LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, MAY 12, 2020

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

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 Investment Committee's May 12, 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 (346) 248-7799
Meeting ID# 987 6676 8844

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 Committee Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

Legal Counselor: City Attorney's Office
Public Pensions General Counsel Division

Notice to Paid Representatives

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

Request for services

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, Telecommunication Relay Services (TRS), or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at ***(213) 855-9348*** and/or email at ***ani.ghoukassian@lacers.org***.

Disclaimer to participants

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

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

II. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF MARCH 10, 2020 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. CONTINUED DISCUSSION OF INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO AND POSSIBLE COMMITTEE ACTION

V. PRIVATE CREDIT MANDATE UPDATE AND POSSIBLE COMMITTEE ACTION

VI. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF PARTNERSHIP INTERESTS IN WATERTON RESIDENTIAL PROPERTY VENTURE XIV, L.P. AND POSSIBLE COMMITTEE ACTION**

VII. OTHER BUSINESS

VIII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 9, 2020 at 10:30 a.m. or immediately following the Board Meeting, 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/Committee meetings while public health concerns relating to the novel coronavirus continue.

IX. ADJOURNMENT

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MAY 12, 2020

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

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 Investment Committee's May 12, 2020, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

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

Notice to Paid Representatives
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Request for services
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CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

II. APPROVAL OF MINUTES FOR THE SPECIAL MEETING OF MARCH 10, 2020 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. CONTINUED DISCUSSION OF INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO AND POSSIBLE COMMITTEE ACTION

V. PRIVATE CREDIT MANDATE UPDATE AND POSSIBLE COMMITTEE ACTION

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VII. OTHER BUSINESS

VIII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 9, 2020 at 10:30 a.m. or immediately following the Board Meeting, 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/Committee meetings while public health concerns relating to the novel coronavirus continue.

IX. ADJOURNMENT

MINUTES OF THE REGULAR MEETING
INVESTMENT COMMITTEE
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

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

March 10, 2020

2:11 p.m.

Agenda of: May 12, 2020

Item No: II

PRESENT:	Co-Chair:	Nilza R. Serrano
	Committee Members:	Elizabeth Lee
	Manager-Secretary:	Lita Payne
	Executive Assistant:	Ani Ghoukassian
	Legal Counselor:	James Napier
ABSENT:	Chair:	Sung Won Sohn

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

I

PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION – Co-Chair Serrano asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE REGULAR MEETING OF FEBRUARY 11, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Elizabeth Lee moved approval of the minutes for the Regular Meeting of February 11, 2020, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the 12-month forward calendar and stated that the March 31st Special Investment Committee Meeting is still pending completion of due diligence of Emerging Market Debt managers.

IV

INVESTMENT MANAGER CONTRACT WITH NEUBERGER BERMAN INVESTMENT ADVISERS LLC REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Jimmy Wang, Investment Officer I and Jeremiah Paras Investment

Officer I introduced this item to the Committee and Committee Member Elizabeth Lee moved approval of staff's recommendation, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee, and Co-Chair Serrano -2; Nays, None.

V

INVESTMENT MANAGER CONTRACT WITH BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. REGARDING MANAGEMENT OF MULTIPLE PASSIVE INVESTMENT MANDATES AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II and Jeremiah Paras Investment Officer I introduced this item to the Committee and Committee Member Elizabeth Lee moved approval of staff's recommendation, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

VI

INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer and Ellen Chen, Investment Officer I, presented this item to the Committee and Committee Member Elizabeth Lee moved approval of staff's recommendation, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

VII

INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer and Clark Hoover, Investment Officer I, presented this item to the Committee. Co-Chair Serrano provided staff with direction and to re-introduce this item at a future Investment Committee Meeting. The Committee took no action on this item.

VIII

OTHER BUSINESS – There was no other business.

IX

NEXT MEETING: The next Special Meeting of the Investment Committee is scheduled for Tuesday, March 31, 2020, and the next Regular Meeting of the Investment Committee is scheduled for Tuesday, April 14, 2020, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

X

ADJOURNMENT – There being no further business before the Committee, Co-Chair Serrano adjourned the Meeting at 2:34 p.m.

Nilza Serrano
Co-Chair

Lita Payne
Manager-Secretary

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 12, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **CONTINUED DISCUSSION OF INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Dimensional Fund Advisors LP (DFA) for management of a U.S. Treasury Inflation Protected Securities (TIPS) portfolio.

Executive Summary

Dimensional Fund Advisors LP (DFA) has managed an active U.S. Treasury Inflation Protected Securities (TIPS) portfolio for LACERS since July 2014. LACERS' portfolio was valued at $770 million, as of March 31, 2020. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, have gathered additional pricing comparisons on both passive and active management of a TIPS portfolio as well as considered the feasibility of LACERS staff managing a TIPS portfolio internally. Staff and NEPC continue to support and recommend a three-year contract renewal with DFA.

Discussion

Background
The Committee considered the attached staff recommendation at the January 14, 2020, meeting and requested further information on 1) the feasibility of LACERS staff managing a TIPS portfolio internally and 2) fees for external passive management of a TIPS portfolio. The attached report by NEPC addresses the Committee's request and highlights considerations for internal investment management, which requires substantial technological, compliance, and back-office support resources and costly portfolio management staffing with appropriate TIPS expertise. Additionally, staff and NEPC surveyed managers for an indication of fees charged for externally managed passive TIPS portfolios, as discussed in the *Fee Comparison* section of this report. Based on this research, DFA's fees are highly competitive relative to active and passive managers. Thus, staff and NEPC continue to support active management of a TIPS portfolio by DFA primarily due to cost considerations.

Performance Update

As of March 31, 2020, DFA has outperformed the benchmark, net of fees, on the 2-year, 3-year, 5-year, and since inception time periods, as presented in the table on the next page. DFA is in compliance with LACERS' Manager Monitoring Policy.

Annualized Performance as of 3/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception[1]
DFA - TIPS	1.68	6.54	4.94	3.54	2.87	2.31
Bloomberg Barclays U.S. TIPS Index	1.69	6.85	4.76	3.46	2.67	2.17
% of Excess Return	*-0.01*	*-0.31*	*0.18*	*0.08*	*0.20*	*0.14*

[1] Performance inception date: 7/17/14

DFA's calendar year performance is presented in the table below.

Calendar Year Performance as of 3/31/19 (Net-of-Fees)						
	2019	2018	2017	2016	2015	7/17/14-12/31/14
DFA - TIPS	8.55	-1.15	3.22	5.13	-0.94	-2.86
Bloomberg Barclays U.S. TIPS Index	8.43	-1.26	3.01	4.68	-1.44	-2.31
% of Excess Return	*0.12*	*0.11*	*0.21*	*0.45*	*0.50*	*-0.55*

Fee Comparison

LACERS pays DFA an effective fee of 5 basis points (0.05%), which is approximately $385,000 annually based on the value of LACERS' assets as of March 31, 2020. This fee ranks in the 2nd percentile among its peers in the eVestment U.S. TIPS / Inflation Fixed Income Universe (i.e., 98% of like-managers have higher fees). According to eVestment, fees for a $770 million separate account in the universe of managers who offer TIPS mandates (either active or passive) range from 4 basis points to 75 basis points, with a median fee of 15 basis points.

Below is a table provided by NEPC surveying a universe of passive and active TIPS portfolios and fees charged:

Percentiles	Passive Fee (bps)	Active Fee (bps)
1st	2	4
5th	3	5
25th	3	10
50th	4	15

75th	6	20
95th	9	27
100th	9	75
Number of Strategies	9	37

Staff also surveyed LACERS' current passive managers, BlackRock Institutional Trust Company, RhumbLine Limited Partnership, and State Street Global Advisors for an indication of fees charged for passively managed TIPS portfolios. Fees ranged from 0.5 basis points to 5.5 basis points for separate accounts and 0.5 basis points to 4.5 basis points for commingled vehicles. DFA's fee of 5 bps for an actively managed separate account falls within the range of fees charged by passive TIPS managers.

Staff and NEPC continue to support active management of a TIPS portfolio by DFA due to ease of implementation, low management fees, and value added since inception.

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Plan Impact Statement

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

Prepared By: Barbara Sandoval, Investment Officer II, Investment Division
Ellen Chen, Investment Officer I, Investment Division

RJ/BF/BS/EC:jp

Attachments:
1. Consultant Recommendation – NEPC, LLC
2. Investment Committee Report from January 14, 2020

NEPC, LLC

To: LACERS Investment Committee

From: NEPC, LLC

Date: May 12, 2020

Subject: Consideration of in-house TIPS management

This memo follows up on the discussion held at the January 2020 Investment Committee meeting that addressed a question regarding internal management of parts or all of LACERS moving the investment management of their TIPS portfolio in-house as a means of saving money on the investment management fee. This memo is not meant to be exhaustive, but rather provide some initial information and thoughts for the Investment Committee's consideration.

LACERS currently pays a fee of $384,990 or 5.0 basis points for a buy-and-hold portfolio managed by DFA. DFA focuses on securities in the middle range of the universe's available maturities, typically between 5-20 years from the date of settlement, although they may elect to hold some securities to maturity. DFA usually excludes both the very short and long dated securities and they do not attempt to replicate the index. As noted in our memo to the Investment Committee dated 1/14/2020, this fee ranks in the 2nd percentile of other TIPS products. The only other products in the universe that offer a lower fee are full replication indexed TIPS portfolios and the fee for that type of a portfolio is 4 basis points.

The universe of managers who offer TIPS mandates (either active or passive) is limited. According to the eVestment database, there are 52 investment products offered by 37 different firms. Fees for a $770 million separate account range from 4 basis points to 75 basis points, with a median fee of 15 basis points. The 75 basis point fee is an outlier in the universe and the next most expensive fee is 35 basis points.

TIPS management techniques range from pure index replication to fully active strategies. When active managers try to add value, they do so in a number of different ways including:

- Security selection that takes advantage of pricing inefficiencies
- Inclusion of out of benchmark issues such as nominal government securities and global inflation-linked bonds
- Yield curve and duration management

The strategies employed by passively and semi-passively managed TIPS mandates range from full replication of a benchmark to slight deviations away from a benchmark to add value. For example, some of the slight deviations we've observed managers implement include:

- Focus on securities in the middle range of the universe's available maturities (between 5-20 years) from the date of settlement, excluding both very short and very long dated securities. DFA uses this approach.

- Build portfolios similar to the benchmark, but analyze liquidity patterns, market technicals and break-even rates and adjust modestly with security selection.

The following provides some of the benefits and considerations if LACERS moved the management of the TIPS portfolio away from an outside investment manager.

BENEFITS
- The biggest benefit of moving the management to in-house is the savings on the investment management fees that the Plan would recognize.

CONSIDERATIONS
- There is a layer of fiduciary protection that LACERS currently is provided since DFA is a fiduciary to LACERS. DFA carries E&O insurance should the manager breech LACERS' policy or manager guidelines.
- LACERS may need to secure additional fiduciary insurance in order to manage plan assets in-house.
- LACERS would need to incorporate a compliance system to further safeguard the assets.
- LACERS would need to have the necessary trading and accounting systems in place, staffing expertise, and salary payment of above civil service.
- Since DFA has been hired, they have demonstrated their ability to add value over and above the benchmark after fees.
- Possibility that performance would not meet or exceed the TIPS benchmark if brought in-house.

We believe these are the major issues for LACERS' consideration and we are happy to discuss further.

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE
From: Lita Payne, Executive Officer Lita Payne

MEETING: JANUARY 14, 2020
ITEM: IX

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Dimensional Fund Advisors LP for management of a U.S. Treasury Inflation Protected Securities portfolio.

Executive Summary

Dimensional Fund Advisors LP (DFA) has managed an active U.S. Treasury Inflation Protected Securities (TIPS) portfolio for LACERS since July 2014. LACERS' portfolio was valued at $753 million, as of November 30, 2019. DFA is in compliance with the LACERS Manager Monitoring Policy and staff recommends a three-year contract renewal.

Discussion

Background
DFA manages a U.S. TIPS portfolio for LACERS benchmarked against the Bloomberg Barclays U.S. TIPS Index. DFA's strategy provides protection against inflation by investing in inflation-linked bonds issued by the U.S. Treasury. The strategy offers benchmark-like duration and adds incremental value through yield curve positioning and low portfolio turnover. The portfolio is managed by a team of nine portfolio management professionals led by Alan Hutchinson, Vice President and Portfolio Manager, who has worked at DFA since 2006.

DFA was hired through the 2013 Active U.S. and Global Inflation-Linked manager search process and the Board authorized a three-year contract on February 25, 2014. Subsequently, the Board authorized a three-year contract renewal on January 24, 2017. The current contract expires on June 30, 2020.

Organization
DFA is headquartered in Austin, Texas and has more than 1,000 employees globally. As of November 30, 2019, the firm managed approximately $595 billion in total assets, with $4.6 billion in the TIPS strategy.

Due Diligence

In February 2019, Joseph Chi, Co-head of Portfolio Management and Chairman of the Investment Committee, left the firm. Jeff Fogdall assumed the sole role of Head of Portfolio Management and Chairman of the Investment Committee. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, consider this personnel transition to have no material impact to the firm or investment strategy. DFA's investment philosophy, strategy, and process have not changed over the contract period.

Performance

As of November 30, 2019, DFA has outperformed the benchmark, net-of-fees, on a 3-year, 5-year, and since inception time period, as presented in the table below.

Annualized Performance as of 11/30/19 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception[1]
DFA	-1.29	8.53	3.74	3.22	2.47	2.03
Bloomberg Barclays U.S. TIPS Index	-0.96	8.61	3.75	3.15	2.31	1.92
% of Excess Return	*-0.33*	*-0.08*	*-0.01*	*0.07*	*0.16*	*0.11*

[1]Performance inception date: 7/17/14. Strategy was funded after contract inception date of 7/1/14.

DFA's calendar year performance is presented in the table below.

Calendar Year Performance as of 11/30/19 (Net-of-Fees)						
	1/1/19 – 11/30/19	2018	2017	2016	2015	7/17/14 – 12/31/14
DFA	7.96	-1.15	3.22	5.13	-0.94	-2.86
Bloomberg Barclays U.S. TIPS Index	8.02	-1.26	3.01	4.68	-1.44	-2.31
% of Excess Return	*-0.06*	*0.11*	*0.21*	*0.45*	*0.50*	*-0.55*

DFA is in compliance with the LACERS Manager Monitoring Policy.

Fees

LACERS pays DFA an effective fee of 5.3 basis points (0.053%), which is approximately $400,000 annually based on the value of LACERS' assets as of November 30, 2019. The fee ranks in the 2nd percentile among its peers in the eVestment U.S. TIPS / Inflation Fixed Income Universe (i.e., 98% of like-managers have higher fees).

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

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

Prepared By: Barbara Sandoval, Investment Officer II, Investment Division
Ellen Chen, Investment Officer I, Investment Division

RJ/BF/BS/EC:sg

Attachments: 1. Consultant Recommendation – NEPC, LLC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: January 14, 2020

Subject: Dimensional Fund Advisers LP – U.S. TIPS Contract Renewal

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Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract with Dimensional Fund Advisers, LP ('DFA') for a period of three years from the date of contract expiry.

Background

DFA was funded on July 17, 2014 to provide the Plan with exposure to U.S. Treasury Inflation Protected Securities (U.S. TIPS) within the Plan's Public Real Assets asset class. As of November 30, 2019, DFA managed $753.2 million, or 4.1% of Plan assets. The performance objective is to outperform the Bloomberg Barclays U.S. TIPS Index, net of fees, annualized over a full market cycle (normally three-to-five years). The account is currently in good standing based on LACERS' Manager Monitoring Policy.

DFA was founded in 1981 by University of Chicago MBA students David Booth and Rex Sinquefield, whose intention was to start a fund management firm that would rely fully on academic theories of efficient markets. Papers from Finance Professors Eugene Fama and Kenneth French framed their thinking. Eugene Fama and Kenneth French remain Directors and Consultants to the company today, and the firm maintains its ties to the University of Chicago. Other notable Board Members include George Constantinides of the University of Chicago, Robert Merton of Harvard University, Myron Scholes of Stanford University, and Roger Ibbotson of Yale. Mr. Booth remains at the firm as Founder and Executive Chairman and Mr. Sinquefield retired in 2005. The firm is a private company owned primarily by employees, directors and former employees (70%) and outside investors (30%). Headquartered in Austin, Texas, the firm has offices around the globe and as of September 30, 2019, the firm had $579 billion in assets under management ('AUM') with over 1,400 employees. Approximately $503 billion is managed in mutual funds, $70.8 billion in separately managed accounts and the remainder in commingled investments.

The firm's core philosophy is to focus on a rules-based systematic investment approach that combines academic theory and empirical research. DFA believes that prices in liquid and competitive markets reflect available information about fundamental values and the aggregate risk and return expectations of market participants. They believe that diversification helps reduce uncertainty, manage risk, increase the reliability of outcomes and provide flexibility. They identify and focus on the tradeoffs that matter to targeting market premiums efficiently.

The strategy focuses on securities in the middle range of the universe's available maturities, between five and 20 years from the date of settlement, excluding both very short and very long securities, although it may continue to hold securities as their maturities fall below five years. The rationale for this approach is that there are substitutes such as short Treasuries that provide fairly good protection versus inflation over time and secondly investing beyond 20 years' maturity may provide less favorable returns.

The strategy employs a constant-maturity, low-turnover approach which can generally be described as a buy and hold strategy. The strategy does not seek to replicate the benchmark but instead provide systematic exposure to the asset class in a thoughtful, market-driven, and cost-effective manner. For the portfolio there is one issuer, the U.S. Treasury and there is no limitation on the investments of this issuer. Individual security weightings will be determined to target the duration of the Bloomberg Barclays U.S. TIPS Index.

DFA uses a team approach to investment management. The Investment Policy Committee focuses on any changes to long-term investment strategy through the combined contributions of Portfolio Research, Portfolio Management, and Trading. The Investment Committee supervises day-to-day investment management operations for all portfolios. They do not employ a traditional portfolio manager / research analyst structure. Investment Associates and Portfolio Analysts are part of the team that assists Portfolio Managers in the implementation of policies and procedures for the strategies. DFA's internal research team is comprised of research professionals engaged in academic research and product development.

In February of 2019, Joseph Chi, Co-Head of Portfolio Management and Chairman of the Investment Committee, left the firm. Mr. Chi stayed on as an ex officio member of the investment committee until August, 2019. Jed Fogdall, Co-Head of Portfolio Management and Vice President assumed the sole role of Head of Portfolio Management and Chairman of the Investment Committee. Additions to the Investment Committee over the year ended December 31, 2019 were Allen Pu and Joel Schneider. Additionally, Steve Clark rejoined the Investment Committee in January 2019, after stepping aside in October 2015 to take on additional responsibilities for the firm.

Performance

Referring to Exhibit 1, since August 1, 2014 (the first full month of performance after the account inception date of July 17, 2014), the DFA portfolio has outperformed the Bloomberg Barclays U.S. TIPS Index by 0.10%, returning 2.05%, net of fees, through September 30, 2019. In the five-year period ended September 30, 2019, the portfolio outperformed the index by 0.15% (2.60% vs. 2.45%). In the one-year period ended September 30, 2019, the portfolio outperformed the benchmark by 0.56% returning 7.69%. The portfolio has an information ratio of 0.13 and active risk as measured by tracking error was 0.70% since inception ending September 30, 2019. The portfolio's Sharpe Ratio since inception was 0.28 versus the index of 0.28 indicating that the portfolio has produced returns per unit of risk taken approximately equal to the benchmark.

Referring to Exhibit 2, on a cumulative basis, the portfolio has added cumulative gains since inception with six of the last 12 quarters underperforming, which is below the allowed limit of eight underperforming quarters as written in LACERS' Manager Monitoring Policy. Issue selection and curve positioning have been the largest contributors to returns versus the benchmark.

Fees

The DFA portfolio has an asset-based fee of 0.05% annually. The fee ranks in the 2nd percentile among its peers in the eVestment U.S. TIPS/ Inflation Fixed Income Universe. In other words, 98% of the 37 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

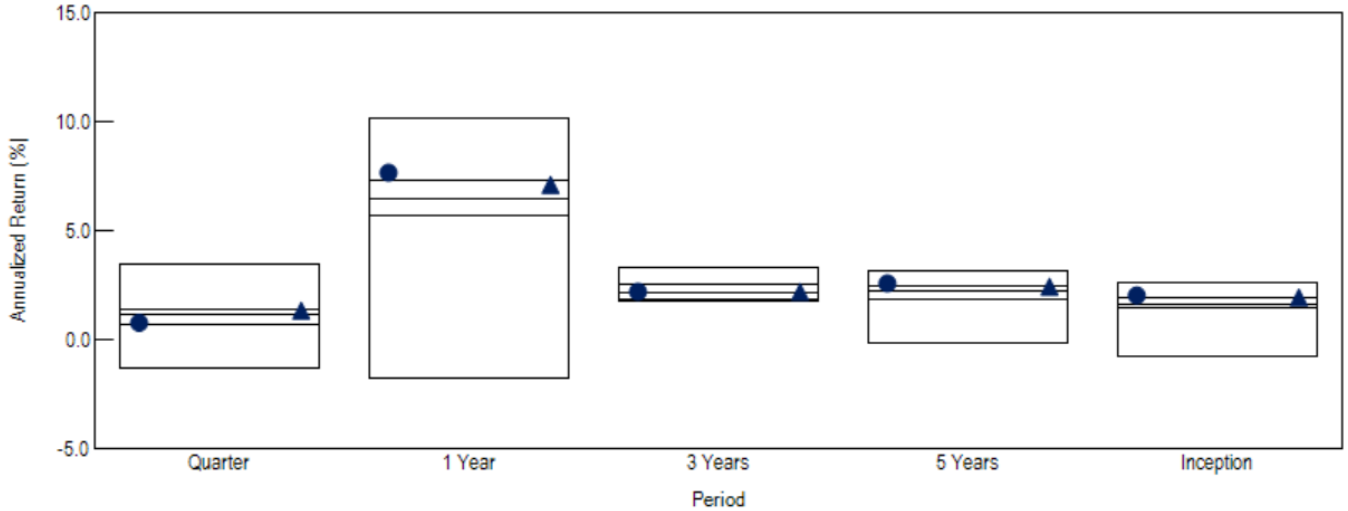
DFA has outperformed its benchmark index over the past five years and since inception ended September 30, 2019. The team has been relatively stable in the past three-to-five years. The firm's understandable systematic approach to fundamental investing may lead to favorable outcomes in the long-run. NEPC recommends a three-year contract renewal.

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

NEPC, LLC

Exhibit 1

eV US TIPS / Inflation Fixed Inc Net Return Comparison
Ending September 30, 2019



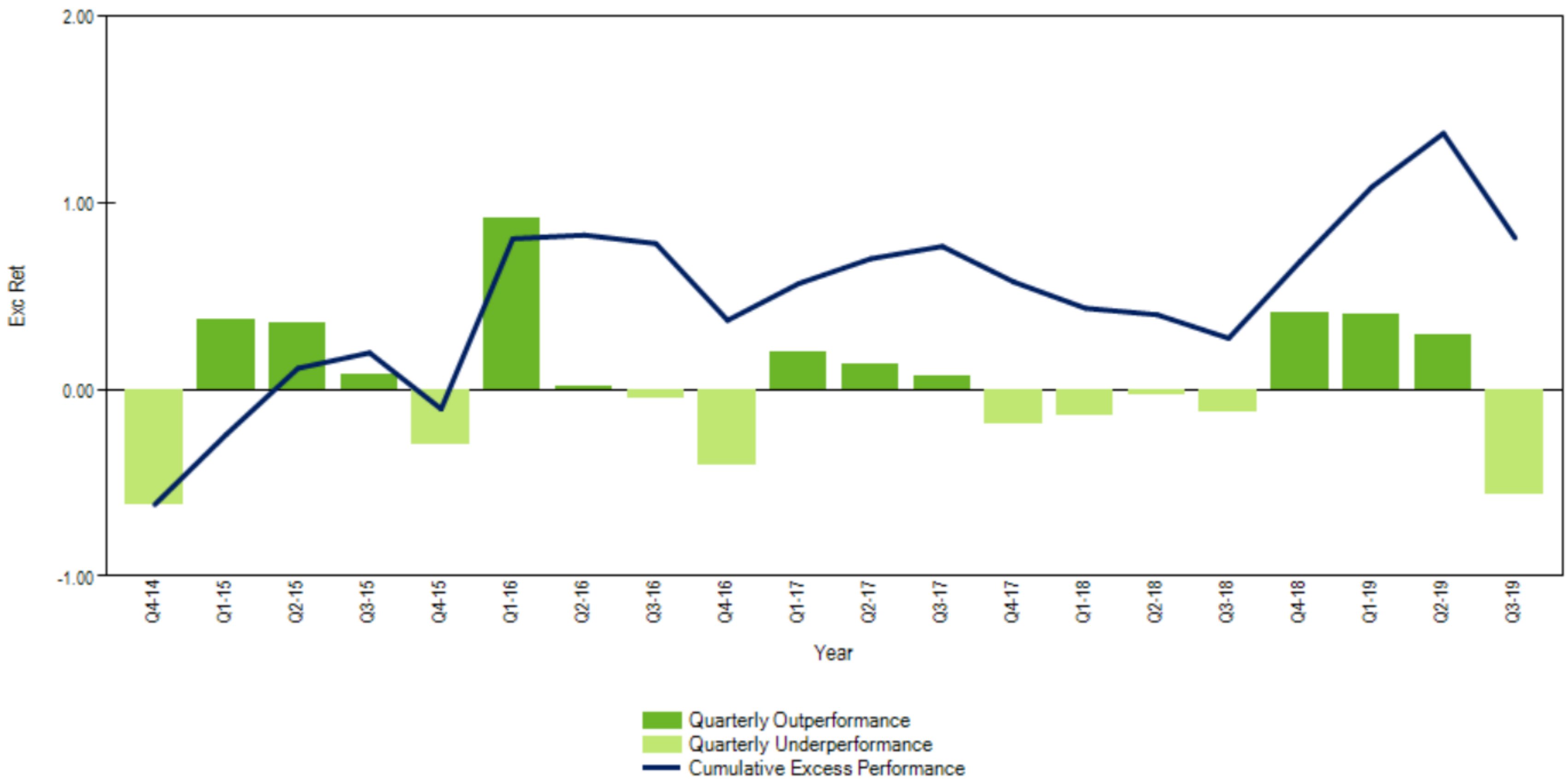
	Return (Rank)									
5th Percentile	3.48		10.20		3.30		3.16		2.62	
25th Percentile	1.41		7.31		2.54		2.45		1.96	
Median	1.18		6.50		2.16		2.26		1.63	
75th Percentile	0.69		5.69		1.87		1.87		1.48	
95th Percentile	-1.32		-1.74		1.76		-0.17		-0.74	
# of Portfolios	20		19		19		18		18	
● **DFA US TIPS**	0.78	(68)	7.69	(15)	2.21	(41)	2.60	(17)	2.05	(18)
▲ **BBgBarc US TIPS TR**	1.34	(38)	7.13	(34)	2.21	(41)	2.45	(25)	1.95	(26)

NEPC performance record starts from the first full month of performance.

NEPC, LLC

Exhibit 2

Quarterly and Cumulative Excess Performance



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 12, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **PRIVATE CREDIT MANDATE UPDATE AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board:

1. Rescission of the contract award to Alcentra Limited for the non-U.S. portion of the Private Credit Mandate search; and

2. Redeployment of the initial $100 million commitment that was approved for Alcentra Limited to Crescent Capital Group LP.

Executive Summary

On July 23, 2019, the Board awarded contracts to four finalists for the Private Credit Mandate search. The Board also approved initial funding of $100 million each to Benefit Street Partners L.L.C. (Benefit Street) and Alcentra Limited (Alcentra) for the U.S. and non-U.S. portions of the mandate, respectively, with funding for Monroe Capital LLC (Monroe) and Crescent Capital Group LP (Crescent) to occur at a future date to be determined by the Committee and Board. During the contracting process, staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, were notified of significant and unexpected turnover of senior Alcentra personnel. Based on these organizational changes, staff and NEPC recommend termination of the contracting process with Alcentra and redeployment of Alcentra's initial $100 million commitment to Crescent.

Discussion

Background
On June 11, 2019, the Investment Committee (Committee) interviewed Benefit Street Partners L.L.C. (Benefit Street) and Monroe Capital LLC (Monroe) as finalists for the U.S. portion of the Private Credit Mandate search; and Alcentra Limited (Alcentra) and Crescent Capital Group LP (Crescent) as finalists for the non-U.S. portion of the search. After interviewing the finalist firms, the Committee directed staff to explore the option of retaining all four finalist firms while initially funding Alcentra and Benefit Street. On July 9, 2019, the Committee reconvened to discuss staff's findings and concurred with the staff

recommendation. On July 23, 2019, the Board approved the finalists recommended by the Committee and an implementation plan whereby Benefit Street and Alcentra would be funded with an initial amount of $100 million each; Monroe and Crescent would be funded at a future date to be determined by the Committee and Board.

During the contracting phase in December 2019, staff was informed that Alcentra's Chief Investment Officer, Vijay Rajguru, and the head of lending in the United Kingdom, Natalia Tsitoura, would be leaving the firm. Staff held a teleconference with representatives from Alcentra on December 19, 2019, to discuss these departures. On February 10, 2020, Alcentra announced that Graeme Delaney-Smith, Co-Head of European Direct Lending, would be retiring. While the departure of Mr. Delaney-Smith did not trigger a key person event for Alcentra's closed-end partnerships, when combined with the departure of the two other senior investment professionals, it raised concerns about the stability of the team. On March 19, 2020, staff held another teleconference with representatives from Alcentra to discuss these organizational changes. While the firm's management took action to replace these professionals, staff does not have confidence that Alcentra will continue to perform as expected by the results of due diligence activities conducted during LACERS' manager search process. Therefore, staff recommends rescinding the contract award to Alcentra and redeploying the initial funding of $100 million to Crescent.

General Fund Consultant Opinion
NEPC concurs with this recommendation. The attached memo summarizes NEPC's findings.

Strategic Plan Impact Statement

The Private Credit Mandate allows the fund to maintain a diversified exposure to Credit Opportunities, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). Completing the competitive bidding process and the discussion of investment managers' strategies are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/WL/RK:jp

Attachment: 1. Consultant Recommendation – NEPC, LLC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: May 12, 2020

Subject: Private Credit Recommendation

Recommendation

NEPC recommends that the Los Angeles City Employees' Retirement System (LACERS) discontinue the contracting phase with Alcentra Limited ('Alcentra') and pursue funding Crescent Capital Group LP ('Crescent') subject to successful staff negotiations on contracting terms.

Background

The LACERS Board approved a new strategic asset allocation on April 10, 2018 that included a 3.75% (approximately $670 million) allocation to private credit. On May 28, 2019, the Board approved a Private Credit Implementation Plan that slows the deployment of the strategic allocation of capital over the course of the next three to five years citing concerns around asset valuations and being in the late stages of the business cycle. The Implementation Plan calls for an allocation of $200 million split evenly between U.S. and Non-U.S. focused private credit strategies.

On June 11, 2019, the LACERS Investment Committee directed staff to explore retaining four firms while initially funding Alcentra in Non-U.S. private credit and Benefit Street Partners L.L.C. in U.S. private credit. The other two firms identified for an allocation of capital were Crescent Capital Group LP in Non-U.S. private credit and Monroe Capital LLC in U.S. private credit.

Summary of Alcentra Event

On February 10th, 2020, Alcentra announced that Graeme Delaney-Smith, Co-Head of European Direct Lending ('EDL'), is retiring from the Firm after 16 years. Mr. Delaney-Smith first worked on the firm's mezzanine strategy and became Head of European Direct Lending in December 2012. Graeme solely led the European direct lending business until the hiring of Peter Glaser in May 2018. Since that time, Graeme and Peter were Co-Heads of European Direct Lending. Alcentra expects Graeme will remain with Alcentra until July 24, 2020 and he will focus on transitioning his responsibilities. Graeme's departure does not trigger a Key Person Event in their closed-end partnerships.

Peter Glaser has been appointed Head of European Direct Lending following Graeme's announcement to retire. In addition to taking full responsibility for managing the growth of the EDL team, Peter will be overseeing all day-to-day operations. He will continue as portfolio manager and will sit on the Firm's European and US Direct Lending Investment Committees. Peter will report to Daniel Fabian, President and Chief Operating Officer.

Alcentra has announced further changes to the EDL team as part of its growth strategy. The Firm has made two senior hires, Howard Sharp and Paul Hollis. Howard Sharp joins from Park Square Capital as a Managing Director and Head of Origination and will begin in July 2020. Paul Hollis joins from Fosun Asset Management as a Managing Director focusing on origination and execution on a Pan-European basis. Both will report directly to Peter Glaser.

Conclusion

NEPC has concluded that Graeme Delany-Smith's departure was not a surprise to NEPC. There have been several departures and organizational changes at the Firm in the past couple of years which put pressure on the remaining senior investment professionals. This disruption within Alcentra is seen as significant and detrimental to the Non-U.S. strategy and future fund offerings going forward. NEPC recommends that the allocation of the Non-U.S. private credit capital be made with Crescent Capital Group LP and to not move forward with Alcentra.