Wang, Investment Officer I, Ronald Aubert II, Investment Officer I, Investment Division.

RJ:BF:BS:JW:RA

Attachment: A) Sample Request for Proposal (RFP) Questionnaire



NEPC, LLC

YOU DEMAND MORE. So do we.SM

NEPC Research
Manager Request for Information
Core Fixed Income Investment Management
Services

Investment Firm
Investment Product

Data requested by NEPC Research as of 9/30/2017

Instructions:

Please return this questionnaire in word format (i.e. not in pdf).

Please do not alter the format of this template.

Please do not change or modify text in **Green or **Blue** shaded boxes.**

Please provide answers white boxes only.

Please provide any legal disclaimers as a separate attachment (i.e. do not include as part of this document).

255 State Street, Boston, MA 02109
TEL: 617.374.1300 | FAX: 617.374.1313 | www.nepc.com

BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

Investment Firm/ Investment Product

NEPC, LLC RFI for Core Fixed Income Strategies

General Firm and Product Information					
Product Name in eVestment	[Please enter. If product is not listed in eVestment, please describe.]				
Firm Name	[Please enter]				
Website	[Please enter]				
Office Locations	City	State / Province	Country	Number of Employees	Year Founded
Main Office	[Please enter]	[Please enter]	[Please enter]	[Please enter]	[Please enter]
Additional Office Locations	[Please enter]	[Please enter]	[Please enter]	[Please enter]	[Please enter]
	[Please enter]	[Please enter]	[Please enter]	[Please enter]	[Please enter]
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	[Please enter]	[Please enter]	[Please enter]	[Please enter]	[Please enter]
Year Firm was Founded	[Please add. If the Firm is less than 7 years old, please include the month and year.]				
Firm History / Description	[Please describe the Firm's origins, evolution and current structure. Please list any predecessor organizations or ownership or subsidiary relationships with other organizations.]				
Ownership Structure	[Please describe the Firm's ownership structure. Provide a % breakout of any voting and non-voting equity stakes. Describe any affiliate relationships and any expected changes in ownership.]				
Firm Assets Under Management	[Please add the value of assets under management for the Firm as of most recent quarter (9/30/2017).]				
Investment Strategy Assets Under Management	[Please add the value of the proposed investment strategy assets as of most recent quarter (9/30/2017). This number should include investments made in separately managed accounts or other commingled funds. Please break out AUM by vehicle type (commingled, SMA, mutual funds, etc.)]				
Client Base	[Please break out the Firm's client base by type (e.g. Pensions, Endowments, Fund of Funds, High Net Worth, Retail).]				
Insurance	[Describe the firm's insurance coverage outlining types and coverage limits. List SEC-required fidelity bonds, errors and omissions insurance, and any other fiduciary liability coverage your firm carries.]				
Technology	[Describe the firm's technology infrastructure and integration across investment management, accounting, risk management, performance measurement and reporting. Has your firm been subject to any data breaches resulting from illegal or unknown sources accessing the firm's information systems. Describe the firm's disaster recovery strategy; outlining the firm's strategy around natural disasters and other events that would cause your systems to shut down.]				
E.S.G.	[Describe your firm's philosophy around Environment, Social and Governance issues. Does your firm incorporate ESG factors in the investment decision making process in the product proposed?]				
Performance	[Describe the methodology used to calculate performance history in the materials your firm has provided. Is performance GIPS compliant (please attach the most recent GIPS certification). If not compliant please provide a reason for non-compliance. Does any part of the composite history include results of a past firm or affiliation? If so, provide a reason for inclusion. What				

Investment Firm/ Investment Product

NEPC, LLC RFI for Core Fixed Income Strategies

	percentage of total product assets is included in the composite? Were any accounts managed to the benchmark excluded from the composite? If so, why?]
Audit	[Provide the date of the firm's last third-party audit across the firm. Have you changed auditors in the past three years?]

Investment Product Overview		
Product Size (\$M)	Quarter End	[Please enter (as of 9/30/2017)]
	Recent Client Redemptions / Terminations	[Please enter redemptions and/or client terminations (\$) that have occurred in the past 12 months and how many and the types of clients that represents and reasons for redemptions]
	Recent Additions	[Please enter additions (\$) that have occurred in the past 12 months and how many and the types of clients]
Targeted Excess Return	[Please enter an annualized % or range of excess returns you expect to earn above the Bloomberg Barclays US Aggregate Bond Index and the time period for meeting the excess return.]	
Expected Volatility	[Please enter an annualized % or range of anticipated standard deviation for the investment product over the same period as the Targeted Excess Return]	
Minimum Investment Size (\$M)	[Please enter minimum investment size for investors assuming a separately managed account, commingled fund, etc.]	
Management Fee	[Please break out by vehicle and share class if differentiated. If there are fee breaks for founding or sizable investors, please disclose. Is the firm willing to negotiate performance-based fees and/or be subject to a most favored nations clause?]	
Incentive Fee	[Please break out by vehicle and share class if differentiated. If there are fee breaks for founding or sizable investors, please disclose.]	
Other Fees	[Please give historical and projected amount and describe expenses are included in "other". Please discuss the components of the Fund's non-investment related expense burden. If there is an expense cap, please state.]	
Investor Base	[Please break out the product's investor base by type (e.g. Pensions, Endowments, Fund of Funds, High Net Worth).]	

Competing Strategies	
[Please provide details below for any competing or similar strategies Please add additional strategies as necessary.]	
Competing Investment Product / Vehicle #1	
Product Name	[Please enter the name of the investment product, vehicle, fund or separate account.]
Investment Strategy	[Please provide a short description of the investment strategy and how it overlaps with the strategy of the fund in question. Please provide a % range of potential overlap.]
Product Size	[Please provide the asset value of the investment product (specify as of date)]
Allocation Policy for Investments	[Please describe the allocation policy for how investments are allocated between this product and the proposed product]
Product Fee Structure	[Please outline fee structure]
Competing Investment Product / Vehicle #2	
Product Name	[Please enter the name of the investment product, vehicle, fund or separate account.]
Investment Strategy	[Please provide a short description of the investment strategy and how it overlaps with the strategy of the fund in question. Please provide a % range of potential overlap.]
Product Size	[Please provide the asset value of the investment product (specify as of date)]

Investment Firm/ *Investment Product*

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Allocation Policy for Investments	[Please describe the allocation policy for how investments are allocated between this product and the proposed product]
Product Fee Structure	[Please outline fee structure]

Product Strategy	
eVestment Product Name	[Provide the investment strategy/product name as it appears in eVestment. If product is not included in eVestment, please describe here.]
Product Investment Style	[Please describe the fund's investment style.]
Product Investment Universe	[Please provide a detailed description of the product's investment universe (e.g. what the product invests in). Please include relevant descriptive statistics and maximum amounts (e.g. geographic regions, instruments, sectors, sub-sectors, etc.)]
Definition of Core and Plus	[How does the strategy define "core" and "core-plus" fixed income. Outline the edge your firm has in choosing an optimal mix between core and core-plus fixed income investment instruments. Outline your firm's experience with major sectors of the bond market including investment grade, non-investment grade, non-USD, default securities, credit down-grades, etc.]
Changes in Style or Investment Universe	[Please outline any changes in the product's investment strategy or investment universe since inception. Please include estimated date when change was adopted.]
Investment Philosophy/ Value Creation Process	[Please describe in detail how your firm creates value in the portfolio.]
Reporting	Please provide a sample of your full reporting suite and outline when (# of days after month end) these reports can be delivered to your prospective client daily, monthly, quarterly.]

Research Process	
Research Process Overview	[Please provide an overview of the Firm's research process.]
Team	[Provide an organizational chart of the research team and outline which members are responsible for what task.]
Vetting Process for Investments	[Please describe the team's due diligence activities.]
Meetings	[Please describe any formalized meetings that occur surrounding the research process. (E.g. Who attends? What is their frequency? What is discussed? What are the resulting actions from the meetings? Is consensus necessary to move forward? What happens if no consensus is reached? How often does this occur?)]
Systems Used	[Does the Firm have any proprietary technology/systems used to aid in the research process? Please provide an estimate \$ amount spent developing proprietary systems? What is the estimated annual maintenance/development cost of these systems? What other systems are used in the research process?]

Portfolio Construction	
Portfolio Construction Overview	[Please provide an overview of the portfolio construction process; ensure an outline of the opportunity set and philosophy on opportunity set, decision making, research and time horizon for investments. Please list the personnel involved. How much time do these individuals spend focused on portfolio construction? Please discuss any relevant items not captured in the questions below.]

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Portfolio Allocation	[Please discuss how portfolio allocation across sub sectors occurs in the product. How does the manager think about risk and position sizing?) Describe the buy/sell discipline.]
Expected Number of Positions in Portfolios	[Please enter a range for the typical number of securities in the portfolio. Discuss if this has changed over time and why. How would this change as assets under management increase?]
Investment Holding Period	[Please outline the portfolio turnover and trading costs (percent of assets) from commissions and market impact (indirect) for the proposed product over the past year]
Monitoring Process	[Please describe the portfolio's monitoring process once an investment is made. Who are the key personnel responsible? How often is the investment thesis revisited, formally or informally? Are there performance triggers that force a formal review? How are decisions to re-size or exit positions made?]

Risk Management

Risk Management Overview	[Please provide a brief overview of the Firm's risk management procedures and philosophy on taking risks outlining the mechanisms/system outputs that aid in taking and managing risk. How does the manager assess risk? What are acceptable risks vs. unacceptable risks? How is portfolio monitored for risk? Who is responsible for monitoring portfolio risk? Who does s/he report to? How is their compensation determined? Is there a risk committee? Who comprises the committee? How often does the committee meet? What is the voting process? What occurs if there is a breach in risk guidelines? Please discuss any relevant items not captured in the questions below.]
Capacity	Do you believe your product is capacity constrained given your investment approach? When would you consider closing to new investors?]
Scenario Analysis	[Please describe any scenario analysis done at the portfolio level (e.g. outline base case, worst case, best case, etc.). What factors are tested? How often are scenarios revised, added, removed? How do the stress tests inform the portfolio manager in portfolio construction? Provide example reporting]
Investment Restrictions	[Please describe any investment restrictions for the product (maximum investment size, issuer concentration, industry concentration, geographic concentration, investment type, credit rating, liquidity, level III assets, stop-losses, maturity, benchmark inclusion, credit quality, number of issues, duration, sector concentration, non-US exposure etc.)]

Team

Team Overview	[Please provide an overview of the product's team. Are any of the senior professionals related? How many investment professionals are involved with the portfolio? Where are they located? How long has the team worked together? Did the team work together prior to the Fund/Firm? If so, where? Please discuss any relevant items not captured in the questions below.]
Structure	[Please describe how the firm's investment team is organized. (E.g. Do analysts work as generalist or are they specialized by geographic region, security type, sector, etc.? Is the product run as a single portfolio or as a silo'd structure? Does the Firm's investment team have the ability to leverage different research areas of the Firm?) Describe the Firm's risk management structure and outline the vision for how the risk management function is incorporated in the investment process.]
Trading/Execution Discretion	[Please discuss who on the investment team has trading discretion? Who has execution discretion? Please provide where these employees are located. Discuss how execution discretion is determined.]
Compensation	[Please discuss compensation for portfolio managers and analysts. (E.g. discretionary or formulaic performance based bonus? If discretionary, please provide a historic range

Investment Firm/ Investment Product

NEPC, LLC RFI for Core Fixed Income Strategies

	as a % of base salary? If discretionary, who determines the bonus? Is any compensation deferred? If so, describe the deferral program.))
Employee Retention	[Please discuss any employee retention mechanisms in place that are not related to compensation. (E.g. Please describe any non-compete or non-solicit agreements in current employee contracts. Who do those clauses affect? Are there any future plans to change or modify these terms? Has any employee with a non-compete or non-solicit clause left the firm? If so, were the clauses fully enforced? Why or why not?)]
Products/Firm Investment	[Please list the \$ amount of capital that the investment team has invested across all investment products they are responsible for and with the Firm.]
Succession Planning	[Please discuss any thoughts around the Firm's and product's succession planning. Who are the most qualified individuals to lead the portfolio in the absence of the senior portfolio manager/CIO?]
Future Hires	[Please discuss any planned future hires in the pipeline for investment and non-investment professionals. Comment on the size of assets the firm can manage with the team in its current state.]
Personal Trading	[Please discuss the Firm's personal trading policy. Who is responsible for monitoring? Who does s/he report to? Discuss any material violations to the Firm's trading policy.]

Firm and Fund Employee Breakdown		
Summary	Dedicated Firm Employees	Dedicated Product Employees [employees who will dedicate >50% of their time to the product]
Total Employees	[Please Enter #]	[Please Enter #]
Employee Breakdown by Title/Function	Dedicated Firm Employees	Dedicated Product Employees [employees who will dedicate >50% of their time to the product]
Partners/Owners	[Please Enter #]	[Please Enter #]
Investment Professionals	[Please Enter #]	[Please Enter #]
Portfolio Management	[Please Enter #]	[Please Enter #]
Research	[Please Enter #]	[Please Enter #]
Trading	[Please Enter #]	[Please Enter #]
Risk Management	[Please Enter #]	[Please Enter #]
Administration (Non-Investment)	[Please Enter #]	[Please Enter #]
Legal	[Please Enter #]	[Please Enter #]
Compliance	[Please Enter #]	[Please Enter #]
Other (Please Describe)	[Please Enter #]	[Please Enter #]

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	Business Address	[Please enter]
	Business Telephone	[Please enter]
	Business Email	[Please enter]
Reference 3	Name	[Please enter]
	Relationship to Firm	[Please enter]
	Firm / Title	[Please enter]
	Business Address	[Please enter]
	Business Telephone	[Please enter]
	Business Email	[Please enter]
Reference 4	Name	[Please enter]
	Relationship to Firm	[Please enter]
	Firm / Title	[Please enter]
	Business Address	[Please enter]
	Business Telephone	[Please enter]
	Business Email	[Please enter]
Reference 5	Name	[Please enter]
	Relationship to Firm	[Please enter]
	Firm / Title	[Please enter]
	Business Address	[Please enter]
	Business Telephone	[Please enter]
	Business Email	[Please enter]

Firm / Product Key Contacts

Primary Product Contact	Name	[Please enter]
	Title	[Please enter]
	Business Address	[Please enter]
	Business Telephone	[Please enter]
	Business Email	[Please enter]
Fund Placement Agent / 3rd Party Marketer / Consultant Contact	Name	[Please enter]
	Title	[Please enter]
	Firm	[Please enter]
	Business Address	[Please enter]
	Business Telephone	[Please enter]
	Business Email	[Please enter]

Portfolio Pricing

Investment Firm/ Investment Product

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Valuation Policy Overview	[Please discuss the Firm's portfolio valuation policies. How does the firm price the securities held in portfolios?]	
Exceptions	[Please discuss pricing policy exceptions. (E.g. Who has the authority to make exceptions (e.g. valuation committee, front office, back office, etc.)? How often do they occur? What % of the portfolio do they typically represent (Max % and Mean)?]	
Pricing Sources	[Please discuss pricing sources. How many dealers are used? List any independent valuation agencies the Firm uses regularly. How much of the portfolio is priced by dealers vs. independent valuation agencies?]	
Litigation, Regulation and Compliance		
Current Material Firm Litigation	[Please describe any current material litigation regarding the firm]	
Past Material Firm Litigation	[Please describe any past material litigation regarding the firm]	
Investment Professionals	[Have any investment professionals at your Firm ever been subject to any investment-related judgments, indictments, or settlements of potential litigation with or without admission of fault, guilt or liability? If yes, explain.]	
Compliance	[Please describe the Firm's compliance philosophy and staff allocated to this function, e.g. how many and which staff resources are assigned to this function, what are their roles and responsibilities? What are the key compliance procedures? Do you have a policy with regard to ethics, personal securities (If so, outline). Detail the pre and post trade compliance monitoring process]	
Systems	[Detail the systems used to ensure best practices, compliance rules, regulations and laws are followed. Was this system developed in-house or is it administered by a vendor. Detail the level of automation in the compliance system. How frequently are these compliance processes checked against current best practices.]	
SEC Registered Investment Advisor	Year Registered	[Please enter]
	Entity Name	[Please enter]
	ADV Attached	[Please attach Part I and II]
SEC Oversight	[Please describe the Firm's most recent examination by the SEC. When was the date of the most recent SEC examination? What were the key findings? Were there any deficiencies noted and what was done to remediate them?]	
SEC Investigation	Is any employee of your firm under investigation by the SEC? have a pending criminal or civil matter? Or has been convicted of a misdemeanor or felony in the past 10 years? If yes, please explain.	
Other Regulators	[Please describe other regulatory authorities to which the General Partner is subject. Has the GP ever been subject to reviews or audits by these other regulatory bodies? What were the key findings?]	
Personal Trading	[Please provide your compliance policy with regard to personal trading restrictions.]	
Investigations, Litigation, Claims	<p>For the past 10 years has the firm, its officers or principals or any affiliate ever:</p> <ol style="list-style-type: none"> been the focus of a non-routine Securities and Exchange Commission (SEC) inquiry or investigation or a similar inquiry or investigation from any similar federal, state or self-regulatory body or organization, been a party to or settled any litigation concerning breach of fiduciary responsibility or other investment related matters, or submitted a claim to your errors & omission, fiduciary liability and/or fidelity bond insurance carrier(s)? <p>If 'yes' to any, please provide details and the current status or disposition.</p>	
Attachments		
Attachment 1 - Historical Performance	We prefer that the proposed product's investment performance is uploaded into eVestment. Should the proposed product's track record not be in eVestment please attach monthly gross of fee and net of fee returns since inception indicating the month	

Investment Firm/ Investment Product

NEPC, LLC RFI for Core Fixed Income Strategies

	and returns.
Performance Analysis and Exposure	Please provide attribution by sector, quality, duration, for a longer timer period (3,5,7,10 years). Please provide YTM, YTW, Average Credit Quality and duration as at June 30 by year since inception of the proposed portfolio. Please provide a rolling quarter (every quarter since inception) exposure report outlining credit quality exposures.
Attachment 2 – Historical AUM	Please provide an EXCEL spreadsheet detailing historical assets under management for the Firm. Please break out this data in two aspects: <ol style="list-style-type: none"> 1. by vehicle type Commingled Funds/SMAs; 2. by strategy related/non-strategy related. You may provide graphical analysis if helpful, but MUST provide any underlying source data to support graphical representation (provide the data for the chart).
Attachment 3 – Detailed Biographies	Please provide a word document with the detailed biographies of the key professionals listed above in the section: Detailed Summary of Key Professionals and their roles and how they interact with the team in the investment process.
Attachment 4 – Investment Write-Up	Please provide a recent investment write-up of a high conviction idea. The idea does not have to be in the portfolio today. If necessary, the write-up may have segments black-lined for Firm compliance reasons.

Environmental, Social & Governance (ESG) Disclosures


ESG Analysis	[Does the Firm integrate analysis of financially material environmental, social and governance issues into its investment process? Please enter “Yes” or “no”]	
ESG Risk Assessment	[If so, please describe the Firm’s approach to assessing ESG risks and opportunities.]	
ESG Integration	How does your firm incorporate Environmental, Social, and Governance (ESG) approaches into the investment process?	
Principles for Responsible Investment (PRI)	Signatory	[Please enter “Yes” or “no”]
	Year Signed	[Please enter]
	ESG Policy Attached	[Please enter “Yes” or “no”]
PRI Reporting Framework	Is your firm a signatory to the Principles for Responsible Investment (PRI)? [Does your Firm generate a Responsible Investing (RI) Transparency Report? An RI Activity Report? Please enter “Yes” or “no”]	
Socially Responsible Investing Vehicles and Share Classes	[Does the Firm offer any Socially Responsible Investing vehicles or share classes?]	

Diversity and Inclusion

WMBDE Status	Is the firm a women, disabilities and/or minority-owned business? Include the percent ownership.
Diversity/Inclusion	Are diversity and inclusion goals integrated into the performance assessment process and determination of compensation for senior officials?
Compensation	Does the firm examine compensation for racial/ethnic or gender-based disparities?
Recruiting	Does the firm conduct targeted recruiting for women and minorities?
Policy Strategy	Does the firm have a written Diversity and Inclusion Recruiting Program/Strategy? (i.e. outreach, hiring, mentoring and/or scholarship programs designed to create a pipeline of minority and women professional talent to the firm).
Policy Program	Does the firm have a written Diversity and Inclusion Policy/Program? (i.e. business

Investment Firm/ Investment Product

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	policy that encourages the inclusion of minorities, women, veterans, disabled and LGBTQ in its workforce and as business partners). If yes, do one or more members of the firm's management/executive committee (or equivalent) have primary responsibility for leading the Diversity and Inclusion Policy/Program? If no to the previous question, does the firm have plans to create a Diversity and Inclusion Policy/Program within the next 12 months?																				
Diversity Committee	Does the firm have a Diversity and Inclusion Committee or equivalent?																				
Diversity Attachment	Please fill out the diversity table attached.  Diversity table LACERS.xlsx																				
Standard of Conduct																					
Conflicts	Disclose any financial or other relationship you have or have had with any LACERS Board member, consultant, or LACERS employees. If there are no conflicts of interest, please state, "There are no conflicts of interest to report."																				
Disclosure	Disclose any gifts (meals, tickets, anything of value over \$50, etc.) that you have given to any LACERS Board member, consultant, or LACERS employee in the last 12 months using the format below: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>No.</th> <th>Date (mm/dd /yy)</th> <th>Give n to</th> <th>Description of Gifts ¹</th> <th>Value (US\$)</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table> ¹ Gifts could be in the form of meals, tickets, paid travel, anything of value over \$50, etc.	No.	Date (mm/dd /yy)	Give n to	Description of Gifts ¹	Value (US\$)															
No.	Date (mm/dd /yy)	Give n to	Description of Gifts ¹	Value (US\$)																	
Policies	Do you have any written policies or procedures to address conflicts of interest? If so, please provide as Exhibit 6.																				
Potential Conflicts	What potential conflicts of interest are posed by other activities undertaken by the organization, if any? How are these addressed?																				
Code of Conduct	Has the firm adopted the CFA Code of Ethics and Standards of Professional Conduct?																				
Standards of Conduct	Does the firm have a written code of conduct or set of standards for professional behavior? If so, what does it address and how is employee compliance monitored?																				
Other																					
Business Planning	Please describe your business continuity plan. Have you ever had to activate any parts the plan? If so, describe the effectiveness of the plan and any post-activity modifications to that plan.																				
Under-representation	Please describe any policies, programs, and initiatives your firm has adopted to mentor under-represented groups in your firm. Provide examples of such staff who have promoted up or out of the organization under such a program.																				
Under-representation II	Please describe any partnerships and programs that seek to do business with under-represented firms.																				
Harassment	Does your firm have a sexual harassment policy? Please provide a Yes or No response. Please provide the current status or disposition regarding disclosures on past, present, or future litigations.																				



Report to Board of Administration

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

Agenda of: **OCTOBER 23, 2018**

ITEM: **VII-C**

SUBJECT: PRIVATE EQUITY PROGRAM 2019 STRATEGIC PLAN AND POSSIBLE BOARD ACTION

Recommendation

That the Board adopt the Private Equity Program 2019 Strategic Plan.

Discussion

On October 9, 2018, the Committee considered the attached report regarding the Private Equity Program 2019 Strategic Plan. The Committee heard a presentation from David Fann, Jeffrey Goldberger, and Heidi Poon of TorreyCove Capital Partners LLC (TorreyCove), LACERS' Private Equity Consultant. The plan, developed by TorreyCove with input from staff, establishes strategic objectives and investment plan recommendations for the next calendar year. The Committee discussed TorreyCove's recommendations on revising LACERS Investment Policy, but no action was taken. TorreyCove will be present at the Board meeting of October 23, 2018, should the Board desire to hear a presentation of 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).

This report was prepared by Wilkin Ly, Investment Officer II, Investment Division.

RJ:BF:WL:ap

Attachment: A) Investment Committee Recommendation Report dated October 9, 2018



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



Report to Investment Committee

Neil M. Guglielmo
From: Neil M. Guglielmo, General Manager

Agenda of: **OCTOBER 9, 2018**

ITEM: **VII**

SUBJECT: PRIVATE EQUITY PROGRAM 2019 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

Recommendation

That the Committee recommend to the Board the adoption of the Private Equity Program 2019 Strategic Plan.

Discussion

TorreyCove Capital Partners LLC (TorreyCove), LACERS' Private Equity Consultant, with input from staff, has developed the proposed Private Equity Program 2019 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).

This report was prepared by Wilkin Ly, Investment Officer II, Investment Division.

RJ:BF:WL

Attachment: A) LACERS Private Equity Portfolio 2019 Strategic Plan – TorreyCove Capital Partners LLC



ATTACHMENT A

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, viewed from a grassy hillside. The foreground is filled with green grass and trees. The middle ground shows a dense cluster of skyscrapers, including the US Bank Tower. The background is a clear blue sky.

LACERS Private Equity Portfolio 2019 Strategic Plan

Agenda

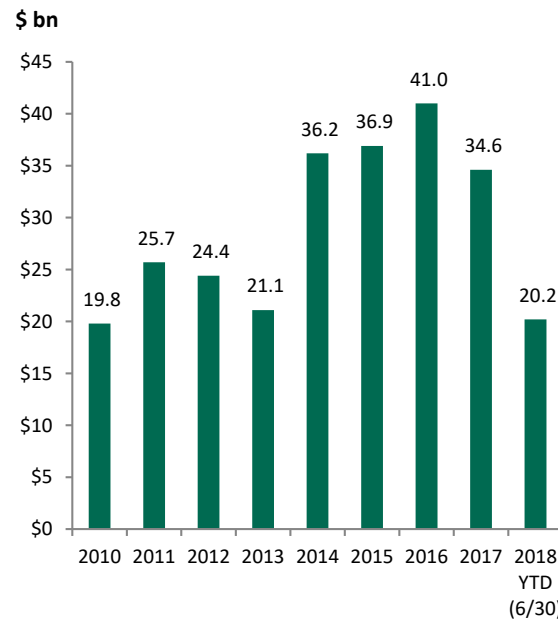
- Market Overview
- LACERS Private Equity Program
- Commitment Pacing
- Review of the Existing Portfolio
- Performance Overview
- Closed Commitments through September 2018
- Q4 2018 / 2019 Goals and Objectives
- Private Equity Investment Policy
- Emerging Manager Investment Policy
- Potential Policy Changes

Investor Appetite for Private Equity Remained Near Record Levels in 2018

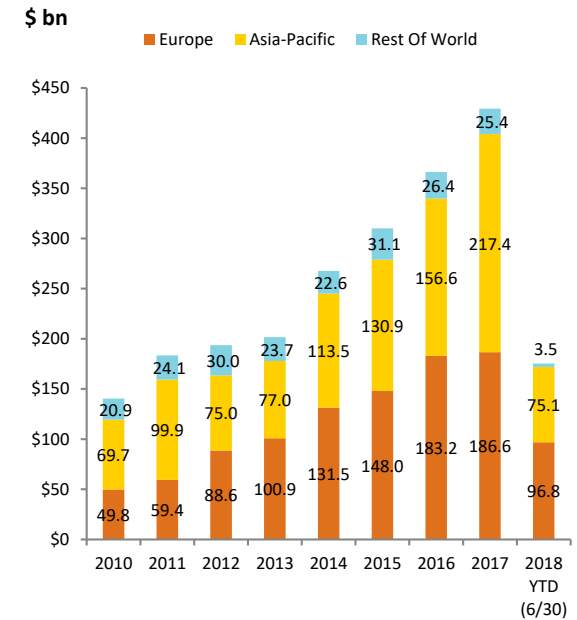
U.S. Buyouts



U.S. Venture Capital

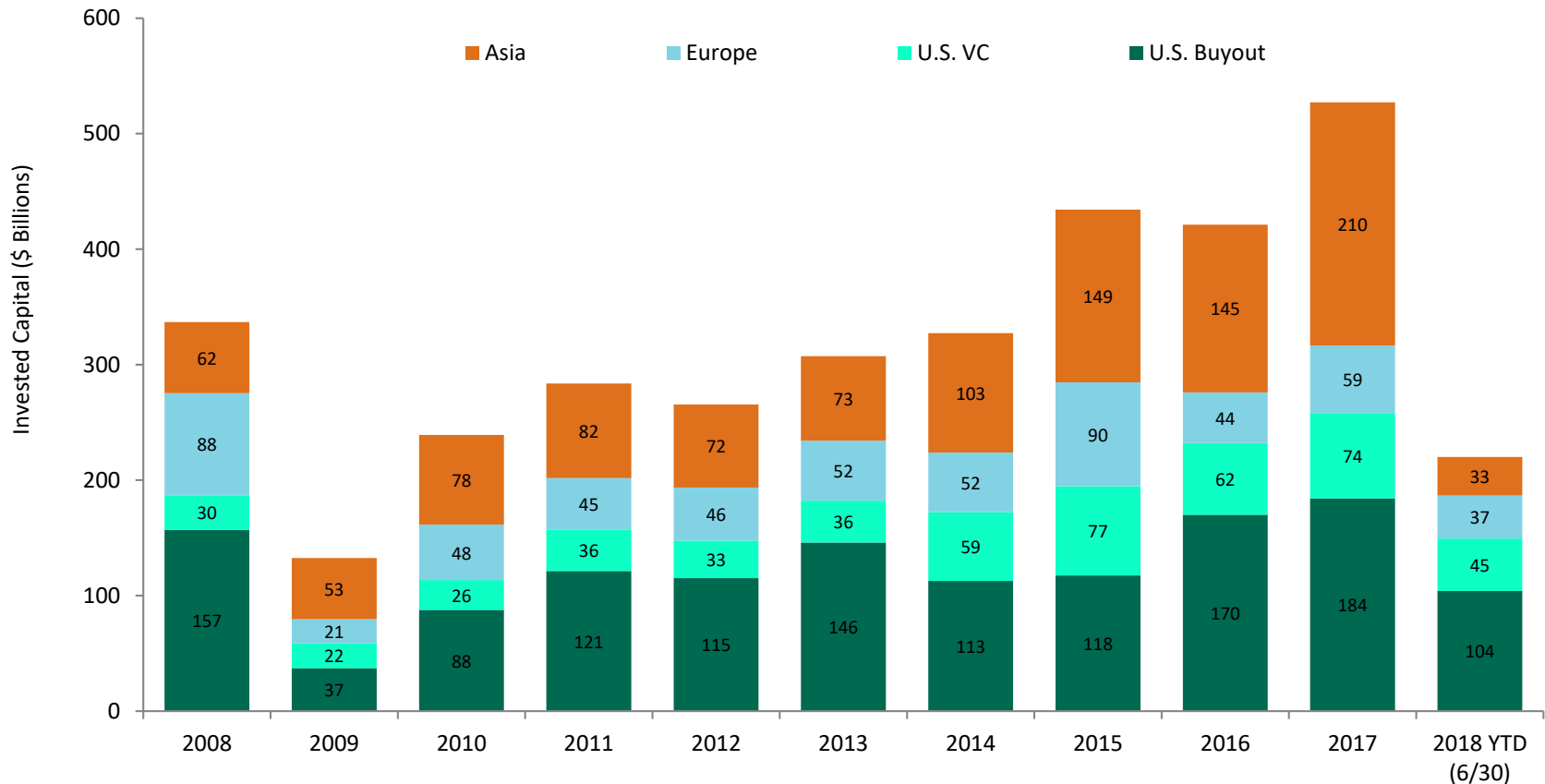


International



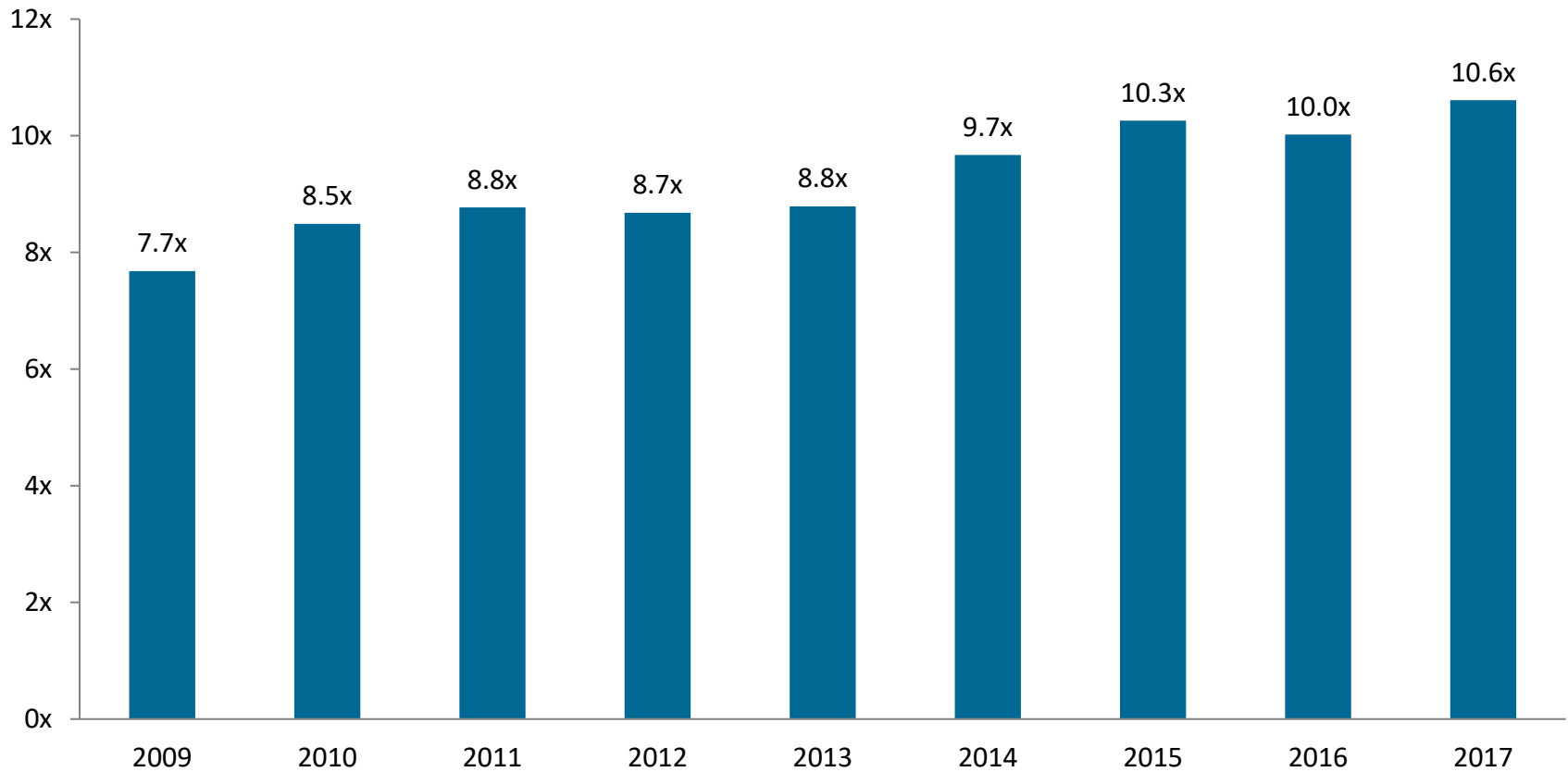
Source: Thomson Reuters, Preqin, National Venture Capital Association, Asia Venture Capital Journal

Private Equity Activity Remained Near Record Levels in 2018



Source: Thomson Reuters

Average LBO Purchase Price/EBITDA

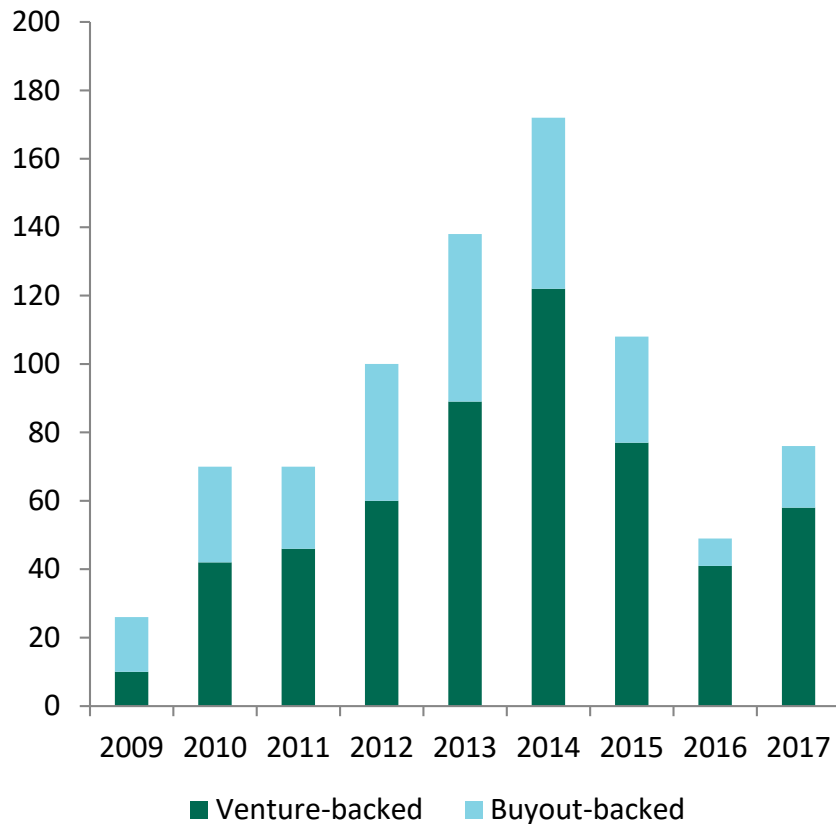


Source: S&P LCD, Bloomberg

■ Private Markets

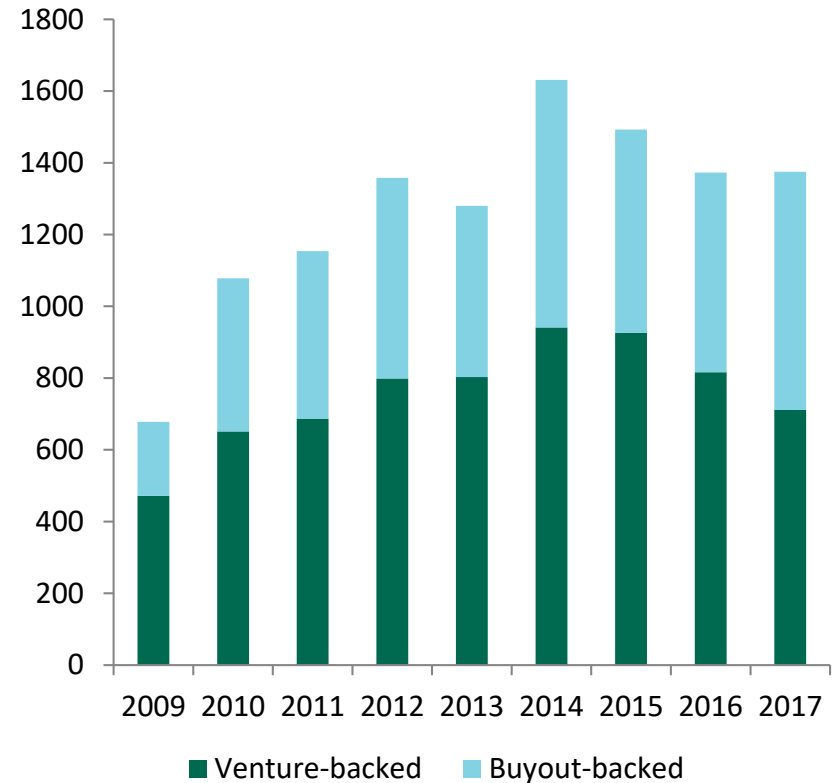
U.S.-Based IPOs

As of December 2017 | USD Billion



U.S.-Based Mergers & Acquisitions

As of December 2017 | USD Billion

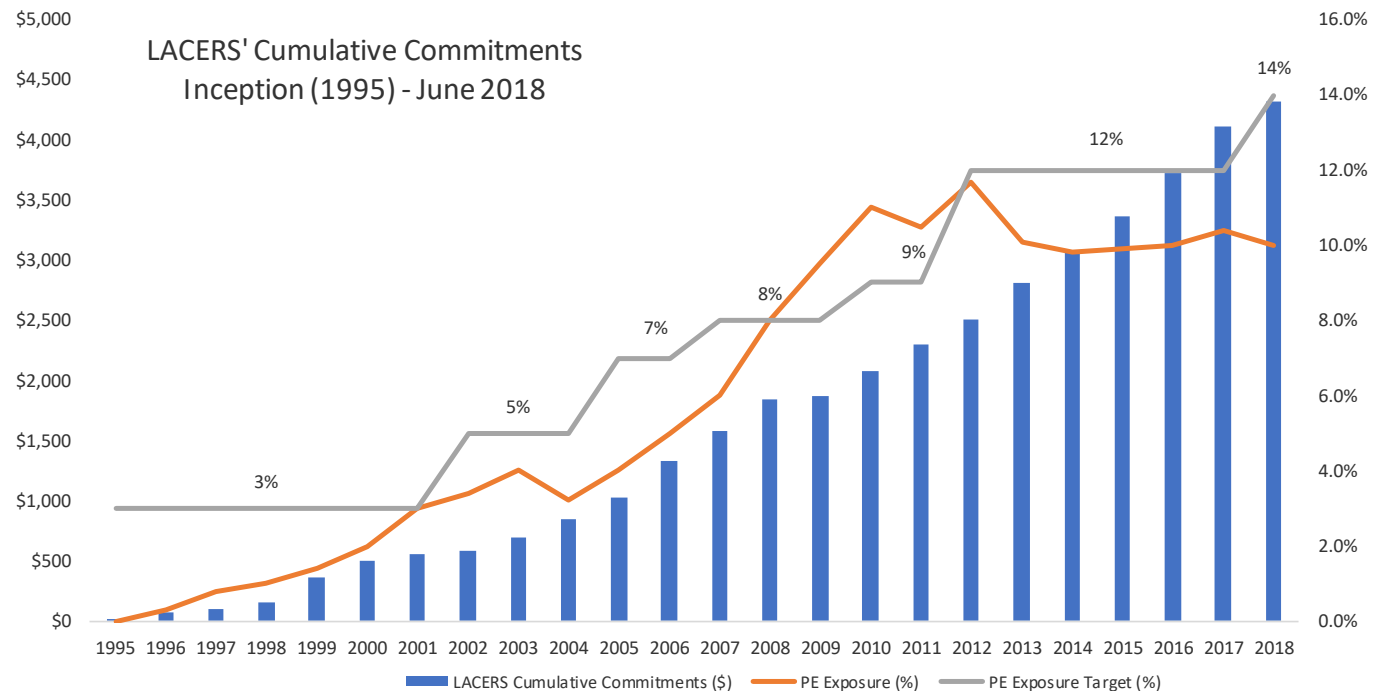


Source: Buyouts, Thomson Reuters & National Venture Capital Association

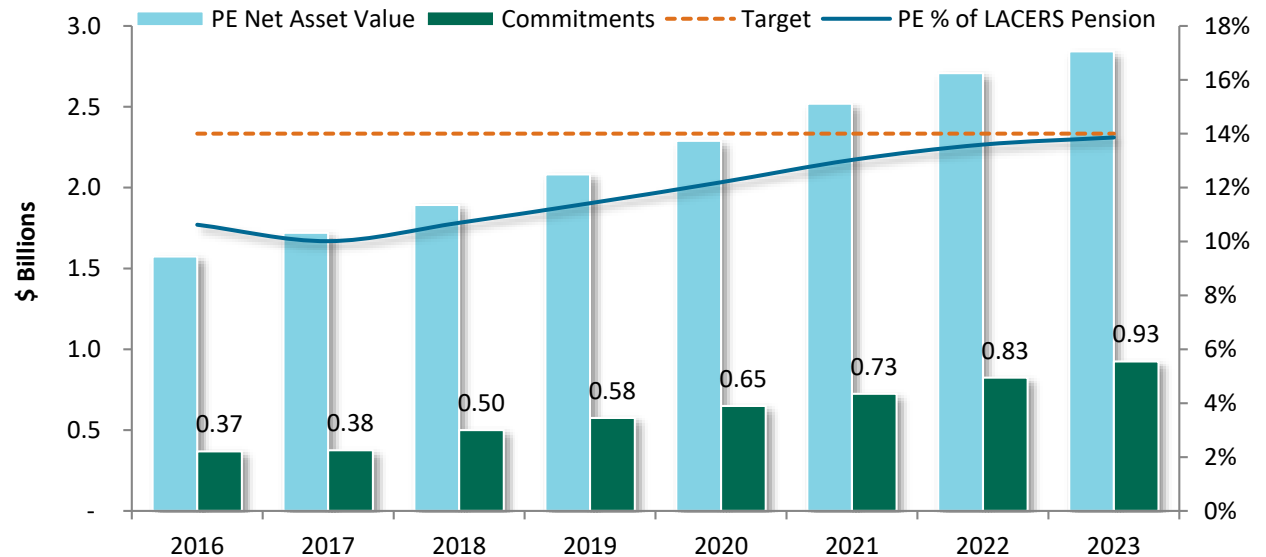
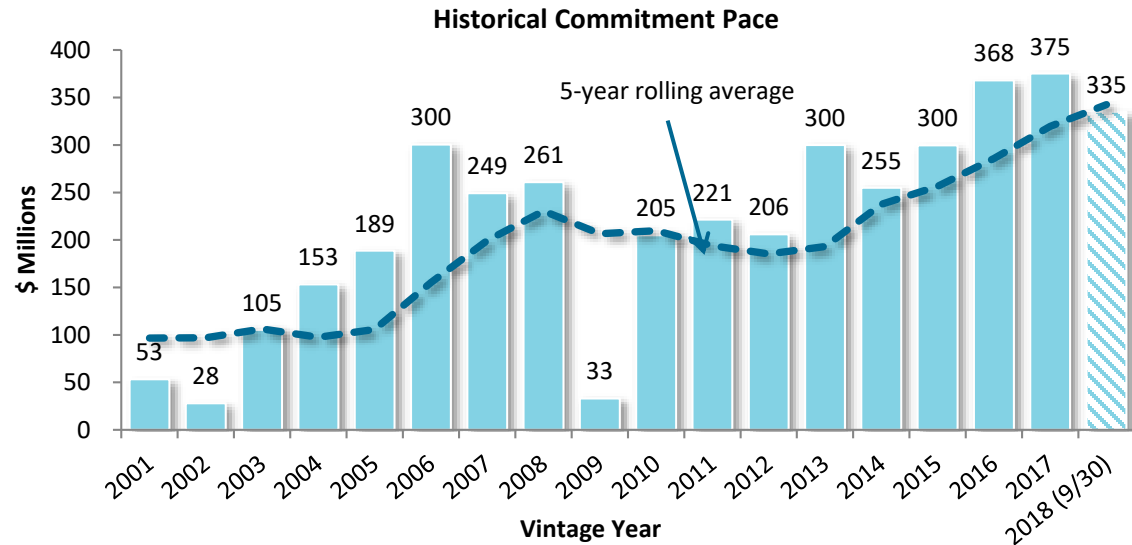
Source: Buyouts, Thomson Reuters & National Venture Capital Association

- With the exception of 2008 - 2011, LACERS has consistently been below its targeted allocation to private equity.
- At the current target of 14%, the desired exposure to private equity is ~\$2.4 billion.

- ❖ LACERS began investing in private equity in 1995 with a 3.0% exposure target. Today, after several increases, the target stands at 14.0%.
- ❖ Plan assets have grown to \$17.2 billion as of December 31, 2017, up from \$4.5 billion at June 30, 1995.
- ❖ As of 6/30/2018, the Private Equity Program has a Fair Market Value of \$1.7 billion, approximately 10% of total Plan Assets.



- LACERS commitments over the last 10 years have varied from a low of \$33 million in 2009 to a high of \$375 million in 2017.
- Preliminary commitment plan of \$550 - \$575 million proposed for 2019, with annual increases of ~\$75 million to \$100 million.
- Preliminary recommendation to make 10 - 12 commitments of \$50 million to \$100 million per year.



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

LACERS has committed over \$4.3 billion to 254 partnerships and 123 sponsors as of August 31, 2018

Aggregate Portfolio Snapshot			
Portfolio Since Inception	8/31/18	12/31/17	Net Change
Partnerships	254	240	14
Active	186	172	14
Inactive	68	68	0
Sponsors	123	121	2
Commitments	\$4.34 bn	\$4.00 bn	\$0.34 bn
Fair Market Value	\$1.67 bn	\$1.72 bn	(\$0.05) bn
Unfunded	\$1.12 bn	\$1.04 bn	\$0.08 bn
Total Exposure	\$2.79 bn	\$2.75 bn	\$0.04 bn

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

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 2019 Tactical Weighting
Buyouts	54.9%	50% - 65%	55% - 70%
Mega / Large	27.2%		
Medium / Small	27.7%		
Venture Capital / Growth Equity	21.9%	10% - 35%	0% - 10%
Venture Capital	12.9%		
Growth Equity	9.0%		
Special Situations	13.1%	5% - 15%	10% - 15%
Distressed Debt	8.9%	5% - 10%	0% - 10%
Other	1.4%	0% - 5%	0% - 5%
Secondaries	1.3%		
Mezzanine	0.1%		

1. Based on Fund-level Total Exposure (FMV + Unfunded) as of 6/30/18

Suggested Geographical Exposures

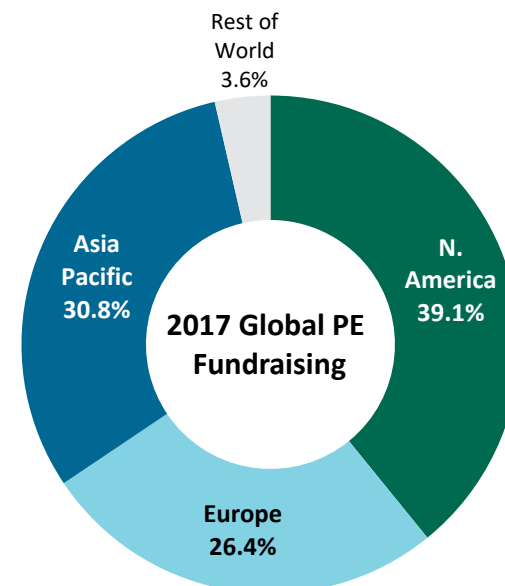
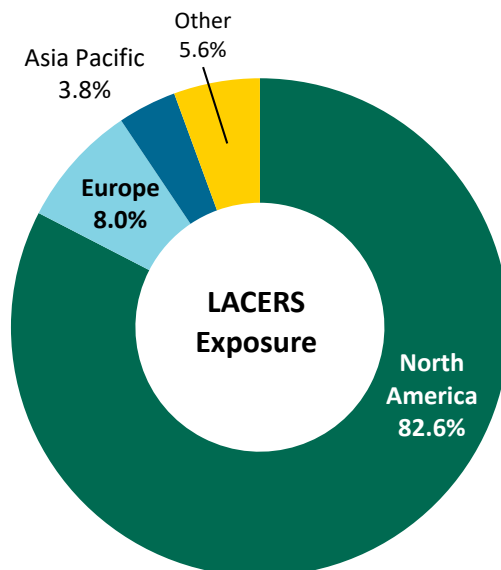
Domestic vs. International

Geography	Estimated LACERS Exposure (%) ¹	TorreyCove's Suggested Long-Term Target	TorreyCove's Suggested 2019 Tactical Weighting
North America	82.6%	50% - 70%	50% - 70%
International	17.4%	30% - 50%	30% - 50%
Europe	8.0%		
Asia Pacific	3.8%		
Other	5.6%		

1. Based on Fund-level Total Exposure (FMV + Unfunded) as of 6/30/18

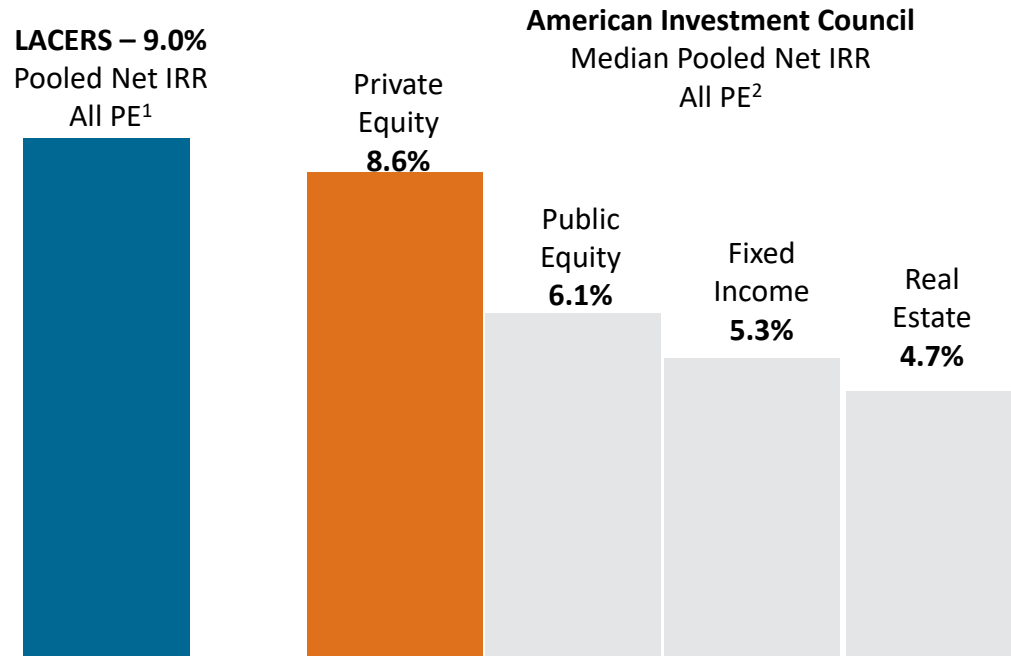
- LACERS' exposure to 'international' investments is underweight relative to TorreyCove's recommended long-term allocation target.

- Including Europe and Asia increases the number of potential investment opportunities while simultaneously increasing diversification.



10-Year Returns vs. Peer Group

- LACERS' 10-year returns in private equity are outperforming the median returns for a large sample of public plans by approximately 40 bps.

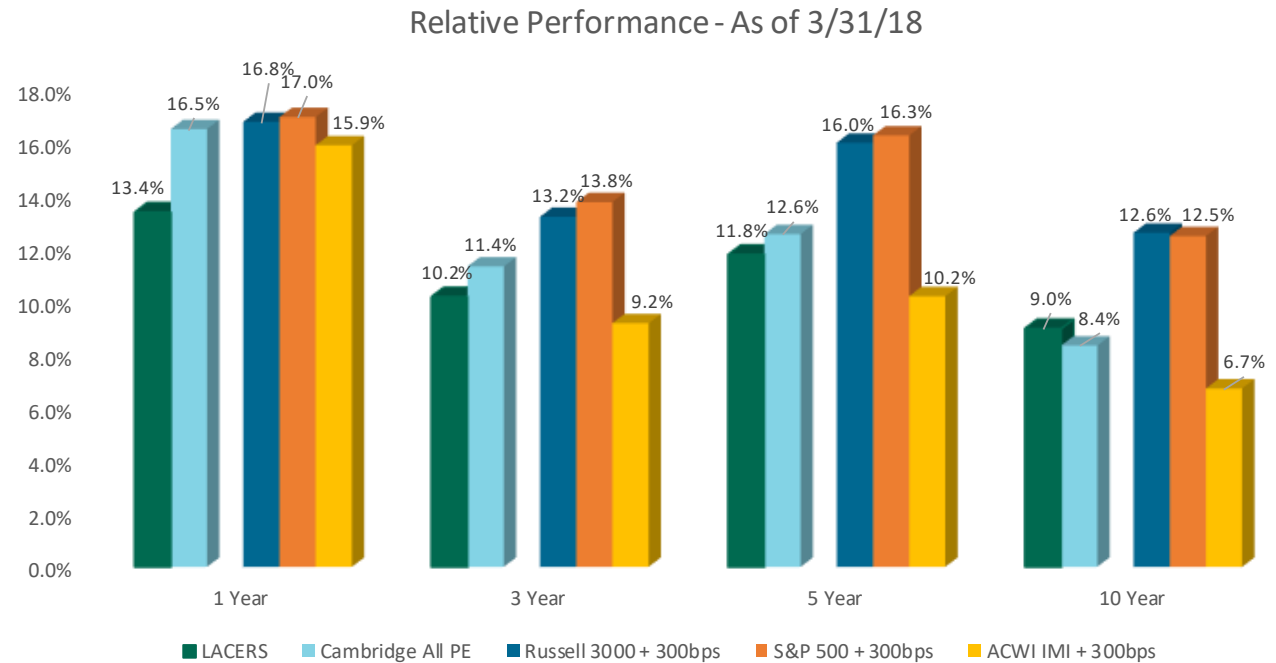


1) As of 3/31/18.

2) American Investment Council, Public Pension Study (May 2018). 163 public pensions surveyed. Asset classes may be defined slightly differently, depending on the pension fund. All returns are net of fees and carry.

- LACERS' private equity program has lagged the S&P 500 + 300 bps and Russell 3000 + 300 bps over the short and medium-term. Of note, the time period in question represents a bull market in public equities.
- LACERS' private equity program has outperformed the Cambridge benchmark (all Private Equity) over the longer-term and has outperformed the MSCI All Country World Index + 300 bps during most time periods.

10-Year Returns vs. Public & Private Benchmarks



*The benchmark for LACERS' private equity program (net of fees, expenses, and carried interest) is the Russell 3000 + 300 bps.

Closed Commitments through September 2018

Commitments – 1/1/2018 – 09/30/2018

Closing Date	Fund	Fund Size (\$'s mn) ¹	New or Existing Relationship	Investment Strategy	Commitment Amount (\$'s mn)
2/6/18	1315 Capital Fund II, LP	\$250	Existing	Growth Equity	\$10
2/7/18	Mill Point Capital Partners, L.P.	\$325	New	Buyout	\$10
2/13/18	American Securities Fund VIII, L.P.	\$7,000	Existing	Buyout	\$40
2/16/18	Thoma Bravo Discover Fund II, L.P.	\$1,750	Existing	Buyout	\$10
5/15/18	Ascribe Opportunities IV	\$1,250	Existing	Distressed Debt	\$25
5/31/18	Platinum Equity Small Cap Fund, L.P.	\$1,500	Existing	Special Situations	\$25
6/21/18	Thoma Bravo Fund XIII	\$11,500	Existing	Buyout	\$30
7/10/18	Barings Asia VII	\$5,500	Existing	Buyout	\$25
7/30/18	ABRY Advanced Securities Fund IV	\$1,500	Existing	Special Situations	\$40
8/1/18	Polaris Growth Fund	\$175	Existing	Growth Equity	\$15
8/31/18	TCV X, L.P.	\$2,500	Existing	Growth Equity	\$25
8/31/18	Vista Equity Partners VII, L.P.	\$15,000	Existing	Buyout	\$40
9/28/18	Hellman & Friedman IX, L.P.	\$15,000	Existing	Buyout	\$40
TBD	P4G Capital Partners I, L.P.	\$100	New	Growth Equity	\$10
Total:					\$345

¹ Based on target fund size.

❖ Pacing Recommendations

Q4 2018

- Commit approximately \$100 million to \$150 million in additional capital for 2018

2019

- Preliminary commitment plan of \$550 - \$575 million proposed for 2019
- Projected annual increases of ~\$75 to \$100 million
- Preliminary recommendation to make 10 -12 commitments of \$50 - \$100 million per year - subject to pending private equity policy change

❖ Investment Recommendations

Q4 2018

- Review the Private Equity Policy and suggest changes if appropriate
- Review the Emerging Manager Policy and suggest changes if appropriate
- Review the existing classifications for sub-asset classes and suggest changes if appropriate

2019

- Selectively add exposure to both Europe and Asia
- Increase exposure to Buyouts relative to other sub-asset classes and decrease Venture Capital exposure
- TorreyCove and staff to explore consolidating exposure with best performing managers
- TorreyCove and staff to explore a secondary sale to rationalize the number of relationships and monetize legacy investments
- TorreyCove and staff to explore new benchmarks to be used in conjunction with the Russell 3000 +300 bps

LACERS' Private Equity Investment Policy Establishes the framework for the management of the Private Equity Portfolio

❖ Investment Objectives

- Return objective for the LACERS' Private Equity Portfolio is 300 bps over the Russell 3000 Index net of fees, expenses and carried interest
- Risk objective for the LACERS' Private Equity Portfolio is to reduce risk, through greater diversification, at the System-level

❖ Eligible Investments

- Top tier limited partnership interests of pooled vehicles covering the broad spectrum of private investments
 - Private equity partnerships – corporate finance/buyout, special situations (mezzanine, distressed debt partnerships, fund-of-funds), industry focused and multi-stage “generalist” partnerships, and venture capital funds
 - Co-investments and Direct secondary purchases
 - Other privately structured investments deemed appropriate
- Up to \$25 million for new partnerships and up to \$40 million for follow-on funds without Board approval

❖ LACERS' commitment to any given partnership shall not exceed 20% of that partnership's total commitments without the Board's approval

❖ Diversification

- Partnerships: No more than 15% to one sponsor and appropriate diversification across geographies, industries, and vintage years
- Sub-Asset Classes: early, mid, and late-stage venture capital; growth equity; small, mid, large and mega buyouts

Emerging Investment Manager Policy (Article III, Section 4, IX.C.2)

- ❖ Identify firms with the potential to add value to the LACERS' investment portfolio that would otherwise not be identified by the LACERS' standard manager search process
 - Belief that smaller investment management organizations may generate superior performance returns because of the increased market flexibility associated with smaller asset bases
 - Emerging Investment Managers are held accountable to the same performance, reporting and retention standards as all other LACERS' investment managers within the same asset class
 - Emerging Investment Manager aspirational policy goal for private market asset classes is 10%

- ❖ Emerging Investment Manager Minimum Criteria
 - General Partner will have no more than \$500 million in firm-wide assets plus unfunded commitments at the time of LACERS' commitment
 - First- or second-time institutional partnership for a General Partner
 - The Fund shall have a minimum fund size of \$100 million in committed capital inclusive of LACERS' pending commitment
 - The firm must have been in existence for a minimum of one year
 - 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 key individuals and/or team
 - No person or entity, other than the principals and/or employees of the firms, shall own more than a 49% interest in the firm
 - No Limited Partner can represent more than 30% of the total fund's capital
 - LACERS' commitment in the strategy shall not exceed 10% of the projected final closing fund size or \$20 million, whichever is lower

Suggestions for Policy Changes Going Forward

❖ Private Equity Policy

- Increase the thresholds for delegated authority
 - TorreyCove suggests up to \$50 million for new Partnerships and up to \$100 million for follow-on funds (an increase from \$25 million and \$40 million, respectively)
- Discuss adding additional benchmarking above and beyond the Russell 3000 +300 bps
 - Potentially introduce Cambridge Private Equity Index and/or other public indices

❖ Emerging Investment Manager Policy (Article III, Section 4, IX.C.2)

- Increase the AUM threshold for Firm's to qualify as Emerging Managers
 - Suggest changing the threshold to up to \$1.0 billion in total commitments
- Increase the allowable commitment amount to Emerging Managers
 - Suggest the lower of 10% of the projected final closing fund size or \$30 million
- Clarify the requirement that Emerging Managers must have been in existence for a minimum of 1 year