LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, JULY 8, 2025

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

MEETING LOCATION:

LACERS Boardroom
977 N. Broadway
Los Angeles, California 90012

Important Message to the Public

An opportunity for the public to address the Committee in person from the Boardroom and provide comment on items of interest that are within the subject matter jurisdiction of the Committee or on any agenda item will be provided at the beginning of the meeting and before consideration of items on the agenda.

Members of the public who do not wish to attend the meeting in person may listen to the live meeting via YouTube streaming at the following link: LACERS Livestream.

Disclaimer to Participants

Please be advised that all LACERS Committee meetings are recorded.

LACERS Website Address/link:
www.LACERS.org

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Committee in advance of the meeting may be viewed by clicking on LACERS website at www.LACERS.org, at LACERS' offices, or at the scheduled meeting. In addition, if you would like a copy of a public record related to an item on the agenda, please call (213) 855-9348 or email at lacers.board@lacers.org.

Presiding Officer:	Thuy Huynh
Committee Member:	Gaylord "Rusty" Roten
Manager-Secretary:	Todd Bouey
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

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Si requiere servicios de traducción, llámenos tres días (72 horas) antes de la reunión o evento al (800) 779-8328.

For additional information, please contact: Board of Administration Office at ***(213) 855-9348*** and/or email at ***lacers.board@lacers.org.***

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA

II. APPROVAL OF MINUTES FOR THE MEETING OF JUNE 10, 2025 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. CONTINUED DISCUSSION OF REAL ESTATE INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION

V. ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM FOR THE PERIOD ENDING DECEMBER 31, 2024

VI. OTHER BUSINESS

VII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, August 12, 2025, at 10:30 a.m., or immediately following the Board Meeting in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

VIII. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, JULY 8, 2025

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

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977 N. Broadway
Los Angeles, California 90012

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President:	Annie Chao
Vice President:	Janna Sidley
Commissioners:	Thuy T. Huynh Thomas Moutes Gaylord "Rusty" Roten Sung Won Sohn
Manager-Secretary:	Todd Bouey
Executive Assistant:	Ani Ghoukassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

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VIII. ADJOURNMENT

Agenda of:	**July 8, 2025**
Item No:	**II**

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

June 10, 2025

12:21 p.m.

PRESENT:	Chair:	Elizabeth Lee
	Committee:	Thuy Huynh Gaylord “Rusty” Roten
	Legal Counselor:	Miguel Bahamon
	Manager-Secretary:	Todd Bouey
	Executive Assistant:	Ani Ghoukassian

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

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE’S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – Chair Lee asked if any persons wished to speak on matters within the Committee’s jurisdiction, to which there were no public comment cards submitted.

II

APPROVAL OF MINUTES FOR THE MEETING OF MAY 13, 2025 AND POSSIBLE COMMITTEE ACTION – Committee Member Huynh moved approval, and adopted by the following vote: Ayes, Committee Members Huynh, Roten, and Chair Lee -3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, discussed the following item:

- Distribution of Investment Committee Forward Calendar and discussion of upcoming agenda items.

Chair Lee recessed the Regular meeting at 12:25 p.m. to convene in Closed Session.

IV

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT IN EQT EXETER EUROPE LOGISTICS VALUE FUND V (NO.2) SCSP AND POSSIBLE COMMITTEE ACTION

Chair Lee reconvened the Regular meeting at 12:58 p.m. with nothing to report.

V

OTHER BUSINESS – Chair Lee announced this will be her last meeting for the Investment Committee and thanked all the staff.

VI

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, July 8, 2025, at 10:30 a.m. or immediately following the Board Meeting, in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

VII

ADJOURNMENT – There being no further business before the Committee, Chair Lee adjourned the meeting at 1:01 p.m.

Elizabeth Lee
Chair

Todd Bouey
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JULY 8, 2025**
From: Todd Bouey, Interim General Manager **ITEM: IV**

SUBJECT: **CONTINUED DISCUSSION OF REAL ESTATE INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee consider and provide comments regarding the proposed Private Real Estate Investment Policy and recommend to the Board approval of the recommendations contained in this Committee report.

Discussion

On January 14, 2025, the Committee took into consideration a Real Estate Investment Policy (RE Policy) revision that would allow for limited staff discretion to approve specific real estate investment opportunities as highlighted in the proposed real estate investment policy amendments. Based on Committee feedback, revisions were integrated into the attached proposed RE Policy revision for further Committee review and discussion.

The current selection process for commingled funds within the Private Real Estate Program includes four distinct steps: consultant recommendation of proposed commingled fund investment; staff and consultant discussion of fund fit within LACERS' needs; a presentation by the general partner of the fund to the Committee for their consideration; and recommendation from the Committee to the Board for its approval.

While this selection process has served the plan effectively for many years, staff and LACERS' private real estate consultant, Townsend Holdings, LLC (Townsend) believe that specific governance modifications including the delegation of limited discretion for specific commingled fund opportunities and secondary market transactions to investment staff and the real estate consultant could lead to improved time and resource efficiencies for the Board, Committee, and staff without sacrificing critical fiduciary responsibilities and oversight management. In addition, the proposed streamlined decision-making process is expected to help obtain early-close management fee discounts as well as greater access to highly oversubscribed funds that occasionally have shorter closing deadlines.

Staff and Townsend have worked extensively on developing a number of modifications to the RE Policy in order to achieve the aforementioned benefits. Specifically, two major areas of the RE Policy are addressed in this staff recommendation:

1. *Commingled Real Estate Funds*: Under Section XII.H, staff is granted limited discretion to approve commingled funds subject to maximum size and quality rating criteria. The proposed policy language is modeled after the existing decision-making processes found in both LACERS' Private Equity Investment and Private Credit Investment Policies. In light of the similarities of the business and legal structuring of various private market asset classes, staff proposes a similar decision-making selection and closing process for the Private Real Estate Program. The proposed attached policy authorizes staff to consider the real estate consultant's investment recommendations, to approve real estate commingled fund investments up to and including $65 million if such recommended funds have received the real estate consultant's highest non-conditional quality rating for like-institutional investors. This size limitation is consistent with the Plan's historical allocation sizes and recent/foreseeable fund sizing available in the market. Any commingled fund investment that exceeds $65 million or any commingled fund at or below $65 million that does not receive the said fund quality rating of the real estate consultant will require Board approval.

2. *Secondary Market Transactions*: The proposed policy amendment under Section XII.H regarding Secondary Market Transactions is similar to the limited discretion requested for commingled funds in order to take advantage of purchases and sales of existing funds in the secondary market as recommended by the real estate consultant and with staff concurrence. Limited discretion would apply to transactions of partnership interests up to and including $50 million based on Fair Market Value. Any exception to this valuation threshold shall require Board approval. Such transactions should result in favorable pricing offers.

To summarize, the proposed policy amendments should help achieve desirable time and resource efficiencies through a streamlined governance process already realized in the Private Equity and Private Credit Programs. Staff and Townsend recommend that the Investment Committee consider the policy amendments presented in this report and recommend to the Board to consider and approve the proposed revisions to the RE Policy.

<u>Prepared By:</u> Jessica Chumak, Investment Officer I, Investments Division

TB:RJ:WL:JP:EC:JC

Attachments:
1. Report to Investment Committee Dated January 14, 2025
2. Proposed Real Estate Policy Statement Changes (Redline Version)
3. Proposed Real Estate Policy Statement Changes (Clean Version)

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE
From: Todd Bouey, Acting General Manager

MEETING: JANUARY 14, 2025
ITEM: V

SUBJECT: **REAL ESTATE INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee consider and provide comments regarding the proposed Private Real Estate Investment Policy.

Discussion

The Los Angeles City Employees' Retirement System (LACERS) periodically reviews and updates its Investment Policy Manual to ensure that it remains aligned with best practices, regulatory standards, and the organization's strategic goals. This proposed revision addresses the LACERS Real Estate Policy in order to optimize risk-adjusted returns, improve portfolio diversification, and strengthen governance processes.

The current process for the selection of Private Real Estate managers requires Committee review and ad-hoc presentations prior to receiving a potential recommendation for Board approval. This approach can create time constraints, limiting access to high-conviction managers. This proposal would make the private real estate manager selection process similar to the existing private credit and private equity discretion in-a-box models. The advantages of this approach include the potential for receiving first close discounts, increasing likelihood of receiving the full allocation requested during the commitment process, and improving access to funds that are in high demand with truncated closing deadlines.

Section XII.H has been added to reflect the proposed streamlined processes and section XII.E.5.d has been added to take advantage of secondary market opportunities arising from dislocations in the real estate sector.

Staff, in collaboration with LACERS' real estate consultant, Townsend Holdings LLC (Townsend), consistently perform due diligence on managers to ensure allocations and portfolio construction align with the objectives outlines in the annual Strategic Plan. Pacing and careful evaluation of recent market cycle dislocations are key priorities in the manager selection process.

The proposed attached policy authorizes Staff, in conjunction with Townsend, to effect investments in amounts up to and including $100 million. Townsend has determined that this amount is consistent with industry best practices given: LACERS program size; prudent risk management that limits exposure to individual underlying real estate assets; and, fund sizes available in the market. Any investment exceeding $100 million recommended by the Private Real Estate Consultant will require Board approval, regardless of staff agreement or disagreement with the consultant recommendation.

Staff recommends the Board approve the proposed revisions to the LACERS Real Estate Policy. The updated policy will better align with Private Credit and Private Equity governance structure while continuing to meet the long-term objectives of the Real Estate Program.

Prepared By: Jessica Chumak, Investment Officer I, Investments Division

TB/RJ/WL/EC/JC:rm

Attachments: 1. Proposed Real Estate Policy Statement Changes (Redlined Version)
2. Proposed Real Estate Policy Statement Changes (Clean Version)

XII. 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 Ethical Contracting Compliance Policy and in the Third-~~-~~Party Marketing and Referrals Disclosure Policy, as amended ~~from time to time~~periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

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~~Additionally, LACERS ~~also may~~may also 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~~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 describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

~~LACERS has engaged the~~The Real Estate Consultant will evaluate and recommend commingled fund investments ~~transactions pursuant to~~consistent with the roles and responsibilities defined in ~~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 XII.H. Managers will be responsible for property-level due diligence. ~~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.~~ With Staff concurrence on a recommendation from the Real Estate Consultant, LACERS may ~~effect~~consummate investments in ~~partnerships~~commingled funds up to and including $100 million, and co-investments up to and including $50 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and will not require ~~no~~ further Board approval.

For avoidance of doubt, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor or the general partner is the only other investor pursuant~~. So~~ to~~e~~ City Charter Section 1120.

The Real Estate Consultant and Staff shall conduct a review of this policy~~, in conjunction with the Board and Staff,~~ at a minimum of once per year by June 30;~~,~~ any recommended changes will be brought forth to the Board for review and approval. The Real Estate Consultant and Staff shall ~~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 XII.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-add 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 actual Real Estate Portfolio allocation percentage ~~actually achieved~~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~~controlling 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 are referred to as core and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and 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 8~~9~~% range (net of fees) with annual standard deviation near ~~8~~6.0%. 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~~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~~9% to ~~14~~12% 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~~12% 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. 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 XII.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, natural disaster, ~~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.

d) **Secondary Market Purchases**

Secondary Market Purchases include private real estate-related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited

Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any commitment.

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~~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~~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 ~~A~~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 maintain a ~~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~~ selection 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 for the global list of candidates. ~~The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.~~

b) Minimum Manager Qualifications

Minimum ~~The~~ Manager Qualifications ~~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 most viable Manager candidates, including how said managers met the~~descriptions of the~~ selection ~~ir meeting Manager~~ criteria established by the Real Estate Consultant and the Staff, ~~relating to~~ such as the ~~Managers'~~ organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen along these criteria~~factors~~ ~~summaries~~ and recommend one or more managers~~the finalists~~ for further due diligence to the Staff.

d) Due Diligence

After the ~~Staff and the R~~Real Estate Consultant selects the most qualified~~the~~ managers with Staff input ~~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~~criteria. 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~~process, S~~ and s~~taff will ~~has~~ review~~ed~~ and discuss due diligence findings with the consultant. If S~~s~~taff concurs with the consultant's recommendation, the investment will be consummated pursuant to the Private Real Estate Investment Policy. Subsequent to fund closing, ~~and concurred with consultant's recommendation~~, ~~the Staff and the Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.~~prepare a Board notification report ~~for the Board will be provided~~that outlines~~ing~~ the basis for the investment, the investment/commitment amount, and an assessment of the fit within the Annual Real Estate Strategic Plan. Such ~~A~~ notification reports ~~and report of commitments~~ will be provided to the Board on a quarterly basis or as soon as practicable. In the event the investment amount would exceed the ~~limits~~ authorities provided in S~~s~~ection XII.H~~C~~, a decision would be referred to the Board for consideration and approval.~~Staff and the Real Estate Consultant will prepare a recommendation report for the Board, which will make the final decision on whether or not to effectuate the proposed investment.~~ In that instance, Staff would report the commitment in a manner consistent with the Brown Act.

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 pursuant to the Private Real Estate Investment Policy~~authorized by the Board~~.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and ~~the~~ Staff, as~~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, virtually, telephonically, or directly ~~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. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. 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 (Part 1 of 2)

	Role of the Board	Role of Staff	Role of Private Real Estate Consultant
Strategy/Policy	• Select Private Real Estate Consultant. • Approve asset class funding level. • Review and approve the Private Real Estate Annual Strategic Plan which includes allocation targets and ranges. • Review the Private Real Estate Policy.	• In consultation with Private Real Estate Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Provide input to the Private Real Estate Consultant in the development of the Private Real Estate Annual Strategic Plan.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Develop the fiscal year Private Real Estate Annual Strategic Plan with staff input for presentation to the Board on or before the end of the fiscal year.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual, and other periodic monitoring reports prepared by the Private Real Estate Consultant. • Conduct meetings with existing ~~m~~Managers periodically. • Attend annual ~~partnership~~Manager meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Real Estate Consultant's recommendations on partnership amendments and consents. • Execute ~~partnership~~contract amendments and consents. • Manage and approve the wind-down and/or dissolve private real estate fund investment(s) with ~~p~~Private ~~r~~Real ~~e~~Estate ~~c~~Consultant's concurrence. • Manage and execute the- sale of ~~partnership~~investments ~~interest~~ on the secondary market or ~~or~~ to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for the Board.	• Maintain regular contact with existing M~~m~~anagers in the portfolio to ascertain significant events within the portfolio. • Recommend contract amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

H. Roles and Responsibilities (Part 2 of 2)

	Role of Board	Role of Staff	Role of Private Real Estate Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in ~~partnerships of~~commingled funds in amounts greater than $100 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Real Estate Consultant, invest up to and including $100 million in ~~partnerships~~commingled funds without Board approval. If Staff opposes and Private Real Estate Consultant disagrees, refer to Board for decision. • In conjunction with Private Real Estate Consultant, make recommendations to Board for approval of~~for~~ investments over $100 million. • In conjunction with Private Real Estate Consultant, ~~review and concur with direct co-investment opportunities~~ invest up to and including $50 million in direct co-investment opportunities. • In conjunction with Private Real Estate Consultant, review and concur with the approval of- sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on commingled fund investments. • Prepare investment reports for Board consideration of~~n~~ commingled fund investments exceeding $100 million. • Recommend commingled fund investments of up to and including $100 million to Staff for approval. • Recommend direct co-investment opportunities up to and including $50 million to Staff for approval. • Present to Staff recommendations pertaining to the sale of existing ~~partnership~~investments ~~funds~~ on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • Provide investment analysis reports for each new commingled fund investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with ~~general partners~~Managers at the request of Staff. • Advise on and negotiate investment terms.

XII. 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 Ethical Contracting Compliance Policy and in the Third-Party Marketing and Referrals Disclosure Policy, as amended periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

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). Additionally, LACERS may also 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 describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

The Real Estate Consultant will evaluate and recommend commingled fund investments consistent with the roles and responsibilities defined in Section XII.H. Managers will be responsible for property-level due diligence. With Staff concurrence on a recommendation from the Real Estate Consultant, LACERS may consummate investments in commingled funds up to and including $100 million, and co-investments up to and including $50 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and will not require further Board approval.

For avoidance of doubt, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor or the general partner is the only other investor pursuant to City Charter Section 1120.

The Real Estate Consultant and Staff shall conduct a review of this policy at a minimum of once per year by June 30; any recommended changes will be brought forth to the Board for review and approval. The Real Estate Consultant and Staff shall 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 XII.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-add 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 actual Real Estate Portfolio allocation percentage 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 controlling 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 are referred to as core and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and 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 8% range (net of fees) with annual standard deviation near 6.0%. 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 9% to 12% 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 12% 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. 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 XII.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, natural disaster, 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.

d) **Secondary Market Purchases**

Secondary Market Purchases include private real estate-related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any commitment.

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 maintain a global list of potential candidates for selection based on the Staff and Real Estate Consultant's selection 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 for the global list of candidates.

b) **Minimum Manager Qualifications**

Minimum Manager Qualifications 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 most viable Manager candidates, including how said managers met the selection criteria established by the Real Estate Consultant and the Staff, such as organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen along these criteria and recommend one or more managers for further due diligence to the Staff.

d) **Due Diligence**

After the Real Estate Consultant selects the most qualified managers with Staff input, 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 criteria. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

After completing the due diligence process, Staff will review and discuss due diligence findings with the consultant. If Staff concurs with the consultant's recommendation, the investment will be consummated pursuant to the Private Real Estate Investment Policy. Subsequent to fund closing, a Board notification report that outlines the basis for the investment, the investment/commitment amount, and an assessment of the fit within the Annual Real Estate Strategic Plan. Such notification reports will be provided to the Board on a quarterly basis or as soon as practicable. In the event the investment amount would exceed the authorities provided in Section XII.H, a decision would be referred to the Board for consideration and approval. In that instance, Staff would report the commitment in a manner consistent with the Brown Act.

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 pursuant to the Private Real Estate Investment Policy.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and Staff, as 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, virtually, telephonically, or directly either at the Manager's or the Real Estate Consultant's offices.

Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. 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 (Part 1 of 2)

	Role of the Board	Role of Staff	Role of Private Real Estate Consultant
Strategy/Policy	• Select Private Real Estate Consultant. • Approve asset class funding level. • Review and approve the Private Real Estate Annual Strategic Plan which includes allocation targets and ranges. • Review the Private Real Estate Policy.	• In consultation with Private Real Estate Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Provide input to the Private Real Estate Consultant in the development of the Private Real Estate Annual Strategic Plan.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Develop the fiscal year Private Real Estate Annual Strategic Plan with staff input for presentation to the Board on or before the end of the fiscal year.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual, and other periodic monitoring reports prepared by the Private Real Estate Consultant. • Conduct meetings with existing Managers periodically. • Attend annual Manager meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Real Estate Consultant's recommendations on partnership amendments and consents. • Execute contract amendments and consents. • Manage and approve the wind-down and/or dissolve private real estate fund investment(s) with Private Real Estate Consultant's concurrence. • Manage and execute the sale of investments on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for the Board.	• Maintain regular contact with existing Managers in the portfolio to ascertain significant events within the portfolio. • Recommend contract amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

H. Roles and Responsibilities (Part 2 of 2)

	Role of Board	Role of Staff	Role of Private Real Estate Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in commingled funds in amounts greater than $100 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Real Estate Consultant, invest up to and including $100 million in commingled funds without Board approval. If Staff opposes and Private Real Estate Consultant disagrees, refer to Board for decision. • In conjunction with Private Real Estate Consultant, make recommendations to Board for approval of investments over $100 million. • In conjunction with Private Real Estate Consultant, invest up to and including $50 million in direct co-investment opportunities. • In conjunction with Private Real Estate Consultant, review and concur with the approval of sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on commingled fund investments. • Prepare investment reports for Board consideration of commingled fund investments exceeding $100 million. • Recommend commingled fund investments of up to and including $100 million to Staff for approval. • Recommend direct co-investment opportunities up to and including $50 million to Staff for approval. • Present to Staff recommendations pertaining to the sale of existing investments on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • Provide investment analysis reports for each new commingled fund investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with Managers at the request of Staff. • Advise on and negotiate investment terms.

XII. 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 Ethical Contracting Compliance Policy and in the ~~ThirdParty~~ Third-Party Marketing and Referrals Disclosure Policy, as amended ~~from time to time~~periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

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~~Additionally, ~~-~~LACERS ~~also may~~may also 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~~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 describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

~~LACERS has engaged theThe Real Estate Consultant will evaluate and recommend commingled fund investments transactions pursuant toconsistent with the roles and responsibilities defined in 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 XII.H. Managers will be responsible for property-level due diligence. 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. With Staff concurrence on a recommendation from the Real Estate Consultant, LACERS may effectconsummate investments in partnershipscommingled funds up to and including $100 million, and co-investments up to and including $50 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and will not require no further Board approval.~~

~~For avoidance of doubt, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor or the general partner is the only other investor pursuant. Se toe City Charter Section 1120.~~

~~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.~~

The Real Estate Consultant will evaluate and recommend commingled fund investments, co-investments, and secondary investment recommendations consistent with the roles and responsibilities defined in Section XII.H. Managers will be responsible for property level due diligence. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant according to the delegated discretion provided in Section H of the Real Estate Policy or if outside delegated discretion limits, when the Board approves the recommended investment. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations and will not require further Board approval.

Pursuant to City Charter Section 1120, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor, or the general partner is the only other investor.

Staff and the Real Estate Consultant shall conduct a review of this policy at a minimum of once per year and set forth 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 XII.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-add 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 actual Real Estate Portfolio allocation percentage ~~actually achieved~~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~~controlling 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 are referred to as core/core plus and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and high risk associated with institutional real estate investments.

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.

~~a)~~ **Core**/ ~~**and**~~ **Core Plus**

~~b)~~a) ~~*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)~~ Institutional-quality real estate at or above market occupancy levels, focused on traditional property types such as apartments, offices, retail, industrial, and hotels. Core investments may also include high-quality, non-traditional property types such as~~(i.e.~~ student housing, medical office, and self-storage~~) that~~, which 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 8~~9~~% range (net of fees) with an annual standard deviation near ~~8~~6.0%. ~~Of note, core~~ Core investments typically feature current income as a large portion of overall return ~~(i.e.,~~ often as much as~~up to~~ 70%~~), and~~along with appreciation that generally matches or exceeds inflation. ~~Low leverage is utilized (i.e.,~~ Leverage of 50% or less on a portfolio basis is typical~~)~~.

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).~~ Such mortgage loans are either newly originated or existing, performing obligations extended to creditworthy borrowers, featuring reasonable terms such as a loan-to-value (LTV) below 50% and a debt service coverage ratio (DSCR) of 1.25 or higher and are managed by institutional caliber managers with demonstrable experience and a credit track record. During periods of market illiquidity, core debt ~~equity~~ investments can provide ~~high going-in income returns and provide~~ attractive yield spreads and 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~~ may contain non-operating real estate investment~~s,~~ exposure of around 20%.

~~c)~~b) **Non-Core**

Value Add

Value add investments are functional, ~~high quality~~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~~9% to ~~14~~12% 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.,~~typically 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~~12% 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. 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 XII.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, natural disaster, ~~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.

d) **Secondary Market Transactions~~Purchases~~**

~~Secondary Market~~ Purchases or sales of ~~include~~ private real estate -related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses ~~(~~including legal counsel and broker-dealers~~)~~, and break-up fees on secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any ~~commitment~~intent to commit.

LACERS may ~~make~~pursue direct equity/debt investments ~~using~~through separate account vehicles; however, ~~such~~these investments require thoughtful ~~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 recommended ~~approved~~ by ~~the~~ Staff ~~and the~~for Board approval.

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 m~~M~~anager or ~~investment, and~~investment and ~~be subject to other investment restrictions to reduce risk, as further defined below.~~adhere to additional investment restriction, as outlined below, to mitigate risk.

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.~~The fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment (excludes co-investments and sidecar investments).

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~~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 ~~A~~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 or manage an on-going search by creating a ~~maintain a~~ ~~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~~ selection criteria. The Real Estate Consultant shall provide ~~information from its databases regarding the candidates to be reviewed with the~~ Staff with relevant candidate information sourced from its databases for review. The Staff will set forth any additional candidates to be considered for the global list of candidates. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates relevant to current years strategic plan and portfolio fit.

b) **Minimum Manager Qualifications**

Minimum ~~The~~ Manager Qualifications ~~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~~Selection**

~~The Real Estate Consultant shall complete a brief summary of the most viable Manager candidates, including how said managers met thedescriptions of the selection ir meeting Manager criteria established by the Real Estate Consultant and the Staff, relating to such as the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen along these factors summaries and recommend one or more managersthe finalists for further due diligence to the Staff.~~

The Real Estate Consultant shall convene with staff on a monthly basis to discuss the pipeline of candidates. Such discussions shall include organization, track record, personnel, alignment of interests, terms and fees or any other prospective managers. The Real Estate Consultant will move forward with due diligence once alignment to strategic plan and portfolio fit has been established with Staff.

d) **Due Diligence**

~~After~~Upon the selection of prospective managers, the ~~Staff and the R~~Real Estate Consultant selects the most qualified~~the~~ managers with Staff input ~~finalists~~ and ~~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~~criteria. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

~~After completing the due diligence reportprocess, Swill and discuss due diligence findings with the consultant. If staff concurs with the consultant's recommendation, the investment will be consummated pursuant to the Private Real Estate~~

~~Investment Policy. Subsequent to fund closing, , the Staff and the Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.prepare a Board notification report for the Boardthat outlinesing the basis for the investment, the investment/commitment amount, and an assessment of the fit within the Annual Real Estate Strategic Plan. Such A notification reports and report of commitments will be provided to the Board on a quarterly basis. In the event the investment amount would exceed the limits authorities provided in Ssection XII.HC, a decision would be referred to the Board for consideration and approval.Staff and the Real Estate Consultant will prepare a recommendation report for the Board, which will make the final decision on whether or not to effectuate the proposed investment. In that instance, Staff would report the commitment in a manner consistent with the Brown Act.~~

Section XII. H, establishes the role of the Board, Staff, and Real Estate Consultant for investment selection. Approval of the real estate transactions generally require Board approval; and in limited cases, such approval is delegated to staff and Real Estate Consultant for certain commingled fund commitments or secondary market transactions subject to the criteria provided in Section XII. H.

The Board shall receive a Notification of Commitment report from Staff at a future Board meeting within a reasonable period of time upon the close of a transaction that is consistent with the Brown Act.

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 pursuant to the Private Real Estate Investment Policy~~authorized by the Board~~.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and ~~the~~ Staff, as~~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, virtually, telephonically, or directly ~~or in face-to-face or telephone meetings~~ either at LACERS, the Manager's or the Real Estate Consultant's office(s).

~~Investment~~ Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. 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 (Part 1 of 2)

	Role of the Board	Role of Staff	Role of Private Real Estate Consultant
Strategy/Policy	• Select Private Real Estate Consultant. • Approve asset class funding level. • Review and approve the Private Real Estate Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Real Estate Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Provide input to the Private Real Estate Consultant in the development of the Private Real Estate Annual Strategic Plan.	• Under the guidance of staff, assist in the development of~~Help develop~~ policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Develop the fiscal year Private Real Estate Annual Strategic Plan- for the fiscal year, incorporating staff input, and present it to the Board on or before the fiscal year's end.~~with staff input for presentation to the Board on or before the end of the fiscal year.~~

Investment Management and Monitoring	• Review and approve policies, procedures, guidelines, allocation targets, ranges, and assumptions. • Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual, and other periodic monitoring reports prepared by the Private Real Estate Consultant. • Conduct meetings with existing ~~m~~m~~M~~anagers periodically. • Attend annual partnership~~Manager~~ meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Real Estate Consultant's recommendations on partnership amendments and consents. • Execute ~~partnership~~contract amendments and consents. • Manage and approve the wind-down and/or dissolve private real estate fund investment(s) with ~~p~~Private ~~r~~Real ~~e~~Estate ~~c~~Consultant's concurrence. • Manage and execute ~~the sale of partnershipinvestments interest on the~~ secondary market transactions up to and including $50 million in Fair Market Value.~~ or or to other limited partner(s) or potential buyer(s).~~ • Prepare Commitment Notification Reports for the Board.	• Maintain regular contact with existing M~~m~~anagers in the portfolio to ascertain significant events within the portfolio. • Recommend contract amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Investment Selection	~~Review investment analysis reports.~~ • Review and approve investments in ~~partnerships of~~commingled funds that exceed ~~in amounts greater than $100~~ $65 million, or in any fund that does not receive the Real Estate Consultant's highest unconditional fund-quality rating for similar institutional investors.~~ prior to investment.~~ • Review and approve direct co-investment and separately managed account (SMA) opportunities.~~opportunities that exceed $50 million.~~ • Review and approve ~~the sale of any one existing partnership fund on the~~ secondary market transactions exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Review due diligence reports and conduct meetings with prospective or existing general partners to discuss investment opportunities. ~~Conduct meetings with prospective or existing general partners representing new investment opportunities.~~ • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • Consider and approve an investment up to and including $65 million in commingled funds that have received the Real Estate Consultant's highest non-conditional quality rating for like-institutional investors. If Staff does not concur with Real Estate Consultant recommendation, staff will refer items to the Board for a decision. ~~In conjunction with Private Real Estate Consultant, invest up to and including $100 million in partnershipscommingled funds without Board approval. If Staff opposes and Private Real Estate Consultant disagrees, refer to Board for decision.~~ • Recommend to the Board the approval of investments exceeding $65 million and/or investments not meeting the consultant's highest unconditional fund-quality rating for similar institutional investors, as advised by the Private Real Estate Consultant. ~~In conjunction with Private Real Estate Consultant, make recommendations to Board for approval offor investments over $100 million.~~	• Conduct appropriate analysis and due diligence on commingled fund investments for Staff review. • ~~Prepare investment reports for Board consideration ofn commingled fund investments exceeding $100 million.~~ • Provide due diligence reports for each new commingled fund investment, secondary market transaction, direct investment, co-investment, and separately managed account (SMA) opportunity. ~~Recommend commingled fund investments of up to and including $100 million to Staff for approval.~~ • Recommend commingled fund investments to Staff for consideration up to and including $65 million; investments exceeding $65 million will be brought forth to the Board for review and approval.~~Recommend direct co-investment opportunities up to and including $50 million to Staff for approval.~~ • Prepare investment reports for Board/Staff consideration of commingled fund investments. • Recommend direct co-investment and separately managed account (SMA) opportunities to Staff for Board approval. Recommend • ~~Present to Staff recommendations pertaining to the sale of existing partnershipinvestments funds on the~~ secondary market transaction opportunities to Staff for consideration up to and including ~~exceeding~~ $50 million in Fair Market Value; transactions exceeding $50 million will ~~. Such transactions shall~~ be brought to the Board for review and approval. ~~Provide investment analysis reports for each new commingled fund investment and for~~

H. Roles and Responsibilities (Part 2 of 2)

	Role of Board	Role of Staff	Role of Private Real Estate Consultant
		• Make recommendations to the Board for co-investment and separately managed account (SMA) opportunities recommended by the Real Estate Consultant ~~In conjunction with Private Real Estate Consultant, review and concur with direct co-investment opportunities invest up to and including \$50 million in direct co-investment opportunities.~~ ~~In conjunction with Private Real Estate Consultant, review and concur with the approval of sale of existing partnership funds on the secondary market up to and including \$50 million in Fair Market Value.~~ • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	~~sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).~~ Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with ~~general partners~~Managers at the request of Staff. • Advise on and negotiate investment terms.

XII. 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 Ethical Contracting Compliance Policy and in the Third-Party Marketing and Referrals Disclosure Policy, as amended periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

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). Additionally, LACERS may also 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 describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

The Real Estate Consultant will evaluate and recommend commingled fund investments, co-investments, and secondary investment recommendations consistent with the roles and responsibilities defined in Section XII.H. Managers will be responsible for property level due diligence. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant according to the delegated discretion provided in Section H of the Real Estate Policy or if outside delegated discretion limits, when the Board approves the recommended investment. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations and will not require further Board approval.

Pursuant to City Charter Section 1120, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor, or the general partner is the only other investor.

Staff and the Real Estate Consultant shall conduct a review of this policy at a minimum of once per year and set forth 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 XII.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-add 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 actual Real Estate Portfolio allocation percentage 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 controlling 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 are referred to as core/core plus and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and high risk associated with institutional real estate investments. 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.

a) **Core/ Core Plus**

Equity investment in operating and substantially leased Institutional-quality real estate at or above market occupancy levels, focused on traditional property types such as apartments, offices, retail, industrial, and hotels. Core investments may also include high-quality, non-traditional property types such as student housing, medical office, and self-storage, which 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 8% range (net of fees) with an annual standard deviation near 6.0%. Core investments typically feature current income as a large portion of overall return often as much as 70%along with appreciation that generally matches or exceeds inflation. Leverage of 50% or less on a portfolio basis is typical.

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 existing, performing obligations extended to creditworthy borrowers, featuring reasonable terms such as a loan-to-value (LTV) below 50% and a debt service coverage ratio (DSCR) of 1.25 or higher and are managed by institutional caliber managers with demonstrable experience and a credit track record. During periods of market illiquidity, core debt investments can provide attractive yield spreads and 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 may contain non-operating real estate investment exposure of 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 9% to 12% 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 typically 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 12% 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. 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).

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XII.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, natural disaster, 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.

d) **Secondary Market Transactions**

Purchases or sales of private real estate related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses including legal counsel and broker-dealers, and break-up fees on secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any intent to commit.

Direct Investments

LACERS may pursue direct equity/debt investments through separate account vehicles; however, these investments require thoughtful 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 recommended by Staff for Board approval.

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 adhere to additional investment restriction, as outlined below, to mitigate risk.

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. The fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment (excludes co-investments and sidecar investments).

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 or manage an on-going search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's selection criteria. The Real Estate Consultant shall provide Staff with relevant candidate information sourced from its databases for review. The Staff will set forth any additional candidates to be considered for the global list of candidates. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates relevant to current years strategic plan and portfolio fit.

b) **Minimum Manager Qualifications**

Minimum Manager Qualifications 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 Selection**

The Real Estate Consultant shall convene with staff on a monthly basis to discuss the pipeline of candidates. Such discussions shall include organization, track record, personnel, alignment of interests, terms and fees or any other prospective managers. The Real Estate Consultant will move forward with due diligence once alignment to strategic plan and portfolio fit has been established with Staff.

d) **Due Diligence**

Upon the selection of prospective managers, the Real Estate Consultant selects the most qualified managers with Staff input and 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 criteria. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

Section XII. H, establishes the role of the Board, Staff, and Real Estate Consultant for investment selection. Approval of the real estate transactions generally require Board approval; and in limited cases, such approval is delegated to staff and Real Estate Consultant for certain commingled fund commitments or secondary market transactions subject to the criteria provided in Section XII. H.

The Board shall receive a Notification of Commitment report from Staff at a future Board meeting within a reasonable period of time upon the close of a transaction that is consistent with the Brown Act.

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 pursuant to the Private Real Estate Investment Policy.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and Staff, as 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, virtually, telephonically, or directly either at LACERS, the Manager's or the Real Estate Consultant's office(s).

Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. 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 (Part 1 of 2)

	Role of the Board	Role of Staff	Role of Private Real Estate Consultant
Strategy/Policy	• Select Private Real Estate Consultant. • Approve asset class funding level. • Review and approve the Private Real Estate Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Real Estate Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Provide input to the Private Real Estate Consultant in the development of the Private Real Estate Annual Strategic Plan.	• Under the guidance of staff, assist in the development of policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Develop the fiscal year Private Real Estate Annual Strategic Plan for the fiscal year, incorporating staff input, and present it to the Board on or before the fiscal year's end.
Investment Management and Monitoring	• Review and approve policies, procedures, guidelines, allocation targets, ranges, and assumptions. • Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual, and other periodic monitoring reports prepared by the Private Real Estate Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Real Estate Consultant's recommendations on partnership amendments and consents. • Execute contract amendments and consents. • Manage and approve the wind-down and/or dissolve private real estate fund investment(s) with Private Real Estate Consultant's concurrence. • Manage and execute secondary market transactions up to and including $50 million in Fair Market Value. • Prepare Commitment Notification Reports for the Board.	• Maintain regular contact with existing Managers in the portfolio to ascertain significant events within the portfolio. • Recommend contract amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

H. Roles and Responsibilities (Part 2 of 2)

	Role of Board	Role of Staff	Role of Private Real Estate Consultant
Investment Selection	• Review and approve investments in commingled funds that exceed $65 million, or in any fund that does not receive the Real Estate Consultant's highest unconditional fund-quality rating for similar institutional investors. • Review and approve direct co-investment and separately managed account (SMA) opportunities. • Review and approve secondary market transactions exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Review due diligence reports and conduct meetings with prospective or existing general partners to discuss investment opportunities. • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • Consider and approve an investment up to and including $65 million in commingled funds that have received the Real Estate Consultant's highest non-conditional quality rating for like-institutional investors. If Staff does not concur with Real Estate Consultant recommendation, staff will refer items to the Board for a decision. • Recommend to the Board the approval of investments exceeding $65 million and/or investments not meeting the consultant's highest unconditional fund-quality rating for similar institutional investors, as advised by the Private Real Estate Consultant. • Make recommendations to the Board for co-investment and separately managed account (SMA) opportunities recommended by the Real Estate Consultant • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on commingled fund investments for Staff review. • Provide due diligence reports for each new commingled fund investment, secondary market transaction, direct investment, co-investment, and separately managed account (SMA) opportunity. • Recommend commingled fund investments to Staff for consideration up to and including $65 million; investments exceeding $65 million will be brought forth to the Board for review and approval. • Prepare investment reports for Board/Staff consideration of commingled fund investments. • Recommend direct co-investment and separately managed account (SMA) opportunities to Staff for Board approval. • Recommend secondary market transaction opportunities to Staff for consideration up to and including $50 million in Fair Market Value; transactions exceeding $50 million will be brought to the Board for review and approval. • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. Coordinate meetings with Managers at the request of Staff. • Advise on and negotiate investment terms.

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JULY 8, 2025**
From: Todd Bouey, Interim General Manager **ITEM: V**

SUBJECT: **ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM FOR THE PERIOD ENDING DECEMBER 31, 2024**

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

Recommendation

That the Committee receive and file this report.

Executive Summary

LACERS' Emerging Investment Manager Program aims to hire and retain Emerging Investment Managers in order to add value to the LACERS investment portfolio. This report highlights the Emerging Investment Manager firms hired, dollar amounts awarded, and staff and consultant efforts to increase Emerging Investment Manager representation in the LACERS investment portfolio in calendar year 2024.

Discussion

Background
LACERS' Emerging Investment Manager Policy (Policy) was adopted on February 14, 2012, and was most recently revised on May 25, 2021. The Policy identifies guidelines and sets goals to hire and retain Emerging Investment Managers that would otherwise not be identified in the standard LACERS investment manager search process in order to add value to the LACERS investment portfolio. Smaller investment management firms may generate superior performance returns due to increased market flexibility associated with smaller asset bases. The Policy sets a goal of funding Emerging Investment Managers at no less than 10% of available capital and provides minimum criteria for firms to qualify as an Emerging Investment Manager.

Pursuant to the Policy, this annual report provides the status of the Emerging Investment Manager Program for the year ending December 31, 2024, including the following information:

1. Names and dollar amounts awarded to Emerging Investment Managers
2. Report of Emerging Investment Manager goal metrics
3. List of all investment manager searches

4. Staff and consultant efforts to increase the visibility of LACERS' investment manager searches and representation of Emerging Investment Managers in the LACERS investment portfolio
5. Performance data for funds managed by Emerging Investment Managers

1. Names and Dollar Amounts Awarded to Emerging Investment Managers in 2024

Manager	Style	Asset Class	Investment/ Commitment	Consultant
Builders VC Fund III, LP	Venture – Early	Private Equity	$20,000,000	Aksia LLC
KLC (Knox Lane) Fund II, LP	Buyout – Medium	Private Equity	$20,000,000	Aksia LLC
Biospring Partners Fund II, LP	Growth Equity	Private Equity	$25,000,000	Aksia LLC
Centana Growth Partners III, LP	Growth Equity	Private Equity	$25,000,000	Aksia LLC
Centre Lane Credit Partners III, L.P.	Direct Lending	Private Credit	$25,000,000	Aksia LLC
Putnam Hill Private Credit Fund (Leveraged)	Direct Lending	Private Credit	$20,000,000	Aksia LLC

2. Emerging Investment Manager Goal Metrics

The Policy sets a goal for Emerging Investment Manager exposure in public and private market asset classes at no less than 10%.

Public Markets
For each public markets asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total market value of Emerging Investment Managers within a respective asset class divided by the total market value of the respective asset class; and 2) Manager Search Metric: total dollars awarded to Emerging Investment Managers in a particular public asset class manager search divided by the total dollars awarded for the respective manager search.

In calendar year 2024, there were no public markets searches initiated.

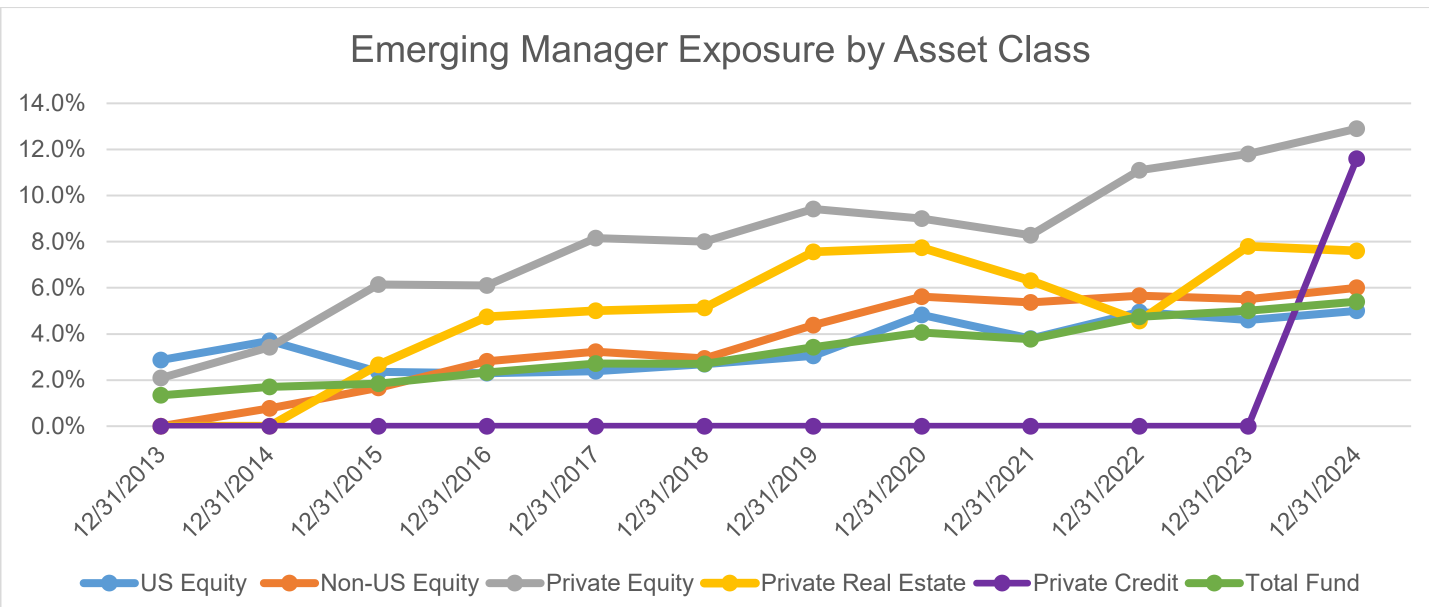
Public Market Asset Classes	Emerging Manager Exposure (Metric 1)	Public Markets Manager Searches (Metric 2)
U.S. Equity	5.0%	N/A
Non-U.S. Equity	6.0%	N/A
Core Fixed Income	0.0%	N/A
Credit Opportunities	0.0%	N/A
Public Real Assets	0.0%	N/A

Private Markets

For each private markets asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total committed dollars of Emerging Investment Managers within a respective asset class divided by all the dollars within that respective asset class on a market value basis; and 2) Manager Search Metric: the total of all committed capital awarded to Emerging Investment Managers of completed searches within a respective private market asset class divided by all committed capital awarded within the respective private market asset class over a 36-month rolling period ending December 31, 2024.

Private Market Asset Classes	Asset Class (Metric 1)	Manager Search (Metric 2)
Private Equity	12.9%	12.0%
Private Real Estate	7.6%	8.7%
Private Credit	11.6%	7.8%

On a fund-number basis for the 36-month period ending December 31, 2024, LACERS authorized commitments to a total of 12 private equity Emerging Investment Managers out of 63 private equity funds (19%), one real estate Emerging Investment Manager out of nine real estate funds (11%), and two private credit Emerging Investment Managers out of nine private credit funds (22%). The expansion of the private credit program was launched in June 2024.



Asset Class	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24
U.S. Equity	2.9%	3.7%	2.4%	2.3%	2.4%	2.7%	3.0%	4.8%	3.8%	4.9%	4.6%	5.0%
Non-U.S. Equity	0.0%	0.8%	1.5%	2.8%	3.2%	2.9%	4.4%	5.6%	5.4%	5.7%	5.5%	6.0%
Private Equity	2.1%	3.4%	6.1%	6.1%	8.2%	8.0%	9.4%	9.0%	8.3%	11.1%	11.8%	12.9%
Private Real Estate	0.0%	0.0%	2.7%	4.7%	5.0%	5.1%	7.6%	7.7%	6.3%	4.6%	7.8%	7.6%
Private Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	11.6%
Total Fund	1.3%	1.7%	1.8%	2.3%	2.7%	2.7%	3.4%	4.1%	3.8%	4.7%	5.0%	5.4%

3. Searches Conducted in 2024

Searches Initiated:

- N/A

Searches Completed:

- N/A

4. Efforts to Increase Visibility and Representation of Emerging Investment Managers

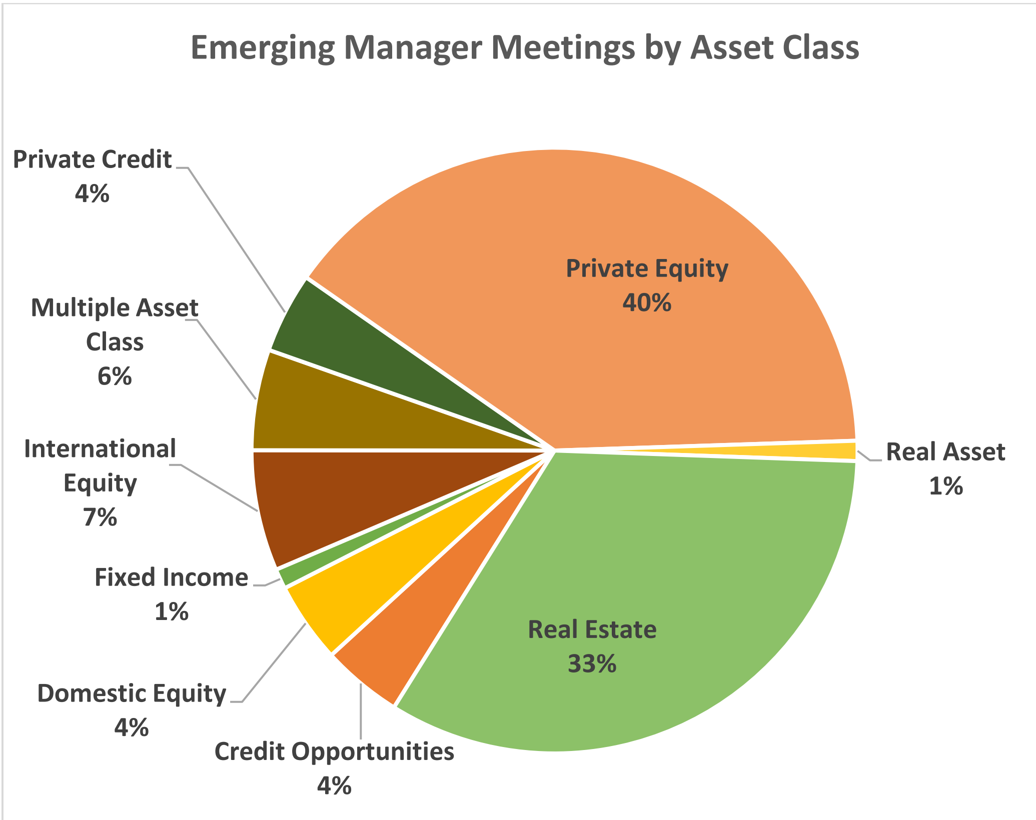
Staff

LACERS actively engages the emerging manager community to help achieve the policy objectives established by the Emerging Investment Manager Policy. During calendar year 2024, staff participated in the following emerging manager networking and meeting events:

2024 Emerging Manager Events	
February	The Teacher Retirement of Texas (TRS) and Employees Retirement System of Texas (ERS) Emerging Manager Conference
March	SEO Conference
March	NASP So Cal Emerging Manager Conference
April	LACERS Emerging Manager Symposium
July	TIDE Exchange
September	IDAC Global Summit
September	Women's Alliance Conference
October	PEWIN
October	GCM Grosvenor Small and Emerging Manager Conference
November	LACERS Emerging Manager Networking Forum
November	TOIGO

In 2024, LACERS co-hosted its annual Emerging Manager Networking Forum with Los Angeles Fire and Police Pensions (LAFPP). This event was geared toward qualified Emerging Managers based on LACERS' and LAFPP's Emerging Manager Policy criteria and consisted of eighteen twenty-five minute meeting slots randomly allocated to interested firms. Firms that were not selected for the twenty five minute time slots were invited to meet Staff during the Meet and Greet portion of the event. In total, 63 emerging manager firms attended the event.

Additionally, staff regularly meets with emerging managers. During the calendar year 2024, staff held a total of 93 emerging manager meetings depicted by asset classes in the chart below.



Consultants

LACERS retains three investment consultants. The consultants' respective emerging manager activities for the one-year period ending December 31, 2024, are summarized below.

Consultant	Meetings or Calls	Emerging Manager Conferences	Awarded to Emerging Managers
NEPC, LLC (General)	244	13	$1.4 billion / 13 managers
Aksia LLC (Private Equity)	478	15	$88.7 million / 5 managers
The Townsend Group (Real Estate)	80	15	$538 million / 1 manager

Note: The definition of "Emerging Manager" for this matrix is based on the emerging investment manager criteria unique to each consultant.

5. Performance Data of LACERS Emerging Investment Managers (as of 12/31/2024)

A. Public Markets Performance

Public Markets Managers Performance (Net-of-Fees)	Inception Date	One Year	Two Years	Three Years	Five Years	Since Inception
Oberweis Asset Management, Inc.[1]	Jan-2014	8.41	7.29	-10.29	4.30	5.03
MSCI EAFE Small Cap Index		1.82	7.34	-3.25	2.30	4.40
Excess Return		*6.59*	*-0.05*	*-7.04*	*2.00*	*0.63*
Informed Momentum Company[2]	Sep-2015	26.03	16.22	-2.37	6.83	9.78
Russell 2000 Growth Index		15.15	16.89	0.21	6.86	9.44
Excess Return		*10.88*	*-0.67*	*-2.58*	*-0.03*	*0.34*
Granahan Investment Management, Inc.[3]	Aug-2020	24.83	17.54	-1.76	-	6.31
Russell 2000 Growth Index		15.15	16.89	0.21	-	7.15
Excess Return		*9.68*	*0.65*	*-1.97*	-	*-0.84*

Public Markets Managers Peer Comparison	Universe	Number of Peers in Universe	5-Year Return % (Peer Rank)	5-Year Peer Median Return %	5-Year Sharpe Ratio (Peer Rank)	5-Year Sharpe Ratio Median
Oberweis Asset Management, Inc.	eV EAFE Small Cap Equity Net Median	76	4.30 (35th)	3.49	0.19 (34th)	0.15
Informed Momentum Company	eV US Small Cap Growth Equity Net Median	157	6.83 (74th)	8.36	0.29 (74th)	0.35
Granahan Investment Management, Inc.[4]	eV US Small Cap Growth Equity Net Median	157	12.37 (13th)	8.36	0.45 (21st)	0.35

B. Real Estate Performance

LACERS Real Estate Manager Comparison as of December 31, 2024[5]				
	Net IRR	DPI	RVPI	TVPI
Real Estate Investments Since 2015 (Ex Emerging Managers)	5.03%	0.17	1.01	1.19
Emerging Manager Investments Since 2015	6.92%	0.35	0.96	1.31

[1] Account funded on January 15, 2014. Manager no longer meets the LACERS definition of an emerging manager as firm assets under management exceed $2 billion.

[2] Account funded on October 1, 2015. Manager no longer meets the LACERS definition of an emerging manager as firm assets under management exceed $2 billion. Informed Momentum Company rebranded from EAM as of 2/4/25.

[3] Account funded on October 1, 2020. Manager no longer meets the LACERS definition of an emerging manager as firm assets under management exceed $2 billion.

[4] Composite strategy performance was used to determine the 5-year peer rankings due to the limited track record of LACERS' accounts.

[5] IRR – Internal Rate of Return, DPI – Distributed to Paid-In Capital, RVPI – Residual Value to Paid-In Capital, TVPI – Total Value to Paid-In Capital.

Private Real Estate Emerging Fund Managers	Vintage Year	Net IRR[6]	Return Multiple	Sourced By
Gerrity Retail Fund 2, LP	2015	2.5%	1.2x	Townsend Group
Asana Partners Fund I, LP	2017	11.0%	1.9x	Townsend Group
Broadview Real Estate Partners Fund, LP	2019	12.7%	1.3x	Townsend Group
NB Partners Fund IV, LP	2023	-4.4%	1.0x	Townsend Group

C. Private Equity Performance

LACERS Private Equity Manager Comparison as of December 31, 2024			
	Net IRR[6]	DPI	Net TVPI
Total Portfolio	11.9%	1.03	1.67
Core Portfolio	12.3%	1.03	1.68
Core ex Emerging Managers	12.3%	1.05	1.69
Specialized Portfolio	1.6%	1.05	1.11
Emerging Manager (VY2013+)	16.9%	0.63	1.64

Notes: Excludes VY (2024, 2023, 2022)

Barings Emerging Generation Fund has a portfolio of emerging managers via a fund of fund structure and is included in calculation.

Private Equity Emerging Fund Managers (Vintages 2013 to 2024)	Vintage Year	Net IRR[6]	Return Multiple	Sourced By
High Road Capital Partners Fund II, LP	2013	12.6%	1.6x	Hamilton Lane
Blue Sea Capital Fund I, LP	2014	19.3%	2.4x	Portfolio Advisors
Oak HC/FT Partners, LP	2014	22.2%	2.7x	Portfolio Advisors
1315 Capital, LP	2015	17.6%	2.2x	Portfolio Advisors
New Water Capital Partners, LP	2015	11.2%	1.4x	Portfolio Advisors
Angeles Equity Partners I, LP	2015	15.0%	1.5x	Portfolio Advisors
CenterGate Capital Partners I, LP	2015	18.0%	1.7x	Portfolio Advisors
Sunstone Partners I, LP	2016	35.3%	3.3x	Portfolio Advisors
Defy Partners I, LP	2017	7.7%	1.4x	Portfolio Advisors
NMS Fund III, LP	2017	14.9%	1.7x	Portfolio Advisors
Oak HC/FT Partners II, LP	2017	25.3%	2.8x	Portfolio Advisors
Astra Partners I, LP	2017	-4.0%	0.9x	Portfolio Advisors
Mill Point Capital Partners, LP	2018	22.0%	2.1x	Portfolio Advisors
1315 Capital Fund II, LP	2018	14.6%	1.4x	Portfolio Advisors
DEFY Partners II, LP	2019	12.4%	1.5x	Aksia LLC
P4G Capital Partners I, LP	2019	30.6%	1.9x	Aksia LLC

[6] A private market fund typically yields a low or negative IRR during its early life “J Curve” period.

Private Equity Emerging Fund Managers (Vintages 2013 to 2024)	Vintage Year	Net IRR[6]	Return Multiple	Sourced By
Sunstone Partners II, LP	2019	23.4%	1.6x	Aksia LLC
OceanSound Partners Fund, LP	2020	23.9%	1.9x	Aksia LLC
Builders VC Fund II, LP	2020	12.9%	1.3x	Aksia LLC
ULU Ventures Fund III, LP	2021	-10.3%	0.7x	Aksia LLC
Mill Point Capital Partners II, LP	2021	31.4%	1.4x	Aksia LLC
Avance Investment Partners, LP	2021	12.7%	1.2x	Aksia LLC
Biospring Partners Fund, LP	2021	10.4%	1.2x	Aksia LLC
DEFY Partners III, LP	2021	-14.5%	0.8x	Aksia LLC
LightBay Investment Partners II, L.P.	2022	-37.9%	0.5x	Aksia LLC
1315 Capital III, L.P.	2022	-	0.9x	Aksia LLC
L2 Point Opportunities I, L.P.	2022	9.3%	1.3x	Aksia LLC
Auldbrass Partners Secondary Opportunity Fund III, L.P.	2022	17.0%	1.2x	Aksia LLC
Sunstone Partners III-Main, LP	2022	-	0.8x	Aksia LLC
OceanSound Partners Fund II, LP	2023	-	1.4x	Aksia LLC
Ulu Ventures Fund IV, LP	2023	-	0.8x	Aksia LLC
3 Boomerang Capital	2023	-	0.9x	Aksia LLC
Builders VC Fund III, LP	2024	-	-	Aksia LLC
KLC (Knox Lane) Fund II, LP	2024	-	0.9x	Aksia LLC
Biospring Partners Fund II, LP	2024	-	-	Aksia LLC
Centana Growth Partners III, LP	2024	-	-2.0x	Aksia LLC

D. Private Credit Performance

Private Credit Emerging Fund Managers	Vintage Year	Net IRR[6]	Return Multiple	Sourced By
Centre Lane Credit Partners III, L.P.	2024	n.m.	n.m.	Aksia LLC
Putnam Hill Private Credit Fund (Leveraged)	2024	n.m.	n.m.	Aksia LLC

Notes: n.m. = not meaningful

<u>Prepared By:</u> Ricky Mulawin, Management Analyst, Investment Division

TB:RJ:WL:EC:JP:RM

[6] A private market fund typically yields a low or negative IRR during its early life “J Curve” period.