LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

REGULAR MEETING

TUESDAY, AUGUST 25, 2020

TIME: 10:00 A.M.

MEETING LOCATION:

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Board of Administration's August 25, 2020, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to participate:
Dial: (669) 900-6833 or (253) 215-8782
Meeting ID# 943 5602 1230

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).

Disclaimer to participants

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

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***.

CLICK HERE TO ACCESS BOARD REPORTS

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

II. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF JULY 28, 2020 AND POSSIBLE BOARD ACTION

III. BOARD PRESIDENT VERBAL REPORT

IV. GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS

B. UPCOMING AGENDA ITEMS

V. RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR JULY 2020

B. LACERS MEMBERS APPEAL PROCESS

VI. COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE VERBAL REPORT ON THE SPECIAL MEETING OF AUGUST 11, 2020

B. INVESTMENT COMMITTEE VERBAL REPORT ON THE SPECIAL MEETING OF AUGUST 19, 2020

C. GOVERNANCE COMMITTEE VERBAL REPORT ON THE MEETING OF AUGUST 25, 2020

VII. BOARD/DEPARTMENT ADMINISTRATION

A. GENERAL MANAGER DESIGNEE SIGNATURE AUTHORITY AND POSSIBLE BOARD ACTION

VIII. BENEFITS ADMINISTRATION

A. 2021 MAXIMUM SUBSIDY AND REIMBURSEMENT AMOUNTS AND POSSIBLE BOARD ACTION

IX. INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT

B. INVESTMENT MANAGER CONTRACT WITH AEGON USA INVESTMENT MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE BOARD ACTION

C. INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE BOARD ACTION

D. NOTIFICATION OF COMMITMENT OF UP TO $20 MILLION IN OCEANSOUND PARTNERS FUND, LP

E. NOTIFICATION OF COMMITMENT OF UP TO $30 MILLION IN THOMA BRAVO FUND XIV, L.P.

F. NOTIFICATION OF COMMITMENT OF UP TO $20 MILLION IN THOMA BRAVO DISCOVER FUND III, L.P.

G. NOTIFICATION OF COMMITMENT OF UP TO $10 MILLION IN THOMA BRAVO EXPLORE FUND, L.P.

H. NOTIFICATION OF COMMITMENT OF UP TO €45.83 MILLION (APPROXIMATELY $50 MILLION) IN CVC CAPITAL PARTNERS VIII, L.P.

I. NOTIFICATION OF COMMITMENT OF UP TO €35.24 MILLION (APPROXIMATELY $40 MILLION) IN VITRUVIAN INVESTMENT PARTNERSHIP IV

J. CONTINUED DISCUSSION OF IMPLEMENTATION OF PRIVATE EQUITY INVESTMENT MANAGEMENT - CO-INVESTMENTS AND SECONDARIES

X. LEGAL/LITIGATION

A. APPROVAL OF REQUEST FOR PROPOSALS FOR OUTSIDE SECURITIES MONITORING AND LITIGATION COUNSEL AND POSSIBLE BOARD ACTION

XI. DISABILITY RETIREMENT APPLICATION(S)

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

XII. OTHER BUSINESS

XIII. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, September 8, 2020 at 10:00 a.m. at LACERS, 977 N. Broadway, Suite 260, 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 public health concerns relating to the novel coronavirus continue.

XIV. ADJOURNMENT

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

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Board of Administration's July 28, 2020, meeting was conducted via telephone and/or videoconferencing.

Agenda of: Aug. 25, 2020

Item No: II

July 28, 2020

10:00 a.m.

PRESENT via Zoom Meeting:	President:	Cynthia M. Ruiz
	Vice President:	Michael R. Wilkinson
	Commissioners:	Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano (left at 10:20 a.m.) Sung Won Sohn
	Manager-Secretary:	Todd Bouey
	Legal Counselor:	Anya Freedman
PRESENT at LACERS offices:	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** – President Ruiz asked if any persons wanted to make a general public comment to which there was no response.

II

APPROVAL OF MINUTES FOR THE REGULAR BOARD MEETING OF JULY 14, 2020 AND POSSIBLE BOARD ACTION – Commissioner Serrano moved approval of the minutes for the Regular Meeting of July 14, 2020, seconded by Commissioner Sohn and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

Item IX-B was taken out of order.

IX

B. ELECTION OF BOARD OFFICERS FOR FISCAL YEAR 2020-21 AND POSSIBLE BOARD ACTION – President Ruiz advised that the nominations for Vice President was being considered and then President Ruiz nominated Commissioner Sung Won Sohn. Commissioner Chao nominated Vice President Wilkinson. President Ruiz called for the vote on the first nomination of Commissioner Sung Won Sohn as Vice President, seconded by Commissioner Sandra Lee, and was adopted by the following vote: Ayes, Commissioners Elizabeth Lee, Sandra Lee, Serrano, Sohn, and President Ruiz -5; Nays, Commissioner Chao and Vice President Wilkinson -2. The first nomination of Sung Won Sohn for Vice President passed and, therefore the second nomination was not considered.

President Ruiz advised that the nominations for President was being considered and then Commissioner Serrano nominated Commissioner Cynthia Ruiz for Board President. There were no other nominations for President. President Ruiz called for the vote on the nomination of Commissioner Ruiz as President, seconded by Vice President Wilkinson, and was adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Sohn, Vice President Wilkinson, and President Ruiz -7; Nays, None.

Commissioner Sohn left the Regular Meeting at 10:20 a.m.

III

BOARD PRESIDENT VERBAL REPORT – President Ruiz emphasized the importance of LACERS Members to name their beneficiaries and to ensure such reminders are part of LACERS processes.

IV

GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS – Todd Bouey, Assistant General Manager, advised the Board of the following items:

- City Separation Incentive Program
- June 30, 2020 Actuarial Valuation
- Jellyvision Contract
- Retiree Health Plan Premiums for 2021
- Open Enrollment Planning
- Aging Masters' Program (AMP) Zoom 10-week class
- LACERS Well Video
- Thank you to our LACERS Wellness Champions
- Electronic Forms Processing
- LACERS YouTube
- LACERS' Virtual Member Services Center/Amazon Connect
- Electronic Communications
- CalAPRS Presentation
- All Staff Meeting of 7/15

- MSC Stats

B. UPCOMING AGENDA ITEMS – Todd Bouey, Assistant General Manager, advised the Board of the following items:
  - Benefits Administration Committee – August 11
    - 2021 Maximum Health Plan Premium Subsidies
  - Board – August 11 - Forwarded from BAC:
    - Final 2021 health plan premium rates and recommended added services
    - Year-End Accounting (Anthem and Delta PPO)
    - Extension of Keenan contract

C. RECEIPT OF THE CITY'S CONTRIBUTION FOR FISCAL YEAR 2020-21 - Todd Bouey, Assistant General Manager, advised that LACERS received the FY2020-21 Contribution and it has been deployed.

Items VII-A & VII-B ware taken out of order.

Deputy City Attorney James Napier was present during the Disability Retirement Application items.

VII

DISABILITY RETIREMENT APPLICATION(S)

A. RECONSIDERATION OF RETURN TO WORK REQUEST FOR DISABILITY RETIREE HAGOP TCHAKERIAN AND LOS ANGELES WORLD AIRPORTS OBJECTION TO SUBPOENA AND MOTION TO QUASH AND POSSIBLE BOARD ACTION – Ferralyn Sneed, Senior Management Analyst II and Carol Rembert, Management Assistant with Retirement Services Division, Court Reporter Tami Comet, Retiree Hagop Tchakerian, Dr. Benjamin LaBrot, Deputy City Attorney with LAWA Patricia Mor, and Keylaundra McClelland with LAWA HR, were virtually present to discuss this item. After a one and half hour discussion, Commissioner Serrano moved to approve LAWA staffs' recommendation to quash, seconded by Vice President Wilkinson, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Vice President Wilkinson, and President Ruiz -6; Nays, None. Commissioner Serrano moved to accept LACERS staff recommendation to extend Disability Retirement Benefits for Disability Retiree Hagop Tchakerian, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Vice President Wilkinson, and President Ruiz -6; Nays, None.

B. CONSIDER THE DISABILITY RETIREMENT APPLICATION OF RICHARD CARDENAS AND POSSIBLE BOARD ACTION – Susann Hernandez, Benefits Specials with Retirement Services Division presented this item to the Board. Commissioner Serrano moved to approve staff's recommendation, seconded by Commissioner Elizabeth Lee, and adopted by the following vote: Ayes, Commissioners Chao, Elizabeth Lee, Sandra Lee, Serrano, Vice President Wilkinson, and President Ruiz -6; Nays, None.

V

RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR JUNE 2020 – This report was received by the Board and filed.

VI

COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE VERBAL REPORT ON THE MEETING OF JULY 14, 2020 – Commissioner Serrano reported out that the Committee was presented with an Investment Manager Contract with Axiom International Investors, LLC regarding the management of an active emerging markets growth equities portfolio and heard one Closed Session Item to consider a commitment to Cerberus Institutional Real Estate Partners V, L.P.

B. BENEFITS ADMINISTRATION COMMITTEE VERBAL REPORT ON THE MEETING OF JULY 28, 2020 – Benefits Administration Committee Chair Wilkinson reported that the Committee was presented with the 2021 Health Plan Contract Renewals, the Anthem Blue Cross 2019 Year-End Accounting, and the Health and Welfare Consultant Contract Extension. The Committee also received and filed a report on the Delta Dental DPPO 2019 Year-End Accounting, and heard a Verbal Report on Open Enrollment.

Item IX-C was taken out of order.

IX

C. YEAR-END REPORT OF BUSINESS PLAN INITIATIVES FOR THE PERIOD ENDING JUNE 30, 2020 – Todd Bouey, Assistant General Manager and Dale Wong Nguyen, Chief Benefits Analyst presented this report to the Board.

X

INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value, $18.98 billion as of July 27, 2020. Mr. June discussed the following items:

- City Contribution allocated evenly to managers
- The new RFP/RFI notification service is available on the LACERS website
- News Event: SEC issue Final Proxy Voting Ruling; SEI, an investment administrator, was hacked; one of the LACERS general partners is a client. Staff will determine impact, if any.
- Upcoming Agenda items: PRI Action Plan and Proxy Voting Policy

B. APPROVAL OF AMENDMENT TO CONTRACT WITH NOSSAMAN LLP FOR INVESTMENT COUNSEL SERVICES AND POSSIBLE BOARD ACTION – Anya Freedman, Assistant City Attorney, Wilkin Ly, Investment Officer III, Robert King, Investment Officer I, and Clark Hoover, Investment Officer I, presented this item to the Board. Vice President Wilkinson moved approval of the following Resolution:

CONTRACT AMENDMENT
NOSSAMAN LLP
INVESTMENT LEGAL SERVICES

<u>RESOLUTION 200728-D</u>

WHEREAS, the current two-year extension contract with Nossaman LLP (Nossaman) for investment legal services became effective on June 16, 2019 and expires on June 15, 2021; and,

WHEREAS, the current two-year extension contract with Nossaman allows an annual expenditure of $200,000; and,

WHEREAS, legal expenditures were approximately $433,000 during the first year of the contract term and are expected to increase significantly in the second year of the contract term due to unanticipated demand for specialized legal services such as the acquisition of the new LACERS' headquarters and increased private markets activity; and,

WHEREAS, a contract amendment with Nossaman will allow for continued investment legal services for LACERS' headquarters and private markets investments; and,

WHEREAS, on July 28, 2020, the Board approved an amendment to the contract with Nossaman to increase authorized expenditures by an additional $750,000 for the final year of the two-year contract.

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

<u>Company Name</u>:	Nossaman LLP
<u>Service Provided</u>:	Investment Legal Services
<u>Effective Dates</u>:	June 16, 2020 through June 15, 2021
<u>Maximum Expenditure Amount:</u>	$750,000

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

C. INVESTMENT MANAGER CONTRACT WITH AXIOM INTERNATIONAL INVESTORS, LLC REGARDING THE MANAGEMENT OF ACTIVE EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION – Bryan Fujita, Investment Officer III and Ellen Chen, Investment Officer I presented this item to the Board. Commissioner Chao moved approval of the following Resolution:

CONTRACT EXTENSION
AXIOM INTERNATIONAL INVESTORS, LLC

ACTIVE EMERGING MARKETS GROWTH EQUITIES
PORTFOLIO MANAGEMENT

<u>RESOLUTION 200728-E</u>

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

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

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

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

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

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

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

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

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

D. FINALIST FIRMS OF THE ACTIVE EMERGING MARKETS SMALL CAP EQUITIES INVESTMENT MANAGER SEARCH AND POSSIBLE BOARD ACTION – Eduardo Park, Investment Officer I presented this item to the Board. Commissioner Elizabeth Lee moved approval of the following Resolution:

CONTRACT AUTHORIZATION
WASATCH ADVISORS INC.
ACTIVE EMERGING MARKETS SMALL CAP EQUITIES
PORTFOLIO MANAGEMENT

RESOLUTION 200728-F

WHEREAS, on June 10, 2019, the Board of Administration (Board) authorized a Request for Proposal for the Emerging Markets Small Cap Equities Mandate investment manager search pursuant to the asset allocation policy approved by the Board on April 10, 2018; and,

WHEREAS, staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, performed an evaluation of the 19 proposals submitted; and,

WHEREAS, on January 14, 2020, the Investment Committee reviewed NEPC's evaluation report of the proposals and concurred with the staff recommendation to advance four firms as semi-finalists in the search; and,

WHEREAS, staff and NEPC conducted further due diligence on the four semi-finalists; and,

WHEREAS, on July 8, 2020, the Investment Committee interviewed three finalists recommended by staff: RBC Global Asset Management (U.S.) Inc., Wasatch Advisors Inc. (Wasatch), and Macquarie Investment Management Advisers, and recommended Wasatch to the Board for consideration for hire; and,

WHEREAS, on July 28, 2020, the Board approved the Investment Committee's recommendation to award a contract to Wasatch.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby authorizes the General Manager to execute the necessary documents, subject to satisfactory business and legal terms and consistent with the following services and terms:

Company Name:	Wasatch Advisors Inc.
Service Provided:	Active Emerging Markets Small Cap Equities Portfolio Management
Estimated Effective Date:	October 1, 2020 through September 30, 2023
Duration:	Three years
Benchmark:	MSCI Emerging Markets Small Cap
Estimated Allocation:	$230 million

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

Items VII-C, X-E, and VIII-A taken out of order.

President Ruiz recessed the Regular Meeting at 12:54 p.m. to convene in Closed Session.

VII

C. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF PAUL AGUILAR AND POSSIBLE BOARD ACTION

X

E. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO CERBERUS INSTITUTIONAL REAL ESTATE PARTNERS V, L.P. AND POSSIBLE BOARD ACTION

VIII

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b)(1): GENERAL MANAGER 2019-20 PERFORMANCE EVALUATION AND POSSIBLE BOARD ACTION

President Ruiz reconvened the Regular Meeting at 1:54 p.m. and announced that the Board unanimously approved the Disability Retirement Application of Paul Aguilar.

Item IX-A taken out of order.

IX

A. CONSIDERATION OF 2019-20 GENERAL MANAGER'S MERIT PAY AND POSSIBLE BOARD ACTION – Elizabeth Lee stated that she was in support of giving the General Manager the full 5% raise as other City General Managers were given a COLA this year, Vice President Wilkinson also voiced his support, a robust discussion regarding equitable pay and the process of merit raises lasted for 24 minutes at which time Commissioner Chao moved to table the item until the next Board meeting, seconded by Commissioner Serrano. President Ruiz tabled this discussion until the next or future meeting of the Board of Administration and directed staff to report back with comparison data from other local and City retirement plans actions during this fiscal crisis.

XI

OTHER BUSINESS – Commissioner Chao asked that staff report to Board the process of filing benefits related claims with LACERS.

XII

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, August 11, 2020 at 10:00 a.m. in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board meetings while public health concerns relating to the novel coronavirus continue.

XIII

ADJOURNMENT – There being no further business before the Board, President Ruiz adjourned the Meeting at 2:20 p.m.

Cynthia M. Ruiz
President

Todd Bouey
Manager-Secretary

Agenda of:	AUG. 25, 2020
Item No:	V-A

MONTHLY REPORT ON SEMINARS AND CONFERENCES ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS (FOR THE MONTH OF JULY 2020)

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 Michael R. Wilkinson

Commissioner Annie Chao
Commissioner Elizabeth Lee
Commissioner Sandra Lee
Commissioner Nilza R. Serrano
Commissioner Sung Won Sohn

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

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: August 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: V-B**

SUBJECT: **LACERS MEMBERS APPEAL PROCESS**

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

Recommendation

That the Board receive and file this report.

Background

At the July 28, 2020 meeting, the Board asked staff to provide information on the process by which Members could appeal a LACERS' decision. The following provides an overview of the multilayer general appeal process employed by LACERS in reviewing requests for reconsideration. The process can vary depending on the type of case and the nature of the remedy sought. However, regardless of the type of case, the Member is afforded due process at each level of review.

The initial appeal process begins at the Division level. Requests for reconsideration related to required documentation or changes to elections made by the Member prior to receiving their first benefit payment are reviewed, approved and/or denied by the Section or Division Manager. If the member is requesting reconsideration of a decision that was made based on Plan provisions, pension law or established case law the appeal is routed to the General Manager. Staff provides the General Manager with a summary of the case, the basis for the lower level decision and any opinion provided by the Office of the City Attorney. If the Member disagrees with the General Manager decision, the Member has leave to ask for reconsideration by the Board.

On June 14, 2016, the LACERS Board adopted Board Rule GMA 1 to delegate authority to the General Manager to approve standard Member benefits (GMA 1 – 2nd paragraph). This is a limited delegation of authority granted to the Board of Administration by Charter Section 1106 and it does not delegate to the General Manager the authority to make any decision that the law requires the Board to make based upon findings of fact (GMA 1 – 3rd paragraph). In addition, to ensure LACERS' primary fiduciary responsibility of delivering benefits to Members and beneficiaries are delivered timely, the Division Manager of the Retirement Services Division is provided the delegated authority to also approve benefits under the annual delegation of authority. There are an average of approximately 80 retirements, over 300 survivor benefits paid out, and approximately 100 Service Purchases processed per month, as well as over hundreds of correspondence that staff processes. Without the aforementioned delegation of authorities, the delivery of benefits could be laborious and lengthy, as Members would have to go through the process of waiting until the benefits are approved by the Board.

The Appeal Process

General Manager Decision (Board Rule GMA-1)

When a Member disagrees with an action taken by LACERS, depending on the specific situation or issue, a Member generally contacts the Unit/Section responsible for the action. The Unit/Section responds to the Member by providing additional information, such as the legal authority and analysis of the reasoning for the decision/response, including the City Attorney's review, if necessary, via email, US mail or by phone.

If the Member is not satisfied with that initial response, the Member is asked to provide their request for consideration in writing and is provided a response approving or denying the matter in writing. The response sets forth the facts, laws and analysis supporting the LACERS decision. This decision also reflects review by the City Attorney to determine if there is legal basis to the appeal. If there is a legal basis to the appeal, the matter is usually resolved at this level, at which time the Member is either granted their request or if the Division or General Manager does not have the authority to make such decision as to the matter the Member is requesting, the City Attorney may recommend that the matter be brought forth to the Board for a hearing. If there is no legal basis to the appeal, the Member is provided the denial response.

If a Member disagrees with the response by the Division Manager, the Member may request an appeal at the next level through the General Manager. The General Manager reviews the case in its entirety and takes into consideration the recommendation by the Division Manager and the opinion of the City Attorney. The General Manager may grant the request by the Member or if warranted may decide to send the request to the Board for a hearing. LACERS considers the decision by the General Manager the final "administrative" action. At this point, the Member is advised that the decision of the General Manager is final and that LACERS considers the matter administratively closed. The Member is also provided information that in the event that the Member wish to timely challenge the decision in court pursuant to the Writ process in Superior Court, under California Code of Civil Procedure, Chapter 2, Section 1094.5 et seq., that their time to do so will run from the date of the final denial letter from the General Manager. Anytime the General Manager denies the request of a Member at this level, the Board is duly notified pursuant to GMA 1 – paragraph 4.

Board Hearing Process

When a case is brought before the Board for consideration, the Board may take one of three actions:

(a) Grant the Member's request;
(b) Request staff to provide further information and bring the case back for further consideration; or
(c) Order a hearing, with or without a request to staff for further information.

If a hearing is scheduled, the hearing follows a process similar to the Disability Retirement Hearing. The Board's decision is the final administrative decision by LACERS. If the Board does not grant the Member's request, the Member may also submit a request for reconsideration. If the Member is not satisfied with the Board decision, the Member is provided information that in the event that the Member wish to timely challenge the decision in court pursuant to the Writ process in Superior Court, under California Code of Civil Procedure, Chapter 2, Section 1094.5 et seq., their time to do so will run from the date of the final Board decision.

<u>Prepared By:</u>
Karen Freire, Chief Benefits Analyst, RSD
Ferralyn Sneed, Sr. Management Analyst, RSD

NG:LP:KF/FS

Attachment: General Manager Authority (GMA-1) Board Rule

General Manager Authority (GMA-1) Board Rule

GMA 1: Pursuant to its authority under Charter section 1106, unless otherwise provided in these Board Rules, the Board of Administration hereby delegates to the General Manager the responsibility to develop and modify LACERS operating policies, procedures, and guidelines in order to facilitate the provision of retirement and retirement-related benefits and management of member, former member, and nonmember accounts, as provided in Chapters 10, 11, 18, and 18.5 of the Los Angeles Administrative Code.

The General Manager is authorized to make benefits determinations as provided in Chapters 10, 11, 18, and 18.5 of the Los Angeles Administrative Code; to approve of such benefits that may be granted pursuant to the provisions of the plan; and to enter into member, former member, and nonmember agreements that facilitate the provision of benefits under the plan. This shall include, upon a member or former member with five or more years of service dying after applying for retirement and after their retirement effective date, but prior to making a continuance election, the eligible surviving spouse or eligible domestic partner being granted a one hundred percent continuance. Benefits approved by the General Manager shall be reported to the Board in a timely manner.

This limited delegation of the authority granted to the Board of Administration by Charter Section 1106 shall not be construed to delegate to the General Manager the authority to make any decision that the law requires the Board to make based upon findings of fact.

Any request by a member, former member, or nonmember, to rescind, revoke, or cancel a prior election made irrevocable by the Charter, Los Angeles Administrative Code, Board Rules, or any other administrative decision adverse to the request shall be presented to the Board for decision making, provided that the General Manager, in consultation with the City Attorney, determines there is a legal basis upon which to grant the member, former member, or nonmember relief. If the General Manager, in consultation with the City Attorney, determines that no such legal basis exists, the General Manager has the authority to make and communicate a final decision in writing, on behalf of LACERS, to deny the request for relief from the irrevocable election or decision. The denial letter issued by the General Manager shall promptly be copied to all Board Members. This final decision making authority for irrevocable elections and decisions shall not be delegated below the level of General Manager.
(Adopted: June 14, 2016)

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: AUGUST 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: VII – A**

Neil M. Guglielmo

SUBJECT: **GENERAL MANAGER DESIGNEE SIGNATURE AUTHORITY AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board adopt the proposed General Manager Designee Signature Authority Resolution, effective upon adoption, superseding prior delegations.

Executive Summary

To ensure that vital department business can continue in the temporary absence of the General Manager, the attached resolution is proposed to designate several individuals with General Manager signature authority, subject to provisions of the City Charter and Administrative Code.

Discussion

The General Manager has the authority to administer the affairs of the department as its Chief Administrative Officer inclusive of certification of expenditures pursuant to the Los Angeles City Charter (LACC) Section 509; approval of benefit payments; and authority to execute contracts of $20,000 or less, and as authorized by the Board. The Board may also authorize, under LACC Section 511(a), the necessary deputies, assistants, and employees of the department and define their duties. In the event that the General Manager is absent or unable to act, assigning signature authority to designees would assure that business transactions are addressed promptly and ensure the continuity of services.

Strategic Plan Impact Statement

The update of the General Manager Designee Signature Authority supports the Strategic Plan Board Governance Goal of maximizing organizational effectiveness and efficiency.

Prepared By: Isaias Cantú, Senior Management Analyst II

NG:DWN:IC

Attachment: 1. Signature Authority for General Manager Designees Proposed Resolution

SIGNATURE AUTHORITY

FOR GENERAL MANAGER DESIGNEES

PROPOSED RESOLUTION

WHEREAS, the Board may delegate authority to the necessary deputies, assistants, and employees of the department and define their duties under Los Angeles City Charter (LACC) Section 511(a); and

WHEREAS, the General Manager is authorized under LACC Section 509 to administer the affairs of the department as its Chief Administrative Officer; and,

WHEREAS, the General Manager determines it is in the best interest of the department to ensure department business is transacted expeditiously on occasions when he is absent or unable to act through the assignment of signature authorities over specific areas of expertise;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby adopts the signature authority resolution for the General Manager designees. If practicable, designees shall seek verbal concurrence from the General Manager. Authority is assigned to the position, rather than the individual. This resolution shall be endorsed by the designees and should there be a change in personnel, a new endorsement certificate may be made and kept on file in the Board office; filed with any other necessary office of City government; or any agencies involved in processing LACERS' investment transactions and custodial responsibilities for the securities of LACERS. The proposed resolution will supersede any previously adopted resolutions related to General Manager Designee signature authority and is effective upon adoption.

A. Department Head or Designees – for the approval of contracts in compliance with the contracting limitations established in the LACC; approval of expenditures; and approval of benefit payments and related transactions.

	Name	Title	Signature
Dept Head:	Neil M. Guglielmo	General Manager	
Designee 1:	Lita Payne	Assistant General Manager	
Designee 2:	Todd Bouey	Assistant General Manager	
Designee 3:	Dale Wong-Nguyen	Chief Benefits Analyst	

B. **Chief Accounting Employees or Designees** – for the withdrawal of money from any fund of any department created by the Charter under the control and management of a board of commissioners.

	Name	Title	Signature
Main:	Mikyong Jang	Dept Chief Accountant IV	
Designee 1:	Jo Ann Peralta	Principal Accountant II	
Designee 2:	Lilian Buranabul	Senior Accountant II	

*** Note: Designees may only sign documents when the CAE is unavailable or absent.**

C. **Financial and Accounting Document Approvers –** for the review, receipt, approval, and signing of financial and accounting documents. This includes the responsibility to review, verify and certify that transactions/information on the document has been checked, received, and are valid. On invoices, this is usually the first signatory as the reviewer/verifier of the invoice.

	Name	Title	Signature
Main:	Mikyong Jang	Dept Chief Accountant IV	
Main:	Dale Wong-Nguyen	Chief Benefits Analyst	
Main:	Alex Rabrenovich	Chief Benefits Analyst	
Main:	Karen Freire	Chief Benefits Analyst	
Main:	Thomas Ma	Information Systems Manager II	
Main:	Rodney June	Chief investment Officer	
Main:	Lin Lin	Departmental Personnel Director	
Main:	Oyewole Rahoof	Departmental Audit Manager	
Designee 1:	Jo Ann Peralta	Principal Accountant II	
Designee 2:	Lilian Buranabul	Senior Accountant II	
Designee 3:	Ann Seals	Senior Management Analyst II	
Designee 4:	Ferralyn Sneed	Senior Management Analyst II	
Designee 5:	Isaias Cantu	Senior Management Analyst II	
Designee 6:	Edeliza Fang	Senior Management Analyst II	
Designee 7:	Edwin Avanessian	Senior Management Analyst II	
Designee 8:	Lauren McCall	Senior Management Analyst II	
Designee 9:	Bruce Bernal	Senior Benefits Analyst II	
Designee 10:	Bryan Fujita	Investment Officer III	

Designee 11:	Wilkin Ly	Investment Officer III	
Designee 12:	Taneda Larios	Senior Management Analyst II	
Designee 13:	Elizabeth Torres	Senior Personnel Analyst I	
Designee 14:	Charlena Freeman	Acting Senior Personnel Analyst I	
Designee 15:	Melanie Rejuso	Internal Auditor IV	

D. Receiver of Goods – for the receivers of goods purchased by the department.

	Name	Title	Signature
Main:	Isaias Cantu	Senior Management Analyst II	
Designee 1:	John Koontz	Senior Management Analyst I	
Designee 2:	Horacio Arroyo	Senior Management Analyst I	
Designee 3:	Dan Goto	Management Analyst	
Designee 4:	Julie Guan	Management Analyst	
Designee 5:	Kristen Szanto	Acting Management Analyst	
Designee 6:	Rosa Velasco	Senior Administrative Clerk	

E. Approvers of Invoices – This section pertains to the assigned employees authorized as approvers of invoices. This is approval for the release of funds, including sufficient budget for this expense. This is indicated as the second signatory on the invoice.

	Name	Title	Signature
Main:	Neil M. Guglielmo	General Manager	
Designee 1:	Lita Payne	Assistant General Manager	
Designee 2:	Todd Bouey	Assistant General Manager	
Designee 3:	Dale Wong-Nguyen	Chief Benefits Analyst	
Designee 4:	Mikyong Jang	Dept Chief Accountant IV	
Designee 5:	Alex Rabrenovich	Chief Benefits Analyst	
Designee 6:	Karen Freire	Chief Benefits Analyst	
Designee 7:	Thomas Ma	Information Systems Manager II	

Designee 8:	Rodney June	Chief investment Officer	
Designee 9:	Lin Lin	Departmental Personnel Director	
Designee 10:	Oyewole Rahoof	Departmental Audit Manager	

F. Paymaster – for the employees that are authorized to pick up payroll, warrants, direct deposit mailers, will call checks, and personal and confidential mail from the Paymaster Section of the Office of the Controller.

	Name	Title	Signature
Main:	Rosa Velasco	Senior Administrative Clerk	
Designee 1:	Angie Ng	Administrative Clerk	
Designee 2:	Callan Mori	Administrative Clerk	
Designee 3:	Giovanni Gonzalez	Administrative Clerk	

G. Payroll – for the assigned employees authorized to approve PAYSR, Access Request Forms including Form 41, Time Reporting, Payroll, Retro, D-Time, Employee Work History (EWH), Confidential Access and Online Direct Deposit (ODD).

	Name	Title	Signature
Main:	Mikyong Jang	Dept Chief Accountant IV	
Designee 1:	Jo Ann Peralta	Principal Accountant II	

H. Purchasing Card – for the employees designated as Department Purchasing Card Coordinators.

	Name	Title	Signature
Main:	Lilian Buranabul	Senior Accountant II	
Designee 1:	Eric Sanchez	Accountant	
Designee 2:	Justin Lam	Accountant	
Designee 3:	Thomas Ma	Information Systems Manager II	
Designee 4:	Ferralyn M. Sneed	Senior Management Analyst II	
Designee 5:	Heather Ramirez	Senior Management Analyst I	
Designee 6:	Daniel Goto	Management Analyst	
Designee 7:	Julie Guan	Management Analyst	

Designee 8:	Rosa Velasco	Senior Administrative Clerk	

I. Elan Emergency Card – for the employees designated as Department Elan Emergency Card Holders.

	Name	Title	Signature
Main:	Todd Bouey	Assistant General Manager	
Designee 1:	Thomas Ma	Information Systems Manager II	
Designee 2:	John Koontz	Senior Management Analyst I	

J. Travel – for the employees designated as Department Travel Coordinators and/or authorized to sign travel-related documents.

	Name	Title	Signature
Main:	Lilian Buranabul	Senior Accountant II	
Designee 1:	Eric Sanchez	Accountant	
Designee 2:	Justin Lam	Accountant	

K. CalTravelStore Approvers – for release of "Blocks" on City account (e.g. business class bookings):

	Name	Title	Signature
Main:	Lita Payne	Assistant General Manager	
Designee 1:	Todd Bouey	Assistant General Manager	
Designee 2:	Dale Wong-Nguyen	Chief Benefits Analyst	
Designee 3:	Mikyong Jang	Dept Chief Accountant IV	

L. Petty Cash – for the employees authorized signatories to approve the distribution of petty cash.

	Name	Title	Signature
Main:	Neil M. Guglielmo	General Manager	
Designee 1:	Lita Payne	Assistant General Manager	
Designee 2:	Todd Bouey	Assistant General Manager	

Designee 3:	Dale Wong-Nguyen	Chief Benefits Analyst	
Designee 4:	Mikyong Jang	Dept Chief Accountant IV	

M. Petty Cash – for the employees designated to perform the function of custodians and supervisors for petty cash.

Division: Fiscal Management Division

Amount: $5,000

Location: General Accounting

	Name	Title	Signature
Main:	Mikyong Jang	Dept Chief Accountant IV	
Designee 1:	Jo Ann Peralta	Principal Accountant II	
Designee 2:	Lilian Buranabul	Senior Accountant II	
Designee 3:	Eric Sanchez	Accountant	

N. Chief Benefits Analyst of Administration Division – for the approval of: 1) expenditures authorized in the budget for the Administration Division; 2) service purchase contracts, certifications of service, and related Service Purchase Section Member transactions; 3) funding requests for building expenditures authorized by the Board in the Capital and Operating Budgets for 977 North Broadway. Designee 1 of the Chief Benefits Analyst is authorized to approve items 1 and 3. Designee 2 is authorized to approve items 1 and 2.

	Name	Title	Signature
Main:	Dale Wong-Nguyen	Chief Benefits Analyst	
Designee 1:	Isaias Cantu	Senior Management Analyst II	
Designee 2:	Edeliza Fang	Senior Management Analyst II	

O. Chief Benefits Analyst of Health Benefits and Wellness Division – for the approval of benefit payments and related transactions; and approval of expenditures authorized in the budget for the Health Benefits and Wellness Division.

	Name	Title	Signature
Main:	Alex Rabrenovich	Chief Benefits Analyst	
Designee 1:	Bruce Bernal	Senior Benefits Analyst II	

P. Chief Benefits Analyst of Retirement Services Division – for the approval of benefit payments and related transactions; and approval of expenditures authorized in the budget for the Retirement Services Division. The Chief Benefits Analyst may delegate to the Senior Management Analyst IIs in the Retirement Services Division the approval of expenditures within the established thresholds specified in the memorandum submitted to the Chief Accounting Employee of LACERS.

	Name	Title	Signature
Main:	Karen Freire	Chief Benefits Analyst	
Designee 1:	Ann Seals	Senior Management Analyst II	
Designee 2:	Ferralyn Sneed	Senior Management Analyst II	

Q. Information Systems Manager – for the approval of expenditures within the System Division's approved budget.

	Name	Title	Signature
Main:	Thomas Ma	Information Systems Manager II	

R. Chief Investment Officer or Investment Officer III – for the approval of investment transactions required within the scope of the contracts approved by the Board; and approval of expenditures within the Investment Division's approved budget.

	Name	Title	Signature
Main:	Rodney June	Chief investment Officer	
Designee 1:	Bryan Fujita	Investment Officer III	
Designee 2:	Wilkin Ly	Investment Officer III	

S. Member Engagement Manager – for the approval of expenditures within the Member Engagement Division's approved budget.

	Name	Title	Signature
Main:	Lita Payne	Assistant General Manager	
Designee 1:	Taneda Larios	Senior Management Analyst II	

T. Departmental Personnel Director – for the approval of expenditures within the Human Resources Division's approved budget.

	Name	Title	Signature
Main:	Lin Lin	Departmental Personnel Director	
Designee 1:	Elizabeth Torres	Senior Personnel Analyst	
Designee 2:	Charlena Freeman	Acting Senior Personnel Analyst I	

U. Internal Audit – for the approval of expenditures within the Internal Audit Division's approved budget.

	Name	Title	Signature
Mail:	Oyewole Rahoof	Departmental Audit Manager	
Designee 1:	Melanie Rejuso	Internal Auditor IV	

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

From: <u>Benefits Administration Committee</u>
Michael R. Wilkinson, Chair
Sandra Lee
Nilza R. Serrano

MEETING: AUGUST 25, 2020
ITEM: VIII - A

SUBJECT: **2021 MAXIMUM SUBSIDY AND REIMBURSEMENT AMOUNTS AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board approve the following maximum 2021 subsidy and reimbursement amounts:

(1) A maximum medical plan premium subsidy of $1,790.80 for Tier 1 Discretionary and Vested Retired Members under Age 65 or enrolled in a Medicare Part B only;
(2) A maximum reimbursement of $1,790.80 for Tier 1 Discretionary and Vested Retired Members under Age 65 or with Medicare Part B only, enrolled in the Medical Premium Reimbursement Program;
(3) A maximum reimbursement of $564.92 for Tier 1 Discretionary and Vested, and Tier 3 Retired Members, with Medicare Parts A and B, and enrolled in the Medical Premium Reimbursement Program; and
(4) A maximum dental subsidy of $44.60 for Tier 1 and Tier 3 Retired Members.

Executive Summary

LACERS provides a variety of health benefits to Retired Members in the forms of subsidies and reimbursements. The Board's role in setting the maximum retiree health subsidies and the Medical Premium Reimbursement Program (MPRP) reimbursement amounts differs based on Los Angeles Administrative Code provisions. Limits on increases to subsidies and reimbursements are based on different factors, including rates of increase on certain medical plans and LACERS' performance compared with the assumed actuarial medical trend rate.

Discussion

At the Committee's meeting on August 11, 2020, staff presented the recommended 2021 maximum subsidy and reimbursement amounts, as detailed in the attached Benefits Administration Committee report. The Committee approved staff's recommendation to forward these to the Board for adoption.

As approved by the Board, there will be a minimal increase in the 2021 medical plan premiums. Maximum subsidies and reimbursement amounts are a reflection of these premiums and adoption of the proposed maximum subsidy and reimbursement amounts will have a minimal impact on Members and increase LACERS' subsidy and reimbursement payments by less than 0.4%.

Maximum dental subsidies reflect those provided for active City employees, which will remain at the 2020 level for 2021.

Conclusion

If the Board approves the Committee's recommendations, the 2021 medical subsidy and reimbursement amounts will increase by less than 0.4%. LACERS' dental subsidy outlays will remain unchanged for 2021.

Strategic Plan Impact Statement

Timely adoption of health benefits allows staff to: 1) Develop Member communications that provide Members sufficient time to make informed health plan decisions; and, 2) update systems in time for the new plan year so that subsidies and reimbursements can be applied correctly. These align with Strategic Plan Goals II (Benefit Delivery Goal – Accurate and timely delivery of member benefits) and V (Board Governance Goal – Uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Bruce Bernal, Senior Benefits Analyst, Health Benefits and Wellness Division

NMG/LP:ar:bb

Attachments: 1. August 11, 2020 Benefits Administration Committee report
2. Proposed Resolution

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BENEFITS ADMINISTRATION COMMITTEE **MEETING: AUGUST 11, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: III**

SUBJECT: **2021 MAXIMUM SUBSIDY AND REIMBURSEMENT AMOUNTS AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend the Board approve the following:

1) A maximum medical plan premium subsidy of $1,790.80 for Tier 1 Discretionary and Vested Retired Members under Age 65 or enrolled in a Medicare Part B only;
2) A maximum reimbursement of $1,790.80 for Tier 1 Discretionary and Vested Retired Members under Age 65 or with Medicare Part B only, enrolled in the Medical Premium Reimbursement Program;
3) A maximum reimbursement of $564.92 for Tier 1 Discretionary and Vested, and Tier 3 Retired Members, with Medicare Parts A and B, and enrolled in the Medical Premium Reimbursement Program; and
4) A maximum dental subsidy of $44.60 for Tier 1 and Tier 3 Retired Members.

Executive Summary

LACERS provides a variety of health benefits to Retired Members in the forms of subsidies and reimbursements. The Board's role in setting the maximum retiree health subsidies and the Medical Premium Reimbursement Program (MPRP) reimbursement amounts differs based on the Los Angeles Administrative Code provisions listed in Attachment 1. Limits on increases to subsidies and reimbursements are based on different factors, including rates of increase on certain medical plans and LACERS' performance, compared with the assumed actuarial medical trend rate (Attachment 2).

Discussion

LACERS administers two tiers of retirement and health benefits.

Tier 1 benefits are available to City employees who were hired prior to February 21, 2016. For Tier 1 retiree medical benefits, there are three categories of Retired Members:

1) Discretionary – these Members retired on or before June 30, 2011;

2) Vested – these Members retired on or after July 1, 2011, and made additional contributions to LACERS; and,
3) Capped – these Members retired on or after July 1, 2011, and did not make additional contributions to LACERS.

Tier 3 retiree medical benefits are available to retired City employees who were hired on or after February 21, 2016.

Established by Ordinance and Do Not Require Board Action

Maximum Medical Plan Premium Subsidies and MPRP Reimbursement Amounts for Tier 1 Capped Retired Members and their Survivors

All medical benefit amounts for these Members and their Survivors are capped at 2011 amounts. The medical subsidy that may be used toward premium costs of covering a dependent is also capped.

Maximum Medical Plan Premium Subsidies for Tier 1 Discretionary and Vested, and Tier 3 Retired Members, Enrolled in Medicare Parts A and B

The maximum subsidy is based on the single-party premium of the LACERS plan in which the Retired Member is enrolled.

Maximum Medical Plan Premium Subsidy and MPRP Reimbursement Amount for Tier 3 Retired Members Under Age 65 or Enrolled in Medicare Part B Only

The maximum subsidy and reimbursement amount is based on the Kaiser two-party non-Medicare plan premium.

Survivor Medical Plan Premium Subsidies and MPRP Reimbursement Amounts for Tier 1 and Tier 3 Retired Members

A Survivor's subsidy amount is based on the Retired Member's years of Service Credit.

- *Survivors Under Age 65 or Enrolled in Medicare Part B Only* – The maximum Survivor subsidy is set by Ordinance and is equal to the single-party premium of the lowest-cost non-Medicare plan. The lowest-cost LACERS non-Medicare plan is the Kaiser Permanente HMO.

- *Survivors Enrolled in Medicare Parts A and B* – The maximum subsidy is set at the single-party premium of the LACERS plan in which the Survivor is enrolled.

Established by Board Resolution

Medical Plan Premium Subsidies

The recommended Maximum Medical Plan Premium Subsidy amounts for the following are:

- Tier 1 Vested Retired Members Under Age 65 or Enrolled in Medicare Part B Only
- Tier 1 Discretionary Retired Members Under Age 65 or Enrolled in Medicare Part B Only

  For Vested Retired Members, increases to the maximum subsidy are no less than the increase to the Kaiser non-Medicare two-party plan premium. The Board has the option to apply the same subsidy increase to Discretionary Retired Members, as long as the increase remains within the Board's authority, as established in Section 4.1111(b) of the Los Angeles Administrative Code (LAAC). For 2021, the Kaiser HMO premium will not increase, so staff recommends that the current maximum subsidy of $1,790.80 be retained for both groups.

Medical Premium Reimbursement Program (MPRP) Reimbursement Maximums

The MPRP is available to Retired Members and Survivors who live outside of California or a LACERS HMO zip code service area. In order to participate, Members enroll in an individual plan and submit proof of premium payment to LACERS. LACERS reimburses premium costs up to the Member's subsidy amount on a quarterly basis.

The recommended Maximum MPRP Reimbursement amounts for the following are:

- <u>Tier 1 Discretionary and Vested Retired Members Under Age 65 or Enrolled in Medicare Part B Only</u>

  The maximum MPRP reimbursement amounts are set similar to the medical subsidies. Given the recommendation to retain the maximum medical subsidy at $1,790.80, it is recommended that the same maximum be applied toward MPRP reimbursements. This will provide Members who are unable to access a LACERS HMO the same amount of subsidy dollars to apply toward non-LACERS medical coverage.

- <u>Tier 1 Discretionary and Vested Retired Members, and Tier 3 Members, Enrolled in Medicare Parts A and B</u>

  Pursuant to the Los Angeles Administrative Code, the Board has the authority to increase the maximum reimbursement amount to an amount not to exceed the one-party premium of LACERS' highest cost Medicare plan. In 2021, the monthly premium for LACERS' highest-cost single-party Medicare Parts A and B medical plan, Anthem Blue Cross Life & Health Medicare Plan, will be $564.92. Staff recommends the maximum reimbursement for MPRP participants enrolled in Medicare Parts A and B be set at $564.92.

Overall Member Impact

The chart below shows the average subsidy and deduction amounts covered Members realized in 2020 and how they will change based on 2021 subsidy decisions. The results demonstrate minimal impact on Members overall.

Member Status	2021 Estimated Population	2020 Subsidy $1,790.80		2021 Subsidy $1,790.80	
		Avg. Monthly Subsidy	Avg. Monthly Deduction	Avg. Monthly Subsidy	Avg. Monthly Deduction
Non-Medicare Retiree	4,715	$1,132.92	$70.20	$1,140.50	$70.69
Non-Medicare Survivor	249	$694.00	$134.77	$698.65	$135.67
Medicare Retiree	8,819	$500.18	$37.54	$503.53	$37.79
Medicare Survivor	1,603	$338.70	$14.03	$340.96	$15.12
All Covered Members	15,386	$680.73	$49.01	$685.29	$49.34

Dental Plan Premium Subsidy

Maximum Retiree Dental Plan Premium Subsidy for Tier 1 and Tier 3 Retired Members

The Retired Member maximum dental plan premium subsidy cannot exceed the maximum dental plan premium subsidy for Active Members. The maximum dental plan subsidy for Active Members of LACERS for plan year 2021 will remain unchanged at $44.60 per month. It is recommended that the maximum dental subsidy for Tier 1 and Tier 3 Retired Members be retained at $44.60.

Strategic Plan Impact Statement

Timely adoption of health benefits allows staff to: 1) Develop Member communications that provide Members sufficient time to make informed health plan decisions; and, 2) update systems in time for the new plan year so that subsidies and reimbursements can be applied correctly. These align with Strategic Plan Goals II (Benefit Delivery Goal – Accurate and timely delivery of member benefits) and V (Board Governance Goal – Uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Alex Rabrenovich, Chief Benefits Analyst, and Bruce Bernal, Senior Benefits Analyst, of the Health Benefits and Wellness Division.

NMG/LP/AR:bb

Attachments:
1) How LACERS Health Subsidy and Reimbursement Amounts Are Set – 2021
2) LACERS Medical Plan Premium Subsidy for Tier 1 Discretionary Retired Members
3) LACERS Historical Medical Subsidy Costs

BAC Meeting: 08/11/20
Item III
Attachment 1

HOW LACERS HEALTH SUBSIDY AND REIMBURSEMENT AMOUNTS ARE SET

Benefit Type	Tier 1 Retired Before July 1, 2011 "Discretionary"	Tier 1 Retired After July 1, 2011, "Vested"	Tier 1 Retired After July 1, 2011, "Capped"	Tier 3
Retiree Medical Subsidy, Under 65 or Medicare Part B Only	Board Resolution	Board Resolution	Ordinance	Ordinance
Retiree Medical Subsidy, Medicare Parts A and B	Ordinance	Ordinance	Ordinance	Ordinance
Retiree Medical Premium Reimbursement Program Reimbursement, Under 65 or Medicare Part B Only	Board Resolution	Board Resolution	Ordinance	Ordinance
Retiree Medical Premium Reimbursement Program Reimbursement, Medicare Parts A and B	Board Resolution	Board Resolution	Ordinance	Board Resolution
Retiree Dental Subsidy	Board Resolution	Board Resolution	Board Resolution	Board Resolution
Survivor Medical Subsidy, Under 65 or Medicare Part B Only	Ordinance	Ordinance	Ordinance	Ordinance
Survivor Medical Subsidy, Medicare Parts A and B	Ordinance	Ordinance	Ordinance	Ordinance
Survivor Medical Premium Reimbursement Program Reimbursement, Under 65 or Medicare Part B Only	Ordinance	Ordinance	Ordinance	Ordinance
Survivor Medical Premium Reimbursement Program Reimbursement, Medicare Parts A and B	Ordinance	Ordinance	Ordinance	Ordinance

LACERS MEDICAL PLAN PREMIUM SUBSIDY FOR TIER 1 DISCRETIONARY RETIRED MEMBERS

The LACERS Board has the authority to increase the maximum medical plan premium subsidy by the amount of the increase in the Kaiser Permanente HMO (non-Medicare) two-party premium. If the three-year average increase in the subsidy is greater than the three-year average assumed actuarial medical trend rate for the same period, the increase must be approved by City Council. City Council may set the increase at any other amount.

The table below shows by how much the Board may increase the 2021 maximum subsidy before hitting the cap imposed by the three-year average assumed actuarial medical trend rate.

	Assumed Actuarial Trend Rate*	% Increase (Cap)	Max. Medical Subsidy Amt. (Cap)
2021	**7.00%**	**0.00% (20.5%)**	**$1,790.80 ($2,157.91)***
2020	7.00%	0.00%	$1,790.80
2019	6.50%	0.00%	$1,790.80
3-yr Average	**6.83**%	**6.83%**	

*The assumed actuarial medical trend rates for coming years may be adjusted during each valuation and may alter the information contained in these tables.

**For the 2021 plan year, based on the increase in the Kaiser non-Medicare HMO premium, the LACERS Board could approve a two-party Kaiser non-Medicare HMO premium increase of up to 20.50% without requiring City Council approval for the associated subsidy increase.

LACERS HISTORICAL MEDICAL SUBSIDY COSTS

BAC Meeting: 08/11/20
Item III
Attachment 3

Year	1999	2000	2001	2002	2003	2004	2005	2005	2007
Maximum Monthly Medical Subsidy	$508.00	$702.00	$702.00	$751.00	$872.00	$883.00	$883.00	$883.00	$983.00
Dollar Increase - Maximum Subsidy		$194.00	$0.00	$49.00	$121.00	$11.00	$0.00	$0.00	$100.00
% Increase - Maximum Subsidy		38.2%	0.0%	7.0%	16.1%	1.3%	0.0%	0.0%	11.3%
Kaiser 2-Party	$409.84	$604.44	$631.56	$679.68	$800.08	$813.87	$870.56	$870.56	$982.74
Dollar Increase - Kaiser 2-Party		$194.60	$27.12	$48.12	$120.40	$13.79	$56.69	$0.00	$112.18
% Increase - Kaiser 2-Party		47.5%	4.5%	7.6%	17.7%	1.7%	7.0%	0.0%	12.9%
Aggregate Medical Premium Increase				17.0%	16.1%	18.2%	-5.2%	-5.2%	12.5%
% Premium Cost Subsidized	88.9%	91.0%	88.4%	90.8%	93.9%	92.0%	92.4%	92.4%	91.1%

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Maximum Monthly Medical Subsidy	$1,022.00	$1,120.00	$1,123.00	$1,190.00	$1,190.00	$1,367.00	$1,464.00	$1,580.08	$1,580.08	$1,736.88	$1,790.80	$1,790.80	$1,790.80	$1,790.80
Dollar Increase - Maximum Subsidy	$39.00	$98.00	$3.00	$67.00	$0.00	$177.00	$97.00	$116.08	$0.00	$156.80	$53.92	$0.00	$0.00	$0.00
% Increase - Maximum Subsidy	4.0%	9.6%	0.3%	6.0%	0.0%	14.9%	7.1%	7.9%	0.0%	9.9%	3.1%	0.0%	0.0%	0.0%
Kaiser 2-Party	$1,021.54	$1,119.58	$1,122.74	$1,189.22	$1,187.24	$1,363.44	$1,459.66	$1,575.74	$1,496.06	$1,652.86	$1,706.78	$1,660.88	$1,626.28	$1,706.78
Dollar Increase - Kaiser 2-Party	$38.80	$98.04	$3.16	$66.48	($1.98)	$176.20	$96.22	$116.08	($79.68)	$156.80	$53.92	($107.46)	($34.60)	$80.50
% Increase - Kaiser 2-Party	3.9%	9.6%	0.3%	5.9%	-0.2%	14.8%	7.1%	8.0%	-5.1%	10.5%	3.3%	-2.7%	-2.1%	4.9%
Aggregate Medical Premium Increase	5.7%	7.1%	4.5%	6.2%	0.2%	7.9%	7.4%	4.8%	4.8%	6.5%	5.4%	-1.2%	1.0%	0.7%
% Premium Cost Subsidized	91.6%	92.5%	91.8%	91.3%	90.9%	92.7%	92.5%	94.0%	94.0%	94.3%	93.7%	94.2%	93.8%	93.4%

MAXIMUM HEALTH PLAN SUBSIDIES AND REIMBURSEMENT AMOUNTS FOR PLAN YEAR 2021

PROPOSED RESOLUTION

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

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

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

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

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

WHEREAS, on August 11, 2020, the Benefits Administration Committee approved forwarding staff's recommended maximum medical plan premium subsidy, reimbursement amounts, and dental subsidy;

WHEREAS, on August 25, 2020, the Board of Administration approved the Committee's recommendations;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Administration hereby adopts the following 2021 health benefit subsidies and reimbursements:

Benefit Type	Tier 1 Retired Before July 1, 2011 "Discretionary"	Tier 1 Retired After July 1, 2011 "Vested"	Tier 3
Retiree Medical Subsidy, <65/Medicare Part B	$1,790.80	$1,790.80	-
Retiree MPRP Reimbursement, <65/Medicare Part B	$1,790.80	$1,790.80	-
Retiree MPRP Reimbursement, Medicare Parts A and B	$564.92	$564.92	$564.92
Retiree Dental Subsidy	$44.60	$44.60	$44.60

August 25, 2020

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

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

MEETING: AUGUST 25, 2020
ITEM: IX – B

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AEGON USA INVESTMENT MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board approve the termination of the contract with Aegon USA Investment Management, LLC for management of an active U.S. high yield fixed income portfolio.

Executive Summary

At its meeting of August 11, 2020, the Committee considered and concurred with staff's recommendation to terminate the contract with Aegon USA Investment Management, LLC (Aegon).

Discussion

Aegon has managed an active U.S. high yield fixed income portfolio for LACERS since June 2013. LACERS' portfolio was valued at $370 million as of July 31, 2020. Aegon rebid for its high yield fixed income mandate under the 2019 High Yield Fixed Income and Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan Mandate Search and was selected as one of three finalist candidates. On January 21, 2020, the Committee interviewed the finalist firms and determined not to advance Aegon for Board consideration and contract award. On February 11, 2020, the Board awarded the contracts for the high yield and the hybrid strategies to Loomis, Sayles & Company, L.P. (Loomis) and DDJ Capital Management, LLC (DDJ), respectively, with the understanding that Aegon's current mandate would be terminated. On February 25, 2020, the Board approved a one-year contract extension with Aegon in order for LACERS to maintain exposure to the high yield fixed income market until contracts with Loomis and DDJ are executed.

On August 11, 2020, the Committee discussed the attached staff report (Attachment 1) recommending the termination of the contract with Aegon. Staff anticipates executing the new contracts with Loomis and DDJ by the end of August 2020. Total funding to these new managers will be approximately $470 million ($235 million each), with $370 million to be derived from the assets currently managed by Aegon and the difference of approximately $100 million to be derived from assets in the State Street Global Advisors Bond Fund passive strategy, pursuant to the asset allocation policy. The Committee concurs with staff's recommendation to terminate the Aegon contract. Should the Board approve this recommendation, staff would initiate the 30-day written notice of termination clause to prepare for the transition of Aegon's assets to fund the Loomis and DDJ strategies.

Strategic Plan Impact Statement

The contract termination with Aegon and transition of the assets to Loomis and to DDJ will allow the fund to maintain a diversified exposure to the U.S. high yield fixed income market, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the transition of assets and the funding of the high yield and the hybrid strategies under the newly hired investment managers is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/JP

Attachments: 1. Investment Committee Recommendation Report dated August 11, 2020
2. Proposed Resolution

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: AUGUST 11, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AEGON USA INVESTMENT MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board the termination of the contract with Aegon USA Investment Management, LLC for management of an active U.S. high yield fixed income portfolio.

Discussion

Aegon USA Investment Management, LLC (Aegon) has managed an active U.S. high yield fixed income portfolio for LACERS since June 2013. LACERS' portfolio was valued at $370 million as of July 31, 2020. On October 23, 2018, the Board approved the High Yield Fixed Income and Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan Mandate Search to evaluate the current marketplace for these strategies. Aegon rebid for its high yield fixed income mandate under this search and was selected as one of three finalist candidates. On January 21, 2020, the Committee interviewed the finalist firms and determined not to advance Aegon for Board consideration and contract award. On February 11, 2020, the Board awarded the contracts for the high yield and the hybrid strategies to Loomis, Sayles & Company, L.P. (Loomis) and DDJ Capital Management, LLC (DDJ), respectively, with the understanding that Aegon's current mandate would be terminated.

On February 25, 2020, the Board approved a one-year contract extension with Aegon in order for LACERS to maintain exposure to the high yield fixed income market until contracts with Loomis and DDJ are executed. Staff anticipates the full execution of these contracts by the end of August 2020. The approximate $470 million in total funding for Loomis and DDJ will be derived from the $370 million currently managed by Aegon; the remaining $100 million of funding will be derived from the State Street Global Advisors Bond Fund passive strategy. Staff recommends termination of the Aegon contract now in order to initiate the 30-day written notice of termination clause and prepare for the transition of Aegon's assets to fund the Loomis and DDJ strategies.

Strategic Plan Impact Statement

The contract termination with Aegon and transition of the assets to Loomis and to DDJ will allow the fund to maintain a diversified exposure to the U.S. high yield fixed income market, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the transition of assets and the funding of the high yield and the hybrid strategies under the newly hired investment managers is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/JP

CONTRACT TERMINATION
AEGON USA INVESTMENT MANAGEMENT, LLC
ACTIVE U.S. HIGH YIELD FIXED INCOME
PORTFOLIO MANAGEMENT

PROPOSED RESOLUTION

WHEREAS, LACERS' current one-year contract extension with Aegon USA Investment Management, LLC (Aegon) for active U.S. high yield fixed income portfolio management expires on March 31, 2021; and,

WHEREAS, Aegon rebid for its high yield fixed income mandate under the 2019 High Yield Fixed Income and Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan Mandate Search and was selected as one of three finalist candidates; and,

WHEREAS, the Investment Committee interviewed the finalist firms and determined not to advance Aegon for Board consideration and contract award; and,

WHEREAS, the Board awarded the contracts for the high yield and the hybrid strategies to Loomis, Sayles & Company, L.P. (Loomis) and DDJ Capital Management, LLC (DDJ), respectively, with the understanding that Aegon's current mandate would be terminated; and,

WHEREAS, on August 25, 2020, the Board approved the Investment Committee's recommendation to terminate the contract with Aegon in order to allow staff to initiate the 30-day written notice of termination clause and prepare for the transition of Aegon's assets to fund the Loomis and DDJ strategies.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby approves the termination of the Aegon contract and authorizes LACERS staff to redeploy Aegon's assets to fund the high yield and the hybrid high yield/bank loan mandates awarded to Loomis and DDJ, respectively.

August 25, 2020

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

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

MEETING: AUGUST 25, 2020
ITEM: IX – C

SUBJECT: **INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board approve the proposed revisions to the Private Real Estate Investment Policy, as redlined in Attachment 1 of this report.

Executive Summary

On August 11, 2020, the Committee considered and concurred with staff's proposed revisions to the Private Real Estate Investment Policy.

Discussion

LACERS maintains a comprehensive Investment Policy (IP) pursuant to Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund to "…provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system."

Pursuant to Section V.I of the IP, the Board shall review the IP at least annually, with the assistance of staff and investment consultants, and revise as necessary. As part of the Board's 2020 annual IP review, staff and LACERS' real estate investment consultant, The Townsend Group, propose minor amendments to the Private Real Estate Investment Policy, as contained in the attached redline document. These amendments clarify and refine the definitions of core real estate investments and non-core opportunistic investments (pages 212 to 214 of the redlined IP in Attachment 1).

On August 11, 2020, the Investment Committee reviewed and discussed the proposed amendments with staff. The Committee inquired about the use of leverage in core and core plus investments; staff explained that the policy and due diligence process provided proper safeguards to prevent undue risk in this category. The Committee recommends that the Board approve the proposed amendments. Upon the Board's approval, staff may make additional minor administrative edits to be incorporated in the revised version of the IP.

Strategic Plan Impact Statement

Revising the LACERS Investment Policy Statement will help LACERS optimize long-term risk adjusted investment returns (Goal IV); uphold good governance practices which affirm transparency, accountability and fiduciary duty (Goal V); and maximize organizational effectiveness and efficiency (Goal VI).

Prepared By: Eduardo Park, Investment Officer II, Investment Division

RJ/BF/WL/EP:jp

Attachments: 1. Private Real Estate Investment Policy – Proposed Revisions (Redline Version)
2. Private Real Estate Investment Policy – Original Version as of February 12, 2019

XI. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Marketing Cessation Policy and in the Third Party Marketing and Referrals Disclosure Policy, as amended from time to time by the Board, or as stated under applicable laws or regulations.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. Real Estate

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). As further set forth in this policy, LACERS also may invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case by case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. Fiduciary Standards

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. Scope

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describes the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

LACERS has engaged the Real Estate Consultant on a non-discretionary basis to assist the Board and Staff to implement and revise this policy when necessary. The Real Estate Consultant's duties and responsibilities, which are further defined in Section XI.H include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to Staff and the Board with respect to the Portfolio. The Real Estate Consultant shall conduct a review of this policy, in conjunction with the Board and Staff, at a minimum of once per year, and set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XI.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value add and core investments.

5. **Inflation-Hedge**

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The Real Estate Portfolio allocation percentage actually achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and control rights generally not available to commingled fund investors.

The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies ~~generally~~are referred to as core and non-core, as defined below. ~~the~~These categories or risk strategies generally define the risk and return levels as ~~three basic risk and return levels ranging from~~ low, medium, and ~~to~~ high risk associated with institutional real estate investments.

a) **Core and Core Plus**

Core

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Core investments may also include high-quality, non-traditional property types (i.e. student housing, medical office, and self-storage) that produce stable income with low risk. Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 9% range (net of fees) with annual standard deviation near 8.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied.

Core Plus

Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, high quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 10% to 14% range (net of fees). Value add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies (“REOCs”). Value add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 15% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. ~~Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk.~~ Opportunistic investments typically have even greater appreciation potential than value add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XI.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts ("REITs"). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. **Manager/Investment Concentration**

LACERS shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

a) **Maximum Manager Allocation**

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) **Maximum Investment Commitment**

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) **Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $150 million in committed capital inclusive of LACERS pending commitment.

d) **Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio’s leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio’s leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. **Investment Processes And Procedures**

1. **Real Estate Manager Selection Process**

The following discussion describes the process by which LACERS selects Managers and investments.

a) **Universe of Potential Manager Candidates**

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will initiate a Manager search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's initial search criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.

b) **Minimum Manager Qualifications**

The Manager requirements include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) **Manager Candidate Summaries**

The Real Estate Consultant shall complete a brief summary of the Manager candidates, including descriptions of their meeting Manager criteria established by the Real Estate Consultant and the Staff relating to the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen these summaries and recommend the finalists for further due diligence to the Staff.

d) **Due Diligence**

After the Staff and the Real Estate Consultant select the finalists, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related factors. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

After completing the due diligence report, the Staff and Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties authorized by the Board.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant and the Staff, when available, will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings or in face-to-face or telephone meetings either at the Manager's or the Real Estate Consultant's offices.

Investment Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Quarterly Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

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LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

H. **Roles and Responsibilities**

The following duties have been established to manage the risks involved with investing in real estate. Set forth below is the delegation of the major roles and responsibilities of each participant:

1. **Duties of the Board**

   a) Establish the role of the real estate investment program in light of the total System objectives.

   b) Consider and act upon the allocation to real estate and approve any adjustments to the allocation which may from time to time be necessary.

   c) Review, consider, and act upon the Annual Real Estate Policy (objectives, policies and procedures) and the Annual Real Estate Strategic Plan for the real estate program.

   d) Interview, consider, and act upon the Staff recommendations for selection, retention and removal of the Managers and/or the Real Estate Consultant and the selection of Manager investments.

   e) Review the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan.

2. **Duties of the Staff**

   a) Update and communicate with the Board and Investment Managers on issues and matters of the Policy.

   b) Provide the Board with education and analysis that is independent from the Real Estate Consultant to the extent time and resources allow.

c) Be familiar with the asset class and stay informed of developments in industry as they occur.

d) Oversee the Real Estate Consultant's preparation of the Annual Real Estate Strategic Plan for the real estate program. Present and recommend, along with the Real Estate Consultant, the Real Estate Policy and Annual Real Estate Strategic Plan to the Board.

e) Oversee and review the performance of the Real Estate Consultant and the Managers on a periodic basis and discuss findings with the Board.

f) Bring any non-conforming items or significant issues to the attention of the Board.

g) Document and monitor funding procedures.

h) Complete any other activity as directed by the Board.

i) Conduct or assist in conducting due diligence on prospective investment opportunities as LACERS' resources permit.

j) Prepare investment documentation with the Real Estate Consultant.

3. **Duties of the Manager**

a) Adhere to reporting and performance measurement standards and comply with generally accepted accounting principles ("GAAP") applied on a fair market value basis.

b) Execute and perform its duties under the terms of the investment vehicle documents.

c) Provide timely requests for capital contributions.

d) Provide quarterly financial statements, annual reports and other investment information requested by the Staff and/or the Real Estate Consultant.

e) Conduct annual meetings to discuss important developments regarding investment and management issues.

4. **Duties of the Real Estate Consultant**

LACERS engaged the Real Estate Consultant on a non-discretionary basis to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the real estate portfolio. The Real Estate Consultant's services to LACERS may include but are not limited to the following:

a) Report directly to the Board and Staff on matters of policy.

b) Bring any non-conforming items or significant issues to the attention of the Staff and the Board.

c) Complete due diligence on potential investments and preparation of the due diligence report.

d) Monitor the performance of the real estate portfolio and compliance with approved policy.

e) Prepare the Annual Real Estate Strategic Plan for the real estate program, in consultation with the Staff, and present the Annual Real Estate Strategic Plan to the Board for review.

f) Review proposed real estate investments and recommend prudent investments, structure and controls. Monitor investments and ventures through completion and disposition, including satisfaction of conditions to funding, partnership and financial issues.

g) Assist Staff with the review and preparation of documents related to new investments approved by the Board consistent with the Real Estate Consultant’s recommendation.

h) Prepare reports on a periodic basis for the Board to evaluate investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan. The evaluation system shall provide such information as may be required by LACERS to understand and administer its investments.

i) Assist the Staff in the Annual Real Estate Strategic Plan portfolio review.

j) Provide Board and Staff with topical research and education on investment subjects that are relevant to LACERS.

k) Review the Real Estate Policy annually and notify LACERS if any revisions are needed thereto.

l) Monitor and report on risk.

m) Provide ongoing real estate education information and seminars to the Board.

5. **Duties of Legal Counsel**

The legal counsel selected by LACERS along with the Office of the Los Angeles City Attorney will represent LACERS and will review all real estate related documents and provide advice for special investment situations as needed.

Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

XI. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Marketing Cessation Policy and in the Third Party Marketing and Referrals Disclosure Policy, as amended from time to time by the Board, or as stated under applicable laws or regulations.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. Real Estate

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). As further set forth in this policy, LACERS also may invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case by case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. Fiduciary Standards

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. Scope

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describes the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

LACERS has engaged the Real Estate Consultant on a non-discretionary basis to assist the Board and Staff to implement and revise this policy when necessary. The Real Estate Consultant's duties and responsibilities, which are further defined in Section XI.H include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to Staff and the Board with respect to the Portfolio. The Real Estate Consultant shall conduct a review of this policy, in conjunction with the Board and Staff, at a minimum of once per year, and set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XI.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value add and core investments.

5. **Inflation-Hedge**

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the “Target Allocation”). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The Real Estate Portfolio allocation percentage actually achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and control rights generally not available to commingled fund investors.
The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies generally define the three basic risk and return levels ranging from low to high risk associated with institutional real estate investments. These categories or strategies are referred to as core and core plus or non-core, as defined below.

a) **Core and Core Plus**

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 9% range (net of fees) with annual standard deviation near 8.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied. Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, high quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 10% to 14% range (net of fees). Value add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies (“REOCs”). Value add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 15% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Investment may also be made in non-traditional property types (e.g., self-storage) which typically contain greater risk. Opportunistic investments typically have even greater appreciation potential than value add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XI.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts ("REITs"). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. **Manager/Investment Concentration**

LACERS shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

a) **Maximum Manager Allocation**

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) **Maximum Investment Commitment**

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) **Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $150 million in committed capital inclusive of LACERS pending commitment.

d) **Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. Investment Processes And Procedures

1. Real Estate Manager Selection Process

The following discussion describes the process by which LACERS selects Managers and investments.

a) Universe of Potential Manager Candidates

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will initiate a Manager search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's initial search criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.

b) Minimum Manager Qualifications

The Manager requirements include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) Manager Candidate Summaries

The Real Estate Consultant shall complete a brief summary of the Manager candidates, including descriptions of their meeting Manager criteria established by the Real Estate Consultant and the Staff relating to the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen these summaries and recommend the finalists for further due diligence to the Staff.

d) Due Diligence

After the Staff and the Real Estate Consultant select the finalists, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related factors. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) Selection and Approval

After completing the due diligence report, the Staff and Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties authorized by the Board.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant and the Staff, when available, will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings or in face-to-face or telephone meetings either at the Manager's or the Real Estate Consultant's offices.

Investment Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Quarterly Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

H. Roles and Responsibilities

The following duties have been established to manage the risks involved with investing in real estate. Set forth below is the delegation of the major roles and responsibilities of each participant:

1. **Duties of the Board**
   a) Establish the role of the real estate investment program in light of the total System objectives.
   b) Consider and act upon the allocation to real estate and approve any adjustments to the allocation which may from time to time be necessary.
   c) Review, consider, and act upon the Annual Real Estate Policy (objectives, policies and procedures) and the Annual Real Estate Strategic Plan for the real estate program.
   d) Interview, consider, and act upon the Staff recommendations for selection, retention and removal of the Managers and/or the Real Estate Consultant and the selection of Manager investments.
   e) Review the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan.

2. **Duties of the Staff**
   a) Update and communicate with the Board and Investment Managers on issues and matters of the Policy.
   b) Provide the Board with education and analysis that is independent from the Real Estate Consultant to the extent time and resources allow.
   c) Be familiar with the asset class and stay informed of developments in industry as they occur.
   d) Oversee the Real Estate Consultant's preparation of the Annual Real Estate Strategic Plan for the real estate program. Present and recommend, along with the Real Estate Consultant, the Real Estate Policy and Annual Real Estate Strategic Plan to the Board.
   e) Oversee and review the performance of the Real Estate Consultant and the Managers on a periodic basis and discuss findings with the Board.
   f) Bring any non-conforming items or significant issues to the attention of the Board.
   g) Document and monitor funding procedures.
   h) Complete any other activity as directed by the Board.
   i) Conduct or assist in conducting due diligence on prospective investment opportunities as LACERS' resources permit.

j) Prepare investment documentation with the Real Estate Consultant.

3. **Duties of the Manager**

a) Adhere to reporting and performance measurement standards and comply with generally accepted accounting principles (“GAAP”) applied on a fair market value basis.

b) Execute and perform its duties under the terms of the investment vehicle documents.

c) Provide timely requests for capital contributions.

d) Provide quarterly financial statements, annual reports and other investment information requested by the Staff and/or the Real Estate Consultant.

e) Conduct annual meetings to discuss important developments regarding investment and management issues.

4. **Duties of the Real Estate Consultant**

LACERS engaged the Real Estate Consultant on a non-discretionary basis to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the real estate portfolio. The Real Estate Consultant’s services to LACERS may include but are not limited to the following:

a) Report directly to the Board and Staff on matters of policy.

b) Bring any non-conforming items or significant issues to the attention of the Staff and the Board.

c) Complete due diligence on potential investments and preparation of the due diligence report.

d) Monitor the performance of the real estate portfolio and compliance with approved policy.

e) Prepare the Annual Real Estate Strategic Plan for the real estate program, in consultation with the Staff, and present the Annual Real Estate Strategic Plan to the Board for review.

f) Review proposed real estate investments and recommend prudent investments, structure and controls. Monitor investments and ventures through completion and disposition, including satisfaction of conditions to funding, partnership and financial issues.

g) Assist Staff with the review and preparation of documents related to new investments approved by the Board consistent with the Real Estate Consultant’s recommendation.

h) Prepare reports on a periodic basis for the Board to evaluate investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan. The evaluation system shall provide such information as may be required by LACERS to understand and administer its investments.

i) Assist the Staff in the Annual Real Estate Strategic Plan portfolio review.

j) Provide Board and Staff with topical research and education on investment subjects that are relevant to LACERS.

k) Review the Real Estate Policy annually and notify LACERS if any revisions are needed thereto.

l) Monitor and report on risk.

m) Provide ongoing real estate education information and seminars to the Board.

5. **Duties of Legal Counsel**

The legal counsel selected by LACERS along with the Office of the Los Angeles City Attorney will represent LACERS and will review all real estate related documents and provide advice for special investment situations as needed.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: AUGUST 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IX – D**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $20 MILLION TO OCEANSOUND PARTNERS FUND, LP**

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

Recommendation

That the Board receive and file this notice of the commitment of up to $20 million in OceanSound Partners Fund, LP.

Executive Summary

OceanSound Partners Fund, LP, will focus on private equity investments primarily in the government technology, communications, industrial technology, and enterprise information technology sectors.

Discussion

Consultant Recommendation
Aksia TorreyCove Partners LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to $20 million in OceanSound Partners Fund, LP (the Fund), a middle market buyout strategy managed by OceanSound Partners, LP (the Firm or GP). Fund management and incentive fees are comparable to similar strategies and the Firm, as general partner, will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2020 Strategic Plan adopted by the Board on December 10, 2019.

OceanSound is a new general partnership with LACERS and meets the criteria as an Emerging Investment Manager pursuant to the LACERS Emerging Investment Manager Policy

Background
The Firm was founded by Joe Benavides, Ted Coons, and Jeff Kelly in 2018 to invest in U.S. technology and technology-service companies operating in business-to-business and business-to-government end markets. Mr. Benavides previously worked with Mr. Coons at Blackstone and with Mr. Kelly at Veritas Capital. Collectively, they have nearly 40 years of experience investing in private equity. The Firm consists of 12 employees, 10 of which are either investment or operations professionals, and maintains one office in New York City.

Investment Thesis

The GP will seek to make six to eight control-oriented investments in domestic, middle market businesses primarily within the government technology, communications, industrial technology, and enterprise information technology sectors. The GP anticipates that the vast majority of transactions will take the form of traditional buyouts, founder recapitalizations, and corporate carve-outs. The GP will target businesses that have positive cash flow and operate in large markets. Other characteristics of target businesses may include high barriers to entry, deeply rooted customer bases, regulatory protection, defensible cost structures, proprietary technology or specialized processes, or distribution capabilities that are difficult to replicate. The GP will focus on companies within subsectors that have displayed consistent growth across economic and political cycles such as cybersecurity, process automation, unmanned systems technology, healthcare information technology, and software.

Placement Agent

The GP engaged with Sixpoint Partners LLC as their placement agent.

Staff Recommendation

Staff concurred with Aksia's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

<u>Strategic Plan Impact Statement</u>

Investment in OceanSound Partners Fund, LP will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

<u>Prepared By:</u> Eduardo Park, Investment Officer II, Investment Division

RJ/BF/WL/EP:jp

Attachments: 1. Aksia TorreyCove Investment Notification
2. Discretion in a Box

Aksia LLC

OceanSound Partners Fund, LP
Investment Notification

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OceanSound Partner Fund, LP

General Partner	• OceanSound Partners, LP
Fund	• OceanSound Partners Fund, LP
Firm Founded	• 2019
Strategy	• Buyouts
Sub-Strategy	• Small Buyouts
Geography	• North America
Team	• Seven investment professionals, three Executive Partners
Senior Partners	• Joe Benavides, Ted Coons, Jeff Kelly
Office Locations	• New York
Industries	• Government technology, industrial and enterprise technology, communications
Target Fund Size	• $550.0 million
Investment Amount	• $20.0 million

Investment Highlights

- OceanSound represents an opportunity to support a spin-out firm / first-time-fund that is led by a diverse founder.
- Two of the Firm's senior professionals, Joe Benavides and Jeff Kelly, worked together previously as senior investment professionals at another private equity firm that focused on a similar strategy.
- The Firm's ability and willingness to undertake highly complex transactions should help OceanSound avoid traditional competition from generalist private equity sponsors.

OceanSound Partners Fund, LP

Firm and Background

- OceanSound was founded in 2019 by Joe Benavides, Ted Coons, and Jeff Kelly to invest in U.S. technology and technology-enabled services companies operating in business-to-government and business-to-business end markets.

- Collectively, the Firm's senior professionals have nearly 40 years of combined private equity investment experience at institutions such as Veritas, Blackstone, H.I.G. Capital, and Technology Crossover Ventures.

- The Firm currently employs seven investment professionals, including three Partners, one Principal, one Vice President, and two Associates. OceanSound also maintains three Executive Partners that provide industry expertise to the Firm's investment professionals.

Investment Strategy

- The Fund will seek to make six to eight control-oriented investments in U.S.-based technology companies, generally operating in regulated end markets such as defense, enterprise IT, and communications.

- Platform companies will have enterprise values between $150.0 million and $750.0 million with equity requirements between $75.0 million and $140.0 million.

- OceanSound anticipates the vast majority of transactions will take the form of traditional buyouts, founder recapitalizations, and corporate carve-outs.

- Given the exposure to government-related businesses, OceanSound is focused on companies serving bi-partisan priorities that have displayed growth across economic and political cycles.

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INTERESTS IN THE FUND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ANY STATE OR OTHER SECURITIES LAWS OR THE LAWS OF ANY NON-U.S. JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD FOR INVESTMENT ONLY TO QUALIFYING INVESTORS PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS (INCLUDING NON-U.S. JURISDICTIONS) WHERE THE OFFERING WILL BE MADE. THERE WILL BE NO PUBLIC MARKET FOR INTERESTS IN THE FUND, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT. INTERESTS IN THE FUND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND ANY APPLICABLE NON-U.S. SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE TRANSFERABILITY OF THE INTERESTS WILL BE FURTHER RESTRICTED BY THE TERMS OF THE FUND'S GOVERNING DOCUMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.

PRIVATE EQUITY INVESTMENT POLICY

Discretion in a Box (Roles and Responsibilities)

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: AUGUST 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IX – E**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $30 MILLION IN THOMA BRAVO FUND XIV, L.P.**

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

Recommendation

That the Board receive and file this notice of the commitment of up to $30 million in Thoma Bravo Fund XIV, L.P.

Executive Summary

Thoma Bravo Fund XIV, L.P. will focus on control buyouts of large software companies and technology-enabled businesses.

Discussion

Consultant Recommendation
Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, recommended a commitment of up to $30 million in Thoma Bravo XIV, L.P. (the Fund), a software and technology-focused buyout strategy managed by Thoma Bravo, LLC (Thoma Bravo or the GP). Fund management and incentive fees are comparable to similar strategies and the GP will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2020 Strategic Plan adopted by the Board on December 10, 2019.

Background
Thoma Bravo, LLC is a successor to Golder Thoma & Co. (Golder Thoma), which was founded in 1980 by Stanley Golder and Carl Thoma. Golder Thoma subsequently became Golder, Thoma, Cressey, Rauner (GTCR). In 1998, GTCR split into two firms, one of which was Thoma Cressey Equity Partners (TCEP), formed by Carl Thoma, Bryan Cressey, and Lee Mitchell. In 2008, TCEP was renamed Thoma Bravo after the addition of Orlando Bravo and the departure of Mr. Cressey. The GP has offices in Chicago (headquarters) and San Francisco, and has 50 investment professionals, 25 operating partners and advisors, and 55 non-investment professionals.

Thoma Bravo is an existing general partner relationship for LACERS, with previous commitments to the following funds:

Fund	Vintage Year	Commitment	Net IRR[1] [2]
Thoma Bravo XI, L.P.	2014	$15 million	30.2%
Thoma Bravo Special Opportunities Fund II, L.P.	2015	$10 million	22.1%
Thoma Bravo Fund XII, L.P.	2016	$25 million	19.3%
Thoma Bravo Discover Fund II, L.P.	2018	$10 million	1.8%
Thoma Bravo Fund XIII, L.P.	2018	$30 million	10.8%

LACERS also committed to six funds managed by GTCR and one fund managed by TCEP.

Investment Thesis
The GP focuses on making investments in highly fragmented industries, with an emphasis on infrastructure software and technology-enabled services. Thoma Bravo XIV, L.P. focuses on large corporate buyouts, whereas the Thoma Bravo Discover Fund III, L.P. and Thoma Bravo Explore Fund, L.P. focus on upper middle market buyouts and lower middle market buyouts, respectively.

Prior to making an investment, the GP identifies operational improvements, which are implemented upon the closing of the investment. Subsequently, the GP seeks to acquire follow-on investments to increase the company's market share and efficiency. Together, these initiatives are intended to transform a company into a larger, more profitable and valuable business that is attractive to public markets and potential buyers. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

Placement Agent
The GP does not outsource its fundraising and does not use placement agents.

Staff Recommendation
Staff concurred with Aksia TorreyCove's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

Strategic Plan Impact Statement

Investment in Thoma Bravo Fund XIV, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Robert King, Investment Officer I, Investment Division

RJ/BF/WL/RK:jp

Attachments: 1. Aksia TorreyCove Investment Notification
2. Discretion in a Box

[1] *Performance as of December 30, 2019*

[2] *Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s)*

Aksia LLC

Thoma Bravo Fund XIV, L.P.
Investment Notification

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Thoma Bravo Fund XIV, L.P.

General Partner	• Thoma Bravo, LLC
Fund	• Thoma Bravo Fund XIV, L.P.
Firm Founded	• 2008
Strategy	• Buyouts
Sub-Strategy	• Large Buyouts
Geography	• Primarily North America
Team[1]	• Six Managing Partners supported by a dedicated team of 22 investment professionals
Senior Partners	• (i) Orlando Bravo; (ii) Scott Crabill; (iii) Seth Boro; (iv) Holden Spaht; (v) Carl Thoma; and (vi) Lee Mitchell
Office Locations	• San Francisco, Chicago
Industries	• Software & tech-enabled businesses
Target Fund Size	• $14.0 billion
Investment Amount	• $30.0 million

Investment Highlights

- The Fund will be managed by an experienced and cohesive team of six Managing Directors who have worked together for almost 20 years, on average.
- The Fund's dedicated team of investment professionals will be augmented a Capital Markets team and a group of Operating Advisors
- Thoma Bravo's Flagship Funds have generated strong returns over time and across multiple economic cycles.
- The Firm and its professionals have specialized in software & tech-enabled businesses for more than a decade.

1. Flagship Funds only, as of March 31, 2020.

Thoma Bravo Fund XIV, L.P.

Firm and Background

- Thoma Bravo's roots trace back to 1980. However, the Thoma Bravo of today essentially began with the Firm's hiring of Orlando Bravo in 1998. From 1998 through 2007, the Firm raised three private equity funds that principally invested in software, tech-enabled services, and healthcare companies. In 2008, the healthcare focused professionals spun-off and Thoma Bravo was officially created.
- The Flagship platform was the only platform at the Firm until 2015, when the Discover platform was created to target companies at the smaller end of the spectrum after the Flagship platform grew in size and targeted larger businesses. Today, there are three platforms across the Firm (the Explore platform was created in 2020).
- The activities of the Flagship, Discover and Explore platforms will be led by the Firm's six Managing Partners who have worked together on average for almost 20 years. The six Managing Partners are supported by dedicated investment teams for each platform. The dedicated Flagship team includes two Partners, five Principals, five Vice Presidents and ten Associates.

Investment Strategy

- The Fund is expected to invest in 12 to 15 portfolio companies with invested capital of approximately $600.0 - $2.0 billion expected over the life of the investment.
- The Fund will focus on acquiring controlling stakes in software and tech-enabled service companies with enterprise values greater than $900.0 million, largely based in North America.
- Targeted businesses typically have sticky revenue profiles, including subscription-based revenues, income from products or services that are critical to customers, or revenue from relationships that would be costly and disruptive for customers to change.

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INTERESTS IN THE FUND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ANY STATE OR OTHER SECURITIES LAWS OR THE LAWS OF ANY NON-U.S. JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD FOR INVESTMENT ONLY TO QUALIFYING INVESTORS PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS (INCLUDING NON-U.S. JURISDICTIONS) WHERE THE OFFERING WILL BE MADE. THERE WILL BE NO PUBLIC MARKET FOR INTERESTS IN THE FUND, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT. INTERESTS IN THE FUND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND ANY APPLICABLE NON-U.S. SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE TRANSFERABILITY OF THE INTERESTS WILL BE FURTHER RESTRICTED BY THE TERMS OF THE FUND'S GOVERNING DOCUMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.

NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.

PRIVATE EQUITY INVESTMENT POLICY

Discretion in a Box (Roles and Responsibilities)

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: AUGUST 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IX – F**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $20 MILLION IN THOMA BRAVO DISCOVER FUND III, L.P.**

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

Recommendation

That the Board receive and file this notice of the commitment of up to $20 million in Thoma Bravo Discover Fund III, L.P.

Executive Summary

Thoma Bravo Discover Fund III, L.P. will focus on control buyouts of upper middle market software companies and technology-enabled businesses.

Discussion

Consultant Recommendation
Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, recommended a commitment of up to $20 million in Thoma Bravo Discover Fund III, L.P. (the Fund), a software and technology-focused buyout strategy managed by Thoma Bravo, LLC (Thoma Bravo or the GP). Fund management and incentive fees are comparable to similar strategies and the GP will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2020 Strategic Plan adopted by the Board on December 10, 2019.

Background
Thoma Bravo, LLC is a successor to Golder Thoma & Co. (Golder Thoma), which was founded in 1980 by Stanley Golder and Carl Thoma. Golder Thoma subsequently became Golder, Thoma, Cressey, Rauner (GTCR). In 1998, GTCR split into two firms, one of which was Thoma Cressey Equity Partners (TCEP), formed by Carl Thoma, Bryan Cressey, and Lee Mitchell. In 2008, TCEP was renamed Thoma Bravo after the addition of Orlando Bravo and the departure of Mr. Cressey. The GP has offices in Chicago (headquarters) and San Francisco, and has 50 investment professionals, 25 operating partners and advisors, and 55 non-investment professionals.

Thoma Bravo is an existing general partner relationship for LACERS, with previous commitments to the following funds:

Fund	Vintage Year	Commitment	Net IRR[1] [2]
Thoma Bravo XI, L.P.	2014	$15 million	30.2%
Thoma Bravo Special Opportunities Fund II, L.P.	2015	$10 million	22.1%
Thoma Bravo Fund XII, L.P.	2016	$25 million	19.3%
Thoma Bravo Discover Fund II, L.P.	2018	$10 million	1.8%
Thoma Bravo Fund XIII, L.P.	2018	$30 million	10.8%

LACERS also committed to six funds managed by GTCR and one fund managed by TCEP.

Investment Thesis
The GP focuses on making investments in highly fragmented industries, with an emphasis on infrastructure software and technology-enabled services. Thoma Bravo Discover Fund III, L.P. focuses on upper middle market corporate buyouts, whereas Thoma Bravo Fund XIV, L.P. and Thoma Bravo Explore Fund, L.P. focus on large corporate buyouts and lower middle market buyouts, respectively.

Prior to making an investment, the GP identifies operational improvements, which are implemented upon the closing of the investment. Subsequently, the GP seeks to acquire follow-on investments to increase the company's market share and efficiency. Together, these initiatives are intended to transform a company into a larger, more profitable and valuable business that is attractive to public markets and potential buyers. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

Placement Agent
The GP does not outsource its fundraising and does not use placement agents.

Staff Recommendation
Staff concurred with Aksia TorreyCove's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

Strategic Plan Impact Statement

Investment in Thoma Bravo Discover Fund III, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Robert King, Investment Officer I, Investment Division

RJ/BF/WL/RK:jp

Attachments: 1. Aksia TorreyCove Investment Notification
2. Discretion in a Box

[1] *Performance as of December 30, 2019*

[2] *Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s)*

Aksia LLC

Thoma Bravo Discover Fund III, L.P.
Investment Notification

Aksia
New York • London • Tokyo

www.aksia.com

Thoma Bravo Discover Fund III, L.P.

General Partner	• Thoma Bravo, LLC
Fund	• Thoma Bravo Discover Fund III, L.P.
Firm Founded	• 2008
Strategy	• Buyouts
Sub-Strategy	• Medium Buyouts
Geography	• Primarily North America
Team[1]	• Six Managing Partners supported by a dedicated team of eight investment professionals
Senior Partners	• (i) Orlando Bravo; (ii) Scott Crabill; (iii) Seth Boro; (iv) Holden Spaht; (v) Carl Thoma; and (vi) Lee Mitchell
Office Locations	• San Francisco, Chicago
Industries	• Software & tech-enabled businesses
Target Fund Size	• $3.0 billion
Investment Amount	• $20.0 million

Investment Highlights

- The Fund will be managed by an experienced and cohesive team of six Managing Directors who have worked together for almost 20 years, on average.
- The Fund's dedicated team of investment professionals will be augmented a Capital Markets team and a group of Operating Advisors.
- Thoma Bravo's Discover Funds have generated strong returns since inception of the platform.
- The Firm and its professionals have specialized in software & tech-enabled businesses for more than a decade.

1. Discover Funds only, as of March 31, 2020.

Thoma Bravo Discover Fund III, L.P.

Firm and Background

- Thoma Bravo's roots trace back to 1980. However, the Thoma Bravo of today essentially began with the Firm's hiring of Orlando Bravo in 1998. From 1998 through 2007, the Firm raised three private equity funds that principally invested in software, tech-enabled services, and healthcare companies. In 2008, the healthcare focused professionals spun-off and Thoma Bravo was officially created.

- The Discover platform was created in 2015 to target companies at the smaller end of the spectrum after the Flagship platform grew in size and targeted larger businesses. Today, there are three platforms across the Firm (the Explore platform was created in 2020).

- The activities of the Flagship, Discover and Explore platforms will be led by the Firm's six Managing Partners who have worked together on average for almost 20 years. The six Managing Partners are supported by dedicated investment teams for each platform. The dedicated Discover team includes two Partners, three Vice Presidents, and three Associates.

Investment Strategy

- The Fund is expected to invest in 12 to 15 portfolio companies with invested capital of approximately $200.0 - $400.0 million expected over the life of the investment.

- The Fund will focus on acquiring controlling stakes in software and tech-enabled service companies with enterprise values between $300.0 million and $800.0 million, largely based in North America.

- Targeted businesses typically have sticky revenue profiles, including subscription-based revenues, income from products or services that are critical to customers, or revenue from relationships that would be costly and disruptive for customers to change.

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PRIVATE EQUITY INVESTMENT POLICY

Discretion in a Box (Roles and Responsibilities)

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: AUGUST 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IX – G**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $10 MILLION IN THOMA BRAVO EXPLORE FUND, L.P.**

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

Recommendation

That the Board receive and file this notice of the commitment of up to $10 million in Thoma Bravo Explore Fund, L.P.

Executive Summary

Thoma Bravo Explore Fund, L.P. will focus on control buyouts of lower middle market software companies and technology-enabled businesses.

Discussion

Consultant Recommendation
Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, recommended a commitment of up to $10 million in Thoma Bravo Explore Fund, L.P. (the Fund), a software and technology-focused buyout strategy managed by Thoma Bravo, LLC (Thoma Bravo or the GP). Fund management and incentive fees are comparable to similar strategies and the GP will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2020 Strategic Plan adopted by the Board on December 10, 2019.

Background
Thoma Bravo, LLC is a successor to Golder Thoma & Co. (Golder Thoma), which was founded in 1980 by Stanley Golder and Carl Thoma. Golder Thoma subsequently became Golder, Thoma, Cressey, Rauner (GTCR). In 1998, GTCR split into two firms, one of which was Thoma Cressey Equity Partners (TCEP), formed by Carl Thoma, Bryan Cressey, and Lee Mitchell. In 2008, TCEP was renamed Thoma Bravo after the addition of Orlando Bravo and the departure of Mr. Cressey. The GP has offices in Chicago (headquarters) and San Francisco, and has 50 investment professionals, 25 operating partners and advisors, and 55 non-investment professionals.

Thoma Bravo is an existing general partner relationship for LACERS, with previous commitments to the following funds:

Fund	Vintage Year	Commitment	Net IRR[1] [2]
Thoma Bravo XI, L.P.	2014	$15 million	30.2%
Thoma Bravo Special Opportunities Fund II, L.P.	2015	$10 million	22.1%
Thoma Bravo Fund XII, L.P.	2016	$25 million	19.3%
Thoma Bravo Discover Fund II, L.P.	2018	$10 million	1.8%
Thoma Bravo Fund XIII, L.P.	2018	$30 million	10.8%

LACERS also committed to six funds managed by GTCR and one fund managed by TCEP.

Investment Thesis
The GP focuses on making investments in highly fragmented industries, with an emphasis on infrastructure software and technology-enabled services. Thoma Bravo Explore Fund, L.P. focuses on lower middle market corporate buyouts, whereas Thoma Bravo Fund XIV, L.P. and Thoma Bravo Discover Fund III, L.P. focus on large corporate buyouts and upper middle market buyouts, respectively.

Prior to making an investment, the GP identifies operational improvements, which are implemented upon the closing of the investment. Subsequently, the GP seeks to acquire follow-on investments to increase the company's market share and efficiency. Together, these initiatives are intended to transform a company into a larger, more profitable and valuable business that is attractive to public markets and potential buyers. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

Placement Agent
The GP does not outsource its fundraising and does not use placement agents.

Staff Recommendation
Staff concurred with Aksia TorreyCove's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

Strategic Plan Impact Statement

Investment in Thoma Bravo Explore Fund, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Robert King, Investment Officer I, Investment Division

RJ/BF/WL/RK:jp

Attachments: 1. Aksia TorreyCove Investment Notification
2. Discretion in a Box

[1] *Performance as of December 30, 2019*

[2] *Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s)*

Aksia LLC

Thoma Bravo Explore Fund, L.P.
Investment Notification

Aksia
New York • London • Tokyo

www.aksia.com

Thoma Bravo Explore Fund, L.P.

General Partner	• Thoma Bravo, LLC
Fund	• Thoma Bravo Explore Fund, L.P.
Firm Founded	• 2008
Strategy	• Buyouts
Sub-Strategy	• Small Buyouts
Geography	• Primarily North America
Team[1]	• Six Managing Partners supported by a dedicated team of three investment professionals
Senior Partners	• (i) Orlando Bravo; (ii) Scott Crabill; (iii) Seth Boro; (iv) Holden Spaht; (v) Carl Thoma; and (vi) Lee Mitchell
Office Locations	• San Francisco, CA; Chicago, IL
Industries	• Software and tech-enabled businesses
Target Fund Size	• $1.0 billion
Investment Amount	• $10.0 million

Investment Highlights

- The Fund will be managed by an experienced and cohesive team of six Managing Directors who have worked together for almost 20 years, on average.
- The Fund's dedicated team of investment professionals will be augmented a Capital Markets team and a group of Operating Advisors.
- The Firm and its professionals have specialized in software & tech-enabled businesses for more than a decade.

1. Explore Fund only, as of March 31, 2020.

Thoma Bravo Explore Fund, L.P.

Firm and Background

- Thoma Bravo's roots trace back to 1980. However, the Thoma Bravo of today essentially began with the Firm's hiring of Orlando Bravo in 1998. From 1998 through 2007, the Firm raised three private equity funds that principally invested in software, tech-enabled services, and healthcare companies. In 2008, the healthcare focused professionals spun-off and Thoma Bravo was officially created.

- The Explore platform was created in 2020 to target companies at the smaller end of the spectrum after both the Flagship and Discover platforms grew in size and targeted larger businesses.

- The activities of the Flagship, Discover and Explore platforms will be led by the Firm's six Managing Partners who have worked together on average for almost 20 years. The six Managing Partners are supported by dedicated investment teams for each platform. The dedicated Explore team includes one Principal and two Associates.

Investment Strategy

- The Fund is expected to invest in 10 to 12 portfolio companies with invested capital of approximately $150.0 million or less per investment.

- The Fund will focus on acquiring controlling stakes in software and tech-enabled service companies with enterprise values between $50.0 million and $250.0 million, largely based in North America.

- Targeted businesses typically have sticky revenue profiles, including subscription-based revenues, income from products or services that are critical to customers, or revenue from relationships that would be costly and disruptive for customers to change.

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INTERESTS IN THE FUND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ANY STATE OR OTHER SECURITIES LAWS OR THE LAWS OF ANY NON-U.S. JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD FOR INVESTMENT ONLY TO QUALIFYING INVESTORS PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS (INCLUDING NON-U.S. JURISDICTIONS) WHERE THE OFFERING WILL BE MADE. THERE WILL BE NO PUBLIC MARKET FOR INTERESTS IN THE FUND, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT. INTERESTS IN THE FUND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND ANY APPLICABLE NON-U.S. SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE TRANSFERABILITY OF THE INTERESTS WILL BE FURTHER RESTRICTED BY THE TERMS OF THE FUND'S GOVERNING DOCUMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.

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PRIVATE EQUITY INVESTMENT POLICY

Discretion in a Box (Roles and Responsibilities)

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

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

MEETING: AUGUST 25, 2020
ITEM: IX – H

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO €45.83 MILLION (APPROXIMATELY $50 MILLION) IN CVC CAPITAL PARTNERS VIII, L.P.**

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

Recommendation

That the Board receive and file this notice of the commitment of up to €45.83 million (approximately $50 million) in CVC Capital Partners VIII, L.P.

Executive Summary

CVC Capital Partners VIII, L.P. will focus on large corporate finance buyouts in Europe and North America.

Discussion

Consultant Recommendation
Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, recommended a commitment of up to €45.83 million in CVC Capital Partners VIII, L.P. (the Fund), a large corporate finance strategy managed by CVC Capital Partners (the Firm or CVC). Fund management and incentive fees are comparable to similar strategies and the Firm, as general partner, will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2020 Strategic Plan adopted by the Board on December 10, 2019.

Background
CVC Capital Partners is a global investment firm with €73.4 billion in assets under management as of December 31, 2019. CVC began operations in 1981 as the venture capital arm of Citigroup. In 1993, a management buyout was completed under the name of CVC Capital Partners. Concurrently, CVC transitioned away from venture capital and began pursuing leveraged buyouts of mature businesses. Steve Koltes, Donald Mackenzie, and Rolly van Rappard are the three Co-Chairmen of the Firm. As of December 31, 2019, the platform has 115 investment professionals. The firm maintains 23 offices in

major cities around the globe including London (headquarters), Brussels, Frankfurt, Paris, Singapore and Tokyo.

CVC is an existing general partner relationship for LACERS, with previous commitments to the following funds:

Fund	Vintage Year	Commitment[1]	Net IRR[2 3]
CVC European Equity Partners I, L.P.	1996	$10 million	23.2%
CVC European Equity Partners II, L.P.	1998	$9 million	18.9%
CVC European Equity Partners III, L.P.	2001	$15 million	41.0%
CVC European Equity Partners IV, L.P.	2005	$26 million	16.8%
CVC European Equity Partners V, L.P.	2008	$19 million	16.6%
CVC Capital Partners VII, L.P.	2017	$29 million	17.8%

Investment Thesis
Consistent with the same investment strategy utilized across CVC's prior Flagship Funds, Fund VIII will seek to make control-oriented investments in large, cash-generative businesses primarily based in Europe and North America. CVC adds value through assisting portfolio companies with strategy, hiring, mergers and acquisitions, and operational improvements. The exit strategy will include sales to financial and strategic buyers, initial public offerings, secondary sales, and recapitalizations.

Placement Agent
The GP does not outsource its fundraising and does not use placement agents.

Staff Recommendation
Staff concurred with Aksia TorreyCove's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

Strategic Plan Impact Statement

Investment in CVC Capital Partners VIII, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Clark Hoover, Investment Officer I, Investment Division

RJ/BF/WL/CH:jp

Attachments: 1. Aksia TorreyCove Investment Notification

[1] *Dollar amounts shown are USD equivalents if the funds were denominated in euros.*

[2] *Performance as of December 30, 2019*

[3] *Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s)*

2. Discretion in a Box

Aksia LLC

CVC Capital Partners VIII, L.P.
Investment Notification

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CVC Capital Partners VIII, L.P.

General Partner	• CVC Capital Partners
Fund	• CVC Capital Partners VIII, L.P.
Firm Founded	• 1981
Strategy	• Buyouts
Sub-Strategy	• Large Buyouts
Geography	• Primarily Europe and North America
Team[1]	• 115 investment professionals
Senior Partners[1]	• Co-Chairmen (3), Managing Partners (19), Partners (11)
Office Locations[1]	• London (HQ), Amsterdam, Brussels, Copenhagen, Frankfurt, Jersey, Luxembourg, Madrid, Milan, Paris, Stockholm, Warsaw, New York, San Francisco, São Paulo
Industries	• Diversified
Target Fund Size	• €17.5 billion
Investment Amount	• €45.8 million (~$50.0 million)

Investment Highlights

- The Fund will be managed by an experienced and cohesive team of 33 senior professionals that have an average tenure of over 13 years at CVC.
- CVC's large investment team of over 100 investment professionals is augmented by dedicated Operations and Capital Markets teams.
- CVC's Flagship Funds have generated strong returns over time and across multiple economic cycles.
- CVC will continue the same investment strategy the Firm successfully utilized across the prior Flagship Funds.

1. Flagship Funds only, as of March 31, 2020.

CVC Capital Partners VIII, L.P.

Firm and Background

- CVC began operations in Europe as part of Citigroup in 1981 under the name Citicorp Venture Capital. In 1993, the senior executives negotiated independence from Citicorp and formed CVC Capital Partners.

- The Firm is organized around two separate platforms: private equity and private credit. Both platforms are further comprised of fund families that maintain dedicated investment teams. The private equity funds include the Flagship Funds, Asia Funds, Strategic Opportunities Funds, and Growth Funds.

- CVC's Flagship Funds are led by a large team of over 100 seasoned professionals. Investment professionals are largely organized by country or region to drive sourcing efforts with local enterprises and intermediaries.

Investment Strategy

- The Fund will pursue control-oriented buyouts and recapitalizations of mid- to large-sized companies primarily domiciled in Europe and North America.

- CVC targets fundamentally sound, well managed, cash-generative businesses that exhibit defensible market positions, predictable cash flows, and a diversified customer base.

- The portfolio will be comprised of 30 to 40 companies with enterprise values between €500.0 million and €5.0 billion. Equity checks are expected to range from €150.0 million and €1.0 billion.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.

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NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.

PRIVATE EQUITY INVESTMENT POLICY

Discretion in a Box (Roles and Responsibilities)

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: AUGUST 25, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IX – I**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO €35.24 MILLION (APPROXIMATELY $40 MILLION) IN VITRUVIAN INVESTMENT PARTNERSHIP IV**

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

Recommendation

That the Board receive and file this notice of the commitment of up to €35.24 million (approximately $40 million) in Vitruvian Investment Partnership IV.

Executive Summary

Vitruvian Investment Partnership IV will focus on technology companies and technology-enabled service companies.

Discussion

Consultant Recommendation
Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, recommended a commitment of up to €35.24 million in Vitruvian Investment Partnership IV (the Fund), a technology-focused growth strategy managed by Vitruvian Partners, LLP (the Firm or Vitruvian). Fund management and incentive fees are comparable to similar strategies and the Firm, as general partner, will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2020 Strategic Plan adopted by the Board on December 10, 2019.

Background
Vitruvian Partners has €5 billion in assets under management and was one the first private equity firms of scale to focus exclusively on technology and technology-enabled investments across Europe. The firm was founded in 2006 by Toby Wyles, Ian Riley, Mike Risman, David Nahama, and Mark Harford to pursue growth investments and growth buyouts in the European middle market. Prior to co-founding Vitruvian, Messrs. Wyles, Risman, and Nahama worked together at Apax Partners, whereas Messrs. Riley and Harford were investment professionals at BC Partners and Bridgepoint Capital, respectively. Today, Vitruvian is led by Messrs. Risman, Managing Partner, and Nahama, Senior Partner.

The firm has offices in London (headquarters) Munich, Stockholm, Luxembourg, San Francisco and Shanghai. Vitruvian is a new general partner relationship for LACERS.

Investment Thesis
Vitruvian has been focused on making equity investments in technology companies and technology-enabled service companies for more than a decade. Consistent with prior funds, Vitruvian Investment Partnership IV will invest in high-growth middle market businesses throughout Europe. A portion of the fund may invest in companies domiciled outside of Europe. Vitruvian is a thematic investor and pursues roughly 10 to 12 investment themes at any given time. Themes typically fall within the technology, healthcare, business services, and financial services sectors, and current themes include travel technology, pharmaceutical supply chain technology, and digital marketplaces.

Placement Agent
The GP did not use a placement agent in connection with LACERS' investment.

Staff Recommendation
Staff concurred with Aksia TorreyCove's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

Strategic Plan Impact Statement

Investment in Vitruvian Investment Partnership IV will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2020 Strategic Plan, which is expected to help LACERS optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Clark Hoover, Investment Officer I, Investment Division

RJ/BF/WL/CH:jp

Attachments: 1. Aksia TorreyCove Investment Notification
2. Discretion in a Box

Aksia LLC

Vitruvian Investment Partnership IV
Investment Notification

Aksia
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Vitruvian Investment Partnership IV

General Partner	• Vitruvian Partners, LLP
Fund	• Vitruvian Investment Partnership IV
Firm Founded	• 2006
Strategy	• Buyouts / Growth Equity
Sub-Strategy	• Medium Buyouts
Geography	• Pan-European
Team	• ~50 investment professionals
Senior Partners	• Mike Risman, Ian Riley, David Nahama
Office Locations	• London, Munich, Stockholm, Luxembourg, San Francisco, Shanghai
Industries	• Primarily technology, tech-enabled services, and healthcare-tech
Target Fund Size	• €3.75 billion
Investment Amount	• €35.2 million (~$40.0 million)

Investment Highlights

- Vitruvian was one of the first private equity firms to focus almost exclusively on high-growth, technology-oriented businesses in the European middle market. This focus has led to an established network and made Vitruvian a well-known investor in the space.
- Vitruvian's investment professionals will be supported by a group of seven Special Partners and nine Value-Add Advisors.
- The Firm has generated strong returns since inception across multiple market environments.
- Vitruvian employs a flexible approach to portfolio construction with balanced exposure to various sectors, geographies, transaction types, and portfolio company stages.

Vitruvian Investment Partnership IV

Firm and Background

- Vitruvian Partners was founded in 2006 by Toby Wyles, Ian Riley, Mike Risman, David Nahama, and Mark Harford to pursue growth equity and growth buyout investments in the European middle market.
- Over time, Toby Wyles, Mark Harford, and Ian Riley scaled back their involvement and Mike Risman rose to become the day-to-day leader while David Nahama became the most senior Partner behind Risman.
- Today, Vitruvian continues to be led by Risman and Nahama with support from a group of investment professionals that includes nine Partners, eight Managing Directors, and ~30 junior professionals.

Investment Strategy

- The Fund will target high-growth middle market business in Europe. Vitruvian has a Pan-European mandate and has historically deployed the most capital to the U.K., DACH, and Nordic regions.
- Vitruvian is a thematic investor and pursues roughly 10 to 12 investment themes at any given time, which typically fall within the technology, tech-enabled services and healthcare-tech sectors.
- Investments are classified as either Core or Cortex investments. Core investments consist of controlling stakes in cash-generative, middle market businesses. The Cortex portfolio is comprised of minority stakes in disruptive technology companies that are expected to be synergistic to the Core portfolio.
- The Fund will target approximately 25 investments with enterprise values between €75.0 million and €250.0 million. Investments will typically require between €35.0 million and €250.0 million of equity.

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PRIVATE EQUITY INVESTMENT POLICY

Discretion in a Box (Roles and Responsibilities)

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s)	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

Aksia TorreyCove Partners LLC

Secondary and Co-Investment Update

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- Slides 3 – 8:
  - Secondary Update & Recommendation
- Slides 9 – 13:
  - Co-Investment Update & Recommendation

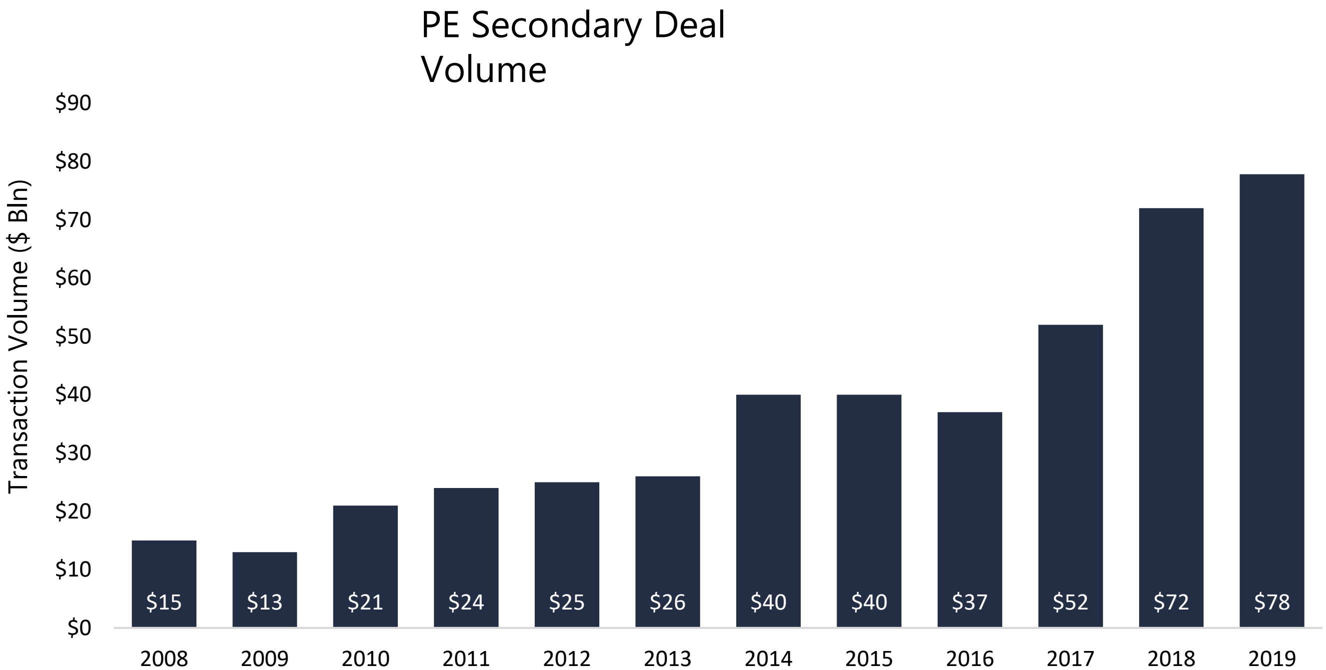
Reminder – Why Investors Buy Secondary Fund Interests

Benefits to Buyers	
Potential Returns	• Opportunity to buy assets at a discount to Net Asset Value ("NAV")
Additive to Portfolio Construction	• Ability to manage the portfolio diversification by manager, vintage, geography, strategy, etc.
Helps Alleviate J-Curve Effects	• If purchased at a discount, value creation could be immediate • Focuses on shorter duration investments
Mitigate Blind Pool Risks	• Focus on an existing portfolio and valuations • Maturing assets may provide visibility on potential exits

Reminder – Why Investors Sell Secondary Fund Interests

Benefits to Sellers	
Manage Portfolio Exposure Proactively	• Realign sub-asset class exposure • Realign underlying geographic or industry exposure • Reduce vintage year risk • Proactively manage exposure to regulatory, strategic or other unexpected changes
Refocus on Best GPs	• Ability to exit poorly performing managers • Increase exposure to core relationships
Lock In Returns	• Capture returns achieved through existing portfolios • Redeploy capital into more productive assets
Increase Liquidity	• Immediate liquidity rather than orderly sell down of portfolio
Reduce Administrative Burden	• Reduce the number of GP relationships that must be managed

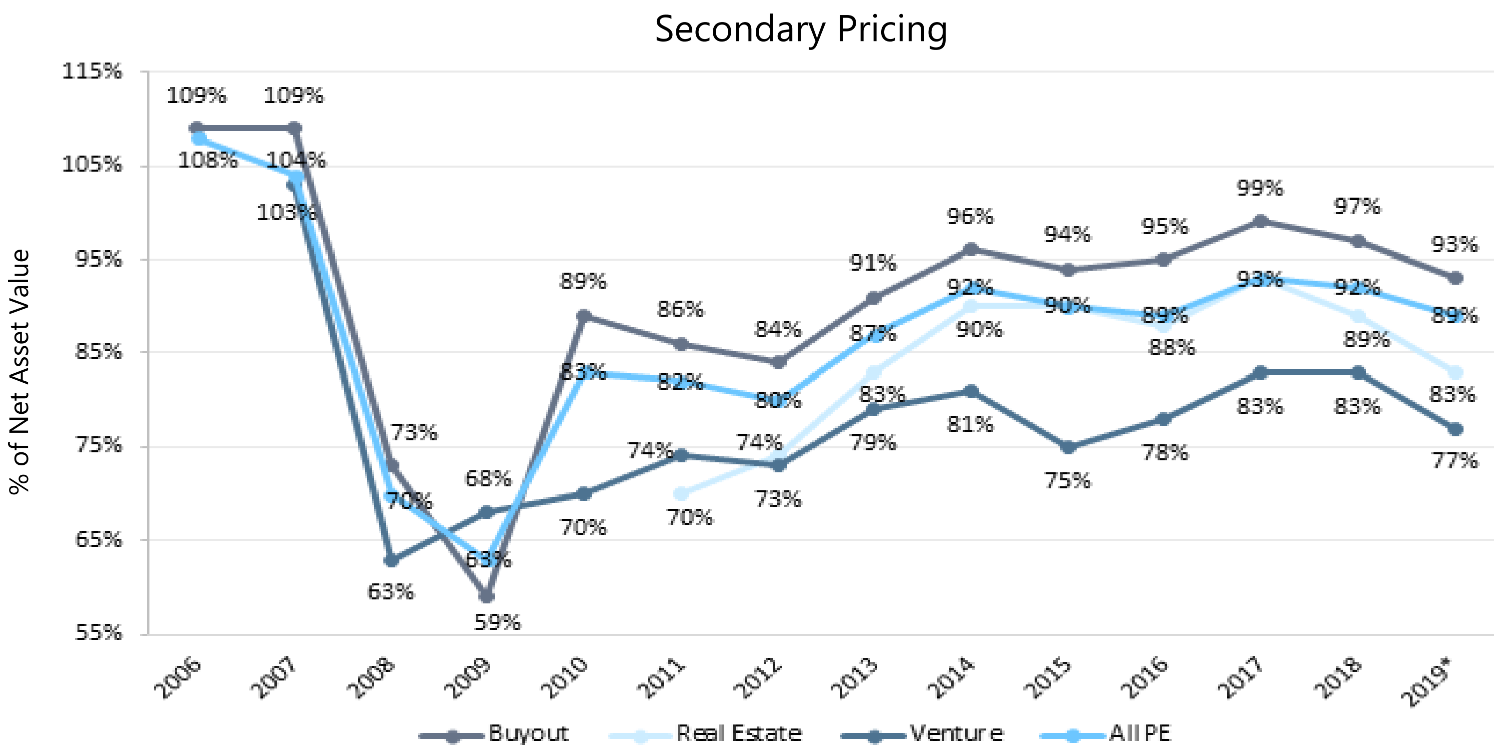
Secondary Deal Volume Has Increased over the Last Decade



Sources: 2008 – 2018: Coller Capital, "The Private Equity Secondary Market," 2020; 2019 :Setter Capital, "Volume Report FY 2019."

- In 2019, there was ~$78 billion of PE secondary transaction volume - a record year marking the third consecutive annual increase
- However, it appears that COVID-19 has created uncertainty about future valuations, write-downs, and potential write-offs – which has shifted the dynamics in the secondary market
- With this uncertainty, buyers and sellers are understandably having a difficult time agreeing on pricing

The Secondary Market Has Shifted in the First Half of 2020



Sources: Coller Capital, "The Private Equity Secondary Market," 2020 and Greenhill "Global Secondary Market Trends and Outlook," January 2020.

- Average discounts for the first half of 2020 have not been reported yet
- Some LP’s are under significantly more pressure than others, with forced sellers having to accept large discounts
- GP led restructurings have increased and are expected to continue to accelerate

The Secondary Market Has Shifted in the First Half of 2020

Summary of Recent Developments

- During the Global Financial Crisis, private equity secondary transaction volume dropped due to the pricing volatility and uncertain conditions at the time
- While information for the first half of 2020 isn't available yet, we believe COVID-19's impact on the economy has been significant – with both Limited Partners and General Partners feeling the effects
- COVID-19 has created uncertainty about future valuations, write-downs, and no one knows what the ultimate shape of the recovery will look like
- This uncertainty has fundamentally shifted the dynamics in the secondary market

The Secondary Market Has Shifted in the First Half of 2020

Updated Recommendation

- We believe a portfolio sale in this environment could potentially demand a large discount to net asset value and should no longer be a near term priority

- Today may be more of a “Buyers Market” as opposed to a “Sellers Market”

- Transactions that occur during the near-term (prior to the release of Q2 valuations) are likely to be attributable to distressed parties forced to sell assets (likely at a large discount)

- Therefore, we believe a tactical shift is warranted – it is time to consider committing capital to a secondary fund as opposed to pursuing a portfolio sale

- Of note, LACERS has invested in secondary funds historically, so this would not represent a change in strategy

Reminder – Potential Benefits of Co-Investing

- Direct co-investments are investments sourced by Limited Partners, where the Limited Partner invests capital directly alongside a General Partner in a specific deal
- Indirect co-investments are investments made by Limited Partners into 3rd party vehicles where the 3rd party sources and executes multiple co-investments on behalf of the Limited Partner

Economic Incentives	• Direct PE co-investments are often done on a no fee, no carry basis or at least a reduced fee basis • Indirect co-investments can often be accessed at lower fees than traditional private equity funds

Ability to Manage Exposures Proactively	• Allows for greater control over:
	  • The pace of investment
	  • Vintage year exposure
	  • Geographic and sector exposures

Increased Appeal as a Limited Partner	• Co-investments help bridge a "gap" for General Partners, allowing them to pursue larger investments while maintaining diversification at the fund-level • Participating in a co-investment may help with primary fund access
Ancillary Due Diligence Benefits	• Co-investing alongside a private equity firm can provide insight into that firm's processes, investment insights and execution
Alleviation of the J-Curve	• There is effectively no j-curve effect for most co-investments, which helps mitigate the j-curve of the broader portfolio

Aksia

Recommended Co-Investment Approach – Walk Before We Run

Approach	Description	Key Benefits	Issues to Consider
In-House Approach	• 100% internal program, typically with a dedicated pool of capital • Dedicated staff resources (typically 2+ professionals) required to source, evaluate, and execute investments • Deal flow driven by Staff using Client's primary commitments as well as other GP's	• Staff evaluates each opportunity independently and has complete control • Typically no management fee or carried interest on PE investments • Dedicated staff adds depth to the investment team	• Change in LACERS' PE Policy required • Significant resources required to develop internal processes, policies, and controls • Added expense of a dedicated team • Less diversification than a commingled vehicle
Third Party Approach ***Recommended Approach***	• **Can pursue either commingled funds or Separately Managed Accounts ("SMA")** • **Deal flow largely driven by the Third Party, with limited Staff involvement** • **Third Party evaluates each opportunity and largely has discretion**	• **Once engaged, a third party approach can be implemented relatively quickly** • **Typically generates a wider funnel of deal flow than other approaches** • **Typically no management fee or carried interest on primary PE fund investments** • **Results in diversified portfolio of co-investments** • **Third Party interests are aligned**	• **Third Party typically receives a combination of reduced management fee and / or reduced carry** • **Limited control over investments once capital has been committed**
Harvest From Core Relationships Approach	• Consultant and Staff identify pre-established investment parameters • Deal flow driven by Client's primary commitments only • Deals that meet specified parameters are executed	• Typically focuses on a core group of Client's high conviction managers that have been re-underwritten within last few years • Effectively gains additional exposure to deals already in Client's portfolio, at the lowest price point • Typically no management fee or carried interest on PE investments	• Relying primarily on the initial fund-level diligence • No guarantee that deal flow will ultimately emerge • Less diversification than a commingled vehicle

While Similar, Commingled Funds and SMAs Have Important Differences

	Description	Key Benefits	Issues to Consider
Separately Managed Account ("SMA")	• A SMA or "Fund of One" is managed at arms length by a 3rd party with input from the LP – similar to a traditional GP / LP relationship • Some combination of management fee and carried interest are associated with a commitment • Typically larger commitment threshold (>$100M)	• Tailored to Client's specifications • Single fund structure, with LPA customized to Client's requirements • Potentially lower fees and better terms depending on commitment amount and negotiating power • LP's can commit set amount of capital • Higher levels of deal flow compared to in-house approach	• Additional layer of fees • Potential commitment size requirements • Limited control after setting out initial parameters
Commingled Co-Investment Fund	• Traditional GP / LP relationship • 3rd party manager uses their own relationships to find and secure co-investments • Possibly tied to a fund-of-funds business or larger asset management platform • Management fee and carried interest associated with a commitment	• Few LP resources required • Likely a more diversified portfolio • LP's can commit a set amount of capital • Higher levels of deal flow compared to in-house approach • May contain fund level leverage, needs due diligence	• Additional layer of fees • Very limited control overall • Risk of allocation issues and adverse selection

Commingled Funds and SMAs Are Similar to Traditional PE Funds from a Governance Standpoint

Approach	Similarities	Differences

Separately Managed Account ("SMA")	• Traditional GP / LP relationship governed by a limited partnership agreement
	• One commitment is made upfront and capital is drawn down over time
	• Capital is returned over time as investments are realized
		• LP's can have meaningfully more control over how and when capital is deployed, including:
		  ◦ Number and size of investments
		  ◦ Sectors and geographies of focus
		  ◦ GP relationships to target
		  ◦ Deployment rate
		• LPs can typically negotiate veto rights on all investments
		• LPs may have the ability to negotiate better terms depending on the size of investment
		• Ability to terminate the relationship is higher

Commingled Co-Investment Fund	• Traditional GP / LP relationship governed by a limited partnership agreement • One commitment is made upfront and capital is drawn down over time at the GP's discretion • Capital is returned over time as investments are realized • LP has limited control or ability to influence investments once a commitment is made • Typically, most LP's are "term takers" • Ability to terminate the relationship is limited	• Typically a shorter investment period (~3-5 years) compared to traditional PE funds (~5-6 years) • Typically a shorter term (~7-10 years) compared to traditional PE funds (~10-12 years)

Co-Investment Approach – Updated Recommendation

Commingled Fund vs. SMA

- We believe pursuing a Commingled Fund makes the most sense at this point in time
- Commitment amount should be in line with the commitments to traditional PE funds
- Potentially target firms that provide both Commingled Funds and SMAs, leaving open the possibility of migrating to an SMA at some point in the future
- Leverage the relationship for staff and the Board to learn more about co-investments as a subset of the private equity market

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