LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

REGULAR MEETING

TUESDAY, OCTOBER 26, 2021

TIME: 10:00 A.M.

MEETING LOCATION:

In accordance with Government Code Section 54953, subsections (e)(1) and (e)(3), and in light of the State of Emergency proclaimed by the Governor on March 4, 2020 relating to COVID-19 and ongoing concerns that meeting in person would present imminent risks to the health or safety of attendees and/or that the State of Emergency continues to directly impact the ability of members to meet safely in person, the LACERS Board of Administration's October 26, 2021 meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to listen and or participate:
Dial: (669) 254-5252 or (669) 216-1590
Meeting ID# 161 898 9746

Instructions for call-in participants:

1- Dial in and enter Meeting ID
2- Automatically enter virtual "Waiting Room"
3- Automatically enter Meeting
4- During Public Comment, **press *9** to raise hand
5- Staff will call out the last 3-digits of your phone number to make your comment

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

President:	Cynthia M. Ruiz
Vice President:	Sung Won Sohn
Commissioners:	Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

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

Request for Services

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, Telecommunication Relay Services (TRS), 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) 855-9348*** and/or email at ***ani.ghoukassian@lacers.org***.

Disclaimer to Participants

Please be advised that all LACERS Board and Committee Meeting proceedings are audio recorded.

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* - **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD**

II. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF SEPTEMBER 28, 2021 AND POSSIBLE BOARD ACTION

III. BOARD PRESIDENT VERBAL REPORT

IV. GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS

B. UPCOMING AGENDA ITEMS

C. INTRODUCTION OF NEW DEPUTY CITY ATTORNEYS TO PUBLIC PENSIONS GENERAL COUNSEL DIVISION

V. RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR SEPTEMBER 2021

VI. COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE MEETING VERBAL REPORT FOR THE MEETING ON OCTOBER 12, 2021

VII. BOARD/DEPARTMENT ADMINISTRATION

A. FINDINGS TO CONTINUE TELECONFERENCE MEETINGS AND DETERMINATION THAT COVID-19 STATE OF EMERGENCY CONTINUES TO DIRECTLY IMPACT THE ABILITY OF MEMBERS TO MEET SAFELY IN PERSON, AND POSSIBLE BOARD ACTION

VIII. CLOSED SESSION

A. CONFERENCE WITH REAL PROPERTY NEGOTIATORS PURSUANT TO GOVERNMENT CODE SECTION 54956.8
PROPERTY: 977 N. BROADWAY, LOS ANGELES, CA 90012
AGENCY NEGOTIATOR: LACERS GENERAL MANAGER NEIL M. GUGLIELMO AND MICHAEL PRAHBU OF TWENTY ONE 11 VENTURES LLC
NEGOTIATING PARTIES: RICHARD KLEIN, ON BEHALF OF TENANT ALLIES FOR EVERY CHILD
UNDER NEGOTIATION: RENEGOTIATION OF LEASE

IX. LEGAL/LITIGATION

A. APPROVAL OF REQUEST FOR PROPOSALS FOR OUTSIDE TAX COUNSEL AND POSSIBLE BOARD ACTION

X. INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT

B. PRIVATE CREDIT PACING IMPLEMENTATION PLAN AND POSSIBLE BOARD ACTION

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

D. TACTICAL ASSET ALLOCATION POLICY AND POSSIBLE BOARD ACTION

E. CONTRACT WITH CEM BENCHMARKING INC. AND POSSIBLE BOARD ACTION

F. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO LBA LOGISTICS VALUE FUND IX, L.P. AND POSSIBLE BOARD ACTION

XI. DISABILITY RETIREMENT APPLICATION(S)

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF ALICIA GARIBAY AND POSSIBLE BOARD ACTION

XII. OTHER BUSINESS

XIII. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, November 9, 2021 at 10:00 a.m. at LACERS, 202 West 1st Street, Suite 500, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board meetings while response to public health concerns relating to the novel coronavirus continue.

XIV. ADJOURNMENT

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

In conformity with the Governor's Executive Order N-08-21 (June 11, 2021) and due to the concerns over COVID-19, the LACERS Board of Administration's September 28, 2021, meeting was conducted via telephone and/or videoconferencing.

Agenda of: Oct. 26, 2021

Item No: II

September 28, 2021

10:00 a.m.

PRESENT via Videoconferencing:	President:		Cynthia M. Ruiz
	Vice President:		Sung Won Sohn
	Commissioners:		Annie Chao
			Elizabeth Lee
		(left at 11:42 a.m.)	Sandra Lee
			Nilza R. Serrano
			Michael R. Wilkinson
	Manager-Secretary:		Neil M. Guglielmo
	Legal Counselor:		Anya Freedman
PRESENT at LACERS Offices:	Executive Assistant:		Ani Ghoukassian

---

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

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* – **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD** – President Ruiz asked if any persons wanted to make a general public comment to which there was no response.

II

APPROVAL OF MINUTES FOR THE REGULAR MEETING OF AUGUST 24, 2021 AND POSSIBLE BOARD ACTION – Commissioner Elizabeth Lee moved approval, seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn and President Ruiz -7; Nays, None.

III

BOARD PRESIDENT VERBAL REPORT – There was no report.

IV

GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS – Neil M. Guglielmo, General Manager, advised the Board of the following items:

- Update on in-person meetings and reopening for in-person pick up and drop off of documents
- LACERS' Quarterly Safety Committee meeting held on September 21, 2021
- LACERS Staff provided Executive and Emergency Response Team members with training on how to use the Government Emergency Telecommunications Service and the Wireless Priority Service cards
- 977 Broadway Building update
- Retirement Stats
- Member Communications Stats
- Top 5 Member Inquiries
- New videos on LACERS YouTube channel
- Upcoming webinars: Planning for Retirement and Retirement Application Portal
- Update on Health and Wellness

B. UPCOMING AGENDA ITEMS – Neil M. Guglielmo, General Manager, advised the Board of the following items:

- Staff will provide the Board with the results of a consultant study on compensation for Investment positions
- Resolution for continuing virtual Board and Committee meetings in accordance with AB 361

V

RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR AUGUST 2021 – This report was received by the Board and filed.

VII

BENEFITS ADMINISTRATION

A. REVISED 2022 MAXIMUM MEDICAL SUBSIDY AND MEDICAL PREMIUM REIMBURSEMENT PROGRAM MAXIMUM REIMBURSEMENT AMOUNTS AND POSSIBLE BOARD ACTION – Alex Rabrenovich, Chief Benefits Analyst, presented and discussed this item with the Board for five minutes. After discussion, Commissioner Wilkinson moved approval of the following Resolution:

MAXIMUM HEALTH PLAN SUBSIDIES AND REIMBURSEMENT AMOUNTS FOR PLAN YEAR 2022 – REVISED

<u>RESOLUTION 210928-A</u>

WHEREAS, the Los Angeles Administrative Code establishes that the Los Angeles City Employees' Retirement System (LACERS) provide health and welfare programs for retired employees and their eligible dependents;

WHEREAS, Section 4.1111(b) of the Los Angeles Administrative Code provides that by resolution, the Board of Administration may change the maximum monthly medical subsidy for eligible Tier 1 retirees who retired before July 1, 2011, so long as any increase does not exceed the dollar increase in the Kaiser two-party non-Medicare plan premium and the average percentage increase for the first year of the increase and the preceding two years does not exceed the average assumed actuarial medical trend rate for the same period;

WHEREAS, Section 4.1111(c) of the Los Angeles Administrative Code provides that by resolution, the Board of Administration shall, for Tier 1 retirees what at any time prior to retirement made additional contributions to LACERS as provided in Section 4.1003(c) of the Los Angeles Administrative Code, set the increase in the maximum medical plan premium subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and B premium;

WHEREAS, Sections 4.1112(b) and 4.1112(d) of the Los Angeles Administrative Code provide that by resolution, the Board of Administration may increase the monthly reimbursement maximum of eligible retirees participating in the Medical Premium Reimbursement Program;

WHEREAS, Section 4.1114(a) of the Los Angeles Administrative Code provides the Board of Administration may, in its discretion, decrease or increase the maximum retiree dental plan subsidy to reflect changes in the dental plan subsidy provided to active City of Los Angeles employees;

WHEREAS, on August 10, 2021, the 2022 health benefit subsidies and reimbursements were presented to the Benefits Administration Committee, these recommendations were forwarded to the Board without recommendation due to lack of a quorum in the Committee.

WHEREAS, on August 24, 2021, the Board of Administration approved the 2022 health benefit subsidies and reimbursements;

WHEREAS, on September 28, 2021, the Board approved a revised recommendation for the 2022 maximum medical premium plan subsidy and Medical Premium Reimbursement Program maximum reimbursement amount for Tier 1 Discretionary and Vested retired Members under age 65 or enrolled in only Medicare Part B;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Administration hereby adopts the following 2022 health benefit subsidies and reimbursements:

Benefit Type	Tier 1 Retired Before July 1, 2011 "Discretionary"	Tier 1 Retired After July 1, 2011 "Vested"	Tier 3
Retiree Medical Subsidy, <65/Medicare Part B	$1,884.50	$1,884.50	-
Retiree MPRP Reimbursement, <65/Medicare Part B	$1,884.50	$1,884.50	-
Retiree MPRP Reimbursement, Medicare Parts A and B	$494.67	$494.67	$494.67
Retiree Dental Subsidy	$44.60	$44.60	$44.60

Which motion was seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn, and President Ruiz -7; Nays, None.

VIII

RETIREMENT SERVICES

A. ASSUMPTIONS FOR JUNE 30, 2021 RETIREE HEALTH ACTUARIAL VALUATION AND POSSIBLE BOARD ACTION – Todd Bouey, Executive Officer, and Andy Yeung, Actuary with Segal Consulting, discussed this item with the Board for 10 minutes. After discussion, Commissioner Elizabeth Lee moved approval, seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn and President Ruiz -7; Nays, None.

Item VI-A taken out of order

VI

COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE VERBAL REPORT FOR THE MEETING ON SEPTEMBER 14, 2021 – Vice President Sohn stated that the Committee was presented with a presentation by MFS Institutional Advisors, Inc. regarding the management of an Active Non-U.S. Equities Developed Markets Growth Portfolio. The Committee approved the Private Equity Pacing Implementation Plan. The Committee was also presented with the Proxy Voting Activity Report and Brokerage Activity Report for the period July 1, 2020 to June 30, 2021.

VIII

BOARD/DEPARTMENT ADMINISTRATION

B. PROPOSED REVISION TO THE MARKETING CESSATION POLICY AND POSSIBLE BOARD ACTION – Julie Guan, Management Analyst, discussed this item with the Board. Commissioner Serrano moved approval, seconded by Commissioner Chao, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn and President Ruiz -7; Nays, None.

IX

DIVISION SPOTLIGHT

A. HEALTH ADVOCACY UNIT SPOTLIGHT – Vi Duong, Benefits Analyst, presented and discussed this item with the Board for 10 minutes.

X

INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value of $23.75 billion as of September 27, 2021. Mr. June discussed the following items:

- Report on PRI Signatory General Meeting on September 23, 2021
- Crescent Capital, one of LACERS private credit investment managers, is now under an executed contract
- Monthly Asset Allocation and Performance Reports will be posted this week or next week
- Pacific Center for Asset Management based out of UC San Diego will hold Fall meeting on September 30, 2021
- Upcoming Agenda Items: Investment manager contract, private credit pacing implementation plan, and a real estate opportunity

B. PRIVATE EQUITY PACING IMPLEMENTATION PLAN AND POSSIBLE BOARD ACTION – Wilkin Ly, Investment Officer III and Trevor Jackson, Senior Portfolio Advisor and Jeff Goldberger, Managing Director, with Aksia TorreyCove Partners LLC, presented and discussed this item with the Board for 20 minutes. Commissioner Chao moved approval, seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn and President Ruiz -7; Nays, None.

C. THE INVESTOR AGENDA'S 2021 GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CRISIS AND POSSIBLE BOARD ACTION – Rod June, Chief Investment Officer, and Ellen Chen, Investment Officer I, presented and discussed this item with the Board for five minutes. Commissioner Chao moved approval, seconded by Commissioner Sandra Lee, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn and President Ruiz -7; Nays, None.

D. INSTITUTIONAL LIMITED PARTNERS ASSOCIATION'S SUPPORT OF U.S. SECURITIES AND EXCHANGE COMMISSION'S RULE REGARDING FEE TRANSPARENCY OF PRIVATE FUND INVESTMENTS AND POSSIBLE BOARD ACTION – Rod June, Chief Investment Officer, and Robert King, Investment Officer I, presented and discussed this item with the Board for 15 minutes. Commissioner Elizabeth Lee moved approval, seconded by Commissioner Serrano, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Wilkinson, Vice President Sohn and President Ruiz -7; Nays, None.

President Ruiz recessed the Regular Meeting at 11:40 a.m. to convene in Closed Session discussion.

Commissioner Sandra Lee left the Regular Meeting at 11:42 a.m.

XI

LEGAL/LITIGATION

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(A) AND (D)(1) TO CONFER WITH, AND/OR RECEIVE ADVICE FROM, LEGAL COUNSEL REGARDING PENDING LITIGATION IN THE CASE ENTITLED IN RE: TRIBUNE COMPANY FRAUDULENT CONVEYANCE LITIGATION (CASE NO. 11-MD-02296)

President Ruiz reconvened the Regular Meeting at 11:47 a.m.

XII

OTHER BUSINESS – Neil M. Guglielmo, General Manager, congratulated Ferralyn Sneed on her Emergency Appointment to head Retirement Services Division. He also stated that Karen Freire, Chief Benefits Analyst, will be shadowing Alex Rabrenovich, Chief Benefits Analyst over Health Administration and Wellness Division.

XIII

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, October 12, 2021 at 10:00 a.m. at LACERS, 202 West 1st Street, Suite 500, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board meetings while response to public health concerns relating to the novel coronavirus continue.

XIV

ADJOURNMENT – There being no further business before the Board, President Ruiz adjourned the Meeting at 11:49 a.m.

____

Cynthia M. Ruiz
President

____

Neil M. Guglielmo
Manager-Secretary

Agenda of: <u>OCT. 26, 2021</u>
Item No: <u>V-A</u>

MONTHLY REPORT ON SEMINARS AND CONFERENCES
ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS
(FOR THE MONTH OF SEPTEMBER 2021)

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.

<u>BOARD MEMBER:</u>

President Cynthia M. Ruiz
Vice President Sung Won Sohn

Commissioner Annie Chao
Commissioner Elizabeth Lee
Commissioner Sandra Lee
Commissioner Nilza R. Serrano
Commissioner Michael R. Wilkinson

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

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION
From: Neil M. Guglielmo, General Manager

MEETING: OCTOBER 26, 2021
ITEM: VII-A

SUBJECT: **FINDINGS TO CONTINUE TELECONFERENCE MEETINGS AND DETERMINATION THAT COVID-19 STATE OF EMERGENCY CONTINUES TO DIRECTLY IMPACT THE ABILITY OF MEMBERS TO MEET SAFELY IN PERSON AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board approve continuing to hold LACERS Board and Committee meetings via teleconference and/or videoconference, under Government Code Sections 54953(e)(1)(B)-(C) and 54953(e)(3)(A) and (B)(i).

Discussion

LACERS is committed to preserving public access and participation in meetings of the Board of Administration. All LACERS Board and Committee meetings are open and public, as required by the Ralph M. Brown Act (Cal. Gov. Code 54950 – 54963), so that any member of the public may attend and participate as the LACERS Board and Committees conduct their business. The Brown Act, Government Code Section 54953(e), makes provisions for remote teleconferencing participation in meetings by members of a legislative body, subject to the existence of certain conditions. The COVID-19 State of Emergency proclaimed by the Governor on March 4, 2020 remains active, and COVID-19 remains a public health concern in Los Angeles, with high levels of community transmission.

The Board met via teleconference on October 12, 2021, and determined by majority vote, pursuant to Government Code Section 54953(e)(1)(B)-(C), that due to the COVID-19 State of Emergency, meeting in person would present imminent risks to the health or safety of attendees.

Strategic Plan Impact Statement

The Board's action on this item aligns with the LACERS Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

Prepared By: Ani Ghoukassian, Commission Executive Assistant II

Attachment: Proposed Resolution

CONTINUE HOLDING LACERS BOARD AND COMMITTEE MEETINGS VIA TELECONFERENCE AND/OR VIDEOCONFERENCE

PROPOSED RESOLUTION

WHEREAS, LACERS is committed to preserving public access and participation in meetings of the Board of Administration; and

WHEREAS, all LACERS Board and Committee meetings are open and public, as required by the Ralph M. Brown Act (Cal. Gov. Code 54950 – 54963), so that any member of the public may attend and participate as the LACERS Board and Committees conduct their business; and

WHEREAS, the Brown Act, Government Code Section 54953(e), makes provisions for remote teleconferencing participation in meetings by members of a legislative body, subject to the existence of certain conditions; and

WHEREAS, the COVID-19 State of Emergency proclaimed by the Governor on March 4, 2020 remains active; and

WHEREAS, on October 12, 2021, the Board met via teleconference and determined by majority vote, pursuant to Government Code Section 54953(e)(1)(B)-(C), that due to the COVID-19 State of Emergency, meeting in person would present imminent risks to the health or safety of attendees; and

WHEREAS the Board has reconsidered the circumstances of the State of Emergency; and

WHEREAS, COVID-19 remains a public health concern in Los Angeles, with high levels of community transmission.

NOW THEREFORE, BE IT RESOLVED that pursuant to Government Code Section 54953(e)(1)(B)-(C), the Board finds that holding Board and Committee meetings in person would present imminent risks to the health or safety of attendees.

BE IT FURTHER RESOLVED that pursuant to Government Code Section 54953(e)(3)(A) and (B)(i), the Board finds that the COVID-19 State of Emergency continues to directly impact the ability of Board and Committee members to meet safely in person.

OFFICE OF THE CITY ATTORNEY
202 W. FIRST STREET, STE. 500
LOS ANGELES, CA 90012-4401

PUBLIC PENSIONS GENERAL COUNSEL
(213) 978-6800 TEL
WWW.LACITY.ORG/ATTY

MICHAEL N. FEUER
City Attorney

Board Mtg: 10/26/21
Item: IX-A

MEMORANDUM

To: Board of Administration
Los Angeles City Employees' Retirement System

From: Anya J. Freedman, Assistant City Attorney AJF
Miguel Bahamon, Deputy City Attorney

Date: October 26, 2021

Re: Request for Proposals for Outside Tax Counsel

Cc: Neil Guglielmo, General Manager

RECOMMENDATION

We recommend that the Board:

1. Authorize the publication of a Request for Proposals (RFP) for Outside Counsel Specializing in Tax Law, substantially in the form attached.

INTRODUCTION AND EXECUTIVE SUMMARY

Earlier this year, the Board approved extending the current outside tax counsel contracts for one year, to expire on September 20, 2022. However, subsequently the two lead attorneys for one of the outside tax counsel firms, Reed Smith LLP (Reed Smith), each left Reed Smith for different law firms. Because Reed Smith no longer has attorneys with the necessary public pension tax law qualifications, we elected to let Reed Smith's outside tax counsel contract with LACERS expire. Because the Plan now has only one outside tax counsel, we recommend issuing an RFP for outside tax counsel as soon as possible, with the goal of executing new three-year contracts effective January 2022.

BACKGROUND

Pursuant to City Charter Section 275, and with the joint approval of the Board and the City Attorney's Office, the Public Pensions General Counsel Division of the City Attorney's Office (PPGC Division) has long used outside counsel to assist us to advise and represent the Plan on tax law matters. The use of outside counsel with deep experience and expertise in tax law is necessary to enable our Office to provide the best possible legal advice and representation for the Plan and to allow the Board and Plan management to fulfill their fiduciary obligations.

The Plan and the PPGC division currently rely on the expertise and experience of our outside tax counsel to provide advice on overall tax compliance and qualification as a governmental pension plan, as well as discrete questions of tax law as those may arise in the administration of member benefits and contracts. Additionally, outside tax counsel are available to assist with long-term projects that have complex tax law implications, including the implementation of LACERS' 115 trust, protocols for calculating service purchases, and the Larger Annuity Program. Expenditures for these legal services are an appropriate and prudent cost of administering the Plan's trust funds.

DISCUSSION

This Board last approved an RFP for outside tax counsel services in 2018. As a result of that process, the Plan selected Reed Smith LLP and Ice Miller LLP as its outside tax counsel, which retentions were approved by the City Attorney's Office pursuant to Charter Section 275. Earlier this year, this Board approved one-year extensions for the tax counsel contracts awarded in 2018. While those contracts are set to expire on September 20, 2022, in July and September of this year we learned that the two principal outside tax counsel attorneys for Reed Smith—Jenni Krengel and Don Wellington, respectively—left Reed Smith to join other law firms. Mr. Wellington and Ms. Krengel had been assisting our Office for nine years, previously under a contract with Steptoe & Johnson which was then assigned to Reed Smith. Mr. Wellington was Reed Smith's tax team lead, and Ms. Krengel was the firm's primary liaison with our Office. With Mr. Wellington and Ms. Krengel each departing Reed Smith to different law firms and leaving the firm without experienced public pension tax attorneys, it did not make sense to extend Reed Smith's contract. We also did not think it prudent to assign that contract to Mr. Wellington or Ms. Krengel's new firms, since we had previously worked with both lawyers as a team, and because to our knowledge, our Office does not have experience working with either of their new firms. Instead, we are recommending a competitive solicitation to select a new bench of tax counsel firms, and will evaluate proposals from Ms. Krengel's and Mr. Wellington's firms, or a combined proposal, as part of that competitive process.

The expiration of Reed Smith's contract leaves the Plan with only one outside tax counsel, Ice Miller. While both Plan staff and the PPGC Division are satisfied with Ice Miller's work, we recommend the Plan have a panel of at least two outside tax counsel so that the Plan can solicit competitive bids for projects and to ensure a deeper pool of expertise to answer the Plan's unique tax law questions.

For these reasons, we recommend issuing an RFP for outside tax counsel as soon as possible. With the Board's approval, we anticipate posting the RFP in November 2021. We recommend continuing the longstanding practice of having staff designated by the Board and the General

Manager participate in the selection process, which includes reviewing written proposals, identifying and interviewing finalists, and reaching consensus with our Office on a group of firms to present to the Board for final approval. We anticipate the interview process will be conducted using teleconferencing technology, due to the ongoing COVID-19 pandemic and related public health concerns. We continue to believe that LACERS is well served by a panel of two, or possibly three, law firms with this specialized expertise. We will continue our practice of asking firms for not-to-exceed bids before assigning a specific project to that firm. This practice has worked well in controlling costs and building the competencies of each firm that provides these services to LACERS.

Thank you for your consideration.

AJF/MGB:np

Enclosure

Notice and Request for Proposals by the City of Los Angeles for Legal Services Regarding Tax Law for City Pension Plans

Proposals Due By: November 29, 2021

LOS ANGELES CITY ATTORNEY'S OFFICE
200 N. MAIN ST, 8TH FLOOR
LOS ANGELES, CA 90012
ATTENTION: ANNE HALEY
PHONE: (213) 978-8100
FAX: (213) 978-2093

TO: PROSPECTIVE COUNSEL

FROM: LOS ANGELES CITY ATTORNEY'S OFFICE

DATE: November 11, 2021

RE: REQUEST FOR PROPOSALS FOR LEGAL REPRESENTATION

1.0 <u>PROPOSALS</u>

The Los Angeles City Attorney's Office (the "City Attorney's Office") is soliciting proposals for qualified law firms ("proposer" or "firm") to assist the City Attorney's Office in providing legal services to the three Los Angeles City pension plans and their respective boards of trustees: The Fire and Police Pension Plan ("LAFPP"), the Los Angeles City Employees' Retirement System ("LACERS"), and the Water and Power Employees' Retirement Plan ("WPERP") (hereinafter referred to collectively as the "Plans"). The City Attorney may choose one or more firms for this role. Counsel should have extensive expertise advising public pension plans in Tax Law matters.

Please submit your proposals <u>electronically, in one tabbed, searchable pdf,</u> by e-mail, to all of the following:

(1) <u>anne.haley@lacity.org</u>
(2) <u>anya.freedman@lacity.org</u>
(3) <u>miguel.bahamon@lacity.org</u>
(4) <u>gina.m.didomenico@lacity.org</u>
(5) <u>nicole.paul@lacity.org</u>

The subject line of the email must state **"RFP for Counsel re: TAX LAW FOR CITY OF LOS ANGELES RETIREMENT PLANS"**

Proposals must be received no later than 5:00 p.m. PST on November 29, 2021. All submitted materials shall become part of the proposal, and may be incorporated in a subsequent contract between the City of Los Angeles and the selected proposer(s). It is the proposer's sole responsibility to ensure that the proposal is submitted in a timely manner.

All forms referred to in this Request For Proposals (RFP) are available at LABAVN.org. You are required to register your firm at LABAVN.org and complete the necessary contracting forms in order to be deemed responsive to this RFP.

Questions regarding this RFP shall be submitted by e-mail and directed only to Deputy City Attorney Miguel Bahamon via e-mail at miguel.bahamon@lacity.org. All questions must be sent before November 17, 2021.

2.0 SCOPE OF WORK

The Public Pensions General Counsel Division of the City Attorney's Office is general counsel to the Plans. Collectively, the Plans' boards serve as trustees for over $75 billion in trust fund assets and administer retirement, disability, and health benefits for tens of thousands of Los Angeles City retirees and their beneficiaries.

From time to time, upon recommendation of one of the Plan's retirement boards and the written consent of the Los Angeles City Attorney, pursuant to Section 275 of the City Charter, the City may contract with outside counsel to assist the Los Angeles City Attorney's Office in providing certain specialized legal services to the Plans. One of the areas in which specialized legal services are required is federal and state tax legal advice.

The Firm(s) selected for this role will assist the City Attorney's Office, as requested, on a project-specific basis, on behalf of one or more of the Plans, on specialized tax law matters, including:

- Providing legal advice on federal and international tax law matters;
- Advising on tax law compliance and related accounting issues;
- Advising on matters related to the California Franchise Tax Board;
- Providing written recommendations for proposed amendments to provisions of the Los Angeles City Charter and Administrative Code and the Plans' policies and procedures to ensure compliance with qualification criteria of the Internal Revenue Code and constitutional law;
- Drafting and filing plan documents required for qualification under the Internal Revenue Code and applicable laws and regulations;
- Providing updates on proposed and final Internal Revenue Code or procedure changes that affect government pension plans.

3.0 EVALUATION CRITERIA

The selection of the firm(s) will be based on the experience and capability of each firm to provide the services described above.

All proposals submitted will be reviewed by appropriate City Attorney staff and representatives of the Plans. Thereafter, City Attorney staff will schedule interviews with selected firms. Due to ongoing pandemic and related emergency orders and public health concerns, interviews will be conducted via videoconference. Representatives of the Plans will also participate in the interviews, and each Board reserves the right to conduct interviews with finalists prior to awarding any contracts.

4.0 CONFIDENTIALITY

Should any attorney or firm receiving this RFP reasonably believe that a waiveable potential conflict may exist by reason of its representation of some other entity, the Los Angeles City Attorney's Office requests that this RFP not be shared with any other represented entity, and if a question exists regarding any potential conflict of interest pursuant to Rule 3-310 of the California Rules of Professional Conduct, that the firm scrupulously observe the requirements of Section 6068(e) of the California Business and Professions Code and uncompromisingly maintain fully confidentiality of this document. Any questions in connection with issues of conflicts of interest should be addressed to Deputy City Attorney Miguel Bahamon at miguel.bahamon@lacity.org.

5.0 CONTENT OF RESPONSE

5.1 Cover Letter

Each response to this RFP must be accompanied by a cover letter that contains a general statement of the purposes for submission and include the following information:

(a) Name, address, telephone number, and legal business status (individual, limited liability partnership, corporation, etc.) of the proposer.

(b) Name, title, address and telephone number of the person(s) authorized to represent the proposer in order to enter into negotiations with the City Attorney's Office with respect to the RFP and any subsequently awarded contract. The cover letter shall also indicate any limitation of authority for the person named.

(c) A representative or officer of the proposer must sign the cover letter. That representative shall have been authorized to bind the firm to all provisions of this RFP, any subsequent changes to it, and to the contract if an award is made.

(d) If the respondent is a partnership, the response must be signed by a general partner in the name of the partnership. If the respondent is a corporation, the response must be signed on behalf of the corporation by two authorized officers (a Chairman of the Board, President or Vice-President, and a Secretary, Treasurer or Chief Financial Officer) or an officer authorized by the Board of Directors to execute such documents on behalf of the corporation.

(e) The cover letter should be addressed to:

Anne Haley
Assistant City Attorney
Los Angeles City Attorney's Office
200 North Main Street
8th Floor CHE
Los Angeles, California 90012

5.2 Additional Information

(a) Briefly describe your firm's background, size, and history pertinent to the services requested in this RFP for which your firm is seeking the assignment.

(b) List the attorneys you expect to be assigned to this engagement and describe the area(s) of specialization of each and his/her relevant experience. Identify the key attorney who will be the primary contact and lead counsel in providing services under this assignment.

(c) Describe your firm's backup procedures in the event one or more assigned attorneys leave the firm.

(d) Describe the relevant special services your firm provides, particularly those that may not be offered by other law firms.

(e) Within the past three years, have there been any significant developments in your firm, such as changes in ownership or restructuring? Do you anticipate any significant changes in the future? Please describe.

(f) Does your firm provide services similar to those proposed in this RFP to any other public sector clients?

(g) Identify all public sector clients who have terminated their working relationship with your firm in the past three years and a brief statement of your understanding of their reasons for doing so. Provide each such client's in-house counsel's (or, if none, CEO's) name, address, telephone number, and e-mail address.

(h) How does your firm identify and manage conflicts of interest?

(i) Within the past five years, has your firm, or a partner or attorney in your firm, been involved in litigation or other legal proceedings relating to provision of legal services? If so, provide an explanation and indicate the current status or disposition.

(j) Does your firm have a sexual harassment policy? Please describe the policy and summarize any pending or anticipated litigation against the firm, its employees, or partners, involving allegations of sexual harassment or sexual misconduct.

(k) Describe how your firm has responded to the challenges presented by the novel coronavirus pandemic, including examples demonstrating your firm’s ability to use technology to communicate with and serve its clients.

(l) Within the past five years, has your firm, any partner or owner of the firm, or any attorney employed by or associated with the firm, been the subject of a judgment involving findings of FRCP 11 or similar state court sanctions, violations of state bar rules, material omissions or misrepresentations to the court or a client, violations of state bar rules or other rules governing attorney legal ethics, or any impropriety or non-disclosure? If so, please describe the underlying circumstances and provide an explanation.

(m)Is your firm presently involved in any litigation involving the City of Los Angeles? If so, provide the jurisdiction, case name and number and a brief description of the matter. In responding to this question, and any other question in this RFP, please include all City entities, including, for example, Los Angeles World Airports, the Los Angeles Department of Water and Power, the Port of Los Angeles, LAFPP, LACERS, and WPERP.

(n) Confirm that:

a. all employees of your firm and/or persons working on your behalf, including, but not limited to, subcontractors (collectively, “Proposer Personnel”) shall be fully vaccinated against the novel coronavirus 2019 (“COVID-19”) prior to (1) interacting in person with City employees, contractors, or volunteers; (2) working on City property while performing the services requested in this RFP; and/or (3) coming into contact with the public while performing the services requested in this RFP (collectively, “In-Person Services”). “Fully vaccinated” means that 14 or more days have passed since Proposer Personnel have received the final dose of a two-dose COVID-19 vaccine series (Moderna or Pfizer-BioNTech) or a single dose of a one-dose COVID-19 vaccine (Johnson & Johnson/Janssen) and all booster doses recommended by the Centers for Disease Control and Prevention;

b. prior to assigning Proposer Personnel to perform In-Person Services, your firm shall obtain proof that such Proposer Personnel have been Fully Vaccinated;

c. your firm shall retain such proof of vaccination for the document retention period set forth in any agreement for provision of the services requested in this RFP; and

d. your firm shall grant medical and religious exemptions to Proposer Personnel as required by law.

6.0 QUALIFICATIONS AND HOURLY RATES

All respondents shall have sufficient qualified attorneys, paralegals and other personnel resources to provide the legal services required, as described in this RFP. Please include a statement that details the names, bar numbers, resumes, and relevant expertise of attorneys for the work required under this RFP. Please also submit a statement listing the proposed hourly rates for each attorney referenced in your firm's response to this RFP.

7.0 CONFLICTS OF INTEREST

Provide information on whether your firm represents any interests that may constitute a conflict of interest in your representation of the City of Los Angeles (alternatively, the "City"), the Plans (LACERS, WPERP, LAFPP), the Port of Los Angeles, Los Angeles World Airports, the Los Angeles Department of Water and Power, the Community Redevelopment Agency (CRA), the Housing Authority of the City of Los Angeles, the Community Development Department (CDD), or any other City agency or affiliated entity.

8.0 MANDATORY CITY REQUIREMENTS

Sections 8.1 through 8.13 describe mandatory requirements for contracting with the City of Los Angeles. Please access more detailed information and forms which must be completed by the proposer at the City's contracting website: LABAVN.org.

8.1 City Contracts Held Within the Last Ten (10) Years:

Please list all of the City contracts held by the respondent within the past ten (10) years, In addition, please specify the following information:

- The City entity or department that administered the contract;
- The contract number;
- The dollar amount of the contract;

- Date and periods during which the contract was in effect; and
- A short description of the services provided.

8.2 Information on Business Locations and Workforce

It is the policy of the City of Los Angeles to encourage businesses to locate or remain in the City. Therefore, the Los Angeles City Council requires all City departments to gather information on the headquarters address and certain information on the employees of the firms contracting with the City (Council File No.92-0021). The following information is to be included in each proposal:

- The headquarters address or respondent's firm and the total number of people employed by the firm, regardless of work location;
- The percentage of the respondent's total work force employed within the City of Los Angeles and the percentage residing within the City; and
- The address of any branch offices located within the City of Los Angeles and the total number employed in each Los Angeles branch office. The percentage of the work force in each Los Angeles branch office that is employed within the City and the percentage residing within the City.

8.3 Statement of Non-Collusion

With each response, a statement shall be submitted and signed by the respondent under penalty of perjury that:

- The response is genuine, not a sham or collusive;
- The response is not made in the interest or on behalf of any person not named therein;
- The respondent has not directly or indirectly induced or solicited any person to submit a false or sham response or to refrain from responding; and
- The respondent has not in any manner sought by collusion to secure an advantage over any other respondent.

8.4 Minority Business Enterprise (MBE) and Women-owned Business Enterprise (WBE) Program and Other Business Enterprise (OBE) Outreach Requirements

It is the policy of the City to provide Minority Business Enterprises, Women Business Enterprises, and Other Business Enterprises an equal opportunity to participate in the contractual process. All respondents are strongly encouraged to make an effort to include members of these groups in any subcontracting work to be performed if awarded the contract. Information regarding this policy can be found at the City Attorney Office website, identified above.

8.5 Non-Discrimination, Equal Employment Practices and Affirmative Action Policies

Respondent awarded a contract pursuant to the RFP must comply with the Nondiscrimination Policy, Equal Employment Practices and Affirmative Action Programs set forth in Section 10.8 et seq. of the Los Angeles Administrative Code. The respondent must sign and submit with the response a Nondiscrimination, Equal Employment Practices and Affirmative Action Certification Declaration, Composition of Total Work-force Report, and a signed version of one of the following affirmative action plans: a) the respondent's own affirmative action plan which meets all the requirements of the City's Affirmative Action Plan. If the respondent elects to submit its own plan, it must be submitted to the Office of Contract Compliance for approval. Respondents should refer to the City Attorney website identified above for additional information, forms and instructions.

8.6 Child Care Policy

It is the policy of the City of Los Angeles to encourage businesses to adopt childcare policies and practices. Consistent with this policy, all responses must contain a completed "Child Care Declaration Statement." Respondents should refer to the City Attorney website identified above for additional information, instructions and the certification.

8.7 Service Contract Worker Retention and Living Wage Ordinances

The Service Contract Worker Retention Ordinance (Los Angeles Administrative Code, Section 10.36 et seq.) and the Living Wage Ordinance (Los Angeles Administrative Code, Section 10.37 et seq.) (collectively, the "Ordinances") provide that all employers (except those specifically exempted) under contracts primarily for the furnishing of services to or for the City and that involve an expenditure or receipt in excess of $25,000 and a contract term of at least three (3) months, or certain recipients of city financial assistance, shall comply with provisions of said Ordinances. Respondents should refer to the City Attorney website identified above for further information regarding these Ordinances.

8.8 Equal Benefits Ordinance

Unless otherwise exempt, any contract award pursuant to the RFP is subject to the Equal Benefits Ordinance (Los Angeles Administrative Code Section 10.89.2.1 et seq.), which applies to contracts in excess of $5,000.00 and requires that contractors provide the same benefits to domestic partners of employees that are provided to spouses or employees. Respondents must complete and return with their response, a Certification of Compliance Form and, if appropriate, the Reasonable Measures Certification or the Substantial Compliance Certification. Respondents should refer to the City Attorney website identified above to access these forms.

8.9 Insurance and Indemnification

If awarded a contract, the respondent will furnish the City evidence of insurance coverage as follows: $1,000,000 for General liability; $250,000 for Workers' Compensation; and $300,000 for Automobile Liability. The contractor will be required to indemnify the City in accordance with the provisions set forth in PSC-17 of the Standard Provisions for City Contracts. Details regarding insurance requirements are in the Standard Provisions for City Contracts, which may be accessed at the City Attorney website identified above.

In addition, insurance forms which must be completed and approved by the City Attorney Insurance and Bonds Section prior to contract execution are also available at the website. These forms are for information only and do not need to be returned with the response.

8.10 Support Assignment Orders

Respondents are advised that any contract awarded pursuant to this RFP will be subject to the applicable provisions of Los Angeles Administrative Code Section 10.10, Child Support Assignment Orders. Respondents shall access the City Attorney website identified above for further information and must submit it with the response the Certification with Child Support Obligations contained therein.

8.11 Contractor Responsibility Ordinance

Every Request for Proposal, Request for Bid, Request for Qualifications or other procurement process is subject to the provisions of the Contractor Responsibility Ordinance, Section 10.40 et seq., of Article 14, Chapter 1 of

Division 10 of the Los Angeles Administrative Code, unless exempt pursuant to the provisions of the Contractor Responsibility Ordinance.

This Contractor Responsibility Ordinance requires that all respondents complete and return, with their response, the responsibility questionnaire for service contracts. This questionnaire, and additional information about the ordinance, may be accessed at the City Attorney website identified above. Failure to return the completed questionnaire may result in the response being deemed non-responsive. The Contractor Responsibility Ordinance also requires that if a contract is awarded pursuant to this procurement, that the contractor must update responses to the questionnaire, within thirty calendar days, after any changes to the responses previously provided if such change would affect contractor's fitness and ability to continue performing the contract. Pursuant to the Contractor Responsibility Ordinance, by executing a contract with the City, the contractor pledges, under penalty of perjury, to comply with all applicable federal, state and local laws in performance of the contract, including but not limited to laws regarding health and safety, labor and employment, wage and hours, and licensing laws which affect employees. Further, the Contractor Responsibility Ordinance requires each contractor to: (1) notify the awarding authority within thirty calendar days after receiving notification that any governmental agency has initiated an investigation which may result in a finding that the contractor is not in compliance with Section 10.40.3 (a) of the Contractor Responsibility Ordinance; and (2) notify the awarding authority within thirty calendar days of all findings by a government agency or court of competent jurisdiction that the contractor has violated Section 10.40.3 (a) of the Contractor Responsibility Ordinance.

8.12 Americans with Disabilities Act

The City is a covered entity under Title II of the Americans with Disabilities Act, 42 U.S.C.A. Section 12131 et seq. Respondents awarded a contract through this RFP must comply with the Americans with Disabilities Act and execute a certification regarding compliance with the Americans with Disabilities Act prior to the execution of a contract. For further information, respondents should refer to the website identified above (Standard Provisions for City Contracts).

8.13 Recycled Paper

Outside Counsel shall submit all written documents on paper with a minimum of 30 percent post-consumer recycled content. Existing Outside Counsel letterhead or stationery that accompanies these documents is exempt from this requirement. Pages should be double-sided. Neon or fluorescent paper shall not be used in any written documents submitted.

9.0 GENERAL CITY RESERVATIONS

(a) City reserves the right to verify the information in the response.

(b) If a firm knowingly and willfully submits false information or other data, the City reserves the right to reject that response. If a contract was awarded as a result of false statements or other data submitted in response to this RFP, the City reserves the right to terminate that contract.

(c) Submission of a response to this RFP shall constitute acknowledgment and acceptance of the terms and conditions set forth herein. Responses and the offers contained therein shall remain valid for a period of one hundred and twenty (120) days from the date set for receipt of responses. Firms awarded a contract pursuant to this RFP will be required to enter into a written contract with the City approved as to form by the City Attorney. This RFP and response, or any parts thereof, may be incorporated into and made a part of the final contract. The City reserves the right to further negotiate the terms and conditions of the contract. The final contract offer of the City may contain additional terms or terms different from those set forth herein.

(d) Late responses will not be considered. The City, in its sole discretion, reserves the right to determine the timeliness of all responses submitted.

(e) The City reserves the right to waive any informality in the process when to do so is in the best interest of the City.

(f) The City reserves the right to withdraw this RFP at any time without prior notice and the right to reject any and all Responses. The City makes no representation that any contract will be awarded to any firm responding to this RFP. The City reserves the right to extend the deadline for submission. Firms will have the right to revise their response in the event the deadline is extended. Each proposer must send an e-mail address to nicole.paul@lacity.org with a copy to miguel.bahamon@lacity.org as soon as possible, so that the City Attorney may contact any proposer if necessary to amend this RFP or for any other reason. Failure to provide such an e-mail address will preclude the City Attorney's ability to contact the proposer, but will not excuse the proposer from being required to comply with any amendments. The City would not, in that case, be liable for the proposer's failure to receive such notice and any resultant non-responsiveness or noncompliance on your part. If a proposer does not have an e-mail address, please provide a postal address for this purpose.

(g) A proposer may withdraw its response prior to the specified due date and time. A written request to withdraw, signed by an authorized representative of the proposer, must be submitted to the City Attorney's Office at the address specified herein for submittal of proposal. After withdrawing a previously submitted proposal, the proposer may submit another proposal at any time prior to the specified submission deadline.

(h) All costs of response preparation shall be borne by the proposer. The City shall not, in any event, be liable for any pre-contractual expenses incurred by the proposer in the preparation and/or submission of the response.

(i) Unnecessarily elaborate or lengthy responses or other presentations beyond those needed to give sufficient and clear response to all of the RFP requirements are not desired.

(j) The response must set forth accurate and complete information as required in this RFP. Unclear, incomplete, and/or inaccurate documentation may not be considered for contract award.

(k) Responses shall be reviewed and rated by the City as submitted. Firms may make no changes or additions after the deadline for receipt.

(l) A firm will not be recommended for a contract award, regardless of the merits of the response submitted, if it has a history of contract noncompliance with the City or other funding source or poor past or current performance with the City or other funding source.

(m) The City reserves the right to retain all responses submitted and the responses shall become the property of the City. Any department or agency of the City has the right to use any of the ideas presented in the responses submitted in response to this RFP. All responses received by the City will be considered public records subject to disclosure under the Public Records Act. (California Government Code Section 6250 et seq.) Applicants must identify any material they claim is exempt from disclosure under the Public Records Act. In the event such exemption is claimed, the proposer is required to state in the response that it will defend and indemnify the City in any action brought against the City for its refusal to disclose such material to any party making a request thereof. *Failure to include such a statement shall constitute a waiver of proposer's right to exemption from disclosure.*

(n) Upon completion of all work under this contract, ownership and title of all reports, documents, plans, drawings, specifications, and estimates produced as part of this contract will automatically be vested in the City of Los Angeles, and no further agreement will be necessary to transfer ownership to any City agency. Copies made for the contractor's records shall not be furnished to others without written authorization from the City Attorney.

(o) Any contract awarded pursuant to this RFP is subject to the Contractor Evaluation Ordinance, Los Angeles Administrative Code Section 10.39, which requires awarding authorities to evaluate contractor's performance and retain such evaluative information in a data bank for future reference.

(p) The contract awarded from this RFP is expected to begin as soon as the selection process is complete and last up to three years, subject to extensions as agreed upon by the parties.

(q) The City may award a contract on the basis of proposals submitted, without discussions, or may negotiate further with those proposers within a competitive range. Proposals should be submitted on the most favorable terms the proposer can provide.

(r) Outside Counsel understands and agrees that it shall not apply for, accept or enter into any contract with any City department or office for any non-outside counsel legal services for the duration of this or any other outside counsel contract with the City, unless Outside Counsel first obtains the written approval of the Chief Deputy of the Office of the City Attorney. This is in addition to the approval by the City awarding authority of the non-outside counsel legal services contract.

10.0 CLARIFICATION

If additional information is needed to interpret this RFP, written questions shall be submitted to miguel.bahamon@lacity.org. All respondents shall have and provide an active e-mail address to receive responses to the questions.

11.0 SIGNATURES AND DECLARATIONS

Each proposal must be signed on behalf of the proposer by and officer authorized to bind the proposer, and must include the following declaration:

> "This proposal is genuine, and not sham or collusive, nor made in the interest or on behalf of any person not named therein; the proposer has not directly or indirectly induced or solicited any other proposer to put in a sham bid, or any other person, firm or corporation to refrain from submitting a proposal, and the proposer has not in any manner sought by collusion to secure for themselves an advantage over any other proposer."

12.0 INDEMNIFICATION

In addition to the insurance requirements, as set forth in this RFP, the proposer must undertake and agree to defend, indemnify and hold harmless the City, its Departments and any and all of City's boards, officers, agents, employees, assigns and successors in interest from and against all suits and causes of action, claims, losses, demands and expenses, including, but not limited to, attorney's fees and costs of litigation, damage or liability of any nature whatsoever, for death or injury to any person, including proposer's employees and agents, or damage to or destruction of any property of either party hereto or of third persons, in any manner arising by reasons of or incident to the performance of the contract on the part of proposer, its officers, directors, agents, servants, employees, contractors, whether or not contributed to by any act or omission of the City or any of the City's boards, officers, agents or employees.

13.0 EXPENSE, OWNERSHIP AND DISPOSITION

City shall not be responsible in any manner for the costs associated with the submission of the proposals in response to this RFP. All proposals, including all drawings, plans, photos, and narrative material, shall become the property of the City upon receipt by City. City shall have the right to copy, reproduce, publicize, or otherwise dispose of each proposal in any way that City selects. City shall be free to use as its own, without payment of any kind or liability therefore, any idea, concept, scheme, technique, suggestion, or plan received during this proposal process.

14.0 ATTORNEY FEES

If City shall be made a party to any litigation commenced by or against proposer arising out of proposer's operations and as a result of which proposer is held liable, in whole or in part, by settlement, adjudication, or otherwise, then proposer shall pay all costs and reasonable attorney fees incurred by or imposed upon City in connection with such litigation. Each party shall give prompt notice to the other of any claim or suit instituted against it that may affect the other party.

15.0 BIDDER CONTRIBUTIONS – CITY CHARTER SECTION 470(C)(12)

Persons who submit a response to this solicitation (bidders) are subject to Charter section 470(c)(12) and related ordinances. As a result, bidders may not make campaign contributions to and or engage in fundraising for certain elected City officials or candidates for elected City office from the time they submit the response until either the contract is approved or, for successful bidders, 12 months after the contract is signed. The bidder's principals and subcontractors performing $100,000 or more in work on the contract, as well as the principals of those subcontractors, are also subject to the same limitations on campaign contributions and fundraising.

Bidders must submit CEC Form 50 and CEC Form 55 (available at LABAVN.org) to the awarding authority at the same time the response is submitted. Form 55 requires bidders to identify their principals, their subcontractors performing $100,000 or more in work on the contract, and the principals of those subcontractors. Bidders must also notify their principals and subcontractors in writing of the restrictions and include the notice in contracts with subcontractors. Responses submitted without completed CEC Forms 50 and 55 shall be deemed nonresponsive. Bidders who fail to comply with City law may be subject to penalties, termination of contract, and debarment. Additional information regarding these restrictions and requirements may be obtained from the City Ethics Commission at (213) 978-1960 or ethics.lacity.org.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

From: **<u>Investment Committee</u>**
Sung Won Sohn, Chair
Elizabeth Lee
Nilza R. Serrano

MEETING: OCTOBER 26, 2021
ITEM: X-B

SUBJECT: **PRIVATE CREDIT PACING IMPLEMENTATION PLAN AND POSSIBLE BOARD ACTION**

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

<u>Recommendation</u>

That the Board adopt the Private Credit Pacing Implementation Plan.

<u>Discussion</u>

On October 12, 2021, the Committee considered the attached report regarding the Private Credit Pacing Implementation Plan. The Committee heard a presentation from Carolyn Smith, Oliver Fadly, and Colton Lavin of NEPC, LLC (NEPC), LACERS' General Fund Consultant. The plan, developed by NEPC with input from staff, provides a five-year pacing scenario to achieve a 5.75% target allocation to private credit. The Committee inquired about assumptions used in the plan, including projected portfolio returns and potential risks. Based on this discussion, the Committee concurred with the staff recommendation to adopt the plan. NEPC will be present at the Board meeting of October 26, 2021, should the Board desire to hear a presentation of the plan.

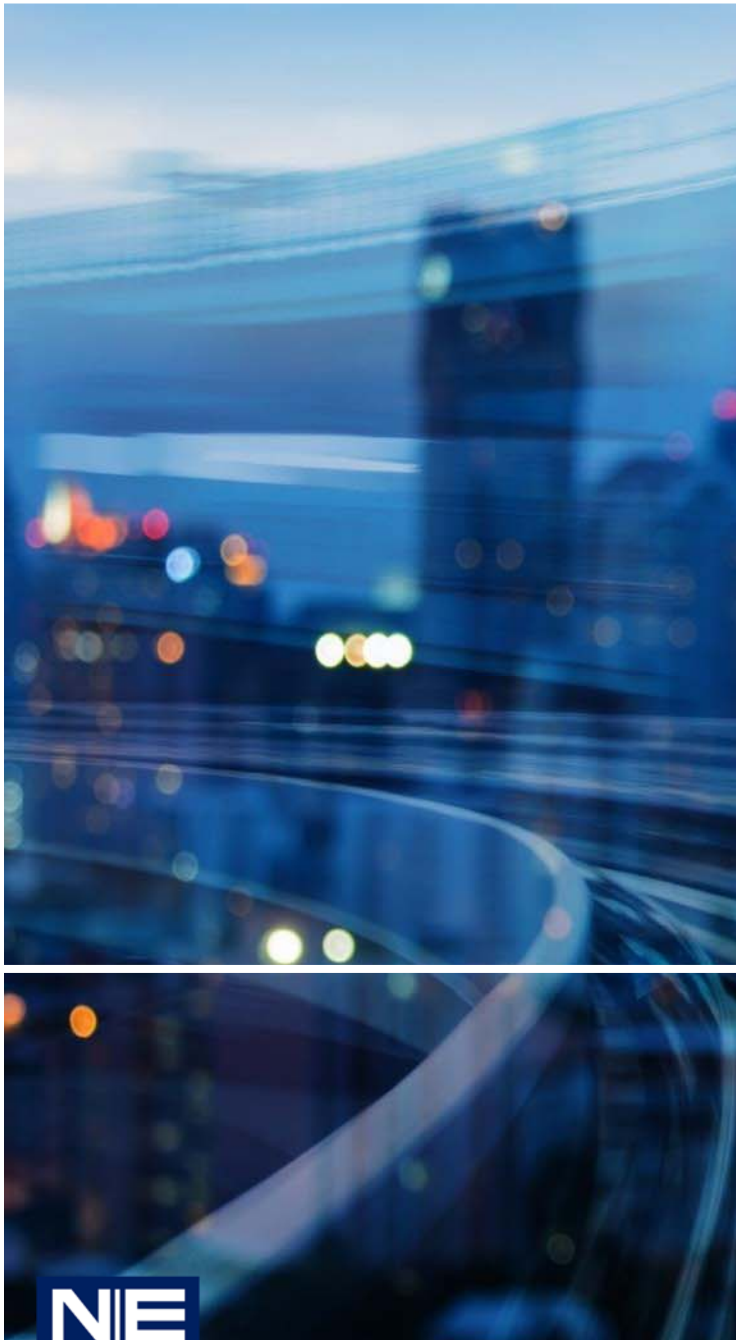
<u>Strategic Plan Impact Statement</u>

The Private Credit Pacing Implementation Plan assists the Board in building a diversified private credit and total fund portfolio and aligns with the Strategic Plan Goal of optimizing long-term risk adjusted investment returns (Goal IV).

<u>Prepared By:</u> Robert King, Investment Officer I, Investment Division

NMG/RJ/BF/WL/RK:rm

Attachment: 1. Investment Committee Recommendation Report dated October 12, 2021



LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

PRIVATE CREDIT PACING PLAN

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

OCTOBER 12, 2021

NEPC

RECOMMENDATION

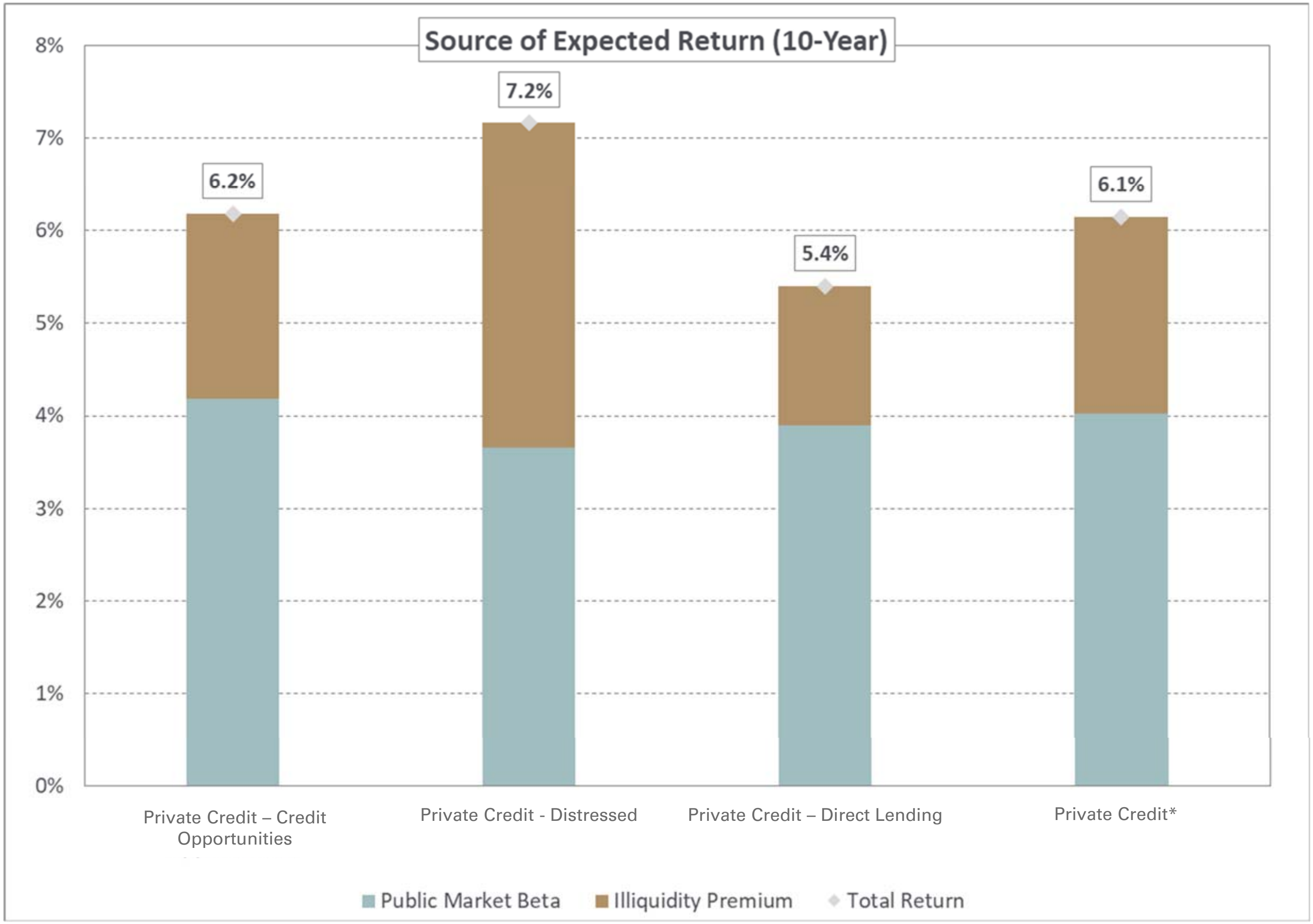
- **This review of LACERS private credit allocation is conducted to determine the commitment budget for the upcoming year**
  - We considered existing manager commitments and anticipated calls/distributions, adjustments to the target allocation and the forecasted net growth rate of the total portfolio
    - $100 million committed in 2020
    - $200 million committed in 2021
  - An annual review provides an opportunity to make adjustments to any of the above factors and assess the program carefully so as to not over- or under-allocate to illiquid investments

- **Based on our review, NEPC recommends committing approximately $375 million for the coming year to private credit. With the current inputs, we expect LACERS to commit approximately $375 million for the next 3 years, followed by a $250 million commitment in year 4 to hit the 5.75% target in the next 5 years.**

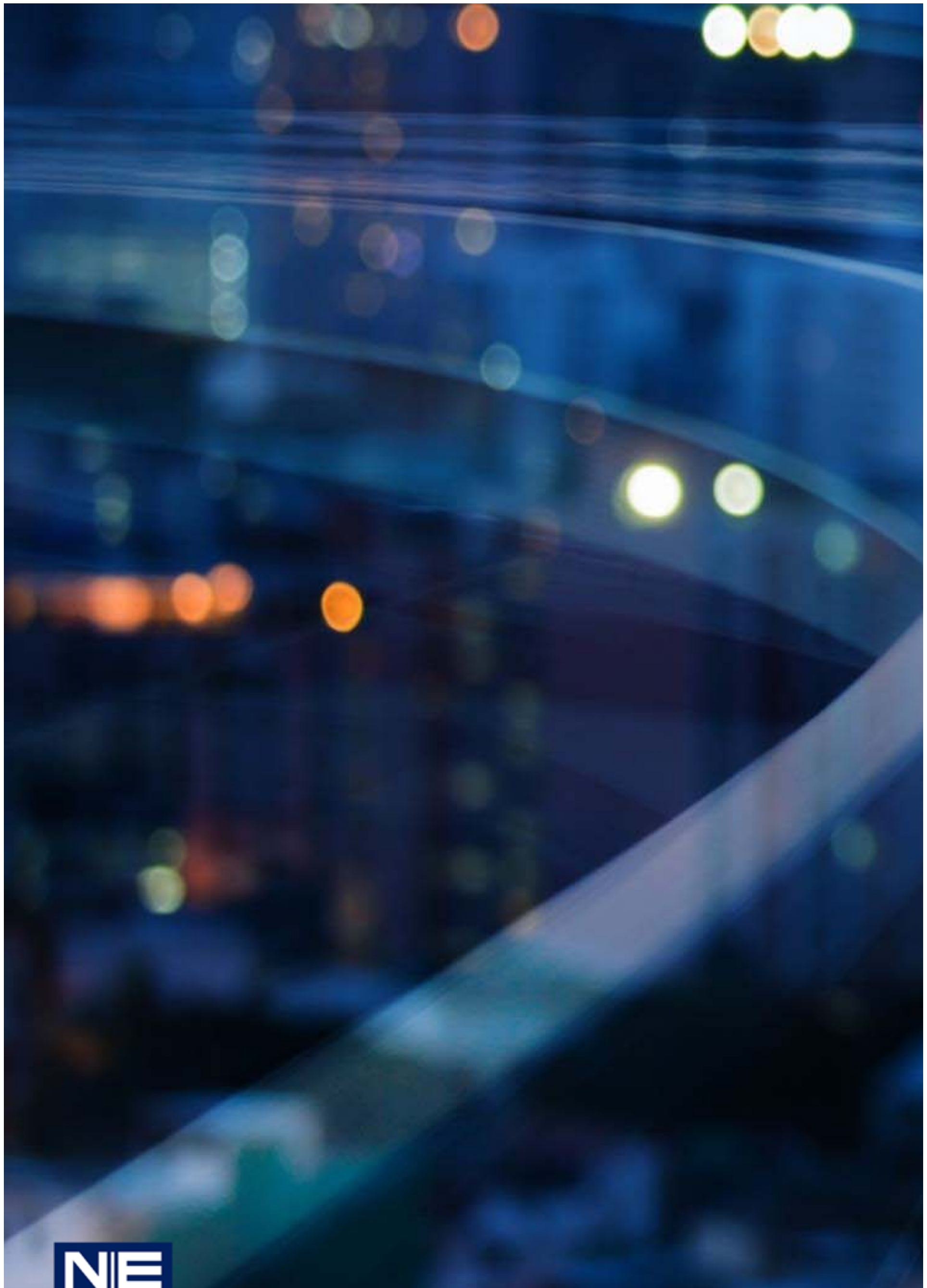
ASSUMPTIONS

- **This pacing plan was based on the following assumptions:**
  - LACERS will commit to three evergreen funds in the near term
    - 3% distributions are modeled in the cash flows
  - For each commitment, the following drawdown schedule was assumed:
    - 1/3 called each year
  - Annual expected return on the private credit portfolio is 6.1%
  - The funding source for private credit is passive and active core fixed income
    - As the Private Credit asset class will take several years to build out to the targeted policy, holding uncalled capital commitments in public market fixed income will result in a marginal decrease in expected returns based on NEPC's forward-looking capital market assumptions
    - For every 1% un-funded in Private Credit, expected Total Fund returns to be reduced by approximately $11 million per year
      - The full target un-funded amount equals a deficit in earnings of $60.7 million per year

PRIVATE CREDIT RETURN ASSUMPTIONS



Source: NEPC Capital Market Assumptions as of 12/31/2020
*Private Credit is a derived composite of 25% Mezzanine, 25% Distressed, 50% Direct Lending



PRIVATE CREDIT PACING PLAN

PACING MODEL INPUTS AND ASSUMPTIONS

($ in millions)

General Portfolio Assumptions

Total Portfolio Assets	$22,554.5
Total Private Credit Assets	$24.5
Private Credit Capital to be Funded	$0.0
Total Private Credit Exposure	$24.5
Total Private Credit Assets / Total Portfolio Assets	0.1%
Total Private Credit Exposure / Total Portfolio Assets	0.1%
Target Private Credit Allocation % (Current Target)	5.75%

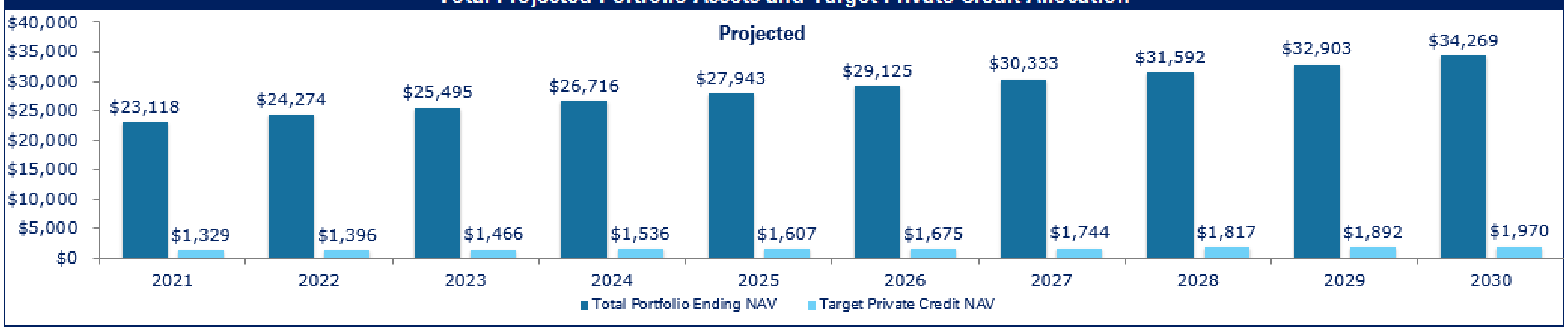
Portfolio Return Assumptions	2021	2022	2023
Target Investment Return %	3.06%	6.11%	6.11%
Contributions %	2.78%	5.55%	5.44%
Payouts %	-3.25%	-6.50%	-6.36%
Expenses %	-0.08%	-0.16%	-0.16%
Reserve for Expenses %	0.00%	0.00%	0.00%
Net Growth Rate %	2.50%	5.00%	5.03%

Portfolio Data as of: 6/30/2021
Private Credit Data as of: 6/30/2021

Total Projected Portfolio Assets

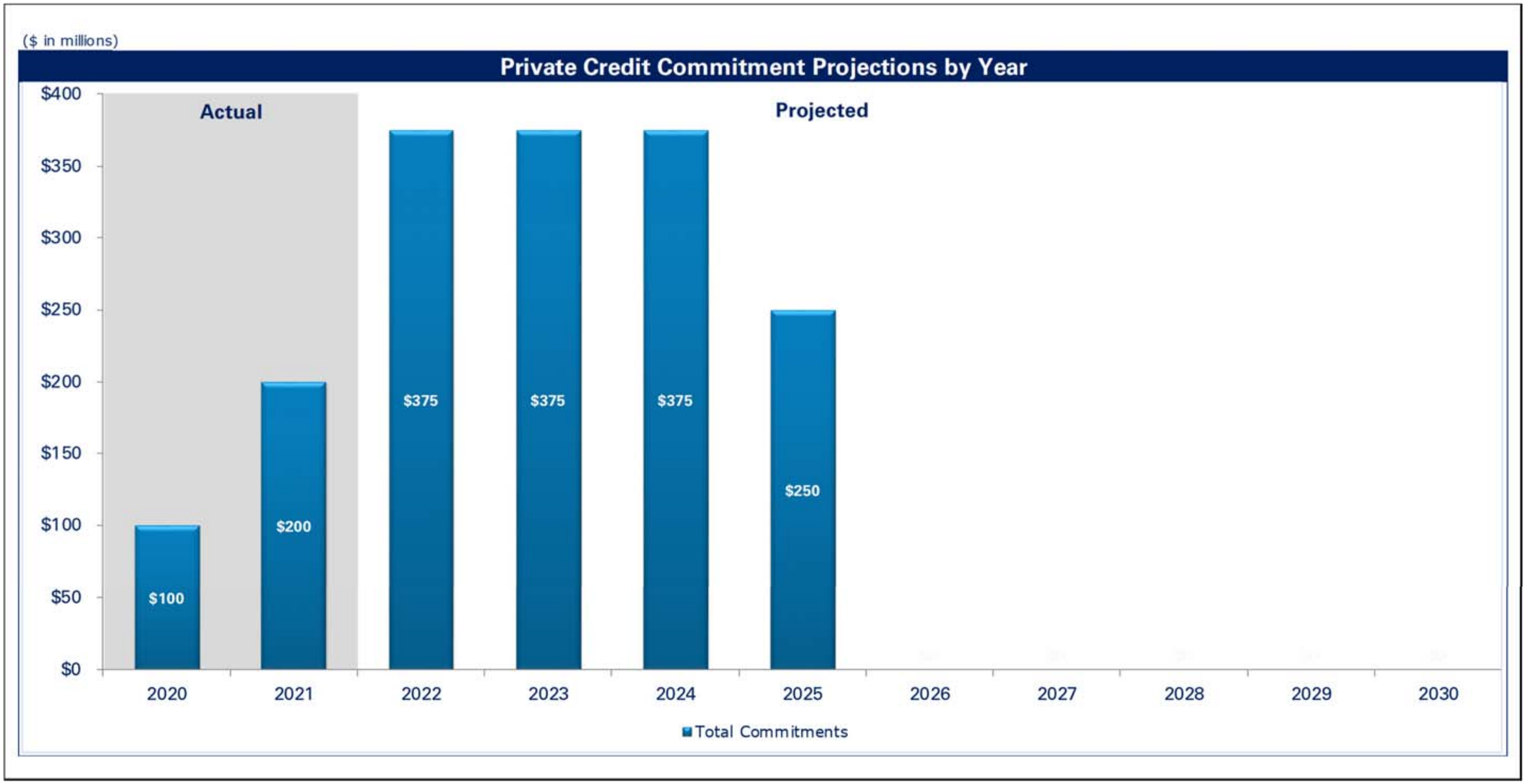
	Projected									
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Portfolio Net Growth Rate	2.5%	5.0%	5.0%	4.8%	4.6%	4.2%	4.2%	4.2%	4.2%	4.2%
Total Portfolio Beginning NAV	$22,554.5	$23,118.3	$24,274.2	$25,495.2	$26,716.5	$27,942.7	$29,124.7	$30,333.4	$31,592.2	$32,903.3
Yearly Net Growth	$563.9	$1,155.9	$1,221.0	$1,221.2	$1,226.3	$1,182.0	$1,208.7	$1,258.8	$1,311.1	$1,365.5
Total Portfolio Ending NAV	$23,118.3	$24,274.2	$25,495.2	$26,716.5	$27,942.7	$29,124.7	$30,333.4	$31,592.2	$32,903.3	$34,268.8
Target Private Credit Allocation	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Target Private Credit NAV	$1,329.3	$1,395.8	$1,466.0	$1,536.2	$1,606.7	$1,674.7	$1,744.2	$1,816.6	$1,891.9	$1,970.5

Total Projected Portfolio Assets and Target Private Credit Allocation



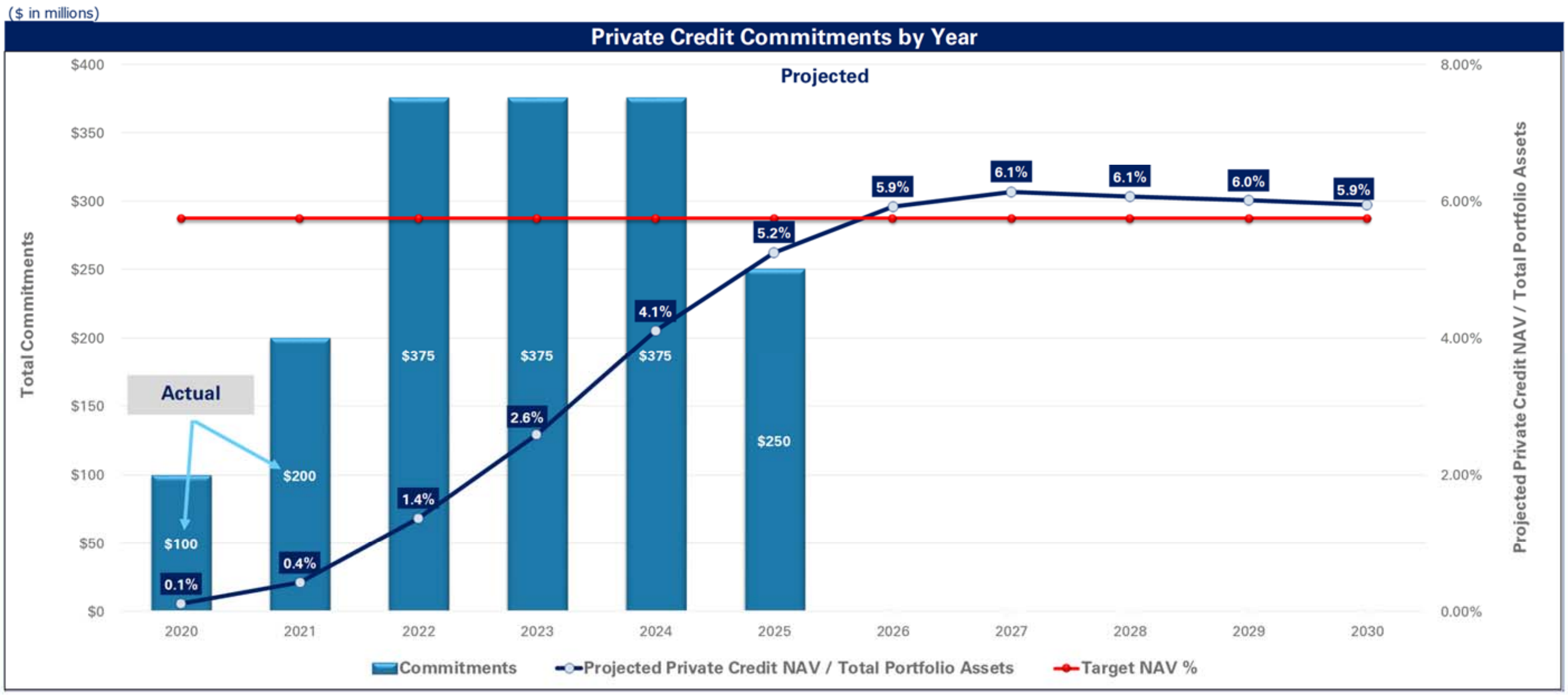
2021 Portfolio Return Assumptions are for 6 months (7/1-12/31).

PROJECTED COMMITMENTS



2020 Commitments: Benefit Street
2021 Commitments: Crescent and Monroe

COMMITMENTS & ALLOCATION PROJECTIONS



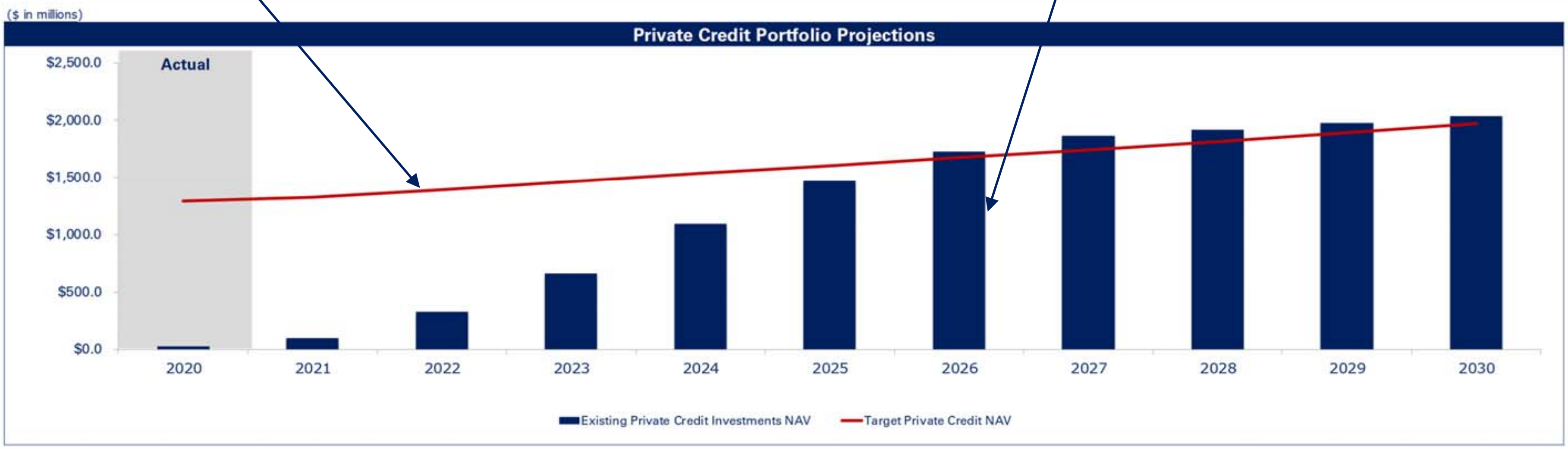
Private Credit Commitments by Year

	Actual	More Certain			Less Certain						
Year	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Total Commitments	$100	$200	$375	$375	$375	$250	$0	$0	$0	$0	$0
Target Private Credit Allocation (%)	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Projected Private Credit NAV / Total Portfolio Assets	0.11%	0.42%	1.36%	2.59%	4.10%	5.25%	5.92%	6.14%	6.07%	6.01%	5.94%

Private Credit Allocations are end-of-year projections for 2021 and beyond. Commitments for 2020 and 2021 are actual.

ASSET PROJECTIONS

- **Red line** is the **5.75%** target private credit allocation based on projected total portfolio Net Asset Value (NAV). The **blue bars** are the projected Private Credit NAV. The objective is to align the blue bar with the red target line.

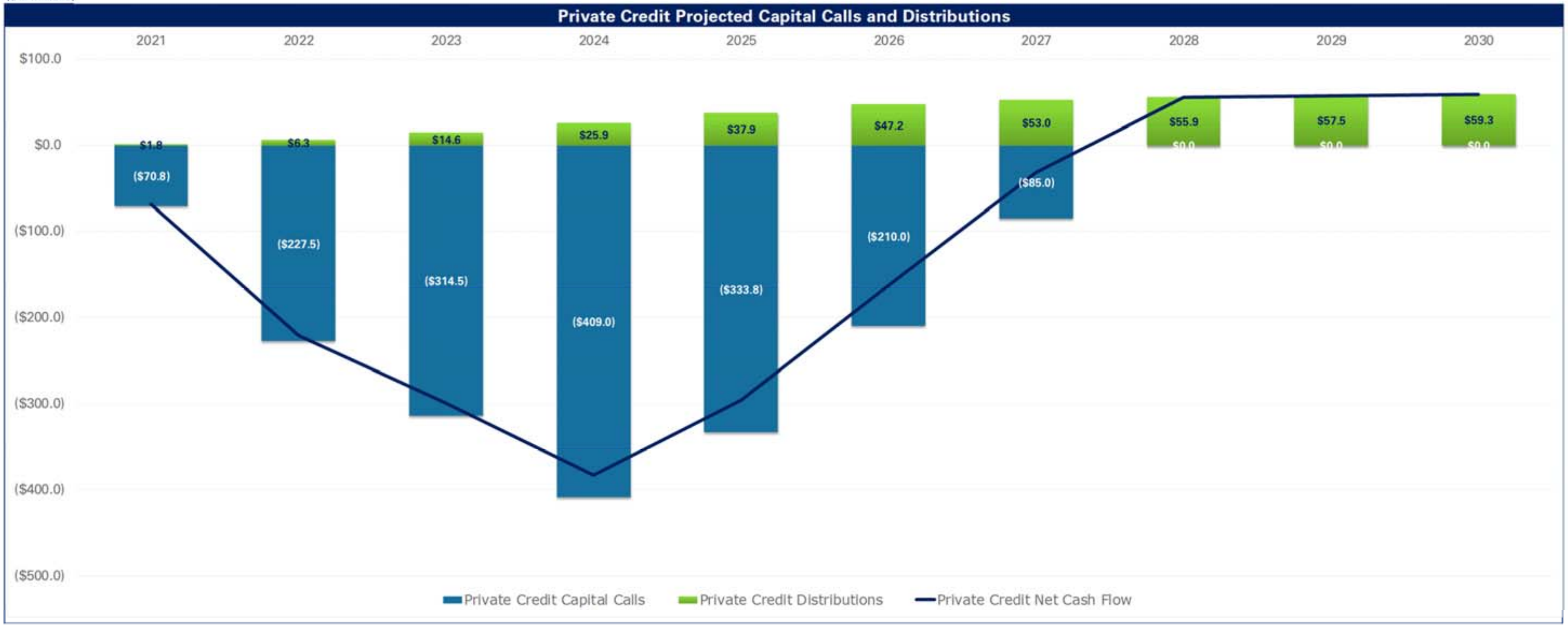


	Actual	Projected									
Year	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Private Credit NAV	$24.5	$97.1	$330.9	$660.1	$1,095.1	$1,466.8	$1,724.1	$1,862.2	$1,918.3	$1,976.0	$2,035.4
Uncalled Capital Commitments	$75.5	$204.8	$352.3	$412.8	$378.8	$295.0	$85.0	$0.0	$0.0	$0.0	$0.0
Private Credit NAV + Uncalled Capital Commitments	$100.0	$301.8	$683.1	$1,072.8	$1,473.8	$1,761.8	$1,809.1	$1,862.2	$1,918.3	$1,976.0	$2,035.4
Target Private Credit NAV	$1,296.9	$1,329.3	$1,395.8	$1,466.0	$1,536.2	$1,606.7	$1,674.7	$1,744.2	$1,816.6	$1,891.9	$1,970.5
Private Credit Percent of Total Portfolio Assets											
Private Credit NAV	0.1%	0.4%	1.4%	2.6%	4.1%	5.2%	5.9%	6.1%	6.1%	6.0%	5.9%
Private Credit Uncalled Capital Commitments	0.3%	0.9%	1.5%	1.6%	1.4%	1.1%	0.3%	0.0%	0.0%	0.0%	0.0%
NAV + Uncalled Capital Commitments	0.4%	1.3%	2.8%	4.2%	5.5%	6.3%	6.2%	6.1%	6.1%	6.0%	5.9%
Target Private Credit Allocation	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%

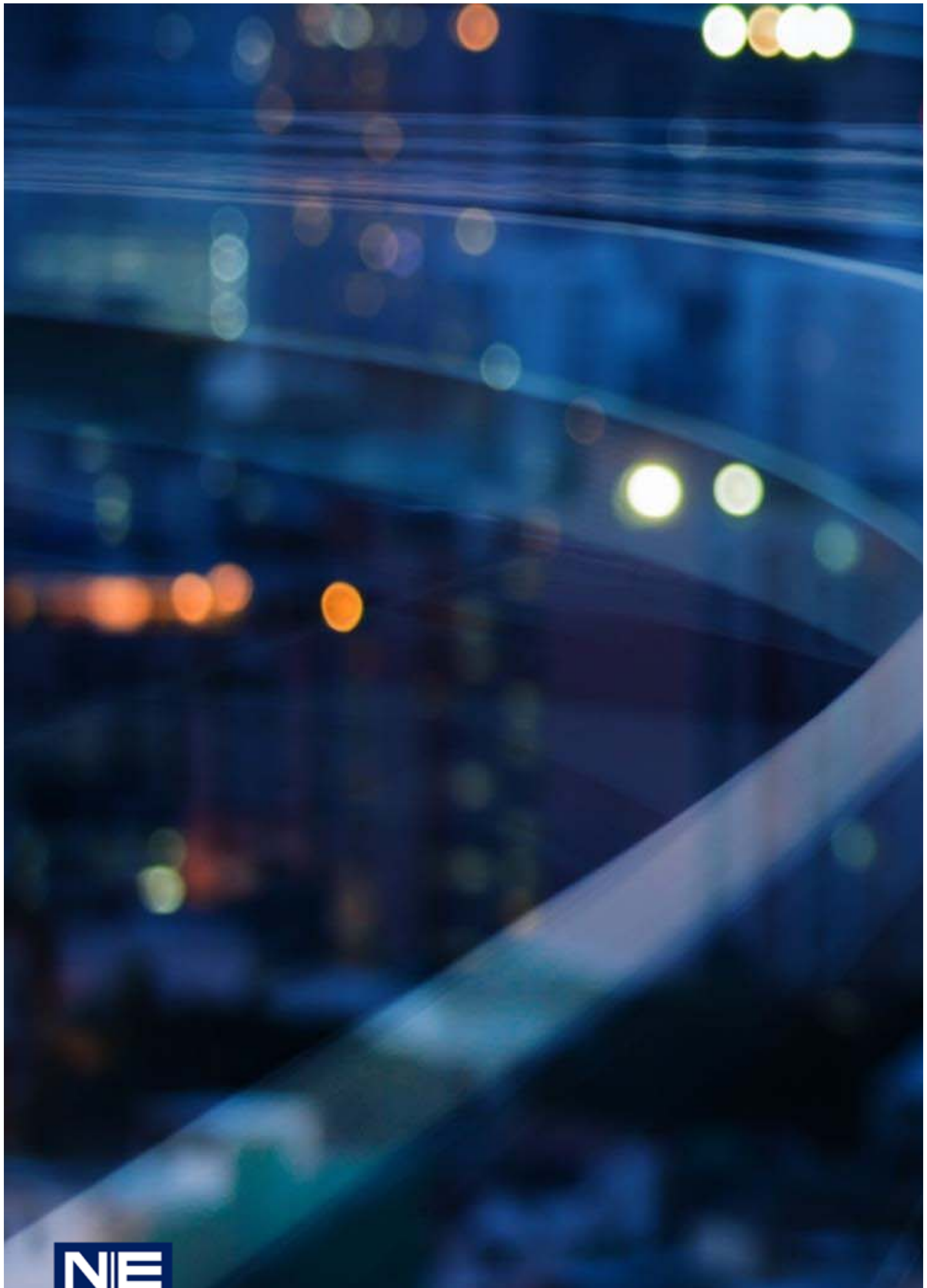
All projections are end-of-year values.

PROJECTED CASH FLOWS

($ in millions)



	Projected									
Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Private Credit Capital Calls	($70.8)	($227.5)	($314.5)	($409.0)	($333.8)	($210.0)	($85.0)	$0.0	$0.0	$0.0
Private Credit Distributions	$1.8	$6.3	$14.6	$25.9	$37.9	$47.2	$53.0	$55.9	$57.5	$59.3
Private Credit Net Cash Flow	($69.0)	($221.2)	($299.9)	($383.1)	($295.9)	($162.8)	($32.0)	$55.9	$57.5	$59.3



APPENDIX: PRIVATE CREDIT MARKET DATA

DIRECT LENDING AND MEZZANINE

General Market Thoughts

- **Direct lending became relatively more attractive but retreated as markets rebounded; actual deployment has not picked up**
  - US pricing has tightened but not as much as public markets; if there is interest, focus more on middle market
  - European deployment has been less disrupted than the US for Tier 1 managers; have stepped in on opportunistic deals
- **Niche credit is interesting for those looking for more unique themes or investments less correlated to corporate credit**
- **Mezzanine opportunity has increased, however, is seeing competition from opportunistic credit managers**

Implementation Views

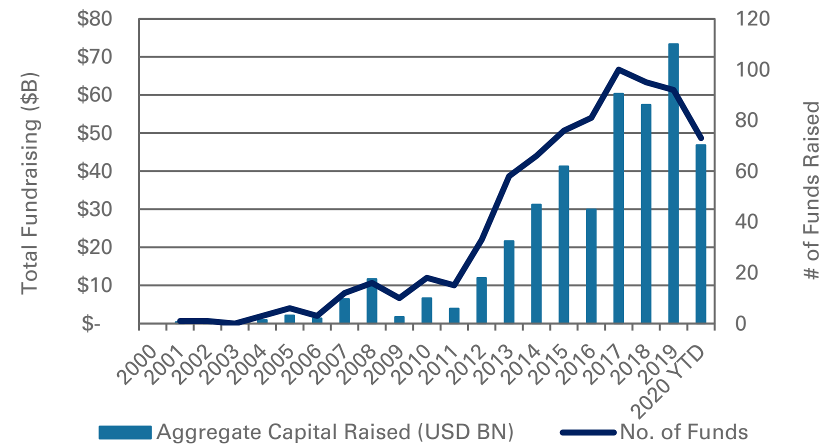
Strategy	Outlook	Commentary
Direct Lending	US: Neutral Europe: Neutral	• US: Relative attractiveness in the lower-to middle market (companies less than $50m EBITDA); seek managers with smaller funds and legacy portfolios • Europe: Tier 1 managers have fared well • Focus on fees and more liquid vehicle structures for cheaper market beta
Niche Lending	Positive	• Sector/industry specialization or areas which require additional expertise; overlooked and passed over by traditional lenders; thematic managers that can be flexible: directly originate as well as capitalize on secondary opportunities
Mezzanine	Negative	• There are interesting opportunities on the non-sponsored side where managers can drive deal structures and terms. European subordinated debt differs from the US – loans tend to be secured; analogous to second lien but with equity upside

DIRECT LENDING: FUNDRAISING & RETURNS

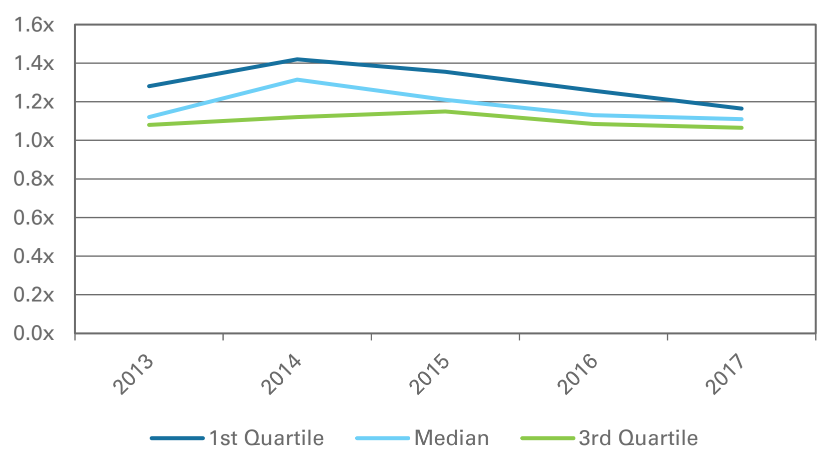
Comments

- Fundraising has remained strong in 2020 following record numbers in 2019
- Performance from a TVPI standpoint has shown a low dispersion of returns with a trend towards tightening
- There has been a divergence in recent net IRRs as more managers have become more liberal with credit lines and leverage facilities

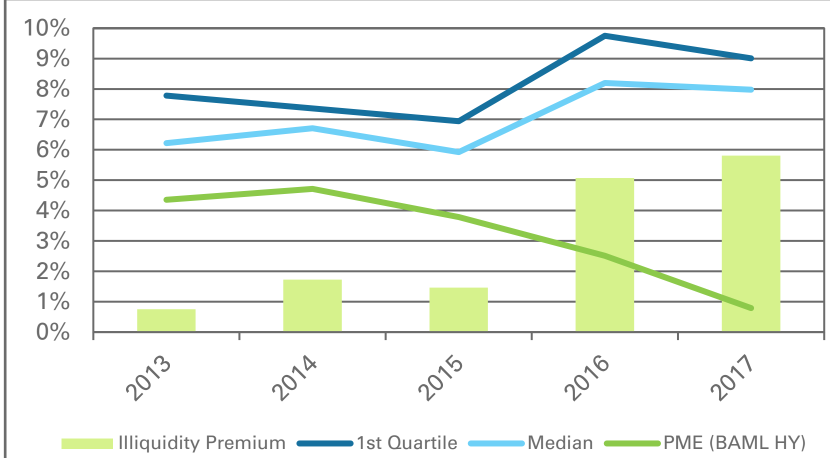
Annual Fundraising



Net TVPI



Net IRR



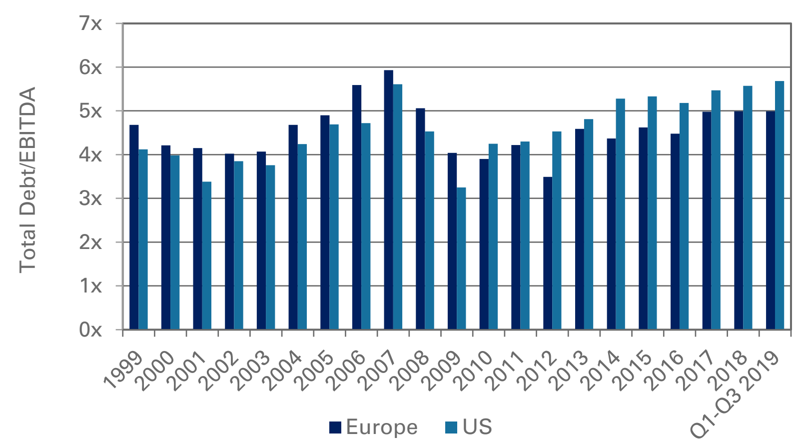
Source: Preqin as of 06/30/2020. Performance for 2018-2020 vintage funds not yet meaningful
Fundraising data from Preqin as of 11/30/2020

DIRECT LENDING: US VS. EUROPE

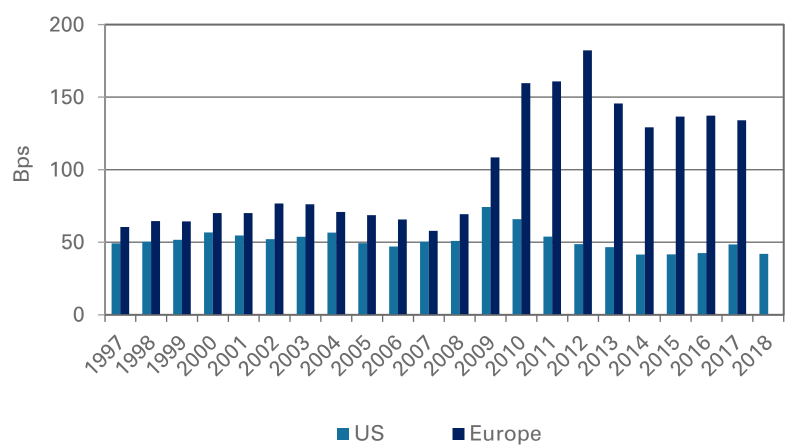
Comments

- Debt multiples for European LBOs still remain approximately 0.5x less levered relative to the US
- Upfront and commitment fees average 2-3x higher on European loans
- Overall coverage ratios have been slightly higher in European middle market companies over the past few years

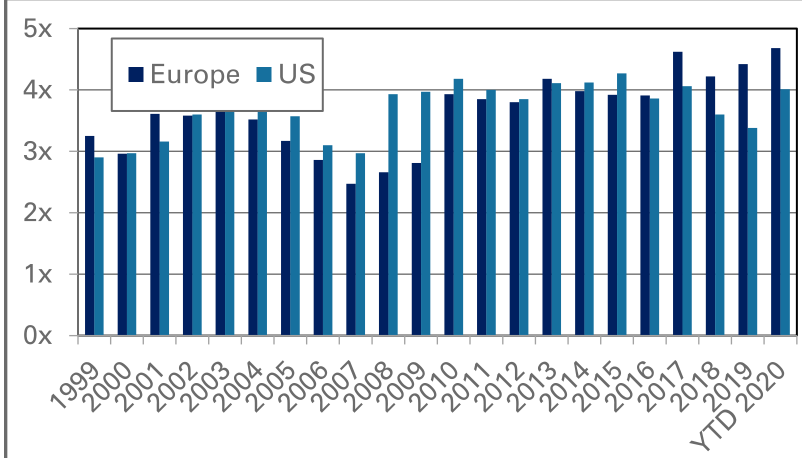
Middle Market LBO Total Debt/EBITDA*



Upfront/Commitment Fees



Interest Coverage Ratios

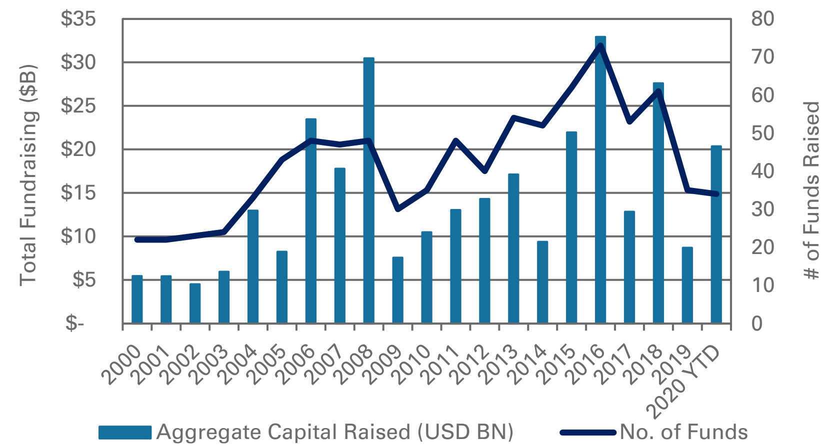


MEZZANINE: FUNDRAISING & RETURNS

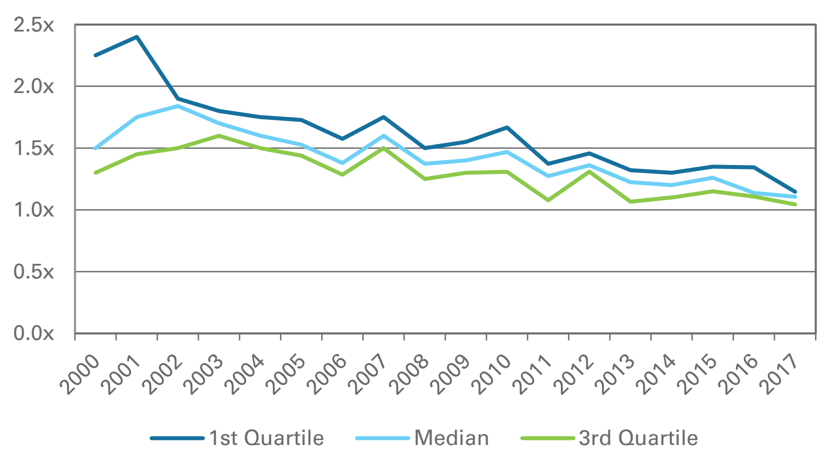
Comments

- **Fundraising for mezzanine funds has bounced back in 2020 following a sizeable decrease in 2019**
- **The performance bands for net TVPI have been extremely tight between 1st quartile, median and 3rd quartile**
- **The median net IRR has maintained relatively stable while there has been some fluctuation in the 1st and 3rd quartile numbers (due in part to a limited number of constituents in the benchmark)**

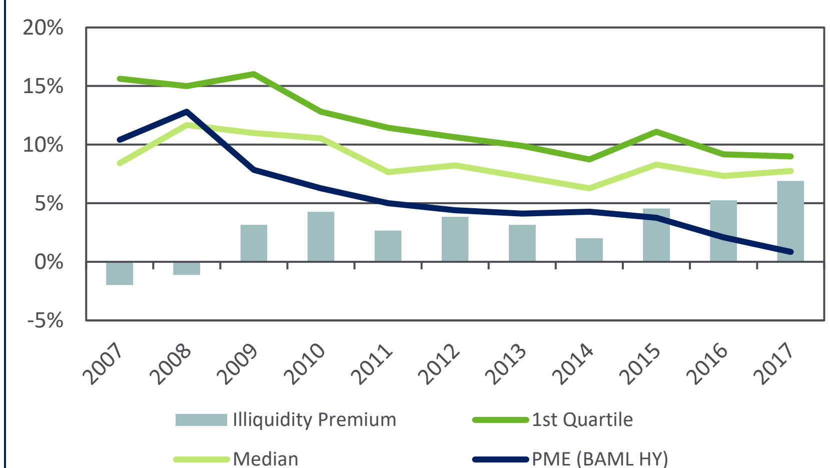
Annual Fundraising



Net TVPI



Net IRR



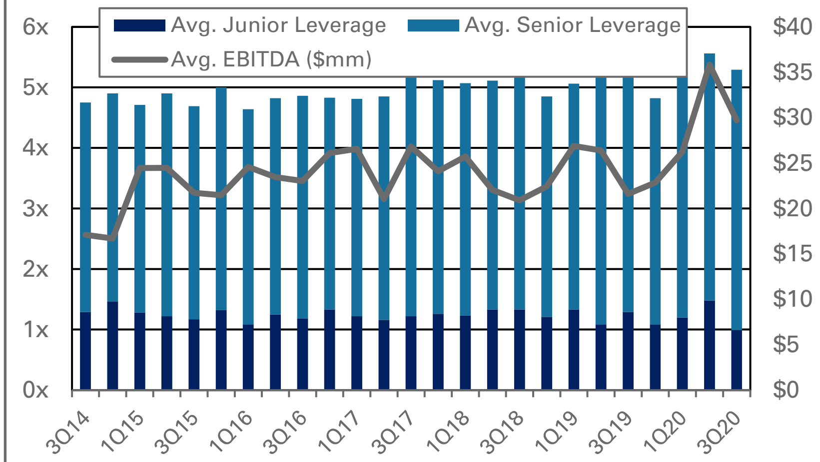
Source: Thomson One/C|A as of 06/30/2020. Performance for 2018-2020 vintage funds not yet meaningful
Fundraising data from Preqin as of 11/30/2020

MEZZANINE/SUB DEBT MARKET ACTIVITY

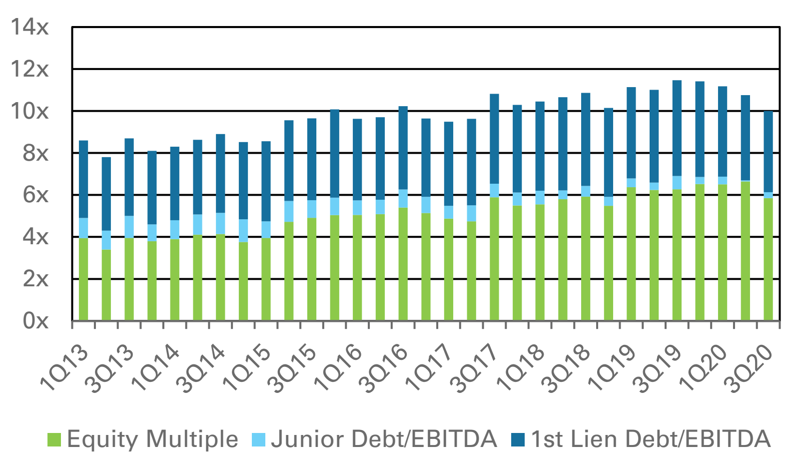
Comments

- Sponsored middle market junior debt saw an increase in Q2 but drastic decrease when markets normalized
- Middle market LBOs showed almost no subordinated debt in Q2
- While middle market LBO mezzanine volume decreased in Q3, new money issuance in the middle market actually increased

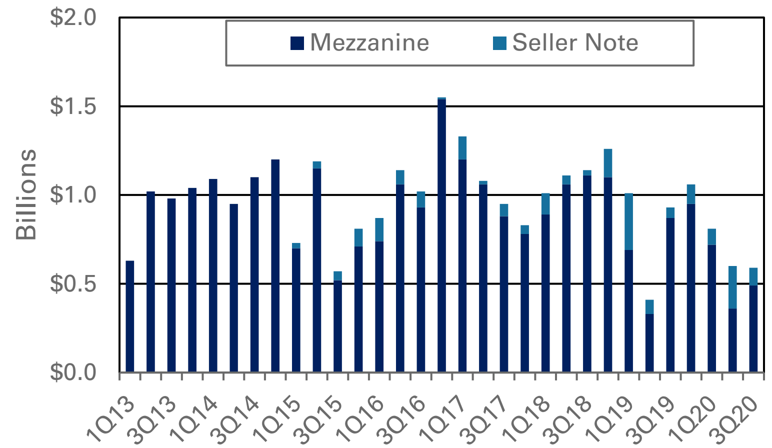
Middle Market Sponsored



Middle Market LBOs



Middle Market Mezzanine Issuance



Source: Refinitiv Loan Connector, October 2020

DISTRESSED DEBT AND OPPORTUNISTIC CREDIT

General Market Thoughts

- **The COVID-19 pandemic brought on significant market dislocation in March and April, resulting in a robust buying opportunity and catalyst for fundraising**
  - That broad opportunity set dissipated quickly; markets stabilized, applauding all positive news, and treating bad news as "as expected"
- **Government intervention, stimulus, and widespread market optimism have held off a broad distressed market opportunity**
  - GPs continue to expect an expanded default and bankruptcy cycle that will bring opportunity for restructurings and distressed-for-control deals; however the timing is uncertain and dry powder levels remain at record highs
- **While not as expected, there are still opportunities and more could develop**
  - Defaults and bankruptcies haven't materialized as expected yet, but GPs have been active with "capital solutions" or directly originated rescue financing, and NPLs remain a focus globally

Implementation Views

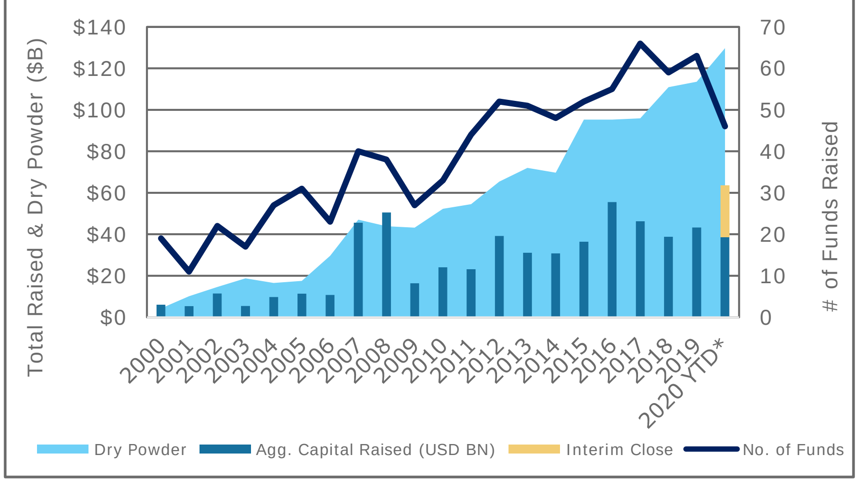
Strategy	Outlook	Commentary
Distressed Debt	Neutral	• Target managers with flexible strategies, prior distressed investing experience, and suitable resources to address the current and future opportunity • Experience working through bankruptcies and restructurings is could be especially relevant and valuable if a broader opportunity set develops • Be mindful of excessive fund sizes; overly large fund sizes could mute overall fund-level returns, especially if deal flow doesn't materialize as expected
Opportunistic Credit	Positive	• Target managers that can provide flexible capital solutions that can invest across various market conditions • Seek strategies that can directly originate/participate in the secondary markets • Opportunistic strategies can enhance returns in a low-rate environment compared to traditional fixed-income strategies, but be mindful of fees

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: FUNDRAISING & RETURNS

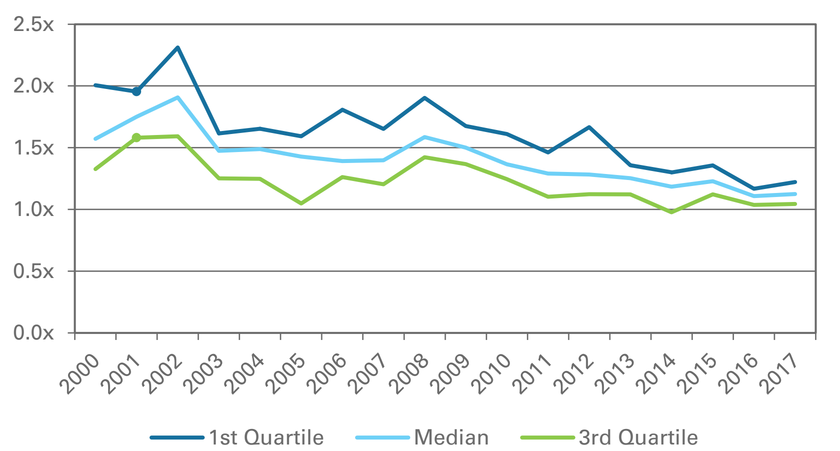
Comments

- **2020 fundraising hit a new high, fueled by larger funds and numerous "dislocation" funds that came to market in response to Q1/Q2 market turmoil**
- **Dry powder levels have continued to climb to new highs**
- **Due to lack of broad distress, recent vintage TVPIs have been subdued**
- **Quartile spreads have consistently been tight**

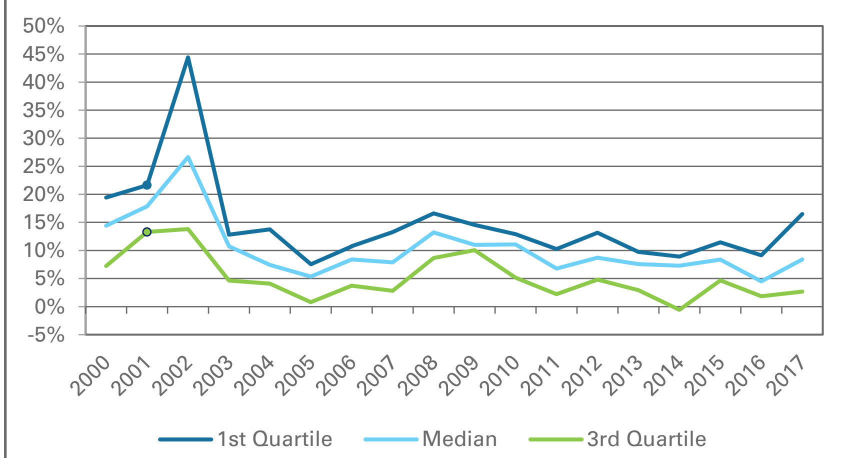
Annual Fundraising



Net TVPI



Net IRR



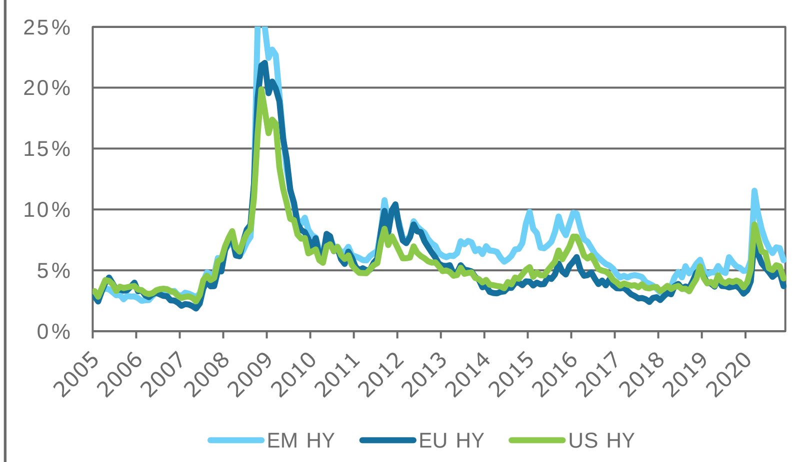
Source: Thomson One/C|A as of 06/30/2020. Performance for 2018-2020 vintage funds not yet meaningful
Fundraising data from Preqin as of 11/30/2019; 2020 YTD* value includes closed capital in 2020 vintage funds that have not yet held a final close

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: MARKET MOVEMENTS

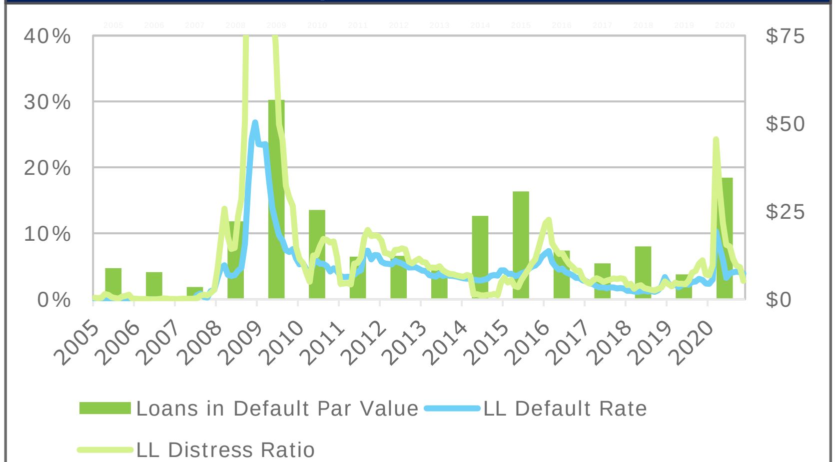
Commentary

- **COVID-19 pandemic and corresponding shutdowns served as catalyst for severe market dislocation in March and April**
  - Globally, HY spreads widened significantly and distressed ratios shot up
- **Calm quickly returned to the market following gov't stimulus and optimism for vaccines and return to "normal"**
  - Yields and distress ratio dropped nearly as quickly as they rose
  - Default activity is rising, but not to the levels or at the rate that many predicted/expected

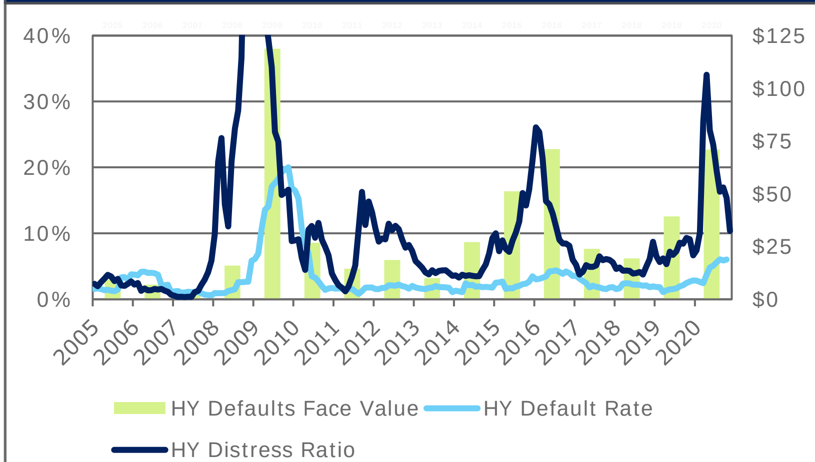
HY Spreads



Leveraged Loan Default Value ($B) and Rates, and Distress Ratio*



HY Default Value ($B) and Rates, and Distress Ratio*



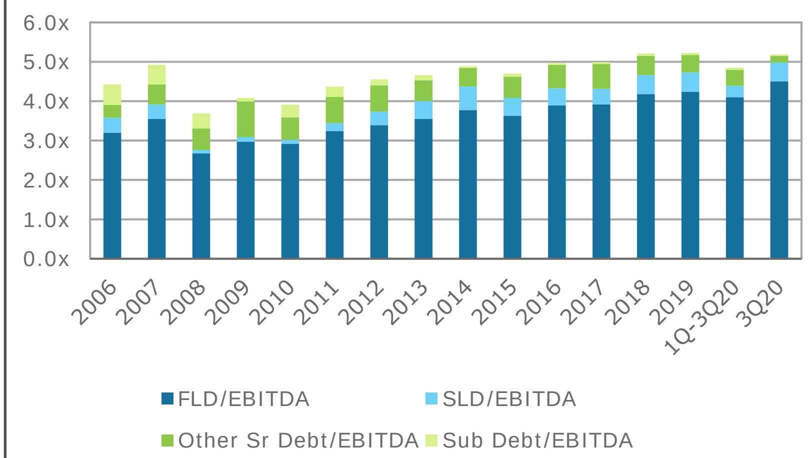
Sources: BofA Global Research (top) and Deutsche Bank Credit Book (bottom right) as of 11/30/20; S&P LCD (bottom left) as of 11/30/20
**LL and HY Distress ratios peaked at 81.0% and 76.7% in Nov '08, respectively*

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: CURRENT MARKET DYNAMICS

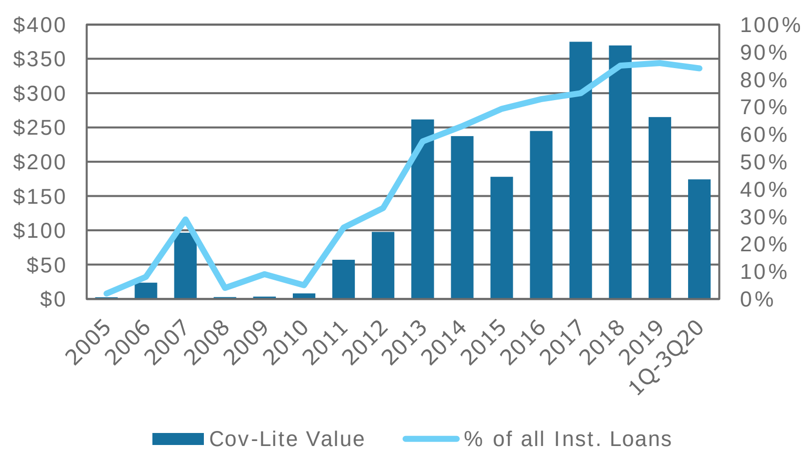
Commentary

- **Entering 2020 leverage levels were at historic highs and after a brief pull-back, remain there**
  - Leverage levels came down in 2020, but returned to pre-COVID levels in Q3
- **Current leverage levels are understated due to EBITDA adjustments**
  - Average of ~12% EBITDA adjustment that reduce implied debt multiple by 0.6x
- **Cov-lite remains prominent in new issuance**

Average Debt Multiples of Large Corporate Loans



Leveraged Loan Cov-Lite Issuance ($B) & as Pct. of Total Loan Market Issuance



Transactions with EBITDA Adjustments

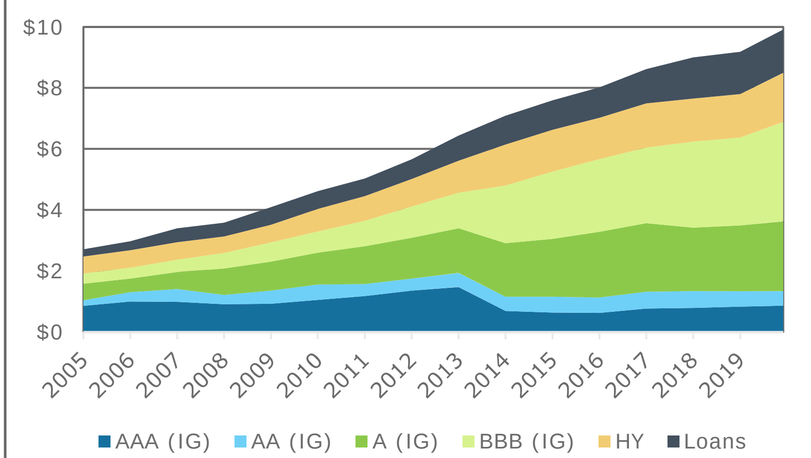
Source: S&P LCD as of 9/30/20

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: MARKET SIZE, COMPOSITION AND INDUSTRY DISPERSION

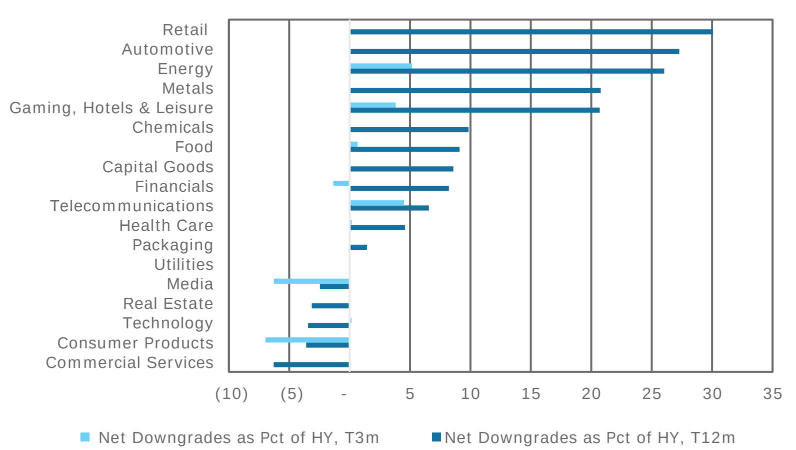
Commentary

- **Corporate credit markets continue to climb to new highs**
  - Significant growth in BBBs
- **COVID-19 pandemic has impacted industries disproportionately**
  - Retail, auto, energy, metals, and gaming, hotels & leisure are among hardest hit
  - Tech, media and others have benefited
- **"K" shaped recovery will present varying opportunity sets across industries and transaction types**

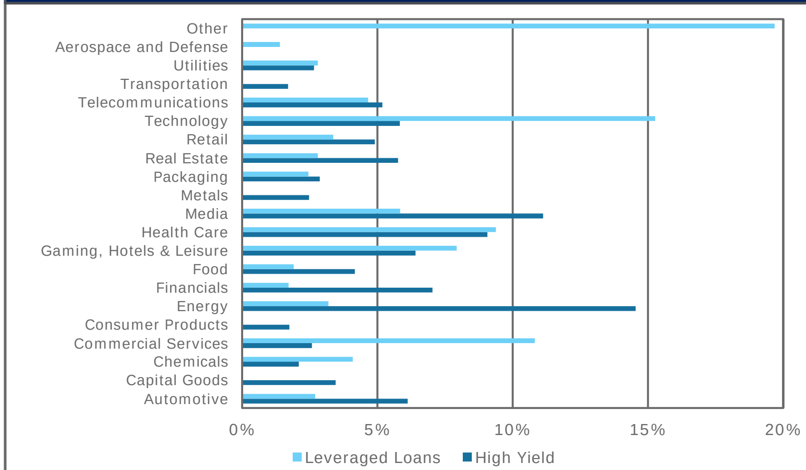
US Corporate Credit Growth ($ trillions)



HY Sector Net Downgrades*



Index Industry Weights by Par Value



Sources: S&P LCD (top and bottom right LL data) as of 9/30/20; Deutsche Bank Credit Book (bottom left & HY data on right) as of 11/30/20

**Total face value of downgraded bonds less face value of upgraded bonds, as a % of sector face value, over 3m and 12m horizons*

PACING PLAN DISCLAIMERS

- NEPC's private markets pacing analysis projects a potential level of future assets and cash flows for a single scenario based on a series of assumptions. This analysis is intended to help estimate future exposure levels. It is not a guarantee of future cash flows, appreciation or returns.
- The timing and amounts of projected future cash flows and market values of investments could vary significantly from the amounts projected in this pacing analysis due to manager-specific and industry-wide macroeconomic factors.
- Estimates of projected cash flows and market values for existing private markets commitments were made at the Fund level and do not incorporate any underlying portfolio company projections or analysis.
- The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.
- Data used to prepare this report was obtained directly from the investment managers and other third parties. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- This report may contain confidential or proprietary information and is intended only for the designated recipient(s). If you are not a designated recipient, you may not copy or distribute this document.

ALTERNATIVE INVESTMENT DISCLOSURES

It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

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

MEETING: **OCTOBER 26, 2021**
ITEM: **X-C**

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

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

Recommendation

That the Board:

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

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

Discussion

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

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

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to non-U.S. emerging markets growth equities, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/EC:rm

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

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: OCTOBER 12, 2021**
From: Neil M. Guglielmo, General Manager | **ITEM: VI**

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

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

Recommendation

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

Executive Summary

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

Discussion

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

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

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

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

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

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

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

Performance

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

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

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

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

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

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

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

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

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

General Fund Consultant Opinion
NEPC concurs with these recommendations.

<u>Strategic Plan Impact Statement</u>

A contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

<u>Prepared by:</u> Ellen Chen, Investment Officer I, Investment Division

RJ/BF/EC

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

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

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

MEETING: **JULY 28, 2020**
ITEM: **X – C**

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

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

Recommendation

That the Board:

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

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

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

Discussion

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

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

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

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to emerging markets growth equities, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/EC:jp

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

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

MEETING: JULY 14, 2020
ITEM: IV

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

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

Recommendation

That the Committee recommend to the Board:

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

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

Executive Summary

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

Discussion

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

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

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

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

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

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

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

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

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

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

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

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

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

Benchmark Concentration and Risk

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

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

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

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

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

Relative underweight per guideline restrictions.

Relative underperformance due to the 3 stocks.

Source: Factset

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

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

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

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

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

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

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

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

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

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

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A benchmark change and contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/EC:jp

Attachments: 1. Consultant Recommendation – NEPC, LLC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: July 14, 2020

Subject: Axiom Investors - Contract extension and benchmark change

Recommendation

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

Background

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

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

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

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

Exhibit 1

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

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

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

Exhibit 2:

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

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

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

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

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

Performance

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

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

Fees

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

Conclusion

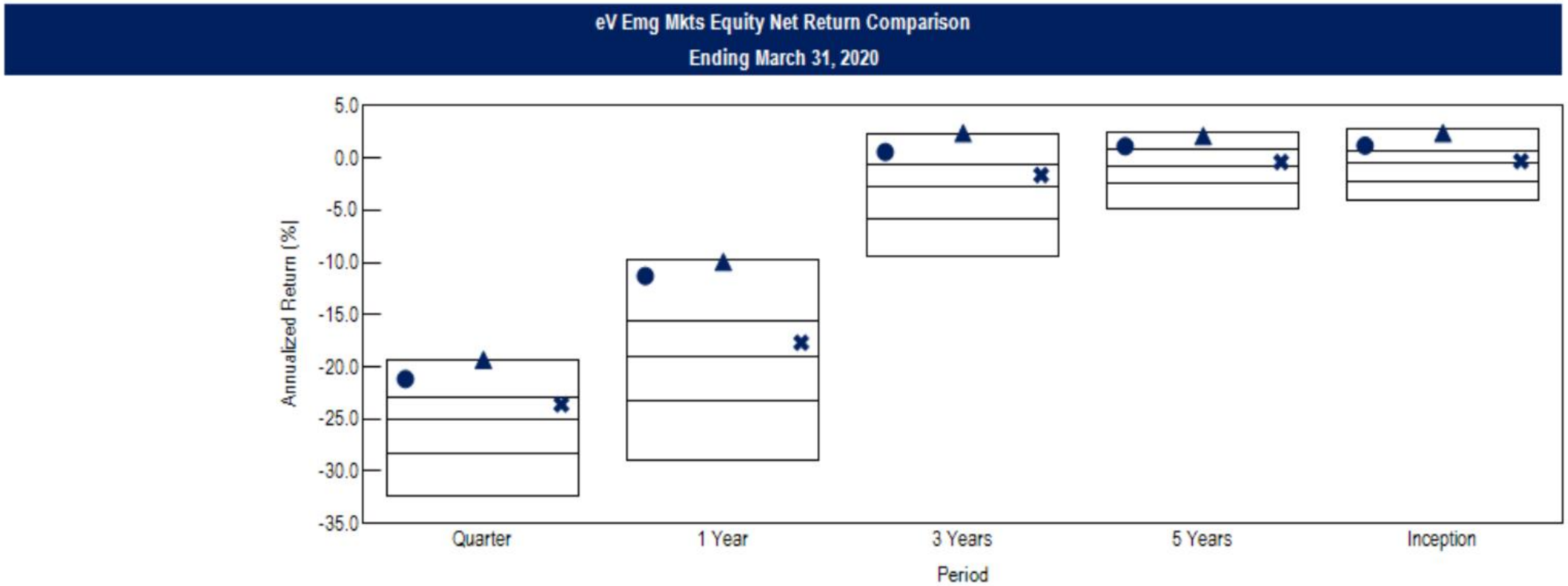
As of this writing, Axiom has struggled to outperform the MSCI Emerging Markets Growth benchmark over all trailing periods. Much of the underperformance can be attributed to their investment process and focus on diversification versus what has become a significantly concentrated style benchmark since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

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

Exhibit 3

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

Exhibit 4



	Quarter		1 Year		3 Years		5 Years		Inception	
	Return (Rank)									
5th Percentile	-19.31		-9.69		2.27		2.46		2.72	
25th Percentile	-22.92		-15.55		-0.69		0.76		0.61	
Median	-25.05		-19.10		-2.71		-0.87		-0.53	
75th Percentile	-28.34		-23.21		-5.77		-2.36		-2.26	
95th Percentile	-32.37		-29.04		-9.44		-4.79		-4.00	
# of Portfolios	224		222		198		173		159	
● Axiom Emerging Markets	-21.17	(12)	-11.29	(8)	0.59	(16)	1.14	(22)	1.20	(18)
▲ MSCI Emerging Markets Growth NR USD	-19.34	(6)	-9.94	(6)	2.39	(5)	2.13	(10)	2.41	(8)
× MSCI Emerging Markets	-23.60	(35)	-17.69	(40)	-1.62	(32)	-0.37	(41)	-0.29	(46)

Exhibit 5

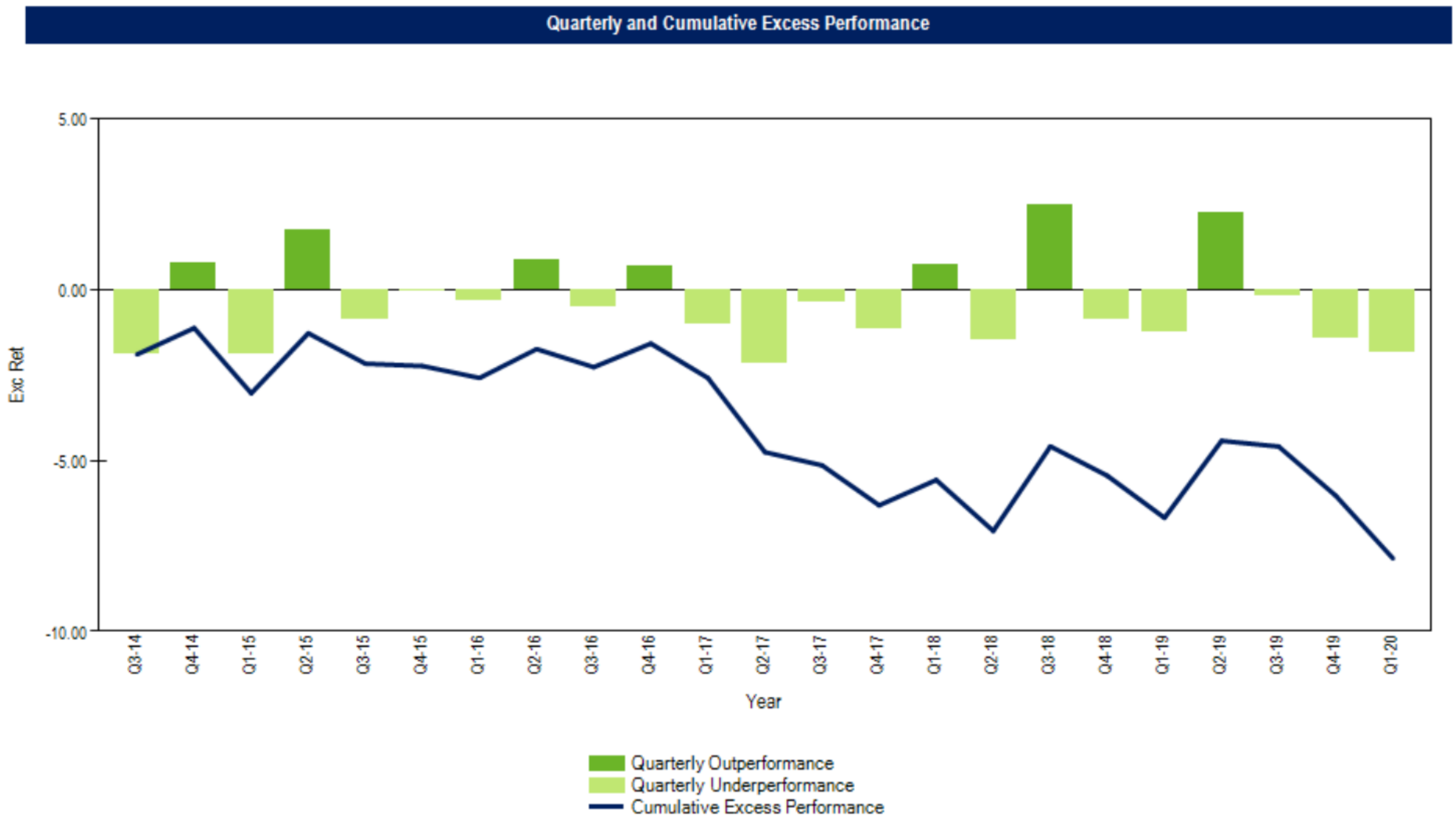
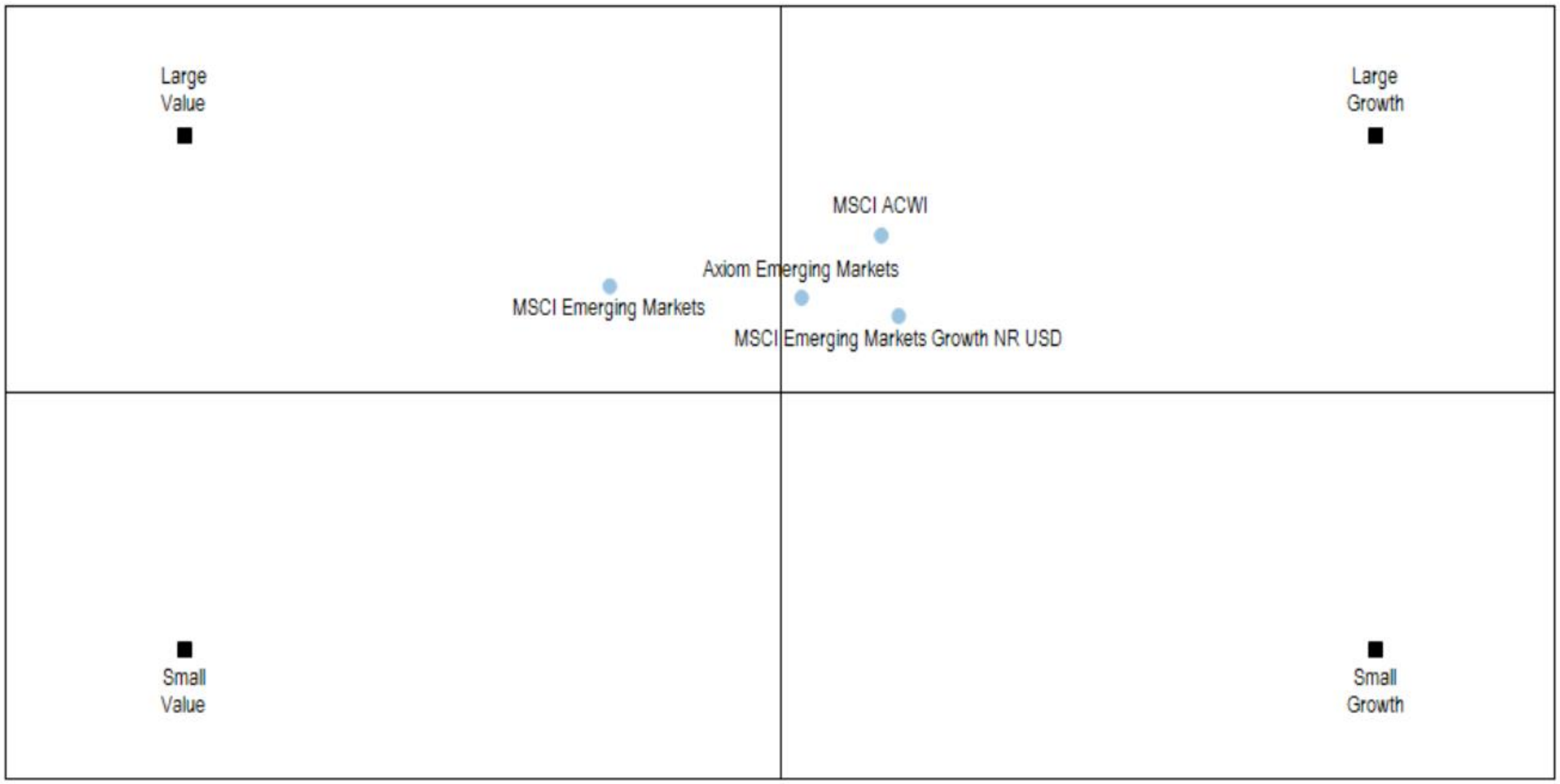

Quarterly and Cumulative Excess Performance
5.00
0.00
-5.00
-10.00
Exc Ret
Q3-14
Q4-14
Q1-15
Q2-15
Q3-15
Q4-15
Q1-16
Q2-16
Q3-16
Q4-16
Q1-17
Q2-17
Q3-17
Q4-17
Q1-18
Q2-18
Q3-18
Q4-18
Q1-19
Q2-19
Q3-19
Q4-19
Q1-20
Year
Quarterly Outperformance
Quarterly Underperformance
Cumulative Excess Performance

Exhibit 6

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



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

PROPOSED RESOLUTION

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

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

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

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

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

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

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

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

July 28, 2020

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: October 12, 2021

Subject: Axiom Investors - Contract Extension

Recommendation

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

Background

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

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

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

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

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

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

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

Performance

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

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

Fees

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

Conclusion

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

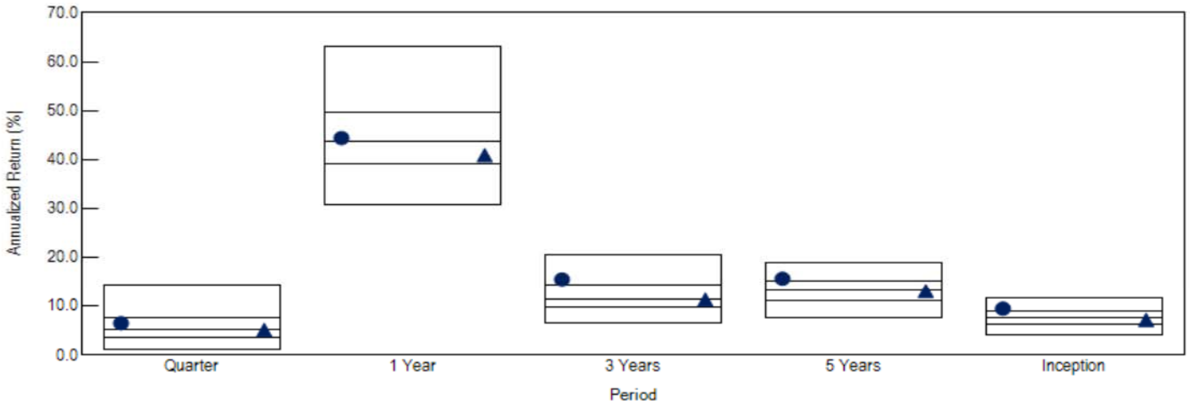
The following tables provide specific performance information, net of fees referenced above.

Exhibit 1: Net of Fee Performance

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

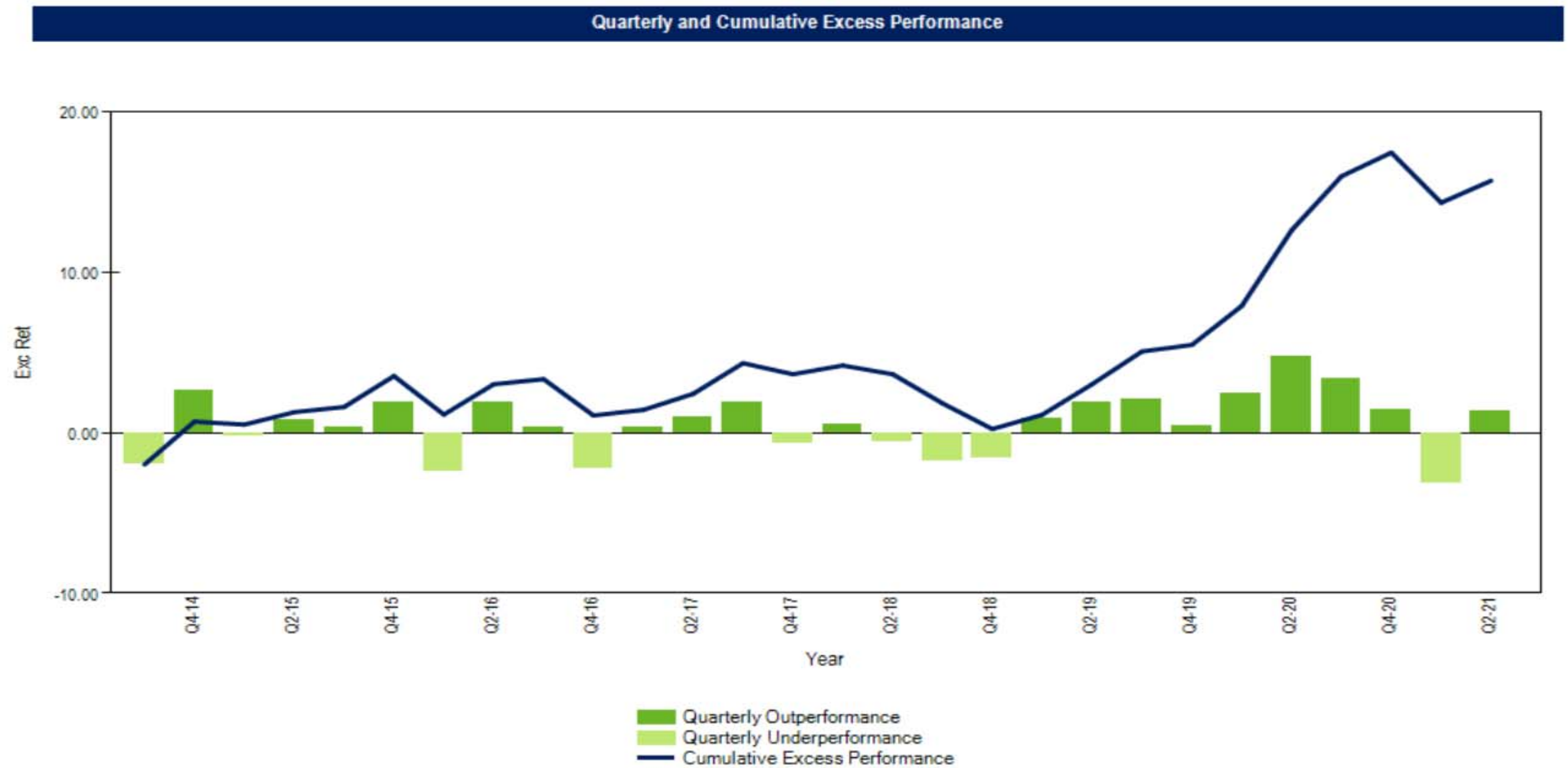
Exhibit 2: Universe Comparison Net of Fees

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



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

Exhibit 3: Cumulative Excess Performance Net of Fees



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

PROPOSED RESOLUTION

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

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

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

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

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

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

October 26, 2021

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

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

MEETING: OCTOBER 26, 2021
ITEM: X-D

SUBJECT: **TACTICAL ASSET ALLOCATION POLICY AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board approve the proposed revisions to the Tactical Asset Allocation policy language within the LACERS Investment Policy.

Discussion

On February 12, 2019, the Board approved revisions to the Investment Policy (Policy) to include Tactical Asset Allocation within the rebalancing section of the Policy (Section I.V.G). On May 28, 2019, the Board adopted a Tactical Asset Allocation Plan (TAAP) to authorize staff to conduct tactical rebalancing. During the annual review of the TAAP on March 9, 2021, the Committee requested staff to identify a replacement for the word "Tactical" within the TAAP name and policy language to better reflect policy objectives.

On October 12, 2021, the Committee considered staff's proposed revisions to the policy language. Staff recommended changing the word "Tactical" to "Adaptive" and proposed the relevant revisions to the Rebalancing Policy and TAAP as presented in Attachment 1. Staff also recommended revising the Rebalancing Policy such that the TAAP objectives stated in this policy are consistent with those stated in the TAAP. Further, staff proposed adding a risk management guideline to the TAAP to prevent a rebalance of an asset class from causing another asset class to breach the approved upper and lower threshold rebalancing range. After discussing the proposed revisions with staff, the Committee concurred with staff's recommendations. The Committee also directed staff to return at a future Committee meeting with hypothetical scenarios under which the Rebalancing Policy and the TAAP would be implemented to understand the differences between these policies.

Upon the Board's approval of these amendments, staff may make additional minor administrative edits to be incorporated in the revised version of the Policy.

Strategic Plan Impact Statement

The TAAP assists the Board with optimizing LACERS' long-term risk-adjusted return profile (Goal IV) and promotes good governance practices (Goal V).

Prepared By: James Wang, Investment Officer I, Investment Division

NMG/RJ/BF/JW:rm

Attachment: 1. Proposed Revised Rebalancing and TAAP Policies (Redline Version)
2. Proposed Revised Rebalancing and TAAP Policies (Clean Version)

Proposed Revised Policy (Redline Version)
As of October 26, 2021

D. **Rebalancing**

The investment portfolio shall, on an ongoing basis in accordance with market fluctuations, be rebalanced to remain within the range of targeted allocations and distributions among investment advisors. The Board has a long-term investment horizon and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs. However, the Board may authorize staff to rebalance assets within or among asset classes without breaching Board-established asset allocation policy threshold bands. Such rebalancing would be subject to an annually approved Adaptive ~~Tactical~~ Asset Allocation Plan (A~~T~~AAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. ~~during periods of market dislocations.~~ The Board will consider the approval of a new A~~T~~AAP or renewal of an existing A~~T~~AAP within three months prior to the start of each fiscal year. The approved A~~T~~AAP will be effective on July 1 of each year. Should the Board choose not to renew an A ~~T~~AAP, the existing A~~T~~AAP may continue to be implemented; however, new A~~T~~AA positions may not be introduced until a continuance of the existing AAAP or new A~~T~~AAP is approved by the Board.

The Board delegates the responsibility of rebalancing to the Chief Investment Officer, who will seek the concurrence of the General Fund Consultant. Rebalancing generally will occur when the market values of asset classes (e.g., equities, fixed income, etc.) or sub-asset classes (e.g., large cap value, emerging markets, etc.) exceed their respective thresholds as established by the Board's approved asset allocation and asset class risk budgets.

The portfolio will be monitored daily, but reviewed by senior investment staff (i.e., Chief Investment Officer or Chief Operating Officer) at the beginning of each month to determine the need to rebalance asset classes or sub-asset classes within approved policy bands. Rebalancing will be conducted in a timely manner, taking into consideration associated costs and operational circumstances and market conditions. Rebalancing will be accomplished by using routine cash flows, such as contributions and benefit payments, by reallocating assets across asset classes, investment mandates, and investment managers.

Asset classes temporarily may remain outside of their ranges due to operational and implementation circumstances to include, but not limited to, illiquidity that prevents immediate rebalancing of certain asset classes such as private equity and private real estate; potential asset shifts pending in the portfolio over the next 12 months such as hiring/termination of a manager(s); an asset allocation review of the entire portfolio; or a structural review of a given asset class.

The Chief Investment Officer shall inform the Board in a timely manner of all rebalancing activity.

Proposed Revised Policy (Redline Version)
As of October 26, 2021

E. **Adaptive ~~Tactical~~ Asset Allocation Plan**

TABLE OF CONTENTS

I. Purpose and Scope

The ~~Tactical~~ Adaptive Asset Allocation Plan (A~~T~~AAP) is an addendum to Section I.V.G of the Investment Policy.

On February 12, 2019, the Board of Administration ("Board") of the Los Angeles City Employees' Retirement System (LACERS) approved revisions to the Investment Policy, which included a revision to the Rebalancing Policy (Section I.V.G). Specifically, a provision was added for Tactical Asset Allocation (TAA). Under the TAA section, staff is authorized to initiate tactical rebalancing pursuant to the Tactical Asset Allocation Plan (TAAP).

On [insert approval date], the Board approved renaming TAA to Adaptive Asset Allocation (AAA) and the TAAP to the Adaptive Asset Allocation Plan (AAAP).

The Board believes that LACERS Total Fund (Total Fund) is best managed when additional tools are available for staff to address a dynamic and rapidly changing investment market. ~~Tactical~~ Adaptive Asset Allocation, pursuant to the Rebalancing Policy and procedures found in the ~~TAAP~~AAAP, is designed to supplement and complement the Rebalancing Policy by adding flexibility to rebalancing decisions within a prudent, decision-making framework based on market and/or internal operational conditions. Rebalancing decisions—strategic and tactical—will be based on the principles of prudence, care, and risk mitigation.

More specifically, the ~~TAAP~~ AAAP provides additional approaches to the rebalancing of asset classes within established asset class policy target ranges. Rebalancing under the ~~TAAP~~ AAAP must achieve at least one of the following objectives: 1) Enhance Total Fund value; 2) Protect Total Fund value; or 3) Enhance the risk/return profile of the Total Fund pursuant to the Asset Allocation Policy and Risk Budget.

II. Roles and Responsibilities

The Board of Administration

The Board authorizes, provides oversight, and approves amendments to the ~~TAAP~~AAAP. The Board delegates to staff the implementation of ~~TAA~~ AAA within the adopted Rebalancing Policy, Asset Allocation Policy, and Risk Budget. The Board will review and approve the ~~TAAP~~ AAAP on or before July 1 of each year.

Investment Committee

The Investment Committee reviews ~~TAAP~~ AAAP status reports if applicable, conducts an annual performance evaluation of the ~~TAAP~~AAAP, and recommends amendments to the Board.

Chief Investment Officer

The Chief Investment Officer (CIO) is responsible for the implementation of an ~~Tactical~~ Adaptive Asset Allocation rebalancing pursuant to the ~~TAAP~~AAAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an ~~Tactical~~ Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated ~~Tactical~~ Adaptive Actions as may be necessary. The CIO along with staff is responsible for observing economic and market indicators, assessing internal operational conditions, and working with the General Fund Consultant (and seeking advisement of other Investment Consultants under contract as may be ~~as~~ necessary) to seek concurrence with an ~~Tactical~~ Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an ~~Tactical~~ Adaptive Rebalance.

General Fund Consultant

The General Fund Consultant reviews the CIO's proposed ~~Tactical~~ Adaptive Action, and either concurs, amends, or disagrees with the proposed decision within seven business days of presentation of the ~~Tactical~~ Adaptive Rebalance Proposal.

Internal Auditor

The Internal Auditor shall review the CIO's annual ~~TAAP~~ AAAP report, as provided in Section VII of this plan, prior to presenting the report to the Investment Committee.

III. Terminology

~~Tactical~~ Adaptive Factors – External landscape observations that include economic, market, and valuation factors plus internal operational factors, all of which are to be considered when developing an ~~Tactical~~ Adaptive Rebalance Proposal (see Appendix A).

~~Tactical~~ Adaptive Objectives – The driving force that underpins justification for an Adaptive ~~Tactical~~ Rebalance. Objectives may include: 1) Enhance Total Fund value; 2) Protect Total Fund value; and 3) Enhance the Risk/Return Profile of the Total Fund.

~~Tactical~~ Adaptive Rebalance Proposal – A written Adaptive ~~Tactical~~ Rebalance plan to address one specific ~~Tactical~~ Adaptive Asset Allocation (A~~T~~AA) Rebalance project. The ~~Tactical~~ Adaptive Rebalance Proposal shall consider the provisions found in A~~T~~AAP Sections IV, V, VI, and VII.

~~Tactical~~ Adaptive Rebalance – One or more individual tactical movements of capital between or among asset classes to achieve one or more ~~Tactical~~ Adaptive Objectives. An Adaptive ~~Tactical~~ Rebalance may take one to 12 months to implement; up to an additional 12 months may be provided if an ~~Tactical~~ Adaptive Reversal is included in an Adaptive ~~Tactical~~ Rebalance Proposal.

~~Tactical~~ Adaptive Action – One specific, individual movement of capital that adjusts asset holdings due to movements of cash, in-kind asset transfers, or use of derivatives. Derivatives may be used as an alternative to cash or in-kind asset transfers to obtain the equivalent changes in exposure(s), if derivatives are expected to produce more favorable economic and/or risk enhancements. Derivatives may not be used as a form of leverage.

~~Tactical~~ Adaptive Reversal – An optional component of an ~~Tactical~~ Adaptive Rebalance Proposal, an Adaptive ~~Tactical~~ Reversal is a specific and time-bound plan to partially or fully unwind an ~~Tactical~~ Adaptive Rebalance once economic or market conditions, or internal operations, stabilize. An Adaptive ~~Tactical~~ Reversal can be an integral component of an Adaptive ~~Tactical~~ Rebalance Proposal and may take up to 12 additional months to achieve full implementation.

IV. Adaptive ~~Tactical~~ Asset Allocation Considerations

LACERS is a long-term strategic investor and implements the Asset Allocation Policy. A~~T~~AA allows LACERS flexibility to adjust exposures to established asset classes to achieve one of several aforementioned A~~T~~AA Objectives. A~~T~~AA Factors that are considered when contemplating an Adaptive ~~Tactical~~ Rebalance include (but are not restricted to): stage of the economic cycle; abrupt or trending market or capital dislocations; excessive or deep under valuations of specific or broad asset types within the Total Fund or in the market; and internal operational factors.

V. Implementation

Implementation of an Adaptive ~~Tactical~~ Action will comply with the following procedures, as they may apply:

1. External Landscape Evaluation – Economic market outlook, including economic indicators, monetary and fiscal policies, geo-political events, Federal Reserve Bank actions, interest rates, inflation, etc.
2. Internal Operational Evaluation – Actual asset allocation of the Total Fund compared to policy targets, asset class movements and trends, portfolio valuations, operational cash, future, pending, or existing RFP manager searches and hiring of investment managers, pending investment manager terminations, market and economic landscape commentary or information from investment managers, and compliance with existing Investment Policy

3. General Fund Consultant Discussion and Concurrence (and discussion with other contracted Investment Consultants as warranted)
4. Written Adaptive ~~Tactical~~ Rebalance Proposal should include the following decision considerations (as appropriate):
    a. External Landscape and Internal Operational Evaluations;
    b. Projected Impact on Asset Allocation and Asset Classes;
    c. Projected Impact on Total Fund addressing ~~Tactical~~ Adaptive Objectives:
        i. Enhancement to Total Fund Value; and/or
        ii. Protection of Total Fund Value; and/or
        iii. Enhanced Risk/Return Profile and Compliance to Risk Budget
    d. Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;
    e. Financial Considerations - Funds directly impacted by an Adaptive ~~Tactical~~ Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
    f. Adaptive ~~Tactical~~ Reversal (Partial or Full) as needed
5. Implementation of ~~Tactical~~ Adaptive Action pursuant to the written ~~Tactical~~ Adaptive Rebalance Proposal and A~~T~~AAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a ~~Tactical~~ Adaptive Rebalance
7. Quarterly Status Reporting of ~~Tactical~~ Adaptive Rebalancing implementation
8. Internal Monthly Rebalancing and Compliance Staff Reviews per the Rebalancing Policy (Section I.V.G of the LACERS Investment Policy)
9. Annual Investment Committee Review of A~~T~~AAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of A~~T~~AAP based on Investment Committee Report as provided in Section VII of this plan

VI. Risk Management Guidelines

The following guidelines are designed to help the CIO manage the implementation of the A~~T~~AA Policy within a prudent risk-management framework.

1. An Adaptive ~~Tactical~~ Rebalance may be initiated when the actual market value weighting of an asset class exceeds 70% of the range from its target weighting to its established bands.
2. An Adaptive ~~Tactical~~ Rebalance Proposal shall not exceed 50% of the excess valuation that is over- or under-weight to its policy target at the time the decision to rebalance is made.
3. An Adaptive ~~Tactical~~ Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Adaptive ~~Tactical~~ Rebalance, which may extend the Adaptive ~~Tactical~~ Rebalance up to an additional 12 months.
4. An Adaptive ~~Tactical~~ Rebalance may be suspended after the first Adaptive ~~Tactical~~ Action is completed if such single Adaptive ~~Tactical~~ Action or subsequent Adaptive ~~Tactical~~ Actions achieves the Adaptive ~~Tactical~~ Objective(s) within the Adaptive

~~Tactical~~ Rebalance Proposal pursuant to an Adaptive ~~Tactical~~ Rebalancing Proposal.

5. An Adaptive ~~Tactical~~ Rebalance Proposal may be modified or suspended by the CIO upon the concurrence of the General Fund Consultant if market conditions or other external landscape factors change or strategic asset class rebalances are necessary that disrupt the orderly implementation of the Adaptive ~~Tactical~~ Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Adaptive ~~Tactical~~ Rebalance Proposal such that the Adaptive ~~Tactical~~ Objectives are no longer achievable within the established Adaptive ~~Tactical~~ Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.

~~5.~~6. A specific Adaptive Rebalance should not be initiated if it will cause another asset class to breach its regular Asset Allocation policy upper or lower rebalance threshold.

~~6.~~7. The General Fund Consultant must concur with the Adaptive ~~Tactical~~ Rebalance Proposal prior to initiation.

VII. Annual Review of the A~~T~~AAP

Annual A~~T~~AAP Review by the Investment Committee

The CIO will prepare an annual report of all Adaptive ~~Tactical~~ Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive ~~Tactical~~ Rebalances and Adaptive ~~Tactical~~ Actions, and the projected and actual impact of the Adaptive ~~Tactical~~ Rebalance(s) including (but not restricted to) performance, capital preservation, and/or risk factors. Staff may also include recommendations to modify, continue or cease the A~~T~~AAP. The Annual A~~T~~AAP Review will be presented to the Investment Committee no later than the month of April of each year.

The Investment Committee will determine if the A~~T~~AAP requires any modifications including repeal. The Investment Committee recommendations will be then sent to the Board of Administration for approval.

Annual A~~T~~AAP Approval or Repeal by the Board of Administration

The Board of Administration shall review and approve, modify, or repeal the A~~T~~AAP prior to the beginning of each Fiscal Year.

If the A~~T~~AAP is repealed, staff may not enter any new Adaptive ~~Tactical~~ Rebalances; except Adaptive ~~Tactical~~ Reversals that were contemplated in the Adaptive ~~Tactical~~ Rebalance Proposal may be implemented according to the implementation sequence of the Adaptive ~~Tactical~~ Actions.

VIII. APPENDIX

External Landscape and Internal Operational Considerations

I. *Economic Cycle Consideration* - An Adaptive ~~Tactical~~ Action may be appropriate based on the economic cycle, as illustrated below:

Early Stage Phase - The early stage of the economic cycle is characterized by recovering growth in the gross domestic product (GDP), profit margins, and consumer confidence. Credit and inflation in the economy are typically flat while interest rates start to rise. Stocks tend to be trading at more attractive levels compared to longer term historical averages.

Early to Mid-Cycle Stage Phase - During the early and mid-cycle phases, equities have the potential to outperform. A~~T~~AA may attempt to take advantage of expansion stages by shifting exposure to public equities and reducing exposures to core fixed income assets.

Later and Recession Stage Phases - During late and recession stages, equities have potential to underperform risk-off assets. A~~T~~AA may attempt to protect the Total Fund by reducing public equities and increasing fixed income assets.

II. *Market Stages Consideration*

The economy oscillates between stages of expansion (early and middle stages) and contraction (late and recession stages). The early stage of the economic cycle is characterized by recovering growth in the gross domestic product (GDP), profit margins, and consumer confidence. Credit and inflation in the economy are typically flat while interest rates start to rise. Stocks tend to be trading at more attractive levels compared to longer term historical averages.

During the mid-cycle period of the economic cycle, the economy generally experiences expansion in GDP, credit growth, profit margins, and consumer confidence. Interest rates and inflation are typically stable during this period. Stocks tend to recover to levels in-line with long term average valuations.

In the late-cycle period of the economic cycle, the economy typically experiences moderation in GDP growth, profit margins, and credit expansion. Consumer confidence is high and both interest rates and inflation are on the rise. Stocks trade at the higher band of long term averages while volatility tends to be higher than the earlier parts of the cycle.

Finally, during the recession stage of the economic cycle, excesses are purged from the system. GDP, credit, profit margins, interest rates, inflation and consumer confidence are all falling. During this phase of the market, volatility in the stock market increases dramatically while prices tend to fall to below average valuations.

III. *Assessment of Market Conditions*

Staff will evaluate and assess if the market is Early-Cycle, Mid-Cycle, Late-Cycle or in a Recession on a quarterly basis.

This assessment will be based on the factors listed in the chart below.

Proposed Revised Policy (Redline Version)
As of October 26, 2021

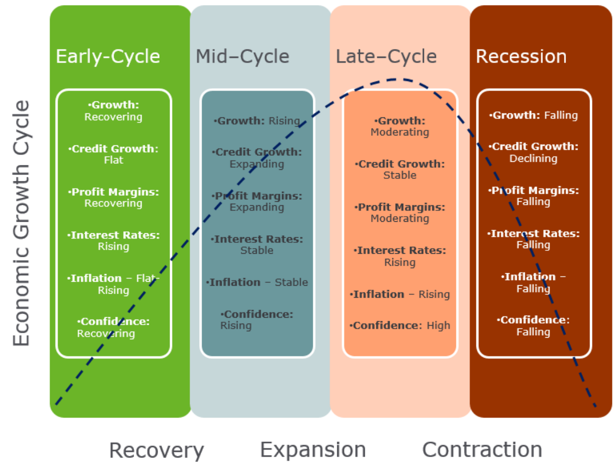


*chart provided by NEPC, LLC

IV. *Economic and Market Risk Assessment*

Staff will address one or more of the economic, financial, and market indicators.

- Growth: Year-over-year growth in GDP
- Credit Growth: Year-over-year growth in total credit
- Profit Margins: Corporate profit margins
- Interest Rates: Short, Long, Yield Curve
- Inflation: Consumer Price Index
- Confidence Levels: Consumer Sentiment Index
- Additional factors such as commodity and currency trends, unemployment statistics, building permits, sales, and manufacturing statistics.

V. *Asset Valuations*

Staff will address the relevant market valuation indicators to include (but not restricted to):

- Current to Long-Term Historical Valuations reflected in Price to Earnings, Price to Book, and Dividend Yields
- Interest rate spreads, duration
- Growth versus Value

VI. *Internal Operational Considerations*

Staff will evaluate factors to include (but not restricted to):

- Benefits and Consequences of initiating an Adaptive ~~Tactical~~ Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact

Proposed Revised Policy (Clean Version)
As of October 26, 2021

D. **Rebalancing**

The investment portfolio shall, on an ongoing basis in accordance with market fluctuations, be rebalanced to remain within the range of targeted allocations and distributions among investment advisors. The Board has a long-term investment horizon and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs. However, the Board may authorize staff to rebalance assets within or among asset classes without breaching Board-established asset allocation policy threshold bands. Such rebalancing would be subject to an annually approved Adaptive Asset Allocation Plan (AAAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. The Board will consider the approval of a new AAAP or renewal of an existing AAAP within three months prior to the start of each fiscal year. The approved AAAP will be effective on July 1 of each year. Should the Board choose not to renew an AAAP, the existing AAAP may continue to be implemented; however, new AAA positions may not be introduced until a continuance of the existing AAAP or new AAAP is approved by the Board.

The Board delegates the responsibility of rebalancing to the Chief Investment Officer, who will seek the concurrence of the General Fund Consultant. Rebalancing generally will occur when the market values of asset classes (e.g., equities, fixed income, etc.) or sub-asset classes (e.g., large cap value, emerging markets, etc.) exceed their respective thresholds as established by the Board’s approved asset allocation and asset class risk budgets.

The portfolio will be monitored daily, but reviewed by senior investment staff (i.e., Chief Investment Officer or Chief Operating Officer) at the beginning of each month to determine the need to rebalance asset classes or sub-asset classes within approved policy bands. Rebalancing will be conducted in a timely manner, taking into consideration associated costs and operational circumstances and market conditions. Rebalancing will be accomplished by using routine cash flows, such as contributions and benefit payments, by reallocating assets across asset classes, investment mandates, and investment managers.

Asset classes temporarily may remain outside of their ranges due to operational and implementation circumstances to include, but not limited to, illiquidity that prevents immediate rebalancing of certain asset classes such as private equity and private real estate; potential asset shifts pending in the portfolio over the next 12 months such as hiring/termination of a manager(s); an asset allocation review of the entire portfolio; or a structural review of a given asset class.

The Chief Investment Officer shall inform the Board in a timely manner of all rebalancing activity.

Proposed Revised Policy (Clean Version)
As of October 26, 2021

E. Adaptive Asset Allocation Plan

TABLE OF CONTENTS

I. Purpose and Scope

The Adaptive Asset Allocation Plan (AAAP) is an addendum to Section I.V.G of the Investment Policy.

On February 12, 2019, the Board of Administration ("Board") of the Los Angeles City Employees' Retirement System (LACERS) approved revisions to the Investment Policy, which included a revision to the Rebalancing Policy (Section I.V.G). Specifically, a provision was added for Tactical Asset Allocation (TAA). Under the TAA section, staff is authorized to initiate tactical rebalancing pursuant to the Tactical Asset Allocation Plan (TAAP).

On [insert approval date], the Board approved renaming TAA to Adaptive Asset Allocation (AAA) and the TAAP to the Adaptive Asset Allocation Plan (AAAP).

The Board believes that LACERS Total Fund (Total Fund) is best managed when additional tools are available for staff to address a dynamic and rapidly changing investment market. Adaptive Asset Allocation, pursuant to the Rebalancing Policy and procedures found in the AAAP, is designed to supplement and complement the Rebalancing Policy by adding flexibility to rebalancing decisions within a prudent, decision-making framework based on market and/or internal operational conditions. Rebalancing decisions—strategic and tactical—will be based on the principles of prudence, care, and risk mitigation.

More specifically, the AAAP provides additional approaches to the rebalancing of asset classes within established asset class policy target ranges. Rebalancing under the AAAP must achieve at least one of the following objectives: 1) Enhance Total Fund value; 2) Protect Total Fund value; or 3) Enhance the risk/return profile of the Total Fund pursuant to the Asset Allocation Policy and Risk Budget.

II. Roles and Responsibilities

The Board of Administration

The Board authorizes, provides oversight, and approves amendments to the AAAP. The Board delegates to staff the implementation of AAA within the adopted Rebalancing Policy, Asset Allocation Policy, and Risk Budget. The Board will review and approve the AAAP on or before July 1 of each year.

Investment Committee

The Investment Committee reviews AAAP status reports if applicable, conducts an annual performance evaluation of the AAAP, and recommends amendments to the Board.

Chief Investment Officer

The Chief Investment Officer (CIO) is responsible for the implementation of an Adaptive Asset Allocation rebalancing pursuant to the AAAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated Adaptive Actions as may be necessary. The CIO along with staff is responsible for observing economic and market indicators, assessing internal operational conditions, and working with the General Fund Consultant (and seeking advisement of other Investment Consultants under contract as may be necessary) to seek concurrence with an Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an Adaptive Rebalance.

General Fund Consultant

The General Fund Consultant reviews the CIO's proposed Adaptive Action, and either concurs, amends, or disagrees with the proposed decision within seven business days of presentation of the Adaptive Rebalance Proposal.

Internal Auditor

The Internal Auditor shall review the CIO's annual AAAP report, as provided in Section VII of this plan, prior to presenting the report to the Investment Committee.

III. Terminology

Adaptive Factors – External landscape observations that include economic, market, and valuation factors plus internal operational factors, all of which are to be considered when developing an Adaptive Rebalance Proposal (see Appendix A).

Adaptive Objectives – The driving force that underpins justification for an Adaptive Rebalance. Objectives may include: 1) Enhance Total Fund value; 2) Protect Total Fund value; and 3) Enhance the Risk/Return Profile of the Total Fund.

Adaptive Rebalance Proposal – A written Adaptive Rebalance plan to address one specific Adaptive Asset Allocation (AAA) Rebalance project. The Adaptive Rebalance Proposal shall consider the provisions found in AAAP Sections IV, V, VI, and VII.

Adaptive Rebalance – One or more individual tactical movements of capital between or among asset classes to achieve one or more Adaptive Objectives. An Adaptive Rebalance may take one to 12 months to implement; up to an additional 12 months may be provided if an Adaptive Reversal is included in an Adaptive Rebalance Proposal.

Adaptive Action – One specific, individual movement of capital that adjusts asset holdings due to movements of cash, in-kind asset transfers, or use of derivatives. Derivatives may be used as an alternative to cash or in-kind asset transfers to obtain the equivalent changes in exposure(s), if derivatives are expected to produce more favorable economic and/or risk enhancements. Derivatives may not be used as a form of leverage.

Adaptive Reversal – An optional component of an Adaptive Rebalance Proposal, an Adaptive Reversal is a specific and time-bound plan to partially or fully unwind an Adaptive Rebalance once economic or market conditions, or internal operations, stabilize. An Adaptive Reversal can be an integral component of an Adaptive Rebalance Proposal and may take up to 12 additional months to achieve full implementation.

IV. Adaptive Asset Allocation Considerations

LACERS is a long-term strategic investor and implements the Asset Allocation Policy. AAA allows LACERS flexibility to adjust exposures to established asset classes to achieve one of several aforementioned AAA Objectives. AAA Factors that are considered when contemplating an Adaptive Rebalance include (but are not restricted to): stage of the economic cycle; abrupt or trending market or capital dislocations; excessive or deep under valuations of specific or broad asset types within the Total Fund or in the market; and internal operational factors.

V. Implementation

Implementation of an Adaptive Action will comply with the following procedures, as they may apply:

1. External Landscape Evaluation – Economic market outlook, including economic indicators, monetary and fiscal policies, geo-political events, Federal Reserve Bank actions, interest rates, inflation, etc.
2. Internal Operational Evaluation – Actual asset allocation of the Total Fund compared to policy targets, asset class movements and trends, portfolio valuations, operational cash, future, pending, or existing RFP manager searches and hiring of investment managers, pending investment manager terminations, market and economic landscape commentary or information from investment managers, and compliance with existing Investment Policy
3. General Fund Consultant Discussion and Concurrence (and discussion with other contracted Investment Consultants as warranted)
4. Written Adaptive Rebalance Proposal should include the following decision considerations (as appropriate):
    a. External Landscape and Internal Operational Evaluations;
    b. Projected Impact on Asset Allocation and Asset Classes;
    c. Projected Impact on Total Fund addressing Adaptive Objectives:
        i. Enhancement to Total Fund Value; and/or
        ii. Protection of Total Fund Value; and/or
        iii. Enhanced Risk/Return Profile and Compliance to Risk Budget

    d. Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;
    e. Financial Considerations - Funds directly impacted by an Adaptive Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
    f. Adaptive Reversal (Partial or Full) as needed

5. Implementation of Adaptive Action pursuant to the written Adaptive Rebalance Proposal and AAAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a Adaptive Rebalance
7. Quarterly Status Reporting of Adaptive Rebalancing implementation
8. Internal Monthly Rebalancing and Compliance Staff Reviews per the Rebalancing Policy (Section I.V.G of the LACERS Investment Policy)
9. Annual Investment Committee Review of AAAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of AAAP based on Investment Committee Report as provided in Section VII of this plan

VI. Risk Management Guidelines

The following guidelines are designed to help the CIO manage the implementation of the AAA Policy within a prudent risk-management framework.

1. An Adaptive Rebalance may be initiated when the actual market value weighting of an asset class exceeds 70% of the range from its target weighting to its established bands.
2. An Adaptive Rebalance Proposal shall not exceed 50% of the excess valuation that is over- or under-weight to its policy target at the time the decision to rebalance is made.
3. An Adaptive Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Adaptive Rebalance, which may extend the Adaptive Rebalance up to an additional 12 months.
4. An Adaptive Rebalance may be suspended after the first Adaptive Action is completed if such single Adaptive Action or subsequent Adaptive Actions achieves the Adaptive Objective(s) within the Adaptive Rebalance Proposal pursuant to an Adaptive Rebalancing Proposal.
5. An Adaptive Rebalance Proposal may be modified or suspended by the CIO upon the concurrence of the General Fund Consultant if market conditions or other external landscape factors change or strategic asset class rebalances are necessary that disrupt the orderly implementation of the Adaptive Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Adaptive Rebalance Proposal such that the Adaptive Objectives are no longer achievable within the established Adaptive Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.

6. A specific Adaptive Rebalance should not be initiated if it will cause another asset class to breach its regular Asset Allocation policy upper or lower rebalance threshold.
7. The General Fund Consultant must concur with the Adaptive Rebalance Proposal prior to initiation.

VII. Annual Review of the AAAP

Annual AAAP Review by the Investment Committee

The CIO will prepare an annual report of all Adaptive Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive Rebalances and Adaptive Actions, and the projected and actual impact of the Adaptive Rebalance(s) including (but not restricted to) performance, capital preservation, and/or risk factors. Staff may also include recommendations to modify, continue or cease the AAAP. The Annual AAAP Review will be presented to the Investment Committee no later than the month of April of each year.

The Investment Committee will determine if the AAAP requires any modifications including repeal. The Investment Committee recommendations will be then sent to the Board of Administration for approval.

Annual AAAP Approval or Repeal by the Board of Administration

The Board of Administration shall review and approve, modify, or repeal the AAAP prior to the beginning of each Fiscal Year.

If the AAAP is repealed, staff may not enter any new Adaptive Rebalances; except Adaptive Reversals that were contemplated in the Adaptive Rebalance Proposal may be implemented according to the implementation sequence of the Adaptive Actions.

VIII. APPENDIX

External Landscape and Internal Operational Considerations

I. *Economic Cycle Consideration* - An Adaptive Action may be appropriate based on the economic cycle, as illustrated below:

   Early Stage Phase - The early stage of the economic cycle is characterized by recovering growth in the gross domestic product (GDP), profit margins, and consumer confidence. Credit and inflation in the economy are typically flat while interest rates start to rise. Stocks tend to be trading at more attractive levels compared to longer term historical averages.

   Early to Mid-Cycle Stage Phase - During the early and mid-cycle phases, equities have the potential to outperform. AAA may attempt to take advantage of expansion stages by shifting exposure to public equities and reducing exposures to core fixed income assets.

Later and Recession Stage Phases - During late and recession stages, equities have potential to underperform risk-off assets. AAA may attempt to protect the Total Fund by reducing public equities and increasing fixed income assets.

II. *Market Stages Consideration*

The economy oscillates between stages of expansion (early and middle stages) and contraction (late and recession stages). The early stage of the economic cycle is characterized by recovering growth in the gross domestic product (GDP), profit margins, and consumer confidence. Credit and inflation in the economy are typically flat while interest rates start to rise. Stocks tend to be trading at more attractive levels compared to longer term historical averages.

During the mid-cycle period of the economic cycle, the economy generally experiences expansion in GDP, credit growth, profit margins, and consumer confidence. Interest rates and inflation are typically stable during this period. Stocks tend to recover to levels in-line with long term average valuations.

In the late-cycle period of the economic cycle, the economy typically experiences moderation in GDP growth, profit margins, and credit expansion. Consumer confidence is high and both interest rates and inflation are on the rise. Stocks trade at the higher band of long term averages while volatility tends to be higher than the earlier parts of the cycle.

Finally, during the recession stage of the economic cycle, excesses are purged from the system. GDP, credit, profit margins, interest rates, inflation and consumer confidence are all falling. During this phase of the market, volatility in the stock market increases dramatically while prices tend to fall to below average valuations.

III. *Assessment of Market Conditions*

Staff will evaluate and assess if the market is Early-Cycle, Mid-Cycle, Late-Cycle or in a Recession on a quarterly basis.

This assessment will be based on the factors listed in the chart below.

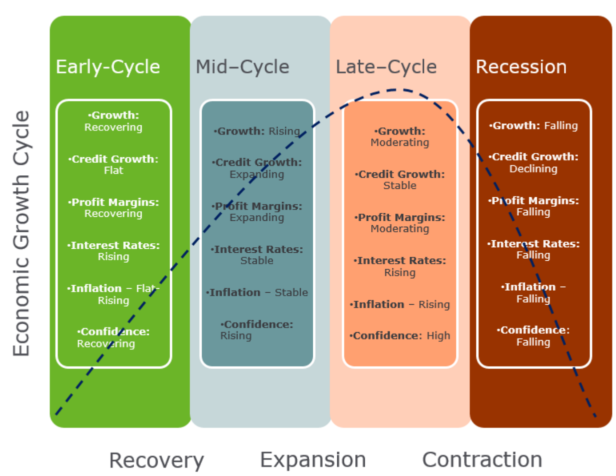


*chart provided by NEPC, LLC

IV. *Economic and Market Risk Assessment*

Staff will address one or more of the economic, financial, and market indicators.

- Growth: Year-over-year growth in GDP
- Credit Growth: Year-over-year growth in total credit
- Profit Margins: Corporate profit margins
- Interest Rates: Short, Long, Yield Curve
- Inflation: Consumer Price Index
- Confidence Levels: Consumer Sentiment Index
- Additional factors such as commodity and currency trends, unemployment statistics, building permits, sales, and manufacturing statistics.

V. *Asset Valuations*

Staff will address the relevant market valuation indicators to include (but not restricted to):

- Current to Long-Term Historical Valuations reflected in Price to Earnings, Price to Book, and Dividend Yields
- Interest rate spreads, duration
- Growth versus Value

VI. *Internal Operational Considerations*

Staff will evaluate factors to include (but not restricted to):

- Benefits and Consequences of initiating an Adaptive Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact

REPORT TO BOARD OF ADMINISTRATION
From: Neil M. Guglielmo, General Manager

MEETING: OCTOBER 26, 2021
ITEM: X-E

SUBJECT: **CONTRACT WITH CEM BENCHMARKING INC. AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board:

1) Make a determination, under City Charter Section 1022, that work under the proposed contract is performed more feasibly by independent contractors rather than by City employees;

2) Find that pursuant to City Charter Section 371(e)(10), the use of competitive bidding would be undesirable or impractical;

3) Approve payment of a one-time fee of $40,000 for CEM Benchmarking Inc. to perform an objective cost and performance benchmarking analysis of the LACERS investment portfolio; and;

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

Background

CEM Benchmarking Inc. (CEM) specializes in providing cost and performance benchmarking information to institutional investors such as public and private pension funds, endowments and foundations, and sovereign wealth funds. Since 1990, CEM has maintained a database of investment management and administration costs and investment performance for a global universe containing over 400 funds and representing approximately $15 trillion in total assets. CEM updates this database on an annual basis by issuing comprehensive surveys to its universe of funds; LACERS participates in this free survey each year.

Utilizing its database, CEM will perform a customized benchmarking study of LACERS investment portfolio for the five year period ending December 31, 2021, at a cost of $40,000. CEM will provide a detailed report of investment performance, risk, and costs compared to a peer group of funds, similar in size and characteristics to LACERS, and to CEM's universe of funds. The information contained in this report would assist the Board and staff with managing LACERS' investment costs and performance, provide trend and research insights to support decision making, and promote fund governance.

LACERS previously contracted with CEM to conduct investment benchmarking studies for calendar years 2002 to 2008, 2013, 2016, and 2019.

Staff canvassed the market and was unable to identify other qualified firms that provide these services. Staff discussed the matter of utilizing CEM with the City Attorney's Office and was advised that consistent with the cited Charter Sections, a sole source contract would be appropriate based on the unique nature of CEM's services and the impracticality of engaging in a competitive bidding process.

Should the Board approve this contract, staff will include the CEM Benchmarking cost in the FY2022-23 departmental budget. Staff anticipates the CEM benchmarking study to be presented to the Board during the second quarter of Fiscal Year 2022-23 (fourth quarter of calendar year 2022).

Strategic Plan Impact Statement

Participation in the CEM benchmarking study will provide LACERS with a comparative analysis of investment management and administration services costs and performance to improve decision making. This is consistent with Goal IV (optimize long-term risk adjusted investment returns) and Goal V (uphold good governance practices).

This report was prepared by Ricky Mulawin, Management Analyst, Investment Division.

NMG/RJ/BF/RM

Attachment: 1. Proposed Resolution

CONTRACT FOR
CEM BENCHMARKING INC.
INVESTMENT BENCHMARKING SERVICES

PROPOSED RESOLUTION

WHEREAS, the CEM Benchmarking Inc. (CEM) study will provide LACERS with an objective analysis of investment management and administration services costs and investment performance and risk covering the five year period ending December 31, 2021;

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

WHEREAS, CEM has expertise in this area that is unique and such comparable services cannot be acquired from any other provider;

WHEREAS, the one-time fee of $40,000 covers the cost of the benchmarking study;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves payment of a one-time fee of $40,000 to CEM to perform an objective investment cost and performance benchmarking analysis of the LACERS portfolio; and, authorizes the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

Company Name:	CEM Benchmarking Inc.
Service Provided:	Investment Benchmarking
Duration:	One-time occurrence

October 26, 2021