LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, MAY 13, 2025

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

MEETING LOCATION:

LACERS Boardroom
977 N. Broadway
Los Angeles, California 90012

Important Message to the Public

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

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

Disclaimer to Participants

Please be advised that all LACERS Committee meetings are recorded.

LACERS Website Address/link:
www.LACERS.org

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

Chair:	Elizabeth Lee
Committee Members:	Thuy Huynh Gaylord "Rusty" Roten
Manager-Secretary:	Todd Bouey
Executive Assistant:	Ani Ghoukassian
Legal Counselor:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

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

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

CLICK HERE TO ACCESS BOARD REPORTS

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

II. APPROVAL OF MINUTES FOR THE MEETING OF APRIL 8, 2025 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. REAL ESTATE FISCAL YEAR 2025-26 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

V. ADAPTIVE ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION

VI. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT IN CARLYLE PROPERTY INVESTORS, L.P. AND POSSIBLE COMMITTEE ACTION

VII. OTHER BUSINESS

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

IX. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MAY 13, 2025

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

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IX. ADJOURNMENT

Agenda of:	**May 13, 2025**
Item No:	**II**

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

April 8, 2025

11:25 a.m.

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

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 – Co-Chair Huynh asked if any persons wished to speak on matters within the Committee’s jurisdiction, to which there were no public comment cards submitted.

II

APPROVAL OF MINUTES FOR THE MEETING OF MARCH 11, 2025 AND POSSIBLE COMMITTEE ACTION – Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Roten, and Co-Chair Huynh -2; Nays, None.

III

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

- Distribution of Investment Committee Forward Calendar

IV

PRIVATE CREDIT PROGRAM BENCHMARK CHANGE AND POSSIBLE COMMITTEE ACTION – Clark Hoover, Investment Officer I, and Kevin Novak, Principal, with NEPC, LLC presented and discussed this item with the Committee for three minutes. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Roten, and Co-Chair Huynh -2; Nays, None.

V

OTHER BUSINESS – There was no other business.

VI

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VII

ADJOURNMENT – There being no further business before the Board, Co-Chair Huynh adjourned the meeting at 11:33 a.m.

Thuy Huynh
Co-Chair

Todd Bouey
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 13, 2025**
From: Todd Bouey, Interim General Manager **ITEM: IV**

SUBJECT: **REAL ESTATE FISCAL YEAR 2025-26 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2025-26 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2025-26 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

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

TB/RJ/WL/EC/JC:jp

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

MEMORANDUM

TO:	**The Board of Los Angeles City Employees' Retirement System**
DATE:	May 2025
SUBJECT:	Real Estate Strategic & Investment Plan for Fiscal Year 2025-2026 – Executive Summary
FROM:	**The Townsend Group**

Executive Summary

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

Since being re-engaged by the LACERS Board in 2014 to serve as its real estate consultant, Townsend has worked with LACERS Staff to deploy $405 million of investments into Core funds and $870 million into tactical Non-Core funds.

The LACERS Program has a 7.0% allocation target (with an allowable range of ± 2.0%), which was increased from 5% in a 2018 asset allocation study and maintained in the 2021 and 2024 asset allocation studies. As of December 31, 2024, the market value of the portfolio was $1.67 billion on a funded basis (5.4% of Total Plan Assets).

FY 2025-2026 Investment Recommendations

LACERS will need to continue to deploy capital to reach its 7.0% allocation target over the coming years. Townsend recommends the following 2025-2026 Goals to LACERS for consideration:

	LACERS Annual Investment Plan FY 2025-2026
Core Capital	Up to $100 M
Non-Core Capital	Up to $200 M
Total Annual Commitments	**Up to $300 M**

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2025 Outlook

- The highly unpredictable political and economic environment in the U.S. and globally creates many risks for investors.
- Due to heightened uncertainty and a wide range of possible economic outcomes, Townsend recommends cautiously evaluating new investments in the near-term until more information can be gathered and the effect on the economy, real estate markets and other asset classes can be better assessed.
- Comments on the potential impact from tariffs and updated views by real estate sector are summarized in the attached Investment Plan.

Core Portfolio Goals

- Commit up to $100 million to Core/Core Plus funds.
- New investments will be evaluated with caution in light of potential impacts on valuations from tariff and macro uncertainty. Take a measured approach to identifying the most effective deployment avenues, including:
    - Exploring secondary market opportunities with existing top-performing managers if available at a discount to current valuation.
    - Participating in newly launched blind pool core open-end funds that are focused on acquiring high-quality assets at attractive valuations.
    - Targeting specialist managers offering exposure to niche strategies not currently represented in the LACERS portfolio.
- Turn off Dividend Reinvestment Plan (“DRIP”) for JP Morgan Strategic Property Fund.
- Continue to evaluate existing core open-end positions and identify opportunities to rebalance the portfolio. This includes optimizing fee structures, increasing exposure to high-performing managers, and aligning investments with desired property types to enhance overall portfolio performance.

Non-Core Portfolio Goals

- Commit up to $200 million to Non-Core funds.
    - Focus on opportunities that complement the existing portfolio, thematic investments with proven specialist managers and alternative specialty sectors with growth potential.

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- Take advantage of capital market themes
    - Consider investments in secondaries and recapitalizations to take advantage of capital market dislocation.
- Prioritize investments in high-conviction sectors
    - Focus on expanding exposure to niche sectors such as data centers, industrial outdoor storage (IOS), build-to-rent, cold storage, and manufactured housing.
- Continue to invest in favorable sectors with long-term growth potential like residential and industrial.
- Identify opportunities to reduce fees and enhance net returns.
- Continue to evaluate Emerging Managers that are an appropriate fit for LACERS' portfolio, without compromising returns.

END OF INVESTMENT RECOMMENDATIONS

Annual Real Estate Investment Plan

May 2025

Townsend Group
Cleveland • San Francisco • London • Hong Kong

01
Real Estate Market Update

Caution – Heightened Uncertainty

- The highly unpredictable political and economic environment in the U.S. and globally creates many risks for investors
- Due to heightened uncertainty and a wide range of possible economic outcomes, Townsend recommends cautiously evaluating new investments in the near-term until more information can be gathered and the effect on the economy, real estate markets and other asset classes can be better assessed
- While this document outlines medium and long-term views on real estate markets and sectors, those views are rapidly evolving and make forming a definitive investment plan very difficult
- Recommended capital amounts in this plan are based on long-term policy targets, and must be re-evaluated throughout the fiscal year as more information becomes available

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The U.S. Administration, Early Observations

Policies are nominally pro-U.S. growth, deregulatory, anti-immigration, and net inflationary. But the impact is uncertain

Overall

- The new administration's policies are nominally pro-U.S. growth, deregulatory, anti-immigration, and net inflationary.
- Many factors - including but not limited to the competence of policy implementation, domestic responses, international business and government reactions / retaliation, non-US economic performance - will determine the path of U.S. GDP growth, inflation, and interest rates.
- Currently, U.S. economists are predicting a slight increase in U.S. GDP in 2025, then steady growth with declining government bond yields. However, it is possibly too early to identify if any individual factors will drive the outcomes away from the middling consensus.

Tariffs

- The significant increase in tariffs will increase the cost of imported goods and likely change the structure of the domestic supply chain.
- Logistics assets catering to international trade may be adversely affected while those with a more domestic focus my benefit.
- The inflationary impact of tariffs will drive up development costs while supporting the value of standing assets.
- If tariffs are used primarily as a bargaining tool rather than for revenue generation the impacts are more unpredictable, but the overall effect will be increased uncertainty and reduced confidence.

Pro-Business, Small Government

- Opportunity Zones were a favoured strategy in the first term and are likely to be used again. If extended this will support activity in the identified areas.
- Contemplating privatisation of government sponsored enterprises. Privatising Fannie Mae and Freddie Mac could remove the implicit government guarantee that comes with their loans. This could lead to higher and more volatile mortgage rates for single family homes.
- Downsizing the Federal Government workforce will reduce government demand for office space, partially offset by mandatory 5 days in office.

Immigration

- Tightening immigration policy will reduce labour availability and increase construction costs. This should support the value of standing assets at the expense of development assets.
- Lower immigration and related policies should reduce housing demand. The impact in the short term is likely to be concentrated in less expensive rental units in some larger cities.

Deregulation

- Trump previously abolished many regulations impeding development and sought to reduce bureaucratic hurdles for businesses.
- For CRE, regulatory rollbacks and streamlining the permitting process have facilitated faster project approvals and reduced development costs.
- Zoning and permitting is mostly a local and state matter, but federal policy can impact through regulatory oversight and imposition of environmental standards. A general loosening may reduce development timelines and costs.
- Rollbacks of environmental regulations, including those related to wetlands and air quality, have reduced compliance costs for developers, encouraging more development.

Source: Townsend Group (February 2025)

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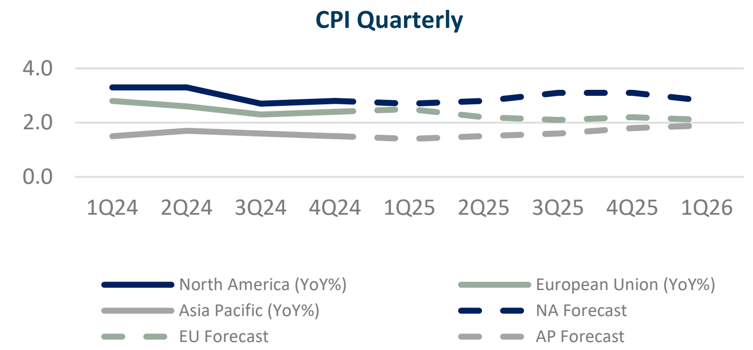
Global Economic Conditions

Growth Outlook Remains Positive

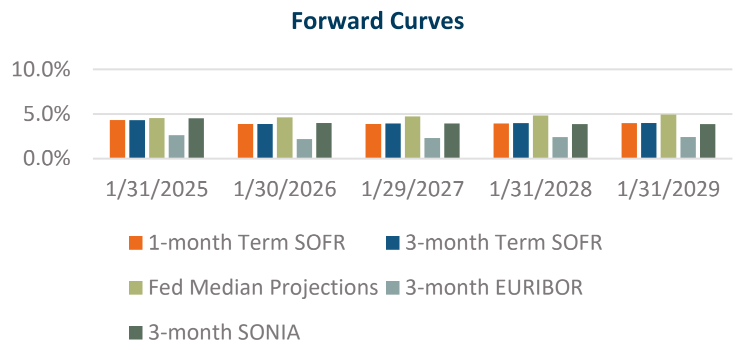
Economic Growth Outlook
GDP growth remains positive

Real GDP Forecasts (YoY%)				
Major Regions	**2023 (Actual)**	**2024 (Actual)**	**2025**	**2026**
North America	2.8	2.6	1.7	1.8
European Union	0.5	1.0	1.3	1.6
Asia Pacific	4.5	4.5	4.0	3.9
Selected Markets	**2023 (Actual)**	**2024 (Actual)**	**2025**	**2026**
United States	2.9	2.8	1.8	1.9
United Kingdom	0.4	1.1	1.0	1.4
Germany	-0.3	-0.2	0.2	1.2
China	5.4	5.0	4.5	4.2
Japan	1.5	0.1	1.1	0.9
Australia	2.1	1.1	2.0	2.4

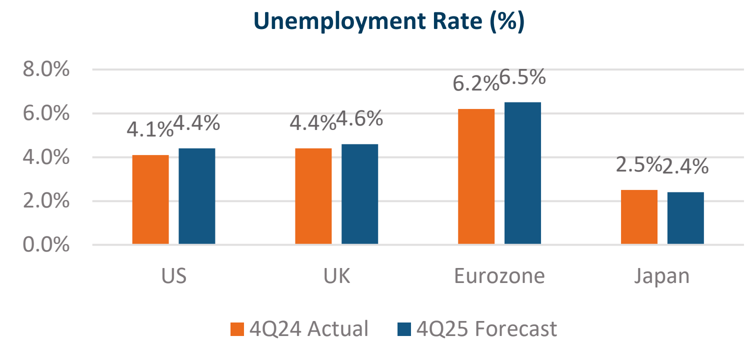
Consumer Price Index
Inflation is projected to stabilize



Forward Curves
Curves indicating decline in rates



Unemployment
Unemployment rates remains low



Source: Bloomberg (April 2025), Chatham Financial (February 2025).

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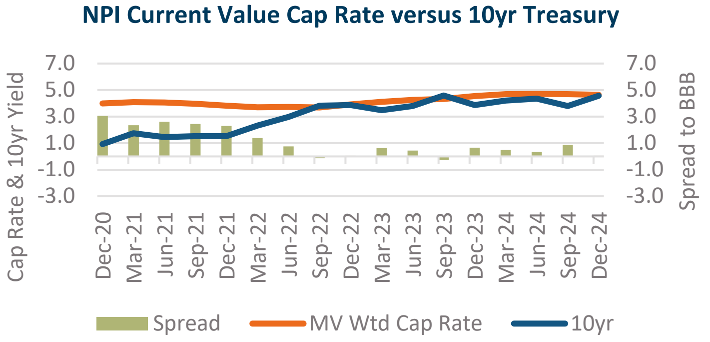
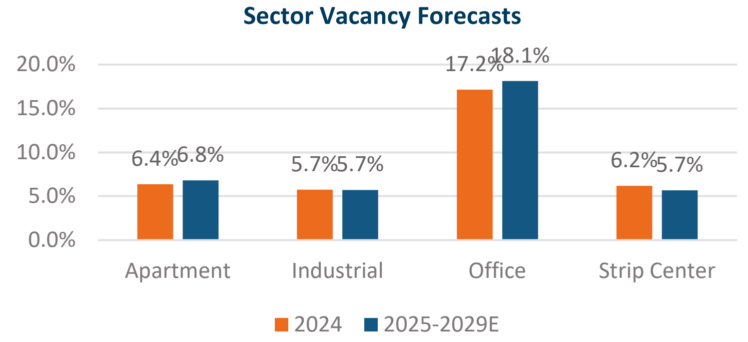
US Real Estate Market Conditions

Real Estate Spreads and Supply Declining

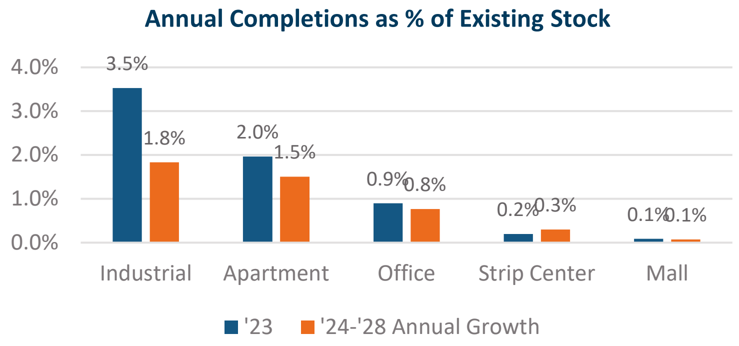
Private Real Estate Spreads
Private Real Estate Valuations have narrowed the spread towards 10yr Treasury



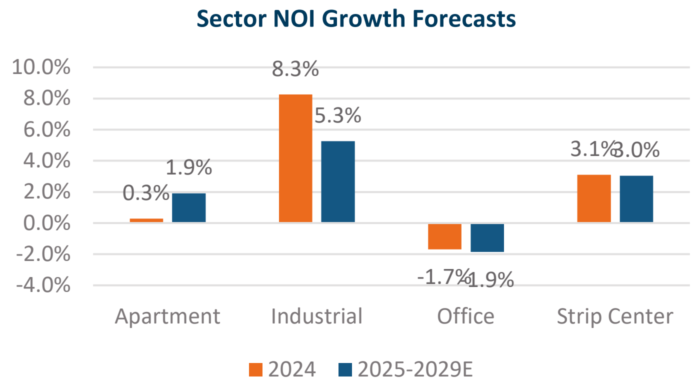
Real Estate Vacancy
Vacancy remains elevated in Office



Supply Growth
Supply is forecasted to moderate across major property types



NOI Growth
NOI growth remains strong in Industrial, while Apartment is forecasted to increase with supply decline



Source: NCREIF, St. Louis Fed, Green Street (December 2024).

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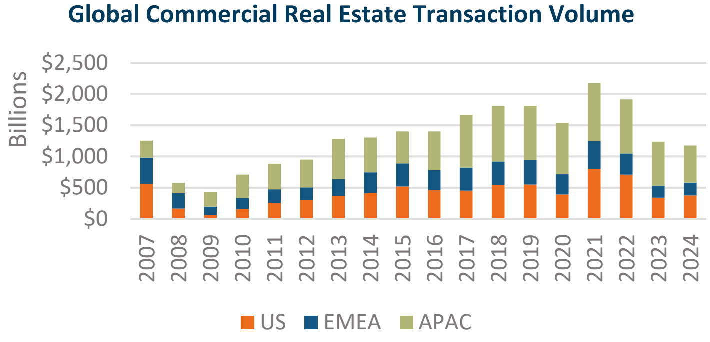
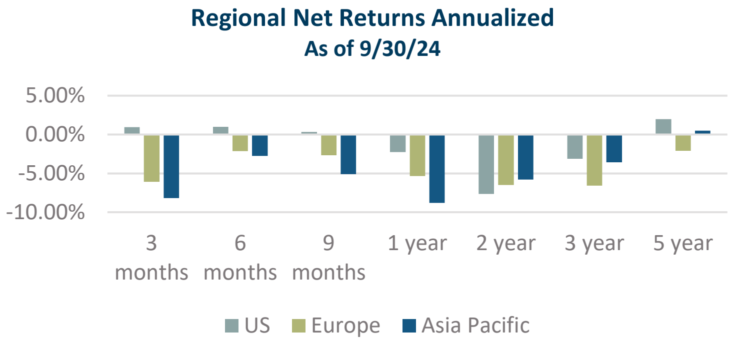
Global Real Estate Market Conditions

Valuations Nearing Bottom

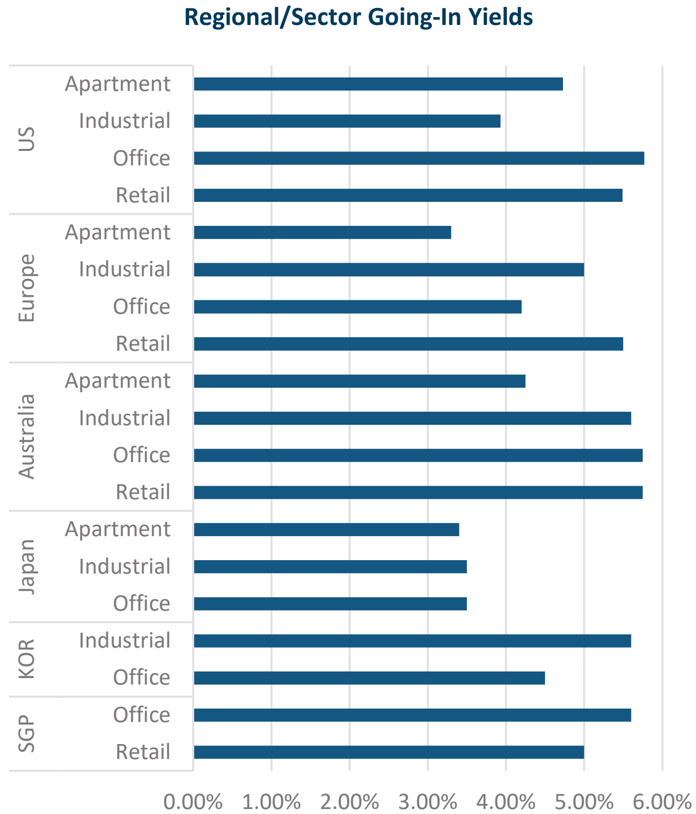
Global Commercial Real Estate Transactions
Transaction volume muted in 2024 as interest rates remain elevated



Real Estate Performance
Real estate valuations nearing bottom as mid-2024 performance flat to slightly positive



Real Estate Valuations
Global Valuations (December 2024)



Source: MSCI Real Assets (February 2025). NCREIF, INREV Global Real Estate Fund Index (GREFI), Townsend Group (December 2024).

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Impact of Tariffs and Immigration Control on Real Estate

- Recent tariff and immigration policies have introduced uncertainty into the real estate market. While these measures create short-term challenges, such as economic slowdown and hiring freezes, they could offer longer-term benefits to the sector

Short-term Effects

- Uncertainty in consumer sentiment leading to negative impact on retail sector
- Hiring freezes adding pressure on office sector
- Slowdown in rent growth in residential sector
- Mixed impacts on industrial sector

Supply Constraints & Rent Growth

- Supply constraints are anticipated to worsen due to
  - Demand uncertainty
  - Higher input costs
  - Increased cost of debt
  - Limited availability of debt
- Supporting medium-term rent growth & asset values

Higher Replacement Value

- Boost in value of existing assets over medium to long term
- Increase in replacement cost supporting core/core-plus asset values
- Strategies like secondaries and GP-staking benefit from this dynamic

Attractive Entry Point

- Foreign investors cautious on US investing
- Domestic investors worry about liquidity
- Short-term value declines creating opportunity to acquire core assets at discount

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

Sector Preferences

- Assuming a short-term downturn and a gradual rebound, select sectors are still well-positioned for growth

Housing- Short-term demand may vary, but national housing shortages continue to support strong medium-term fundamentals

Industrial- Demand remains strong but import-reliant U.S. markets face challenges. Growth anticipated in U.S. manufacturing and inland hubs, European import markets, and non-China export regions

Office- Structural challenges continue, with hiring freezes and lease hesitancy weighing on the sector

Retail- Retail investment require caution. However, well-located, necessity-based neighbourhood centers offer value-accretive opportunities

Data Centers- Accelerating AI demand supports long-term strength. Short-term valuation dips may offer strategic entry opportunities, though development plans should factor in sensitivity to rising input costs

Other Alternatives- such as senior housing, outdoor storage, cold storage, and medical offices- may present compelling opportunities

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02
Executive Summary

Executive Summary

LACERS Annual Investment Plan 2025 – 2026 – Total new Commitments of up to $300 million

Private Real Estate Portfolio

Core Portfolio – Up to $100M

- Commit capital to new and existing core and/or core plus funds to manage the core exposure and adjust for return and risk purposes.
- Evaluate the existing core open-end positions to focus on optimizing performance and boosting returns.

Non-Core Portfolio - Up to $200M

- Selectively commit capital to several new investments at amounts ranging between $50 million and $75 million.
  - Consider smaller commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS sizing policies.

03
LACERS Real Estate Program Overview

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LACERS Real Estate Program Overview

(Data as of December 31, 2024)

	Market Value ($ millions)*	% LACERS Plan*
LACERS Total Plan Assets	**$24,065**	
Real Estate Target	**$1,685**	**7.0%**
RE Market Value:		
Core	$759	
Non-Core	$513	
Timber	$20	
Total RE Market Value	**$1,293**	**5.4%**
Unfunded Commitments	$338	1.4%

*Figures may not add due to rounding. Values may not tie to Northern Trust due to timing differences.

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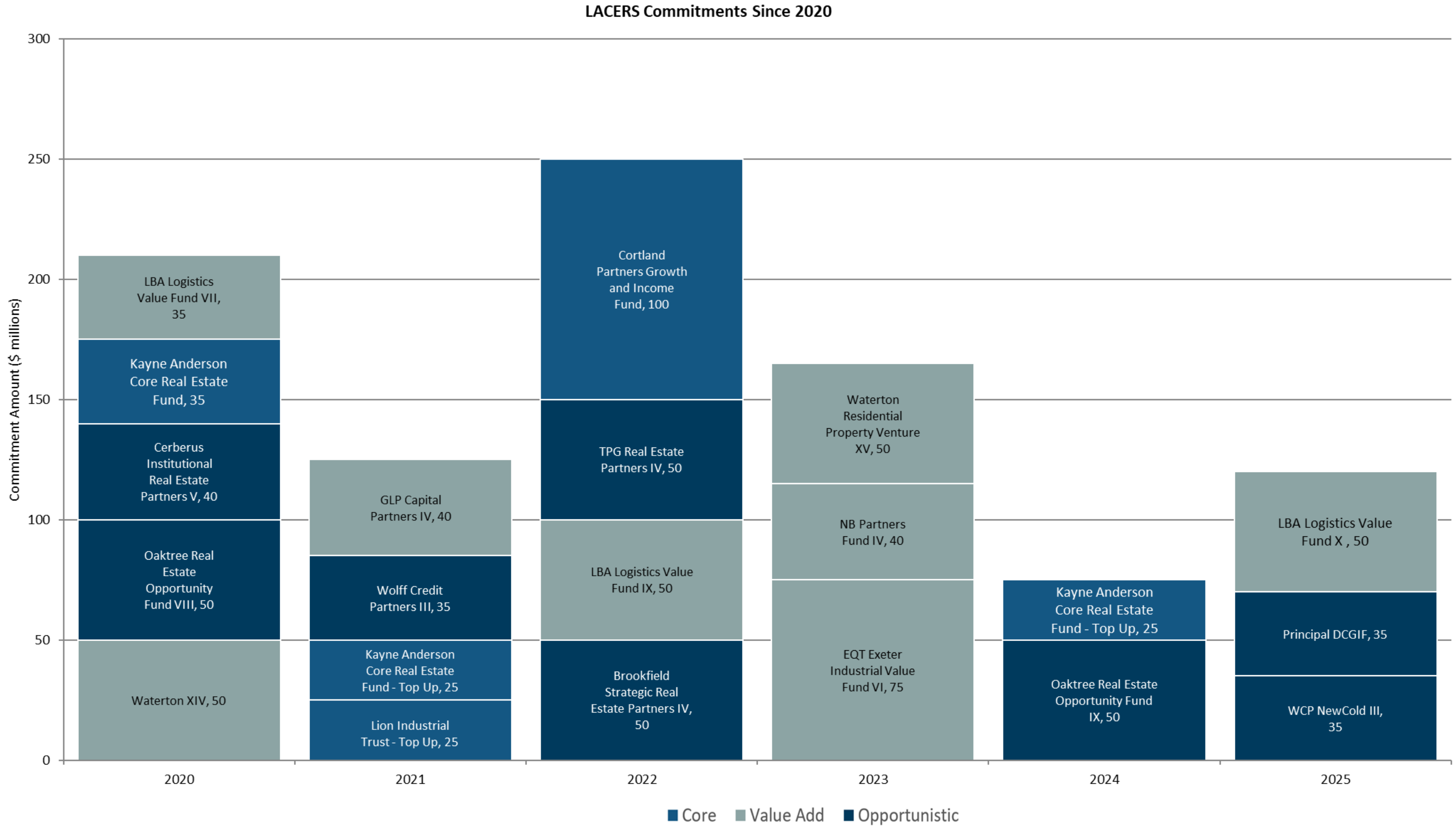
LACERS Real Estate Program Overview (continued)

	Strategic Targets		*Portfolio Composition (12/31/2024)**	
	Target Allocation	**Tactical Range**	**Market Value**	**Projected 3-Year**
Core	**60%**	**40% - 80%**	**58.7%**	**57.0%**
Non-Core	**40%**	**20% - 60%**	**39.7%**	**42.4%**
Value Add Portfolio	*N/A*	*N/A*	*25.0%*	
Opportunistic Portfolio	*N/A*	*N/A*	*14.7%*	
Timber	**N/A**	**N/A**	**1.5%**	**0.5%**

As of 12/31/24 LACERS is in line with its Core and Non-Core target allocation and within the respective tactical ranges. Unfunded commitments will maintain the exposures to the targets over the long-term.

*Figures may not add due to rounding.

LACERS Commitment History

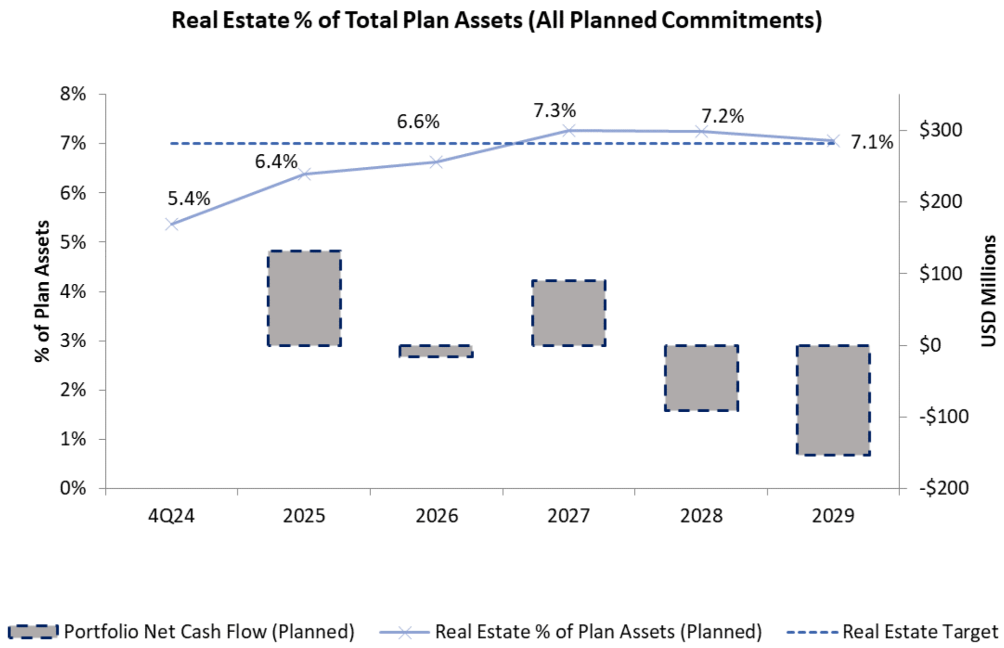


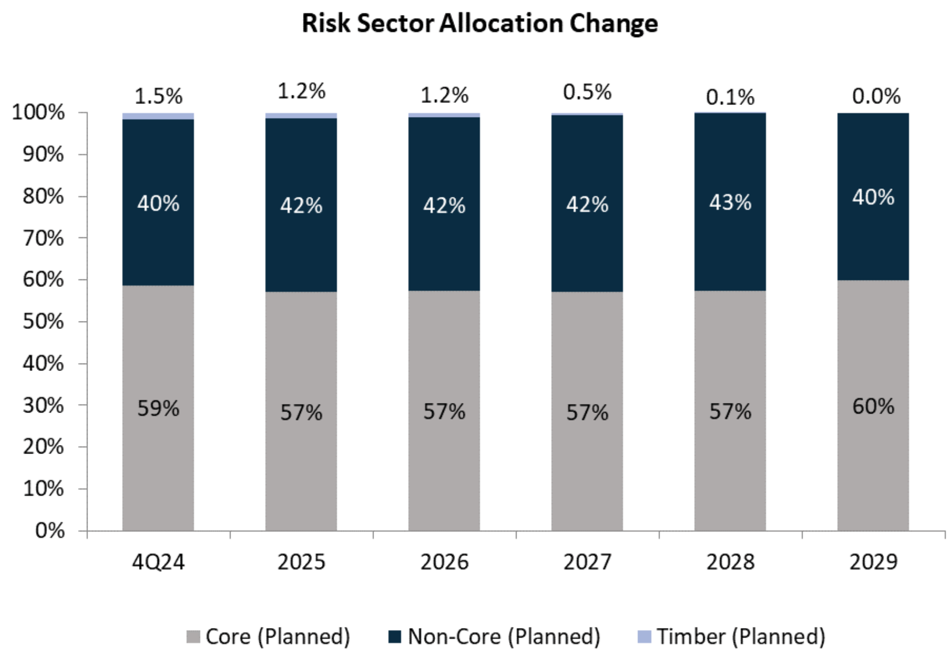
- LACERS has committed $1.35 billion since 2014 while under advisement of Townsend.
- Four Non-Core commitments since 2015 (Gerrity II, Asana I, Asana II, Broadview, and NB Partners Fund IV) met LACERS' Emerging Manager guidelines at the time of commitment.
- Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

04
LACERS 2025-2026 Investment Plan

LACERS Real Estate Portfolio Projections

- To build future private portfolio projections for LACERS, Townsend collected forecasted capital calls and distributions from all managers in LACERS' portfolio.
- The 'Planned' Real Estate Portfolio below includes new commitments needed to reach the target allocation and the 60% Core / 40% Non-Core target.
- The real estate portfolio is funded at approximately 5.4% of total plan assets below the 7.0% target allocation. Over the next few years, the real estate portfolio is expected to gradually move towards to the target allocation.



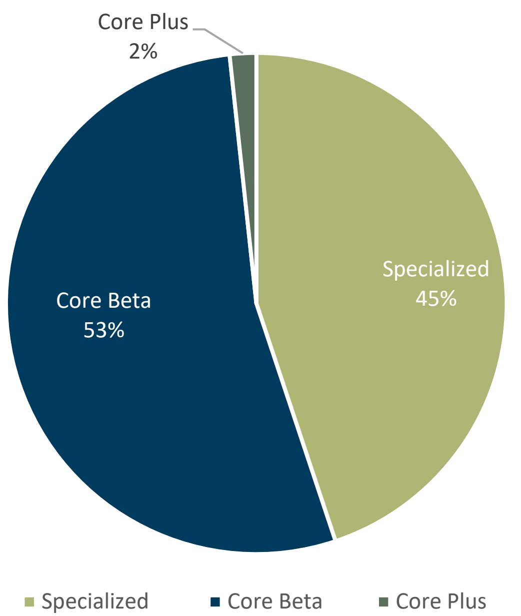


TOWNSEND GROUP

LACERS 2025-2026 Investment Plan – Core Portfolio

- **Commit up to $100 million to Core/Core Plus funds.**
  - Consider up to $100M in commitments to core/core plus positions during the fiscal year. New investments will be evaluated with caution in light of potential impacts on valuations from tariff and macro uncertainty. Take a measured approach to identifying the most effective deployment avenues, including:
    - Exploring secondary market opportunities with existing top-performing managers if available at a discount to current valuation.
    - Participating in newly launched blind pool core open-end funds that are focused on acquiring high-quality assets at attractive valuations.
    - Targeting specialist managers offering exposure to niche strategies not currently represented in the LACERS portfolio.
- **Turn off Dividend Reinvestment Plan ("DRIP") for JP Morgan Strategic Property Fund.**
- **Continue to evaluate existing core open-end positions and identify opportunities to rebalance the portfolio. This includes optimizing fee structures, increasing exposure to high-performing managers, and aligning investments with desired property types to enhance overall portfolio performance.**

Current Core Portfolio*



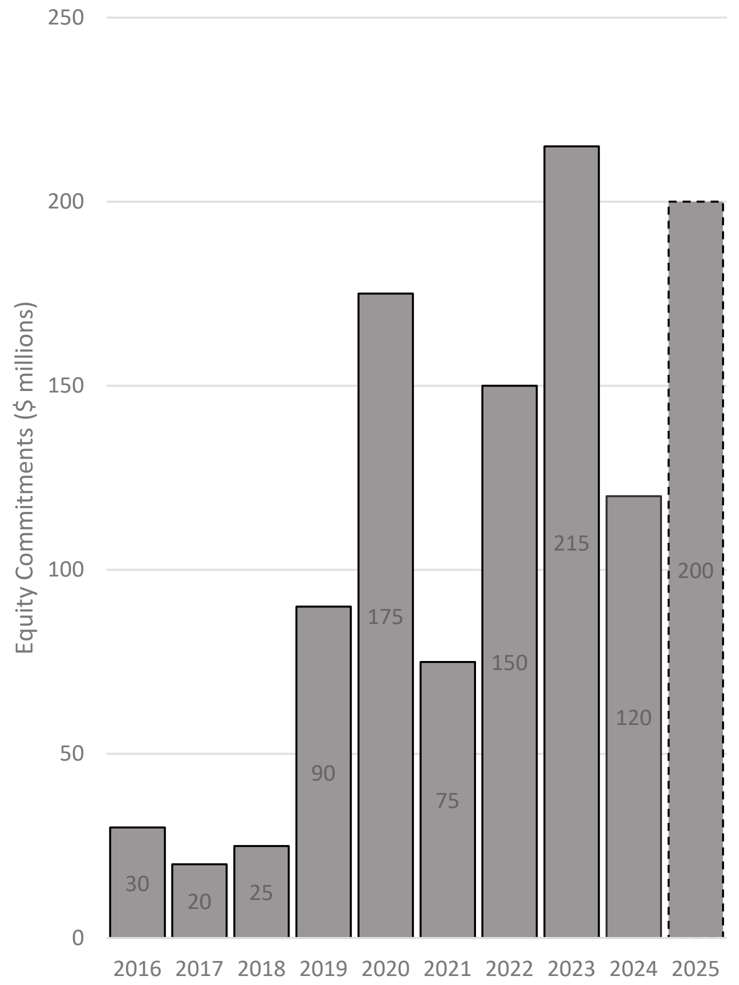
*Core Beta refers to funds larger, diversified funds that track closer to NFI-ODCE through access to primary gateway markets and property types.
Core Plus refers to funds with a combination of higher leverage and/or larger non-core pipelines in order to enhance returns.
Core Specialized refers to funds that specialize in one sector or funds that specialize in sectors outside of the primary NFI-ODCE sectors.

TOWNSEND GROUP

LACERS 2025-2026 Investment Plan – Non-Core Portfolio

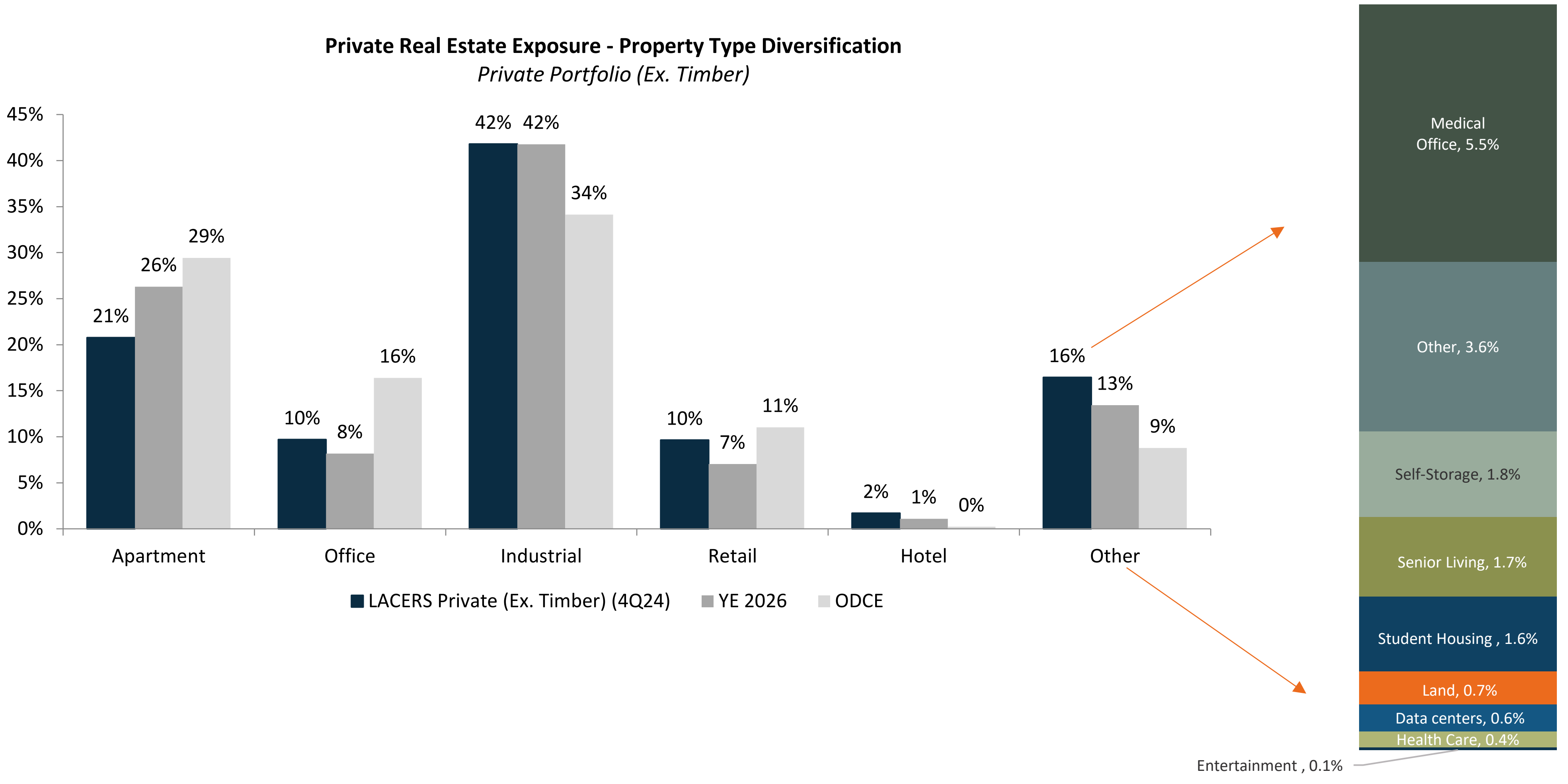
- **Commit up to $200 million to Non-Core funds.**
  - Target up to $200 million new commitments to attractive opportunities. Focus on opportunities that complement the existing portfolio, thematic investments with proven specialist managers and alternative specialty sectors with growth potential.
  - Take advantage of capital market themes
    - Consider investments in secondaries and recapitalizations to take advantage of capital market dislocation.
  - Prioritize investments in high-conviction sectors
    - Focus on expanding exposure to niche sectors such as data centers, industrial outdoor storage (IOS), build-to-rent, cold storage, and manufactured housing.
    - Continue to invest in favorable sectors with long-term growth potential like residential and industrial.
  - Identify opportunities to reduce fees and enhance net returns.
  - Continue to evaluate Emerging Managers that are an appropriate fit for LACERS' portfolio, without compromising returns.

Non-Core Commitments by Vintage Year*



LACERS Diversification Projections

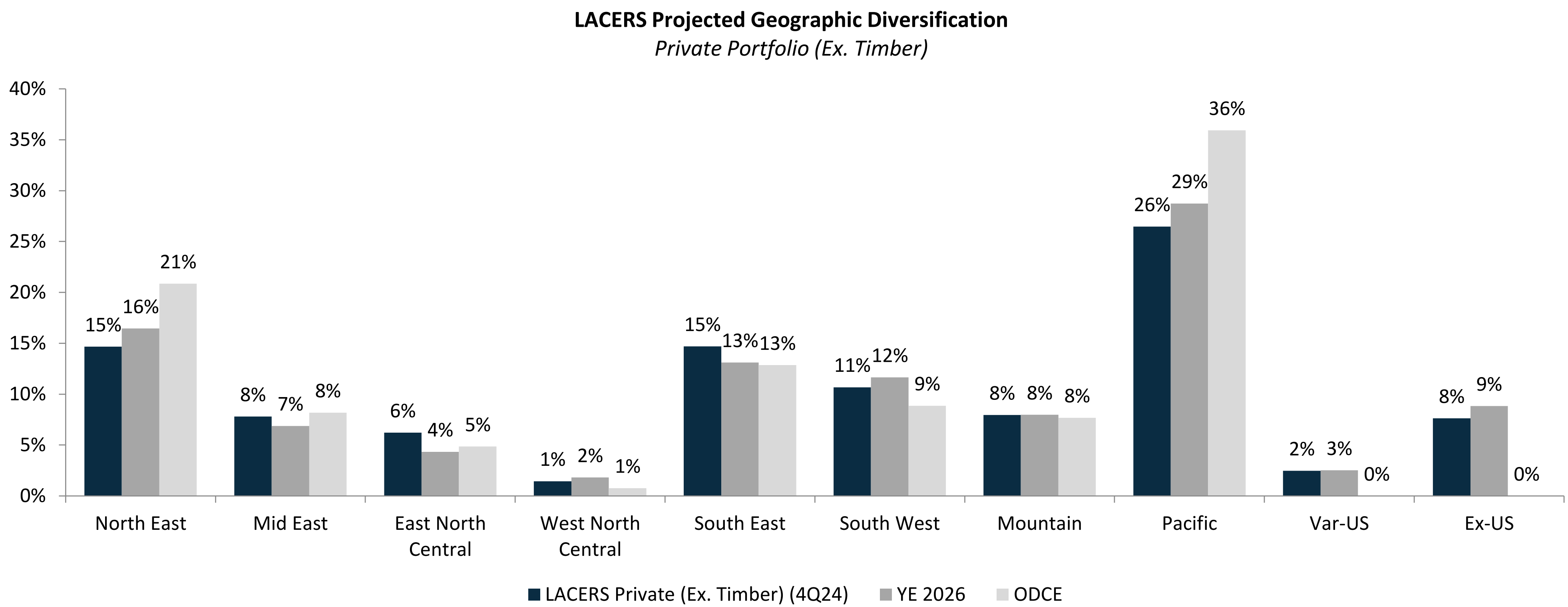
Private Real Estate Exposure - Property Type Diversification
Private Portfolio (Ex. Timber)



*'Other' reflects properties that do no fit into the traditional classifications (apartment, industrial, office, retail), such as medical office, senior housing, self-storage, student housing, and other property types.

TOWNSEND GROUP

LACERS Diversification Projections



*'Other' reflects properties that do no fit into the traditional classifications (apartment, industrial, office, retail), such as medical office, senior housing, self-storage, student housing, and other property types.

05
Sourcing and Deal Flow

Manager Sourcing and Due Diligence

TOWNSEND GROUP

Core and Core Plus Fund Sourcing and Selection

- **Townsend's dedicated open-end fund team reviews and monitors the open-end universe on a monthly and quarterly basis.**
- **Townsend also evaluates Core closed-end funds, though fewer exist.**
- **Comprehensive review, evaluation and selection process:**
  - Sourcing and evaluation of new fund launches,
  - Quarterly data collection and analysis,
  - On-site meetings and quarterly reviews,
  - Advisory board participation,
  - Ongoing platform assessment,
  - Continual due diligence.

Manager Sourcing and Due Diligence

TOWNSEND GROUP

Non-Core Fund Sourcing and Selection

- **In addition to the work completed for open-end commingled funds (evaluation process outlined on the previous page), Townsend is continuously analyzing the universe of Non-Core closed-end funds available for investment.**
- **Detailed due diligence follows a three-phase due diligence process:**
  - Sourcing and evaluation of new fund launches.
  - On-site due diligence meetings.
  - Evaluation of investment characteristics includes, but is not limited to the following:
    - *Executive Summary:* Strategy Overview, Comparative Advantages, Potential Issues and Concerns.
    - *Strategy:* Overview, Leverage, Investment Guidelines, Pipeline.
    - *Sponsor*: Organizational Background/History, Turnover, Compensation, and Retention.
    - *Investment Process:* Overview, Investment Committee, Affiliate Transactions, Limited Partner Advisory Committee, Exclusivity and Allocations, Valuations.
    - *Fund Structure:* Key Terms, Fees and Distributions, Analysis of Fees.
    - *Performance:* Detailed Summary of Prior Vehicles, Vintage Year Comparison, Dispersion of Returns, Investment Highlights.
- **Ongoing due diligence includes fund coverage, investment monitoring, reporting, advisory board representation and client advocacy.**

Manager Sourcing and Due Diligence

TOWNSEND GROUP

Emerging Manager Sourcing

- **Townsend focuses on identifying emerging managers during its sourcing and monitoring process.**
  - Network and establish new relationships through regular sourcing channels, outreach and conference attendance.
  - Seek new and unique opportunities that align with Townsend View of the World.
  - Uncover experienced niche operating partners interested in raising third-party capital.
  - Oversight and management of dedicated Emerging Manager programs across the firm.
  - Maintain active pipeline of Emerging Manager candidates.
  - Actively vetting new owner/operators as potential Emerging Manager candidates.

LACERS Emerging Manager Efforts

- **Majority of Emerging Manager opportunity set is in the Non-Core segment:**
  - 2015: A $20 million commitment to Gerrity Retail Fund 2 was approved by the Board.
  - 2016: A $20 million commitment to Asana Partners I was approved by the Board.
  - 2018: A $35 million commitment to Asana Partners II was approved by the Board.
  - 2019: A $20 million commitment to Broadview Real Estate Partners was approved by the Board.
  - 2023: A $40 million commitment to NB Partners Fund IV was approved by the Board.
  - 2025: Due diligence on one additional emerging manager is in process and commitment is under consideration for 2025.

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: MAY 13, 2025**
From: Todd Bouey, Interim General Manager | **ITEM: V**

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

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

Recommendation

That the Committee recommend to the Board a renewal of the Adaptive Asset Allocation Plan for Fiscal Year 2025-2026.

Executive Summary

This report offers an annual update on adaptive rebalancing in accordance with the LACERS Rebalancing Policy and the Adaptive Asset Allocation Plan (AAAP), as outlined in Sections V.G and V.H of the Investment Policy Manual. No adaptive rebalances have been implemented through April of the 2024-2025 fiscal year. Staff recommends renewing the AAAP for the 2025-2026 fiscal year.

Discussion

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

In accordance with Section VII of the AAAP, the CIO is required to present an annual report to the Investment Committee summarizing all adaptive rebalances conducted during the current fiscal year and to provide recommendations regarding the continuation, modification, or discontinuation of the AAAP. Through April of the 2024-2025 fiscal year, staff has not activated the AAAP in light of volatile economic and market conditions. Accordingly, there is no AAAP activity to report.

Staff has observed that the application of the AAAP continues to be limited by routine management of operational cash flows and portfolio liquidity. Staff intends to revisit the AAAP rebalancing guidelines later in the calendar year with the general investment consultant, NEPC, LLC, and bring any proposed changes to the Committee for review under a separate report. Until such proposed changes are initiated, staff will continue to monitor market conditions and the investment portfolio for potential opportunities to implement adaptive rebalancing and recommends renewing the AAAP in its current form for the 2025-2026 fiscal year.

This report has been reviewed by LACERS' Internal Auditor in accordance with Section II of the AAAP.

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

TB/RJ/WL/JW:jp

Attachment: 1. Rebalancing Policy and Adaptive Asset Allocation Plan

G. Rebalancing

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

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

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

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

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

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

H. Adaptive Asset Allocation Plan

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

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

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

II. Roles and Responsibilities

The Board of Administration

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

Investment Committee

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

Chief Investment Officer

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

General Fund Consultant

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

Internal Auditor

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

III. Terminology

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

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

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

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

Adaptive Action – One specific, individual movement of capital that adjusts asset holdings due to movements of cash, in-kind asset transfers, or use of derivatives. Derivatives may be used as an alternative to cash or in-kind asset transfers to obtain the equivalent changes in exposure(s), if derivatives are expected to produce more favorable economic and/or risk enhancements. Derivatives may not be used as a form of leverage.

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

IV. Adaptive Asset Allocation Considerations

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

V. Implementation

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

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

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

VI. Risk Management Guidelines

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

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

VII. Annual Review of the AAAP

Annual AAAP Review by the Investment Committee

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

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

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

Annual AAAP Approval or Repeal by the Board of Administration

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

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

VIII. APPENDIX

External Landscape and Internal Operational Considerations

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

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

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

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

b. *Market Stages Consideration*

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

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

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

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

c. *Assessment of Market Conditions*
Staff will evaluate and assess if the market is Early-Cycle, Mid-Cycle, Late-Cycle or in a Recession on a quarterly basis.

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

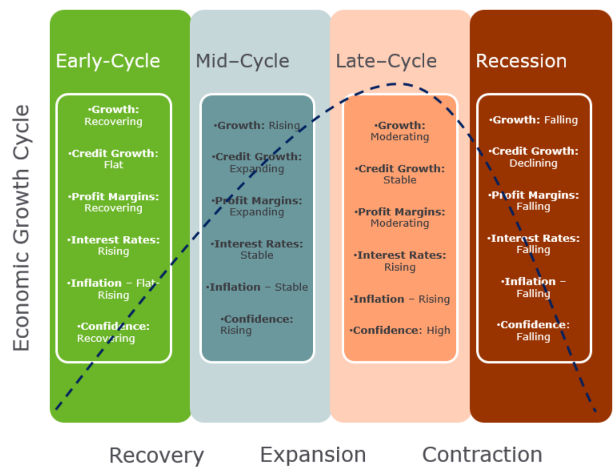


*chart provided by NEPC, LLC

d. *Economic and Market Risk Assessment*
Staff will address one or more of the economic, financial, and market indicators.

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

e. *Asset Valuations*
Staff will address the relevant market valuation indicators to include (but not restricted to):
- Current to Long-Term Historical Valuations reflected in Price to Earnings, Price to Book, and Dividend Yields
- Interest rate spreads, duration
- Growth versus Value

f. *Internal Operational Considerations*
Staff will evaluate factors to include (but not restricted to):
- Benefits and Consequences of initiating an Adaptive Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact

I. **Evaluation of Policy**

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