

**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM

**Investment Committee Agenda  
REGULAR MEETING  
TUESDAY, MAY 12, 2026  
10:30 A.M., OR IMMEDIATELY FOLLOWING  
THE BOARD MEETING  
LACERS BOARDROOM  
977 N. Broadway  
Los Angeles, CA 90012**

**Chair:**

Thuy Huynh

**Committee Members:**

Susan Liem

Gaylord "Rusty" Roten

**Manager-Secretary:**

Todd Bouey

**Executive Assistant:**

Ani Ghoukassian

**Legal Counsel:**

City Attorney's Office Public Pensions General Counsel Division

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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 YouTube Livestream Link](#) for Board/Committee meeting audio – only accessible during meetings.

The Committee may take action on any item appearing on this agenda, regardless of whether it is listed as an action item. Cal. Gov. Code § 54954.2.

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### **REQUEST FOR SERVICES**

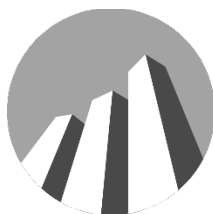
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- I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA
- II. APPROVAL OF MINUTES FOR THE MEETING ON APRIL 14, 2026 AND POSSIBLE COMMITTEE ACTION
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2026-2027 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION
- V. INVESTMENT MANAGER CONTRACT WITH POLEN CAPITAL CREDIT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE HYBRID HIGH YIELD FIXED INCOME/U.S. FLOATING RATE BANK LOAN PORTFOLIO AND POSSIBLE COMMITTEE ACTION
- VI. ADAPTIVE ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION
- VII. OTHER BUSINESS
- VIII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 9, 2026, at 10:30 A.M., or immediately following the Board Meeting in the LACERS Boardroom, at 977 N. Broadway, Los Angeles, CA 90012-1728.
- IX. ADJOURNMENT



**LACERS**

**LA CITY EMPLOYEES'  
RETIREMENT SYSTEM**

**Board of Administration Agenda  
SPECIAL MEETING  
TUESDAY, MAY 12, 2026  
10:30 A.M., OR IMMEDIATELY FOLLOWING  
THE BOARD MEETING  
LACERS BOARDROOM  
977 N. Broadway  
Los Angeles, CA 90012**

**President:**

Annie Chao

**Vice President:**

Janna Sidley

**Commissioners:**

Thuy Huynh

Susan Liem

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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- IX. ADJOURNMENT

**Committee Agenda of: May 12, 2026**  
**Item No.: II**  
**MINUTES OF THE REGULAR MEETING**  
**INVESTMENT COMMITTEE**  
**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**  
**April 14, 2026**  
**11:33 A.M.**

**Committee Members Present:**

Thuy Huynh, Chair

Susan Liem, Committee Member

Gaylord "Rusty" Roten, Committee Member

**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 Huynh 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 ON MARCH 10, 2026 AND POSSIBLE COMMITTEE ACTION – Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Liem, Roten, and Chair Huynh -3; Nays, None.

### III

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

- Distribution of the Investment Committee Forward Calendar
- Distribution of the Public Markets Manager Watch List
- Investment Committee Responsibilities related to the Infrastructure Search

### IV

INVESTMENT MANAGER CONTRACT WITH SEGALL BRYANT & HAMILL, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, and Kevin Novak, Principal, with NEPC, LLC, presented and discussed this item with the Committee. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Liem, Roten, and Chair Huynh -3; Nays, None.

### V

INVESTMENT MANAGER CONTRACT WITH THE INFORMED MOMENTUM COMPANY LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, and Kevin Novak, Principal, with NEPC, LLC, presented and discussed this item with the Committee. Committee Member Liem moved approval, and adopted by the following vote: Ayes, Committee Members Liem, Roten, and Chair Huynh -3; Nays, None.

### VI

INVESTMENT MANAGER CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Jeremiah Paras, Investment Officer II, and Rose Dean, Partner, with NEPC, LLC, presented and discussed this item with the Committee for ten minutes. Committee Member Liem moved approval, and adopted by the following vote: Ayes, Committee Members Liem, Roten, and Chair Huynh -3; Nays, None.

### VII

INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, and James Wang, Investment Officer I, presented and discussed this item with the Committee for six minutes. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Liem, Roten, and Chair Huynh -3; Nays, None.

Chair Huynh recessed the Regular meeting at 12:03 P.M. to convene in closed session.

**VIII**

**CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO PRIME PROPERTY FUND, LLC AND POSSIBLE COMMITTEE ACTION**

Chair Huynh reconvened the Regular meeting at 12:11 P.M. with nothing to report.

**IX**

OTHER BUSINESS – There was no other business.

**X**

NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, May 12, 2026, at 10:30 A.M., or immediately following the Board Meeting in the LACERS Boardroom, at 977 N. Broadway, Los Angeles, CA 90012-1728.

**XI**

ADJOURNMENT – There being no further business before the Committee, Chair Huynh adjourned the meeting at 12:12 P.M.

Thuy Huynh, Chair  
Todd Bouey, Manager-Secretary



**LACERS**

LA CITY EMPLOYEES'  
RETIREMENT SYSTEM

**REPORT TO INVESTMENT COMMITTEE**

**MEETING: MAY 12, 2026**

**FROM: Todd Bouey, General Manager**

**ITEM: IV**

**SUBJECT: PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE  
REAL ESTATE FISCAL YEAR 2026-27 STRATEGIC PLAN AND  
POSSIBLE COMMITTEE ACTION**

**ACTION**       **CLOSED**       **CONSENT**       **RECEIVE & FILE**

**Recommendation**

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2026-27 Strategic Plan.

**Discussion**

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with the input from staff, has developed the proposed Real Estate Fiscal Year 2026-27 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

**Prepared By:**

Jessica Chumak, Investment Officer I, Investment Division

**Attachment:**

1. Executive Summary – The Townsend Group
2. Proposed Real Estate Strategic Plan – The Townsend Group

**INVESTMENT COMMITTEE MEETING DATE: MAY 12, 2026**

**ITEM: IV**

**ATTACHMENT: 1**

# Townsend

## MEMORANDUM

**TO:** The Board of Los Angeles City Employees' Retirement System  
**DATE:** May 2026  
**SUBJECT:** Real Estate Strategic & Investment Plan for Fiscal Year 2026-2027 – Executive Summary  
**FROM:** Townsend

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### Executive Summary

The purpose of this report is to review the Los Angeles City Employees' Retirement System ("LACERS" or the "System") Real Estate Strategic Plan ("Strategic Plan") and outline the corresponding Real Estate Investment Plan ("Investment Plan"). The Investment Plan includes actions which will help LACERS to capitalize on current market opportunities while still meeting the guidelines set forth in the proposed Strategic Plan.

Since being re-engaged by the LACERS Board in 2014 to serve as its real estate consultant, Townsend has worked with LACERS Staff to deploy \$580 million of investments into Core funds and \$1.09 billion into tactical Non-Core funds.

The LACERS Program has a 7.0% allocation target (with an allowable range of  $\pm 2.0\%$ ), which was increased from 5% in a 2018 asset allocation study and maintained in recent asset allocation studies. As of December 31, 2025, the market value of the portfolio was \$1.43 billion on a funded basis (5.3% of Total Plan Assets).

### FY 2026-2027 Investment Recommendations

LACERS will need to continue to deploy capital to reach its 7.0% allocation target over the coming years. Townsend recommends the following FY 2026-2027 goals to LACERS for consideration:

LACERS Annual Investment Plan FY 2026-2027	
Core Capital	Up to \$130 M
Non-Core Capital	Up to \$200 M
<b>Total Annual Commitments</b>	<b>Up to \$330 M</b>

# Townsend

## 2026 Outlook

- The highly unpredictable political and economic environment in the U.S. and globally creates many risks for investors, but valuations appear more attractive than in recent years
- Real estate is entering the early stages of a new return cycle
- Real estate performance outlook is improving
- Limited liquidity and valuation disconnects create opportunities for investors
- Investors should focus on high-conviction sectors including:
  - Data centers - capitalize on accelerating AI & cloud infrastructure demand
  - Alternative housing strategies - continue to diversify residential portfolio beyond traditional apartments
  - Industrial outdoor storage, truck terminals, and other industrial sub-sectors offer opportunities to further diversify exposure within the industrial property type and benefit from strong rent-growth themes
- Updated views by real estate sector are summarized in the attached Investment Plan

## Core Portfolio Goals

- Commit up to \$130 million to Core/Core Plus funds
- Target top-performing managers with high-quality assets
- Explore secondary market opportunities at discounts to NAV
- Continue portfolio rebalancing
  - Evaluate existing open-end positions and execute strategic rebalancing
  - Optimize fee structures and improve terms with existing managers whenever possible
  - Align property type mix with LACERS long-term return objectives
  - Engage specialist managers in sectors underrepresented in the portfolio

# Townsend

## Non-Core Portfolio Goals

- Commit up to \$200 million to Non-Core funds
- Thematic focus, specialist managers in alternative sectors with growth potential
- Leverage capital market dislocation via secondary market transactions and recapitalizations
- Optimize returns and portfolio construction
  - Identify fee reduction opportunities to enhance net returns across the portfolio
  - Focus on managers with deep expertise in their target markets who are specialists within their strategy segment
  - Explore secondary market sale opportunities to recycle capital into higher conviction investments
- Continue to evaluate Emerging Managers that are an appropriate fit for LACERS' portfolio, without compromising returns

**INVESTMENT COMMITTEE MEETING DATE: MAY 12, 2026**

**ITEM: IV**

**ATTACHMENT: 2**

# Annual Real Estate Investment Plan

May 12, 2026

Townsend



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM

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# 1. Executive Summary

LACERS Annual Investment Plan 2026 – 2027 – Total new Commitments of up to \$330 million

Private Real Estate Portfolio

## Core Portfolio – Up to \$130M

- **Allocate capital to specialized core and core-plus managers** to enhance portfolio construction, improve income durability, and drive stronger risk-adjusted returns
- **Continue proactive rebalancing of the core portfolio** to optimize performance, reduce structural inefficiencies, and align exposures with evolving market conditions

## Non-Core Portfolio - Up to \$200M

- **Pursue selective commitments to new investments**, targeting \$50-\$65 million per fund with a focus on disciplined pacing and vintage diversification
- **Focus on high-conviction strategies and top-performing managers**, while continuing to strengthen relationships with proven partners

## 2. LACERS Current Portfolio

	Strategic Targets		Portfolio Composition (12/31/25)*	
	Target Allocation	Target Range	Market Value	Projected 3-Year
Core	60%	40%-80%	56.7%	59.1%
Non-Core	40%	20%-60%	41.9%	40.4%
<i>Value-Add Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>24.0%</i>	
<i>Opportunistic Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>18.0%</i>	
Timber	N/A	N/A	1.3%	0.5%

## Core Activity

New

### Diversified Triple Net Lease Fund

Newly launched open-end fund- seeded with a portfolio of 183 properties

New

### Diversified Alternative Sectors Fund

Manufactured housing, niche residential & industrial- high-conviction sectors

Exit

### Full Redemption

Full exit from an underperforming core diversified fund

Rebalance

### Partial Redemption

Partial exit to address concentration risk, fund had grown to largest position

## Non-Core Activity

New

### European Industrial Fund

Top-performing manager focused on acquiring logistics properties across Europe

Re-up

### U.S. Multifamily Preferred Equity

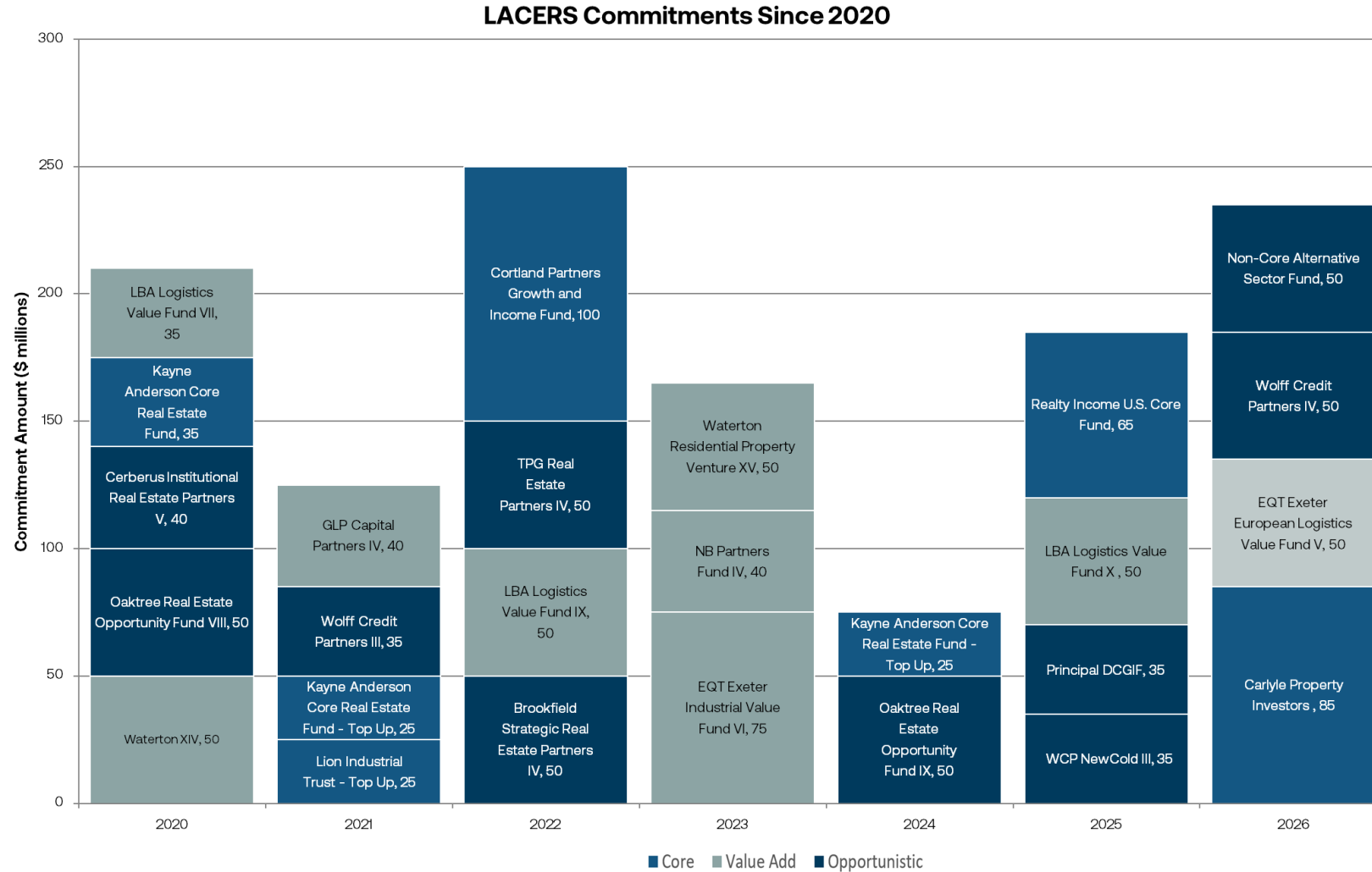
Re-up with a high-performing manager- preferred equity investments in US multifamily development projects

New

### Specialized Alternative Sector Opportunistic Fund

Senior housing, student housing and healthcare related real estate- high-quality specialist manager

# LACERS 2026 Real Estate Commitments



- LACERS has committed \$1.7 billion since 2014 while under advisement of Townsend.
- Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

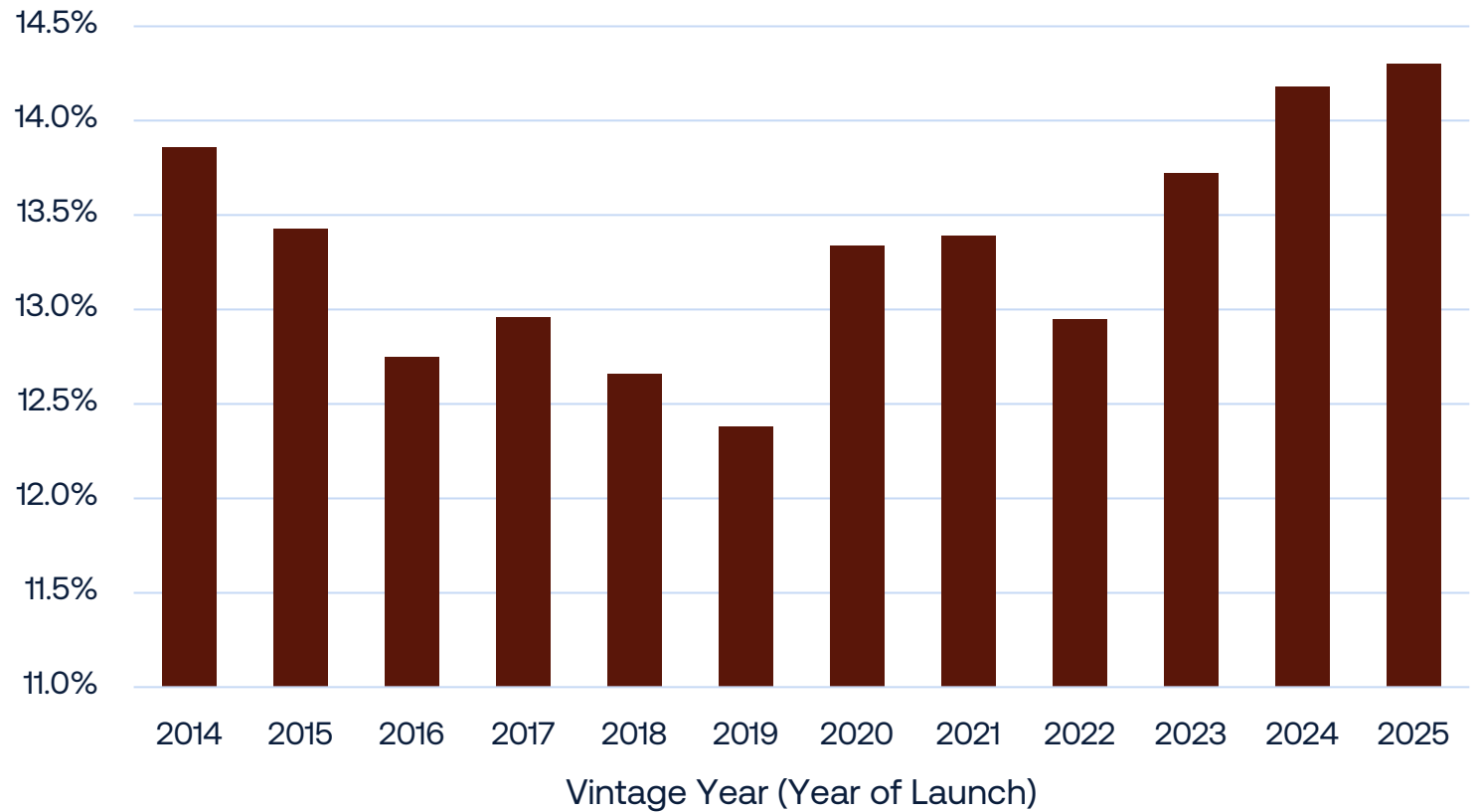
- Townsend's long-term return expectations for real estate recently increased after re-set in valuations

## Long-term Return Expectations

	Core	Value Add	Opportunistic
Income Return	4.0%	4.5%	5.0%
Appreciation Return	2.5%	4.0%	4.0%
<b>Total Return</b>	<b>6.5%</b>	<b>8.5%</b>	<b>9.0%</b>

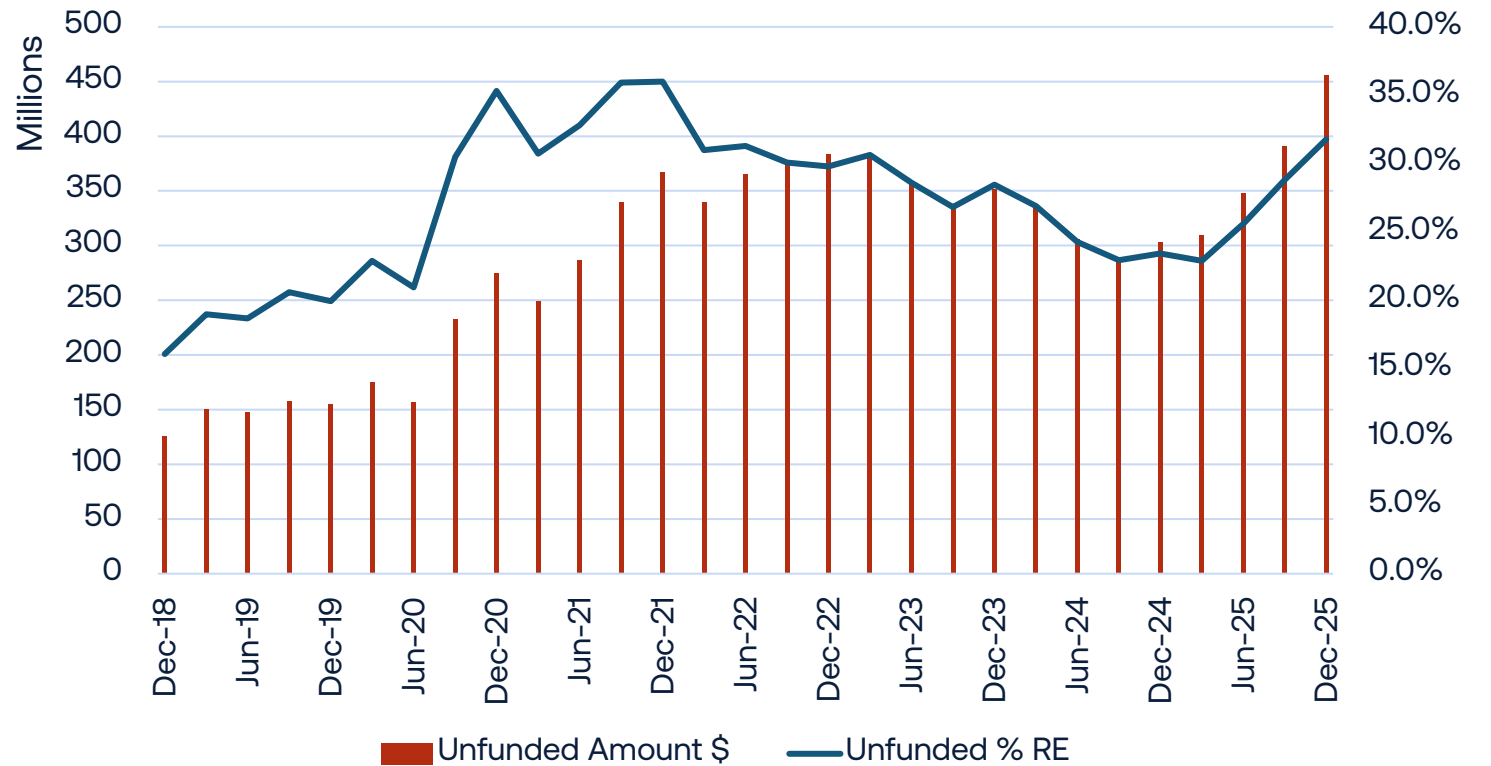
- Target net IRRs for closed-end real estate funds have increased steadily since 2022
- 2025 vintages are targeting average ~14.3% net IRRs, ~135 bps higher than 2022 levels
- Data set is heavily skewed towards non-core equity funds but also includes debt funds and select closed-end core plus funds.

## Target Net IRRs for Closed-End Real Estate Funds



- Managers previously committed to still have dry powder with LACERS unfunded commitments totaling 32% of real estate Net Asset Value (NAV)
- Current levels reflect prior deployment activity and a slower pace of investment by managers in 2022-2023

## Unfunded Commitments Over Time (2018-2025)



## 3. Real Estate Market Update

# Lower Rates are Catalyzing a Turn in Real Estate Valuations

Lower borrowing costs and easing cap rates are providing broad support to valuations

## GDP Growth Anticipated to be Healthy

- **US:** Growth resilient; strong labor markets, solid consumption from high-income households (K-shaped economy), & reshoring-linked investment
- **Europe:** Growth stabilizing; real incomes improving and manufacturing indicators turning up
- **APAC:** Australia and Japan both seeing stabilizing to improving outlook

## Inflation Coming Under Control

- In the US, Europe, and Australia, disinflation broad-based across goods, housing, and core services
- Japan is the outlier with wage-gain driven inflation

## Interest Rates Declining and Likely to Remain Below Recent Highs

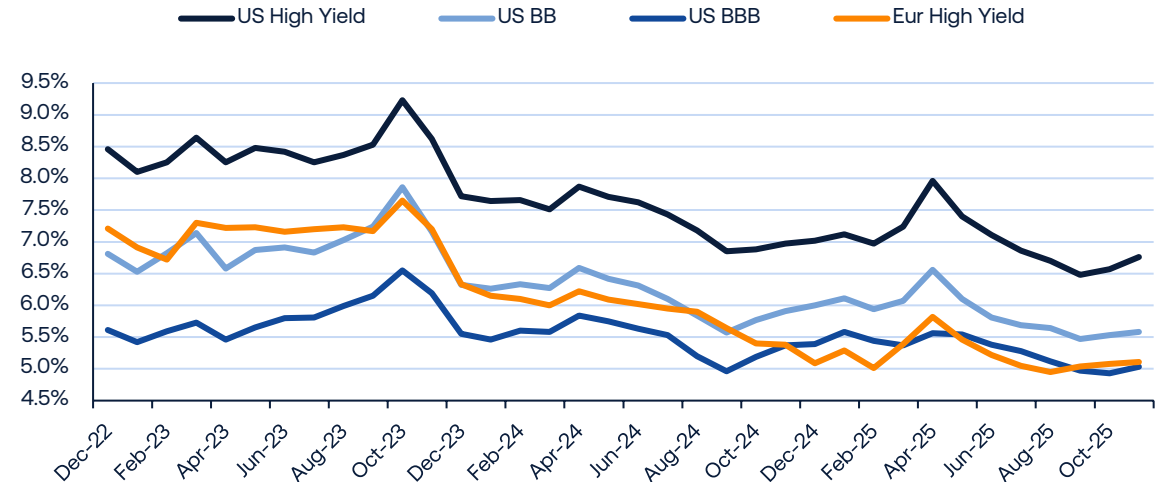
- **US:** Fed easing underway, BBB bond yields (proxy for core borrowing cost) and high yields (proxy for non-core borrowing cost) declining
- **Europe:** ECB cutting; lower sovereign yields reducing financing costs and supporting cap-rate compression
- **Australia:** Anticipated rate cuts as inflation moderates; lending spreads narrowing and refinancing improving
- **Japan:** BOJ policy steady with mild normalization; rates remain lowest globally and unlikely to fall further

Source: Bloomberg (January 2026), Federal Reserve Bank of St. Louis (December 2025). Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

Real GDP Forecasts (YoY%)

Major Regions	2024	2025	2026	2027
North America	2.7	2.1	2.3	2.0
European Union	1.1	1.6	1.5	1.6
Asia Pacific	4.4	3.9	3.9	3.8
Selected Markets	2024	2025	2026	2027
United States	2.8	2.2	2.4	2.0
United Kingdom	1.1	1.4	1.0	1.4
Germany	-0.5	0.2	1.0	1.5
China	5.0	5.0	4.5	4.4
Japan	-0.2	1.2	0.8	0.9
Australia	1.0	1.9	2.2	2.3

High Yield Bond Effective Yields



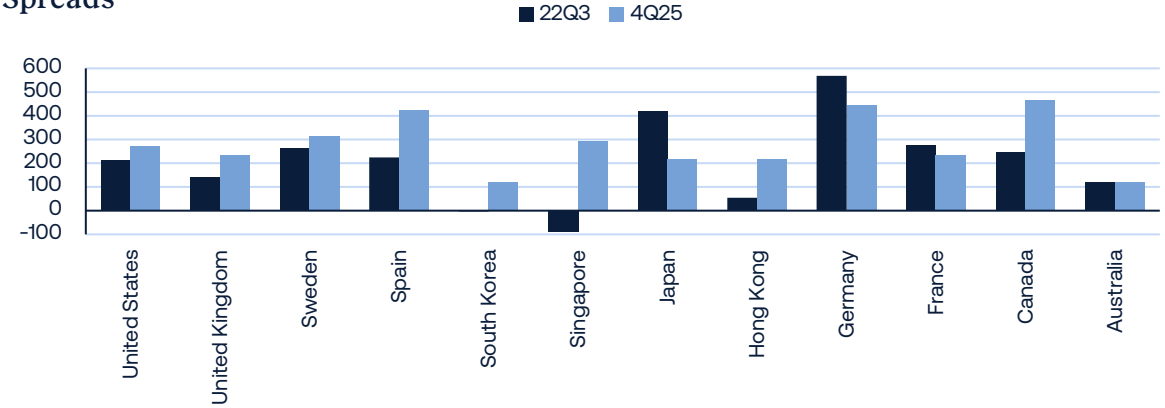
# Yield Spreads Signal Real Estate is Attractively Priced at this Point

Falling rates and rising property yields have opened a valuation gap supportive of forward returns

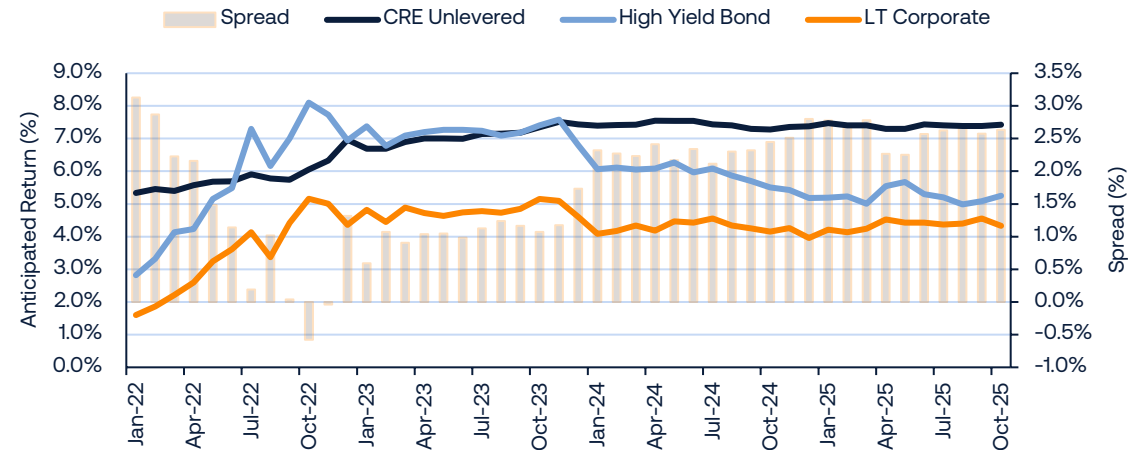
## Valuation Signals Point to Opportunity

- **Wide yield spreads:** Cap rates remain well above government bond yields across major markets, with spreads widening over the past year as rates fell and property yields rose
- **Private-market spreads attractive:** In the U.S., risk-adjusted private real estate returns (~7–8%) exceed both Baa and high-yield bond benchmarks
- **Strong corporate-bond comparison:** CRE spreads versus investment-grade bonds remain above long-term norms, a historically supportive valuation signal
- **Public market confirmation:** U.S. REITs trade cheaply relative to the S&P 500, with AFFO yields above equity earnings yields—supporting valuation upside
- **Europe also compelling:** Pan-European real estate shows elevated spreads versus corporate bonds, with fair-value indicators still in “cheap” territory
- **Cycle inflection:** Historically, wide CRE–bond spreads have preceded periods of above-average forward returns

10-yr Government Bond Yields vs. Average Cap Rate (Office, Industrial, Retail) Spreads



Pan-European RE Unlevered Performance Forecasts vs. Income



Source: MSCI Real Capital Analytics (Q4 2025), Green Street (December 2025). Townsend’s views are as of the date of this presentation and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

# Real Estate is Entering the Early Stages of a New Return Cycle

Stabilizing values & early appreciation signals indicate the turn in the private real estate cycle is underway

## Real Estate has lagged General Post-COVID Financial Market Recovery

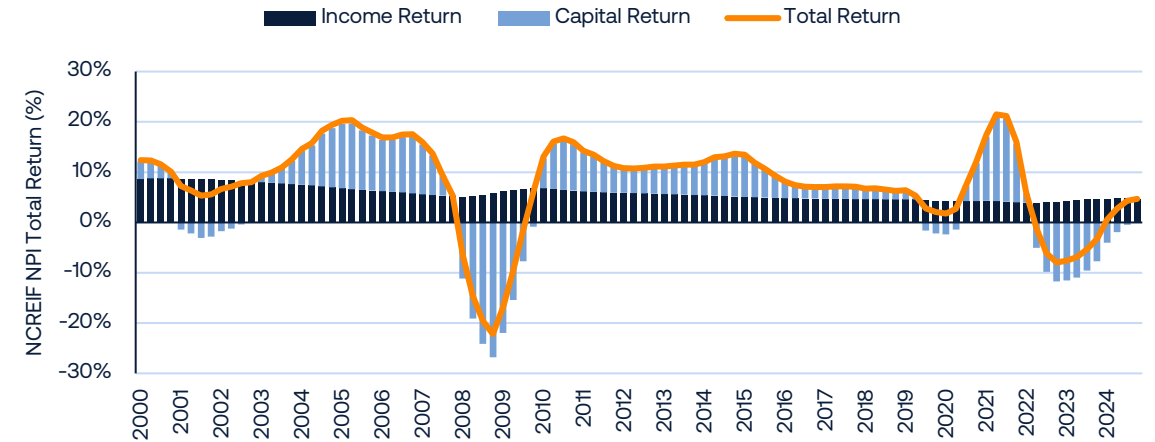
- **Public markets surged:** Since mid-2019, the S&P 500 has returned ~170–175%, with the Nasdaq even higher
- **Real estate lagged:** Over the same period, private real estate delivered only ~15–20% in North America and ~20–25% in Europe and APAC

## Returns are Stabilizing and Early-Cycle Signals are Emerging

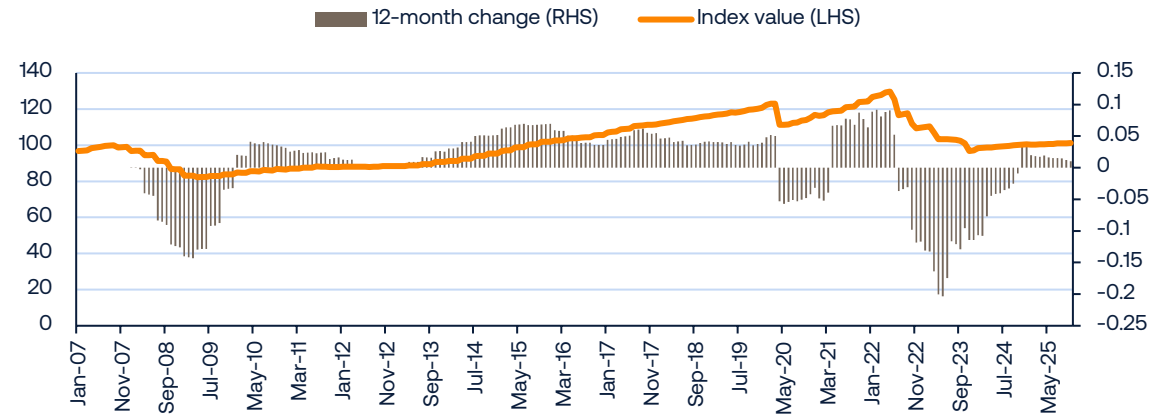
- **US bottoming:** NCREIF returns have been positive for five straight quarters, with appreciation improving from -10% in 2023 to near 0% in 2025
- **History rhymes:** In past easing cycles (2000–03, 2007–08), US total returns rebounded 12–14% annually for five years after the trough
- **Europe recovering:** Pan-European values fell ~15–20% from the peak but have rebounded ~5–7% since mid-2024
- **UK turned first:** UK funds repriced fastest post-2022, moving from -16% in 2023 to +6% in 2024, one of the strongest YoY rebounds globally
- **APAC improving:** APAC property index is up ~10% from the 2023 trough, with Australia and Japan stabilizing
- **Cycle duration supportive:** real estate early-cycle recovery window is now open

Source: NCREIF (Third Quarter 2025), Green Street (December 2025). Townsend’s views are as of the date of this presentation and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

Rate Cut Cycles ('00-03, '07-08) and Corresponding US RE Performance (NPI Total Return)

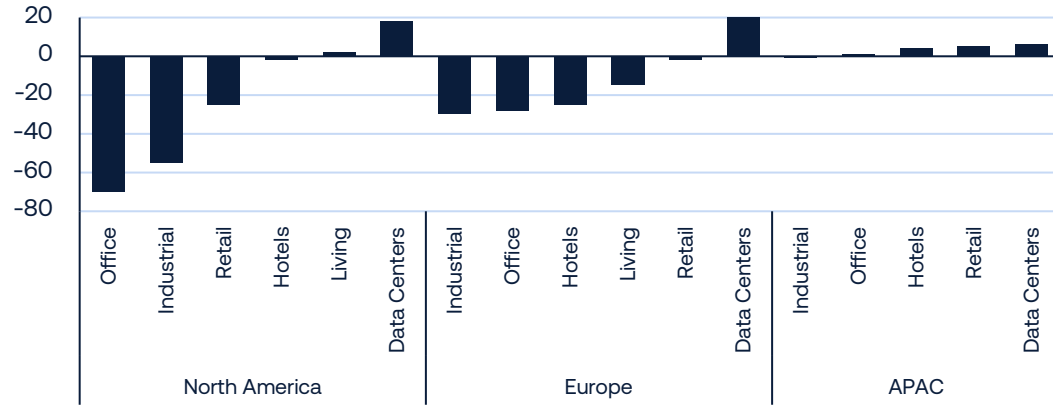


Pan-European RE Property Price Index

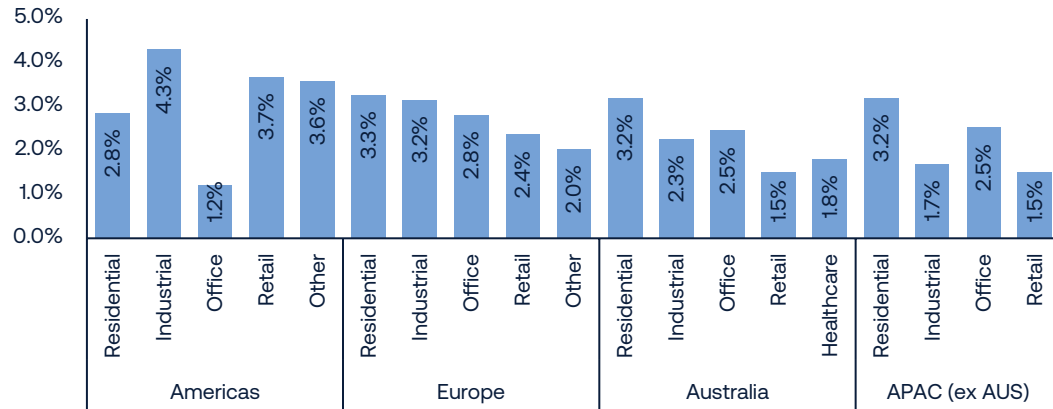


# Improving Real Estate Performance Outlook

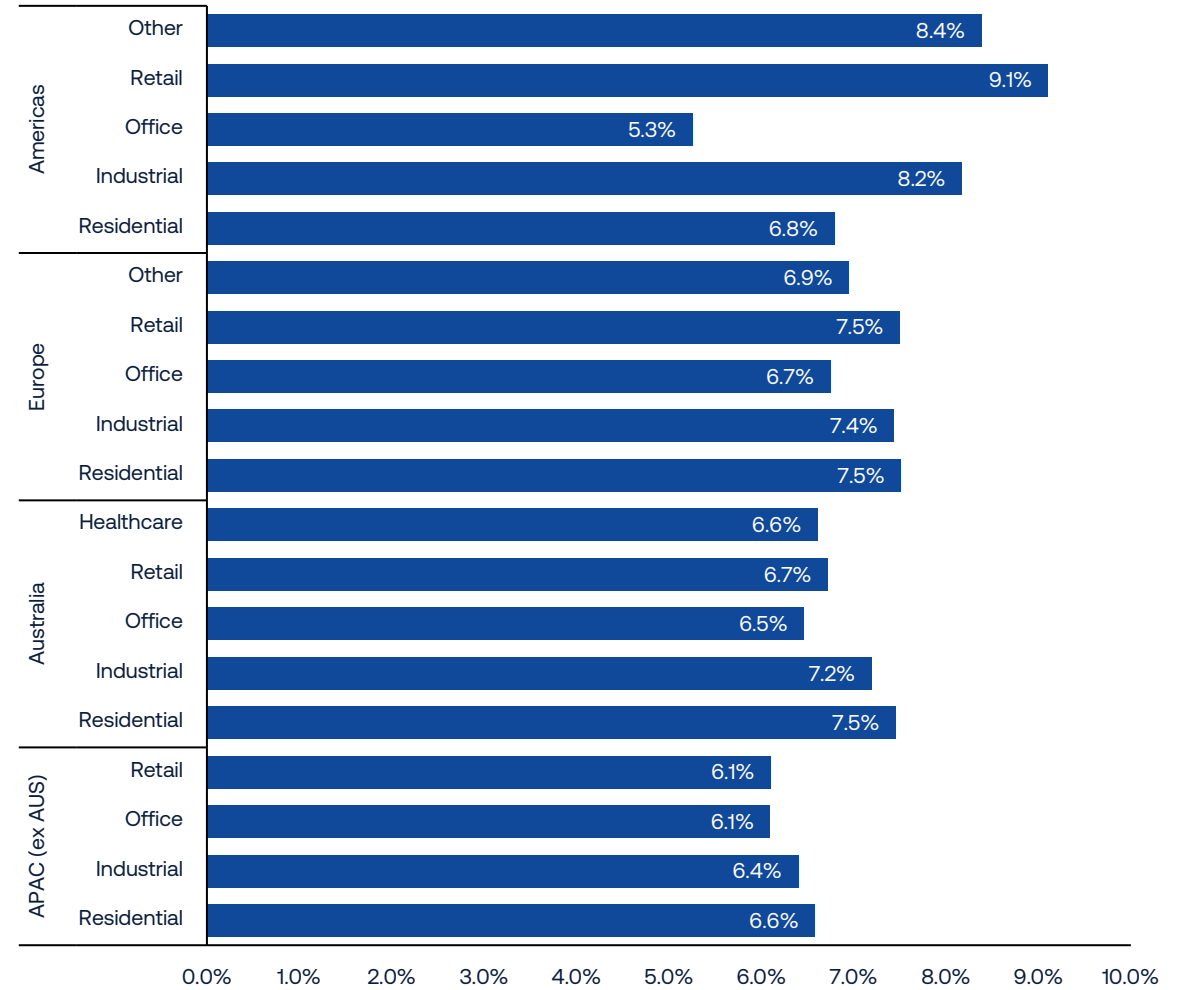
New Supply Is Forecasted To Decline Across Most Asset Classes Globally  
2025 Forecast Completions vs 2021-2024 Peak



Macro Fundamentals Supporting NOI Growth Across Multiple Asset Classes/Regions  
5-year CAGR Forecasts by Region/Sector



Alternative Property Types Forecasting Highest Returns in US  
5-Year Unlevered IRR Forecasts by Region/Sector



Source: JLL Research (July 2025), Townsend.

Townsend's views are as of the date of this presentation and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein. See Definitions/Disclosures page at the end of document for Ratings Explanations for Preferred, Approved, Prudent, Declined/Redeem and Tracking interpretations.

# Many Long-Term Secular Trends Remain Intact

## Secular trends can guide long-term real estate investors

### ACUTE HOUSING SHORTAGE



- Millennials, the largest age cohort comprising 22% of the population, are demanding bigger dwellings leading to acute single family housing shortage
- Excess apartment supply in sunbelt market getting absorbed and new supply shrinking. Annual completions are projected to decline from +2.2% (2023-2024) to +1.4% (2025-2029E)

### EVOLVING CONSUMER HABITS REQUIRING LOGISTICS INFRASTRUCTURE



- E-commerce remains a strong driver of industrial demand: as of March 2025, e-commerce represented 16.3% of total retail sales. Speculative development starts fell 12% year-over-year in 2025, resulting in the total industrial development pipeline reaching its lowest level since 2017

### CONTINUED DIGITIZATION AND AI ADOPTION



- Explosive growth of AI and growing need for cloud computing are driving demand for Data Centers as digital economy expands globally. In 2025, hyperscale tenants invested over \$400 billion in capital expenditures into data centers and data infrastructure, a +65% increase year-over-year from 2024

### SUPPORTIVE DEMOGRAPHIC TRENDS



- The “Silver Tsunami” is anticipated to create need for over 500k new units over the next 10 years, and the percentage of 80+ years age population is projected to increase by +93% by 2040, driving demand for Senior Housing. Annualized same store NOI growth for Senior Housing is forecast to be +6.0% across 2026-2030.

### INSTITUTIONALIZATION OF ALTERNATIVE SECTORS



- Outside of the main four property types, niche/alternative sectors have seen outsized capital inflows from institutional investors. Alternative property type exposure within the NCREIF Property Index (“NPI”) has increased from 1.6% in 1Q15 to 12.6% in 4Q25.

Source: Townsend, U.S. Census Bureau (2025), Green Street (November 2025), St. Louis Fed (August 2025), Prologis Research (November 2025), NIC, Harrison Street Research (2025), NCREIF (4Q25). Townsend’s views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

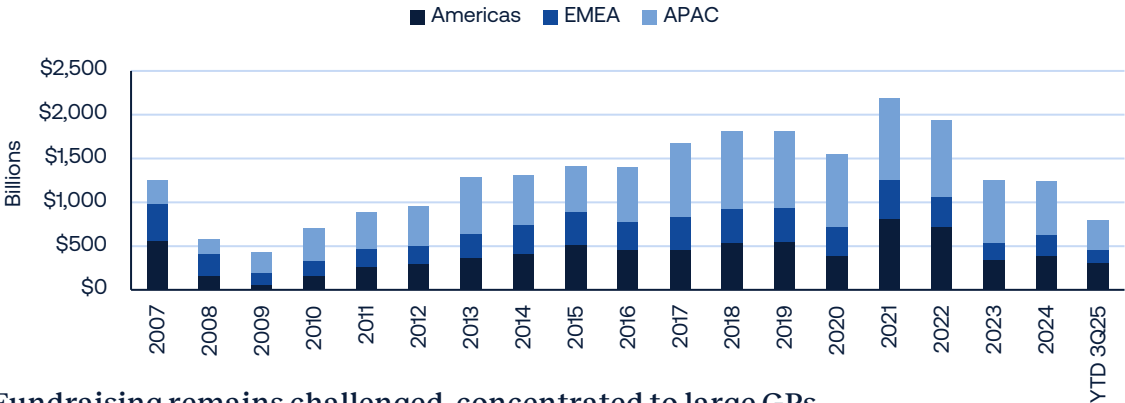
# Value Seeking Investors Can Find Opportunity in Market Today

## Frozen pricing, limited liquidity, and concentrated capital flows creating high-conviction opportunities

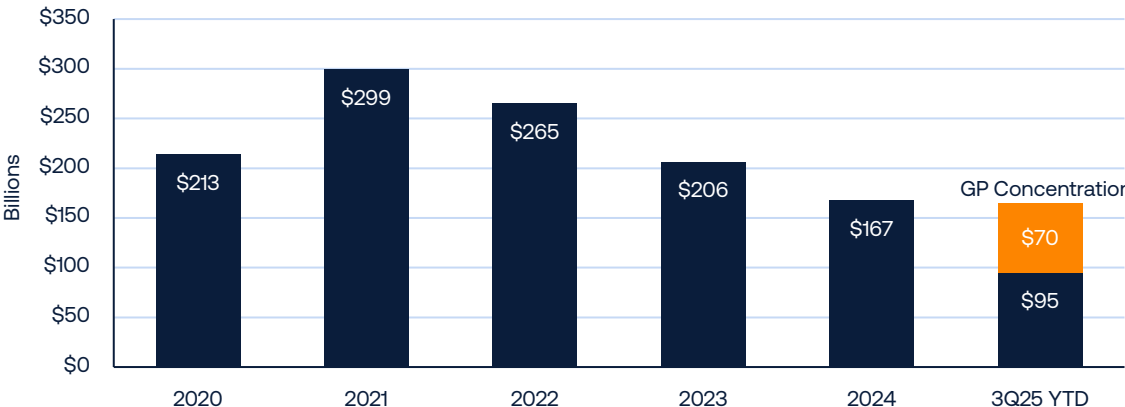
### Limited liquidity & valuation disconnects creating favorable entry points

- **Global volumes subdued:** Commercial real estate transaction activity remains well below pre-2022 levels as higher rates and cautious underwriting suppress deal flow
- **Pricing gridlock in core funds:** Appraisal marks remain above observable transaction pricing, keeping buyers on the sidelines and preventing sellers from crystallizing losses; limited secondary trades
- **Fundraising still challenged:** Capital raising for new funds sits near decade lows, though early signs of improvement are emerging as investors re-engage
- **GP-led activity rising:** Many non-core funds are reaching end-of-life, accelerating GP-led secondary processes
- **LP-led secondaries increasing:** LPs seeking to rebalance portfolios face limited exit routes in a frozen market, pushing more LP-led sale processes
- **Attractive non-core pricing:** Secondary portfolios continue to transact at meaningful discounts to NAV, offering pre-specified portfolios with earlier income and reduced J-curve risk
- **Capital concentration driving incentives:** As fundraising concentrates among a small group of large managers, high-quality mid-sized GPs are offering enhanced GP economic terms and other sweeteners to attract capital

Transaction Volume Remains Below Historical Periods  
Global Real Estate Transaction Volume September 2025



Fundraising remains challenged, concentrated to large GPs  
Global PERE Fundraising (\$B) 2020-2025



Source: MSCI Real Capital Analytics (Q3 2025), PERE Fundraising Report (3Q25). Townsend's views are as of the date of this presentation and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

# Execution Preferences

## Secondaries are the most attractive and efficient way to access repriced assets

- ### Open-End Funds at Appraisal-Based Pricing

  - US cap rates rose from 3.7% (Q3 2022) to 4.6% (Q4 2025); appraisals still lag
  - Disconnect widening bid-ask spreads, fueling secondaries and recap interest
- ### Asset Purchases at Rebased Values

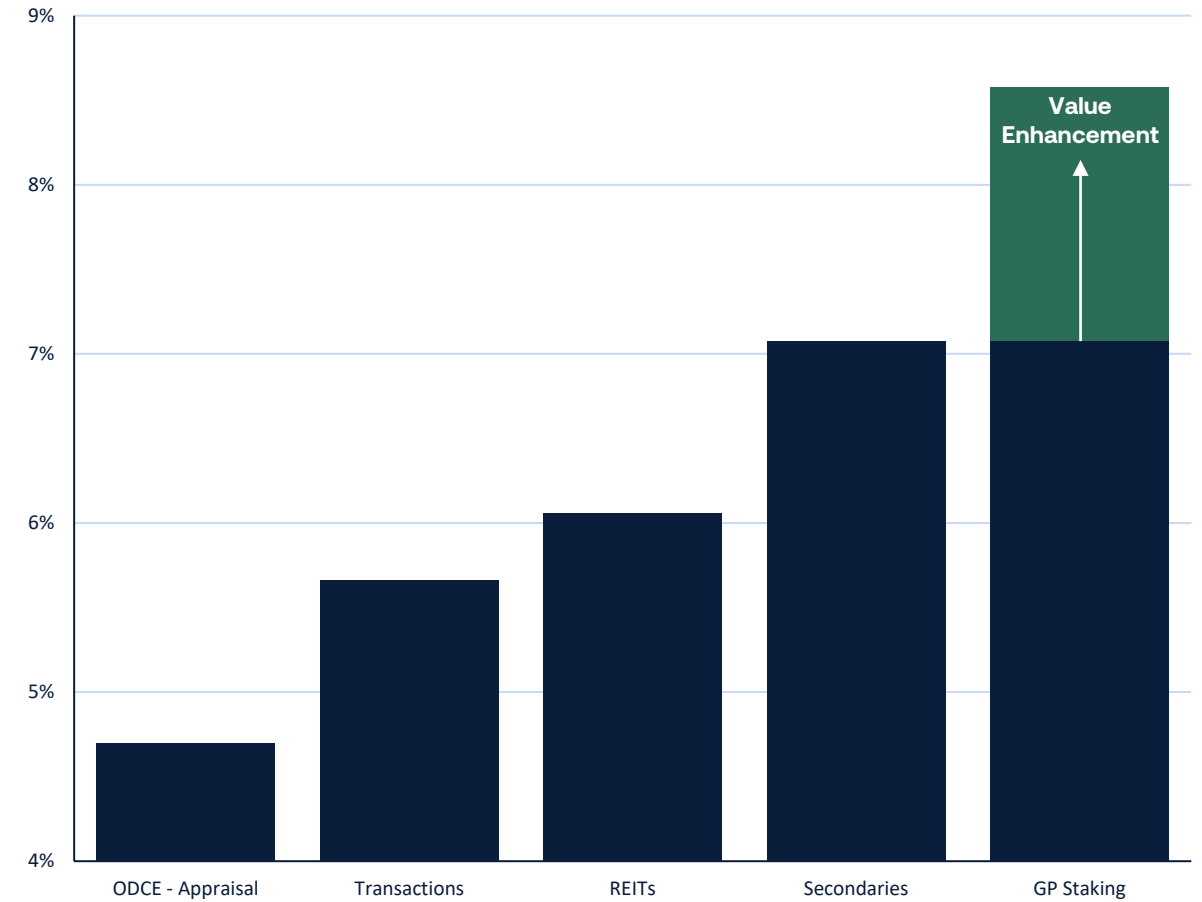
  - Values have corrected significantly
  - Rebased pricing enables compelling yields, especially with value-add strategies
- ### REITs as take-private targets

  - Most public real estate sectors still trading below NAV; public equity issuance remains constrained
  - Privatization opportunities rising where asset quality exceeds public market pricing
- ### Secondaries: Most Attractive Entry Point Today

  - 60%+ of global capital raised by just 20 managers; liquidity pressure rising
  - Secondaries pricing at ~92-97% of NAV; offer fee/j-curve mitigation and near-term cash flows
- ### GP Staking: Structural Alpha Opportunity

  - Capital scarcity driving interest in GP-staking and entity recapitalizations
  - Combines secondary entry with growth capital for platform upside
  - Delivers revenue/promote sharing, governance rights, and 16-23%+ return targets

Representative Cap Rates



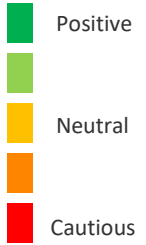
Source: Townsend, NCREIF (Fourth Quarter 2025).

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# Regional Investment Preferences

Tilting portfolio construction towards regions and property types with compelling fundamentals

	NORTH AMERICA		EUROPE		ASIA PACIFIC		
	United States		Continental Europe	United Kingdom / Ireland	Australia	Japan	China
<b>Primary Strategies</b>							
Apartment	Positive		Neutral	Positive	Positive	Positive	Cautious
Industrial	Positive		Positive	Positive	Positive	Positive	Cautious
Office	Cautious		Cautious	Cautious	Cautious	Positive ↑	Cautious
Retail	Positive		Neutral	Neutral ↑	Positive ↑	Neutral ↑	Cautious
<b>Alternative Strategies</b>							
Data Centers	Positive		Positive	Positive	Positive	Positive	Neutral
Manufactured Housing	Positive		N/A	N/A	Positive	N/A	N/A
Build-to-Rent	Cautious ↓		Positive	Positive	Positive	Positive	Cautious
Life Science	Cautious		Cautious	Cautious	Neutral ↑	Neutral ↑	Cautious
Medical Office	Positive ↑		Neutral	Neutral	Neutral	Neutral	Cautious
Senior Housing	Positive		Neutral	Positive	Positive	Positive	Cautious
Self-Storage	Cautious		Positive	Positive	Positive	Positive	Cautious
Debt/Credit	Positive		Positive	Positive	Positive	Cautious	Cautious



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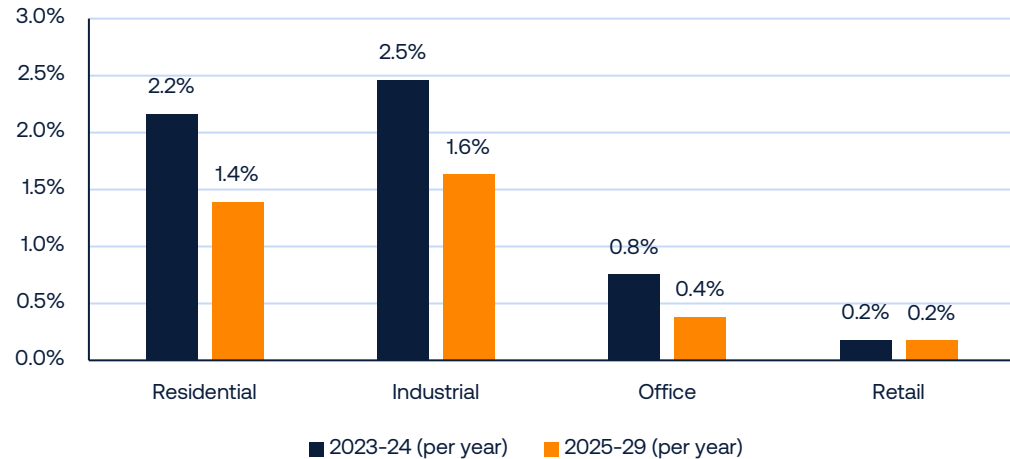
# U.S. Real Estate Market Conditions Improving

## Most property sectors poised for growth

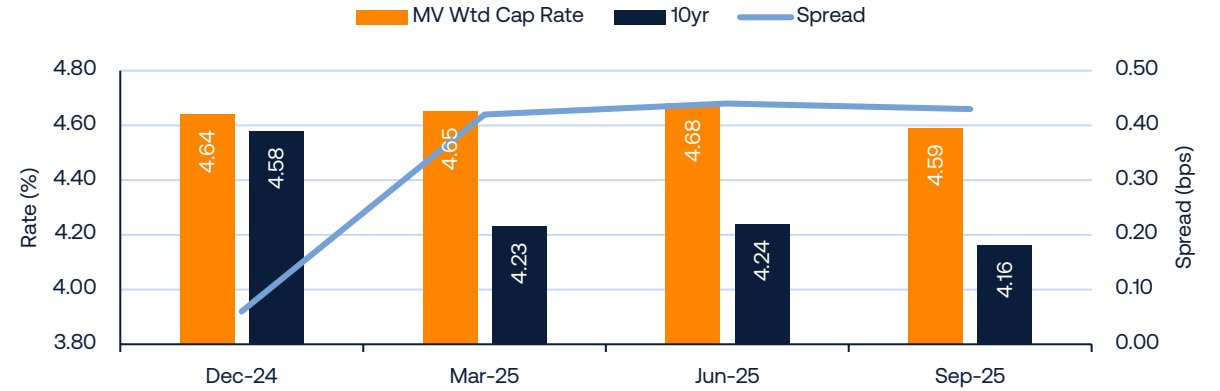
Returns Forecasted To Increase Through 2027  
PREA Consensus Unlevered Gross Return Forecasts (Fourth Quarter 2025)

Sector	2025	2026	2027	25-29
NPI All Property	5.2%	5.9%	6.9%	6.5%
Office	3.2%	4.8%	6.0%	5.5%
Retail	7.6%	7.3%	7.6%	7.4%
Industrial	5.5%	5.8%	6.7%	6.5%
Residential	5.2%	6.3%	7.5%	6.8%
Seniors Housing	10.7%	10.8%	10.2%	9.9%
Self Storage	5.6%	5.4%	7.1%	6.5%

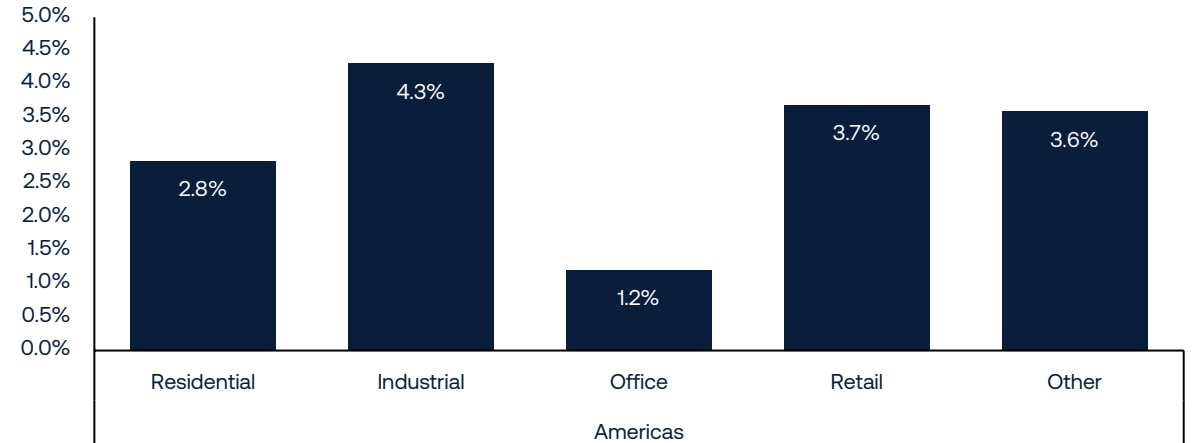
Supply growth is contracting meaningfully across sectors  
Annual Completions as % of Existing Stock



Spreads Widened in 2025 Between Private Real Estate Valuations & 10yr Treasury  
NPI Current Value Cap Rate vs. 10yr Treasury



Growth forecasts remain above long-term inflation  
5-year NOI Growth CAGR Forecasts



Source: Pension Real Estate Association (Fourth Quarter 2025), NCREIF, St. Louis Fed (Third Quarter 2025), Green Street (November 2025), Townsend. Other NOI Growth includes cold storage, data center, self-storage, and senior housing sectors. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

# United States Outlook

## Maintain Overweight to the region targeting alternatives, logistics, and housing

- Most favored CRE market with NAV down 21% from peak in 2022, creating attractive entry
- Real estate exhibiting better relative value vs. stocks: NFI-ODCE entry yield of 4.7% compared to the S&P 500 earnings yield of 3.2%

### Industrial

#### Positive with lower overweight

- Diversify with inland markets exhibiting higher yields as coastal market rents are softening
- NOI growth forecasts ~4-5%, lower versus prior years but attractive



### Data Centers

#### Conviction theme with development preference

- \$400B+ hyperscaler spend in 2025; entry yields ~5-6%
- Vacancy rates below 2% and over 74% of all new supply is pre-leased, often exhibiting high development margins



### Housing

#### Overweight with demographic/geographic focus

- Senior Housing – demographic demand and low-supply driving growth fundamentals
- Apartments – focus on markets with low-supply or on Sunbelt markets at large discounts



### Alternatives

#### Maintain overweight

- Continued institutionalization expanding investment opportunity set
- Niche property types offer better risk/return trade off for investors



### Retail

#### Turning selectively positive

- Modestly constructive on necessity-anchored suburban retail
- Best performing primary sector over TTM (+7.0% unlevered, primarily income-driven); 93% occupancy



### Office and Life Sciences

#### Remain cautious and very selective

- Remain underweight; vacancy >20% and demand concentrated at high end
- Life sciences face capital, leasing, and supply headwinds



Source: Townsend, NCREIF NPI, NFI-ODCE (Third Quarter 2025), Standard & Poor's (December 2025), CBRE NA Data Center Trends H1 2025 (September 2025). Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

## Most Compelling Sectors Today



### Data Centers

Digital data creation, usage, and storage have been growing exponentially. On-going in-place technology-led digital transformational trends are everywhere, increasing data demand and consumption, requiring more physical data center space and power within data centers



### Senior Housing

Rising demand from aging Baby Boomer population has driven occupancy rates and rent growth, while supply growth and new construction remains limited. Active Adult & Independent Living offer stronger NOI margins & better expense control vs. higher-acuity subtypes

## Sectors Offering More Selective Opportunities



### Industrial

E-commerce demand driving strong rent growth. Many existing leases exhibit rents well below market, representing strong mark-to-market growth opportunity. Higher entry yields and greater income characteristics offer compelling opportunity for institutional capital targeting industrial



### Apartments

High mortgage rates driving short-term housing preference for millennials. Supply growth forecasted to contract meaningfully through year-end 2025. Higher entry yields and greater income characteristics offer compelling opportunity for institutional capital targeting residential

## Sectors Requiring Caution



### Life Sciences

Reduced private market funding and rapid supply growth have resulted in weakened demand across the life sciences sector. Vacancy has continued to climb, particularly outside of the prime life sciences submarkets of Boston, San Diego, and San Francisco



### Office

Continued distress post-pandemic as employers and tenants adjust to work-from-home demands. Near-term debt maturities and lack of available financing pose significant risk. Tenant requirements subject to high capital costs and rental concessions

# Europe Outlook: Muted Growth but favorable Rates Support Property Values

## Low-rate environment offsets weak economic momentum, supporting real estate pricing

### Economic Outlook

- **Growth subdued across Europe:** Most major markets forecast modest GDP growth through 2026–27
- **Germany stabilizing:** Fiscal and infrastructure spending supports medium-term growth despite recent softness
- **France constrained:** High debt and political uncertainty limit room for fiscal stimulus
- **Nordics leading:** Sweden and Norway show above-average growth, supported by resilient domestic demand
- **Spain resilient:** Services strength and population inflows keep Spain ahead of peers
- **Italy lagging:** Fiscal constraints and demographics continue to weigh on growth

### Inflation & Interest Rate Outlook

- **Inflation converging:** CPI across Europe anticipated to move toward 2% over 2025–26
- **ECB easing:** With inflation near target, the ECB is anticipated to continue measured rate cuts
- **BoE gradual:** UK inflation remains sticky but is trending lower, enabling a slower easing path
- **Attractive yield spreads:** Property yields remain comfortably above interest rates across most EU markets, supporting valuations

### Growth Forecasts Muted But Led By Nordics And Spain

Real GDP Forecasts (YoY%)

Major Regions	2024	2025	2026	2027
United Kingdom	1.1	1.4	1.0	1.4
Germany	-0.5	0.2	1.0	1.5
France	1.2	0.8	1.0	1.1
Sweden	0.9	1.8	2.5	2.2
Norway	0.6	1.7	1.5	1.6
Spain	3.5	2.9	2.2	1.9
Italy	0.7	0.6	0.8	0.9

### Regional Inflation Forecast To Converge Over Next 12 Months

Quarterly CPI (YoY%)

CPI	Actual				Forecast					
	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27
European Markets										
United Kingdom	2.8	3.5	3.8	3.4	3.0	2.3	2.1	2.2	2.1	2.1
Germany	2.6	2.1	2.1	2.3	2.0	2.1	2.0	1.9	2.0	2.1
France	1.2	0.8	0.9	0.8	1.0	1.3	1.1	1.5	1.5	1.6
Sweden	0.9	0.4	0.9	0.5	0.8	0.5	0.5	0.9	1.0	1.9
Norway	2.8	2.8	3.5	3.1	2.5	2.5	2.2	2.5	2.3	2.2
Spain	2.7	2.2	2.8	3.1	2.2	2.3	2.0	1.9	1.9	2.0
Italy	1.8	1.8	1.7	1.2	1.0	1.2	1.3	1.8	1.7	1.8

Source: Townsend, Bloomberg (January 2026).

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# European Real Estate Showing Early Signs of Stabilization

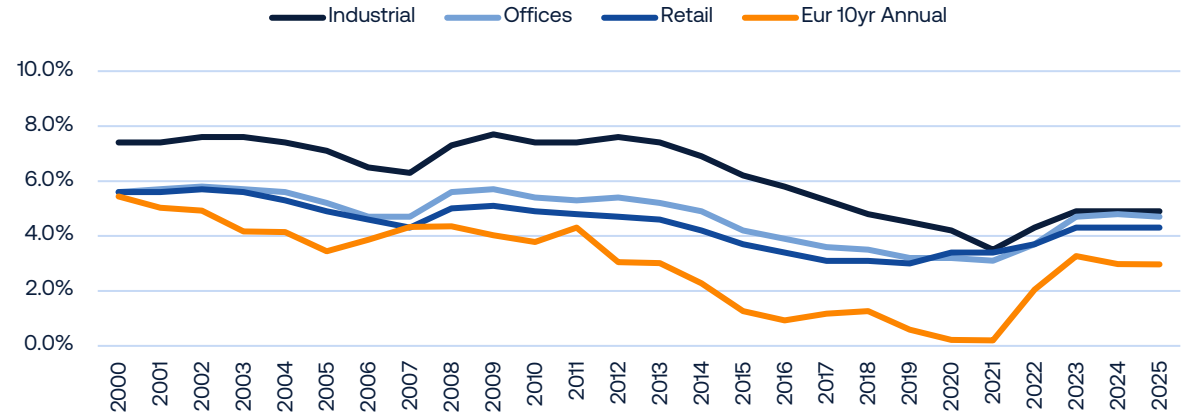
## Valuations stabilizing as construction pipelines shrink and capital markets recover

### Recovery underway in select sectors and markets

- **Valuations finding a floor:** Prime yields have stabilized as bond yields fall, improving relative value
- **Development pipeline collapsing:** Construction starts have dropped sharply, supporting firmer future rental growth
- **Financing conditions improving:** Debt markets have reopened with more competitive spreads and 55–60% LTV available
- **Transaction activity recovering:** Volumes are rebounding from 2023 lows but remain far below the 2021–22 peak
- **Occupational markets resilient:** Most sectors exhibit healthy leasing fundamentals; office remains sharply bifurcated

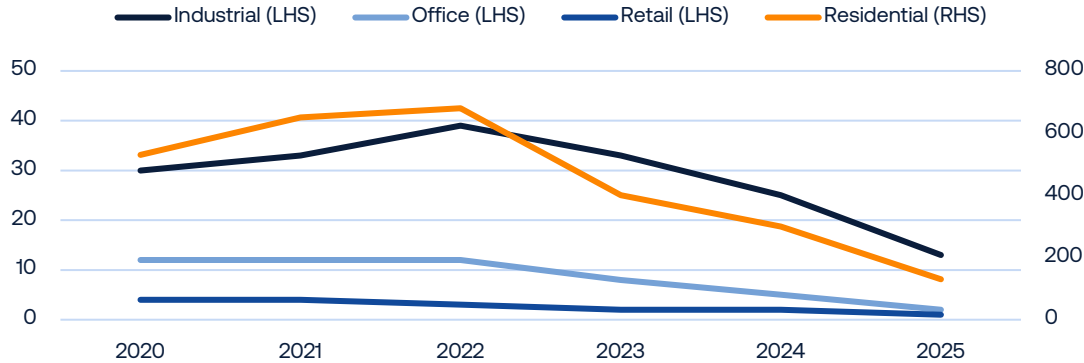
### European property prime yields have stabilized

European Commercial Property Prime Yields vs. Long-Term Govt Bond Yields for Euro Area



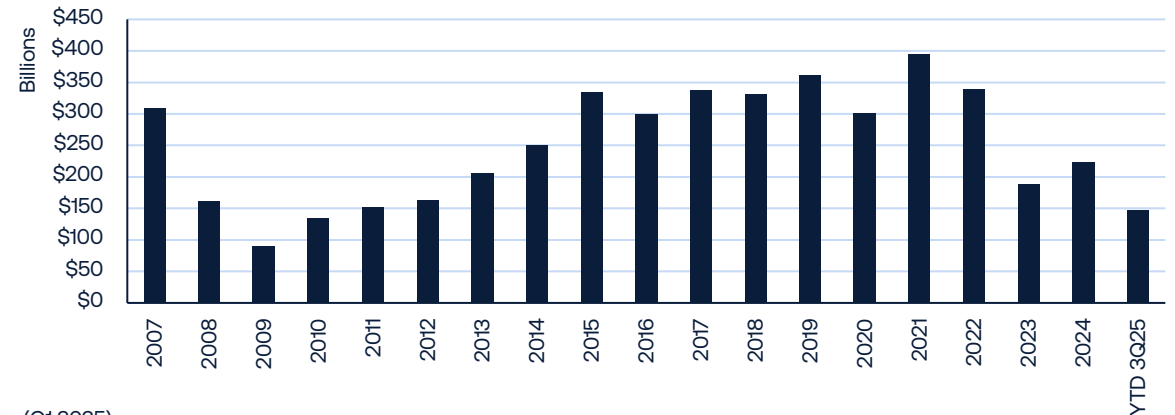
### Greatly reduced pipeline of new construction across sectors

12m Rolling New Construction Starts (M Sqm)



### Recovering transaction volumes, well down from peak in 2021-2022

European Transaction Volume (bn)



Source: Capital Economics, St. Louis Fed (December 2025), Hines Research (Q2 2025), CBRE (Q1 2025), MSCI Real Capital Analytics (Q1 2025).

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# APAC Growth Outlook Remains Mildly Positive as Interest Rates Ease

## Soft landing across most markets, but country-level divergence persists

### Economic Growth

- **Moderate regional growth:** Q2 2025 data show steady but mild recovery across APAC, supported by earlier trade activity
- **Australia resilient:** Consumption and housing strength offset softer external demand
- **Japan subdued:** Growth remains around 1%, with slowing momentum anticipated into 2026
- **South Korea mixed:** Q2 rebound aided by exports, but tariffs and weaker global demand weigh on outlook
- **Singapore softening:** Q2 gains from financial and IT services give way to slower growth as external demand weakens
- **China uneven:** Fiscal support and exports aid activity, but weak housing and household sentiment limit broader momentum

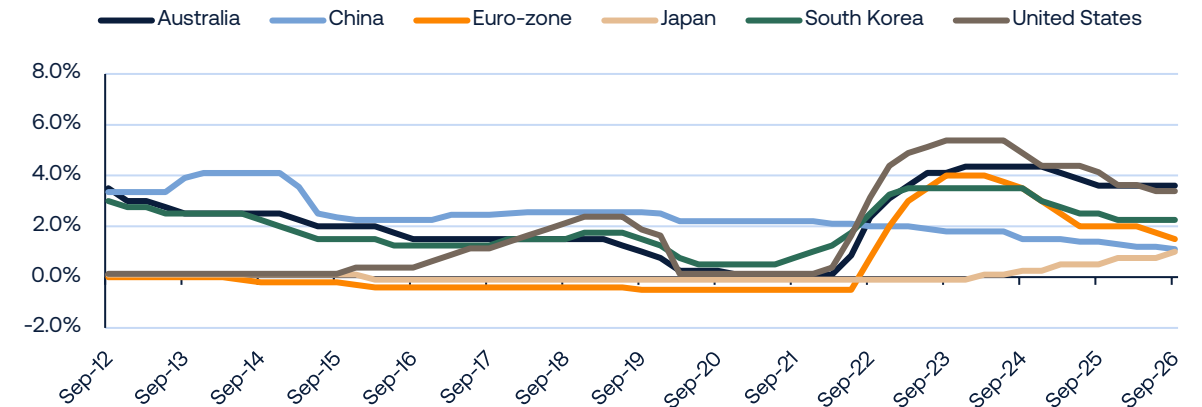
### Inflation & Interest Rate Outlook

- **Inflation easing regionwide:** Softer inflation supports further rate cuts across APAC, improving lending conditions
- **Australia & South Korea stabilizing:** Both central banks have reduced policy rates through 2025 with stabilization anticipated in 2026
- **Japan the outlier:** Inflation remains above target; BOJ anticipated to continue normalizing policy, tightening modestly from late 2025

APAC Growth Led by China While Japan Remains Stagnant  
Real GDP Forecasts (YoY%)

Major Regions	2024	2025	2026	2027
Australia	1.0	1.9	2.2	2.3
Japan	-0.2	1.2	0.8	0.9
Singapore	4.3	4.7	2.6	2.4
South Korea	2.0	1.0	2.0	1.9
China	5.0	5.0	4.5	4.4

Softening Rates Support Lending Outlook (ex. Japan)  
Central bank policy rates



Source: Townsend, Bloomberg (November 2025), AEW Research (August 2025), Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

# APAC Real Estate Fundamentals Improving but Remain Selective

Stabilizing values, constrained supply, and supportive rates underpin fundamentals across most markets

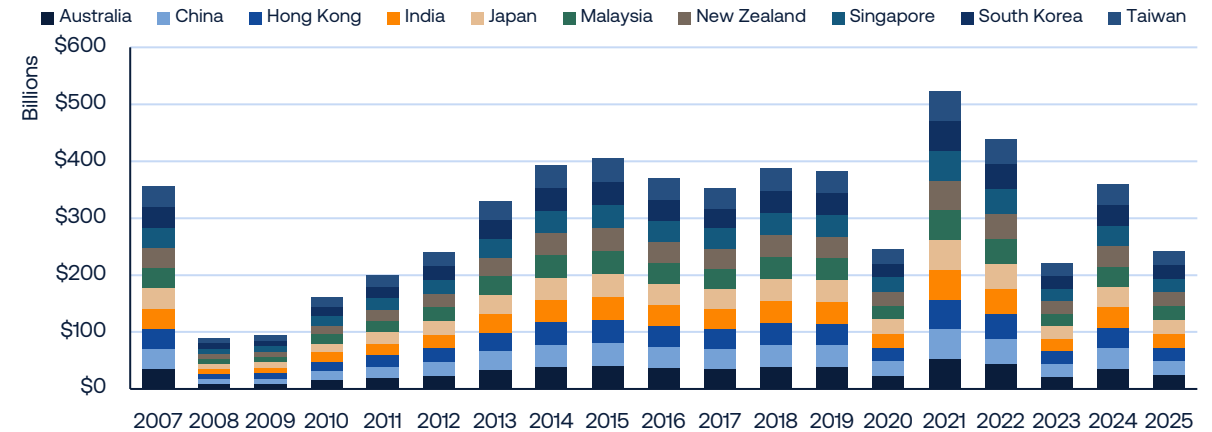
## Market Fundamentals

- **Stronger demand backdrop:** APAC fundamentals supported by modest economic growth, limited new supply, and easing monetary conditions
- **Values stabilizing:** Private market values have largely re-based since 2022 (ANREV down ~19%) and are now stabilizing as borrowing costs fall
- **Occupancy and rents firming:** Most sectors show resilient occupancy and improving rental growth, aided by constrained development pipelines
- **Logistics strengthening:** Sentiment improving as tariff uncertainty eases and e-commerce demand continues to drive structural absorption

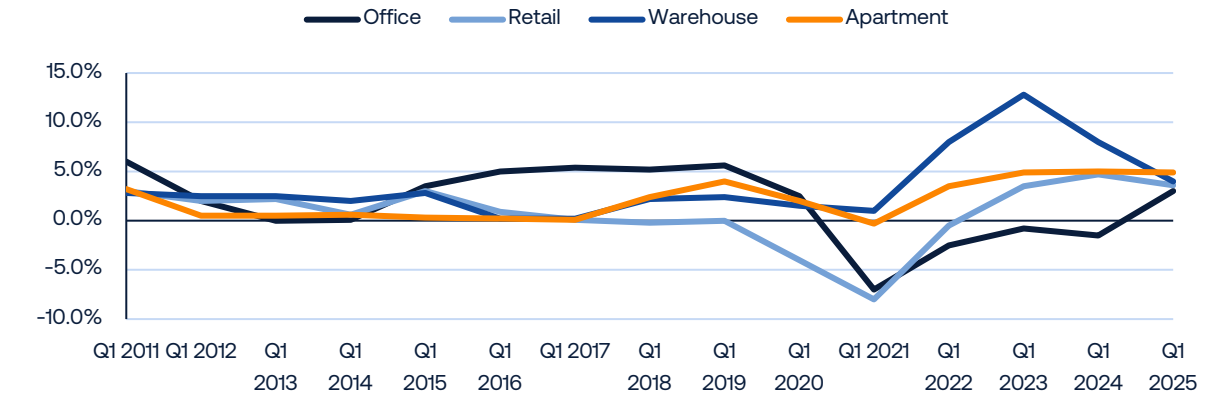
## Sector/Regional Highlights

- **Defensive tilt:** Investors favor sectors with resilient income such as Japan/Australia residential, logistics in select submarkets, and non-discretionary retail
- **Office selective:** Tokyo office preferred; Melbourne office remains challenged by weak demand, oversupply, and high vacancy
- **Regional divergence:** China activity mixed; Australia’s population growth and lower occupancy costs support retail and industrial
- **Selective positioning:** Capital shifting toward markets with clearer rental growth outlooks and stabilized yields

APAC Transaction Volume Recovering, Remains 25% Below Peak  
Investment Volume by Country



Solid rent growth across all sectors  
Developed APAC Rental Growth by Sector (YoY%)



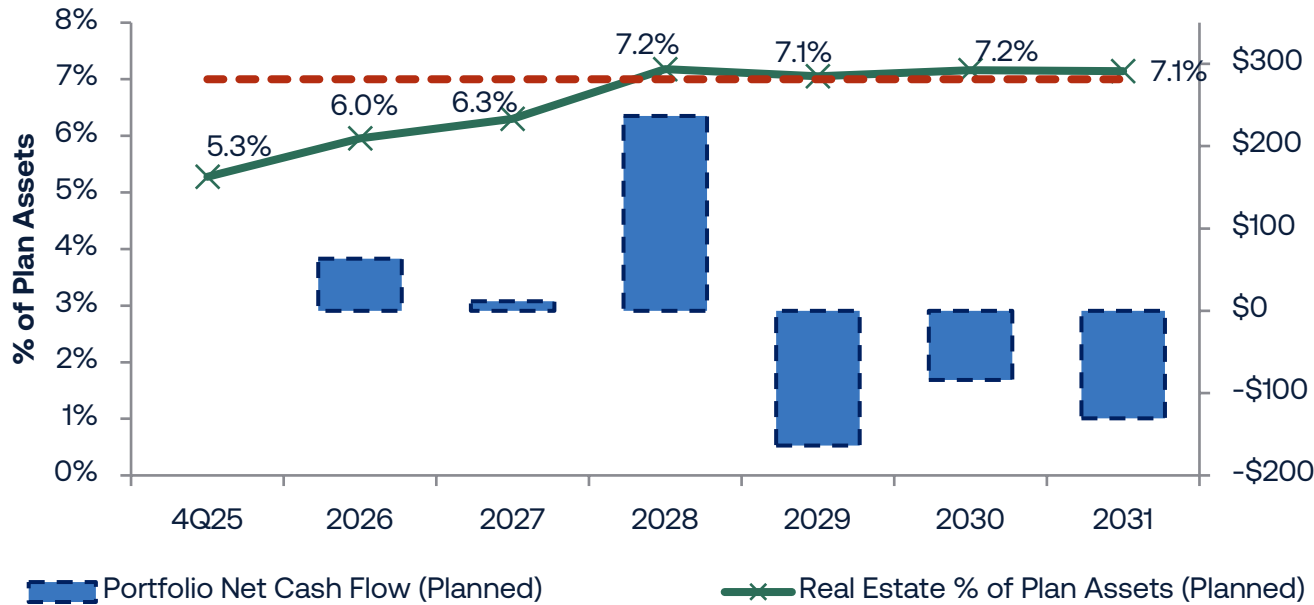
Source: MSCI Real Capital Analytics (Q3 2025), Hines Research (Q1 2025), Costar (Q1 2025), CBRE (Q1 2025), JLL (Q1 2025), ARES (Q1 2025), Corelogic (Q1 2025), Oxford Economics (Q1 2025). Townsend’s views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

## 4. LACERS Forward-Looking Portfolio Considerations

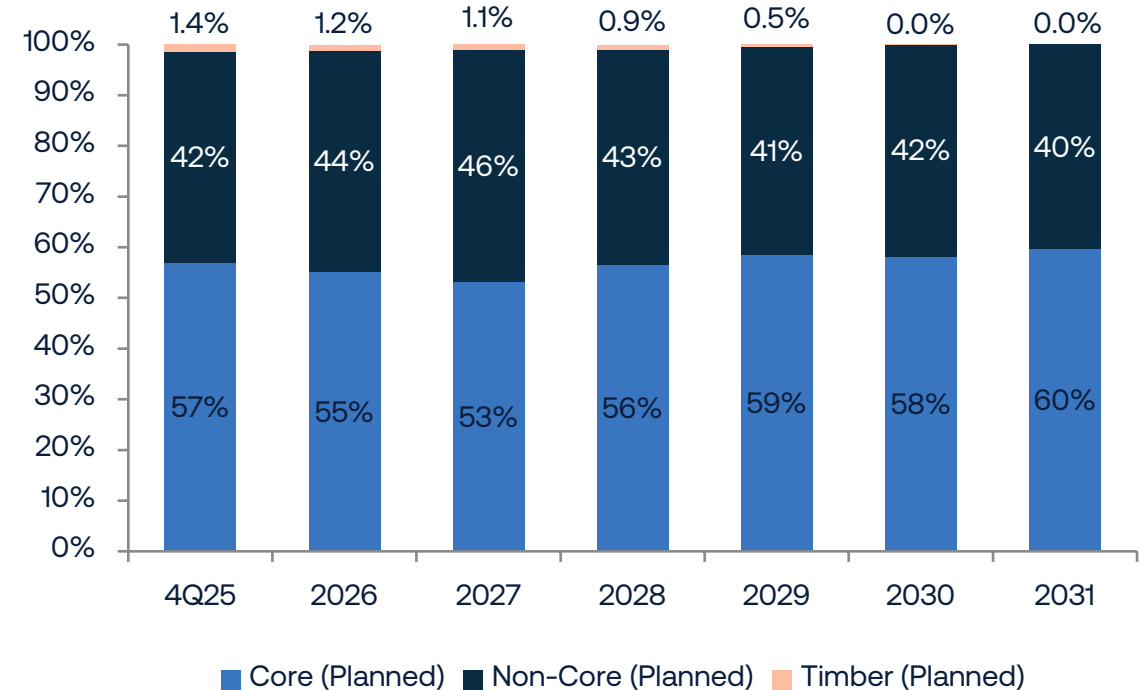
# Total Portfolio Performance

- To build future private portfolio projections for LACERS, Townsend collected forecasted capital calls and distributions from all managers in LACERS' portfolio.
- The 'Planned' Real Estate Portfolio below includes new commitments needed to reach the target allocation and the 60% Core / 40% Non-Core target.
- The real estate portfolio is funded at approximately 5.3% of total plan assets below the 7.0% target allocation. Over the next few years, the real estate portfolio is expected to gradually move towards to the target allocation.

**Real Estate % of Total Plan Assets (All Planned Commitments)**



**Risk Sector Allocation Change**



# Recommended FY 2026-2027 Core Activity

## Add 1-2 Core/Core-Plus Funds

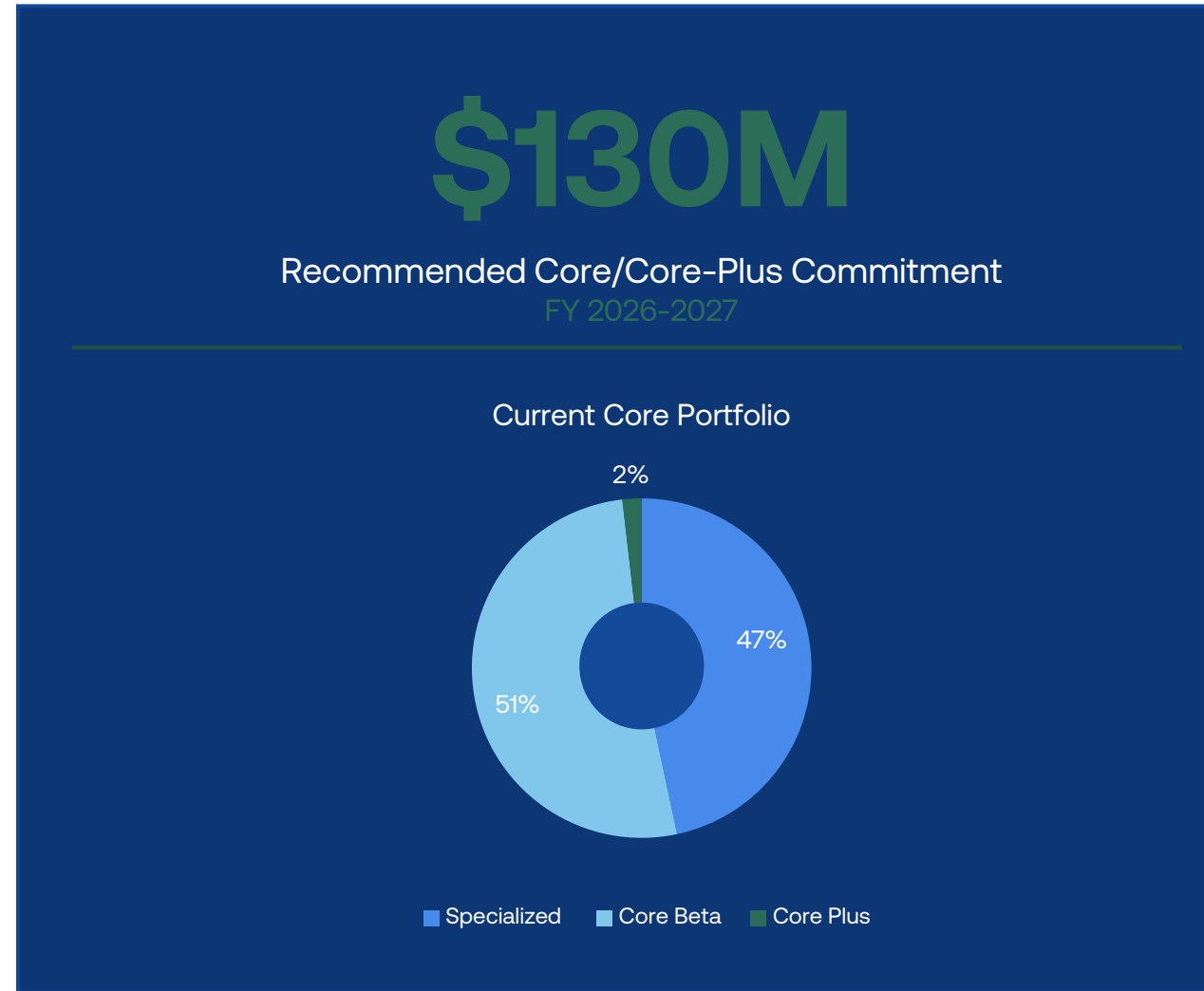
- Commit up to \$130M to Core/Core-plus open-end funds
- Target top-performing managers with high quality assets
- Continue to explore secondary market opportunities at discounts to NAV

## Expand into High-Conviction Sectors

- Data centers- capitalize on accelerating AI & cloud infrastructure demand
- Alternative housing strategies-continue to diversify residential portfolio beyond traditional apartments
- Engage specialist managers in sectors underrepresented in the portfolio

## Continue Portfolio Rebalancing

- Evaluate existing open-end positions and execute strategic rebalancing
- Optimize fee structures and improve terms with existing managers whenever possible
- Align property type mix with LACERS long-term return objectives



# Recommended FY 2026-2027 Non-Core Activity

## New Commitments to Non-Core Funds

- Target up to \$200M in commitments to high-conviction opportunities
- Thematic focus, specialist managers in alternative specialty sectors with growth potential
- Leverage capital market dislocation via secondaries & recapitalizations

## Prioritize Niche, High-Demand Sectors

- Data centers- AI/cloud demand driving sustained supply-demand imbalance
- Industrial outdoor storage, truck terminals & other sub-sectors of industrial to further diversify exposure and benefit from strong rent growth
- Alternative housing sectors- structural demand from affordability constraints

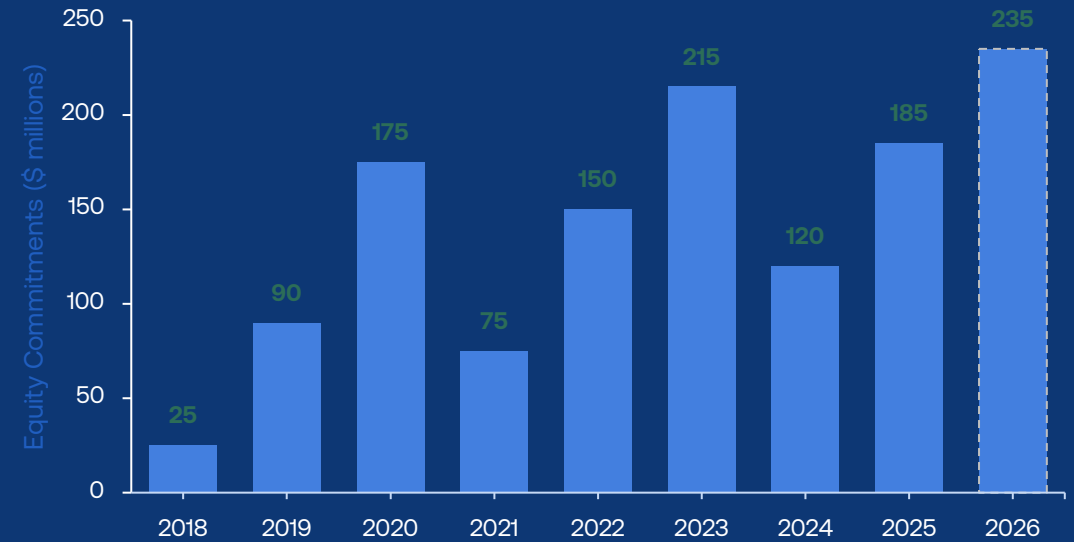
## Optimize Returns & Portfolio Construction

- Explore secondary market sale opportunities to recycle capital into higher conviction investments
- Identify fee reduction opportunities to enhance net returns across the portfolio
- Focus on managers with deep, demonstrated expertise in their target markets

# \$200M

## Recommended Non-Core Commitment FY 2026-2027

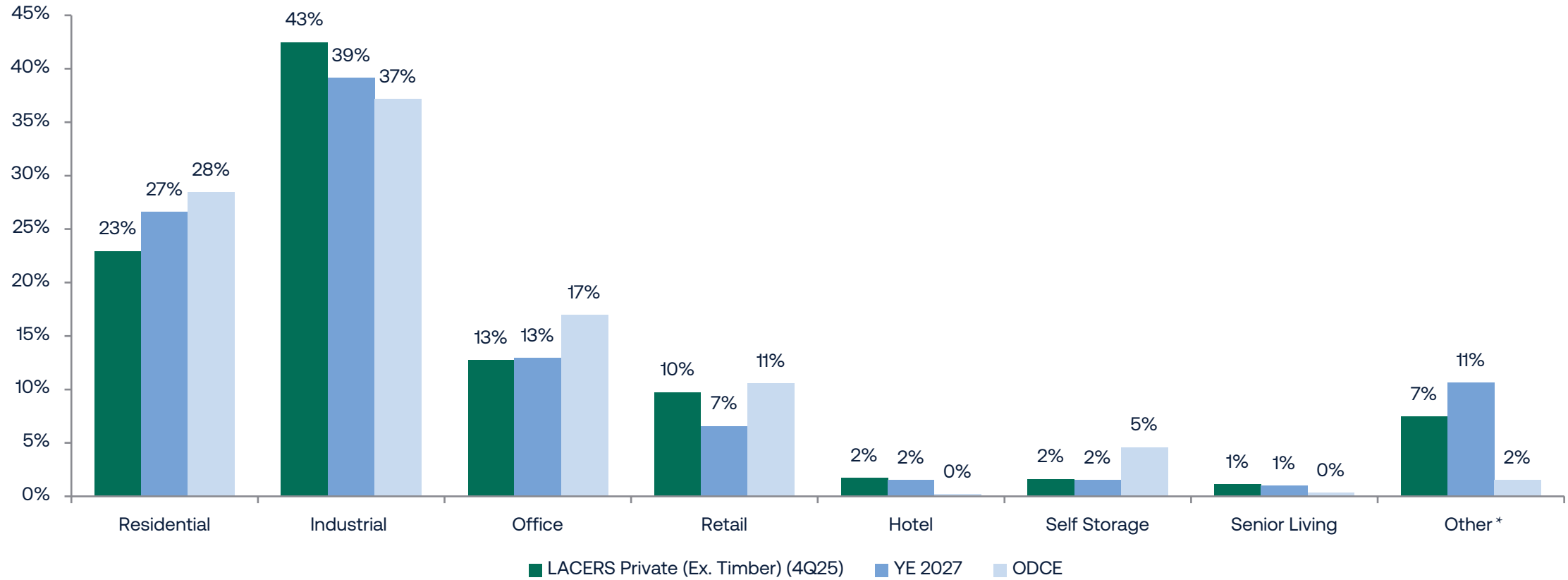
### Non-Core Commitments by Vintage Year\*



\*Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

# Real Estate Portfolio Diversification By Property Type

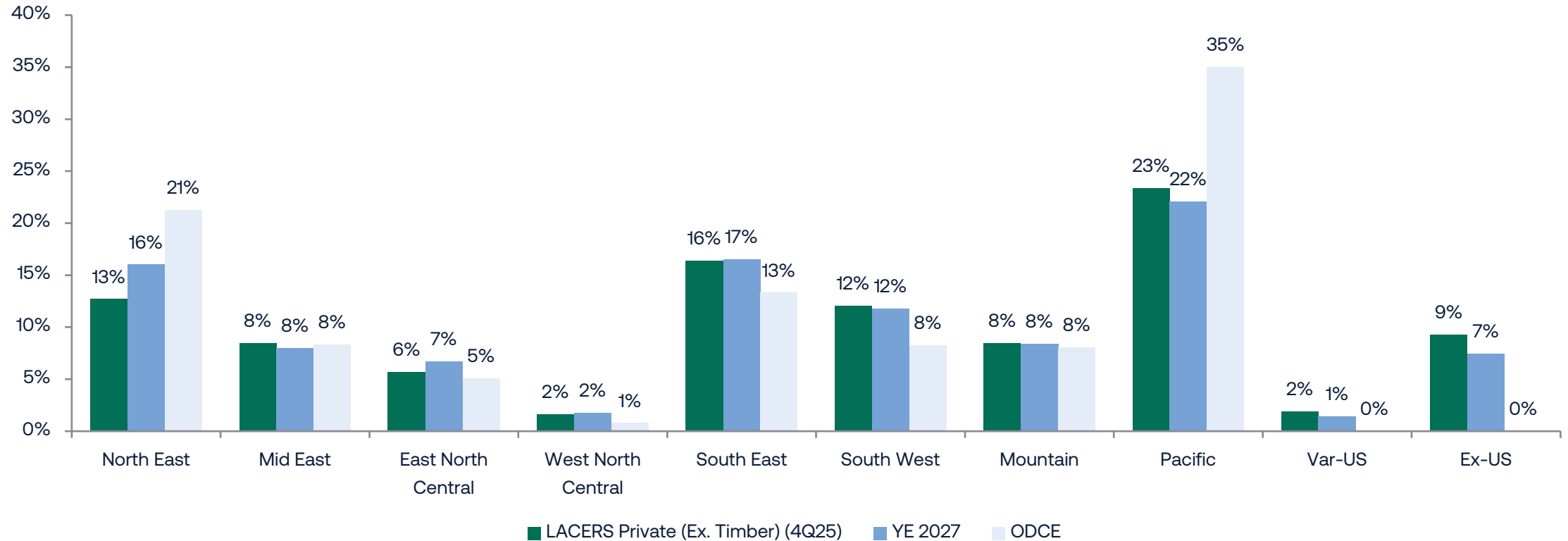
**Private Real Estate Exposure - Property Type Diversification**  
**Private Portfolio (Ex. Timber)**



\*Other reflects properties that do not fit into the traditional classifications (apartment, industrial, office, retail), such as medical office, senior housing, self-storage, student housing, and other property types.

# Real Estate Portfolio Diversification By Geography

## LACERS Projected Geographic Diversification Private Portfolio (Ex. Timber)



\*Var-US refers to any investments that are not directly tied to specific regions, such as CMBS investments through Cerberus Institutional Real Estate Partners and Oaktree Real Estate Opportunities Fund VIII or entity-level investments through Almanac Realty Securities VI.

\*\*The Ex-US exposure consists mainly of Europe (7.2%) and Asia (1.6%). The exposure is due to certain investments in Oaktree Real Estate Opportunities Fund VIII & IX, TPG Real Estate Partners IV, Cerberus Institutional Real Estate Partners V, Brookfield Strategic Real Estate Partners IV, and Heitman Asia-Pacific Property Investors.

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As of March 31, 2025, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding \$232.0 billion. Advised assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals. The recent change in Advised Assets is due to a change in the reporting of certain special projects.

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Townsend has been advising and managing real estate portfolios for over three decades and across multiple market cycles. As of March 31, 2025, Townsend had assets under management of approximately \$18.5 billion. As of March 31, 2025, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding \$232 billion. We believe, through our global investment platform, fiduciary culture, asset class expertise and client capital scale, we are able to deliver clients unique information, while providing a sourcing and execution advantage.

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Thank you

Townsend



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM

**REPORT TO INVESTMENT COMMITTEE**

**MEETING: MAY 12, 2026**

**FROM: Todd Bouey, General Manager**

**ITEM: V**

**SUBJECT: INVESTMENT MANAGER CONTRACT WITH POLEN CAPITAL CREDIT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE HYBRID HIGH YIELD FIXED INCOME/U.S. FLOATING RATE BANK LOAN PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

**ACTION**       **CLOSED**       **CONSENT**       **RECEIVE & FILE**

**Recommendation**

That the Committee recommend to the Board a three-year contract renewal with Polen Capital Credit, LLC (Polen Credit) for management of an active hybrid high yield fixed income/U.S. floating rate bank loan portfolio.

**Executive Summary**

Polen Credit has managed an active hybrid high yield fixed income/U.S. floating rate bank loan portfolio for LACERS since October 2020. LACERS' portfolio was valued at \$291 million as of March 31, 2026. Polen Credit is in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal.

**Discussion**

**Background**

Polen Credit manages an active hybrid high yield fixed income/U.S. floating rate bank loan portfolio for LACERS benchmarked against a custom blend of 50% of the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index and 50% of the S&P UBS Leveraged Loan Index. With an active bias toward small-to-mid cap issues, Polen Credit's strategy seeks to exploit inefficiencies in the credit markets by adhering to a bottom-up, fundamentally oriented investment process with downside protection. The

strategy is opportunistic and has the flexibility to invest in both high yield bonds (target range generally 50% to 95% of portfolio market value) and bank loans (target range generally 0% to 50% of portfolio market value); the strategy is not required, nor expected, to maintain an even allocation between high yield bonds and bank loans like its benchmark, pursuant to its approved investment management guidelines. LACERS' portfolio was valued at \$291 million as of March 31, 2026.

The strategy has two named co-portfolio managers: Ben Santonelli (22 years of experience and 22 years with Polen Credit) and John Sherman (22 years of experience and 19 years with Polen Credit) and is supported by a 24-member investment team. Firm co-founder, Dave Breazzano, was officially removed as a named portfolio manager from all client accounts effective October 1, 2025. Prior to this date, he had transitioned out of the day-to-day management of the portfolio but continues to provide leadership to the team by chairing the investment committee and focusing efforts on broader business goals and talent management. There were a number of analyst departures in 2025, some of which have already been replaced while some have replacement searches underway. Staff believes these recent personnel changes do not (and will not) adversely impact Polen Credit's ability to continue on-going management of the strategy.

The Board hired Polen Credit through the 2019-2020 Active Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan search process and authorized a three-year contract on February 11, 2020; the contract became effective on September 1, 2020. The Board approved contract extensions on June 27, 2023, and on June 25, 2024. The initial one-year contract extension in 2023 was due to concerns over what was then at the time subpar since inception net-of-fees returns. An improvement in performance supported a subsequent two-year contract extension in 2024, running through the remainder of a standard three-year contract term and expiring on August 31, 2026.

## **Organization**

Polen Credit is headquartered in Waltham, Massachusetts. At the time of its hiring, Polen Credit, formerly known as DDJ Capital Management, LLC prior to rebranding, was 100% employee-owned. In January 2022, Florida-based growth equity asset management firm Polen Capital Management, LLC (Polen Capital) acquired Polen Credit as a wholly owned subsidiary. Polen Credit continues to operate autonomously from the parent company. As of March 31, 2026, Polen Capital managed \$27.0 billion in total assets, inclusive of the \$6.7 billion in total credit assets, which includes the \$4.5 billion under the U.S. Opportunistic High Yield strategy; LACERS' capital comprises approximately 6.2% of this strategy. Most recently, Polen Capital had 160 employees, 45 of which are investment professionals; there are 24 investment personnel primarily dedicated to support the credit business.

## **Due Diligence**

Staff conducts routine due diligence of the manager. In addition to meeting virtually for quarterly portfolio reviews and ad hoc investment discussions, LACERS and NEPC staff conducted an onsite meeting at Polen Credit's headquarters in April 2026. As a part of

the onsite meeting, staff heard several presentations and engaged in discussions with key personnel across the organization. Said discussions plus regular monitoring led staff and NEPC to find organizational stability across Polen Credit's organization including no changes in the firm's investment philosophy, strategy, and process. This finding supports staff's and NEPC's assessment that Polen Credit is capable of consistency in managing LACERS assets under the hybrid high yield fixed income/U.S. floating rate bank loan strategy and believes it can meet its stated investment objectives.

## Performance

As of March 31, 2026, Polen Credit has outperformed its benchmark over the 3-month and 3-year time periods; and has underperformed its benchmark over the 1-year, 5-year, and since inception time periods, as presented in the table below.

### Annualized Performance as of 3/31/2026 (Net-of-Fees)

Time Period	3-Month	1-Year	3-Year	5-Year	Since Inception 10/28/20
Polen Capital	-0.20	4.31	8.58	4.16	5.13
50% Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index/ 50% S&P UBS Leveraged Loan Index	-0.48	5.90	8.33	5.07	5.78
<i>% of Excess Return</i>	<i>0.28</i>	<i>-1.59</i>	<i>0.25</i>	<i>-0.91</i>	<i>-0.65</i>

The underperformance against the benchmark over the 5-year and since inception time periods is largely a result of negative excess return produced in calendar year 2022, as presented in the table below.

### Calendar Year Performance as of 3/31/2026 (Net-of-Fees)

Time Period	2025	2024	2023	2022	2021	10/28/20 - 12/31/20
Polen Capital	5.57	9.23	14.98	-10.27	5.31	4.90
50% Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index/ 50% S&P UBS Leveraged Loan Index	7.28	8.64	13.28	-6.14	5.34	4.61
<i>% of Excess Return</i>	<i>-1.71</i>	<i>0.59</i>	<i>1.70</i>	<i>-4.13</i>	<i>-0.03</i>	<i>0.29</i>

Discussions with the manager in 2023 provided three primary reasons for underperformance in 2022. First, floating rate bank loans, which the manager was underweight, outperformed fixed rate high yield fixed income by over 1,000 basis points due to a rising interest rate environment; the underweight allocation to floating rate bank loans caused the strategy to lag the benchmark. Second, concerns over rising rates led lower rated credits to meaningfully underperform higher rated instruments, which the portfolio had underweighted. Third, the portfolio's deliberate and structural underweight to the energy sector detracted from performance with the energy sector outperforming since the inception of portfolio.

Following 2022, the strategy outperformed in two of the three following calendar years. For both calendar years 2023 and 2024, the outperformance relative to the benchmark is mostly attributed to security selection, which the manager touts as the hallmark of its investment strategy. Calendar year 2025's underperformance against the benchmark was driven by the portfolio's overweight to CCC-rated loans, which were the worst performing group in the loan market in 2025. Year-to-date for 2026, the portfolio is ahead of the benchmark by 28 basis points, again attributable to security selection. The more recent performance continues to improve, while the strategy and philosophy remain consistent with its disciplined bottom-up investment process.

Polen Credit was placed under watch status following its acquisition by Polen Capital in January 2022, pursuant to material organizational change provisions under the LACERS Manager Monitoring Policy. Following a successful integration, Polen's watch status was lifted one year later. Polen Credit is currently in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC recommend renewing Polen Credit's contract for another three-year period and will continue to monitor the manager and strategy pursuant to policy.

### **Fees**

LACERS pays Polen Credit an effective fee of 50 basis points (0.50%), which is approximately \$1.46 million annually based on the assets under management as of March 31, 2026. This fee ranks in the 82<sup>nd</sup> percentile of fees charged by high yield fixed income managers in the eVestment database (i.e., 82% have lower fees). The premium to the manager's fee partly comes from the strategy's structural allocation to bank loans, whereas the peer universe cited is mostly comprised of managers focused on high yield fixed income exclusively. Since inception, LACERS has paid Polen Credit a total of \$6.8 million in investment management fees through March 31, 2026. Since the contract renewal discussions of 2023, there has been continued discussion over fees. Polen Credit has recently offered a significant investment management fee concession which will place the effective fee's ranking in the 49<sup>th</sup> percentile of fees charged by high yield fixed income managers in the eVestment database.

### **General Fund Consultant Opinion**

NEPC concurs with this recommendation.

**Prepared By:**

Jeremiah Paras, Investment Officer II, Investment Division

Attachment:

1. Consultant Recommendation – NEPC

**INVESTMENT COMMITTEE MEETING DATE: MAY 12, 2026**

**ITEM: V**

**ATTACHMENT: 1**



**To: Los Angeles City Employees' Retirement System Investment Committee**

**From: NEPC, LLC**

**Date: May 12, 2026**

**Subject: Polen Capital Management, LLC - Contract Renewal**

## Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract with Polen Capital Management, LLC ('Polen' or 'Polen Capital') for a period of three years from the date of contract expiry.

## Background

Polen has been an investment manager for LACERS since October 28, 2020, managing a high yield/bank loan strategy within the Credit Opportunities asset class. As of March 31, 2026, Polen managed \$290.8 million, or 1.1% of Plan assets. The portfolio is benchmarked against a 50:50 split between the Bloomberg U.S. High Yield 2% Issuer Cap Index and the S&P UBS Leveraged Loan Index. The portfolio has a performance objective of outperforming the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The Polen portfolio is currently compliant with LACERS' manager monitoring policy

DDJ Capital Management was founded by Dave Breazzano and others in 1996. In December 2021 it was announced that Polen Capital Management, a privately held, growth equity investment firm, would be acquiring DDJ, with the deal ultimately closing in January 2022. The transaction saw DDJ founder Dave Breazzano receive an equity interest in Polen's holding company and become a member of the firm's Operating Committee. The senior investment team members of legacy DDJ received phantom/franchise equity in the Polen Capital Credit business based on revenue share and are expected to have the opportunity to become equity partners in the Polen holding company over time. Currently Dave remains the only member of the team with Polen holding company equity. DDJ was officially rebranded as Polen Credit. There are three other growth equity teams at Polen, all bringing different expertise. Each group functions separately but takes advantage of centralized operational and marketing resources. Polen Credit is now the fourth team under Polen Capital and is the only fixed income manager.

As of December 31, 2025, Polen Capital Management oversaw approximately \$41 billion in assets under management. Total AUM for the Polen Credit team was \$6.9 billion, of which the Opportunistic High Yield strategy represented approximately \$4.7 billion.

Dave Breazzano serves as Head of the Credit Team. Effective October 1, 2025, Dave was removed as a named portfolio manager from client accounts. Dave co-founded this team in 1996 and has led the investment program since inception. He had not been a day to day portfolio manager for some time. Dave will continue to lead the team, chairing the investment committee and focusing his efforts on the broader business and talent management. Portfolio management responsibility for the Opportunistic High Yield strategy is held by John Sherman and Ben Santonelli. Dave chairs the investment committee which includes John Sherman, Ben Santonelli, Roman Rjanikov, Rick Richert (CLO portfolio manager), Elizabeth Duggan (Associate General Counsel), Sameer Bhalla (head of research/analyst) and Ben Pakenham (European/Global portfolio manager). Supporting the investment committee is a 9-person research group, six in the US and three in London. Tim Dillon is an assistant portfolio manager. Dave Levine is the lead investment specialist. Jason Rizzo is head trader.

In February 2026, Polen announced several changes within the credit research group. Ben Clark, who joined in 2025 to support private credit initiatives, departed to return to a private equity role, and Polen indicated that this position will not be backfilled. Gabby White and Louie Adams, both junior analysts with approximately one year at the firm, also departed. Mike Graham, a senior analyst with approximately ten years at Polen covering healthcare and financials, also departed the firm. Polen indicated that a search is underway to replace this role and that one research hire has already been completed with another search ongoing.

During the same period, Polen announced that David Blake, former Global Head of Public Markets and CIO at Principal Asset Management, joined the Polen Credit team in late February 2026 as Chief Business Officer. His responsibilities are focused on strategic business initiatives and succession planning alongside Dave Breazzano, with no investment oversight or portfolio management responsibilities.

Polen focuses on the smaller, lower rated part of the high yield market where they believe there are greater inefficiencies and their in-depth fundamental research can identify undervalued opportunities. They are focused on long-term lending and earning the carry from investing in smaller companies. This leads to relatively higher levels of idiosyncratic risk. They believe the rating agencies have a size bias and will rate securities lower due to smaller size. Polen relies on heavy, in-depth enterprise analysis, with a loan to value lens. They want companies that generate cash flow and have enterprise value/asset value to help secure their positions. There is also a strong focus on the covenant/legal aspects to help them understand and protect value when credit events arise. Generally, their perspective is that of a long-term lender and they enter positions expecting to be a long-term holder and earn the coupon.

## Performance

Referring to Exhibit 1, as of March 31, 2026, since the portfolio's inception date of November 1, 2020, the portfolio has underperformed its benchmark by 0.8% and ranked in the 46<sup>th</sup> percentile of its peer group. Over the past one-year, the portfolio has underperformed the benchmark by 1.6% and ranked in the 95<sup>th</sup> percentile. The portfolio outperformed the benchmark for the 3-year period by 0.3% and ranked in the 22<sup>nd</sup> percentile. It underperformed the benchmark by 0.9% for the five-year period, ranking at the 44<sup>th</sup> percentile. Most of the underperformance has come from calendar years 2022 and 2025.

This is a benchmark agnostic strategy. Given the strategy's focus on lower-rated issuers, concentrated positioning, and exposure to less liquid securities, higher levels of tracking error are to be expected. The focus on the smaller sized and lower-rated parts of the market was not in favor in 2022, but the manager bounced back in 2023 and 2024. Performance in 2025 reflected several headwinds. Returns were influenced by a shorter duration profile during a period when duration contributed positively to benchmark returns, as well as exposure to bank loans, which lagged high yield bonds. Reorganization equity positions also detracted.

## Fees

The portfolio has an asset-based fee of approximately 0.502% annually based on the account's market value as of March 31, 2026. This fee ranks in the 82<sup>nd</sup> percentile among its peers in the eVestment U.S. High Yield Fixed Income universe. In other words, 82% of the products included in the peer universe have a lower fee than the LACERS account.

## Conclusion

Polen has delivered mixed results relative to their blended index and peers. Since it is a benchmark agnostic strategy, deviations from the benchmark are to be expected. The portfolio's focus on the less efficient, higher risk/return segments of the lower-rated and smaller issuer portion of the high yield and loan markets has generally resulted in both higher volatility, but can have higher reward as well. The idiosyncratic nature of the portfolio can also lead to periods of significant underperformance when the credit event aspect of the portfolio becomes more prevalent.

While Polen Credit has exhibited some recent team changes, the investment process, strategy and philosophy have been stable. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

The following table provides specific performance information, net of fees referenced above.



## Exhibit 1: Universe Performance Comparison Net of Fees Ending March 31, 2026

### Polen Capital vs. eV US High Yield Fixed Income

This table provides the detailed returns, percentile rankings, peer universe breakpoints, and population counts across 3 months, 1 year, 3 years, 5 years, and since inception as of March 31, 2026. The inception period begins on November 1, 2020. The table shows how Polen and the benchmark rank within the broader peer universe over time, with population sizes ranging from 202 to 180. Percentile rankings are indicated in parentheses with 1 indicating the highest ranking and 100 the lowest ranking.

Strategy vs. Benchmark and Universe	3 Mo %	1 YR %	3 YR %	5 YR %	Inception
Polen Capital	-0.2 (30)	4.3 (95)	8.6 (22)	4.2 (44)	5.0 (46)
50% Bloomberg US High Yield 2% Issuer Cap / 50% S&P UBS Leveraged Loan index	-0.5 (53)	5.9 (80)	8.3 (32)	5.1 (7)	5.8 (15)
5 <sup>th</sup> Percentile	0.3	8.5	9.4	5.2	6.5
1 <sup>st</sup> Quartile	-0.2	7.3	8.5	4.5	5.5
Median	-0.4	6.8	7.9	4.1	4.9
3 <sup>rd</sup> Quartile	-0.7	6.0	7.5	3.7	4.5
95 <sup>th</sup> Percentile	-1.4	4.3	6.4	3.2	3.9
Population	202	202	194	182	180



**LACERS**

LA CITY EMPLOYEES'  
RETIREMENT SYSTEM

**REPORT TO INVESTMENT COMMITTEE**

**MEETING: MAY 12, 2026**

**FROM: Todd Bouey, General Manager**

**ITEM: VI**

**SUBJECT: ADAPTIVE ASSET ALLOCATION POLICY AND STATUS  
REPORT AND POSSIBLE COMMITTEE ACTION**

**ACTION**       **CLOSED**       **CONSENT**       **RECEIVE & FILE**

**Recommendation**

That the Committee recommend to the Board a renewal of the Adaptive Asset Allocation Plan for Fiscal Year 2026-2027.

**Executive Summary**

This report offers an annual update on adaptive rebalancing in accordance with the LACERS Rebalancing Policy and the Adaptive Asset Allocation Plan (AAP), as outlined in Sections V.G and V.H of the Investment Policy Manual. No adaptive rebalances have been implemented through April of the 2025-2026 fiscal year. Staff recommends renewing the AAP for the 2026-2027 fiscal year.

**Discussion**

**Background**

The LACERS Rebalancing Policy and AAP, as outlined in Sections V.G and V.H of the Investment Policy Manual, authorize staff to carry out adaptive rebalancing. Originally adopted by the Board on May 28, 2019, and subsequently revised on October 26, 2021, the AAP details the objectives of adaptive asset allocation, defines the roles and responsibilities of involved parties, establishes the decision-making and implementation framework, and sets forth reporting requirements.

In accordance with Section VII of the AAP, the CIO is required to present an annual report to the Investment Committee summarizing all adaptive rebalances conducted during the current fiscal year and to provide recommendations regarding the

continuation, modification, or discontinuation of the AAAP. Through April of the 2025-2026 fiscal year, staff has not activated the AAAP in light of volatile economic and market conditions. Accordingly, there is no AAAP activity to report. A copy of this report has been provided to LACERS' Internal Auditor.

Staff has observed that the application of the AAAP continues to be limited by routine management of operational cash flows and portfolio liquidity. Staff intends to revisit the AAAP rebalancing guidelines later in the calendar year with the general investment consultant, NEPC, LLC, and bring any proposed changes to the Committee for review under a separate report. Until such proposed changes are initiated, staff will continue to monitor market conditions and the investment portfolio for potential opportunities to implement adaptive rebalancing and recommends renewing the AAAP in its current form for the 2026-2027 fiscal year.

**Prepared By:**

James Wang, Investment Officer I, Investment Division

Attachment:           1. Rebalancing Policy and Adaptive Asset Allocation Plan

**INVESTMENT COMMITTEE MEETING DATE: MAY 12, 2026**

**ITEM: VI**

**ATTACHMENT: 1**

## **G. Rebalancing**

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

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

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

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

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

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

## H. Adaptive Asset Allocation Plan

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- I. Purpose and Scope
- II. Roles and Responsibilities
- III. Terminology
- IV. Adaptive Asset Allocation Considerations
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- VII. Annual Review of the Adaptive Asset Allocation Plan
- VIII. Appendix

#### I. Purpose and Scope

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

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

On October 26, 2021, the Board approved renaming TAA to Adaptive Asset Allocation (AAA) and the TAAP to the Adaptive Asset Allocation Plan (AAAP).

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

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

#### II. Roles and Responsibilities

##### *The Board of Administration*

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

*Investment Committee*

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

*Chief Investment Officer*

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

*General Fund Consultant*

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

*Internal Auditor*

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

**III. Terminology**

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

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

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

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

*Adaptive Action* – One specific, individual movement of capital that adjusts asset holdings due to movements of cash, in-kind asset transfers, or use of derivatives. Derivatives may be used as an alternative to cash or in-kind asset transfers to obtain the equivalent changes

in exposure(s), if derivatives are expected to produce more favorable economic and/or risk enhancements. Derivatives may not be used as a form of leverage.

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

#### **IV. Adaptive Asset Allocation Considerations**

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

#### **V. Implementation**

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

1. External Landscape Evaluation – Economic market outlook, including economic indicators, monetary and fiscal policies, geo-political events, Federal Reserve Bank actions, interest rates, inflation, etc.
2. Internal Operational Evaluation – Actual asset allocation of the Total Fund compared to policy targets, asset class movements and trends, portfolio valuations, operational cash, future, pending, or existing RFP manager searches and hiring of investment managers, pending investment manager terminations, market and economic landscape commentary or information from investment managers, and compliance with existing Investment Policy
3. General Fund Consultant Discussion and Concurrence (and discussion with other contracted Investment Consultants as warranted)
4. Written Adaptive Rebalance Proposal should include the following decision considerations (as appropriate):
  - a. External Landscape and Internal Operational Evaluations;
  - b. Projected Impact on Asset Allocation and Asset Classes;
  - c. Projected Impact on Total Fund addressing Adaptive Objectives:
    - i. Enhancement to Total Fund Value; and/or
    - ii. Protection of Total Fund Value; and/or
    - iii. Enhanced Risk/Return Profile and Compliance to Risk Budget
  - d. Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;
  - e. Financial Considerations - Funds directly impacted by an Adaptive Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
  - f. Adaptive Reversal (Partial or Full) as needed

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

## **VI. Risk Management Guidelines**

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

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

## **VII. Annual Review of the AAAP**

### *Annual AAAP Review by the Investment Committee*

The CIO will prepare an annual report of all Adaptive Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive Rebalances and Adaptive

Actions, and the projected and actual impact of the Adaptive Rebalance(s) including (but not restricted to) performance, capital preservation, and/or risk factors. Staff may also include recommendations to modify, continue or cease the AAAP. The Annual AAAP Review will be presented to the Investment Committee no later than the month of April of each year.

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

*Annual AAAP Approval or Repeal by the Board of Administration*

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

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

**VIII. APPENDIX**

*External Landscape and Internal Operational Considerations*

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

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

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

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

- b. *Market Stages Consideration*

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

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

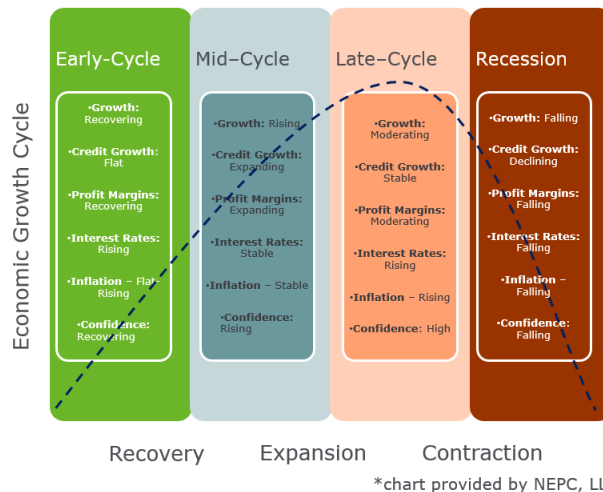
In the late-cycle period of the economic cycle, the economy typically experiences moderation in GDP growth, profit margins, and credit expansion. Consumer confidence is high and both interest rates and inflation are on the rise. Stocks trade at the higher band of long term averages while volatility tends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

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

**c. Assessment of Market Conditions**

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

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



**d. Economic and Market Risk Assessment**

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

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

## Adaptive Asset Allocation Policy

### e. *Asset Valuations*

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

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

### f. *Internal Operational Considerations*

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

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

## I. **Evaluation of Policy**

The Investment Policy Statement shall be reviewed by the Board at least annually, with the assistance of the Staff and investment consultant(s), and revised as necessary.