LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

REGULAR MEETING

TUESDAY, JANUARY 11, 2022

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 January 11, 2022 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# 161 145 1373

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).

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 SPECIAL MEETING OF DECEMBER 8, 2021 AND REGULAR MEETING OF DECEMBER 14, 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. RECOGNITION OF SERVICE FOR BRUCE BERNAL

V. RECEIVE AND FILE ITEMS

A. ETHICAL CONTRACT COMPLIANCE REPORT NOTIFICATION TO THE BOARD

B. BENEFITS PAYMENTS APPROVED BY GENERAL MANAGER

C. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR NOVEMBER 2021

VI. COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE MEETING VERBAL REPORT FOR THE MEETING ON DECEMBER 14, 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. INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT

B. LACERS AND LAFPP JOINT LETTER RESPONSE TO CITY COUNCIL REGARDING CF 21-1116 FACEBOOK AND CF 21-1460 UNILEVER EXPOSURES

C. CONTINUED DISCUSSION OF THE RESPONSIBLE INVESTMENT POLICY AND POSSIBLE BOARD ACTION

D. UPDATE ON TRANSITION FROM LIBOR TO SECURED OVERNIGHT FINANCING RATE

IX. LEGAL/LITIGATION

A. BOARD EDUCATION: FIDUCIARY LEADERSHIP IN INVESTMENT CONTRACTING (PART 2)

B. 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 (TWO CASES): IN RE ASHINC CORP, ET AL. V. YUCAIPA AMERICAN ALLIANCE FUND I, LLC, ET AL. (D. DEL. CASE NO. 12-11564) AND YOUNGMAN V. YUCAIPA AMERICAN ALLIANCE FUND I, LLC, ET AL. (LASC CASE NO. 21STCV37137), AND POSSIBLE BOARD ACTION

X. OTHER BUSINESS

XI. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, January 25, 2022 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.

XII. ADJOURNMENT

Agenda of:	Jan. 11, 2022
Item No:	II

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

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 December 14, 2021 meeting will be conducted via telephone and/or videoconferencing.

December 8, 2021

10:00 a.m.

PRESENT via Videoconferencing:	President:	Cynthia M. Ruiz
	Vice President:	Sung Won Sohn
	Commissioners:	Annie Chao
		Elizabeth Lee
	(Joined at 10:03 a.m.)	Sandra Lee
		Nilza R. Serrano
		Michael R. Wilkinson
	Manager-Secretary:	Neil M. Guglielmo
	Legal Counselor:	Sheri Cheung
PRESENT at LACERS Office:	Executive Assistant:	Ani Ghoukassian

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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**

Item III taken out of order.

III

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 – Commissioner Chao moved approval of the following Resolution:

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

RESOLUTION 211208-A

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 and community transmission remains substantial;

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.

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

Commissioner Sandra Lee joined the Special Meeting at 10:03 a.m.

IV

PRESENTATION OF LACERS' AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2021 BY EXTERNAL AUDITOR, MOSS ADAMS LLP – Melani Rejuso, Department Audit Manager, provided a briefing and introduced Kory Hoggan, Engagement Partner and Aaron Hamilton, Senior Manager with Moss Adams. Mr. Hoggan and Mr. Hamilton presented and discussed this item with the Board for one hour. After discussion, the report was received by the Board and filed.

President Ruiz recessed the Special Meeting at 11:00 a.m. to convene in Closed Session.

Item II taken out of order.

II

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DEFERRAL REQUEST FOR DISABILITY RETIREMENT APPLICATION OF SHELLIE COOKE AND POSSIBLE BOARD ACTION

President Ruiz reconvened the Special Meeting at 11:04 a.m., and announced that the Board unanimously approved staff's recommendation for the deferral request for disability retirement application of Shellie Cooke.

V

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, December 14, 2021, at 10:00 a.m. at LACERS, 202 W. 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.

VI

ADJOURNMENT – There being no further business before the Board, President Ruiz adjourned the Meeting at 11:05 a.m.

Cynthia M. Ruiz
President

Neil M. Guglielmo
Manager-Secretary

Agenda of:	Jan. 11, 2022
Item No:	II

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

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 December 14, 2021 meeting will be conducted via telephone and/or videoconferencing.

December 14, 2021

10:00 a.m.

PRESENT via Videoconferencing:	President:		Cynthia M. Ruiz
	Vice President:		Sung Won Sohn
	Commissioners:		Annie Chao
		(joined at 10:04 a.m.)	Elizabeth Lee
			Sandra Lee
			Nilza R. Serrano
			Michael R. Wilkinson
	Manager-Secretary:		Neil M. Guglielmo
	Legal Counselor:		Anya Freedman
	Executive Assistant:		Ani Ghoukassian

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

Commissioner Elizabeth Lee joined the Regular Meeting at 10:04 a.m.

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 were two responses. The first public comment was from Dr. Kevin Jablonsky, LACERS member, and he stated that he would like an option for members who live out of the country to receive their direct deposit in another form such as "Pay Pal, Bitcoin" or other options. Neil M. Guglielmo, General Manager, asked Dr. Jablonsky to email LACERS with his contact information and staff will reach out to him directly. The second public comment was from Ms. Suzanne Humme, Founder of Clean Air 4 Kids, and she asked that LACERS divest from fossil fuels.

II

APPROVAL OF MINUTES FOR THE REGULAR MEETINGS OF OCTOBER 26, 2021 AND NOVEMBER 9, 2021 AND POSSIBLE BOARD ACTION – Commissioner Wilkinson 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.

III

BOARD PRESIDENT VERBAL REPORT – President Ruiz thanked LACERS staff and Trustees for all the work they have done through this year and wished all Happy Holidays. President Ruiz also reminded everyone that the December 28th Board Meeting is canceled.

IV

GENERAL MANAGER VERBAL REPORT

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

- LACERS received notice of GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting for the June 30, 2020 PAFR
- On October 26th, in closed session, the Board authorized the General Manager to negotiate an early lease termination agreement with Allies for Every Child at 977 N. Broadway. It is being reported here that negotiations have concluded within the framework established by the Board and that the tenant has vacated the premises
- The Board Meeting for December 28th is canceled
- LACERS has begun coordinating the installation of the scaffolding required to work on the exterior of 977 N. Broadway.
- 14 members were inconvenienced by the Retirement Application Portal downtime between November 1-8, 2021
- Open Enrollment ended on November 15, 2021
- Medicare Part B Premium Survey
- Update on Member Services
- Uptick on call volume due to Open Enrollment
- Top 5 Member inquiries
- Update on LACERS YouTube channel
- Upcoming Webinars

B. UPCOMING AGENDA ITEMS – There were no items discussed.

C. RECOGNITION OF SERVICE FOR ALEX RABRENOVICH – Neil M. Guglielmo, General Manager, Dale Wong-Nguyen, Assistant General Manager, and the Commissioners recognized Alex Rabrenovich for his service to LACERS and Los Angeles City.

D. RECOGNITION OF SERVICE FOR VINCENT KOELLER – Dale Wong-Nguyen, Assistant General Manager, and President Ruiz recognized Vincent Koeller for his service to LACERS, as his entire City career was with LACERS.

V

RECEIVE AND FILE ITEMS

A. ETHICAL CONTRACT COMPLIANCE REPORT NOTIFICATION TO THE BOARD – This report was received by the Board and filed.

B. BENEFITS PAYMENTS APPROVED BY GENERAL MANAGER – This report was received by the Board and filed.

C. COMMISSIONER RUIZ EDUCATION EVALUATION ON 50/50 WOMEN ON BOARDS CONVERSATIONS ON BOARD DIVERSITY; VIRTUAL; NOVEMBER 3 & 5, 2021 – This report was received by the Board and filed.

D. COMMISSIONER SERRANO EDUCATION EVALUATION ON 50/50 WOMEN ON BOARDS CONVERSATIONS ON BOARD DIVERSITY; VIRTUAL; NOVEMBER 3 & 5, 2021 – This report was received by the Board and filed.

E. COMMISSIONER ELIZABETH LEE EDUCATION EVALUATION ON STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) FALL CONFERENCE; HOLLYWOOD, CA; NOVEMBER 9-12, 2021 – This report was received by the Board and filed.

F. LEGISLATIVE UPDATE OF DECEMBER 2021 – This report was received by the Board and filed.

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

VI

COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE MEETING VERBAL REPORT FOR THE MEETING ON NOVEMBER 9, 2021 – Vice President Sohn stated the Committee listened to a presentation by Oberweis Asset Management, Inc. and the Committee approved the Private Equity Program 2022 Strategic Plan.

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 – Commissioner Elizabeth Lee moved approval of the following Resolution:

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

RESOLUTION 211214-A

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.

Which motion was 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.

B. CONTRACT EXTENSION WITH ALLIANT INSURANCE SERVICES, INC. (ALLIANT) FOR INSURANCE BROKERAGE SERVICES, AND POSSIBLE BOARD ACTION – After a brief discussion, Commissioner Elizabeth Lee moved approval of the following Resolution:

CONTRACT EXTENSION WITH ALLIANT INSURANCE SERVICES, INC. (ALLIANT) FOR INSURANCE BROKERAGE SERVICES

RESOLUTION 211214-B

WHEREAS, LACERS has a one-year contract from January 1, 2021 to December 31, 2021 with Alliant to recommend insurance coverage and solicit insurance quotes for commercial property, liability, environmental, Directors & Officers Side A, and Cyber Liability insurance policies;

WHEREAS, LACERS implemented a competitive bidding process about a year ago that resulted in the selection of Alliant to provide insurance brokerage services;

WHEREAS, Alliant solicited and secured insurance policies for LACERS for all of the aforementioned liabilities at a reasonable price and in a timely manner;

WHEREAS, LACERS continues to require an experienced insurance broker, acting in a fiduciary capacity to LACERS, to educate, consult, and advise on insurance products;

WHEREAS, Charter Section 371(e)(10) provides exemption from the competitive bidding process for contracts that are "undesirable, impractical or impossible";

WHEREAS, LACERS and Alliant Insurance Services, Inc. are both amenable to the extension of the current contract and existing terms for an additional two years; and

NOW, THEREFORE, BE IT RESOLVED, that the Board:

1. Make a determination that a competitive bidding process for insurance brokerage services would not be advantageous pursuant to City Charter Section 371(e)(10);
2. Approves a two-year extension to LACERS' contract with Alliant Insurance Services, Inc. for insurance brokerage services, for the period beginning January 1, 2022, and ending December 31, 2023;
3. Authorize the General Manager to approve and execute the necessary contract amendment documents with Alliant Insurance Services, Inc., subject to the approval of the City Attorney as to form and make any necessary clerical, typographical, or technical corrections to this document.

Which motion was 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.

C. LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM COVID-19 BOARD MEETING SAFETY STANDARDS, AND POSSIBLE BOARD ACTION – Commissioner Serrano moved approval of the following Resolution:

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
COVID-19 BOARD MEETING SAFETY STANDARDS

RESOLUTION 211214-C

WHEREAS, the COVID-19 pandemic remains a significant challenge in the City of Los Angeles as COVID-19 daily cases and community transmission remain high and, according to health experts, are likely to increase during the coming months because respiratory viruses spread more easily in the fall and winter months; and,

WHEREAS, on October 6, 2021, City Council adopted Ordinance No. 187219 requiring proof of vaccination with a COVID-19 vaccine to enter certain indoor public locations, large events, and City buildings to promote the health, safety, and welfare of its workers, contractors, and the public and to encourage vaccination, by requiring proof of full vaccination with a COVID-19 vaccine; and,

WHEREAS, implementation of a vaccination requirement is critical to protect the City's employees, contractors, residents, visitors, and businesses, while also attempting to avoid future shutdowns and maintain the City’s economic recovery; and,

WHEREAS, recent emergence of the Omicron variant further emphasizes the importance of vaccination, boosters, and general prevention strategies needed to protect against COVID-19; and,

WHEREAS, it is not clear when the Governor’s Executive Order N-08-21 waiving portions of the Brown Act that require the physical presence of the Board Members at Board and Committee meetings and allowing for public meetings entirely via teleconferencing, could expire; and,

WHEREAS, LACERS is preparing for the return to in-person Board and Committee meetings,

NOW, THEREFORE, BE IT RESOLVED, that the Board:

1. Adopt the Los Angeles City Employees’ Retirement System (LACERS) COVID-19 Board Meeting Safety Standards; and,

2. Authorize LACERS General Manager to make necessary updates, subject to City Attorney review, to the LACERS COVID-19 Board Meeting Safety Standards based on changes in federal, state, and local regulatory mandates, including City ordinances.

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.

D. LACERS *WELL* UPDATE – VERBAL REPORT – Stephanie Smith, Senior Project Coordinator, provided the Board with an update on the LACERS *Well* program. After the update, Ms. Smith introduced two of LACERS’ Champions, Ben Gaetus and Nancy Castles. The LACERS’ Champions shared their experiences and activities that they have led and participated in with other LACERS retirees.

VIII

INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value of $23.83 billion as of December 13, 2021. Mr. June discussed the following items:

- Contract with Monroe Capital was recently executed
- DDJ, a high yield/bank loans manager, is being acquired by Polen Capital

- Pacific Center for Asset Management meeting convenes on January 20, 2022
- Future Agenda Items: Investment Manager consent, RFP for transition management services, general fund consultant contract, private equity benchmark, and LACERS exposure to Facebook and Ben & Jerry's

B. PRESENTATION BY NEPC, LLC OF THE PORTFOLIO PERFORMANCE REVIEW FOR THE QUARTER ENDING SEPTEMBER 30, 2021 – Carolyn Smith, Partner, and Kevin Novak, Senior Consultant, with NEPC, presented and discussed this item with the Board for 45 minutes.

C. PRIVATE EQUITY PORTFOLIO PERFORMANCE REVIEW FOR THE PERIOD ENDING JUNE 30, 2021 – David Fann, Vice Chairman, Trevor Jackson, Senior Portfolio Advisor, and Jeff Golderger, Managing Director, with Aksia TorreyCove Partners LLC, presented and discussed this item with the Board for 40 minutes.

D. PRIVATE EQUITY PROGRAM 2022 STRATEGIC PLAN AND POSSIBLE BOARD ACTION – Vice President Sohn moved approval, seconded by 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.

E. PRIVATE CREDIT CONSULTANT RFP AND POSSIBLE BOARD ACTION – Vice President Sohn moved approval, seconded by 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.

F. CONTINUED DISCUSSION OF THE RESPONSIBLE INVESTMENT POLICY AND POSSIBLE BOARD ACTION – This item was deferred.

G. UPDATE ON TRANSITION FROM LIBOR TO SECURED OVERNIGHT FINANCING RATE – This item was deferred.

H. DISCLOSURE OF FEES, EXPENSES, AND CARRIED INTEREST OF ALTERNATIVE INVESTMENT VEHICLES FOR THE FISCAL YEAR ENDING JUNE 30, 2021 PURSUANT TO GOVERNMENT CODE SECTION 7514.7 – This report was received by the Board and filed.

IX

LEGAL/LITIGATION

A. BOARD EDUCATION: FIDUCIARY LEADERSHIP IN INVESTMENT CONTRACTING (PART 2) – This item was deferred.

B. APPROVAL OF ONE-YEAR EXTENSION TO CONTRACTS WITH SECURITIES MONITORING COUNSEL; REQUEST FOR PROPOSALS FOR OUTSIDE SECURITIES MONITORING COUNSEL AND LITIGATION COUNSEL TO BE PUBLISHED IN 2022, AND POSSIBLE BOARD ACTION – Gina DiDomenico, Deputy City Attorney, presented and discussed this item with the Board for nine minutes. After discussion and a request from Commissioner Serrano to allow more time for responses to this RFP, 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.

X

OTHER BUSINESS – There was no other business.

XI

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, December 28, 2021, at 10:00 a.m. at LACERS, 202 W. 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.

XII

ADJOURNMENT – There being no further business before the Board, President Ruiz adjourned the Meeting at 1:03 p.m.

Cynthia M. Ruiz
President

Neil M. Guglielmo
Manager-Secretary

LACERS' ETHICAL CONTRACT COMPLIANCE REPORT
NOTIFICATION TO THE BOARD

RESTRICTED SOURCES

The Board's Ethical Contract Compliance Policy was adopted in order to prevent and avoid the appearance of undue influence on the Board or any of its Members in the award of investment- related and other service contracts. Pursuant to this Policy, this notification procedure has been developed to ensure that Board Members and staff are regularly apprised of firms for which there shall be no direct marketing discussions about the contract or the process to award it; or for contracts in consideration of renewal, no discussions regarding the renewal of the existing contract.

Name	Description	Inception	Expiration	Division
Agility Recovery	Business Continuity Services	September 20, 2021	September 19, 2022	Administration
K&L Gates LLP	Outside Investment & Real Estate Counsel	N/A	N/A	City Attorneys
Anthem	Medical HMO & PPO	January 1, 2021	December 31, 2021	Health Benefits Administration
Kaiser	Medical HMO	January 1, 2021	December 31, 2021	Health Benefits Administration
SCAN	Medical HMO	January 1, 2021	December 31, 2021	Health Benefits Administration
United Healthcare	Medical HMO	January 1, 2021	December 31, 2021	Health Benefits Administration
Delta Dental	Dental PPO and HMO	January 1, 2021	December 31, 2021	Health Benefits Administration
Anthem Blue View Vision	Vision Services Contract	January 1, 2021	December 31, 2021	Health Benefits Administration
Mom's Computer, Inc	Technology, Virtual Meeting, and Video Support Services	January 1, 2022	December 31, 2022	Health Benefits Administration
Personal Wellness Corporation	Fitness Class Webinar Coaching & Training Services	January 1, 2022	December 31, 2022	Health Benefits Administration
CEM Benchmarking, Inc.	Investment Benchmarking Services	January 1, 2022	December 31, 2022	Investments
Box, Inc.	Retirement Application Portal Custom Consulting Services	December 1, 2021	November 30, 2022	Systems

Also viewable online here.

LACERS' ETHICAL CONTRACT COMPLIANCE REPORT
NOTIFICATION TO THE BOARD

ACTIVE RFPs

Description	Respondents	Inception	Expiration	Division
Real Estate Consultant	Aksia LLC, ORG Portfolio Management LLC, RCLCO Fund Advisors, RVK, Inc., StepStone Group LP, The Townsend Group	September 8, 2021	November 8, 2021	Investments
Passive U.S., Non-U.S., and Global Index Strategies Search	Blackrock, Inc., Mellon Investments Corporation, Northern Trust Securities, Inc., RhumbLine Advisers, State Street Global Advisors, Xponance, Inc.	September 9, 2021	November 9, 2021	Investments

Also viewable online here.

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-B

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

SERVICE RETIREMENTS

Member Name	Service	Department	Classification
Kramer, Albert G	49	Dept. of Airports	Heavy Duty Equip Mech
Johnson, Cleveland	41	Harbor Dept.	Maintenance Laborer
Valleie, Javad	41	GSD - Standards	Matl Tst Engineer
De Guzman, Reynaldo Gadi	36	GSD - Bldg. Fac Mgmt.	Sr Custodian
Locke, Steve C	35	Dept. of Rec. & Parks	Sr Gardener
Bui, Tam Thi Minh	35	Harbor Dept.	Accounting Clerk
Hever, Richard J	34	PW - Sanitation	Ref Coll Truck Oper
Musgrave, Roxana	30	City Attorney's Office	Sr Legal Clerk
Rodrigues, Jc	29	Dept. of Airports	Security Officer
Elce, David James	23	Indep. Assessor Fire Comm.	Sr Administrative Clerk
Reyes, Thomas R	23	Dept. of Airports	Custodian Supervisor
Munguia, Rosa	20	GSD - Bldg. Fac Mgmt.	Custodian
Shinagawa, Bruce M	20	Dept. of Airports	Garage Attendant
Kemper, Jeff	20	PW - Contract Administration	Sr Constr Inspector
Smith, James M	19	Library Dept.	Administrative Clerk
Mata, Araceli	18	Library Dept.	Administrative Clerk
Engineer, Saba	18	PW - Engineering	Civil Eng Associate
Muramoto, Sachio	17	Dept. of Airports	Equipmnt Mechanic
Kotak, Sonal Naresh	17	Library Dept.	Sr Accountant
Habibi, Joseph Steven	16	Police Dept. - Civilian	Garage Attendant
Gilbert, Mona F	16	Library Dept.	Librarian
Huck, Patricia Ann	16	Police Dept. - Civilian	Criminalist
Villanueva, Eleanor Cruz	16	PW - St. Lighting	Sr Mgmt Analyst
Rosborough, Vincent R	16	PW - Sanitation	Ref Coll Truck Opr
Metzenbaum, Barbara J	15	Library Dept.	Sr Librarian
Schindler, Richard D	15	Dept. of Bldg. & Safety	Sr Electrcl Inspector
Murillo, David	14	PW - Sanitation	Ref Coll Truck Oper
Hi Galvez, Juan Noe	14	GSD - Printing Revolving	Dup Mach Operator
Tinio, Virgilio A	13	Dept. of Airports	Sr Custodian Airport
Cooke, Lisa S	13	City Planning Dept.	City Planning Assoc
Gabourel, Glenford Ivan	13	Harbor Dept.	Maintenance Laborer
Chavez, Susan Garcia	13	LA Housing Dept.	Commun Info Rep
Castillo, Helen E	12	Dept. of Rec. & Parks	Administrative Clerk
Sandoval, Trisha Ann	10	Dept. of Rec. & Parks	Asst Park Svcs Attnd

Sepulvida, Alan D	8	Police Dept. - Civilian	Municipal Police Officer
Abeyta, Edith L	5	Office of Finance	Sr Admin Clerk
Engl, Sara	5	Dept. of Rec. & Parks	Museum Guide
Pineda, Mike	4	Dept. of Rec. & Parks	Security Officer
Hernandez, Raul	1	Dept. of Rec. & Parks	Special Prog Asst

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-B

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

Approved Death Benefit Payments

Deceased	Beneficiary/Payee
TIER 1	
Retired	
Aceves, Jesus D	Andrea A Giese for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Aiken, George E	Rosa Maria Serrano-Aiken for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance
Amstutz, Joseph G	Julie K Amstutz for the payment of the Accrued But Unpaid Service Retirement Allowance
Arevalo, Maria B	Carlos A Arevalo Jr for the payment of the Accrued But Unpaid Continuance Allowance
Avila Gastelo, Ruth	Rosemarie A Morgan for the payment of the Accrued But Unpaid Continuance Allowance

Brodie, Hilton J	Leo P Brodie for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Carleton, Mattie M	Billy Maranan for the payment of the Accrued But Unpaid Continuance Allowance
Carlisle, Charles L	Lisa M Mangiola for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Chung, Juliana	Patrick Chung for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Collins, Eugene J	Kevin B Collins for the payment of the Burial Allowance Mary F Collins for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Corrales, Rosa Maria	Yvonne Corrales for the payment of the Burial Allowance
Duplessis, Loretta	Ruby Franklin for the payment of the Accrued But Unpaid Continuance Allowance

Errico, Onofrio S	Isabella Errico-Dossi for the payment of the Burial Allowance
	Margaret Errico for the payment of the Accrued But Unpaid Service Retirement Allowance
	Vincent Errico for the payment of the Burial Allowance
Felix, Arthur S	Omar Felix for the payment of the Accrued But Unpaid Service Retirement Allowance
Greenberger, Christine J	Samuel Mark Greenberger for the payment of the Accrued But Unpaid Vested Retirement Allowance Burial Allowance
Gutierrez, Carmen M	Carmen Ramirez for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Rosa Maria Lucatero for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Halstead, Leslie R	Paula J Halstead for the payment of the Accrued But Unpaid Service Retirement Allowance
Hamilton, John S	Eric G Hamilton for the payment of the Burial Allowance

Hatley, Paul	Theresa Hatley for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Hooks, Burl	Sylvia M Hooks for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Jones, Jerry D	Myra Jackson for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Jones, Larry Leon	Bettye J Jones for the payment of the Accrued But Unpaid Service Retirement Allowance
Kaliniecki, Antoni	Malgorzata E Kaliniecki for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Kazor, Virginia M	Thomas R Koester for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Kornfeld, Edith	Steven P Light for the payment of the Accrued But Unpaid Service Retirement Allowance

Lembke, Charles E	Geraldine Lembke for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Lloyd, Gary W	Helen L Lloyd for the payment of the Burial Allowance
Manzel, Christine E	Kevin C. Manzel for the payment of the Accrued But Unpaid Continuance Allowance
Martinez, Manuel	Gladys Martinez for the payment of the Burial Allowance
Minemoto, Katsumi	C. Rosy Minemoto for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Ministeri, Catina J	Janis Marie Ministeri-Dymond for the payment of the Accrued But Unpaid Continuance Allowance Joanne Ministeri-Cummings for the payment of the Accrued But Unpaid Continuance Allowance
Moreno, Antonio B	Kristen Linden for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

Nakasako, Tsutomu	Shirley Nakasako for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Ocana, Mirta E	Mercedes M Marquez for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Oshiro, Kenneth K	Wendell K Oshiro for the payment of the Burial Allowance
Perrault, Ruth M	Patricia Ann Hough for the payment of the Accrued But Unpaid Continuance Allowance
Preston, Donna Jean	Gary A Preston for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Redmon, Logan Ann	Latisha Ganee Redmon for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Sakamoto, Donald K	Lois R Kuperman for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance

Seal, John E	Deborah Lyn Abegglen for the payment of the Accrued But Unpaid Service Retirement Allowance
	Donette F Seal for the payment of the Accrued But Unpaid Service Retirement Allowance
	Jody Seal for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Smith, Wesley	Wesley Smith for the payment of the Accrued But Unpaid Service Retirement Allowance
Stray, Patricia	Jennifer J Goldbeck for the payment of the Accrued But Unpaid Continuance Allowance
Weisberg, Sheila J	Suzanne Lynn for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Wendy Brynford-Jones for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Wigler, Melvin Charles	Mitchell D Wigler for the payment of the Accrued But Unpaid Service Retirement Allowance

Wooten, Horace E	Eli Yigal for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
	Philip E Wooten for the payment of the Accrued But Unpaid Service Retirement Allowance Burial Allowance
Ziebarth, Linda L	Christian Ziebarth for the payment of the Accrued But Unpaid Continuance Allowance

<u>TIER 3</u>
NONE

BENEFIT PAYMENTS APPROVED BY GENERAL MANAGER: ITEM V-B

Pursuant to the authority delegated to the General Manager under Board Rule GMA 1, General Manager Authorization, adopted by the Board of Administration on June 14, 2016, the following benefit payments have been approved by the General Manager:

Approved Death Benefit Payments

Deceased	Beneficiary/Payee
TIER 1	
Active	
Kane, Michael R (Deceased Active)	Rita L Robinson for the payment of the Accumulated Contributions
Kean Callan, Beth (Deceased Active)	John Robert Richard for the payment of the Accumulated Contributions
	Marchelle Lynne Klein for the payment of the Accumulated Contributions
Lam, Kit Lung (Deceased Active)	Monica Y Lam for the payment of the Service Retirement Survivorship Allowance
Lewis, Kenneth (Deceased Active)	Rhonda Lewis for the payment of the Disability Retirement Survivorship Allowance
Saucedo, Lazaro A (Deceased Active)	Minerva Arriaga Garcia for the payment of the Disability Retirement Survivorship Allowance

Stachura, Raymond John (Deceased Active)	Lori Stachura for the payment of the Service Retirement Survivorship Allowance Survivor Contributions Death Refund
Vasa, Kiran L (Deceased Active)	Rajul K Vasa for the payment of the FDBP Survivor

TIER 3
NONE

Disclaimer: The names of members who are deceased may appear more than once due to multiple beneficiaries being paid at different times.

Agenda of:	**JAN. 11, 2022**
Item No:	**V-C**

MONTHLY REPORT ON SEMINARS AND CONFERENCES ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS (FOR THE MONTH OF NOVEMBER 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.

BOARD MEMBER:

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: JANUARY 11, 2022
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: 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.

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

MEETING: JANUARY 11, 2022
ITEM: VIII – B

SUBJECT: **LACERS AND LAFPP JOINT LETTER RESPONSE TO CITY COUNCIL REGARDING CF 21-1116 FACEBOOK AND CF 21-1460 UNILEVER EXPOSURES**

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

Recommendation

That the Board:

1. Approve the LACERS and LAFPP Joint Letter Response to City Council regarding exposure to Meta Platforms, Inc. (formerly Facebook, Inc.) and Unilever PLC.

2. Authorize the General Manager to transmit the joint letter to the City Council.

Executive Summary

On October 5, 2021, the Los Angeles City Council approved a motion stating that the three City pension fund systems and any other City investment entity, in coordination with the City Administrative Officer and the Office of Finance, be directed to begin the process of divestment from Meta Platforms, Inc. (Meta), formerly known as Facebook, Inc. (Facebook). Additionally, on December 8, 2021 a separate motion was introduced stating that LACERS and Los Angeles Fire and Police Pensions (LAFPP), in coordination with the City Administrative Officer and Office of Finance, be instructed to report on the feasibility of divesting from Unilever PLC (Unilever). LACERS and LAFPP staff jointly drafted the attached letter (Attachment 1) to City Council in response to these motions to explain the fiduciary principles governing Board decisions, provide exposure information on Meta and Unilever, and discuss the relative effectiveness of engagement versus divestment.

Discussion

Background
On October 5, 2021, the Los Angeles City Council passed a motion (CF 21-1116; Attachment 2) directing the City's three pension fund systems and any other City investment entity, in coordination with the City Administrative Officer and the Office of Finance, to divest from any investments in Meta (formerly known as Facebook). The Council motion expresses concerns about the negative effects Instagram (Meta's photo-sharing application) has on young women and girls, the strong correlation

between the use of Meta's applications and some forms of deteriorating mental health in kids and teens, and Meta's practice of collecting personal information online from children under 13 years of age.

On December 8, 2021, the Los Angeles City Council passed a separate motion (CF 21-1460; Attachment 3) instructing LACERS and LAFPP, in coordination with the City Administrative Officer and Office of Finance, to report on the feasibility of divesting from Unilever PLC (Unilever), the parent company of Ben & Jerry's, as a result of Ben & Jerry's decision to end sales of ice cream in the West Bank. The Council motion states that several jurisdictions view Ben & Jerry's decision (and Unilever's support of the decision) as being antisemitic and constituting an illegal boycott of Israel, resulting in municipalities, state governments, and pension systems across the country to consider divesting from Unilever.

LACERS Exposure to Meta and Unilever
As of November 30, 2021, LACERS exposure to Meta stock (NASDAQ: FB) was contained solely within the passive S&P 500 index strategy managed by RhumbLine Advisers Limited Partnership (RhumbLine). LACERS held 250,522 shares with an approximate market value of $81.3 million, representing approximately 2.0% of the account and 0.34% of total plan assets. The stock has been additive to the LACERS portfolio; it has a cost basis of $32.5 million and an unrealized gain of $48.8 million. Over the last five years, Meta has generated a 22.1% annualized return. LACERS had no fixed income exposure to Meta.

As of November 30, 2021, LACERS exposure to Unilever stock (LSE: UL) was contained solely within the passive MSCI World ex-U.S. IMI index strategy managed by State Street Global Advisors (SSgA). LACERS held 243,009 shares with an approximate market value of $12.4 million, representing approximately 0.60% of the account and 0.05% of total plan assets. The stock has been additive to the LACERS portfolio; it has a cost basis of $10.2 million and an unrealized gain of $2.8 million. Over the last five years, Unilever has generated an 8.6% annualized return. Additionally, the SSgA Bond Fund, a passive commingled core fixed income fund, holds Unilever bonds with a par value of $10.5 million and market value of $11.2 million, based on LACERS' pro-rate share of the fund. However, LACERS' ownership is legally in the commingled fund vehicle itself and not the underlying bonds in which the fund invests.

Fiduciary and Policy Considerations
All investments managed by the LACERS and LAFPP boards are held in trust for the pension plan participants. When considering divestment, it must be recognized that the LACERS and LAFPP boards alone have the legal authority to invest, or not to invest, in whatever they choose, consistent with their fiduciary responsibilities. Divestment of pension trust funds for reasons other than achieving the best risk-adjusted return for the pension plan participants raises fiduciary concerns. Divestment may have material financial impacts including increased management fees, tracking error, transaction costs and opportunity costs, reduced portfolio diversification and expected risk adjusted returns, and loss of proxy voting rights. The attached memo (Attachment 4) from NEPC, LLC, LACERS General Fund and ESG Consultant, discusses in detail the financial impacts divestment may have to LACERS.

Further, the LACERS Geopolitical Risk Policy, Proxy Voting Policy, and the ESG Risk Framework reflect the Board's established approach of engagement over divestment to promote long-term changes in a company's business practices. The ESG Risk Framework also expresses a preference of exempting full replication index strategies such as the RhumbLine S&P 500 and the SSgA MSCI World ex-U.S. IMI strategies from security exclusions (divestments) due to portfolio management complexity and cost factors.

As such, in response to these two motions, LACERS and LAFPP staff have jointly drafted the attached letter to City Council to explain the fiduciary principles governing Board decisions, provide exposure information on Meta and Unilever, and discuss the relative effectiveness of engagement versus divestment. Staff recommends that Board approve this letter and authorize the General Manager to transmit this letter to City Council.

Strategic Plan Impact Statement

The proposed joint letter aligns with optimizing long-term risk adjusted investment returns (Goal IV); and upholds good governance practices which affirm transparency, accountability and fiduciary duty (Goal V).

Prepared By: Barbara Sandoval, Investment Officer II
James Wang, Investment Officer I
Ellen Chen, Investment Officer I and ESG Risk Officer, Investment Division

NMG/RJ/BF/BS/JW/EC:rm

Attachments: 1. Joint Letter from LAFPP and LACERS dated January 5, 2022
2. CF 21-1116 Facebook Motion dated October 5, 2021
3. CF 21-1460 Unilever Motion dated December 8, 2021
4. NEPC memo dated January 11, 2022

DEPARTMENT OF
FIRE AND POLICE
PENSIONS

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RETIREMENT SYSTEM

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(800) 779-8328 - TOLL FREE

January 5, 2022

The Honorable City Council
City of Los Angeles
c/o City Clerk
Room 395, City Hall
200 N Spring Street
Los Angeles, CA 90012

Re: CF 21-1116 Facebook Motion and CF 21-1460 Unilever

Honorable Councilmembers:

On October 5, 2021, the Los Angeles City Council approved a motion stating that the three City pension fund systems and any other City investment entity, in coordination with the City Administrative Officer and the Office of Finance, be “directed” to begin the process of divestment from Facebook. Additionally, on December 8, 2021 a separate motion was introduced stating that the three City pension fund systems and the Office of Finance be directed to divest from Unilever. The Facebook motion was approved by the full Council and the Unilever motion has been referred to the Budget and Finance Committee. This joint letter of the Los Angeles Fire and Police Pensions (LAFPP) and the Los Angeles City Employees’ Retirement System (LACERS), (together, the City Pension Plans) is provided in response to both motions.

As of October 2021, when combined with the investments of the Water and Power Employees Retirement Plan, the City Pension Plans hold approximately $318 million in Facebook equity and approximately $42 million in Unilever equity and fixed income securities. These investments, like all investments managed by the governing boards of the City Pension Plans—the LACERS Board of Administration and the Board of Fire and Police Pension Commissioners (together, the Boards)—are held in trust for the participants of the City Pension Plans. When considering divestment from specific companies like Facebook, Unilever, or from specific industries or geographic regions, it must be recognized that ultimately, the City Pension Plans’ boards alone have the legal authority to invest, or not to invest, in whatever they choose, consistent with their fiduciary responsibilities. However laudable the motivating policy reasons, divestment of pension trust funds for *any* reasons other than achieving the best risk-adjusted return for the participants of the City Pension Plans raises fiduciary concerns. This joint letter first provides an overview of the fiduciary principles governing the investment of trust funds by public pension plans, then provides some background on Facebook and its weight in the S&P 500 Index, Unilever and its market impact, and concludes with a brief comparison of the relative effectiveness of engagement versus divestment to achieve environmental, social, and governance (ESG) goals.

Fiduciary Principles Governing Pension Plans

In making any investment decision concerning City Pension Plan trust fund assets (Funds), regardless of how the investment opportunity or investment decision is presented to the respective Boards for decision, the Boards are bound by three overarching fiduciary principles. These three fiduciary principles are drawn from California statutory and constitutional law, particularly Article XVI, Section 17 of the California Constitution; the Los Angeles City Charter, particularly Section 1106; federal tax laws and regulations; the common law of trusts and uniform trust laws; and the federal Employee Retirement Income Security Act of 1974, as amended (ERISA), and related Department of Labor regulations implementing ERISA. The three principles are discussed briefly below.

First, under the exclusive benefit principle, Board members are charged with plenary authority over the Funds and carry out that authority by managing the Funds for the exclusive purposes of (1) funding the benefits promised to [active] members, retired members, and beneficiaries and (2) defraying the reasonable expenses of administering the system.

Second, under the prudent investor principle, the Boards are charged with making all investment decisions with Fund assets with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with these matters would use" in a similar situation. This means that the Boards' actions will be judged objectively according to the standard of a prudent expert. Every investment decision must be made after undertaking careful, disciplined analysis, calling upon investment staff, outside investment professionals, and consultants as the Boards analyze an investment decision. And the analysis must be based solely upon considerations taken into account by prudent expert investors, including the need for portfolio diversification, cash flow requirements, opportunity costs, and projected risk-adjusted returns.

Third, under its duty of loyalty, the Board members are trustees who must act "solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system." But of these three exclusive purposes, the

Board's "duty to participants and their beneficiaries shall take precedence over any other duty."

Finally, the prudent investor rule requires the Boards to continuously evaluate their investment decisions in light of the facts concerning the assets within the portfolio. Relatedly, both the California Constitution and the City Charter specifically include a duty to diversify the fund's investments "so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so." In other words, the burden would be on the Boards to prove why a prudent investor, under the circumstances, would have made a specific divestment decision. This includes whether an investment decision would cause an overweighting or underweighting of certain market sectors when compared to the weight that might otherwise prevail in the Fund's asset allocation.

Facebook and Its Weight in the S&P 500 Index

Social media and the power that it wields to influence people has taken center stage over the last several years. Today's social media platforms such as Facebook, Instagram, YouTube, Twitter, SnapChat, TikTok and others, are used by millions of people around the globe. Our social and professional lives are enriched by sharing ideas, experiences, and community with friends, family and others. But we know these social media platforms can potentially be harmful and spread misinformation on a range of topics and opinions.

Facebook[1] is considered one of the largest social media platforms and the number of registered users has grown to approximately 2.8 billion. This growth in users mirrors the financial growth in Facebook as a company. Facebook was added to the S&P 500 in December 2013 and its stock price has rapidly grown since that time. As one of the leading technology companies, it has amassed a large market share as it acquired over 78 technology companies whose software created social media platforms such as Instagram and WhatsApp. With its growth and market size, Facebook is known to be one of the FAANG (Facebook, Amazon, Apple, Netflix and Google) companies (stocks) that dominate the equity market. It is estimated that Facebook has accounted for 5.8% of the S&P 500's total price gain since being added in 2013. Facebook's current estimated value is over $900 billion. With this value, movement in the price of its stock can influence the S&P Index given its capital weight within the overall Index.

All three pension systems currently contract with an investment manager to run a passive S&P 500 index fund. These passive strategies are a very cost-effective option (low fees) to invest in the broader market. Without these options, the systems would be forced to engage with an investment manager to create a custom index and pay higher management fees or contract with an active manager where fees can double or triple over a passively managed strategy. The creation of a custom S&P index that eliminates a

[1] Most recently, Facebook has changed its name to Meta Platforms.

company that has contributed 5.8% of the S&P 500's growth over the past eight years will have detrimental effect on returns.

Unilever

Unilever is a large, British multinational consumer goods company that provides a wide range of consumer goods and products such as food, condiments, vitamins, tea and coffee, cereal, cleaning agents and more. Unilever owns over 400 brands and its products are available in approximately 190 countries across the globe. Unilever is based in London and its assets are valued at over €67 billion. In 2000, Unilever purchased Ben & Jerry's as one of its many ice cream product lines.

When Unilever acquired Ben &Jerry's, the companies crafted an unusual acquisition agreement that legally vested an independent board with control over the ice cream company's social mission, brand integrity and policies. This unique acquisition agreement is at the center of the current debate, which is the subject of the Council motion. In July 2021, Unilever made the following statement:

> *"The Israeli-Palestinian conflict is a very complex and sensitive situation. As a global company, Unilever's brands are available in more than 190 countries and in all of them, our priority is to serve consumers with essential products that contribute to their health, wellbeing and enjoyment. We remain fully committed to our presence in Israel, where we have invested in our people, brands and business for several decades."*

As previously mentioned, the City Pension Plans hold approximately $42 million in equity and fixed income securities of Unilever. While not considered a "growth company' like Facebook, Unilever nevertheless holds considerable weight in the capital markets. Calls for divestment from Unilever, on top of Facebook, will further force the City Pension plans to create custom indexes, with increased fees. The potential cumulative effect of divestment actions could result in lower overall investment returns that will grow over time and result in negative fiscal consequences for the City and its taxpayers in the form of higher contributions to the City Pension Plans.

Engagement Versus Divestment Approaches to ESG Policy Goals

As environmental, social, and governance (ESG) considerations have grown over the years, public pension plans have debated the merits of divestment versus engagement. Engagement is defined as proactively, constructively, and collaboratively engaging with the management teams of companies to enact change. Divestment is defined as the act of selling an investment from a portfolio to cease ownership of a company's securities. Both engagement and divestment are tools used by investors for promoting ESG causes or beliefs. Arguments for both activities are summarized below.

Reasons for Engagement:

- Divestment eliminates an investor's ability and shareholder right to engage with company management to enact long-term change (ex. The 2021 Exxon proxy contest - many large institutional investors rallied behind Engine No.1 and elected three Board members with backgrounds in clean energy; some argue a fourth seat might have been secured if institutional investors did not divest).
- Divestment can be costly. It may reduce expected risk-adjusted performance by reducing portfolio diversification and increasing risk, management fees, transaction costs, and opportunity costs.

Reasons for Divestment:

- Potentially increases the cost of capital for a company, making it more difficult for a company to invest in new projects. It may also reduce the share price of a company's stock, reducing company management's incentive pay and motivating management to change corporate behavior.
- Investors avoid the potential of holding and incurring losses from "stranded assets" (assets unable to earn an economic return due to changes in the landscape in which the assets operate).

Research studies suggest that divestment is not an effective means of restricting a company's access to capital or influencing a company's management to change behavior. Divestment may also result in the loss of substantial investment returns on divested companies, such as in the case of CalPERS which missed out on $3.6 billion in investment gains over a 17-year period due its divestment from tobacco. Many investors promote engagement over divestment; engagement allows shareholders to more effectively voice change to corporate policies and actions through the exercise of shareholder rights.

When the City Council debates divestment initiatives targeted at specific companies, industries or sectors, it must be recognized that with regard to City Pension Plans' Funds, ultimately the Boards have the exclusive authority to invest, or not invest, and engage with, or not engage with, the companies and investment managers in the Funds' portfolios. Fiduciary counsel for the respective Boards have advised that selective divestment, driven by the policy issues of the moment, however offensive they might be to any decision-maker at this moment, opens the door to the possibility of a long sequence of similar actions, whose cumulative effect on the universe of investment opportunities grows over time. As the data above indicate, even a single company can carry enough weight to potentially alter returns for the involved pension systems by limiting plan investment options—which in turn will have negative fiscal consequences for the City and its taxpayers, in the form of higher contributions to the City Pension Plans.

<u>Conclusion</u>

In summary, there are a number of ways the Boards can voice shareholder concerns of ESG related issues to effectuate long-term changes in company behavior or policies without the risks posed by divestment, including engagement. Above all, the Boards must carefully review proposals to ensure that they are comporting with the three fiduciary principles summarized above. At this time, divesting from Facebook and/or Unilever is inconsistent with those principles. As both Facebook and Unilever are two of the largest companies traded in the financial markets, divestment would require the Plans to “carve out” the companies from its low-cost index strategies, risking a reduction in returns while also increasing management fees.

We trust that this joint letter has provided a comprehensive response to the City Council’s motions regarding divestment from Facebook and Unilever, and respectfully request that the Council keep these principles in mind when considering future motions seeking divestment from the Funds invested by the City Pension Plans’ Boards.

Sincerely,

RAYMOND CIRANNA
General Manager
Los Angeles Fire and Police Pension System

NEIL M. GUGLIELMO
General Manager
Los Angeles City Employees’ Retirement System

BUDGET & FINANCE

MOTION

It is unfortunate that Facebook continues to refuse to deal with the harmful failures of their platforms. Media reports have revealed that Facebook, Inc., executives know that their popular Instagram photo-sharing program is toxic for young women and girls. They know that 32 percent of teen girls said that, when they felt bad about their bodies, Instagram has made them feel even worse. Instagram makes body image issues worse for one in three girls; teens blame Instagram for increases in the rate of anxiety and depression. These assertions have been proven by Facebook's in-house analysts.

Media reports further show that Facebook has actual knowledge that they are collecting personal information online from children under 13 years of age. This information and more disturbing practices are being revealed to Congress by a well-informed whistleblower from within Facebook. This organization 's lack of governance and profit motivated vision has caused the company's leadership to ignore everything they know about the real world.

Facebook's internal research revealed a strong correlation between use of their platforms and some forms of deteriorating mental health in kids and teens. Between 2009 and 2019, the percentage of high school students who experienced ``persistent feelings of sadness or hopelessness'' increased by more than 10 percent. The percentage of high school students who seriously considered attempting suicide increased by 5 percent. Numbers regarding suicide plans and suicide attempts also trended in the wrong direction. And even less severe mental health crises can lead to risky sexual behavior, drug use, truancy, delinquency.

Given this disturbing track record and the dangers it poses to our children, it is appropriate for the City to consider divestment form any investments in Facebook and its affiliated organizations.

I THEREFORE MOVE that the City's three pension fund systems and any other City investment entity, in coordination with the City Administrative Officer and the Office of Finance, be directed to begin the process of divestment of any of the City's funds which may be currently invested in Facebook and its affiliated companies.

PRESENTED BY: Joe Buscaino
JOE BUSCAINO
Councilman, 15th District

SECONDED BY: Monica Rodriguez

Gil Cedillo

Nury Martinez

Paul Koretz

OCT 05 2021

ORIGINAL

BUDGET & FINANCE

MOTION

PERSONNEL, AUDITS, & ANIMAL WELFARE

The Boycott, Divestment and Sanctions (BDS) Movement is an international effort aimed at isolating and delegitimizing the State of Israel through antisemitic and discriminatory campaigns across the United States and abroad.

The Federal government and the State of California have adopted measures prohibiting discrimination in commerce on the basis of contacts in or with Israel and the Federal Government has repeatedly emphasized that efforts to isolate and delegitimize Israel will not promote Middle East peace.

On July 19, 2021, in an apparent decision to support the BDS movement, the internationally-known ice cream maker Ben & Jerry's announced that it would end sales of ice cream in the disputed territories in the West Bank, and seek alternative means to manufacture and distribute product since the company has chosen not to renew their license agreement with their Israeli distributor past 2022, effectively boycotting the State of Israel, injuring its economy, and destroying jobs for both Israelis and Palestinians.

Ben & Jerry's was acquired by parent company Unilever in 2000. As part of the acquisition agreement, Ben & Jerry's maintained an independent Board that makes decisions about its social mission. Several jurisdictions view Ben & Jerry's decision (and Unilever's support) to cease the sale of ice cream in the disputed territories of the West Bank as antisemitic and constitutes an illegal boycott of Israel. This has caused municipalities, state governments, and pension systems across the country to consider divesting from Ben & Jerry's / Unilever investments.

On November 26, 2021, a bipartisan group of Members of Congress sent a letter to the Chairman of the Securities and Exchange Commission (SEC) requesting that the agency investigate Unilever for possible regulatory violations, stating: “In the interests of shareholders, consumers, and public policy, we believe it is appropriate for the SEC to take steps to ensure the full disclosure of all information necessary to make Unilever’s filings in compliance with the rules and regulations of the United States’ SEC. Unilever is a widely held company with a current market capitalization of $135 billion, which places in jeopardy the manifold United States institutions, pension funds, and endowments which hold its shares on behalf of its beneficiaries.”

Most recently, the State of New York has given Unilever 90 days to respond and communicate that it is not engaging in a boycott of Israel. Should this communication not occur, New York plans to divest in the company. The City should determine if it is in its best interest to divest from Ben & Jerry's/Unilever, as many pension systems across the country are considering, in order to show support for the Israeli people.

DEC 0 8 2021

I THEREFORE MOVE that the Los Angeles City Employees' Retirement System (LACERS) and Los Angeles Fire and Police Pensions (LAFPP), in coordination with the City Administrative Officer and Office of Finance, be instructed to report on the feasibility of divesting from Ben & Jerry's, and its parent company Unilever, and the effect divestment would have on the investment of both and the City overall.

PRESENTED BY: Paul Koretz
PAUL KORETZ
Councilmember, 5th District

SECONDED BY: Bob Blumenfield
BOB BLUMENFIELD
Councilmember, 3rd District

To: LACERS Board of Administration

From: NEPC, LLC

Date: January 11, 2022

Subject: Stock Divestment

Recommendation

NEPC has reviewed the Los Angeles City Council's motions to divest from Facebook, Ben & Jerry's, and its parent company Unilever. NEPC continues to believe that divestment from specific companies may reduce the risk/return profile of the fund. We have outlined several considerations in the memo below. As an alternative to divestment, NEPC supports a well-articulated ESG Investment Policy that outlines parameters around fiduciarily sound investment beliefs, procedure and implementation as it relates to non-financial opportunities and risk associated with owning the equity or debt of any company.

Background

LACERS Staff engaged NEPC for an assessment of two motions by the Los Angeles City Council. The first motion dated October 5, 2021 states *"…the City's three pension fund systems and any other City investment entity, in coordination with the City Administrative Officer and the Office of Finance, be directed to begin the process of divestment of any of the city's funds which may be currently invested in Facebook and its affiliated companies."* The second motion states that LACERS *"…be instructed to report on the feasibility of divesting from Ben & Jerry's, and its parent company Unilever, and the effect divestment would have on the investment of both and the City overall."* In response NEPC has interpreted these as a motion to divest from any publicly traded equity or debt that it may invest into. NEPC recognizes that affiliated entities may be interpreted with a broader scope.

Considerations

NEPC has found that there are several (ultimately this is not an exhaustive list) broad considerations that we believe draws us to the conclusion that divestment may impact future risk adjusted returns in the Plan.

1. Divestment may reduce expected risk adjusted performance by reducing portfolio diversification. The widely accepted Modern Portfolio Theory argues that any restriction on the set of investable assets, such as Facebook and/or Unilever, will inherently shift a portfolio away from the efficient frontier and reduce expected return for a given level of expected risk relative to what would have otherwise been achievable with an unrestricted set of assets. Facebook recently changed its company name and relisted its stock under Meta Platforms, Inc. LACERS has exposure to Meta Platforms, Inc. through an investment in a portfolio tracking the S&P 500 Index. The allocation of LACERS' public equity portfolio to Meta Platforms, Inc. as of November 30, 2021 represents 0.35% of the Total Plan with an approximate value of $81.3 million. Meta Platforms, Inc. represented 1.99% of the S&P 500 Index and was the seventh largest company in the index. Unilever is held in the MSCI World

ex USA IMI index fund and represents 0.62% of the index and 0.053% ($12.4 million) of the Total Plan.

2. Divestment implies that LACERS is better positioned to assess the impact of the social consequences of either Facebook's or Unilever's business model as reflected in prevailing market prices. If LACERS were to divest due to the potential financial impact from negative social impact or other reasons, then LACERS must believe that it has better insight into the appropriate valuation of social media or consumer goods companies than the market does. We do not support that belief.

3. Divestment is inconsistent with the predominant strategy in the LACERS public equity portfolio of passive management. Divestment results in a permanent active underweight relative to a market capitalization weighted index, resulting in a contradiction with the objective of passive management. LACERS' belief in allocating to passive management in certain market segments, investment styles and capitalizations (like large-cap US and non-US equity) is based on the fundamental belief in the efficiency of the market in question and reasonable expectations for excess returns from active management within the market segment. Note, the S&P 500 Index, for example, is a market capitalization-based index of approximately 500 of the largest companies in the United States. To be eligible for S&P 500 index inclusion, a company should be a U.S. company, have a market capitalization of at least USD 11.8 billion, be highly liquid, have a public float of at least 10% of its shares outstanding, and its most recent quarter's earnings and the sum of its trailing four consecutive quarters' earnings must be positive. LACERS allocation to passive strategies as a percentage of the public equity portfolio was 64% as of November 30, 2021. While we would expect this breakdown to fluctuate over time, the predominant investment belief in passive allocation strengthens this reason against divestment. To this end, LACERS also has a defined risk budget that may be impacted as a result of divestment as the risk budgets within public equity are based on market capitalization benchmarks.

4. Divestment reduces the opportunity set for active managers to earn excess return. While both Facebook and Unilever are mega-cap names today, going forward this may not always be the case and broadly NEPC does not favor restricting the universe of investable assets permanently on a forward-looking basis.

5. Divestment incurs additional transaction costs and ongoing management fees that are not expected to be recouped through stronger investment performance. Divestment strategies will always require greater trading activity and higher associated transaction costs than would otherwise occur. LACERS managers generally require a higher management fees and/ or incur higher administrative expenses to run portfolios that are restricted within their universe.

6. To our knowledge, divestment of Facebook has not been adopted by any other US public pension system. We are aware of a handful of public pension plans who have divested from Unilever.

7. Divestment violates the Plan's ESG Risk Framework as it pertains to passive investment management.

Active ownership through engagement, proxy voting, policy advocacy and investor collaboration are tenets of ESG integration and risk assessment. Exiting the position in Facebook and/or Unilever affirms LACERS' exit from being an active owner in the name. NEPC encourages seeking the advice of legal counsel with respect to the fiduciary duty of voluntarily exiting its position in Facebook and/or Unilever.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: JANUARY 11, 2022**
From: Neil M. Guglielmo, General Manager **ITEM: VIII – C**

SUBJECT: **CONTINUED DISCUSSION OF THE RESPONSIBLE INVESTMENT POLICY AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board:

1) Adopt the proposed Responsible Investment (RI) Policy;
2) Repeal the Geo-Political Risk Policy; and
3) Repeal the Corporate Governance Action Protocol.

Executive Summary

As a signatory of the Principles for Responsible Investment (PRI), LACERS has committed to incorporating environmental, social, and governance (ESG) risk factors into investment decisions and the investment process. Pursuant to LACERS' PRI signatory status, PRI Action Plan, and ESG Risk Framework, staff has developed a draft RI Policy to serve as the master policy framework for LACERS' ESG program.

Discussion

At the November 9, 2021 Board meeting, staff presented an initial draft of the Responsible Investment Policy (RI Policy) for the Board's review and consideration. After a short discussion of the draft policy, the Board directed staff to seek a review of the policy by the City Attorney's Office and deferred further discussion to a future meeting. Subsequently, a revised draft policy, which was reviewed by the City Attorney's Office, was agendized for the December 14, 2021 Board meeting; the Board deferred discussion of the item to the January 11, 2022 Board meeting.

The RI Policy, if adopted, would serve as LACERS' master policy framework for LACERS' ESG program and addresses the following topics:

- LACERS and the Board's commitment to integrating ESG risk factors in a manner consistent with fiduciary responsibilities
- Roles and responsibilities of the Board, staff, consultants, and other parties
- Implementation of the six Principles of PRI
- Process for identifying and mitigating material ESG risks within the investment portfolio
- Reporting requirements

The attached draft of the RI Policy (Attachment 1) has been reviewed by the City Attorney's Office, and by NEPC, LLC, LACERS ESG Consultant; their feedback has been incorporated into the draft policy. Staff has also incorporated the following major revisions since the initial draft presented on November 9, 2021:

1) Split the former "Section E. Purpose" into "Section C. Goals" and "Section D. Responsible Investment Framework"

2) Expanded "Section H. Scope" to emphasize that risk factors listed are not exhaustive; and in other instances, risk factors may impact more than one broad ESG category

3) Revised "Section J. Engagement Campaigns" to specify that authority is delegated to the General Manager, Chief Investment Officer, and Board President if a letter campaign deadline does not permit adequate time to bring the letter to the Board for consideration

4) Revised "Section L. Scope of Reporting" to include a review of the RI Policy on an annual basis or more frequently as needed

A redline version of the draft policy showing all changes made since the November 9, 2021 draft is attached as Attachment 2.

Should the Board adopt the RI Policy, it would supersede the existing Geopolitical Risk Policy (Attachment 3) and Corporate Governance Action Protocol (Attachment 4). The goals and objectives of these two policies have been integrated into the RI Policy as sections H, I, and J (pages 9 to 11 of Attachment 1). Further, the language of these policies has been modified in the RI Policy to more effectively meet the objectives of LACERS' ESG program.

Upon the Board's adoption of the RI Policy, staff may make additional minor administrative edits to be incorporated in the revised version of the LACERS Investment Policy.

Strategic Plan Impact Statement

Adopting the LACERS RI Policy will assist LACERS with optimizing long-term risk adjusted investment returns (Goal IV); upholding good governance practices which affirm transparency, accountability and fiduciary duty (Goal V); and maximizing organizational effectiveness and efficiency (Goal VI).

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

NMG/RJ/BF/EC:rm

Attachments:
1. Responsible Investment Policy – Clean Version
2. Responsible Investment Policy – Redlined Version
3. Geopolitical Risk Policy
4. Corporate Governance Action Protocol
5. Report to Board of Administration dated November 9, 2021

VII. RESPONSIBLE INVESTMENT (RI) POLICY

The Responsible Investment (RI) Policy is LACERS' master policy framework that addresses Environmental, Social, and Governance (ESG) issues that are consistent with the Board's fiduciary standards and the overarching Investment Policy. The primary purpose of this policy is to outline various forms of ESG risk and to identify strategic paths and actions that can add long-term value to LACERS investments. Given the broad nature of ESG issues, the RI Policy also makes references to other existing LACERS policies and documents that specifically address environmental risk factors such as climate transition and renewable energy; social risk factors such as human rights and employment conditions; and governance risk factors such as proxy voting and influencing the behavior of corporate leadership. Conscientious development and thoughtful implementation of the RI Policy will ensure that LACERS capital will be invested and managed in a responsible manner that meets the Board's fiduciary obligations.

A. Definitions

Environmental, Social, and Governance (ESG) – refers to three broad categories of risk factors that measure the sustainability and societal impact of an investment. Please refer to Section H Scope for examples.

Responsible Investment (RI) – is the strategy and practice to incorporate material risk and return ESG factors in investment decisions and active ownership.

Principles for Responsible Investment (PRI) - a signatory membership organization comprised of global investors who have committed to understanding the investment implications of ESG factors and incorporating these factors into their investment decisions.

Sustainability – is the balance between the environment, equity, and economy. The United Nations World Commission on Environment and Development defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

ESG Integration – is the process of assessing the effect of ESG factors on investment risks and returns throughout the investment life-cycle and across all asset classes.

B. LACERS and Board's Commitment to Responsible Investing

LACERS and the Board are committed to integrating ESG risk factors into its management of the System in a manner that is consistent with the Board and Staff's fiduciary responsibilities to act in the best interest of the members, retirees, and beneficiaries of the System. This is consistent with LACERS' role as a prudent, long-term, responsible investor.

LACERS has long recognized the importance of addressing ESG risks in order to protect and enhance investment returns of the portfolio. Since the mid-1980s, LACERS has adopted several

policies to address ESG risks[1]; engaged with both listed and privately-held companies, its own investment managers, regulatory bodies, and membership organizations to improve ESG-related practices; and collaborated with like-minded institutional investors to better understand and mitigate ESG risks.

LACERS ushered in a new era in its understanding and importance of ESG when it applied to the PRI for signatory status on June 25, 2019, and was later granted signatory status on September 3, 2019. Signatories to PRI make this commitment:

> "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

Consistent with the PRI framework, LACERS bases its own ESG practices and process in order to become a more responsible investor that, in meeting its fiduciary responsibilities to its members and beneficiaries, is cognizant of how the broader societal impact of its investment decisions can likewise affect investment returns.

C. Goals

The Goals of the RI Program are:

1) That the Board of Administration fulfills its fiduciary obligations as provided by California State Constitution, Section 1106 of the City Charter, and LACERS Policies;
2) Consider material ESG risk and return factors in order to achieve superior risk-adjusted returns;
3) Explore and consider sustainable investment initiatives that align with LACERS' fiduciary duties and the RI Policy;
4) Collaborate with like-minded organizations and entities that are progressing towards responsible investing through multiple investment approaches;
5) Provide periodic progress reports to the Board.

D. Responsible Investment Framework

The RI Program serves to fulfill the goals and objectives set forth in the RI Policy and is governed by Board-approved program documents, to include:

1) Responsible Investment Policy

The RI Policy formalizes LACERS' ESG policies and procedures to ensure that LACERS follows the direction set forth by the Board through the ESG Risk Framework, Proxy Voting Policy, Emerging Investment Manager Policy, and other subsequent Board policies and directives that may be incorporated into the RI Policy. This Policy will provide program guidance on integrating material ESG factor considerations within LACERS' Investment Program.

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[1] Policies include the Geopolitical Risk Policy (which will be superseded by this Responsible Investment Policy), Proxy Voting Policy, and Emerging Investment Manager Policy.

2) Proxy Voting Policy

LACERS' Proxy Voting Policy supports sound corporate governance practices by aligning the interests of shareholders and corporations to build long-term sustainable growth in shareholder value. This policy provides LACERS' position and rationale for shareholder votes regarding corporate topics and issues to include (but not limited to) environmental and social issues, board of directors, election of the audit committee and appointment of external auditors, compensation of executives, shareholder rights and takeover defenses, capital structure, and corporate restructuring.

Proxy votes are cast by a proxy voting agent with the voting results monitored by staff and reported to the Board annually. Investment staff relies on research expertise and voting recommendations of its proxy voting agent when LACERS' Proxy Voting Policy is either silent or not directly applicable to the issue as stated on the proxy ballot.

3) Emerging Investment Manager Policy

The objective of LACERS Emerging Manager Policy is to identify investment firms with the potential to add value to the LACERS' investment portfolio that otherwise would not be identified by LACERS standard investment manager search and selection process. The Board believes that smaller investment organizations may generate superior returns because of the increased market flexibility associated with smaller asset bases.

4) PRI Action Plan

To ensure that LACERS continues to advance, progress, and continually develop its RI Program, an operational PRI Action Plan ("Plan") developed by staff was approved by the Board on November 12, 2019, with subsequent amendments. The Plan outlines initiatives and recurring activities that LACERS may pursue over a near-term horizon of approximately four years. The Plan is divided among broad functional categories: 1) policy; 2) operational; 3) research; and 4) collaboration and promotion. The Plan does not contain an exhaustive list of ESG initiatives that LACERS could pursue, but a feasible set of initiatives and actions that will allow LACERS to maintain a commitment to PRI and ultimately its ardent support of ESG. The Plan is updated and reviewed by the Board on an annual basis.

5) ESG Risk Framework

The Framework is a dynamic document, subject to changes based on economic outlook, market assumptions, and the Board's sensitivity and prioritization of material ESG issues. As LACERS continues to integrate and assess material and relevant ESG factors through this critical risk lens, staff will continue to adopt best practices and recommend to the Board appropriate Framework adjustments to keep its Investment Program and ESG initiatives focused squarely on the best interests of LACERS members and beneficiaries.

E. Responsible Parties and Roles

The roles and responsibilities surrounding the RI Policy are defined by the Board; several of those responsibilities are delegated to staff (including staff of the City Attorney's Office), consultants and advisers, and investment managers to ensure a cost-efficient and effective implementation, as outlined in the matrix below.

Responsible Parties and Roles			
Board	**Staff**	**Consultants / Advisers**	**Investment Managers**
- Governance - Policy Setting - Oversight	- Due Diligence - Engagement - Implementation and Compliance - Policy Recommendations - Legal Guidance and Opinions via City Attorney's Office	- Provide ESG education to the Board and Staff - Furnish research reports, customized reports, and other tools to understand current trends in ESG - Advise on Policy Matters	- Implement ESG directives and actions - Interpret and assess ESG risks and its impact on LACERS portfolio - Inform LACERS staff of any material ESG issues - Report ESG activities to LACERS to meet PRI Reporting requirements

F. Legal Framework

1. Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members and beneficiaries takes precedence over any other duty.

The System is sensitive to concerns that ESG and other risk factors may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Investments shall not be selected or rejected based solely on ESG or other risk factors. However, consideration of material ESG risk factors alongside traditional financial factors should provide a better understanding of the risk and return characteristics of sustainable investments. Sustainable returns over long periods of time are in the economic interest of the System. Importantly, the System's ownership of securities in a corporation does not signify approval of any or all of a company's policies, products, or actions.

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles and Article XVI, Section 17 of the California Constitution for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the required purpose of the System, as mandated by the City Charter:

"(1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; (2) to minimize City contributions; and (3) to defray the reasonable expenses of administering the system."[2]

The Board's "duty to system participants and their beneficiaries shall take precedence over any other duty."[3] In furtherance of this purpose, the Board shall have "sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for the exclusive purposes of: (1) providing benefits to system participants and their beneficiaries; and (2) defraying the reasonable expenses of administering the system."[4]

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, the primary consideration of the Board has been its implementation of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

2. Performance Priority

LACERS has a fiduciary duty to act in the best long-term interests of the System's beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that ESG issues may affect the performance of the investment portfolio. Through the years, the Board has adopted various policies to address ESG risks, with an emphasis on social and governance issues.

The System's general investment goals are broad in nature. The following goals are adopted to be consistent with the above described purpose, the City Charter, the State Constitution, and applicable federal law:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

[2] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[3] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[4] L.A. Charter § 1106(b); Cal. Const. Art. XVI, §17(a).

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.[5]

D. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article XVI, Section 17 of the California State Constitution.

E. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

F. The System has a long-term investment horizon and uses an asset allocation, which 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.

G. Investment actions are expected to comply with "prudent person" standard, with all duties discharged:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." [6]

This "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

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[5] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

[6] L.A. Charter § 1106(c); Cal. Const. Art. XVI, §17(c); ERISA § 404(a)(1)(B).

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

H. The System is required to "[d]iversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.[7]

3. Impact Priorities

In conjunction with LACERS' fiduciary responsibilities, Staff will also take into consideration the materiality of the ESG risk in LACERS' investment. The Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's ESG risk factors on investment returns.

G. Responsible Investment Mobilization Framework

Consistent with its fiduciary responsibilities, LACERS supports ESG within an implementation framework based on the Six Principles of PRI outlined below with examples of how LACERS supports these Principles:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- Staff will seek to incorporate relevant and material ESG considerations into LACERS' investment due diligence, decision-making, and monitoring processes for all of its external managers. Investment recommendations consider the manager's ESG policies and practices, focusing on the risks, opportunities, and standards relevant to the investment under consideration. LACERS' Investment Consultants will be directed to include relevant ESG commentaries in their independent diligence documentation.

- LACERS will support development of ESG-related tools, metrics, and analyses; investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) are encouraged to integrate ESG factors into evolving research and analysis.

[7] L.A. Charter § 1106(d); Cal. Const. Art. XVI, §17(d).

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Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

- LACERS' RI Policy is updated annually or more frequently as needed to consider new ESG issues and evolving risk factors.
- LACERS' PRI Action Plan, which is a living document, outlines proposed multi-year actions for each of the Six Principles, and is updated annually.
- LACERS' Emerging Investment Manager Policy supports emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk.
- LACERS' Proxy Voting Policy provides proxy voting guidance on ESG risks and is updated annually.
- Staff will participate in the development of ESG and ESG-related policies, standard setting (such as promoting and protecting shareholder rights), file shareholder resolutions consistent with long-term ESG considerations, engage with companies on ESG issues, either through intervention with investment managers or directly to the company, and participate in collaborative engagement initiatives such as securities litigation.
- LACERS will advocate ESG training for the Board and staff as well as attend ESG-related conferences.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Staff and/or Consultants will consider standardized questionnaires to Investment Managers for ESG disclosures.
- LACERS will support shareholder initiatives and resolutions promoting ESG disclosure.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

- Individually and in collaboration with other investors and thought-leadership organizations, LACERS will promote acceptance and implementation of ESG best practices within the investment industry.
- LACERS' division letterhead and website will highlight LACERS PRI Signatory Status. LACERS may provide press releases, include principles-related

requirements in requests for proposals (RFPs), and sit on ESG conference panels to reflect LACERS' promotion and acceptance of ESG.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Staff will keep abreast of PRI Reporting changes and provide (at a minimum) an annual staff report to the Board and submit recommendations for Board consideration to improve its implementation of ESG actions.

- LACERS will support and participate in networks and information platforms to share tools, pool resources, make use of investor reporting as a source of learning, and develop or support appropriate collaborative initiatives.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

- As part of its commitment to the PRI, LACERS shall report its progress in implementing the PRI's Six Principles through both the PRI Annual Report and LACERS annual PRI Action Plan Report to the Board.

- LACERS shall continue to foster open communication with LACERS members by responding to the Freedom of Information Act (FOIA) and California Public Records Act (CPRA) Requests.

H. Scope

The scope of the RI Policy encompasses the entire investment portfolio to the extent it is prudent and practicable. The broad and specific ESG Risk Factors provided in the table below are examples and additional risk factors may not have been specifically listed below. The risk factors may have varying degrees of risk impact and unique risk mitigation measures depending on the asset class or investment strategy type. In addition, specific ESG risk factors are dynamic and may be impactful to more than one broad ESG risk factor.

Broad and Specific ESG Risk Factors

Environmental • Climate Change • Resource Depletion • Waste • Pollution • Deforestation
Social • Human Rights • Modern Slavery

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- Child Labor
- Working Conditions
- Employee Relations
- Diversity, Equity, and Inclusion
- Gender and Sexual Orientation Pay Equality
- Discrimination based on Race, Gender including Women, Age including Senior Citizens and Children, Sex, Sexual Orientation, LGBTQIA+, Disability, Veterans Status, Language, or Social Status
- Freedom of Speech and Press
- Right to Civil Liberties including Speech and Press, Peaceful Assembly and Association, Freedom of Religion, National Origin /Racial/Ethnic Minorities, Freedom of Movement within a Country, Foreign Travel, Emigration, and Repatriation
- Freedom of Civil Unions/Same Sex Marriage

Governance

- Bribery and Corruption
- Executive Pay
- Board Diversity and Structure
- Political Lobbying and Donations
- Tax Strategy
- Right of Citizens to Change their Government

I. Identifying and Mitigating Material ESG Risks within the Portfolio

LACERS staff will research and keep the Board apprised of material and relevant ESG issues, initiatives, and collaboration opportunities, and take into account actions of other like prudent investors using the process outlined below:

1. Once ESG risks factors of material significance within the portfolio have been identified and discussed with the ESG Consultant, staff will bring such risks to the attention of the Board.

2. LACERS Board may decide at any point after considering research and staff findings that further action of various degrees of magnitude and impact may be appropriate and necessary to mitigate risk factors. This Policy identifies four distinct action levels that may be implemented, subject to Board direction:

Action Level	Possible Action(s) to include but not limited to:	Responsible Parties	Estimated Risk to Plan Assets
1	*Relationship Initiatives:* Collaboration with other Agencies Engagement/Advocacy Letters Joint-Agency Endorsements Company Presentations to LACERS Board Disassociation with Misaligned Organizations Outreach/Association with Emerging Managers	Staff Consultants Industry Organizations Agencies	**None** Level 1 actions do not include any portfolio restructurings resulting in virtually no discernable adverse risks to portfolio valuations.

	Discussion at Advisory Board Meetings or Annual Meetings of Private Market Funds		
2	*Policy Implications/Contractual:* Proxy Voting Amendments Investment Manager Guidelines Investment Policy Amendments Contract Side Letter Provisions	Staff Consultant(s) Investment Managers Proxy Voting Agent City Attorney	**None to Medium** Level 2 actions do not include significant portfolio restructurings but may have an indirect impact on portfolio management, investment valuations, or investment manager relationships.
3	*Strategic Investment Approaches:* ESG-Sensitive Strategies Climate-related Investment Strategies Socially Responsible Investment Strategies Corporate Governance Investment Strategies	Staff Consultant(s) Investment Mangers	**Low to Medium** Level 3 actions may have a direct impact on individual portfolios due to removal, substitution, or addition of mandates. Such actions may impact performance; implementation risk and costs; fee structures; tracking error; create opportunity costs.
4	*Restructure:* Security/Securities Divestment Sale of Partnership Interests Portfolio Restructure Termination of Investment Managers	Staff Consultant(s) Investment Managers Transition Managers Bank Custodian	**Medium to High** Level 4 actions may lead to immediate and significant realized losses due to market illiquidity; tracking error; transition management risk; timing and implementation risks; create opportunity costs; sub-optimal asset allocation structure misaligned with approved Asset Allocation Policy.

3. The Board will consider such investment actions only to the extent they are consistent with the Board’s fiduciary duties.
4. Staff will implement Board investment actions in an orderly, cost- efficient, and risk-mitigating manner.
5. Staff will provide the Board with periodic verbal updates or formal written reports on investment action status.
6. Staff will communicate Board decisions to the System’s active public investment managers to adhere to the Board’s actions going forward and work with its bank custodian to assist with further monitoring of ESG risk factors. If consistent with existing contractual agreements and appropriate to the investment mandate, such Board decisions will be communicated to appropriate private market investment managers.
7. The Board may wish to pursue other options to mitigate ESG risk factors and/or enhance the Investment Program through long-term ESG investment approaches.

J. Engagement Campaigns

Engagement with other like-minded organizations helps LACERS leverage its beliefs and promotion of ESG principles for the benefit of its beneficiaries. As LACERS becomes aware of engagement opportunities via letter campaigns (Campaigns), staff will bring the most impactful Campaign requests to the Board for review and consideration. Campaigns may request several actions including LACERS placing its name on the Campaign sponsor's master letter or request that LACERS send an independent letter to the targeted organization. If a Campaign deadline does not permit adequate time to bring the letter request to the Board for consideration, the Board delegates specific authority to the General Manager (GM), the Chief Investment Officer (CIO), and the LACERS Board President to support and endorse a Campaign. If the GM, CIO, and Board President reach consensus to support a Campaign, the CIO shall report the action to the Board at its next meeting. If the GM, CIO, and Board President do not reach a consensus on a Campaign, LACERS will take no action.

K. ESG Education

To stay apprised of ESG-related matters, LACERS will leverage research and education provided by industry organizations, investment managers, investment consultants, membership organizations, and peer plans. LACERS will actively participate at ESG conferences to understand better the evolving ESG landscape. Additionally, LACERS will participate in industry working groups to explore and research ESG issues to include (but not limited to) diversity, equity, and inclusion within the investment industry and the impact of regulatory reform on corporate governance and shareholders.

Staff, in conjunction with LACERS' ESG Consultant and investment managers, will invite leaders in ESG to provide further education to the Board including latest trends, regulations, issues, and best practices.

L. Scope of Reporting

To monitor the implementation of LACERS RI Program and ensure that it continues to develop and evolve, this policy will be provided to the Board or the appropriate Committee for review on an annual basis or more frequently as needed.

The following reports will be reported accordingly:

1) PRI Progress Board Report – LACERS is required to complete the annual PRI Questionnaire about LACERS portfolio and ESG efforts. Once results of the Questionnaire are provided to LACERS, the Board will be provided a summary of the findings.

2) PRI Action Plan – The Plan will be reviewed with the Board once a year to ensure that LACERS is meeting its ESG goals.

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

3) ESG Risk Framework – Staff will monitor the status of initiatives and on-going actions against time-bound objectives. These initiatives and actions will be incorporated into the PRI Action Plan. The Framework will be reviewed in conjunction with the PRI Action Plan review.

4) Proxy Voting Report – The Annual Proxy Voting Report contains an account of LACERS voting history and is provided annually to the Investment Committee.

5) Emerging Investment Manager Report – The Annual Emerging Investment Manager Report contains program information specific to LACERS Emerging Managers, and includes capital exposure statistics, investment manager performance, and staff and consultant meetings and other encounters with Emerging Managers. In addition to the aforementioned, an Organizational Diversity Survey (ODS) is completed by prospective and contracted investment managers of LACERS that captures workforce, board, and ownership diversity. The Emerging Investment Manager Report is provided annually to the Investment Committee; the ODS is managed pursuant to the Emerging Investment Manager Policy.

VII. RESPONSIBLE INVESTMENT (RI) POLICY

The Responsible Investment (RI) Policy is LACERS' master policy framework that addresses Environmental, Social, and Governance (ESG) issues that are consistent with the Board's ~~without compromising~~ fiduciary standards and the overarching Investment Policy. The primary purpose of this policy is to outline~~mitigate~~ various forms of ESG risk and to identify strategic paths and actions that can add long-term value to LACERS investments. Given the broad nature of ESG issues, the RI Policy also makes references to other existing LACERS policies and documents that specifically address environmental risk factors such as climate transition and renewable energy; social risk factors such as human rights and employment conditions; and governance risk factors such as proxy voting and influencing the behavior of corporate leadership. Conscientious development and thoughtful implementation of the RI Policy will ensure that LACERS capital will be invested and managed in a responsible manner that meets the Board's fiduciary obligations.

A. Definitions

Environmental, Social, and Governance (ESG) – refers to three broad categories of ~~non-financial~~ risk factors that measure the sustainability and societal impact of an investment. Please refer to Section H~~G~~ Scope for examples.

Responsible Investment (RI) – is the strategy and practice to incorporate material risk and return ESG factors in investment decisions and active ownership.

Principles for Responsible Investment (PRI) - a signatory membership organization comprised of global investors who have committed to understanding the investment implications of ESG factors and incorporating these factors into their investment decisions.

Sustainability – is the balance between the environment, equity, and economy. The United Nations World Commission on Environment and Development defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

ESG Integration – is the process of assessing the effect of ESG factors on investment risks and returns throughout the investment life-cycle and across all asset classes.

B. LACERS and Board's Commitment to Responsible Investing

LACERS and the Board are committed to integrating ESG risk factors into its management of the System in a manner that is consistent with the Board and Staff's fiduciary responsibilities to act in the best interest of the members, retirees, and beneficiaries of the System. This is consistent with LACERS' role as a prudent, long-term, responsible investor.

LACERS has long recognized the importance of addressing ESG risks in order to protect and enhance investment returns of the portfolio. Since the mid-1980s, LACERS has adopted several

policies to address ESG risks[1]; engaged with both listed and privately-held companies, its own investment managers, regulatory bodies, and membership organizations to improve ESG-related practices; and collaborated with like-minded institutional investors to better understand and mitigate ESG risks.

LACERS ushered in a new era in its understanding and importance of ESG when it applied to the PRI for signatory status on June 25, 2019, and was later granted signatory status on September 3, 2019. Signatories to PRI make this commitment:

> "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

Consistent with~~It is through~~ the PRI framework that LACERS bases its own ESG practices and process in order to become a more responsible investor that, in ~~first,~~ meetings~~s~~ its fiduciary responsibilities to its members and beneficiaries, is cognizant of how societal impact of its investment decisions can likewise affect investment returns. ~~and then attempts to be sensitive to investment decisions that may have a broader impact on society.~~

C. Goals~~E.~~ Purpose

The Goals of the RI Program are:

1) That the Board of Administration fulfills its fiduciary obligations as provided by California State Constitution, Section 1106 of the City Charter, and LACERS Policies;
2) Consider material ESG risk and return factors in order to achieve superior risk-adjusted returns;
3) Explore and consider sustainable investment initiatives that align with LACERS' fiduciary dut~~y~~ies and the RI Policy;
4) Collaborate with like-minded organizations and entities that are progressing towards responsible investing through multiple investment approaches;
5) Provide periodic progress reports to the Board.

D. Responsible Investment Framework

The RI Program serves to fulfill the goals and objectives set forth in the RI Policy and~~. The RI Program~~ is governed by ~~this Policy and~~ Board-approved program documents, to include: ~~but not limited to:~~

1) ~~The~~ Responsible Investment Policy

The RI Policy formalizes LACERS' ESG policies and procedures to ensure that LACERS follows the direction set forth by the Board through the ESG Risk Framework, Proxy Voting Policy, Emerging Investment Manager Policy, and other subsequent Board policies and directives that may be incorporated into the RI Policy. This Policy will provide program

[1] Policies include the Geopolitical Risk Policy (which will be superseded by this Responsible Investment Policy), Proxy Voting Policy, and Emerging Investment Manager Policy.

guidance on integrating material ESG factor considerations within LACERS' Investment Program.

2) Proxy Voting Policy

LACERS' Proxy Voting Policy supports sound corporate governance practices by aligning the interests of shareholders and corporations to build long-term sustainable growth in shareholder value. This policy provides LACERS' position and rationale for shareholder votes regarding corporate topics and issues to include (but not limited to) environmental and social issues, board of directors, election of the audit committee and appointment of external auditors, compensation of executives, shareholder rights and takeover defenses, capital structure, and corporate restructuring.

Proxy votes are cast by a proxy voting agent with the voting results monitored by staff and reported to the Board annually. Investment staff relies on research expertise and voting recommendations of its proxy voting agent when LACERS' Proxy Voting Policy is either silent or not directly applicable to the issue as stated on the proxy ballot.

3) Emerging Investment Manager Policy

The objective of LACERS Emerging Manager Policy is to identify investment firms with the potential to add value to the LACERS' investment portfolio that otherwise would not be identified by LACERS standard investment manager search and selection process. The Board believes that smaller investment organizations may generate superior returns because of the increased market flexibility associated with smaller asset bases.

4) PRI Action Plan

To ensure that LACERS continues to advance, progress, and continually develop its RI Program, an operational PRI Action Plan ("Plan") developed by staff was approved by the Board on November 12, 2019, with subsequent amendments. The Plan outlines initiatives and recurring activities that LACERS may pursue over a near-term horizon of approximately four years. The Plan is divided among broad functional categories: 1) policy; 2) operational; 3) research; and 4) collaboration and promotion. The Plan does not contain an exhaustive list of ESG initiatives that LACERS could pursue, but a feasible set of initiatives and actions that will allow LACERS to maintain a commitment to PRI and ultimately its ardent support of ESG. The Plan is updated and reviewed by the Board on an annual basis.

5) ESG Risk Framework

The Framework is a dynamic document, subject to changes based on economic outlook, market assumptions, and the Board's sensitivity and prioritization of material ESG issues. As LACERS continues to integrate and assess material and relevant ESG factors through this critical risk lens, staff will continue to adopt best practices and recommend to the Board appropriate Framework adjustments to keep its Investment Program and ESG initiatives focused squarely on the best interests of LACERS members and beneficiaries.

E~~C~~. Responsible Parties and Roles

The roles and responsibilities surrounding the RI Policy are defined by the Board; several of those responsibilities are delegated to staff (including staff of the City Attorney's Office), consultants and advisers, and investment managers to ensure a cost-efficient and effective implementation, as outlined in the matrix below.

Responsible Parties and Roles			
Board	**Staff**	**Consultants**	**Investment Managers**
- Governance - Policy Setting - Oversight	- Due Diligence - Engagement - Implementation and Compliance - Policy Recommendations - Legal Guidance and Opinions via City Attorney's Office	- Provide ESG education to the Board and Staff~~.~~ - Furnish research reports, customized reports, and other tools to understand current trends in ESG - Advise on Policy Matters	- Implement ESG directives and actions - Interpret and assess ESG risks and its impact on LACERS portfolio~~.~~ - Inform LACERS staff of any material ESG issues - Report ESG activities to LACERS to meet PRI Reporting requirements

F~~D~~. Legal Framework

1. Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members and beneficiaries~~come first,~~ takes precedence over ~~before~~ any other duty.

The System is sensitive to concerns that ESG and other risk factors may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Investments shall not be selected or rejected based solely on ESG or other risk factors. However, consideration of material

ESG risk factors alongside traditional financial factors should ~~therefore~~ provide a better understanding of the risk and return characteristics of sustainable investments. Sustainable returns over long periods of time are in the economic interest of the System. Importantly, the System's ownership of securities in a corporation does not signify approval of any or all of a company's policies, products, or actions.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles and Article XVI, Section 17 of the California Constitution for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the required purpose of the System, as mandated by the City Charter:

"(1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; (2) to minimize City contributions; and (3) to defray the reasonable expenses of administering the system."[2]

The Board's "duty to system participants and their beneficiaries shall take precedence over any other duty."[3] In furtherance of this purpose, the Board shall have "sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for the exclusive purposes of: (1) providing benefits to system participants and their beneficiaries; and (2) defraying the reasonable expenses of administering the system."[4]

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, the primary consideration of the Board has been its implementation of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

2. Performance Priority

LACERS has a fiduciary duty to act in the best long-term interests of the System's beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that ESG issues may affect the performance of the investment portfolio. Through the years, the Board has adopted various policies to address ESG risks, with an emphasis on social and governance issues.

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[2] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[3] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[4] L.A. Charter § 1106(b); Cal. Const. Art. XVI, §17(a).

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

The System's general investment goals are broad in nature. The following goals are adopted to be consistent with the above described purpose, the City Charter, the State Constitution, and applicable federal law:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.[5]

D. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article XVI, Section 17 of the California State Constitution.

E. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

F. The System has a long-term investment horizon and uses an asset allocation, which 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.

G. Investment actions are expected to comply with "prudent person" standard, with all duties discharged:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." [6]

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[5] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

[6] L.A. Charter § 1106(c); Cal. Const. Art. XVI, §17(c); ERISA § 404(a)(1)(B).

This "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

H. The System is required to "[d]iversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.[7]

3. Impact Priorities

In conjunction with~~addition to~~ LACERS' fiduciary responsibilitiesy~~y~~, Staff will also take into consideration the materiality of the ESG risk in LACERS' investment. The Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's ESG risk factors on investment returns.

~~**E. Purpose**~~

~~The Goals of the RI Program are~~

~~1) That the Board of Administration fulfills its fiduciary obligations as provided by California State Constitution, Section 1106 of the City Charter, and LACERS Policies;~~

~~2)~~1) ~~Consider material ESG risk and return factors in order to achieve superior risk-adjusted returns;~~

~~3)~~1) ~~Explore and consider sustainable investment initiatives that align with LACERS' fiduciary duty and the RI Policy;~~

~~4)~~1) ~~Collaborate with like-minded organizations and entities that are progressing towards responsible investing through multiple investment approaches;~~

~~5)~~1) ~~Provide periodic progress reports to the Board.~~

[7] L.A. Charter § 1106(d); Cal. Const. Art. XVI, §17(d).

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

~~The RI Program serves to fulfill the goals and objectives set forth in the RI Policy. The RI Program is governed by this Policy and Board-approved program documents, to include but not limited to:~~

~~1) The RI Policy~~

~~The RI Policy formalizes LACERS' ESG policies and procedures to ensure that LACERS follows the direction set forth by the Board through the ESG Risk Framework, Proxy Voting Policy, Emerging Investment Manager Policy, and other subsequent Board policies and directives that may be incorporated into the RI Policy. This Policy will provide program guidance on integrating material ESG factor considerations within LACERS' Investment Program.~~

~~2) Proxy Voting Policy~~

~~LACERS' Proxy Voting Policy supports sound corporate governance practices by aligning the interests of shareholders and corporations to build long-term sustainable growth in shareholder value. This policy provides LACERS' position and rationale for shareholder votes regarding corporate topics and issues to include (but not limited to) environmental and social issues, board of directors, election of the audit committee and appointment of external auditors, compensation of executives, shareholder rights and takeover defenses, capital structure, and corporate restructuring.~~

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~~5) ESG Risk Framework~~

~~The Framework is a dynamic document, subject to changes based on economic outlook, market assumptions, and the Board's sensitivity and prioritization of material ESG issues. As LACERS continues to integrate and assess material and relevant ESG factors through this critical risk lens, staff will continue to adopt best practices and recommend to the Board appropriate Framework adjustments to keep its Investment Program and ESG initiatives focused squarely on the best interests of LACERS members and beneficiaries.~~

G~~F~~. Responsible Investment Mobilization Framework

Consistent with its fiduciary responsibilities, LACERS supports ESG within an implementation framework based on the Six Principles of PRI outlined below with examples of how LACERS supports these Principles:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- Staff will seek to incorporate relevant and material ESG considerations into LACERS' investment due diligence, decision-making, and monitoring processes for all of its external managers. Investment recommendations consider the manager's ESG policies and practices, focusing on the risks, opportunities, and standards relevant to the investment under consideration. LACERS' Investment Consultants will be directed to include relevant ESG commentaries in their independent diligence documentation.

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- LACERS' RI Policy is updated annually or more frequently as needed~~periodically~~ to consider new ESG issues and evolving risk factors.

- LACERS' PRI Action Plan, which is a living document, outlines proposed multi-year actions for each of the Six Principles, and is updated annually.

- LACERS' Emerging Investment Manager Policy supports emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk.

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- Staff will participate in the development of ESG and ESG-related policies, standard setting (such as promoting and protecting shareholder rights), file shareholder resolutions consistent with long-term ESG considerations, engage with companies on ESG issues, either through intervention with investment managers or directly to the company, and participate in collaborative engagement initiatives such as securities litigation.

- LACERS will advocate ESG training for the Board and staff as well as attend ESG-related conferences.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Staff and/or Consultants will consider standardized questionnaires to Investment Managers for ESG disclosures.

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- Individually and in collaboration with other investors and thought-leadership organizations, LACERS will promote acceptance and implementation of ESG best practices within the investment industry.

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Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Staff will keep abreast of PRI Reporting changes and provide (at a minimum) an annual staff report to the Board and submit recommendations for Board consideration to improve its implementation of ESG actions.

- LACERS will support and participate in networks and information platforms to share tools, pool resources, make use of investor reporting as a source of learning, and develop or support appropriate collaborative initiatives.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

- As part of its commitment to the PRI, LACERS shall report its progress in implementing the PRI's Six Principles through both the PRI Annual Report and LACERS annual PRI Action Plan Report to the Board.

- LACERS shall continue to foster open communication with LACERS members by responding to the Freedom of Information Act (FOIA) and California Public Records Act (CPRA) Requests.

H~~G~~. Scope

The scope of the RI Policy encompasses the entire investment portfolio to the extent it is prudent and practicable. The broad and specific ESG Risk Factors provided in the table below are examples and additional risk factors may not have been specifically listed below. The risk factors may have varying degrees of risk impact and unique risk mitigation measures depending on the asset class or investment strategy type. In addition, specific ESG risk factors are dynamic and may be impactful to more than one broad ESG risk factor. ~~be applied to asset classes differently in materiality or magnitude, depending on the sensitivity of the asset and the feasibility of implementation.~~

Broad and Specific ESG Risk Factors ~~ESG risk factors include, but are not limited to, the following:~~

Environmental • Climate Change • Resource Depletion • Waste • Pollution • Deforestation
Social • Human Rights • Modern Slavery • Child Labor • Working Conditions • Employee Relations • Diversity, Equity, and Inclusion • Gender and Sexual Orientation Pay Equality • Discrimination based on Race, Gender including Women, Age including Senior Citizens and Children, Sex, Sexual Orientation, LGBTQIA+, Disability, Veterans Status, Language, or Social Status • Freedom of Speech and Press

• Right to Civil Liberties including Speech and Press, Peaceful Assembly and Association, Freedom of Religion, National Origin /Racial/Ethnic Minorities, Freedom of Movement within a Country, Foreign Travel, Emigration, and Repatriation • Freedom of Civil Unions/Same Sex Marriage
Governance • Bribery and Corruption • Executive Pay • Board Diversity and Structure • Political Lobbying and Donations • Tax Strategy • Right of Citizens to Change their Government

I~~H~~. Identifying and Mitigating Material ESG Risks within the Portfolio

LACERS Staff will research and keep the Board apprised of material and relevant ESG issues, initiatives, and collaboration opportunities, and take into account actions of other like prudent investors using the process outlined below:

1. Once ESG risks factors of material significance within the portfolio have been identified ~~by Staff~~ and discussed with the ESG Consultant, s~~S~~taff will bring such risks to the attention of the Board.

2. LACERS Board may decide at any point after considering research and staff findings that further action of various degrees of magnitude and impact may be appropriate and necessary to mitigate risk factors. This Policy identifies four distinct action levels that may be implemented, subject to Board direction:

Action Level	Possible Action(s) to include but not limited to:	Responsible Parties	Estimated Risk to Plan Assets
1	*Relationship Initiatives:* Collaboration with other Agencies Engagement/Advocacy Letters Joint-Agency Endorsements Company Presentations to LACERS Board Disassociation with Misaligned Organizations Outreach/Association with Emerging Managers Discussion at Advisory Board Meetings or Annual Meetings of Private Market Funds	Staff Consultants Industry Organizations Agencies	**None** Level 1 actions do not include any portfolio restructurings resulting in virtually no discernable adverse risks to portfolio valuations.
2	*Policy Implications/Contractual:* Proxy Voting Amendments	Staff Consultant(s)	**None to Medium**

	Investment Manager Guidelines Investment Policy Amendments Contract Side Letter Provisions	Investment Managers Proxy Voting Agent City Attorney	Level 2 actions do not include significant portfolio restructurings but may have an indirect impact ~~or minor influence~~ on portfolio management, investment valuations, or investment manager relationships.
3	*Strategic Investment Approaches:* ESG-Sensitive Strategies Climate-related Investment Strategies Socially Responsible Investment Strategies Corporate Governance Investment Strategies ~~Exclusionary Strategies (e.g., certain industries)~~	Staff Consultant(s) Investment Mangers	**Low to Medium** Level 3 actions may have a direct impact on individual portfolios due to removal, substitution, or addition of mandates. Such actions may impact performance; implementation risk and costs; fee structure ~~impact~~; tracking error; create opportunity costs.
4	*Restructure:* Security / Security Divestment Sale of Partnership Interests Portfolio Restructure Termination of Investment Managers ~~Active/Passive Investment Management Shifts~~	Staff Consultant(s) Investment Managers Transition Managers Bank Custodian	**Medium to High** Level 4 actions may lead to immediate and significant realized losses due to market illiquidity; tracking error; transition management risk; timing and implementation risks; create opportunity costs; sub-optimal asset allocation structure misaligned with approved Asset Allocation Policy.

3. The Board will consider such investment actions only to the extent they are consistent with the Board's fiduciary duties.

~~3.~~4. Staff will implement Board investment actions in an orderly, cost- efficient, and risk-mitigating manner.

~~4.~~5. Staff will provide the Board with periodic verbal updates or formal written reports on investment action status.

~~5.~~6. Staff will communicate Board decisions to the System's active public investment managers to adhere to the Board's actions going forward and work with its bank custodian to assist with further monitoring of ESG risk factors. If consistent with existing contractual agreements and appropriate to the investment mandate, such Board decisions will be communicated to appropriate private market investment managers.

~~6.~~7. The Board may wish to pursue other options to mitigate ESG risk factors and/or enhance the Investment Program through long-term ESG investment approaches.

J~~I~~. Engagement Campaigns

Engagement with other like-minded organizations helps LACERS leverage its beliefs and promotion of ESG principles for the benefit of its beneficiaries. As LACERS becomes aware of engagement opportunities via letter campaigns (Campaigns), s~~S~~taff will bring the most impactful Campaign requests to the Board for review and consideration. Campaigns may request several actions including LACERS placing its name on the Campaign sponsor's master letter or request that LACERS send an independent letter to the targeted organization. If a Campaign deadline does not permit adequate time to bring the letter request to the Board for consideration, the Board delegates specific authority to the General Manager (GM),~~ and~~ the Chief Investment Officer (CIO), and the LACERS Board President to support and endorse a Campaign. If the GM,~~ and~~ CIO, and Board President reach consensus to support a Campaign, the ~~GM will notify the Board President as soon as practicable and the~~ CIO shall report the action to the Board at its next meeting. If the GM,~~ and~~ CIO, and Board President do not reach a consensus on a Campaign, LACERS will take no action.

K~~J~~. ESG Education

To stay apprised of ESG-related matters, LACERS will leverage research and education provided by industry organizations, investment managers, investment consultants, membership organizations, and peer plans. LACERS will actively participate at ESG conferences to understand better the evolving ESG landscape. Additionally, LACERS will participate in industry working groups to explore and research ESG issues to include (but not limited to) diversity, equity, and inclusion within the investment industry and the impact of regulatory reform on corporate governance and shareholders.

Staff, in conjunction with LACERS' ESG Consultant and investment managers, will invite leaders in ESG to provide further education to the Board including latest trends, regulations, issues, and best practices.

L~~K~~. Scope of Reporting

To monitor the implementation of LACERS RI Program and ensure that it continues to develop and evolve, this policy~~e following reports~~ will be provided to the Board or the appropriate Committee for review on an annual basis or more frequently as needed~~.~~

1) PRI Progress Board Report – LACERS is required to complete the annual PRI Questionnaire about LACERS portfolio and ESG efforts. Once results of the Questionnaire are provided to LACERS, the Board will be provided a summary of the findings.

2) PRI Action Plan – The Plan will be reviewed with the Board once a year to ensure that LACERS is meeting its ESG goals.

3) ESG Risk Framework – Staff will monitor the status of initiatives and on-going actions against time-bound objectives. These initiatives and actions will be incorporated into the PRI Action Plan. The Framework will be reviewed in conjunction with the PRI Action Plan review.

4) Proxy Voting Report – The Annual Proxy Voting Report contains an account of LACERS voting history and is provided annually to the Investment Committee.

5) Emerging Investment Manager Report – The Annual Emerging Investment Manager Report contains program information specific to LACERS Emerging Managers, and includes capital exposure statistics, investment manager performance, and staff and consultant meetings and other encounters with Emerging Managers. In addition to the aforementioned, an Organizational Diversity Survey (ODS) is completed by prospective and contracted investment managers of LACERS that captures workforce, board, and ownership diversity. The Emerging Investment Manager Report is provided annually to the Investment Committee; the ODS is managed pursuant to the Emerging Investment Manager Policy.

Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

XIII. GEOPOLITICAL RISK INVESTMENT POLICY

A. **Introduction**

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

B. **LACERS Board's Fiduciary Responsibilities**

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members come first, before any other duty.

The System is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Importantly, the System's ownership of securities in a corporation does not signify approval of all of a company's policies, products, or actions.

Investments shall not be selected or rejected based solely on geopolitical risk factors. Accordingly, a company's possible risky geopolitical conduct can only be taken into consideration if the conduct is deemed to demonstrate a negative effect on the investment performance of the company, and ultimately the System.

C. **Process for Identifying and Mitigating Corporate Governance Geopolitical Risks to the LACERS Portfolio**

1. The LACERS Staff will keep the Board apprised of geopolitical problems and issues, and take into account actions of other like prudent investors.
2. Once identified, the Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's Geopolitical Risk Factors on investment returns.
3. The Board will direct the Staff to solicit feedback from the investment managers holding the security exposed to geopolitical risk as well as conduct independent study to research the impact of the risk.

4. Upon the Board determination of a company's behavior presenting a potential investment loss to the System, the Board shall promptly direct the Staff to seek a change in the company's behavior.
5. Staff will engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.
6. After all reasonable efforts have been made to engage management constructively, the Board may determine whether it is prudent to hold such investments or whether it is prudent to sell such investments.
7. At such time, the System will work with the investment manager whose portfolio holds the investment, consultant(s) and fiduciary counsel to determine a prudent course of action.
8. Should the Board decide to take action to divest, Staff will communicate the decision to all of the System's investment managers to adhere to the Board's actions going forward.

D. **Geopolitical Risk Factors**

Respect for Human Rights • Judicial System • Arbitrary or Unlawful Deprivation of Life • Disappearance • Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment • Arbitrary Arrest, Detention, or Exile • Arbitrary Interference with Privacy, Family, Home, or Correspondence • Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts • Governmental Attitude Regarding International and Non-Governmental Investigation of Alleged Violations of Human Rights
Respect for Civil Liberties • Freedom of Speech and Press • Freedom of Peaceful Assembly and Association • Freedom of Religion • Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation • Civil Unions/Same Sex Marriage
Respect for Political Rights • The Right of Citizens to Change Their Government
Discrimination Based on Race, Sex, Sexual Orientation, Disability, Language, or Social Status • Women/Gender • Children • Persons With Disabilities • National/Racial/Ethnic Minorities • Indigenous People

Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

• Gender Identity • Age Discrimination
Worker Rights • The Right of Association • The Right to Organize and Bargain Collectively • Prohibition of Forced or Bonded Labor • Status of Child Labor Practices and Minimum Age for Employment • Acceptable Conditions of Work • Trafficking in Persons
Environmental • Air Quality • Water Quality • Climate Change • Land Protection
War/Conflicts/Acts of Terrorism • Internal/External Conflict • War • Acts of Terrorism • Party to International Conventions and Protocols

Section 9 PROXY VOTING POLICY

9. ISSUES NOT ADDRESSED BY POLICY

For proxy issues not addressed by this policy that are market specific, operational or administrative in nature, and likely non-substantive in terms of impact, LACERS gives ISS discretion to vote these items.

Substantive issues not covered by this policy and which may potentially have a significant economic impact for LACERS shall be handled accordingly:

1) ISS shall alert investment staff of substantive proxy issue not covered by policy as soon as practicable;
2) Investment staff and/or the General Manager shall determine whether the item requires Governance Committee (“Committee”) and/or Board of Administration (“Board”) consideration;
3) If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
4) If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
5) If time constraints prevent a formal gathering of the Committee and Board, then LACERS Board approved Corporate Governance Actions Protocol, as reprinted below, shall apply and staff will then have the issue voted accordingly.

CORPORATE GOVERNANCE ACTIONS POLICY
Board Adopted December 2008

From time to time LACERS receives requests from other pension funds or from affiliated organizations for support of various corporate governance actions. Many of the actions requested, such as requests to sign action letters, would otherwise appear to be consistent with existing Board policy. However, occasionally there is not adequate time to convene a Committee or Board meeting in advance to consider the matter.

The proposed Corporate Governance Actions Policy requires that one staff member plus one Board member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy. If both agree, the measure will be executed by the General Manager or authorized designee.

The designated staff person will be the Chief Investment Officer (CIO). The designated Board member will be the Chair of the Governance Committee. In the absence of the CIO, the General Manager will become the designated staff member. In the absence of the Chair of the Governance Committee, the Board Chair will become the designated Board member.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: NOVEMBER 9, 2021**
From: Neil M. Guglielmo, General Manager **ITEM: ITEM VIII-E**

SUBJECT: **RESPONSIBLE INVESTMENT POLICY AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board consider and adopt the proposed Responsible Investment (RI) Policy.

Executive Summary

As a signatory of the Principles for Responsible Investment (PRI), LACERS has committed to incorporating environmental, social, and governance (ESG) risk factors into investment decisions and the investment process. Pursuant to LACERS' PRI signatory status, PRI Action Plan, and ESG Risk Framework, staff has developed a draft RI Policy to serve as the master policy framework for LACERS' ESG program.

Discussion

Responsible investing incorporates ESG risk factors into investment decisions and the investment process to better manage risks and generate sustainable, long-term outperformance. On April 9, 2019, the Board of Administration approved becoming a signatory of the PRI. LACERS officially became a PRI signatory on September 3, 2019.

As a signatory, LACERS has agreed to consider ESG risk factors by abiding to the six voluntary and aspirational PRI Principles, to the extent that such actions are consistent with the Board's fiduciary responsibilities. Specifically, LACERS has committed to incorporating ESG factors into investment analysis and decision-making, engaging with other asset owners, seeking more transparent disclosure of ESG risks, reporting on LACERS' ESG program activities, and collaborating with other like-minded investors to promote ESG risk factors within the investment industry.

Consistent with LACERS' PRI signatory status, PRI Action Plan, and ESG Risk Framework, staff has drafted a proposed RI Policy (Attachment 1), which would serve as LACERS' master policy framework for LACERS' ESG program. The RI Policy addresses the following topics:

- LACERS and the Board's commitment to integrating ESG risk factors in a manner consistent with fiduciary responsibilities

- Roles and responsibilities of the Board, staff, consultants, and other parties
- Implementation of the six Principles of PRI
- Process for identifying and mitigating material ESG risks within the investment portfolio
- Reporting requirements

Staff conducted extensive research to develop this policy, including review of 11 ESG policies and review of ESG strategy documents of seven ESG-focused cities across North America. Staff also conducted meetings with other pension plans with ESG programs. In addition, NEPC, LLC, LACERS' ESG Consultant, reviewed the draft policy and provided valuable feedback, which has been incorporated into the attached policy.

Should the Board adopt the RI Policy, it would supersede the existing Geopolitical Risk Policy (Attachment 2) and Corporate Governance Action Protocol (Attachment 3). The goals and objectives of these two policies have been integrated into the RI Policy as sections G, H, and I (pages 9 to 12 of Attachment 1). Further, the language of these policies has been modified in the RI Policy to more effectively meet the objectives of LACERS' ESG program.

Upon the Board's adoption of the RI Policy, staff may make additional minor administrative edits to be incorporated in the revised version of the LACERS Investment Policy.

Strategic Plan Impact Statement

Adopting the LACERS RI Policy will assist LACERS with optimizing long-term risk adjusted investment returns (Goal IV); upholding good governance practices which affirm transparency, accountability and fiduciary duty (Goal V); and maximizing organizational effectiveness and efficiency (Goal VI).

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

NMG/RJ/BF/EC:rm

Attachments:
1. Responsible Investment Policy
2. Geopolitical Risk Policy
3. Corporate Governance Action Protocol

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

VII. RESPONSIBLE INVESTMENT (RI) POLICY

The Responsible Investment Policy is LACERS' master policy framework that addresses Environmental, Social, and Governance (ESG) issues without compromising fiduciary standards. The primary purpose of this policy is to mitigate various forms of ESG risk and to identify strategic paths and actions that can add long-term value to LACERS investments. Given the broad nature of ESG issues, the RI Policy also makes references to other existing LACERS policies and documents that specifically address environmental risk factors such as climate transition and renewable energy; social risk factors such as human rights and employment conditions; and governance risk factors such as proxy voting and influencing the behavior of corporate leadership. Conscientious development and thoughtful implementation of the RI Policy will ensure that LACERS capital will be invested and managed in a responsible manner that meets the Board's fiduciary obligations.

A. Definitions

Environmental, Social, and Governance (ESG) – refers to three broad categories of non-financial risk factors that measure the sustainability and societal impact of an investment. Please refer to Section G Scope for examples.

Responsible Investment (RI) – is the strategy and practice to incorporate material risk and return ESG factors in investment decisions and active ownership.

Principles for Responsible Investment (PRI) - a signatory membership organization comprised of global investors who have committed to understanding the investment implications of ESG factors and incorporating these factors into their investment decisions.

Sustainability – is the balance between the environment, equity, and economy. The United Nations World Commission on Environment and Development defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

ESG Integration – is the process of assessing the effect of ESG factors on investment risks and returns throughout the investment life-cycle and across all asset classes.

B. LACERS and Board's Commitment to Responsible Investing

LACERS and the Board are committed to integrating ESG risk factors into its management of the System in a manner that is consistent with the Board and Staff's fiduciary responsibilities to act in the best interest of the members, retirees, and beneficiaries of the System. This is consistent with LACERS' role as a prudent, long-term, responsible investor.

LACERS has long recognized the importance of addressing ESG risks in order to protect and enhance investment returns of the portfolio. Since the mid-1980s, LACERS has adopted several

policies to address ESG risks[1]; engaged with both listed and privately-held companies, its own investment managers, regulatory bodies, and membership organizations to improve ESG-related practices; and collaborated with like-minded institutional investors to better understand and mitigate ESG risks.

LACERS ushered in a new era in its understanding and importance of ESG when it applied to the PRI for signatory status on June 25, 2019, and was later granted signatory status on September 3, 2019. Signatories to PRI make this commitment:

> "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

It is through the PRI framework that LACERS bases its own ESG practices and process in order to become a more responsible investor that, first, meets its fiduciary responsibilities to its members and beneficiaries, and then attempts to be sensitive to investment decisions that may have a broader impact on society.

C. Responsible Parties and Roles

The roles and responsibilities surrounding the RI Policy are defined by the Board; several of those responsibilities are delegated to staff (including staff of the City Attorney's Office), consultants and advisers, and investment managers to ensure a cost-efficient and effective implementation, as outlined in the matrix below.

Responsible Parties and Roles			
Board	**Staff**	**Consultants**	**Investment Managers**
- Governance - Policy Setting - Oversight	- Due Diligence - Engagement - Implementation and Compliance - Policy Recommendations - Legal Guidance and Opinions via City Attorney's Office	- Provide ESG education to the Board and Staff. - Furnish research reports, customized reports, and other tools to understand current trends in ESG - Advise on Policy Matters	- Implement ESG directives and actions - Interpret and assess ESG risks and its impact on LACERS portfolio. - Inform LACERS staff of any material ESG issues - Report ESG activities to LACERS to meet PRI Reporting requirements

1 Policies include the Geopolitical Risk Policy (which will be superseded by this Responsible Investment Policy), Proxy Voting Policy, and Emerging Investment Manager Policy.

D. Legal Framework

1. Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members come first, before any other duty.

The System is sensitive to concerns that ESG and other risk factors may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Investments shall not be selected or rejected based solely on ESG or other risk factors. However, consideration of material ESG risk factors alongside traditional financial factors should therefore provide a better understanding of the risk and return characteristics of sustainable investments. Sustainable returns over long periods of time are in the economic interest of the System. Importantly, the System's ownership of securities in a corporation does not signify approval of any or all of a company's policies, products, or actions.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles and Article XVI, Section 17 of the California Constitution for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the required purpose of the System, as mandated by the City Charter:

"(1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; (2) to minimize City contributions; and (3) to defray the reasonable expenses of administering the system."[2]

The Board's "duty to system participants and their beneficiaries shall take precedence over any other duty."[3] In furtherance of this purpose, the Board shall have "sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for

[2] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[3] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

the exclusive purposes of: (1) providing benefits to system participants and their beneficiaries; and (2) defraying the reasonable expenses of administering the system."[4]

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, the primary consideration of the Board has been its implementation of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

2. Performance Priority

LACERS has a fiduciary duty to act in the best long-term interests of the System's beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that ESG issues may affect the performance of the investment portfolio. Through the years, the Board has adopted various policies to address ESG risks, with an emphasis on social and governance issues.

The System's general investment goals are broad in nature. The following goals are adopted to be consistent with the above described purpose, the City Charter, the State Constitution, and applicable federal law:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.[5]

D. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR").

[4] L.A. Charter § 1106(b); Cal. Const. Art. XVI, §17(a).

[5] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article XVI, Section 17 of the California State Constitution.

E. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

F. The System has a long-term investment horizon and uses an asset allocation, which 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.

G. Investment actions are expected to comply with "prudent person" standard, with all duties discharged:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." [6]

This "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

H. The System is required to "[d]iversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.[7]

[6] L.A. Charter § 1106(c); Cal. Const. Art. XVI, §17(c); ERISA § 404(a)(1)(B).
[7] L.A. Charter § 1106(d); Cal. Const. Art. XVI, §17(d).

3. Impact Priorities

In addition to LACERS' fiduciary responsibility, Staff will also take into consideration the materiality of the ESG risk in LACERS' investment. The Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's ESG risk factors on investment returns.

E. Purpose

The Goals of the RI Program are

1) That the Board of Administration fulfills its fiduciary obligations as provided by California State Constitution, Section 1106 of the City Charter, and LACERS Policies;
2) Consider material ESG risk and return factors in order to achieve superior risk-adjusted returns;
3) Explore and consider sustainable investment initiatives that align with LACERS' fiduciary duty and the RI Policy;
4) Collaborate with like-minded organizations and entities that are progressing towards responsible investing through multiple investment approaches;
5) Provide periodic progress reports to the Board.

The RI Program serves to fulfill the goals and objectives set forth in the RI Policy. The RI Program is governed by this Policy and Board-approved program documents, to include but not limited to:

1) The RI Policy

The RI Policy formalizes LACERS' ESG policies and procedures to ensure that LACERS follows the direction set forth by the Board through the ESG Risk Framework, Proxy Voting Policy, Emerging Investment Manager Policy, and other subsequent Board policies and directives that may be incorporated into the RI Policy. This Policy will provide program guidance on integrating material ESG factor considerations within LACERS' Investment Program.

2) Proxy Voting Policy

LACERS' Proxy Voting Policy supports sound corporate governance practices by aligning the interests of shareholders and corporations to build long-term sustainable growth in shareholder value. This policy provides LACERS' position and rationale for shareholder votes regarding corporate topics and issues to include (but not limited to) environmental and social issues, board of directors, election of the audit committee and appointment of external auditors, compensation of executives, shareholder rights and takeover defenses, capital structure, and corporate restructuring.

Proxy votes are cast by a proxy voting agent with the voting results monitored by staff and reported to the Board annually. Investment staff relies on research expertise and voting recommendations of its proxy voting agent when LACERS' Proxy Voting Policy is either silent or not directly applicable to the issue as stated on the proxy ballot.

3) Emerging Investment Manager Policy

The objective of LACERS Emerging Manager Policy is to identify investment firms with the potential to add value to the LACERS' investment portfolio that otherwise would not be identified by LACERS standard investment manager search and selection process. The Board believes that smaller investment organizations may generate superior returns because of the increased market flexibility associated with smaller asset bases.

4) PRI Action Plan

To ensure that LACERS continues to advance, progress, and continually develop its RI Program, an operational PRI Action Plan ("Plan") developed by staff was approved by the Board on November 12, 2019, with subsequent amendments. The Plan outlines initiatives and recurring activities that LACERS may pursue over a near-term horizon of approximately four years. The Plan is divided among broad functional categories: 1) policy; 2) operational; 3) research; and 4) collaboration and promotion. The Plan does not contain an exhaustive list of ESG initiatives that LACERS could pursue, but a feasible set of initiatives and actions that will allow LACERS to maintain a commitment to PRI and ultimately its ardent support of ESG. The Plan is updated and reviewed by the Board on an annual basis.

5) ESG Risk Framework

The Framework is a dynamic document, subject to changes based on economic outlook, market assumptions, and the Board's sensitivity and prioritization of material ESG issues. As LACERS continues to integrate and assess material and relevant ESG factors through this critical risk lens, staff will continue to adopt best practices and recommend to the Board appropriate Framework adjustments to keep its Investment Program and ESG initiatives focused squarely on the best interests of LACERS members and beneficiaries.

F. Responsible Investment Mobilization Framework

Consistent with fiduciary responsibilities, LACERS supports ESG within an implementation framework based on the Six Principles of PRI outlined below with examples of how LACERS supports these Principles:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- Staff will seek to incorporate relevant and material ESG considerations into LACERS' investment due diligence, decision-making, and monitoring processes for all of its external managers. Investment recommendations consider the manager's ESG policies and practices, focusing on the risks, opportunities, and standards relevant to the investment under consideration. LACERS' Investment Consultants will be directed to include relevant ESG commentaries in their independent diligence documentation.

- LACERS will support development of ESG-related tools, metrics, and analyses; investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) are encouraged to integrate ESG factors into evolving research and analysis.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices

- LACERS' RI Policy is updated periodically to consider new ESG issues and evolving risk factors.

- LACERS' PRI Action Plan, which is a living document, outlines proposed multi-year actions for each of the Six Principles, and is updated annually.

- LACERS' Emerging Investment Manager Policy supports emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk.

- LACERS' Proxy Voting Policy provides proxy voting guidance on ESG risks and is updated annually.

- Staff will participate in the development of ESG and ESG-related policies, standard setting (such as promoting and protecting shareholder rights), file shareholder resolutions consistent with long-term ESG considerations, engage with companies on ESG issues, either through intervention with investment managers or directly to the company, and participate in collaborative engagement initiatives such as securities litigation.

- LACERS will advocate ESG training for the Board and staff as well as attend ESG-related conferences.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Staff and/or Consultants will consider standardized questionnaires to Investment Managers for ESG disclosures.

- LACERS will support shareholder initiatives and resolutions promoting ESG disclosure.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

- Individually and in collaboration with other investors and thought-leadership organizations, LACERS will promote acceptance and implementation of ESG best practices within the investment industry.

- LACERS' division letterhead and website will highlight LACERS PRI Signatory Status. LACERS may provide press releases, include principles-related requirements in requests for proposals (RFPs), and sit on ESG conference panels to reflect LACERS' promotion and acceptance of ESG.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Staff will keep abreast of PRI Reporting changes and provide (at a minimum) an annual staff report to the Board and submit recommendations for Board consideration to improve its implementation of ESG actions.

- LACERS will support and participate in networks and information platforms to share tools, pool resources, make use of investor reporting as a source of learning, and develop or support appropriate collaborative initiatives.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

- As part of its commitment to the PRI, LACERS shall report its progress in implementing the PRI's Six Principles through both the PRI Annual Report and LACERS annual PRI Action Plan Report to the Board.

- LACERS shall continue to foster open communication with LACERS members by responding to the Freedom of Information Act (FOIA) and California Public Records Act (CPRA) Requests.

G. Scope

The scope of the RI Policy encompasses the entire investment portfolio to the extent it is prudent and practicable. ESG Risk Factors may be applied to asset classes differently in materiality or magnitude, depending on the sensitivity of the asset and the feasibility of implementation.

ESG risk factors include, but are not limited to, the following:

Environmental • Climate Change • Resource Depletion • Waste • Pollution • Deforestation
Social • Human Rights

- Modern Slavery
- Child Labor
- Working Conditions
- Employee Relations
- Diversity, Equity, and Inclusion
- Gender and Sexual Orientation Pay Equality
- Discrimination based on Race, Gender including Women, Age including Senior Citizens and Children, Sex, Sexual Orientation, LGBTQIA+, Disability, Veterans Status, Language, or Social Status
- Freedom of Speech and Press
- Right to Civil Liberties including Speech and Press, Peaceful Assembly and Association, Freedom of Religion, National Origin /Racial/Ethnic Minorities, Freedom of Movement within a Country, Foreign Travel, Emigration, and Repatriation
- Freedom of Civil Unions/Same Sex Marriage

Governance

- Bribery and Corruption
- Executive Pay
- Board Diversity and Structure
- Political Lobbying and Donations
- Tax Strategy
- Right of Citizens to Change their Government

H. Identifying and Mitigating Material ESG Risks within the Portfolio

LACERS Staff will research and keep the Board apprised of material and relevant ESG issues, initiatives, and collaboration opportunities, and take into account actions of other like prudent investors using the process outlined below:

1. Once ESG risks factors of material significance within the portfolio have been identified by Staff and discussed with the ESG Consultant, Staff will bring such risks to the attention of the Board.

2. LACERS Board may decide at any point after considering research and staff findings that further action of various degrees of magnitude and impact may be appropriate and necessary to mitigate risk factors. This Policy identifies four distinct action levels that may be implemented, subject to Board direction:

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

Action Level	Possible Action(s) to include but not limited to:	Responsible Parties	Estimated Risk to Plan Assets
1	*Relationship Initiatives:* Collaboration with other Agencies Engagement/Advocacy Letters Joint-Agency Endorsements Company Presentations to LACERS Board Disassociation with Misaligned Organizations Outreach/Association with Emerging Managers Discussion at Advisory Board Meetings or Annual Meetings of Private Market Funds	Staff Consultants Industry Organizations Agencies	**None** Level 1 actions do not include any portfolio restructurings resulting in virtually no discernable adverse risks to portfolio valuations.
2	*Policy Implications/Contractual:* Proxy Voting Amendments Investment Manager Guidelines Investment Policy Amendments Contract Side Letter Provisions	Staff Consultant(s) Investment Managers Proxy Voting Agent City Attorney	**None to Medium** Level 2 actions do not include significant portfolio restructurings but may have an indirect impact or minor influence on portfolio management, investment valuations, or investment manager relationships.
3	*Strategic Investment Approaches:* ESG-Sensitive Strategies Climate-related Investment Strategies Socially Responsible Investment Strategies Corporate Governance Investment Strategies Exclusionary Strategies (e.g., certain industries)	Staff Consultant(s) Investment Mangers	**Low to Medium** Level 3 actions may have a direct impact on individual portfolios due to removal, substitution, or addition of mandates. Such actions may impact performance; implementation risk and costs; fee structure impact; tracking error; opportunity costs.
4	*Restructure:* Security Divestment Sale of Partnership Interests Portfolio Restructure Termination of Investment Managers Active/Passive Investment Management Shifts	Staff Consultant(s) Investment Managers Transition Managers Bank Custodian	**Medium to High** Level 4 actions may lead to immediate and significant realized losses due to market illiquidity; tracking error; transition management risk; timing and implementation risks; opportunity costs; sub-optimal asset allocation structure misaligned with approved Asset Allocation Policy.

3. Staff will implement Board investment actions in an orderly, cost- efficient, and risk-mitigating manner.
4. Staff will provide the Board with periodic verbal updates or formal written reports on investment action status.
5. Staff will communicate Board decisions to the System’s active public investment managers to adhere to the Board’s actions going forward and work with its bank custodian to assist

with further monitoring of ESG risk factors. If consistent with existing contractual agreements and appropriate to the investment mandate, such Board decisions will be communicated to appropriate private market investment managers.

6. The Board may wish to pursue other options to mitigate ESG risk factors and/or enhance the Investment Program through long-term ESG investment approaches.

I. Engagement Campaigns

Engagement with other like-minded organizations helps LACERS leverage its beliefs and promotion of ESG principles. As LACERS becomes aware of engagement opportunities via letter campaigns (Campaigns), Staff will bring the most impactful Campaign requests to the Board for review and consideration. Campaigns may request several actions including LACERS placing its name on the Campaign sponsor's master letter or request that LACERS send an independent letter to the targeted organization. If a Campaign deadline does not permit adequate time to bring the letter request to the Board for consideration, the Board delegates specific authority to the General Manager (GM) and Chief Investment Officer (CIO) to support and endorse a Campaign. If the GM and CIO reach consensus to support a Campaign, the GM will notify the Board President as soon as practicable and the CIO shall report the action to the Board at its next meeting. If the GM and CIO do not reach a consensus on a Campaign, LACERS will take no action.

J. ESG Education

To stay apprised of ESG-related matters, LACERS will leverage research and education provided by industry organizations, investment managers, investment consultants, membership organizations, and peer plans. LACERS will actively participate at ESG conferences to understand better the evolving ESG landscape. Additionally, LACERS will participate in industry working groups to explore and research ESG issues to include (but not limited to) diversity, equity, and inclusion within the investment industry and the impact of regulatory reform on corporate governance and shareholders.

Staff, in conjunction with LACERS' ESG Consultant and investment managers, will invite leaders in ESG to provide further education to the Board including latest trends, regulations, issues, and best practices.

K. Scope of Reporting

To monitor the implementation of LACERS RI Program and ensure that it continues to develop and evolve, the following reports will be provided to the Board or the appropriate Committee for review.

1) PRI Progress Board Report – LACERS is required to complete the annual PRI Questionnaire about LACERS portfolio and ESG efforts. Once results of the Questionnaire are provided to LACERS, the Board will be provided a summary of the findings.

Section 8 RESPONSIBLE INVESTMENT (RI) POLICY

2) PRI Action Plan – The Plan will be reviewed with the Board once a year to ensure that LACERS is meeting its ESG goals.

3) ESG Risk Framework – Staff will monitor the status of initiatives and on-going actions against time-bound objectives. These initiatives and actions will be incorporated into the PRI Action Plan. The Framework will be reviewed in conjunction with the PRI Action Plan review.

4) Proxy Voting Report – The Annual Proxy Voting Report contains an account of LACERS voting history and is provided annually to the Investment Committee.

5) Emerging Investment Manager Report – The Annual Emerging Investment Manager Report contains program information specific to LACERS Emerging Managers, and includes capital exposure statistics, investment manager performance, and staff and consultant meetings and other encounters with Emerging Managers. In addition to the aforementioned, an Organizational Diversity Survey (ODS) is completed by prospective and contracted investment managers of LACERS that captures workforce, board, and ownership diversity. The Emerging Investment Manager Report is provided annually to the Investment Committee; the ODS is managed pursuant to the Emerging Investment Manager Policy.

Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

XIII. GEOPOLITICAL RISK INVESTMENT POLICY

A. Introduction

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

B. LACERS Board's Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members come first, before any other duty.

The System is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Importantly, the System's ownership of securities in a corporation does not signify approval of all of a company's policies, products, or actions.

Investments shall not be selected or rejected based solely on geopolitical risk factors. Accordingly, a company's possible risky geopolitical conduct can only be taken into consideration if the conduct is deemed to demonstrate a negative effect on the investment performance of the company, and ultimately the System.

C. Process for Identifying and Mitigating Corporate Governance Geopolitical Risks to the LACERS Portfolio

1. The LACERS Staff will keep the Board apprised of geopolitical problems and issues, and take into account actions of other like prudent investors.
2. Once identified, the Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's Geopolitical Risk Factors on investment returns.
3. The Board will direct the Staff to solicit feedback from the investment managers holding the security exposed to geopolitical risk as well as conduct independent study to research the impact of the risk.

4. Upon the Board determination of a company's behavior presenting a potential investment loss to the System, the Board shall promptly direct the Staff to seek a change in the company's behavior.
5. Staff will engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.
6. After all reasonable efforts have been made to engage management constructively, the Board may determine whether it is prudent to hold such investments or whether it is prudent to sell such investments.
7. At such time, the System will work with the investment manager whose portfolio holds the investment, consultant(s) and fiduciary counsel to determine a prudent course of action.
8. Should the Board decide to take action to divest, Staff will communicate the decision to all of the System's investment managers to adhere to the Board's actions going forward.

D. **Geopolitical Risk Factors**

Respect for Human Rights • Judicial System • Arbitrary or Unlawful Deprivation of Life • Disappearance • Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment • Arbitrary Arrest, Detention, or Exile • Arbitrary Interference with Privacy, Family, Home, or Correspondence • Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts • Governmental Attitude Regarding International and Non-Governmental Investigation of Alleged Violations of Human Rights
Respect for Civil Liberties • Freedom of Speech and Press • Freedom of Peaceful Assembly and Association • Freedom of Religion • Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation • Civil Unions/Same Sex Marriage
Respect for Political Rights • The Right of Citizens to Change Their Government
Discrimination Based on Race, Sex, Sexual Orientation, Disability, Language, or Social Status • Women/Gender • Children • Persons With Disabilities • National/Racial/Ethnic Minorities • Indigenous People

Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

- Gender Identity
- Age Discrimination

Worker Rights

- The Right of Association
- The Right to Organize and Bargain Collectively
- Prohibition of Forced or Bonded Labor
- Status of Child Labor Practices and Minimum Age for Employment
- Acceptable Conditions of Work
- Trafficking in Persons

Environmental

- Air Quality
- Water Quality
- Climate Change
- Land Protection

War/Conflicts/Acts of Terrorism

- Internal/External Conflict
- War
- Acts of Terrorism
- Party to International Conventions and Protocols

Section 9 PROXY VOTING POLICY

9. ISSUES NOT ADDRESSED BY POLICY

For proxy issues not addressed by this policy that are market specific, operational or administrative in nature, and likely non-substantive in terms of impact, LACERS gives ISS discretion to vote these items.

Substantive issues not covered by this policy and which may potentially have a significant economic impact for LACERS shall be handled accordingly:

1) ISS shall alert investment staff of substantive proxy issue not covered by policy as soon as practicable;
2) Investment staff and/or the General Manager shall determine whether the item requires Governance Committee ("Committee") and/or Board of Administration ("Board") consideration;
3) If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
4) If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
5) If time constraints prevent a formal gathering of the Committee and Board, then LACERS Board approved Corporate Governance Actions Protocol, as reprinted below, shall apply and staff will then have the issue voted accordingly.

CORPORATE GOVERNANCE ACTIONS POLICY
Board Adopted December 2008

From time to time LACERS receives requests from other pension funds or from affiliated organizations for support of various corporate governance actions. Many of the actions requested, such as requests to sign action letters, would otherwise appear to be consistent with existing Board policy. However, occasionally there is not adequate time to convene a Committee or Board meeting in advance to consider the matter.

The proposed Corporate Governance Actions Policy requires that one staff member plus one Board member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy. If both agree, the measure will be executed by the General Manager or authorized designee.

The designated staff person will be the Chief Investment Officer (CIO). The designated Board member will be the Chair of the Governance Committee. In the absence of the CIO, the General Manager will become the designated staff member. In the absence of the Chair of the Governance Committee, the Board Chair will become the designated Board member.

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION | **MEETING: JANUARY 11, 2022**
From: Neil M. Guglielmo, General Manager | **ITEM: VIII – D**

SUBJECT: **UPDATE ON TRANSITION FROM LIBOR TO SECURED OVERNIGHT FINANCING RATE**

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

Recommendation

That the Board receive and file this report.

Discussion

The attached report (Attachment 1) on the transition from LIBOR to the Secured Overnight Financing Rate (SOFR) was agendized for discussion at the Board meeting of December 14, 2021; the Board deferred this item to the meeting of January 11, 2022.

The report provides background information on the pending cessation of LIBOR and the transition to SOFR and other alternative interest rates. Based on research conducted by staff, the LACERS investment managers and custodian bank have some exposure to LIBOR-referencing securities and derivatives; they are well-prepared for this event and expect a smooth transition. The transition is anticipated to have minimal impact to the LACERS portfolio.

Strategic Plan Impact Statement

The discussion report on the transition from LIBOR to SOFR and its potential impact to the LACERS portfolio aligns with the Strategic Plan goal of upholding good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/JP:rm

Attachment: 1. Report to Board of Administration dated December 14, 2021

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION | **MEETING: DECEMBER 14, 2021**
From: Neil M. Guglielmo, General Manager | **ITEM: VIII – G**

SUBJECT: **UPDATE ON TRANSITION FROM LIBOR TO SECURED OVERNIGHT FINANCING RATE**

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

Recommendation

That the Board receive and file this report.

Executive Summary

This report provides background information on the pending cessation of LIBOR and the transition to the Secured Overnight Financing Rate (SOFR) and other alternative interest rates. Based on research conducted by staff, the LACERS investment managers and custodian bank have some exposure to LIBOR-referencing securities and derivatives; they are well-prepared for this event and expect a smooth transition. The transition is anticipated to have minimal impact to the LACERS portfolio.

Discussion

Background on LIBOR
LIBOR is the interest rate at which banks lend to one another for short-term unsecured loans. It is the prevalent reference rate used in the settlement of financial instruments in the cash, loan, securities and derivatives markets. LIBOR is currently calculated for five currencies (U.S. dollar, British pound sterling, euro, Swiss franc and Japanese yen) and for seven tenors (Overnight, One Week, One Month, Two Months, Three Months, Six Months and 12 Months) for each of the five currencies, resulting in the daily publication of 35 individual rates.

LIBOR serves multiple purposes within the financial markets. As a reference interest rate, LIBOR is used in a wide variety of financial instruments. LIBOR is often referenced in money market instruments, bonds, loans, and structured products with a spread reflective of the credit risk of the borrower. LIBOR is also widely referenced in interest rate derivatives and used as a benchmark for asset managers. As of the end of 2020, it is estimated that there was about $224 trillion of gross notional exposure to U.S. dollar (USD) LIBOR across all LIBOR-based financial products with about $74 trillion expected to mature after June 2023.[i] Within the LACERS investment portfolio, exposure to LIBOR-based securities, loans, and derivatives is primarily found within the Credit Opportunities, Private Equity, Private Real Estate, and Private Credit asset/sub-asset classes and within the custodian bank's short term investment fund, where LACERS' excess cash is invested overnight.

Over the last decade, LIBOR has come under scrutiny for reasons discussed in the following section of this report. For several years, regulatory agencies and financial services entities across the globe have been working to transition from LIBOR to alternative reference rates. On March 5, 2021, the Financial Conduct Authority (FCA), the financial regulatory body of the United Kingdom, formally announced the dates of the cessation all 35 LIBOR settings. All seven tenors for the British pound sterling (GBP), euro, Swiss franc, and Japanese yen (JPY), as well as One Week and Two Month USD LIBOR, will cease to be published immediately after December 31, 2021 (with some GBP and JPY settings to continue on a synthetic basis). The remaining five tenors of USD LIBOR (Overnight, One Month, Three Month, Six Month and 12 Month) will cease to be published immediately after June 30, 2023. Financial regulators have mandated that no new LIBOR-referencing securities may be issued after December 31, 2021.

Why is LIBOR being phased out?
To understand the reasoning for the cessation of LIBOR, it is necessary to briefly discuss the calculation methodology of LIBOR. In order to determine daily LIBOR rates, ICE Benchmark Administration Limited (ICE), the current administrator of LIBOR, collects interest rate data from a panel of 11 to 16 banks. Data submitted by these banks may be based on actual unsecured borrowing transactions or, in the absence of eligible transaction data, estimates determined by the bank.

Following the 2007-2009 Global Financial Crisis, unsecured borrowing transactions by banks declined. As a result, the calculation of LIBOR has become reliant on banks' estimates of funding costs and less on actual transaction data, raising the concern as to whether LIBOR rates are truly reflective of banks' borrowing rates. Calculating LIBOR based on estimates also makes LIBOR vulnerable to manipulation, as had been revealed by the LIBOR Scandal exposed in 2012. Multi-jurisdictional investigations by various financial regulators found that bankers at a number of major financial institutions were manipulating LIBOR; rate submissions by panel banks had been falsely inflated or deflated in order to benefit trading books. In the ensuing fallout, which saw the imposition of multi-billion dollar fines and the filing of criminal charges, the integrity of LIBOR had been put into question by financial regulators, consequently also bringing forth the need for reform and an alternative rate(s) to LIBOR.

Planning for the Cessation of LIBOR
The FCA's announcement of the cessation of LIBOR in March 2021 was not a surprise to the market and had been anticipated for several years. Since 2014, the U.S. Federal Reserve and its Alternative Reference Rates Committee (ARRC) have been planning for the cessation of USD LIBOR and transition to an alternative rate. The ARRC, comprised of a diverse set of private-sector entities and official-sector entities, including banking and financial regulators, was convened to identify best practices for alternative reference rates to USD LIBOR, create recommended language for contracts to allow for a transition to alternative rates, and develop an adoption plan that included metrics of success and a timeline. Other countries and jurisdictions have formed similar working groups to address the other currencies in which LIBOR is quoted.

In June 2017, after considering the input of a wide range of market participants, the ARRC selected the SOFR as its preferred alternative reference rate to USD LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities and is published daily by the New York Fed. It is based on actual Treasury repurchase (repo) transaction data and is calculated as a volume-weighted median of repo data collected from three markets: tri-party repo data from the Bank of New York Mellon, General Collateral Finance repo transaction data, and bilateral Treasury repo transactions cleared through the Fixed Income Clearing Corporation.

The ARRC selected SOFR as its preferred alternative to USD LIBOR noting the depth of its underlying market, its likely robustness over time, and the rate's usefulness to market participants. The transaction volume underlying SOFR is substantial at approximately $1 trillion daily. SOFR better reflects the current market for financial institutional funding – secured and collateralized as opposed to USD LIBOR which reflects the cost of unsecured funding. Since SOFR is entirely transaction-based, it is more transparent than LIBOR and far less susceptible to manipulation.

After selecting SOFR as the preferred alternative reference rate, the ARRC developed the Paced Transition Plan[ii], outlining specific steps and timelines designed to encourage adoption of SOFR. The plan was focused on usage of SOFR-based financial products in the market and on creating forward-looking term rates based on SOFR (since SOFR itself is based on historical data and is backward looking) with the aim of developing sufficient liquidity. On July 29, 2021, the ARRC formally recommended the Chicago Mercantile Exchange Group's (CME) Term SOFR Rates marking the completion of its Paced Transition Plan. The ARRC also developed and published a set of recommended best practices to assist market participants in transitioning away from USD LIBOR. This document[iii] outlines key transition milestones and recommended timelines for when contractual fallback provisions (a provision that allows for use of an alternative rate to LIBOR) should be incorporated, and target dates after which no new USD LIBOR-based activity should be conducted.

Other Regulatory and Legislative Action to Promote Transition Away From LIBOR
In June 2020, the U.S. Securities and Exchange Commission's Office of Compliance Inspections and Examinations (OCIE) announced examinations of SEC-registered firms to assess their preparations for the expected discontinuation of LIBOR and the transition to an alternative reference rate. In October 2020, the International Swaps and Derivatives Association (ISDA), a trade organization that promotes safe and efficient derivatives markets primarily through its template derivative contracts, launched the IBOR Fallbacks Protocol and IBOR Fallbacks Supplement. These led to the incorporation of fallback provisions in all new derivative contracts executed after January 25, 2021. These also allowed counterparties to amend legacy derivative contracts to incorporate fallback provisions if both parties agree or both adhere to the Protocol.

In April 2021, New York and Alabama passed respective legislation which stipulated statutory fallbacks for USD LIBOR state law-governed contracts and securities with inadequate or missing benchmark fallback provisions. On a federal level, Representative Brad Sherman (D-CA) introduced the Adjustable Interest Rate (LIBOR) Act of 2021 (H.R. 4616). The Bill primarily provides for U.S. law-governed contracts that reference USD LIBOR but do not contain fallback provisions to transition into a rate to be selected by the Federal Reserve Board. The House's Committee on Financial Services voted to advance the bill in July 2021.

Other Alternative Reference Rates
Some market participants point to SOFR's lack of a credit-sensitive component the way LIBOR as an unsecured rate did, adding that it may not reflect the true cost of funding especially during times of market stress. Led by the Bloomberg Short-Term Bank Yield Index (BSBY), IBA's Bank Yield Index (IBYI) and the American Financial Exchange's American Interbank Offered Rate (Ameribor), the market saw increased use of these credit-sensitive alternative rates in the earlier half of 2021 only for clamor

to weaken following the ARRC's formal recommendation of CME Term SOFR Rates at the end of July 2021. Regulators have also cautioned against the limited transaction volumes underpinning the calculation methodologies behind some of these credit-sensitive alternative rates.

The Impact of the LIBOR Transition to the LACERS Portfolio
Staff conducted research with LACERS investment managers, custodian bank, and consultants to assess the potential impact of the transition from LIBOR to SOFR and other alternatives reference rates to the LACERS portfolio. Within the public markets portfolio, all of LACERS' fixed income managers have been preparing for the transition for several years, with most having established internal working groups focused on the LIBOR transition process. LIBOR exposure in the LACERS portfolio is mainly contained within the Credit Opportunities asset class, specifically in the active U.S. bank loan strategy managed by Bain Capital Credit, LP (Bain) and the active hybrid high yield fixed income and floating rate bank loan strategy managed by DDJ Capital Management, LLC (DDJ). Both of these strategies have considerable investments in bank loans, which are generally variable rate and tied to LIBOR. As of October 31, 2021, Bain's bank loan portfolio was valued at $244 million. DDJ's hybrid high yield and bank loan portfolio was valued $300 million, with approximately $108 million (or 36%) invested in loans tied to LIBOR. As part of their transition plans, Bain and DDJ conducted extensive reviews of existing loan agreements for fallback provisions, and amended agreements as necessary to ensure a smooth transition from LIBOR. According to Bain and DDJ, the transition will not prompt changes to the firms' respective investment strategies, nor is the transition anticipated to have a negative financial impact to the strategies.

Under the Core Fixed Income asset class, Income Research + Management (IRM) and JP Morgan Investment Management (JPMIM) hold minimal positions tied to LIBOR. As of October 31, 2021, both IRM and JPMIM hold variable rate bank securities which have fixed coupons until one year before maturity, at which point they convert to variable rate, LIBOR-based coupons. These securities are anticipated to be called by the issuers prior to the conversion date and will not be affected by the LIBOR transition. Of IRM's $434 million portfolio, approximately $4.8 million (or 1.1%) is invested in these securities; of JPMIM's $429 million portfolio, approximately $3.4 million (or 0.8%) is invested in these securities. Both managers also have small allocations to floating rate bonds referencing LIBOR; IRM has approximately $10.9 million (or 2.5%) invested in floating rate bonds and JPMIM has approximately $2.6 million (or 0.6%) invested. These bonds either mature prior to the applicable LIBOR cessation date or are covered by sufficient fallback provisions. Thus, the expected impact by the cessation of LIBOR to the Core Fixed Income asset class is none to minimal.

Under the Public Real Assets asset class, CenterSquare Investment Management LLC (CenterSquare) confirms that the REITS (Real Estate Investment Trust Securities) strategy it manages for LACERS has not seen any measurable negative impact from the transition. CenterSquare notes that only about 10% of the financing of the REITS in the LACERS portfolio is floating rate debt; appropriate measures have been put in place to transition these from LIBOR to SOFR.

The U.S. Equities and Non-U.S. Equities asset classes have no exposure to LIBOR-referencing securities or derivatives and are not expected to be impacted by the cessation of LIBOR.

Private Markets
Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, has determined that the LIBOR transition to SOFR will have a negligible impact on the private equity asset class. In particular, Aksia TorreyCove stated that LIBOR-based financing for private equity deals should transition to alternative interest rates without much concern.

The Townsend Group (Townsend), LACERS Real Estate Consultant, cites that 77% of LACERS' real estate portfolio is classified as Core and that 84% of debt used by Core real estate funds is fixed rate and will not be impacted by the cessation of LIBOR. As for the remainder of the portfolio that potentially has exposure to LIBOR, Townsend has determined that most, if not all, real estate managers are prepared for the transition, noting that the work to have legacy loans incorporate fallback provisions to allow lenders to use an alternate rate has been underway for years.

Staff also surveyed LACERS' Private Credit managers about their LIBOR transition preparedness. The loans within the U.S. private credit portfolio managed by Benefit Street Partners LLC (Benefit Street) are currently LIBOR-based, but are covered by sufficient fallback provisions within the loan agreements. These loans, as well as new deals going forward, are expected to transition to SOFR in 2022. For the non-U.S. (Europe-focused) private credit portfolio managed by Crescent Capital Group LP, which began calling capital in November 2021, all loans in the portfolio will reference either Euribor (Euro Interbank Offered Rate), SONIA (Sterling Overnight Index Average), or SOFR depending on the currency in which the loans are denominated.

Cash and Securities Lending
The Northern Trust Company, LACERS' Custodian Bank, invests LACERS' cash reserves on an overnight basis in the Northern Trust Collective Short Term Investment Fund (STIF), which is comprised of high-quality, short-term, money market instruments. Some of these short-term securities are tied to LIBOR. As of November 30, 2021, none of the LIBOR-based securities within the STIF mature beyond the applicable LIBOR cessation dates and the transition will have no impact on these securities. Given that no new LIBOR securities will be issued after December 31, 2021, LIBOR securities within the STIF will be completely phased-out by June 30, 2023, if not earlier.

Within the Securities Lending Program, 50% of the Cash Collateral investment portfolio was invested in STIF as of November 30, 2021. There was no exposure to LIBOR-based securities in the remaining 50% of the portfolio. New investments are also not expected to reference LIBOR. Staff will monitor securities lending activity for any LIBOR exposure during the final days of the transition period to SOFR.

Based on this research, staff believes that LACERS investment managers and custodian bank are well prepared for the LIBOR cessation and transition to SOFR (or other alternative rates); staff anticipates that this transition will have a minimal impact to the LACERS portfolio. NEPC, LLC, LACERS' General Fund Consultant, concurs with this assessment.

Strategic Plan Impact Statement

This discussion report on the transition from LIBOR to SOFR and its potential impact to the LACERS portfolio aligns with the Strategic Plan goal of upholding good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/JP:rm

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[i] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/USD-LIBOR-transition-progress-report-mar-21.pdf
[ii] https://www.newyorkfed.org/medialibrary/microsites/arrc/files/paced-timeline-plan.pdf
[iii] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-factsheet.pdf

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Board Mtg: 01/11/22
Item No.: IX-A

FIDUCIARY LEADERSHIP IN CONTRACTS AND INVESTMENTS

Part I: Ethical Contract Compliance Policy and the Ethics Ordinance, LAMC 49.5.11(A)

Part II: The Prudent Expert Rule and Principles of Prudent Delegation (Part 2)

Anya Freedman, Assistant City Attorney
Public Pensions General Counsel
Division

January 11, 2022

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Learning Objectives

After this training, you will:

- ❑Foresee the legal and ethical lines in contacts with contractors and gracefully avoid them.
- ❑Understand the fiduciary principles governing investment decisions, including the prudent expert rule and prudent delegation.
- ❑Apply those fiduciary principles and legal rules to Board decisions regarding contracts and investments.

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FUND GOVERNANCE BEST PRACTICES

"The principal function of a public pension fund trustee is to work with his/her peers on the board to establish the strategic direction of the system, to hire the necessary staff and consultants with the expertise to carry out that direction and administer the system on a day-to-day basis, and then to oversee the work being done to ensure that the direction is carried out."

Clapman Report 2.0 (Stanford)
Available here: https://law.stanford.edu/index.php?webauth-document=event/392911/media/slspublic/ClapmanReport_6-6-13.pdf

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3. The Prudent Expert Rule

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Fundamental Fiduciary Duties

- Duty of Primary Loyalty
- Exclusive Benefit Rule
- Prudent Expert Rule (Duty of Care)
- Obey the Law and the Board's Policies

Prudent Person = Expert Investor

- Fiduciary duty of care
- Board must make all LACERS decisions as a “prudent person”
- For investment decisions, this means a prudent expert (i.e. an investment professional)

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Charter Section 1106(c)

Board must "Discharge its duties with respect to its system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims."

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Cal. Const. art. VI, Section 17(c)

"The members of the retirement board of a public pension system shall discharge their duties with respect to the system with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims."

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4. Principles of Prudent Delegation

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What is Delegation?

- A grant of authority from the Board to another person or entity
- Does not extinguish the authority of the Board or absolve the Board of legal responsibility
- “Fiduciary buck” still stops with the Board

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To Do or to Delegate?

"A trustee has a duty personally to perform the responsibilities of the trusteeship except as a prudent person of comparable skill might delegate those responsibilities to otherss…."

Third Restatement of the Law of Trusts

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Delegation in Investments

- From Board (plenary authority)
- GM/CIO/Investment Staff
- Investment Managers
- Investment Consultants
  - General Fund Consultant
  - Private Equity Consultant
  - Real Estate Consultant

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When is Delegation Prudent?

"…In deciding whether, to whom and in what manner to delegate fiduciary authority in the administration of a trust, and thereafter, in supervising or monitoring agents, the trustee has a duty to exercise fiduciary discretion and to act as a prudent person of comparable skill would act in similar circumstances."

Third Restatement of the Law of Trusts

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Principles of Prudent Delegation

1. For complex, sophisticated investments, it may be prudent for Boards to delegate some or all parts of the decision making process to experts.
2. Governance consideration: What is the best and most effective use of the Board members' time?
3. LACERS Board members generally *may not* personally perform due diligence due to ethics ordinance, Board policy.
4. Delegation is *not* abdication: fiduciary duties at outset; ongoing duty to monitor.

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Prudent Delegation: At the Outset

- ✓Duty of loyalty: make selection based on interests of LACERS participants and beneficiaries
- ✓Duty of care: Make selection as prudent expert
- ✓Delegate prudently: clear scope, accountability, monitoring

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Scope of Delegation to Consultant

- Discretionary or advisory
- Evaluation/selection of managers and vendors
- Portfolio construction
- Asset allocation
- Risk management/compliance
- Standard of care & other contract terms
- Relationship with the Board and Staff

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Scope of Delegation to Manager

- GP or service provider
- Standard of care
- Investment policy adherence
- Risk management/compliance
- Reporting responsibilities, transparency
- All addressed in LPA/side letter, or IMA

Prudent Delegation: Monitoring

- ✓Accountability to benchmark
- ✓Compliance with scope of authority
- ✓Does delegation continue to be prudent?
- ✓Make changes if necessary

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Monitoring Consultants

- Total fund/asset class performance
- Manager performance
- Qualitative measures
- Systematic annual evaluation process
- Corrective actions, including termination

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Monitoring Managers

- Performance reporting
- Benchmark selection
- Qualitative measures
- Regular evaluation process
- Corrective Actions
  - Watchlist
  - GP removal?
  - Exit/termination provisions

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Questions for the Board to Ask

1. Are the roles of the Board, Staff, consultants, managers, and others clear to the Board and clearly documented?
2. Is the degree of control appropriate for the Board and those to whom it has delegated?
3. Does the policy include regular reporting to the Board for performance and compliance?
4. Is the policy regularly reviewed to consider appropriate changes or corrective actions?

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5. Hypothetical!

You are waiting at LAX for a flight to NYC, having a drink at the bar. You strike up a friendly conversation with Alex, who is sitting on the next bar stool.

Alex works in finance.

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After your first drink, you admit that you “really don’t understand the new craze for private credit or what private credit *is* for that matter.”

Alex gives you a brief explanation, for which you are grateful.

You mention your role on the Board, and Alex mentions being the client relations manager for a private real estate firm.

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Hearing an announcement that your flight has been delayed, you flag the bartender for another drink and order a vegan burger.

You begin chatting with Alex about the food scene in LA, and how much better it is than NYC.

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Alex then begins to tell you about the firm's latest real estate fund, TRUKZ I, which is currently raising funds. TRUKZ will purchase industrial buildings in LA County and lease kitchen space to LA based, women-owned, first-generation immigrant food truck start ups.

Alex offers to pick up your tab but you insist on paying it yourself.

Alex is seated next to you on the flight.

Alex continues telling you about TRUKZ and the inspiring stories of lives it will change, and asks you if the Board will make a commitment to TRUKZ.

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Alex says LACERS' Real Estate Consultant has already met with the TRUKZ General Partners but it seems to be taking too long.

Alex thinks the Real Estate Consultant and CIO are at the early stages of due diligence but have not yet decided whether to recommend that LACERS make a commitment.

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Alex asks if you will call the Chief Investment Officer and "just check in on the status" of the due diligence process and when the fund may be before the Board. Alex says the fund is *already oversubscribed* so if LACERS doesn't move fast it will lose out.

Alex gives you a business card.

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What do you think:
Has this conversation with Alex crossed a line yet?

A. Yes, Alex has violated the Ethical Contract Compliance Policy.
B. Yes, you have violated Ethics Ordinance 49.5.11(A)
C. Yes, you have violated Board Policies
D. No, you each paid your own bar tabs.
E. A, B, and C.

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You arrive in NYC, and remember that the Real Estate Consultant is headquartered there.

You decide to drop in on the Consultant’s offices and say a friendly hello, especially since the Consultant’s contract is up for renewal at the next Board meeting.

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You take the Consultant to dinner at Sparks Steak House, and over rib eyes you discuss recent trends in the emerging manager space.

Over dessert, you ask the Consultant about TRUKZ, and encourage her to bring this great opportunity to the Board as soon as possible so LACERS doesn't miss out.

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What do you think:

Has this dinner with the Consultant crossed any legal or ethical lines?

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Sensing your enthusiasm and aware that her contract is up for renewal, the Consultant instructs her staff to skip the remaining due diligence and recommend TRUKZ to the Board immediately.

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In the taxi back to La Guardia, you call the CIO and the GM to encourage them to bring this opportunity to the Board.

You politely request that they “streamline” the lengthy due diligence process typically required by Board policies so LACERS doesn’t lose out.

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When you see TRUKZ on the next agenda, you call Alex and put together a lunch with two fellow Commissioners.

You also invite local restaurant owners opposing street vending, to make sure key stakeholders' voices are heard on this issue before the Board acts.

At lunch, you all discuss TRUKZ. Everyone goes "dutch."

What do you think:
Has this lunch crossed any legal or ethical lines?

A. Yes, 3 Commissioners have violated Ethics Ordinance 49.5.11(A).
B. Yes, Alex violated the Ethical Contract Compliance Policy.
C. No, because there were no gifts and key stakeholders were included.
D. No, because no one will tell the Internal Auditor or the City Attorney.
E. A and B.

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That night, you call a third Commissioner, who wasn't at the lunch, to talk about TRUKZ before the meeting.

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The third Commissioner, an elected member, says, “I haven’t even looked at the agenda packet yet but sure, I’ll vote with you on this TRUKZ thing if you agree to keep the assumed rate of return at no lower than 7%, because lowering it will cost my people raises.”

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What do you think:
What concerns are raised by the fourth Commissioner's response?

A. Duty of Primary Loyalty
B. Prudent Expert Rule
C. Brown Act
D. All of the above

At the meeting, only four Commissioners are present.

Concerned about losing a quorum, the Board President bangs the gavel repeatedly, telling the Internal Auditor to skip her disclosure report on the Consultant’s contract renewal and on TRUKZ and “move things along.”

What do you think:

If the Internal Auditor had been able to make her report, what contacts should have been disclosed by Alex and the Consultant under the Board's policies?

You move to renew the Consultant’s contract for another term, saying there is no need for an interview, based on her demonstrated commitment to the emerging manager program and her responsiveness to Commissioners.

The motion passes.

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In closed session, you move to approve a $5 million commitment to TRUKZ.

But, the Board loses a quorum before the vote.

The meeting ends.

After the meeting, you call the CIO on his personal cell phone and order him to make the commitment to TRUKZ anyway. You tell him it will be a breach of his duties to let this incredible opportunity pass.

The CIO figures he is covered, having been ordered to act by a Commissioner. LACERS makes the commitment.

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What do you think:

Was your order to the CIO to make the commitment a prudent delegation of the Board's plenary authority over trust fund investments?

A. Definitely. This delegation was LACERS' only opportunity to make this investment.
B. No way. There was nothing prudent about this action.

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Questions?

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THANK YOU!

More questions?
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