LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, OCTOBER 12, 2021

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

MEETING LOCATION:

In accordance with Government Code Section 54953, subsections (e)(1) and (e)(3), and in light of the State of Emergency proclaimed by the Governor on March 4, 2020 relating to COVID-19 and ongoing concerns that meeting in person would present imminent risks to the health or safety of attendees and/or that the State of Emergency continues to directly impact the ability of members to meet safely in person, the LACERS Investment Committee's October 12, 2021 meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to listen and/or participate:
Dial: (669) 254-5252 or (669) 216-1590
Meeting ID# 160 455 8751

Instructions for call-in participants:

1- Dial in and enter Meeting ID
2- Automatically enter virtual "Waiting Room"
3- Automatically enter Meeting
4- During Public Comment, **press *9** to raise hand
5- Staff will call out the last 3-digits of your phone number to make your comment

Chair:	Sung Won Sohn
Committee Members:	Elizabeth Lee Nilza R. Serrano
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counselor:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

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

Request for Services

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.

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

Disclaimer to Participants

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

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

CLICK HERE TO ACCESS BOARD REPORTS

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

II. APPROVAL OF MINUTES FOR THE MEETING OF SEPTEMBER 14, 2021 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. PRESENTATION BY BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. REGARDING TRANSITION MANAGEMENT SERVICES

V. PRIVATE CREDIT PACING IMPLEMENTATION PLAN AND POSSIBLE COMMITTEE ACTION

VI. INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION

VII. TACTICAL ASSET ALLOCATION POLICY AND POSSIBLE COMMITTEE ACTION

VIII. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO LBA LOGISTICS VALUE FUND IX, L.P. AND POSSIBLE COMMITTEE ACTION

IX. OTHER BUSINESS

X. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, November 9, 2021, at 10:30 a.m., or immediately following the Board Meeting, at LACERS, 202 West 1st Street, Suite 500, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while response to public health concerns relating to the novel coronavirus continue.

XI. ADJOURNMENT

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, OCTOBER 12, 2021

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

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

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XI. ADJOURNMENT

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

In conformity with the Governor's Executive Order N-08-21 (June 11, 2021)
and due to the concerns over COVID-19, the
LACERS Investment Committee
September 14, 2021, Regular meeting was conducted
via telephone and/or videoconferencing

September 14, 2021

11:54 a.m.

PRESENT via Videoconferencing:	Chair:	Sung Won Sohn
	Committee Member:	Elizabeth Lee Nilza R. Serrano
	Manager-Secretary:	Neil M. Guglielmo
	Legal Counselor:	Anya Freedman
PRESENT at BPW Session Room:	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 – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* – **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD** – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response.

II

APPROVAL OF MINUTES FOR THE MEETING OF AUGUST 10, 2021 AND POSSIBLE COMMITTEE ACTION – Committee Member Serrano moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

III

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

- Investment Committee Meeting Forward Calendar
- Future agenda items: Next educational presentation – Transition management presentation on October 12; Opportunistic Policy to the IC in October or November 2021

IV

PRESENTATION BY MFS INSTITUTIONAL ADVISORS, INC. REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS GROWTH PORTFOLIO – Matthew Barrett, Equity Portfolio Manager, and Carolyn Lucey, Managing Director, Relationship Management, with MFS Institutional Advisors, Inc., presented and discussed this item with the Committee for 40 minutes.

V

PRIVATE EQUITY PACING IMPLEMENTATION PLAN AND POSSIBLE COMMITTEE ACTION – Wilkin Ly, Investment Officer III and David Fann, Vice Chairman and Trevor Jackson, Senior Portfolio Advisor, with Aksia TorreyCove Partners LLC, presented and discussed this item with the Committee for 10 minutes. After discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

VI

PROXY VOTING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021 – Ellen Chen, Investment Officer I, presented this item to the Committee.

VII

BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021 – Barbara Sandoval, Investment Officer II, presented this item to the Committee.

VIII

OTHER BUSINESS – There was no other business.

IX

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, October 12, 2021, at 10:30 a.m. or immediately following the Board Meeting, at Edward R. Roybal BPW Session Room, 200 N. Spring Street, Room 350 City Hall, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while responding to public health concerns relating to the novel coronavirus continue.

X

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 1:02 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary

BlackRock

Transition Management

Los Angeles City Employees' Retirement System

October 12, 2021

Transition Management Overview

Transition Management is a service used by pension funds to manage changes to large portfolios of assets.

By hiring a dedicated transition manager, a pension fund receives project management services to oversee the operational aspects of the activity, as well as access to an institutional trading desk and specialist portfolio managers.

Performance impact of investment change

Investment change introduces a unique set of risks that can serve as a drag on performance. These risks can be realized as costs leading to a significant impact on long-term performance.

Examples of investment change (where transition management aims to help):

- **Change to / termination of investment manager(s)**
- **Asset allocation / benchmark change**
- **Corporate event mergers / acquisitions**
- **Cash investment or liquidation**

Transition Management Overview (cont.)

What risks influence performance during investment change?

BlackRock believes there are three key factors that influence portfolio performance during investment change periods:

Governance

Causes
- Performance holidays = no accountability
- Minimal reporting on trading period

Potential Solutions
- Measure performance (cost and returns)
- Transparent reporting and audit trail

Transaction costs (taxes, commission, spread, market impact)

Causes
- Narrow and restricted liquidity access
- Limited trading resources and experience
- Limited scale, reduced bargaining power

Potential Solutions
- Multiple sources of liquidity and trading venues
- Experienced global trading capabilities
- Large trading volumes and trading scale

Market risks (market movement, volatility)

Causes
- Limited risk management skills and technology
- No portfolio exposure management
- Execution only trade strategies

Potential Solutions
- Specialized risk management tech
- Specialized portfolio management team
- Holistic portfolio exposure-based approach
- Bespoke trade strategies

Transition Management Components

Full-service transition management offering

BlackRock Transitions

Project Management
Provide oversight by managing transition plan and coordination with all stakeholders.

Trade Execution
Leverage of BlackRock's scale and global trading platform in pursuit of best execution across multiple asset classes.

Trading Strategy
Customized and sophisticated trading and risk management strategy, developed utilizing industry-leading Aladdin® analytics.

Operational Management
Assume operational responsibility for the complete transition process, from beginning to end.

Risk Management
Comprehensive risk and exposure management throughout the transition.

Client Reporting
Auditability throughout, with transparent, detailed reporting before, during and after transition.

For illustrative purposes only. Subject to change without notice.

Transition Management Process

Start to finish service for the entire project

Preparation	Implementation	Completion
Understanding the scale and scope of the transition	Managing operational and market risks in efforts to minimize costs	Hand over of portfolios with ongoing service if required
• Sign legal agreement • Determine client objectives (scope) • Coordinate: – Managers – Custodian – Third-parties • Develop transition plan • Pre-trade analysis • Investment accounting requirements	• Hedging strategies • Maximize asset retention • Determine execution strategy: – Crossing (internal/external) – Direct Market Access (DMA) / Algorithmic trading – Multi-broker	• Reconciliation • Managers deliver target portfolios as requested • Ongoing caretaking, currency or overlay management if required • Measure and attribute implementation shortfall
Preparation: Average 1–2 weeks	**Execution: Average 1-5 days**	**Completion Average: 2-3 days**

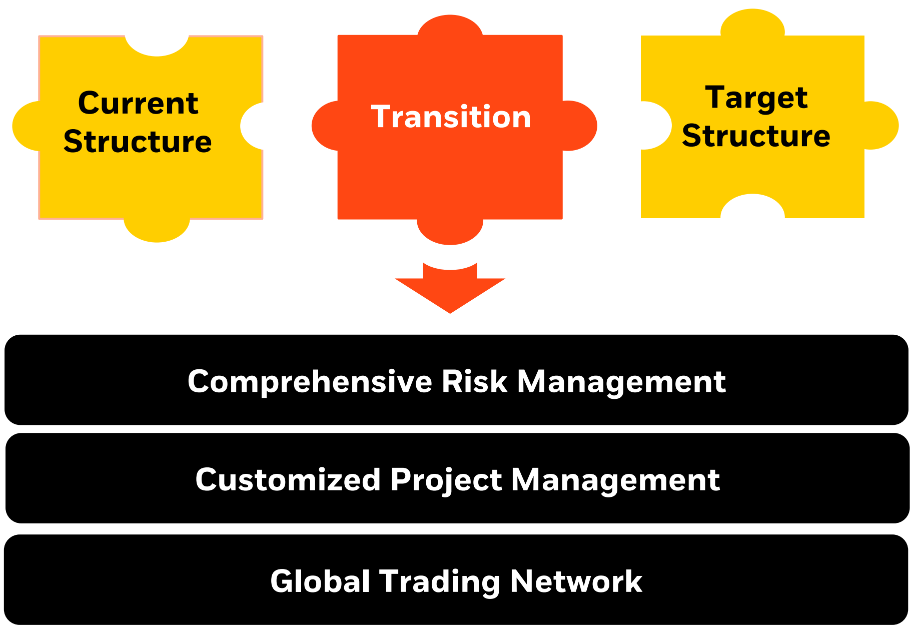
Risk managed process led by dedicated project team

For illustrative purposes only. Subject to change without notice.

Our operating model

BlackRock Transition Management Model

- Full Fiduciary oversight with full transparency and no sell side conflicts
- Dedicated team of specialists focused exclusively on transitions
- Leverage BlackRock's risk analytics, portfolio management, and trading capabilities
- Based within the fiduciary environment of the worlds largest asset manager*



Key Capabilities

- Robust risk management via proprietary Aladdin investment platform
- Transparent implementation reporting
- Agency-only multi-counterparty execution
- Focused on managing costs and risk

Experienced partner

- 60+ specialists globally**
- Integrated transition management systems
- Local presence in San Francisco, New York, London and Hong Kong
- $378 billion of transition flow in 2020***
- 254 transition events in 2020***

**as of August 31, 2021
***Full year 2020 round trip value

For illustrative purposes only. Subject to change without notice.
*Source: BlackRock 9.5 Trillion (USD) of AUM as of June 30, 2021

BlackRock Organization

Investment Departments

Portfolio Management Group (Fundamental Fixed Income • Municipals & Financial Institutions • Index Fixed Income & LDI • Fundamental Equities •Systematic • Multi-Asset Strategies & Solutions •Global Lending, Liquidity & Private Investors) •ETF & Index Investments • BlackRock Alternative Investors • Global Trading & TRIM • BlackRock Investment Institute & BlackRock Sustainable Investing

Investment Platform

Risk and Quantitative Analysis (RQA) • BlackRock Investment Stewardship

Client Departments

Regions

US & Canada • Europe, Middle East & Africa (EMEA) • Asia Pacific (APAC) • Latin America

Global Segments

Official Institutions •Financial Institutions Group •Global Consultant Relations •Strategic Partner Program

Specialized Departments

BlackRock Solutions • Financial Markets Advisory (FMA)

Operating Platform

Aladdin Product Group •Technology and Operations• Global Product Group

Corporate & Risk Platform

Corporate Strategy • Global Marketing • Human Resources • Global Public Policy Group • BlackRock Platform Innovation • Finance • Corporate Communications • Legal & Compliance • Internal Audit • Social Impact

- Source: BlackRock as of March 31 2021

Execution: Seek to reduce costs by leveraging pricing power on a single, global platform

The advantage of scale

- **Tier 1 client to all major counterparties** which we believe uniquely positions us to access liquidity
- **24-hour global agency trading platform** to enable trading at times of maximum liquidity and to leverage local market knowledge and sector expertise
- Trader expertise across all major asset classes and **~$88.5T of annual volume**[1]
- Large volumes and breadth of clients provides **potential opportunities for crossing securities**, reducing transaction costs

Result: Potential execution benefits can be passed directly on to clients as cost savings

BlackRock's Execution Activity[1]

58,000 EQ trades
17,000 FI trades
4,000 FX trades
4,000 Futures trades
1,000 Cash Mgmt trades
84,000 trades / day

$88.5T Notional traded

$72.0T Cash Management notional

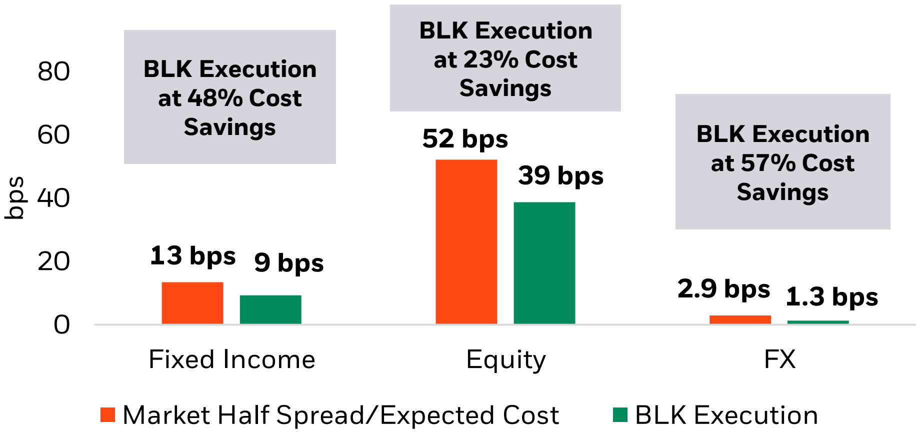
$2.9T Equity notional

$8.8T Fixed Income notional

$4.8T FX notional

Excludes iShares Create/Redeems activity. Notional traded excludes futures and trade count represents number of allocations.

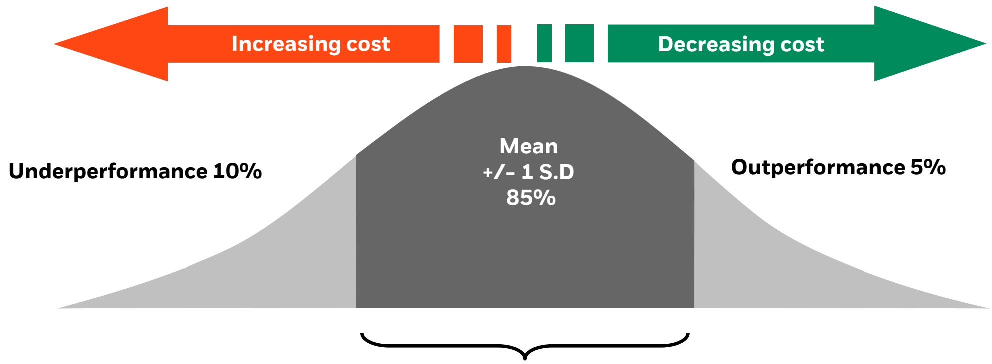
Execution Costs: BlackRock versus the Market[2]



[1] Average activity for 2020, as of 12/31/2021; Figures show in USD; Source: BlackRock. Inclusive of internal crossing opportunities. Numbers may not add up to total due to rounding. [2] BlackRock analysis of all Fixed Income High Yield and Investment Grade Credit, FX, and Equity trades excluding derivatives for 2020 as of 12/31/2020. BlackRock Execution Cost is the average difference between: the actual price achieved on the trade and the benchmark price. For Equity and FX, benchmark price is the market price, based on exchange data at the time when the PM submitted the order. For Fixed Income, benchmark price is the previous day's closing price. The Market Half Spread (or Expected Cost) is an estimate of the average execution cost of a market participant. For Fixed Income, Market Half Spread is estimated quarterly for each sector and maturity bucket based on a consensus opinion of BlackRock traders as well as a set of over 10 broker dealers. For FX, brokers provide Market Half Spread quarterly on a consensus basis for each currency pair and size range. For Equity, BlackRock calculates Market Expected Cost using an average of multiple independent broker models. There is no guarantee that a positive investment outcome will be achieved. Subject to Change.

Our Track Record

- Asset classes: Developed and Emerging Equities, Government Bonds, IG & HY Credit, EMD, Futures, FX
- Clients: Asset Managers, Pension Funds, Insurance Companies, Sovereign Wealth Funds
- Mandates: Manager and benchmark changes, Portfolio constructions and liquidations, Interim management
- Approx. 250 assignments in 2020



85% of results fell within one standard deviation in 2020

Implementation Shortfall actual versus estimated	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Shortfall results within one standard deviation	84%	77%	83%	82%	81%	81%	84%	75%	79%	85%
Shortfall results less than -1 standard deviation (outperformance)	9%	18%	11%	11%	11%	8%	10%	9%	12%	5%
Shortfall results more than +1 standard deviation (underperformance)	7%	5%	6%	7%	8%	11%	6%	16%	9%	10%
Shortfall results equal to or better than central estimate	55%	60%	58%	58%	57%	51%	59%	56%	55%	60%

Source: BlackRock. Based on actual results from all transitions completed during 2011– 2020
For illustrative purposes only. This example is not intended to represent that such results will occur in all cases. Past performance is no guarantee of future results.

LACERS Transition History

- Over the past 12 months, BlackRock has implemented 4 transition events for LACERS.
- These transitions have spanned all asset classes, with values ranging from ~$390 million to $1.8 billion.
- Each transition has required coordination with at least 4 investment managers and up to 15.
- All events have been smooth implementations with final performance falling within our pre-trade estimated range.

Date	Asset Class	Legacy Managers	Target Managers	AUM (mm)	Pre-trade estimate (bps)	Final Cost (bps)	Within Range?
October 2020	High Yield Bonds	2	2	$390	-41.0 +/- 25.5	-41.6	Yes, at mean
December 2020	Global Equity	9	6	$1,800	-55.9 +/- 64.9	-84.0	Yes, left of mean
March 2021	US Equity to Global Bonds	8	6	$1,000	-30.8 +/- 128.7	-56.7	Yes, left of mean
June 2021	Multi-Sector US Bonds	5	4	$1,500	-16.2 +/- 13.2	-16.9	Yes, at mean

Actual results from all transitions completed for LACERS during 2020 – 2021
Past performance is not indicative of future results

BlackRock Team Biographies

Jonathan Platt, CFA, Director, is Head of Americas Client Strategy in BlackRock's Transition Management team. He is responsible for managing a team of client strategists who advise institutional investors in the Americas on risk-managed portfolio transition solutions across multiple asset classes.

Previously, Mr. Platt spent 13 years working for BNY Mellon with the Beta & Transition Management team in both San Francisco and London, and most recently served as the Director of Portfolio Management. Additionally, Mr. Platt has held past positions with Mellon Capital Management and Montgomery Securities, as a business analyst and portfolio analyst, respectively.

Mr. Platt graduated from Florida State University with a B.S. in Finance and a B.A. in English.

John Planek, Vice President, is a client strategist on the Transition Management (TRIM) team within BlackRock's Global Trading Division. In this role he advises institutional investors in North America on multi-asset trading and risk management strategies during periods of portfolio or manager change.

Mr. Planek joined BlackRock in 2015 as a member of the Graduate Analyst program, after graduating from the University of Notre Dame with a BBA in Finance & Economics. He is currently pursuing an MBA from the University of Chicago.

Important Notes

BlackRock Institutional Trust Company, N.A. (“BTC”) offers transition services to both its investment management clients and third party clients. Such transition services usually include brokerage services through its wholly owned subsidiary, BlackRock Execution Services (“BES”), member FINRA. BES receives commissions from the Client for trades that BES executes in the course of transitions services. BES itself purchases clearing or other brokerage services from third parties and/or affiliates with some or all of the commission that BES receives.

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Certain information contained in this document constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may”, “will”, “should”, “expect”, “anticipate”, “target”, “project”, “estimate”, “intend”, “continue” or “believe” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the portfolio may differ materially from those reflected or contemplated in such forward-looking statements.

REPORT TO INVESTMENT COMMITTEE **MEETING: OCTOBER 12, 2021**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **PRIVATE CREDIT PACING IMPLEMENTATION PLAN AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board the adoption of the Private Credit Pacing Implementation Plan.

Executive Summary

The Board adopted a new target allocation to the private credit asset class on May 11, 2021. Accordingly, NEPC, LLC (NEPC), LACERS' General Fund Consultant, has prepared the attached presentation recommending a pacing implementation plan as the private credit portfolio is transitioned to the new long-term target. Staff concurs with NEPC's recommendations.

Discussion

At its meeting of May 11, 2021, the Board adopted a new target asset allocation policy as part of the asset allocation study led by NEPC. The new asset allocation policy increased the private credit policy target by 2% to a new target exposure of 5.75% of the LACERS total fund. Currently, the private credit portfolio is underweight relative to the new target exposure; staff and NEPC anticipate that it may take several years to deploy sufficient capital in the private credit asset class to reach the 5.75% target allocation. Accordingly, NEPC recommends a calculated pacing approach, which accounts for capital calls, distributions, and LACERS total fund growth (see Attachment 1).

The attached plan provides a pacing scenario with a five-year time horizon extending to the year 2025 in order to achieve a 5.75% target allocation to private credit. To reach this target, the plan calls for $200 million in commitments this year, $375 million in commitments annually for the next three years, followed by $250 million in commitments for one additional year. Staff concurs with this proposed five-year pacing plan. Staff and NEPC will provide updates and recommended pacing adjustments to the Board and Committee as pacing conditions change.

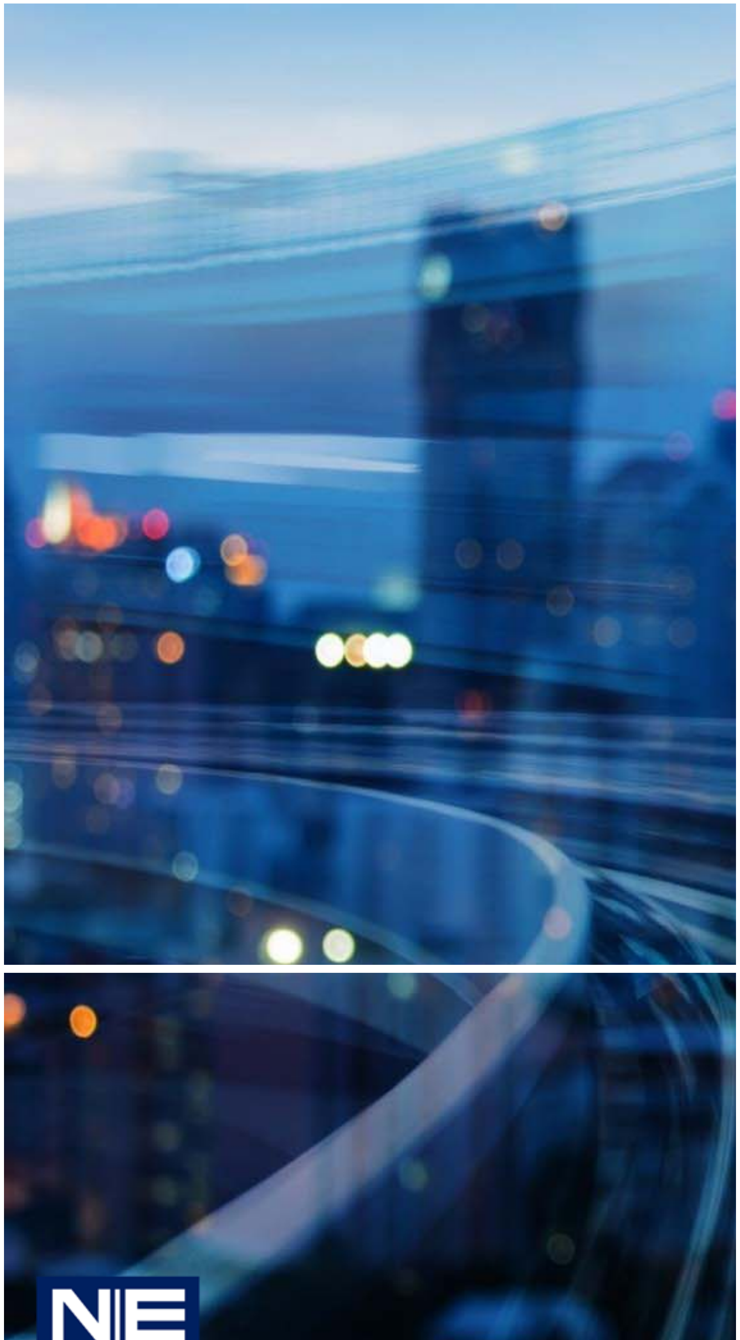
Strategic Plan Impact Statement

The Private Credit Pacing Implementation Plan assists the Board in building a diversified private credit and total fund portfolio and aligns with the Strategic Plan Goals of optimizing long-term risk adjusted investment returns (Goal IV).

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

NMG/RJ/WL/RK:rm

Attachment: 1. Private Credit Pacing Analysis Presentation by NEPC, LLC



LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

PRIVATE CREDIT PACING PLAN

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

OCTOBER 12, 2021

NEPC

RECOMMENDATION

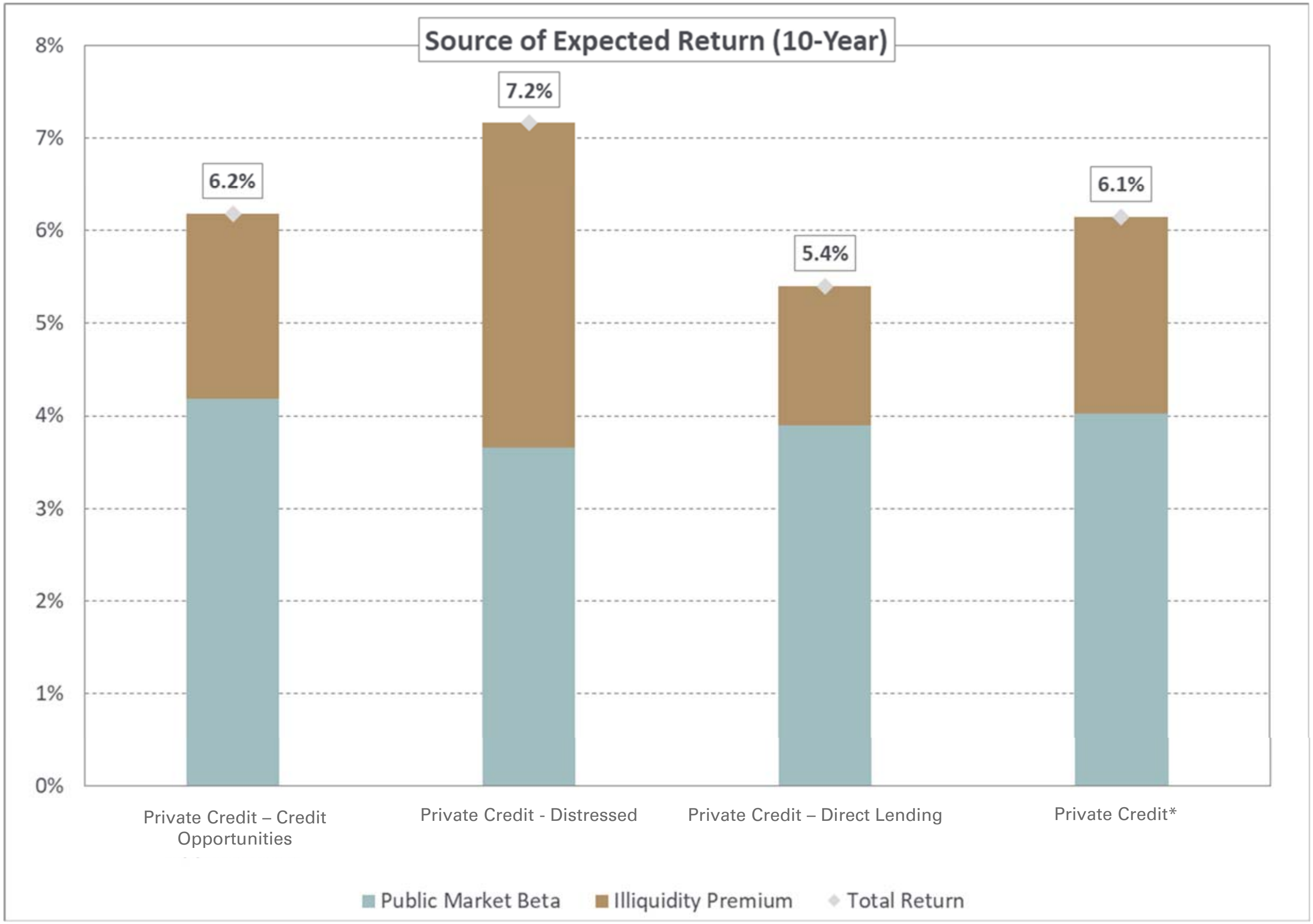
- **This review of LACERS private credit allocation is conducted to determine the commitment budget for the upcoming year**
  - We considered existing manager commitments and anticipated calls/distributions, adjustments to the target allocation and the forecasted net growth rate of the total portfolio
    - $100 million committed in 2020
    - $200 million committed in 2021
  - An annual review provides an opportunity to make adjustments to any of the above factors and assess the program carefully so as to not over- or under-allocate to illiquid investments

- **Based on our review, NEPC recommends committing approximately $375 million for the coming year to private credit. With the current inputs, we expect LACERS to commit approximately $375 million for the next 3 years, followed by a $250 million commitment in year 4 to hit the 5.75% target in the next 5 years.**

ASSUMPTIONS

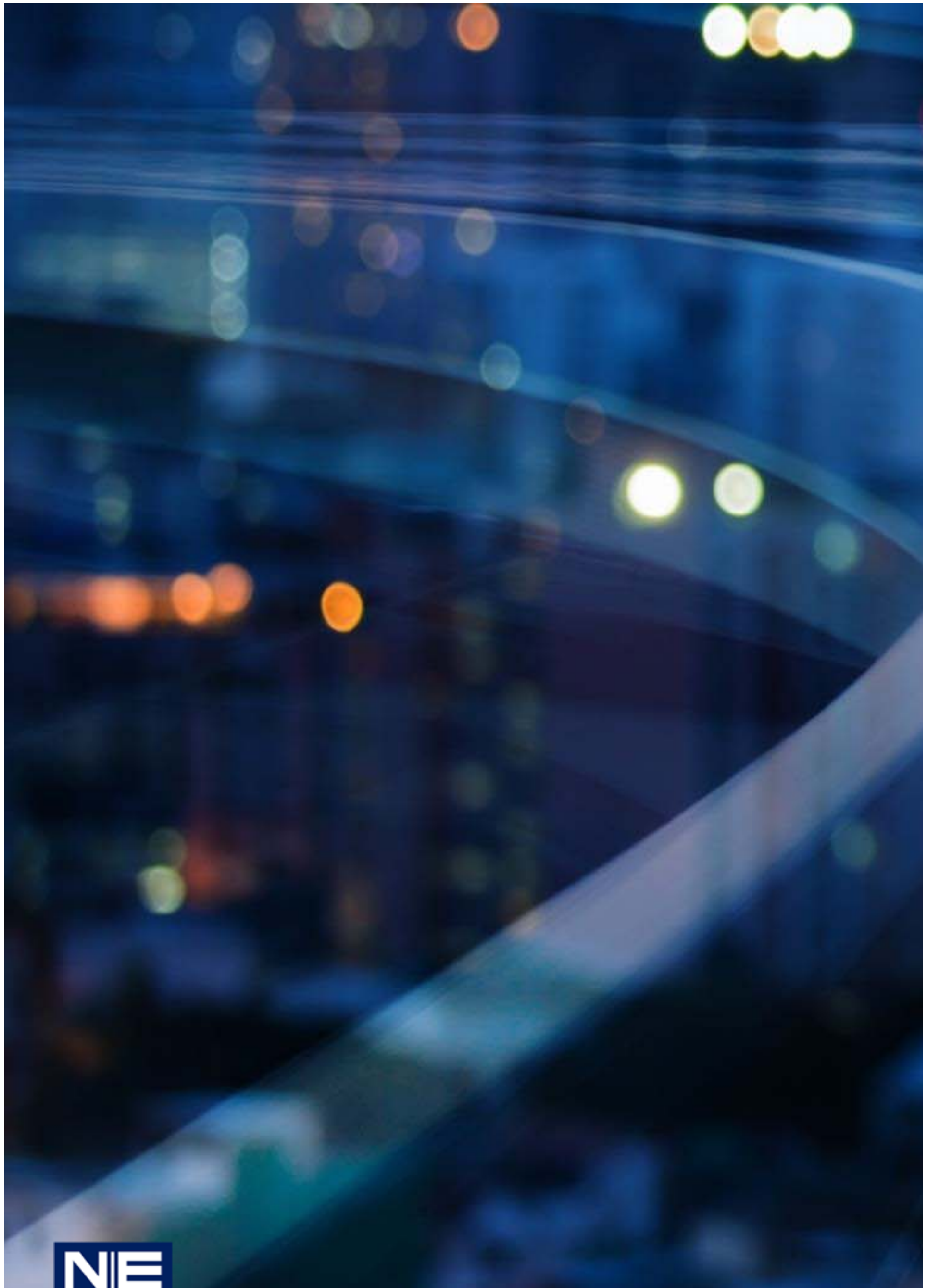
- **This pacing plan was based on the following assumptions:**
  - LACERS will commit to three evergreen funds in the near term
    - 3% distributions are modeled in the cash flows
  - For each commitment, the following drawdown schedule was assumed:
    - 1/3 called each year
  - Annual expected return on the private credit portfolio is 6.1%
  - The funding source for private credit is passive and active core fixed income
    - As the Private Credit asset class will take several years to build out to the targeted policy, holding uncalled capital commitments in public market fixed income will result in a marginal decrease in expected returns based on NEPC's forward-looking capital market assumptions
    - For every 1% un-funded in Private Credit, expected Total Fund returns to be reduced by approximately $11 million per year
      - The full target un-funded amount equals a deficit in earnings of $60.7 million per year

PRIVATE CREDIT RETURN ASSUMPTIONS



Source: NEPC Capital Market Assumptions as of 12/31/2020
*Private Credit is a derived composite of 25% Mezzanine, 25% Distressed, 50% Direct Lending

IC Meeting: 10/12/21
Item V
Attachment 1



PRIVATE CREDIT PACING PLAN

PACING MODEL INPUTS AND ASSUMPTIONS

($ in millions)

General Portfolio Assumptions

Total Portfolio Assets	$22,554.5
Total Private Credit Assets	$24.5
Private Credit Capital to be Funded	$0.0
Total Private Credit Exposure	$24.5
Total Private Credit Assets / Total Portfolio Assets	0.1%
Total Private Credit Exposure / Total Portfolio Assets	0.1%
Target Private Credit Allocation % (Current Target)	5.75%

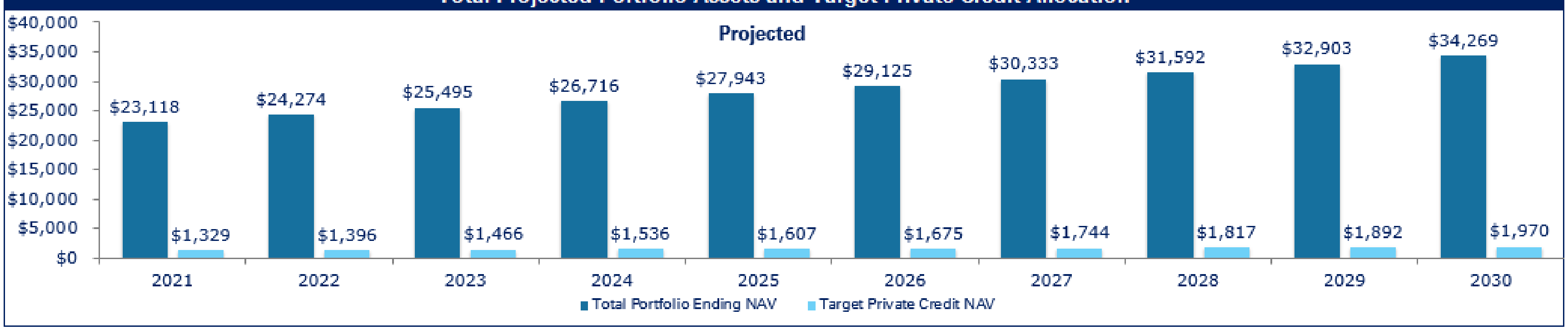
Portfolio Return Assumptions	2021	2022	2023
Target Investment Return %	3.06%	6.11%	6.11%
Contributions %	2.78%	5.55%	5.44%
Payouts %	-3.25%	-6.50%	-6.36%
Expenses %	-0.08%	-0.16%	-0.16%
Reserve for Expenses %	0.00%	0.00%	0.00%
Net Growth Rate %	2.50%	5.00%	5.03%

Portfolio Data as of: 6/30/2021
Private Credit Data as of: 6/30/2021

Total Projected Portfolio Assets

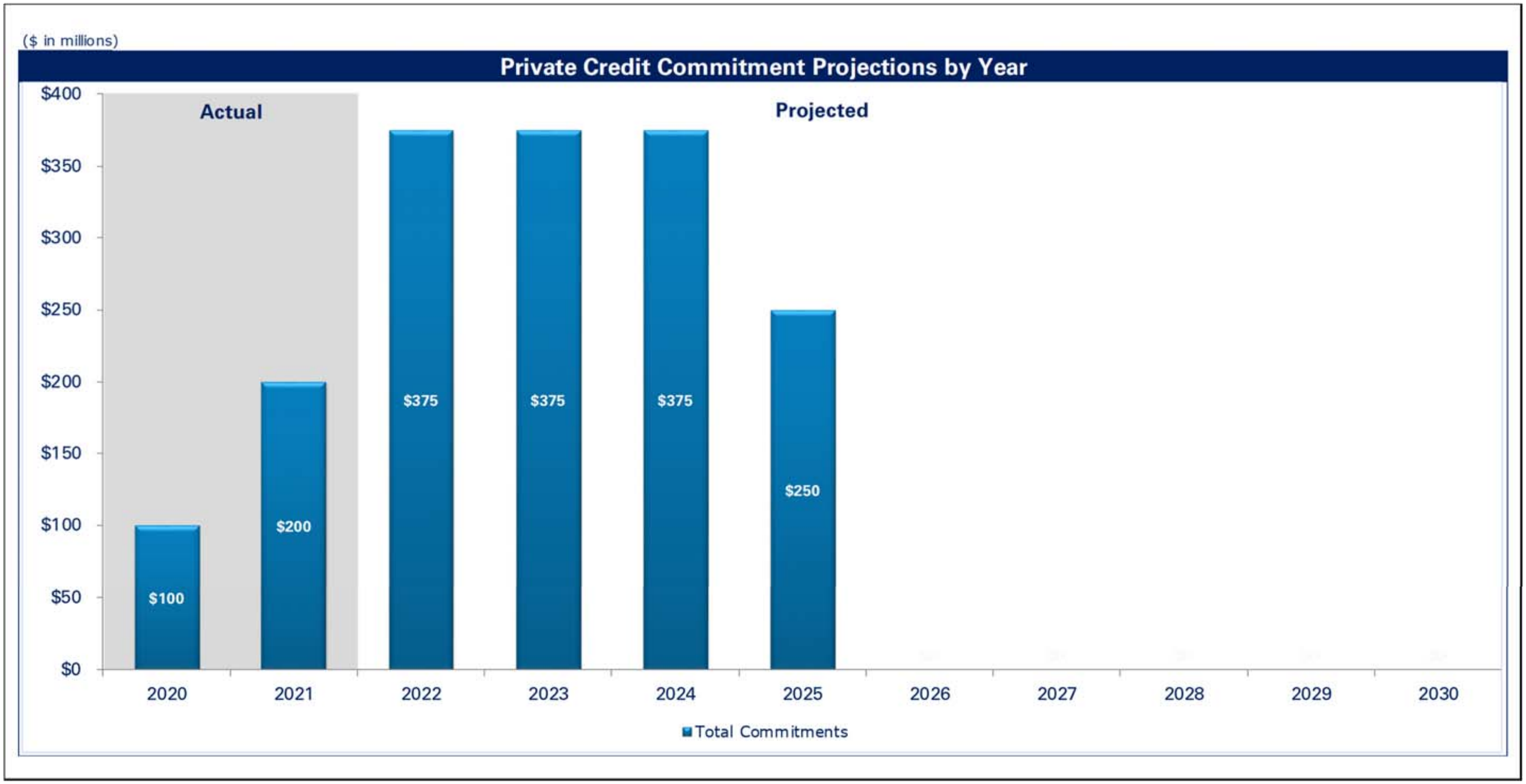
	Projected									
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Portfolio Net Growth Rate	2.5%	5.0%	5.0%	4.8%	4.6%	4.2%	4.2%	4.2%	4.2%	4.2%
Total Portfolio Beginning NAV	$22,554.5	$23,118.3	$24,274.2	$25,495.2	$26,716.5	$27,942.7	$29,124.7	$30,333.4	$31,592.2	$32,903.3
Yearly Net Growth	$563.9	$1,155.9	$1,221.0	$1,221.2	$1,226.3	$1,182.0	$1,208.7	$1,258.8	$1,311.1	$1,365.5
Total Portfolio Ending NAV	$23,118.3	$24,274.2	$25,495.2	$26,716.5	$27,942.7	$29,124.7	$30,333.4	$31,592.2	$32,903.3	$34,268.8
Target Private Credit Allocation	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Target Private Credit NAV	$1,329.3	$1,395.8	$1,466.0	$1,536.2	$1,606.7	$1,674.7	$1,744.2	$1,816.6	$1,891.9	$1,970.5

Total Projected Portfolio Assets and Target Private Credit Allocation



2021 Portfolio Return Assumptions are for 6 months (7/1-12/31).

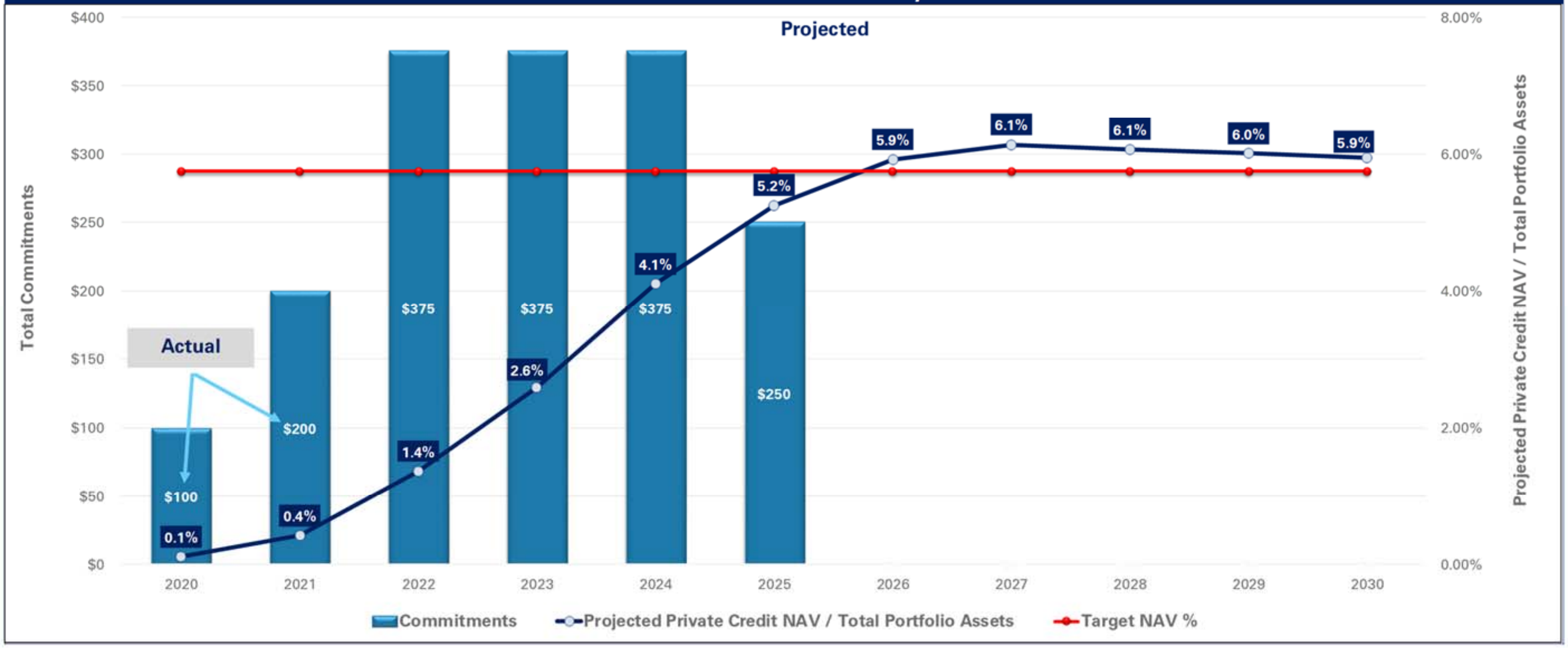
PROJECTED COMMITMENTS



2020 Commitments: Benefit Street
2021 Commitments: Crescent and Monroe

COMMITMENTS & ALLOCATION PROJECTIONS

($ in millions)



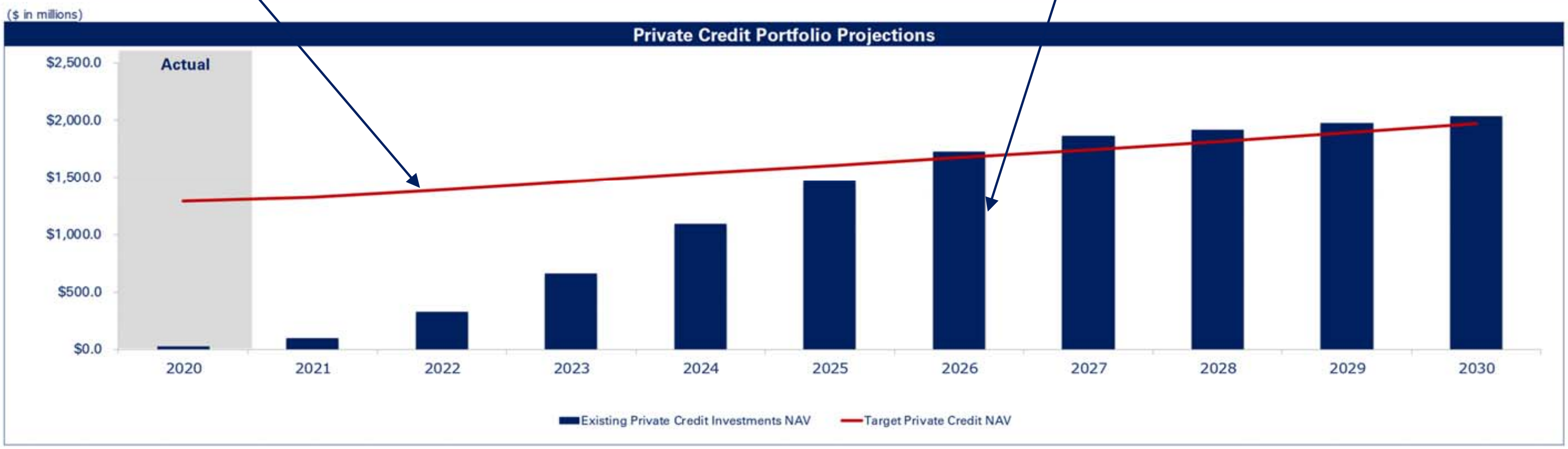
Private Credit Commitments by Year

	Actual	More Certain			Less Certain						
Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Commitments	$100	$200	$375	$375	$375	$250	$0	$0	$0	$0	$0
Target Private Credit Allocation (%)	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Projected Private Credit NAV / Total Portfolio Assets	0.11%	0.42%	1.36%	2.59%	4.10%	5.25%	5.92%	6.14%	6.07%	6.01%	5.94%

Private Credit Allocations are end-of-year projections for 2021 and beyond. Commitments for 2020 and 2021 are actual.

ASSET PROJECTIONS

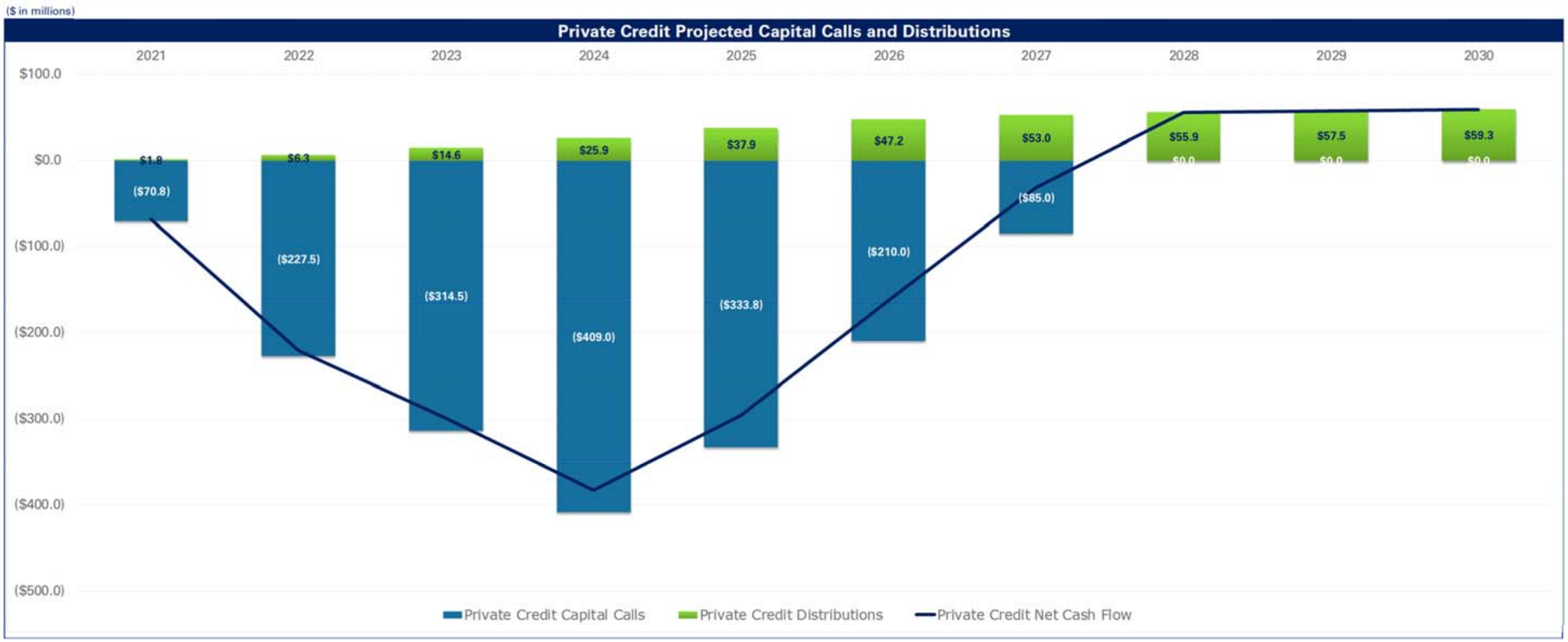
- **Red line** is the **5.75%** target private credit allocation based on projected total portfolio Net Asset Value (NAV). The **blue bars** are the projected Private Credit NAV. The objective is to align the blue bar with the red target line.



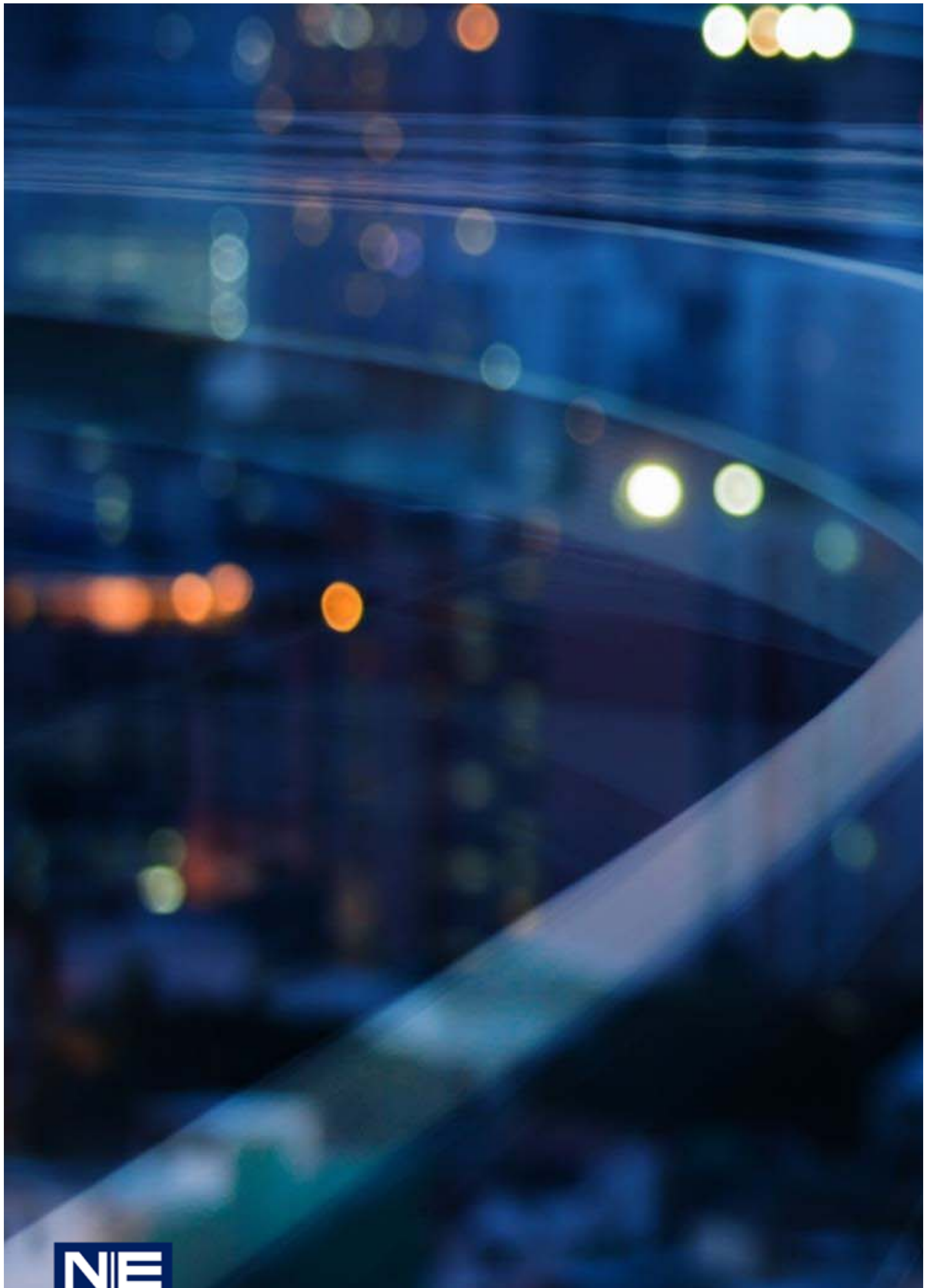
	Actual	Projected									
Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Private Credit NAV	$24.5	$97.1	$330.9	$660.1	$1,095.1	$1,466.8	$1,724.1	$1,862.2	$1,918.3	$1,976.0	$2,035.4
Uncalled Capital Commitments	$75.5	$204.8	$352.3	$412.8	$378.8	$295.0	$85.0	$0.0	$0.0	$0.0	$0.0
Private Credit NAV + Uncalled Capital Commitments	$100.0	$301.8	$683.1	$1,072.8	$1,473.8	$1,761.8	$1,809.1	$1,862.2	$1,918.3	$1,976.0	$2,035.4
Target Private Credit NAV	$1,296.9	$1,329.3	$1,395.8	$1,466.0	$1,536.2	$1,606.7	$1,674.7	$1,744.2	$1,816.6	$1,891.9	$1,970.5
Private Credit Percent of Total Portfolio Assets											
Private Credit NAV	0.1%	0.4%	1.4%	2.6%	4.1%	5.2%	5.9%	6.1%	6.1%	6.0%	5.9%
Private Credit Uncalled Capital Commitments	0.3%	0.9%	1.5%	1.6%	1.4%	1.1%	0.3%	0.0%	0.0%	0.0%	0.0%
NAV + Uncalled Capital Commitments	0.4%	1.3%	2.8%	4.2%	5.5%	6.3%	6.2%	6.1%	6.1%	6.0%	5.9%
Target Private Credit Allocation	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%

All projections are end-of-year values.

PROJECTED CASH FLOWS



					Projected					
Year	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Private Credit Capital Calls	($70.8)	($227.5)	($314.5)	($409.0)	($333.8)	($210.0)	($85.0)	$0.0	$0.0	$0.0
Private Credit Distributions	$1.8	$6.3	$14.6	$25.9	$37.9	$47.2	$53.0	$55.9	$57.5	$59.3
Private Credit Net Cash Flow	($69.0)	($221.2)	($299.9)	($383.1)	($295.9)	($162.8)	($32.0)	$55.9	$57.5	$59.3



APPENDIX: PRIVATE CREDIT MARKET DATA

DIRECT LENDING AND MEZZANINE

General Market Thoughts

- **Direct lending became relatively more attractive but retreated as markets rebounded; actual deployment has not picked up**
  - US pricing has tightened but not as much as public markets; if there is interest, focus more on middle market
  - European deployment has been less disrupted than the US for Tier 1 managers; have stepped in on opportunistic deals
- **Niche credit is interesting for those looking for more unique themes or investments less correlated to corporate credit**
- **Mezzanine opportunity has increased, however, is seeing competition from opportunistic credit managers**

Implementation Views

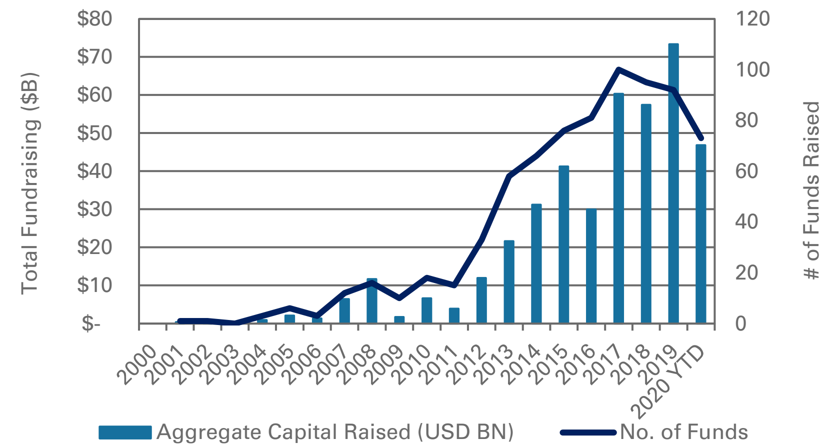
Strategy	Outlook	Commentary
Direct Lending	US: Neutral Europe: Neutral	• US: Relative attractiveness in the lower-to middle market (companies less than $50m EBITDA); seek managers with smaller funds and legacy portfolios • Europe: Tier 1 managers have fared well • Focus on fees and more liquid vehicle structures for cheaper market beta
Niche Lending	Positive	• Sector/industry specialization or areas which require additional expertise; overlooked and passed over by traditional lenders; thematic managers that can be flexible: directly originate as well as capitalize on secondary opportunities
Mezzanine	Negative	• There are interesting opportunities on the non-sponsored side where managers can drive deal structures and terms. European subordinated debt differs from the US – loans tend to be secured; analogous to second lien but with equity upside

DIRECT LENDING: FUNDRAISING & RETURNS

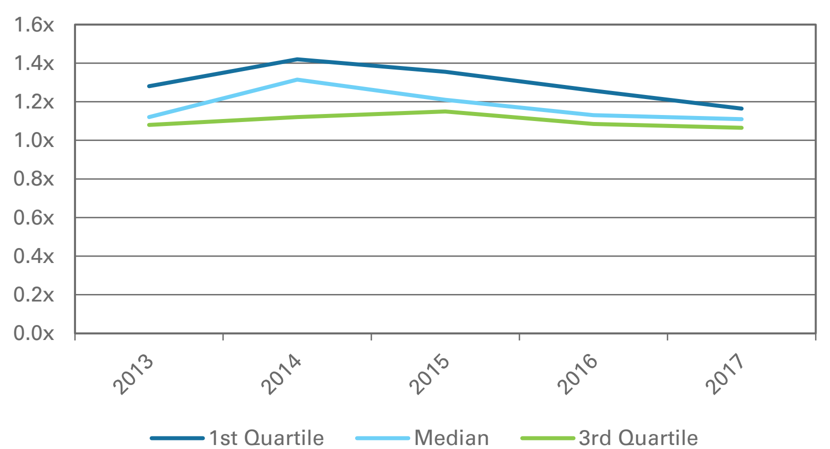
Comments

- Fundraising has remained strong in 2020 following record numbers in 2019
- Performance from a TVPI standpoint has shown a low dispersion of returns with a trend towards tightening
- There has been a divergence in recent net IRRs as more managers have become more liberal with credit lines and leverage facilities

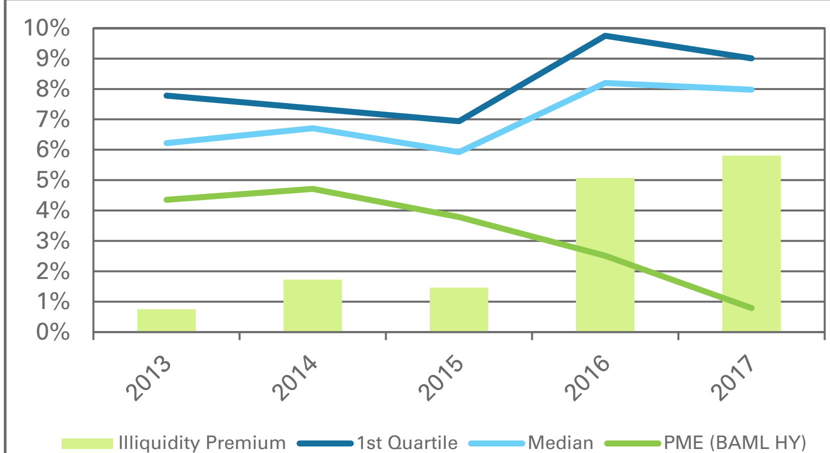
Annual Fundraising



Net TVPI



Net IRR



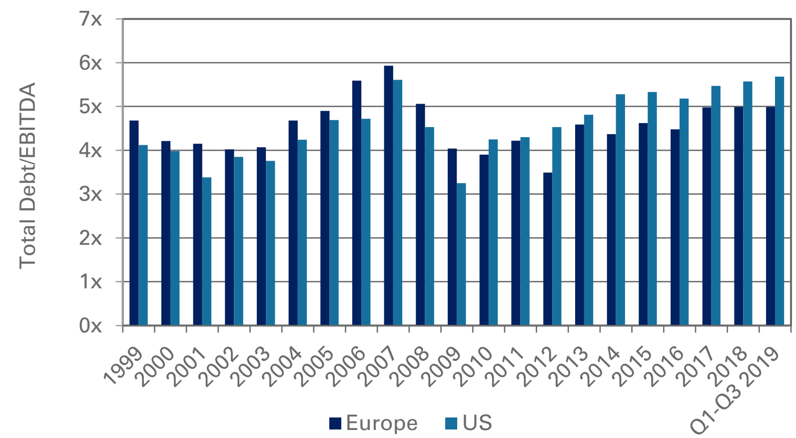
Source: Preqin as of 06/30/2020. Performance for 2018-2020 vintage funds not yet meaningful
Fundraising data from Preqin as of 11/30/2020

DIRECT LENDING: US VS. EUROPE

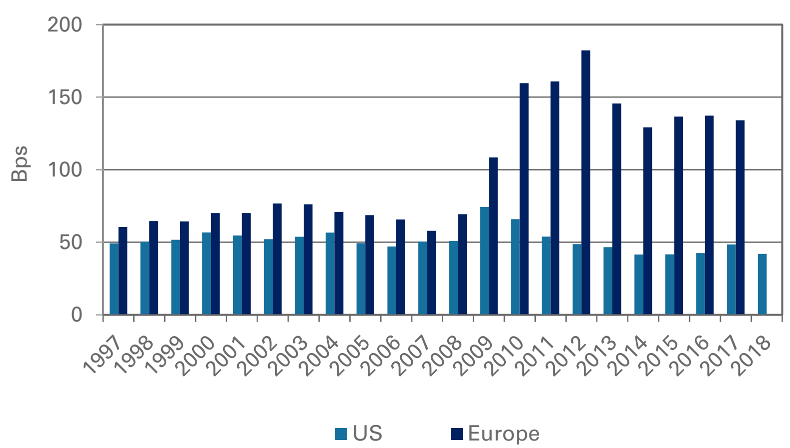
Comments

- Debt multiples for European LBOs still remain approximately 0.5x less levered relative to the US
- Upfront and commitment fees average 2-3x higher on European loans
- Overall coverage ratios have been slightly higher in European middle market companies over the past few years

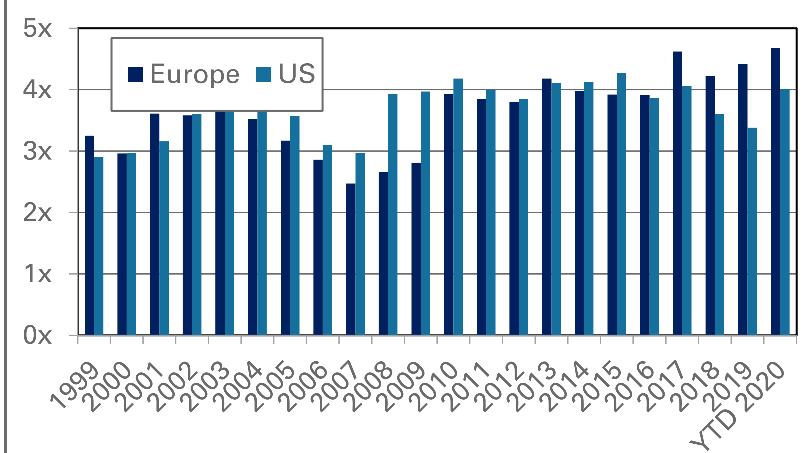
Middle Market LBO Total Debt/EBITDA*



Upfront/Commitment Fees



Interest Coverage Ratios

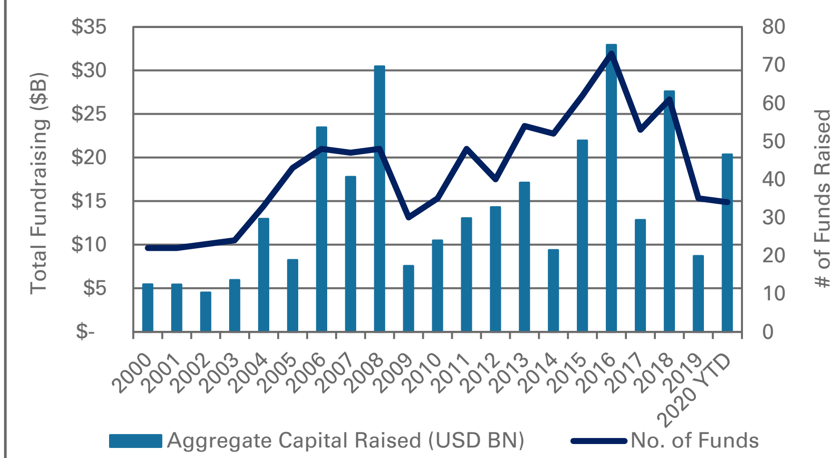


MEZZANINE: FUNDRAISING & RETURNS

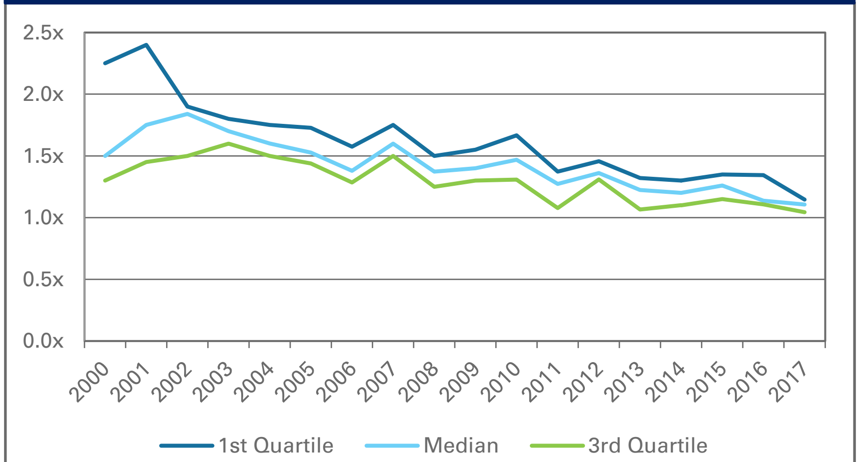
Comments

- **Fundraising for mezzanine funds has bounced back in 2020 following a sizeable decrease in 2019**
- **The performance bands for net TVPI have been extremely tight between 1st quartile, median and 3rd quartile**
- **The median net IRR has maintained relatively stable while there has been some fluctuation in the 1st and 3rd quartile numbers (due in part to a limited number of constituents in the benchmark)**

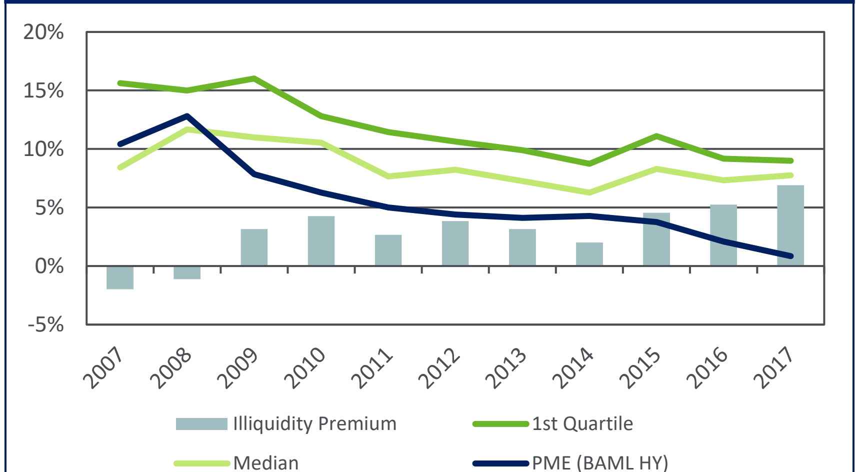
Annual Fundraising



Net TVPI



Net IRR



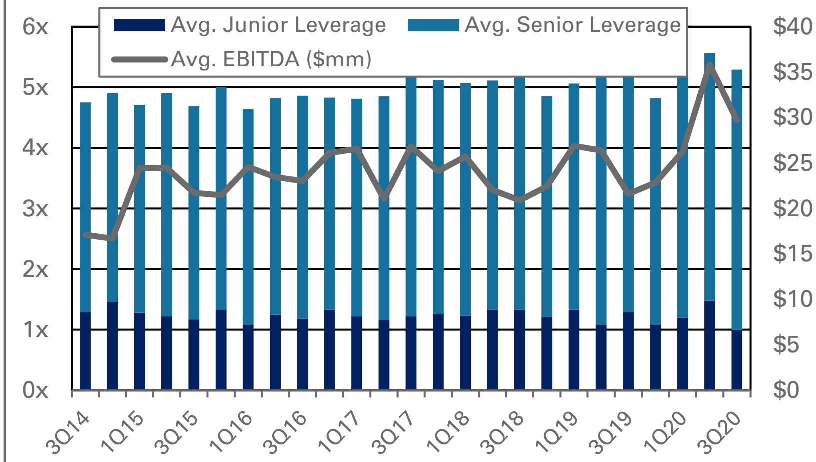
Source: Thomson One/C|A as of 06/30/2020. Performance for 2018-2020 vintage funds not yet meaningful
Fundraising data from Preqin as of 11/30/2020

MEZZANINE/SUB DEBT MARKET ACTIVITY

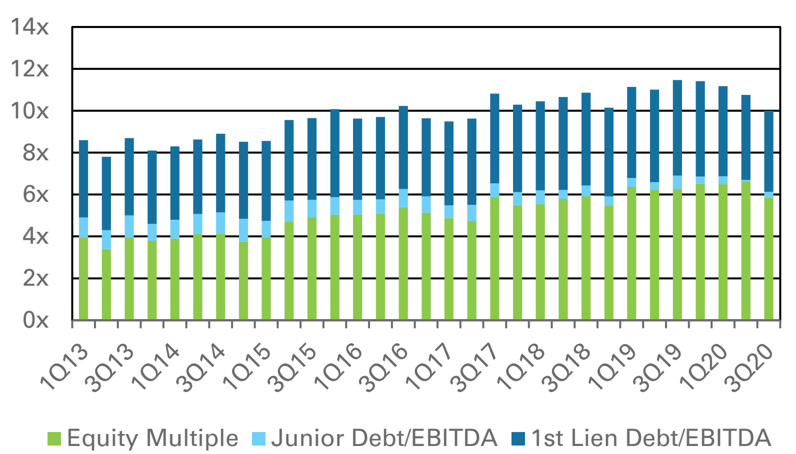
Comments

- Sponsored middle market junior debt saw an increase in Q2 but drastic decrease when markets normalized
- Middle market LBOs showed almost no subordinated debt in Q2
- While middle market LBO mezzanine volume decreased in Q3, new money issuance in the middle market actually increased

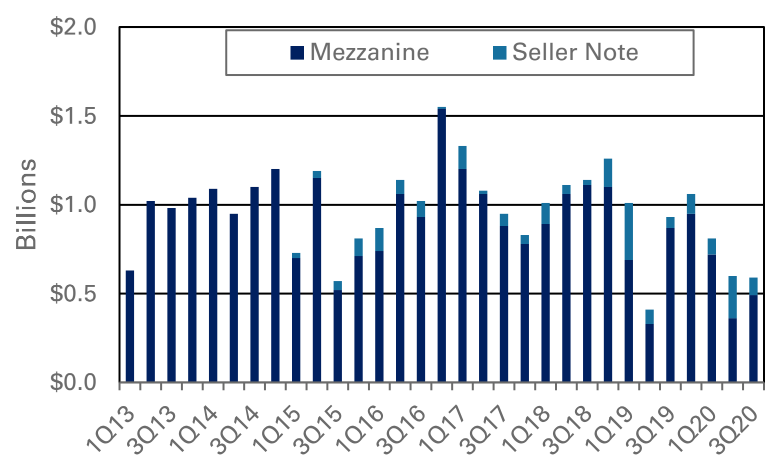
Middle Market Sponsored



Middle Market LBOs



Middle Market Mezzanine Issuance



Source: Refinitiv Loan Connector, October 2020

DISTRESSED DEBT AND OPPORTUNISTIC CREDIT

General Market Thoughts

- **The COVID-19 pandemic brought on significant market dislocation in March and April, resulting in a robust buying opportunity and catalyst for fundraising**
  - That broad opportunity set dissipated quickly; markets stabilized, applauding all positive news, and treating bad news as "as expected"
- **Government intervention, stimulus, and widespread market optimism have held off a broad distressed market opportunity**
  - GPs continue to expect an expanded default and bankruptcy cycle that will bring opportunity for restructurings and distressed-for-control deals; however the timing is uncertain and dry powder levels remain at record highs
- **While not as expected, there are still opportunities and more could develop**
  - Defaults and bankruptcies haven't materialized as expected yet, but GPs have been active with "capital solutions" or directly originated rescue financing, and NPLs remain a focus globally

Implementation Views

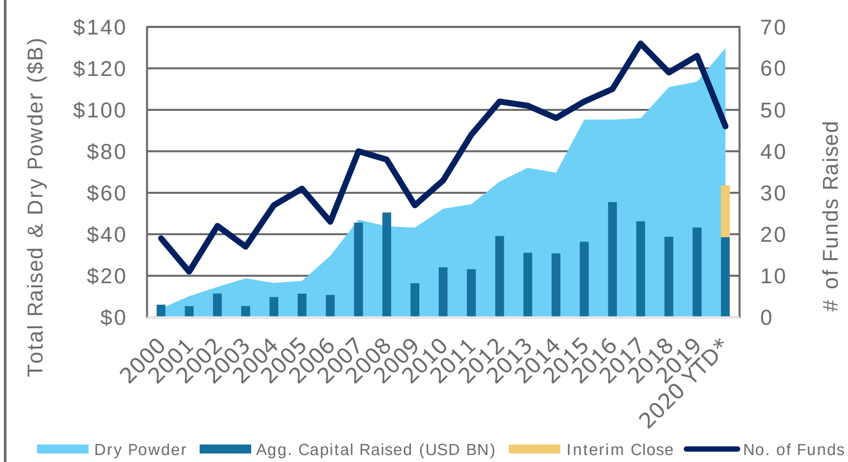
Strategy	Outlook	Commentary
Distressed Debt	Neutral	• Target managers with flexible strategies, prior distressed investing experience, and suitable resources to address the current and future opportunity • Experience working through bankruptcies and restructurings is could be especially relevant and valuable if a broader opportunity set develops • Be mindful of excessive fund sizes; overly large fund sizes could mute overall fund-level returns, especially if deal flow doesn't materialize as expected
Opportunistic Credit	Positive	• Target managers that can provide flexible capital solutions that can invest across various market conditions • Seek strategies that can directly originate/participate in the secondary markets • Opportunistic strategies can enhance returns in a low-rate environment compared to traditional fixed-income strategies, but be mindful of fees

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: FUNDRAISING & RETURNS

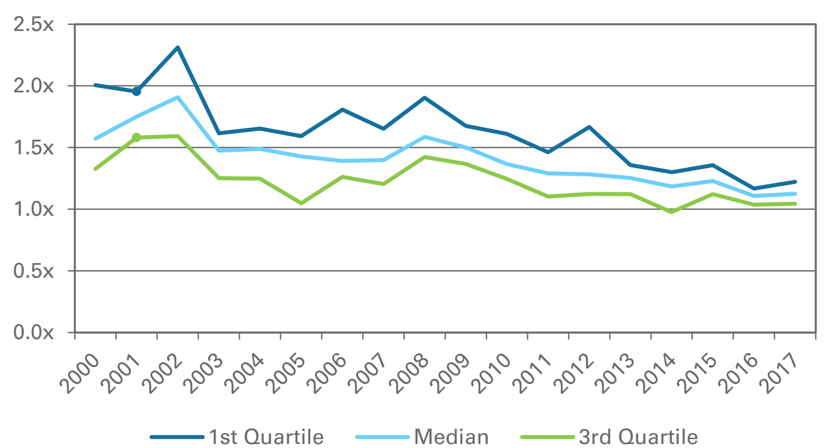
Comments

- **2020 fundraising hit a new high, fueled by larger funds and numerous "dislocation" funds that came to market in response to Q1/Q2 market turmoil**
- **Dry powder levels have continued to climb to new highs**
- **Due to lack of broad distress, recent vintage TVPIs have been subdued**
- **Quartile spreads have consistently been tight**

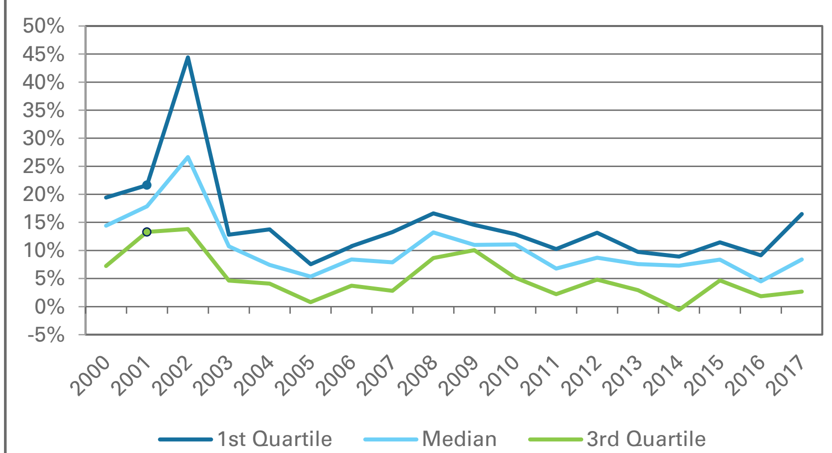
Annual Fundraising



Net TVPI



Net IRR



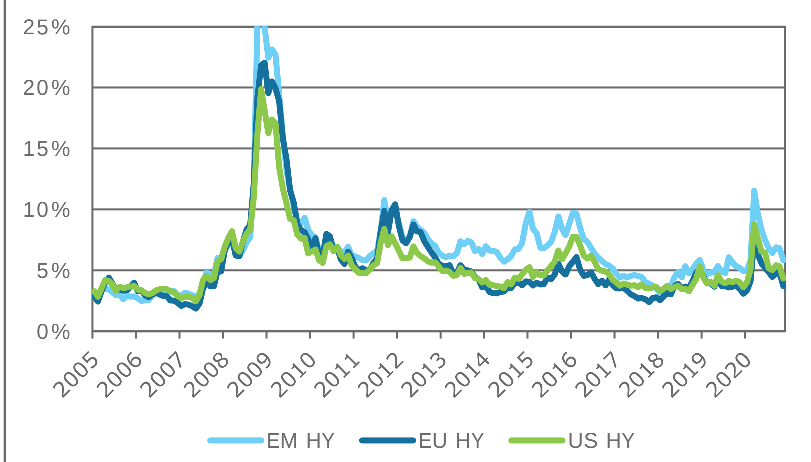
Source: Thomson One/C|A as of 06/30/2020. Performance for 2018-2020 vintage funds not yet meaningful
Fundraising data from Preqin as of 11/30/2019; 2020 YTD* value includes closed capital in 2020 vintage funds that have not yet held a final close

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: MARKET MOVEMENTS

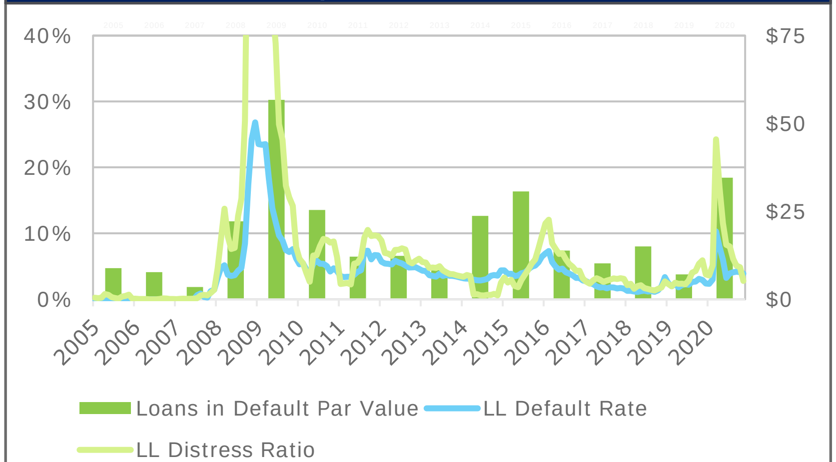
Commentary

- **COVID-19 pandemic and corresponding shutdowns served as catalyst for severe market dislocation in March and April**
  - Globally, HY spreads widened significantly and distressed ratios shot up
- **Calm quickly returned to the market following gov't stimulus and optimism for vaccines and return to "normal"**
  - Yields and distress ratio dropped nearly as quickly as they rose
  - Default activity is rising, but not to the levels or at the rate that many predicted/expected

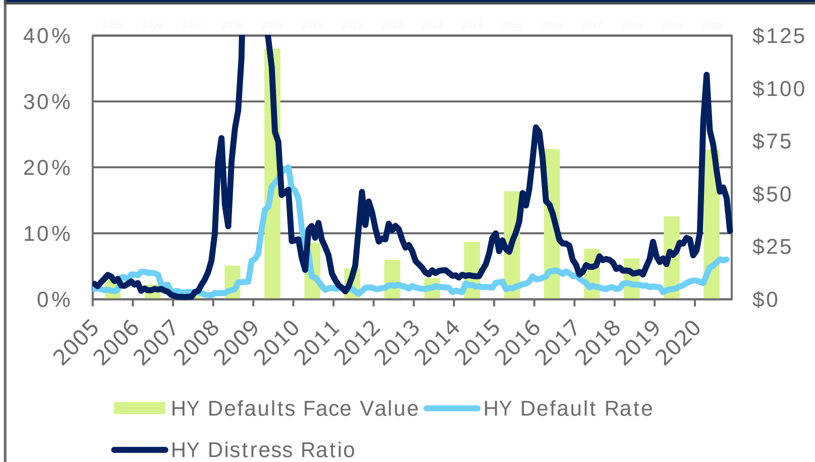
HY Spreads



Leveraged Loan Default Value ($B) and Rates, and Distress Ratio*



HY Default Value ($B) and Rates, and Distress Ratio*



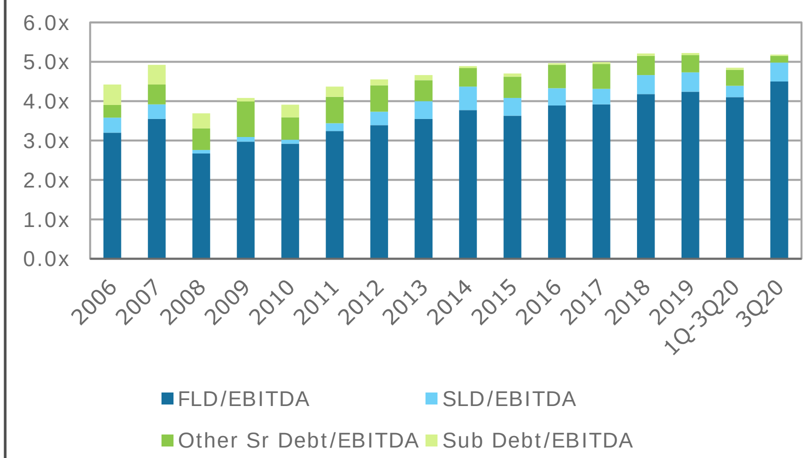
Sources: BofA Global Research (top) and Deutsche Bank Credit Book (bottom right) as of 11/30/20; S&P LCD (bottom left) as of 11/30/20
**LL and HY Distress ratios peaked at 81.0% and 76.7% in Nov '08, respectively*

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: CURRENT MARKET DYNAMICS

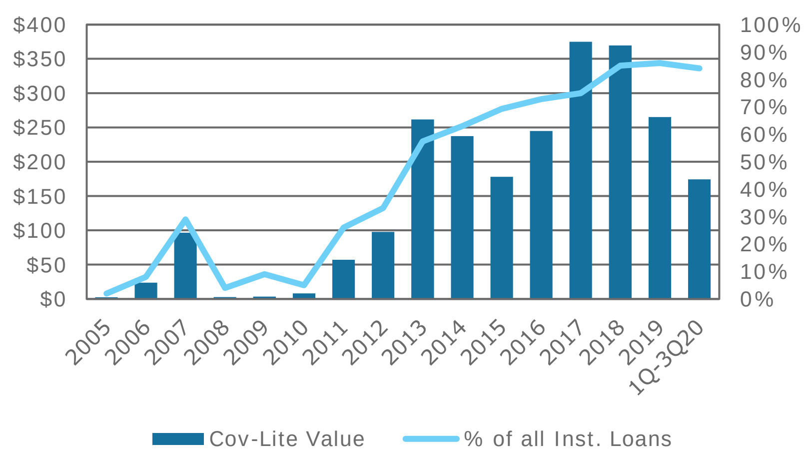
Commentary

- **Entering 2020 leverage levels were at historic highs and after a brief pull-back, remain there**
  - Leverage levels came down in 2020, but returned to pre-COVID levels in Q3
- **Current leverage levels are understated due to EBITDA adjustments**
  - Average of ~12% EBITDA adjustment that reduce implied debt multiple by 0.6x
- **Cov-lite remains prominent in new issuance**

Average Debt Multiples of Large Corporate Loans



Leveraged Loan Cov-Lite Issuance ($B) & as Pct. of Total Loan Market Issuance



Transactions with EBITDA Adjustments

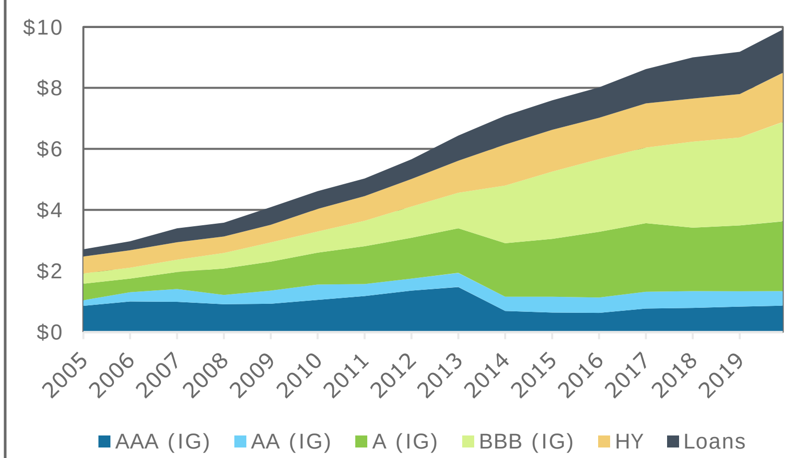
Source: S&P LCD as of 9/30/20

DISTRESSED DEBT & OPPORTUNISTIC CREDIT: MARKET SIZE, COMPOSITION AND INDUSTRY DISPERSION

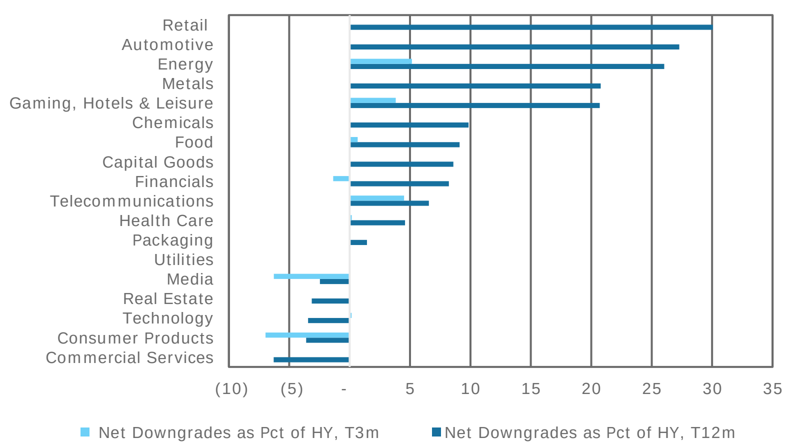
Commentary

- **Corporate credit markets continue to climb to new highs**
  - Significant growth in BBBs
- **COVID-19 pandemic has impacted industries disproportionately**
  - Retail, auto, energy, metals, and gaming, hotels & leisure are among hardest hit
  - Tech, media and others have benefited
- **"K" shaped recovery will present varying opportunity sets across industries and transaction types**

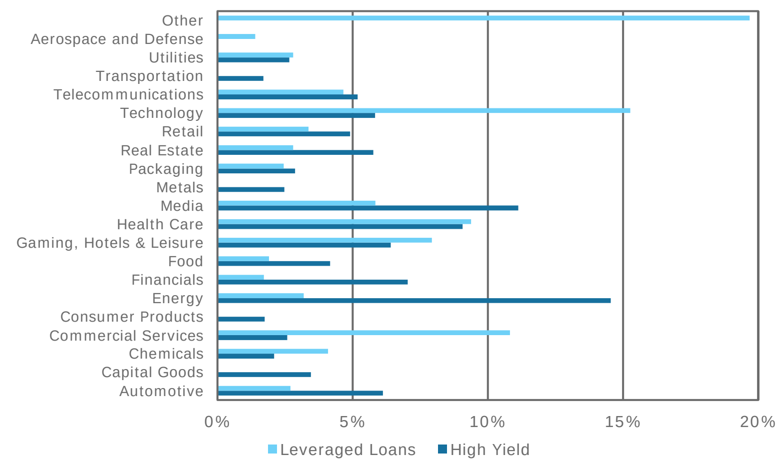
US Corporate Credit Growth ($ trillions)



HY Sector Net Downgrades*



Index Industry Weights by Par Value



Sources: S&P LCD (top and bottom right LL data) as of 9/30/20; Deutsche Bank Credit Book (bottom left & HY data on right) as of 11/30/20

**Total face value of downgraded bonds less face value of upgraded bonds, as a % of sector face value, over 3m and 12m horizons*

PACING PLAN DISCLAIMERS

- NEPC's private markets pacing analysis projects a potential level of future assets and cash flows for a single scenario based on a series of assumptions. This analysis is intended to help estimate future exposure levels. It is not a guarantee of future cash flows, appreciation or returns.

- The timing and amounts of projected future cash flows and market values of investments could vary significantly from the amounts projected in this pacing analysis due to manager-specific and industry-wide macroeconomic factors.

- Estimates of projected cash flows and market values for existing private markets commitments were made at the Fund level and do not incorporate any underlying portfolio company projections or analysis.

- The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

- Data used to prepare this report was obtained directly from the investment managers and other third parties. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

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ALTERNATIVE INVESTMENT DISCLOSURES

It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager’s realm of expertise or contemplated investment strategy

REPORT TO INVESTMENT COMMITTEE
From: Neil M. Guglielmo, General Manager

MEETING: OCTOBER 12, 2021
ITEM: VI

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a one-year contract extension with Axiom Investors, LLC for management of an active non-U.S. emerging markets growth equities portfolio.

Executive Summary

Axiom Investors, LLC (Axiom) has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014. LACERS' portfolio is currently valued at $401 million as of September 30, 2021. Axiom was initially placed on "On Watch" status for performance effective April 17, 2019. Axiom's watch status was subsequently extended on various dates due to a change of the benchmark from the MSCI Emerging Markets Growth (MSCI EM Growth) Index to the MSCI Emerging Markets (MSCI EM) Index, the departure of Christopher Lively, Co-lead Portfolio Manager, and the pending departure of Kurt Polk, President. The firm's current watch status expires on October 1, 2022. In light of Axiom's continued "On Watch" status and consistent with the LACERS Manager Monitoring Policy (Policy), staff and LACERS' General Consultant, NEPC, LLC (NEPC) recommend a one-year contract extension and will continue to monitor the organization and performance of the strategy.

Discussion

Background
Axiom has managed an active non-U.S. emerging markets growth equities portfolio for LACERS since April 2014, and is benchmarked against the MSCI EM Index. Axiom uses a fundamental research-based investment strategy that focuses on companies exhibiting key growth drivers, such as company-specific improvements and favorable macroeconomic and political factors. Such drivers tend to be indicators of positive company financial and stock price performance. The 13 person investment team is led by four Co-lead Portfolio Managers: Andrew Jacobson, Chief Executive Officer and Chief Investment Officer (33 years of experience), Donald Elefson, CFA (38 years of experience), Jose Morales, CFA (32 years of experience) and Young Kim (22 years of experience).

The Board hired Axiom through the 2013 Active Emerging Market Growth Equities manager search process and authorized a three-year contract on July 23, 2013; the contract became effective on January 1, 2014. Axiom was awarded a three-year contract renewal on September 27, 2016, a one-year extension on July 23, 2019, and a one-year extension on July 28, 2020. The current contract expires on December 31, 2021. Axiom has been on “On Watch” status since April 17, 2019 for performance and organizational reasons as discussed in the Due Diligence and Performance sections of this report.

Organization
Axiom is 100% employee-owned, with 57 employees, and is headquartered in Greenwich, Connecticut. As of September 30, 2021, Axiom managed over $19 billion in total assets with $8 billion in the emerging markets growth equities strategy.

Due Diligence
Axiom’s investment philosophy, strategy, and process have not changed over the one-year contract extension period. Axiom was initially placed on “On Watch” status for performance on April 17, 2019. After conducting a thorough review of Axiom’s underperformance relative to its benchmark in place at the time, the MSCI EM Growth Index, staff and NEPC determined that the MSCI EM Growth Index had become increasingly concentrated in a few stocks since inception of LACERS’ account and that the benchmark was no longer an effective measure by which to compare Axiom’s strategy. On July 28, 2020, the Board approved a change of Axiom’s benchmark from the MSCI EM Growth Index to the more diversified MSCI EM Index with the condition that Axiom remain on watch through August 1, 2021 in order to monitor Axiom for consistency with its stated strategy. The benchmark change became effective on August 1, 2020.

Subsequently, two material organizational changes at Axiom led to further extensions of Axiom’s watch status. First, on September 29, 2020, Axiom announced that Chris Lively would be stepping down from his role as co-lead portfolio manager of the emerging markets growth equities strategy for personal reasons, triggering an extension of Axiom’s existing watch status to October 1, 2021. Andrew Jacobson, Axiom’s founder, CEO and CIO, and the original architect of the strategy, replaced Mr. Lively as co-lead of the strategy alongside Donald Elefson and Jose Morales. In addition, Axiom hired Young Kim in March 2021 as a fourth co-lead portfolio manager to expand the team’s capabilities.

Second, on August 18, 2021, Axiom announced that Kurt Polk, Axiom’s President, would be leaving the firm at the end of the year for personal reasons, triggering a further extension of Axiom’s existing watch status to October 1, 2022. Axiom will not be filling the vacancy; the existing management committee will assume Mr. Polk’s responsibilities. Currently, the management committee consists of the following members: Edward Azimi, Chief Operating Officer; Lindsay Chamberlain, Managing Director of Client Service and Marketing; Jonathan Ellis, Director of Research and Portfolio Manager; Andrew Jacobson, CEO and CIO; Kurt Polk, President (departing firm); and Denise Zambardi, Senior Vice President and Chief Compliance Officer and Controller.

After conducting due diligence on these matters, staff and NEPC do not anticipate these organizational changes to have a material adverse impact to the management of the investment strategy and LACERS assets. However, staff and NEPC will continue to monitor Axiom closely through the expiration of the “On Watch” status on October 1, 2022.

Performance

As discussed in the Due Diligence section, Axiom's benchmark was changed from the MSCI EM Growth Index to the MSCI EM Index effective August 1, 2020. Since the effective date of the benchmark change, Axiom's performance has matched the performance of the MSCI EM Index as presented in the following table. The benchmark change has not resulted in any changes to Axiom's investment process; Axiom continues to manage the strategy according to the same growth oriented investment philosophy and process in place at the time of hire.

Annualized Performance as of 9/30/21 (Unaudited and Net-of-Fees)			
	3-Month	1-Year	Since 8/1/2020
Axiom	-7.79	17.90	14.95
MSCI EM Index	-8.09	18.20	14.96
% of Excess Return	*0.30*	*-0.30*	*-0.01*

The following table presents Axiom's performance since inception of the account on April 11, 2014 relative to a blended benchmark that incorporates the performance of the previous MSCI EM Growth Index from account inception date to July 31, 2020 and the performance of the MSCI EM Index from August 1, 2020 to September 30, 2021. Axiom's underperformance over the two-year, three-year, five-year, and since inception time periods is due to the high stock concentration of the former MSCI EM Growth benchmark and LACERS' investment guideline limitations that required Axiom's portfolio to be more diversified than the former benchmark. Please refer to July 28, 2020 report to the Board (Attachment 1) for a detailed discussion of Axiom's underperformance relative to the MSCI EM Growth Index. The current benchmark, the MSCI EM Index, as presented in the preceding table, is a more appropriate measure of Axiom's performance in light of portfolio diversification requirements.

Annualized Performance as of 9/30/21 (Unaudited and Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception
Axiom	-7.79	17.90	20.27	13.48	11.73	7.61
Axiom Blended Benchmark*	-8.09	18.20	21.74	14.40	12.70	8.38
% of Excess Return	*0.30*	*-0.30*	*-1.47*	*-0.92*	*-0.97*	*-0.77*

*Axiom Blended Benchmark incorporates MSCI EM Growth Index returns prior to August 1, 2020 and MSCI EM Index returns from August 1, 2020 to present.

Calendar year performance is presented in the table below as supplemental information.

Calendar Year Performance as of 9/30/21 (Net-of-Fees)							
	2020	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	32.46	24.70	-17.64	40.56	8.40	-12.44	-2.01
Axiom Blended Benchmark	32.02	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*0.44*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*

Additionally, as presented on page four of the attached NEPC report (Attachment 2), Axiom's performance ranks in the top quartile of peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe over the three-year, five-year, and since inception time periods. Relative to the MSCI EM Index benchmark and the peer universe, Axiom's performance does not currently trigger the performance criteria of the LACERS Manager Monitoring Policy. However, staff recognizes that Axiom's strategy has returned index-like performance since the date of the benchmark change (August 1, 2020) and the firm remains on "On Watch" status through October 1, 2022. Upon expiration of the watch period, should Axiom be unable to achieve outperformance relative to the MSCI EM Index since the benchmark change date, staff may return to the Committee with a possible recommendation for contract termination.

Fees
LACERS pays Axiom an effective fee of 62 basis points (0.62%), which is approximately $2.5 million annually based on the value of LACERS' assets as of September 30, 2021. This fee ranks in the 25th percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe (i.e. Axiom's fee is lower than 75% of peers). Since inception, LACERS has paid Axiom a total of $16.9 million in investment manager fees as of June 30, 2021.

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared by: Ellen Chen, Investment Officer I, Investment Division

RJ/BF/EC

Attachments:
1. Report to Board of Administration Dated July 28, 2020
2. Consultant Recommendation – NEPC, LLC

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION

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

MEETING: **JULY 28, 2020**
ITEM: **X – C**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INTERNATIONAL INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION**

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

Recommendation

That the Board:

1. Approve a change in Axiom International Investors, LLC's benchmark from the MSCI Emerging Markets Growth Index to the MSCI Emerging Markets Index.

2. Approve a one-year contract extension with Axiom International Investors, LLC for management of an active emerging markets growth equities portfolio.

3. Authorize the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

Discussion

On July 14, 2020, the Investment Committee considered the attached staff report (Attachment 1) recommending a benchmark change and a one-year contract extension with Axiom International Investors, LLC (Axiom). Axiom has managed an active emerging markets growth equities portfolio for LACERS since April 2014; the current contract expires on December 31, 2020. As of June 30, 2020, LACERS' portfolio was valued at $464 million. Axiom is currently on "On Watch" status for underperformance relative to the benchmark, pursuant to the LACERS Manager Monitoring Policy. Based on an analysis presented by staff, Axiom's current benchmark, the MSCI Emerging Markets Growth (MSCI EM Growth) Index, is highly concentrated in three stocks, which collectively represent about 34% of the index; this concentration drives benchmark performance and increases risk. Staff and NEPC, LLC (NEPC) recommend changing the benchmark to a more diversified benchmark, the MSCI

Emerging Markets (MSCI EM) Index. This benchmark would better reflect the risk-return profile of Axiom's strategy as governed by LACERS' investment management guidelines.

The Committee inquired about the history of the MSCI EM Growth Index's concentration as well as Axiom's fees. Based on the discussion and responses by staff and NEPC, the Committee concurs with the staff recommendations. Should the Board approve the benchmark change and the contract extension, staff would implement the benchmark change effective as of close of business on July 31, 2020. Staff and NEPC would also extend Axiom's watch status to July 31, 2021 in order to monitor Axiom for consistency with its stated growth strategy and the portfolio's performance in light of the benchmark change.

Strategic Plan Impact Statement

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

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

RJ/BF/EC:jp

Attachments: 1. Investment Committee Recommendation Report dated July 14, 2020
2. Proposed Resolution

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JULY 14, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH AXIOM INTERNATIONAL INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board:

1. A change in Axiom International Investors, LLC's benchmark from the MSCI Emerging Markets Growth Index to the MSCI Emerging Markets Index.

2. A one-year contract extension with Axiom for management of an active emerging markets growth equities portfolio.

Executive Summary

Axiom International Investors, LLC (Axiom) has managed an active emerging markets growth equities portfolio for LACERS since April 2014. LACERS' portfolio is currently valued at $424 million as of May 31, 2020. Axiom was placed "On Watch" for an initial one-year period effective April 17, 2019 due to performance. Due to a high concentration in three stocks in the existing MSCI Emerging Markets Growth (MSCI EM Growth) Index, which skews benchmark performance and increases risk, staff and NEPC, LLC (NEPC) recommend changing the benchmark to the MSCI Emerging Markets (MSCI EM) Index. In light of Axiom's continued "On Watch" status and consistent with the LACERS Manager Monitoring Policy, staff and NEPC recommend a one-year contract extension.

Discussion

Background
Axiom has managed an active emerging markets growth equities portfolio for LACERS since April 2014, and is benchmarked against the MSCI EM Growth Index. Axiom uses a fundamental research-based investment strategy that focuses on companies exhibiting key growth drivers, such as company-specific improvements and favorable macroeconomic and political factors. Such drivers tend to be indicators of positive company financial and stock price performance. The investment team consists of six

professionals including co-portfolio managers Christopher Lively and Don Elefson, who have 33 and 37 years of experience, respectively.

Axiom was hired through the 2013 Active Emerging Market Growth Equities manager search process and a three-year contract was authorized by the Board on July 23, 2013. Axiom was awarded a contract renewal on September 27, 2016 and a one-year extension on July 23, 2019. The current contract expires on December 31, 2020.

Organization
Axiom is 100% employee-owned, with 50 employees, and is headquartered in Greenwich, Connecticut. As of May 31, 2020, Axiom managed over $13 billion in total assets with $5.9 billion in the emerging markets growth equities strategy.

Due Diligence
Axiom's organizational structure, investment philosophy, strategy, and process have not changed over the one-year contract extension period.

Performance
As of May 31, 2020, Axiom has underperformed the MSCI EM Growth Index over all time periods as presented in the table below.

Annualized Performance as of 5/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception[1]
Axiom	-4.07	4.12	-3.43	2.43	2.73	2.85
MSCI EM Growth Index	-3.42	7.45	-2.67	3.72	3.91	3.84
% of Excess Return	*-0.65*	*-3.33*	*-0.76*	*-1.29*	*-1.18*	*-0.99*

[1]*Inception Date: 4/11/14*

Calendar year performance is presented in the table below as supplemental information.

Calendar Year Performance as of 5/31/20 (Net-of-Fees)							
	1/1/20 - 5/31/20	2019	2018	2017	2016	2015	4/11/14- 12/31/14
Axiom	-11.35	24.70	-17.64	40.56	8.40	-12.44	-2.01
MSCI EM Growth Index	-9.95	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*-1.40*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*

Pursuant to the LACERS Manager Monitoring Policy (Policy), Axiom was placed on "On Watch" status for an initial one-year period effective April 17, 2019. The following Policy watch list criteria triggered the "On Watch" status based on the performance as of March 31, 2019.

1. Annualized net underperformance relative to its benchmark for trailing 3 years.
2. Annualized net underperformance relative to its benchmark for trailing 5 years.
3. Annualized net Information Ratio trailing 5 years relative to its benchmark is below .20.

Based on performance as of March 31, 2020, Axiom continued to trigger the same three Policy criteria. Accordingly, staff and NEPC extended Axiom's "On Watch" status for another one-year period effective April 18, 2020.

Benchmark Concentration and Risk

To further understand Axiom's underperformance relative to the MSCI EM Growth Index, staff and NEPC conducted an attribution analysis which revealed a high benchmark concentration in three secular growth stocks: Alibaba Group, Tencent, and Taiwan Semiconductor. Of the 551 stocks in the benchmark, these three stocks collectively comprise about a 34% weight in the benchmark and have driven 99% of benchmark's cumulative three-year performance return (i.e., these stock have produced 11.56% of the benchmark's 11.63% total return, while the remaining stocks in the index have produced 0.07% of the benchmark return, as presented in the following attribution table). LACERS' investment management guidelines specifically limit individual stock holdings to 5% of the portfolio's market value at time of purchase to control risk and ensure sufficient diversification among holdings. This guideline has required Axiom to limit total exposure to Alibaba Group, Tencent, and Taiwan Semiconductor to about half of their current total benchmark weight as illustrated in the table below. As of May 31, 2020, Axiom's total exposure to these three stocks was about 18% of the portfolio, whereas the same three stocks represented about 34% of the index. Over the time period presented in the table, Axiom's underweight to these stocks has contributed a -3.73% cumulative excess return relative to the benchmark, which is more than the cumulative portfolio underperformance of -1.54%. Alternatively stated, Axiom's compliance with LACERS' guidelines has accounted for all of Axiom's underperformance relative to the benchmark.

Los Angeles City Employees' Retirement System vs. MSCI Emerging Markets Growth Attribution of 3 stocks where guideline restriction accounted for more than the overall fund underperformance 3/31/2017-5/31/2020

	LACERS			MSCI EM Growth			Variation			Attribution Analysis		
	Ending Weight	Total Return	Contrib. To Return	Ending Weight	Total Return	Contrib. To Return	Variation in Ending Weight	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection + Interaction	Total Effect
Total	**100.00**	**10.10**	**10.10**	**100.00**	**11.63**	**11.63**	–	**-1.54**	**-1.54**	**-0.21**	**-1.32**	**-1.54**
Alibaba	6.32	69.46	2.70	14.35	69.35	4.71	-8.03	0.11	-2.01	-1.58	0.00	-1.57
Tencent	6.41	55.32	2.40	11.18	55.39	3.89	-4.77	-0.06	-1.49	-1.30	-0.01	-1.31
Taiwan Semiconductor	5.45	56.92	2.08	8.83	59.25	2.96	-3.37	-2.32	-0.88	-0.54	-0.31	-0.85
Sum	**18.18**			**34.36**			**-16.17**					**-3.73**

Portfolio guidelines limit each stock to a max 5% position at time of purchase.

3 highly concentrated stocks Compose more than 34% of MSCI EMG benchmark.

Relative underweight per guideline restrictions.

Relative underperformance due to the 3 stocks.

Source: Factset

At the time of Axiom's hiring in 2014, the MSCI EM Growth Index was sufficiently diversified to be a suitable benchmark by which to gauge Axiom's performance. The following table illustrates the growing concentration of Alibaba Group, Tencent, and Taiwan Semiconductor in the LACERS account and the MSCI EM Growth Index, since inception of the account.

	6/30/2014	5/31/2020
Axiom LACERS Account	8.89%	18.18%
MSCI EM Growth	15.86%	31.48%

Staff, NEPC, and Axiom agree that the benchmark's current three stock concentration exposes the benchmark to an imprudent level of risk and that LACERS' guidelines continue to provide appropriate diversification risk controls for Axiom's strategy. To properly reflect the risk-return profile of Axiom's strategy imposed by LACERS guidelines, staff and NEPC recommend changing Axiom's benchmark to the MSCI Emerging Markets (MSCI EM) Index, a diversified index consisting of 1,403 emerging market stocks (the MSCI EM Growth Index is a subset of this index). Such a change would reduce the benchmark concentration risk; the aforementioned stocks account for only 17% of the MSCI EM Index versus 34% for the MSCI EM Growth benchmark. A benchmark change would have no impact on Axiom's process for identifying growth stock opportunities. In fact, it would more accurately reflect Axiom's approach of finding opportunities across a broad range of sectors as Axiom's process begins with the MSCI EM Index as the universe from which to source ideas. Exhibit 1 of Attachment 1 compares the sector allocations of the LACERS account relative to the MSCI EM and EM Growth Indices.

Comparing Axiom's performance to the more diversified MSCI EM Index, Axiom has outperformed over all annualized time periods and most calendar year periods as presented in the tables below. Axiom's performance relative to the MSCI EM Index does not trigger the watch criteria of the Policy.

Annualized Performance as of 5/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception[1]
Axiom	-4.07	4.12	-3.43	2.43	2.73	2.85
MSCI EM Growth Index	-3.42	7.45	-2.67	3.72	3.91	3.84
% of Excess Return	*-0.65*	*-3.33*	*-0.76*	*-1.29*	*-1.18*	*-0.99*
MSCI EM Index	-6.95	-4.39	-6.55	-0.15	0.87	0.98
% of Excess Return	*2.88*	*8.51*	*3.12*	*2.58*	*1.86*	*1.87*

[1]*Inception Date: 4/11/14*

Calendar Year Performance as of 5/31/20 (Net-of-Fees)							
	1/1/20 - 5/31/20	2019	2018	2017	2016	2015	4/11/14-12/31/14
Axiom	-11.35	24.70	-17.64	40.56	8.40	-12.44	-2.01
MSCI EM Growth Index	-9.95	25.10	-18.26	46.80	7.59	-11.34	-2.24
% of Excess Return	*-1.40*	*-0.40*	*0.62*	*-6.24*	*0.81*	*-1.10*	*0.23*
MSCI EM Index	-15.96	18.42	-14.57	37.28	11.15	-14.92	-3.89
% of Excess Return	*4.61*	*6.28*	*-3.07*	*3.28*	*-2.75*	*2.48*	*1.88*

Further, with the exception of LACERS, all of Axiom's Emerging Markets Equity clients use either the MSCI EM Index or a custom index based off the MSCI EM Index. None use the MSCI EM Growth Index due to the concentration issue. As of June 25, 2020, Axiom currently has 11 other public fund clients invested in the strategy, totaling $2.3 billion in AUM.

Should the Committee and Board approve a benchmark change and contract extension, staff would implement the benchmark change effective as of close of business on July 31, 2020. Staff and NEPC would also extend Axiom's watch status to July 31, 2021 in order to monitor Axiom for consistency with its stated growth strategy and the portfolio's performance in light of the benchmark change.

Fees
LACERS pays Axiom an effective fee of 62 basis points (0.62%), which is approximately $2.6 million annually based on the value of LACERS' assets as of May 31, 2020. This fee ranks in the 23rd percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe (i.e. Axiom's fee is lower than 77% of peers).

General Fund Consultant Opinion
NEPC concurs with these recommendations.

Strategic Plan Impact Statement

A benchmark change and contract extension with Axiom will allow the fund to maintain a diversified exposure to the non-U.S. equities emerging markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared by: Ellen Chen, Investment Officer I, Investment Division

RJ/BF/EC:jp

Attachments: 1. Consultant Recommendation – NEPC, LLC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: July 14, 2020

Subject: Axiom Investors - Contract extension and benchmark change

Recommendation

NEPC recommends the Los Angeles City Employees' Retirement System ('LACERS') change the portfolio's benchmark to the MSCI Emerging Markets Index from the MSCI Emerging Markets Growth Index. NEPC also recommends that LACERS extend the contract that is currently in place with Axiom Investors ('Axiom') for a period of one year from the date of contract expiry.

Background

Axiom was hired on April 11, 2014 to provide the Plan with public equity exposure across emerging markets. The portfolio's strategy is benchmarked against the MSCI Emerging Markets Growth Index and has a performance inception date of May 1, 2014.

As of May 31, 2020, Axiom managed $424.3 million, or 2.4% of Plan assets in an international emerging markets separately managed account. The performance objective is to outperform the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The account is currently on Watch due to performance under the LACERS' Manager Monitoring Policy.

Axiom has requested a benchmark change from the MSCI Emerging Markets Growth Index to the broader MSCI Emerging Markets Index. Axiom lists the preferred benchmark for the portfolio as the broader MSCI Emerging Markets Index and uses the broader index as the starting point in constructing the portfolio. Axiom's investment process identifies stocks based on positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics which results in a 'growth' oriented portfolio.

As of March 31, 2020, Axiom's portfolio weights compared to the MSCI Emerging Markets Index and the MSCI Emerging Markets Growth Index are shown in Exhibit 1 below.

Exhibit 1

GICS Sector	Portfolio Weight	MSCI EM Index	Excess Weight	MSCI EM Growth Index Weight	Excess Weight
Energy	6.7%	7.4%	-0.7%	2.5%	4.2%
Materials	3.7%	7.3%	-3.7%	4.2%	-0.5%
Industrials	6.2%	5.3%	0.9%	4.6%	1.5%
Consumer Discretionary	16.6%	14.3%	2.3%	22.0%	-5.4%
Consumer Staples	7.4%	6.2%	1.2%	9.3%	-1.8%
Health Care	2.6%	2.7%	-0.1%	3.9%	-1.4%
Financials	24.5%	24.5%	0.0%	14.9%	9.7%
Information Technology	20.0%	15.6%	4.3%	20.4%	-0.4%
Communication Services	10.2%	11.0%	-0.8%	14.9%	-4.8%
Utilities	0.0%	2.6%	-2.6%	2.0%	-2.0%
Real Estate	2.0%	3.0%	-1.0%	1.4%	0.6%
Unclassified	0.2%	0.0%	0.2%	0.0%	0.2%

When Axiom was hired, the MSCI Emerging Markets Growth index was much less concentrated than it is today and therefore it was more acceptable as a performance benchmark for the Axiom portfolio. To demonstrate how the benchmark has changed over time, Exhibit 2 provides a list of the top ten names in the MSCI Emerging Markets Growth at the time LACERS hired Axiom versus today. As of 3/31/2014, the top ten names in the index represented 27% of the total index, while as of April 30, 2020 the top ten names represented 44.5% of the index. In comparison, the concentration in the top ten names in the broader index for similar time periods was 16.4% and 28.1%.

We first started discussing the concentration in the benchmark with Axiom in 2017. Given that the concentration in the growth index has become much worse and our belief that the restriction in LACERS' investment guidelines (i.e., maximum amount in any one stock to be less than 5%) should remain in place to ensure reasonable diversification, we believe that a benchmark change is warranted for the portfolio. We do not believe that Axiom will change their investment style just because the benchmark is different.

Exhibit 2:

31-Mar-14		April 30 2020	
Asset Name	Weight (%)	Asset Name	Weight (%)
SAMSUNG ELECTRONICS CO LTD	7.26%	ALIBABA GROUP HOLDING	12.47%
TAIWAN SEMICONDUCTOR MANU	4.99%	TENCENT HOLDINGS LTD	10.92%
TENCENT HOLDINGS LTD	3.70%	TAIWAN SEMICONDUCTOR MANUFACT (	8.93%
NASPERS	2.27%	SAMSUNG ELECTRONICS CO LTD	4.51%
ITAU UNIBANCO HOLDING SA	1.96%	NASPERS	2.49%
AMBEV SA	1.84%	SK HYNIX INC	1.33%
CNOOC LTD	1.40%	JD.COM INC	1.13%
SBERBANK ROSSII PAO	1.34%	SBERBANK ROSSII PAO	1.02%
HOUSING DEVELOPMENT FINANCE	1.14%	NETEASE INC	0.87%
CHINA LIFE INSURANCE CO LTD	1.10%	ICICI BANK LTD	0.86%

We believe that by changing Axiom's benchmark, you will have a benchmark that is fair and not overly concentrated in a few names. Additionally, Axiom will have the ability to express a positive view on a large benchmark-weighted name and remain in-line with LACERS' guidelines. Some of the drawbacks of continuing to use the growth benchmark is that Axiom's performance relative to the benchmark will be primarily determined by the performance of a handful of names (i.e., Alibaba Group, Tencent, and Taiwan Semiconductor). There may be times when there is meaningful dispersion in the Axiom portfolio versus the benchmark and it will have nothing to do with Axiom's skill as an investment manager and everything to do with poor benchmark construction. To our knowledge, LACERS is the only client who has requested that Axiom use the growth version of the emerging markets benchmark. We do not want the firm to manage your account any differently than how they manage their other clients' portfolios.

Axiom is an independent employee-owned investment management firm founded in 1998 by Andrew Jacobson. As of March 31, 2020 the firm had $11.1 billion in assets under management and had 50 employees. Prior to forming Axiom, the investment team was responsible for developing and managing the international equity strategy at Columbus Circle Investors, a division of PIMCO Advisors LP. The Axiom Emerging Markets team is led by Chris Lively and co-portfolio manager Donald Elefson. José Morales joined the firm in 2017 as a portfolio manager. The portfolio managers split the emerging markets by region. Chris Lively retains final buy and sell authority, and ultimately decides portfolio positioning and stock weightings. The team also leverages a shared research platform across all of Axiom's non-U.S. equity products.

The Axiom investment philosophy is to invest in quality companies that are growing and evolving better and more rapidly than expected. Critical to the investment process is the ability to identify these changes in growth, prior to them being reflected in expectations or market valuations. Axiom employs a bottom-up, growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The primary emphasis is to isolate those companies that are likely to exceed expectations, which they do by identifying and monitoring the key business drivers of each stock. Key business drivers are essentially the leading indicators of stock price performance. Key drivers can include company specific, industry, macroeconomic and political factors. For each of these drivers, they survey a wide variety of sources to determine investor expectations.

The universe is defined as securities that have a minimum market cap of $1.0 billion, are covered by 1 or more brokerage analysts and have liquidity of over $5 MM/day. About 80% of Axiom's new ideas are typically identified as a consequence of specific, positive, fundamental developments in a company's operations (e.g., favorable sales of a new product, a significant restructuring initiative or a change in industry conditions). Axiom also screens the investment universe on a variety of financial and technical factors to help identify new ideas for further detailed fundamental analysis. These factors include positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics.

Performance

Referring to Exhibit 3, as of May 31, 2020, since the portfolio's inception date of May 1, 2014, the portfolio has underperformed its benchmark by 1.10% (3.11% vs 4.21%). Over the past year, ended May 31, 2020, the portfolio has underperformed the benchmark by 3.33% (4.12% vs. 7.45%). Referring to Exhibit 4, since inception of the Axiom portfolio ended March 31, 2020, the portfolio ranked in the 18th percentile among its peers and underperformed the benchmark by 1.21%. In the trailing one-year ended March 31, 2020, the portfolio ranked in the 8th percentile in its peer group underperforming its benchmark by 1.35%. Since inception, ended March 31, 2020, the information ratio was -0.47 and active risk, as measured by tracking error was 2.56%. Please note that the portfolio's performance exceeds the broader emerging market index for time periods ending March 31, 2020.

Referring to Exhibit 5, since inception, historical cumulative performance has been negative when compared to the growth benchmark. Security selection in the Information Technology, Industrials and Communication Services sectors have been responsible for cumulative negative returns since the first quarter of 2017. Referring to Exhibit 6, Axiom's style box analysis, since inception ending March 31, 2020, reveals that the portfolio is aligned closer to a core portfolio than to a Growth portfolio. This is not surprising given the diversification of the Axiom portfolio and the concentration in names in the MSCI Emerging Markets Growth Index.

Fees

The portfolio has an asset-based fee of 0.62% annually. This fee ranks in the 23rd percentile among its peers in the eVestment Global Emerging Markets All Cap Growth Equity Universe. In other words, 77% of the 48 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

As of this writing, Axiom has struggled to outperform the MSCI Emerging Markets Growth benchmark over all trailing periods. Much of the underperformance can be attributed to their investment process and focus on diversification versus what has become a significantly concentrated style benchmark since March 31, 2014. We believe in the long-term efficacy of a strategy that focuses on understanding the business fundamentals of companies that are growing faster than markets anticipate. NEPC recommends changing Axiom's benchmark to the MSCI Emerging Markets Index from the MSCI Emerging Markets Growth Index. In addition, NEPC recommends a contract extension for a period of one-year from the period of contract expiry.

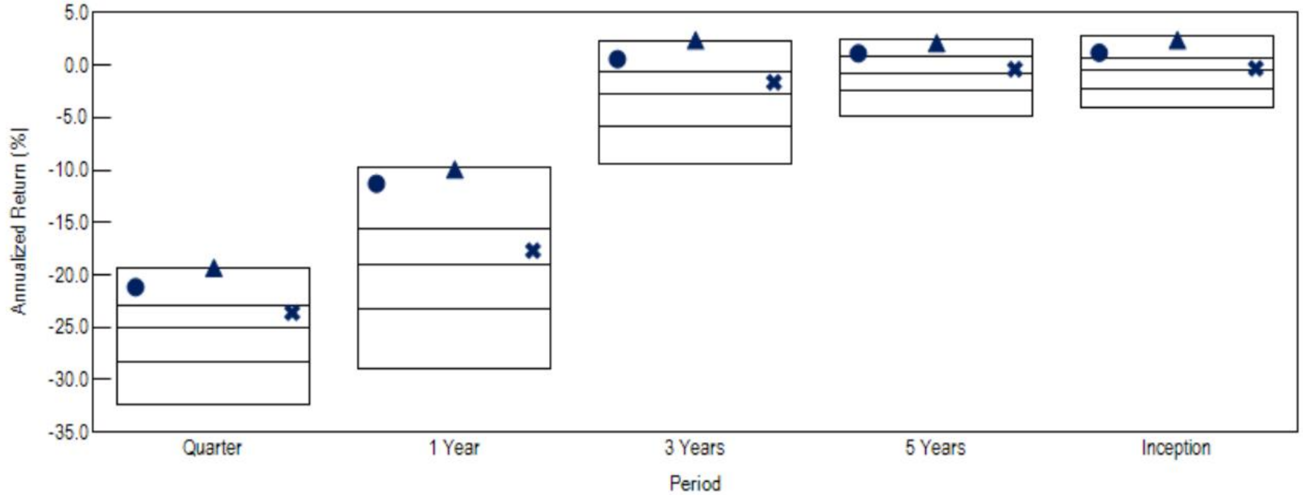
The following tables provide specific performance information, net of fees referenced above.

Exhibit 3

	Ending May 31, 2020 Market Value($)	1 Mo(%)	3 Mo(%)	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	Inception (%)	Inception Date
Axiom Emerging Markets	424,319,079	2.43	-4.07	-11.51	-2.87	4.12	2.43	2.73	--	3.11	14-May
MSCI Emerging Markets Growth NR USD		1.72	-3.42	-9.95	0.28	7.45	3.72	3.91	4.8	4.21	14-May
MSCI Emerging Markets		0.77	-6.95	-15.96	-10	-4.39	-0.15	0.88	2.47	1.29	14-May

Exhibit 4

eV Emg Mkts Equity Net Return Comparison
Ending March 31, 2020



	Return (Rank)									
5th Percentile	-19.31		-9.69		2.27		2.46		2.72	
25th Percentile	-22.92		-15.55		-0.69		0.76		0.61	
Median	-25.05		-19.10		-2.71		-0.87		-0.53	
75th Percentile	-28.34		-23.21		-5.77		-2.36		-2.26	
95th Percentile	-32.37		-29.04		-9.44		-4.79		-4.00	
# of Portfolios	224		222		198		173		159	
● Axiom Emerging Markets	-21.17	(12)	-11.29	(8)	0.59	(16)	1.14	(22)	1.20	(18)
▲ MSCI Emerging Markets Growth NR USD	-19.34	(6)	-9.94	(6)	2.39	(5)	2.13	(10)	2.41	(8)
✖ MSCI Emerging Markets	-23.60	(35)	-17.69	(40)	-1.62	(32)	-0.37	(41)	-0.29	(46)

Exhibit 5

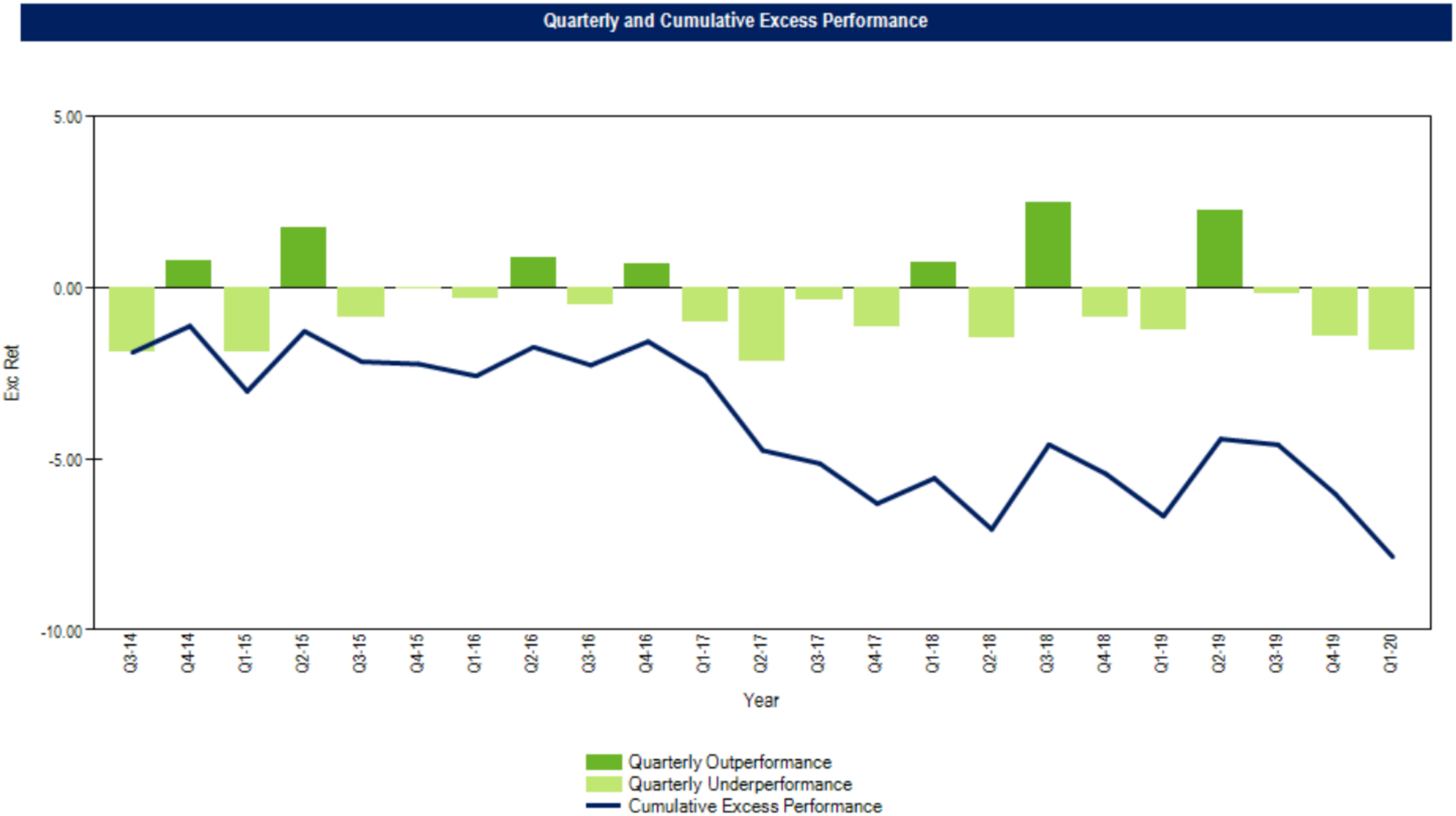
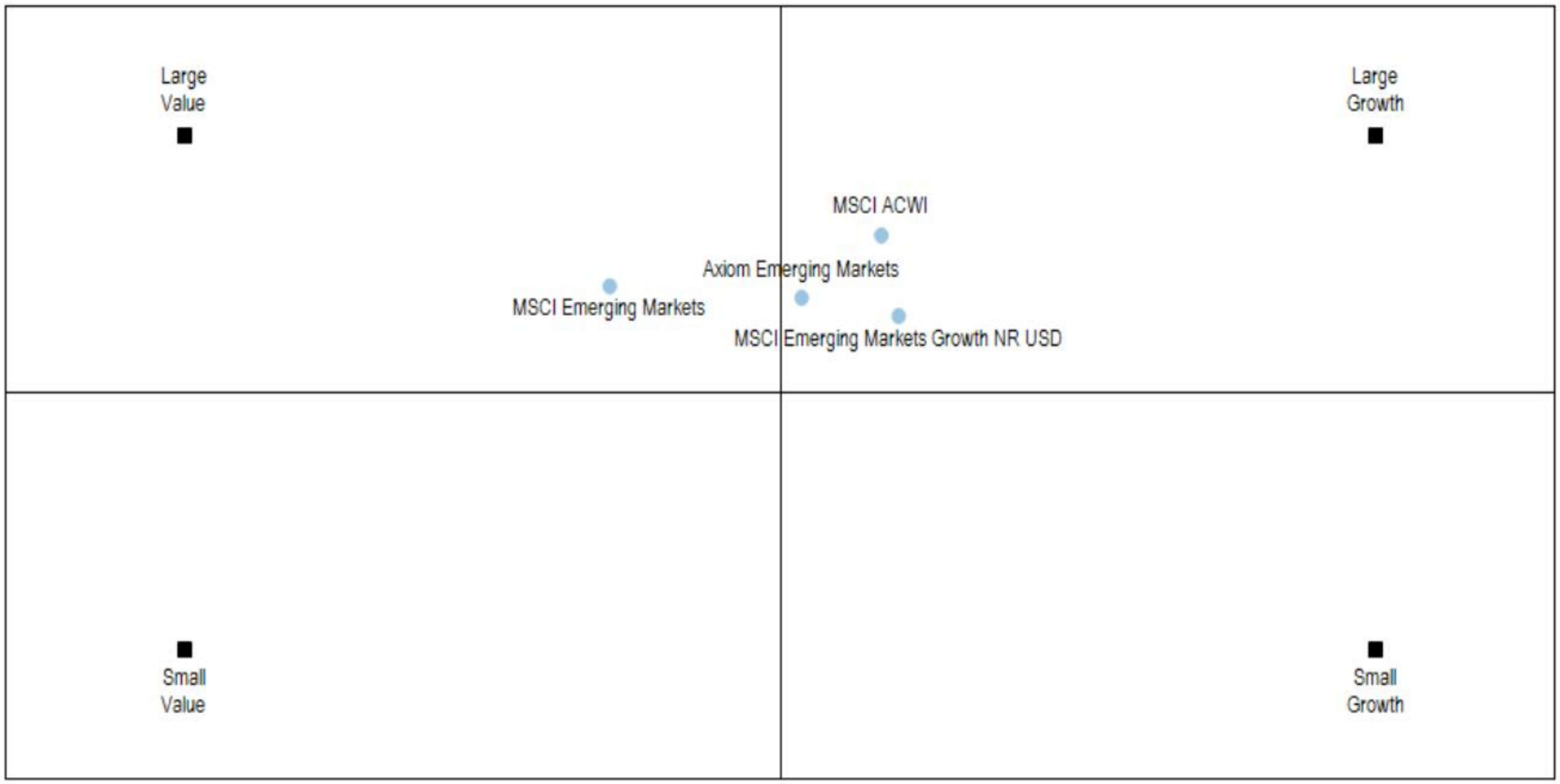

Quarterly and Cumulative Excess Performance
5.00
0.00
-5.00
-10.00
Exc Ret
Q3-14
Q4-14
Q1-15
Q2-15
Q3-15
Q4-15
Q1-16
Q2-16
Q3-16
Q4-16
Q1-17
Q2-17
Q3-17
Q4-17
Q1-18
Q2-18
Q3-18
Q4-18
Q1-19
Q2-19
Q3-19
Q4-19
Q1-20
Year
Quarterly Outperformance
Quarterly Underperformance
Cumulative Excess Performance

Exhibit 6

Non U.S. Effective Style Map vs. EAFE
5 Years 11 Months Ending March 31, 2020



CONTRACT EXTENSION
AXIOM INTERNATIONAL INVESTORS, LLC
ACTIVE EMERGING MARKETS GROWTH EQUITIES
PORTFOLIO MANAGEMENT

PROPOSED RESOLUTION

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

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

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

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

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

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

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

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

July 28, 2020

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: October 12, 2021

Subject: Axiom Investors - Contract Extension

Recommendation

NEPC recommends the Los Angeles City Employees' Retirement System ('LACERS') extend the contract with Axiom Investors ('Axiom') for a period of one year from the date of contract expiry.

Background

Axiom was hired on April 11, 2014 to provide the Plan with public equity exposure to emerging markets. The portfolio's strategy is benchmarked against the MSCI Emerging Markets Index and has a performance inception date of May 1, 2014. As of July 31, 2021, Axiom managed $410.1 million, or 1.8% of Plan assets in a separately managed account. The performance objective is to outperform the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The account is currently on Watch pursuant to the LACERS Manager Monitoring Policy due to the departure of the lead Portfolio Manager in late 2020 as well as a benchmark change.

Axiom's Watch status is a reflection of the changes experienced at the firm as well as the changes to the investment product's benchmark. Recall, that the lead portfolio manager left the firm for medical reasons in late 2020 and was replaced by the firm's Chief Investment Officer, Andrew Jacobson, who re-joined the portfolio management team. Mr. Jacobson was the original architect of the strategy and NEPC was comfortable with the transition given the circumstances. The firm also hired a co-Portfolio manager into the emerging markets team in the first quarter of 2021. In the third quarter of 2021, Kurt Polk, Axiom's President, announced his intention to resign from the firm. His final day will be December 31, 2021. Axiom was founded in Connecticut and Founder, CEO and CIO Andrew Jacobson strongly stands by the structure he implemented with one firm/team in one central location that promotes collaboration. Kurt joined Axiom in 2014 and was one of the 23 equity partners. Upon his departure, he will be selling back his equity stake to the firm at book value.

Additionally, Axiom requested a benchmark change from the MSCI Emerging Markets Growth Index to the broader MSCI Emerging Markets Index in July, 2020. The benchmark change request was granted given the growing level of concentration observed over time in the MSCI Emerging Markets Growth Index; the top 10 names made up 44.5% of the index as of April, 2020. As of August, 2021, the top 10 names made up 40.3% of the index. NEPC recommended granting the change on the basis that we believed the benchmark change would not result in a change in the portfolio's style or strategy. We continue with this belief today.

Axiom is an independent employee-owned investment management firm founded in 1998 by Andrew Jacobson. As of June 30, 2021 the firm had $19.84 billion in assets under management and had 56 employees. Prior to forming Axiom, the investment team was responsible for developing and managing the international equity strategy at Columbus Circle Investors, a division of PIMCO

Advisors LP. The Axiom Emerging Markets team is currently co-led by Andrew Jacobson with three co-Portfolio Managers. Don Elefson and Jose Gerardo Morales have been on the team overseeing the EME strategy since 2012 and 2017 respectively. Young Kim joined the emerging markets team as co-Portfolio manager in the first quarter of 2021. Mr. Kim joined Axiom from Columbia Threadneedle and relocated from Portland, Oregon since Axiom believes in having all team members in one place. Mr. Kim was a co-Portfolio Manager on the Emerging Markets Equity strategy at Columbia Threadneedle which is also 1-rated strategy at NEPC. The portfolio managers split the emerging markets by region and also leverage a shared research platform across all of Axiom's non-U.S. equity products.

The Axiom investment philosophy is to invest in quality companies that are growing and evolving better and more rapidly than expected. Critical to the investment process is the ability to identify these changes in growth, prior to them being reflected in expectations or market valuations. Axiom employs a bottom-up, growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The primary emphasis is to isolate those companies that are likely to exceed expectations, which they do by identifying and monitoring the key business drivers of each stock. Key business drivers are essentially the leading indicators of stock price performance. Key drivers can include company specific, industry, macroeconomic and political factors. For each of these drivers, they survey a wide variety of sources to determine investor expectations.

The universe is defined as securities that have a minimum market cap of $1.0 billion, are covered by 1 or more brokerage analysts and have liquidity of over $5 MM/day. About 80% of Axiom's new ideas are typically identified as a consequence of specific, positive, fundamental developments in a company's operations (e.g., favorable sales of a new product, a significant restructuring initiative or a change in industry conditions). Axiom also screens the investment universe on a variety of financial and technical factors to help identify new ideas for further detailed fundamental analysis. These factors include positive earnings growth, positive earnings estimate revisions, positive price movement and favorable valuation characteristics.

Performance

Referring to Exhibit 1, as of July 31, 2021, since the portfolio's inception date of May 1, 2014, the portfolio has outperformed its benchmark by 2.40% (8.40% vs 2.40%). Over the past year, ended July 31, 2021, the portfolio has outperformed the benchmark by 3.04% (23.68% vs. 20.64%). Referring to Exhibit 2 and comparing the portfolio to its peer group, since inception of the Axiom portfolio ended June 30, 2021, the portfolio ranked in the 21st percentile among its peers and outperformed the benchmark by 2.29%. In the trailing one-year ended June 30, 2021, the portfolio ranked in the 45th percentile in its peer group outperforming its benchmark by 3.49%. Since inception, ended July 31, 2021, the information ratio was 0.76 and active risk, as measured by tracking error was 3.19%.

Referring to Exhibit 2, since inception, the portfolio has added value against its benchmark as the historical cumulative performance has been strongly positive over the past two years. The positive performance is primarily due to the portfolio's focus on growthy stocks in a period of time when growth stocks have been rewarded.

Fees

The portfolio has an asset-based fee of 0.62% annually. This fee ranks in the 25th percentile among its peers in the eVestment All Emerging Markets Equity Universe. In other words, 75% of the 421 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

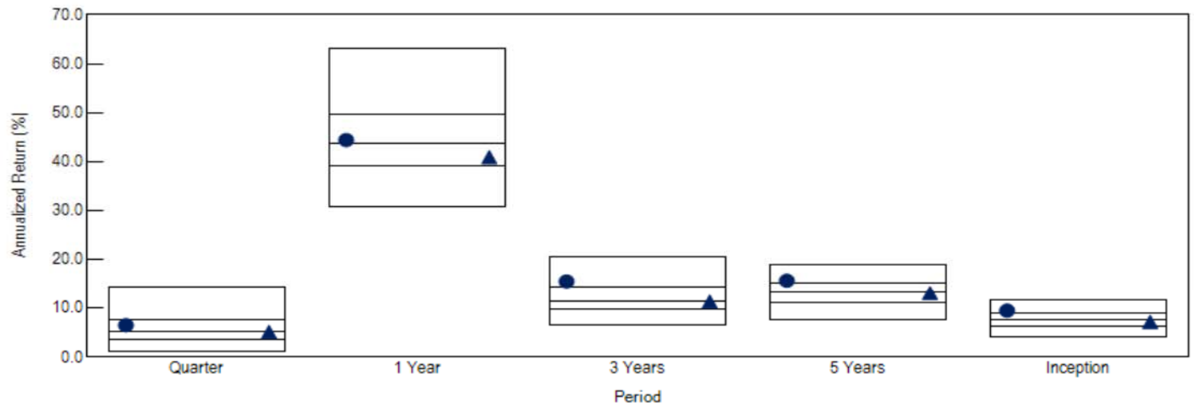
Axiom has had some turnover in senior-level investment decision making roles and we believe that an ongoing Watch diligence status is warranted. The portfolio has outperformed the MSCI Emerging Markets Index over most trailing periods and importantly has added significant value since inception over the benchmark. NEPC continues to be a believer in the long-term efficacy of this strategy that focuses on understanding business fundamentals of companies that are growing faster than markets anticipate. NEPC recommends a contract extension for a period of one-year from the period of contract expiry and for the firm to remain on Watch status.

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

Exhibit 1: Net of Fee Performance

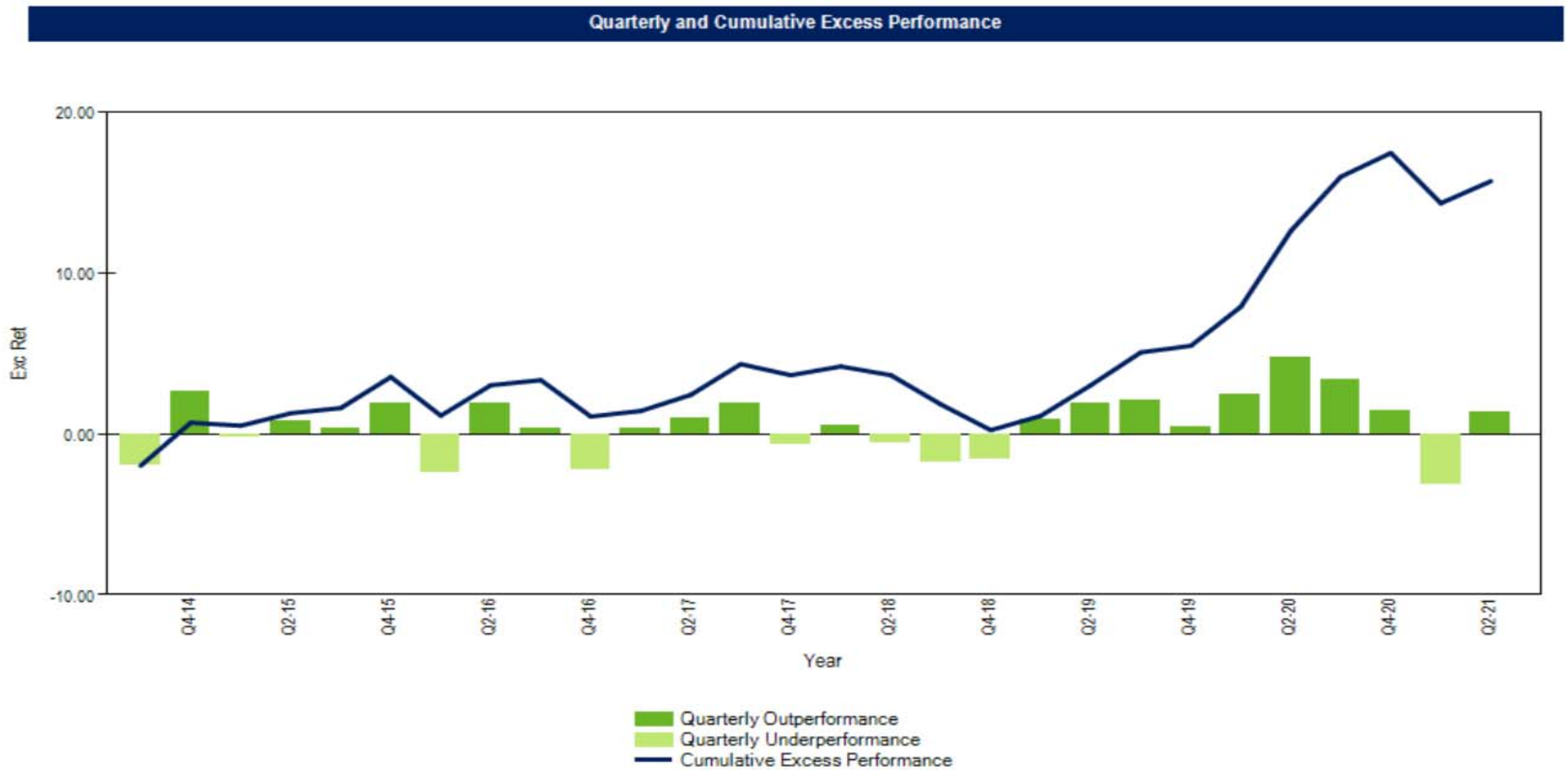
	Ending July 31, 2021 Market Value($)	3 Mo(%)	YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Inception(%)	Inception Date
Axiom Emerging Markets	410,107,713	-2.64	-0.47	23.68	12.49	13.08	8.40	14-May
MSCI Emerging Markets		-4.40	0.22	20.64	7.93	10.37	6.00	14-May
Excess		*1.76*	*-0.69*	*3.04*	*4.56*	*2.71*	*2.40*	

Exhibit 2: Universe Comparison Net of Fees



	Quarter		1 Year		3 Years		5 Years		Inception	
	Return (Rank)									
5th Percentile	14.39		63.09		20.41		18.85		11.59	
25th Percentile	7.42		49.57		14.20		15.18		8.86	
Median	5.15		43.76		11.23		13.13		7.60	
75th Percentile	3.46		39.02		9.57		11.14		6.28	
95th Percentile	1.04		30.86		6.33		7.54		3.94	
# of Portfolios	231		228		207		182		149	
● **Axiom Emerging Markets**	6.42	(36)	44.39	(45)	15.45	(20)	15.60	(22)	9.39	(21)
▲ **MSCI Emerging Markets**	5.05	(52)	40.90	(65)	11.27	(50)	13.03	(53)	7.10	(59)

Exhibit 3: Cumulative Excess Performance Net of Fees



LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: OCTOBER 12, 2021**
From: Neil M. Guglielmo, General Manager | **ITEM: VII**

SUBJECT: **TACTICAL ASSET ALLOCATION POLICY AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee consider and provide comments regarding the proposed revisions to the Tactical Asset Allocation policy language within the LACERS Investment Policy.

Discussion

On February 12, 2019, the Board approved revisions to the Investment Policy (Policy) to include Tactical Asset Allocation within the rebalancing section of the Policy (Section I.V.G). On May 28, 2019, the Board adopted a Tactical Asset Allocation Plan (TAAP) to authorize staff to conduct tactical rebalancing. During the annual review of the TAAP on March 9, 2021, the Committee requested staff to identify a replacement for the word "Tactical" within the TAAP name and policy language to better reflect policy objectives. Staff recommends changing "Tactical" to "Adaptive" and proposes the relevant revisions to the Rebalancing Policy and TAAP as presented in Attachment 1. Staff also recommends revising the Rebalancing Policy such that the TAAP objectives stated in this policy are consistent with those stated in the TAAP. Further, staff proposes adding a risk management guideline to the TAAP to prevent a rebalance of an asset class from causing another asset class to breach the approved upper and lower threshold rebalancing range. Staff also proposes minor administrative revisions to the TAAP.

Strategic Plan Impact Statement

The TAAP assists the Board with optimizing LACERS' long-term risk-adjusted return profile (Goal IV) and promotes good governance practices (Goal V).

Prepared By: James Wang, Investment Officer I, Investment Division

NMG/RJ/BF/JW:rm

Attachment: 1. Proposed Revised Rebalancing and TAAP Policies (Redline Version)
2. Proposed Revised Rebalancing and TAAP Policies (Clean Version)

Proposed Revised Policy (Redline Version)
As of October 12, 2021

D. **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 ~~Tactical~~ Asset Allocation Plan (A~~T~~AAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. ~~during periods of market dislocations.~~ The Board will consider the approval of a new A~~T~~AAP or renewal of an existing A~~T~~AAP within three months prior to the start of each fiscal year. The approved A~~T~~AAP will be effective on July 1 of each year. Should the Board choose not to renew an A ~~T~~AAP, the existing A~~T~~AAP may continue to be implemented; however, new A~~T~~AA positions may not be introduced until a continuance of the existing AAAP or new A~~T~~AAP 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.

Proposed Revised Policy (Redline Version)
As of October 12, 2021

E. Adaptive ~~Tactical~~ Asset Allocation Plan

TABLE OF CONTENTS

I. Purpose and Scope

The ~~Tactical~~ Adaptive Asset Allocation Plan (A~~T~~AAP) 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 [insert approval date], 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. ~~Tactical~~ Adaptive Asset Allocation, pursuant to the Rebalancing Policy and procedures found in the ~~TAAP~~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 ~~TAAP~~ AAAP provides additional approaches to the rebalancing of asset classes within established asset class policy target ranges. Rebalancing under the ~~TAAP~~ 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 ~~TAAP~~AAAP. The Board delegates to staff the implementation of ~~TAA~~ AAA within the adopted Rebalancing Policy, Asset Allocation Policy, and Risk Budget. The Board will review and approve the ~~TAAP~~ AAAP on or before July 1 of each year.

Investment Committee

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

Chief Investment Officer

The Chief Investment Officer (CIO) is responsible for the implementation of an ~~Tactical~~ Adaptive Asset Allocation rebalancing pursuant to the ~~TAAP~~AAAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an ~~Tactical~~ Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated ~~Tactical~~ 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 ~~as~~ necessary) to seek concurrence with an ~~Tactical~~ Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an ~~Tactical~~ Adaptive Rebalance.

General Fund Consultant

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

Internal Auditor

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

III. Terminology

~~Tactical~~ 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 ~~Tactical~~ Adaptive Rebalance Proposal (see Appendix A).

~~Tactical~~ Adaptive Objectives – The driving force that underpins justification for an Adaptive ~~Tactical~~ 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.

~~Tactical~~ Adaptive Rebalance Proposal – A written Adaptive ~~Tactical~~ Rebalance plan to address one specific ~~Tactical~~ Adaptive Asset Allocation (A~~T~~AA) Rebalance project. The ~~Tactical~~ Adaptive Rebalance Proposal shall consider the provisions found in A~~T~~AAP Sections IV, V, VI, and VII.

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

~~Tactical~~ 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.

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

IV. Adaptive ~~Tactical~~ Asset Allocation Considerations

LACERS is a long-term strategic investor and implements the Asset Allocation Policy. A~~T~~AA allows LACERS flexibility to adjust exposures to established asset classes to achieve one of several aforementioned A~~T~~AA Objectives. A~~T~~AA Factors that are considered when contemplating an Adaptive ~~Tactical~~ 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 ~~Tactical~~ 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 ~~Tactical~~ 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 ~~Tactical~~ 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 ~~Tactical~~ Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
   f. Adaptive ~~Tactical~~ Reversal (Partial or Full) as needed
5. Implementation of ~~Tactical~~ Adaptive Action pursuant to the written ~~Tactical~~ Adaptive Rebalance Proposal and A~~T~~AAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a ~~Tactical~~ Adaptive Rebalance
7. Quarterly Status Reporting of ~~Tactical~~ 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 A~~T~~AAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of A~~T~~AAP 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 A~~T~~AA Policy within a prudent risk-management framework.

1. An Adaptive ~~Tactical~~ 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 ~~Tactical~~ 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 ~~Tactical~~ Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Adaptive ~~Tactical~~ Rebalance, which may extend the Adaptive ~~Tactical~~ Rebalance up to an additional 12 months.
4. An Adaptive ~~Tactical~~ Rebalance may be suspended after the first Adaptive ~~Tactical~~ Action is completed if such single Adaptive ~~Tactical~~ Action or subsequent Adaptive ~~Tactical~~ Actions achieves the Adaptive ~~Tactical~~ Objective(s) within the Adaptive

~~Tactical~~ Rebalance Proposal pursuant to an Adaptive ~~Tactical~~ Rebalancing Proposal.

5. An Adaptive ~~Tactical~~ 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 ~~Tactical~~ Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Adaptive ~~Tactical~~ Rebalance Proposal such that the Adaptive ~~Tactical~~ Objectives are no longer achievable within the established Adaptive ~~Tactical~~ Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.

~~5.~~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.

~~6.~~7. The General Fund Consultant must concur with the Adaptive ~~Tactical~~ Rebalance Proposal prior to initiation.

VII. Annual Review of the A~~T~~AAP

Annual A~~T~~AAP Review by the Investment Committee

The CIO will prepare an annual report of all Adaptive ~~Tactical~~ Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive ~~Tactical~~ Rebalances and Adaptive ~~Tactical~~ Actions, and the projected and actual impact of the Adaptive ~~Tactical~~ 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 A~~T~~AAP. The Annual A~~T~~AAP 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 A~~T~~AAP requires any modifications including repeal. The Investment Committee recommendations will be then sent to the Board of Administration for approval.

Annual A~~T~~AAP Approval or Repeal by the Board of Administration

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

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

VIII. APPENDIX

External Landscape and Internal Operational Considerations

I. *Economic Cycle Consideration* - An Adaptive ~~Tactical~~ 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. A~~T~~AA 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. A~~T~~AA may attempt to protect the Total Fund by reducing public equities and increasing fixed income assets.

II. *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.

III. *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.

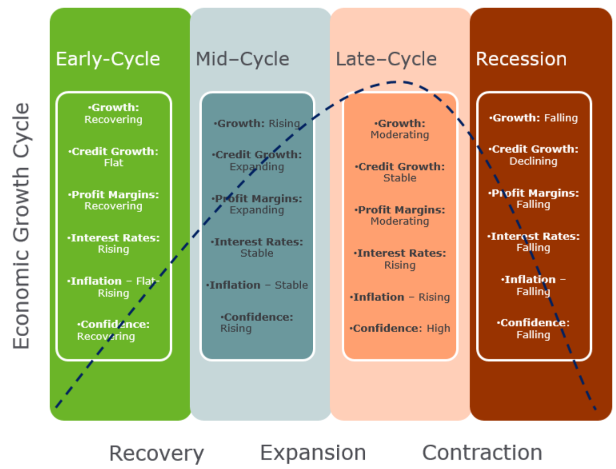


*chart provided by NEPC, LLC

IV. *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.

V. *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

VI. *Internal Operational Considerations*

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

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

Proposed Revised Policy (Clean Version)
As of October 12, 2021

D. **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.

Proposed Revised Policy (Clean Version)
As of October 12, 2021

E. Adaptive Asset Allocation Plan

TABLE OF CONTENTS

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 [insert approval date], 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

I. *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.

II. *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.

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

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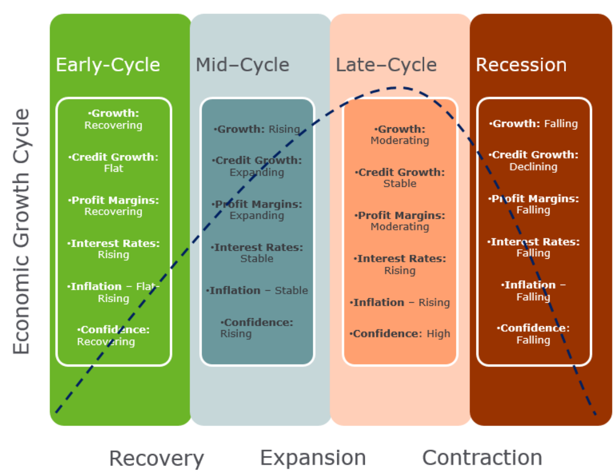

*chart provided by NEPC, LLC

IV. *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
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- Growth versus Value

VI. *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