



Investment Committee Agenda

REGULAR MEETING

TUESDAY, NOVEMBER 10, 2020

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

MEETING LOCATION:

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Investment Committee's November 10, 2020, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to participate:

Dial: (669) 900-6833 or (346) 248-7799

Meeting ID# 865 5660 6569

Instructions for call-in participants:

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

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

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

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

Notice to Paid Representatives

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

Request for services

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.

[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 OCTOBER 13, 2020 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [INVESTMENT MANAGER CONTRACT WITH CENTERSQUARE INVESTMENT MANAGEMENT LLC REGARDING THE MANAGEMENT OF A U.S. REITS PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)
- V. [INVESTMENT MANAGER CONTRACT WITH RHUMLINE ADVISERS LIMITED PARTNERSHIP REGARDING THE MANAGEMENT OF MULTIPLE U.S. INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION](#)
- VI. [PRIVATE EQUITY PROGRAM 2021 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION](#)
- VII. [CONTINUED DISCUSSION OF INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE COMMITTEE ACTION](#)
- VIII. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO OAKTREE REAL ESTATE OPPORTUNITIES FUND VIII, L.P., AND POSSIBLE COMMITTEE ACTION**
- IX. OTHER BUSINESS
- X. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, December 8, 2020 at 10:30 a.m. or immediately following the Board Meeting, at LACERS, 977 N. Broadway, 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



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



Board of Administration Agenda

SPECIAL MEETING

TUESDAY, NOVEMBER 10, 2020

**TIME: 10:30 A.M. OR IMMEDIATELY
FOLLOWING THE REGULAR
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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-29-20 (March 17, 2020)
 and due to the concerns over COVID-19, the
 LACERS Investment Committee's
 October 13, 2020, Regular meeting was conducted
 via telephone and/or videoconferencing

October 13, 2020

11:51 a.m.

PRESENT via Videoconferencing:	Co-Chair:	Nilza R. Serrano
	Committee Members:	Elizabeth Lee
	Manager-Secretary:	Neil M. Guglielmo
	Legal Counselor:	Joshua Geller
PRESENT at LACERS offices:	Executive Assistant:	Ani Ghoukassian
ABSENT:	Chair:	Sung Won Sohn

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** – Co-Chair Serrano asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE MEETING OF SEPTEMBER 8, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the forward calendar and stated the Core Fixed Income Manager Search interviews are planned for December 2020.

IV

INVESTMENT MANAGER CONTRACT WITH AQR CAPITAL MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. SMALL CAP EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Bryan Fujita, Investment Officer III and Ellen Chen, Investment Officer I, presented and discussed this item with the Committee for 8 minutes. Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

V

INVESTMENT MANAGER CONTRACT WITH QUANTITATIVE MANAGEMENT ASSOCIATES, LLC REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKETS CORE EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Bryan Fujita, Investment Officer III and Ellen Chen, Investment Officer I, presented this item to the Committee for 8 minutes. After discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

VI

PRESENTATION BY NORTHERN TRUST REGARDING SECURITIES LENDING PROGRAM FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2020 – Jeremiah Paras, Investment Officer I, Donald Anderson, Senior Vice President and Gary Guibert, Senior Vice President with Northern Trust, presented and discussed this item with the Committee for 20 minutes and the report was received by the Committee and filed.

VII

BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2020 – Barbara Sandoval, Investment Officer II, presented and discussed this item with the Committee for 5 minutes.

VIII

OTHER BUSINESS – There was no other business

IX

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, November 10, 2020 at 10:30 a.m. or immediately following the Board Meeting, at LACERS, 977 N. Broadway, Suite 260, 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, Co-Chair Serrano adjourned the Meeting at 12:39 p.m.

Nilza R. Serrano
Chair

Neil M. Guglielmo
Manager-Secretary

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

MEETING: NOVEMBER 10, 2020
ITEM: IV

Neil M. Guglielmo

SUBJECT: INVESTMENT MANAGER CONTRACT WITH CENTERSQUARE INVESTMENT MANAGEMENT LLC REGARDING THE MANAGEMENT OF A U.S. REITS PORTFOLIO AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with CenterSquare Investment Management LLC for management of an active U.S. REITS (Real Estate Investment Trust Securities) portfolio.

Executive Summary

CenterSquare Investment Management LLC (CenterSquare) has managed an active U.S. REITS portfolio for LACERS since January 2015. LACERS' portfolio was valued at approximately \$213 million as of September 30, 2020. CenterSquare's current contract expires on March 31, 2021. Staff and NEPC, LLC, (NEPC) LACERS General Fund Consultant, recommend a three-year contract renewal with CenterSquare.

Discussion

Background

The Board hired CenterSquare in January 2015 to manage an active U.S. REITS portfolio benchmarked against the FTSE NAREIT All Equity REITS Index. CenterSquare utilizes proprietary research and analytics to identify mispriced investment opportunities in the public REITS market. These securities provide high current income, liquidity, and real estate sector diversification. The portfolio management team is led by Dean Frankel, Global Head of Real Estate Securities. Mr. Frankel has 23 years of real estate experience, all of which have been at CenterSquare. LACERS' portfolio was valued at approximately \$213 million as of September 30, 2020. CenterSquare's current contract expires on March 31, 2021.

Organization

CenterSquare was founded in 1987 and is privately held with the management team owning a 47% equity stake and Lovell Minnick Partners, a private equity firm, owning a 53% equity stake. CenterSquare has 93 employees and is headquartered in Plymouth Meeting, Pennsylvania, with offices in London and Singapore. As of September 30, 2020, CenterSquare managed approximately \$11 billion of total assets, with \$4.9 billion of assets in the U.S. REITS strategy

Due Diligence

CenterSquare's organization, investment philosophy, strategy, and process have not changed over the contract period.

Performance

As of September 30, 2020, CenterSquare outperformed its benchmark over all time periods, except the 3-month period, as presented in the table below. CenterSquare is in compliance with the LACERS Manager Monitoring Policy.

Annualized Performance as of 9/30/20 (Net-of-Fees)					
	3-Month	1-Year	3-Year	5-Year	Since Inception ¹
CenterSquare	0.99	-8.52	5.32	7.57	5.95
FTSE NAREIT All Equity Index	1.19	-12.15	3.54	6.61	5.41
% of Excess Return	-0.20	3.63	1.78	0.96	0.54

¹Inception date 4/15/15

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

Calendar Year Performance as of 9/30/20 (Net-of-Fees)						
	1/1/20-9/30/20	2019	2018	2017	2016	4/15/15-12/31/15
CenterSquare	-8.61	29.74	-4.80	9.12	8.35	2.80
FTSE NAREIT All Equity Index	-12.27	28.66	-4.04	8.67	8.63	0.58
% of Excess Return	3.66	1.08	-0.76	0.45	-0.28	2.22

Fees

LACERS pays CenterSquare an effective fee of 43.5 basis points (0.435%), which is approximately \$926,550 annually based on the value of LACERS' assets as of September 30, 2020. The fee ranks in the 9th percentile of fees charged by similar REITS managers in the eVestment database (i.e., 91% of like-managers have higher fees).

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Alignment

A contract renewal with CenterSquare will allow the fund to maintain a diversified exposure to the U.S. REITS markets, and aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Barbara Sandoval, Investment Officer II, Investment Division

NMG/RJ/BF/BS:rm

Attachment: 1. Consultant Recommendation – NEPC



To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: November 10, 2020

Subject: CenterSquare Investment Management, LLC

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System ('LACERS') renew the investment management contract in place with CenterSquare Investment Management Inc. ('CenterSquare') for a period of 3 years from the date of contract expiry.

Background

CenterSquare has been an active U.S. Real Estate Securities (or REITS) manager for LACERS since April 2015. As of September 30, 2020, CenterSquare managed \$213.5 million, or 1.1%, of Plan assets. The performance objective is to outperform the FTSE NAREIT All Equity REITs Index, net of fees, annualized over a full market cycle (normally three-to-five years).

CenterSquare was founded in 1987 to provide private real estate investment management services to institutional investors and has been managing U.S. listed real estate securities portfolios since 1995. Since January 2, 2018, CenterSquare has been owned by its employees and private equity firm Lovell Minnick after a buyout from owner BNY Mellon, who bought the firm in 2006. Employees at CenterSquare own 47% of the firm while Lovell Minnick owns the remaining 53%. The firm manages approximately \$10.96 billion on behalf of over 186 clients with 93 employees located in Pennsylvania, London and Singapore. The U.S. Real Estate Securities (REITs) product has approximately \$4.86 billion in total AUM along with 74 investors invested across separate accounts, commingled funds and mutual funds.

The philosophy of the U.S. Real Estate Securities portfolio is based on three principles: first, that attractive relative valuations provide both downside protection and potential for upside growth; second, that REITs are 'hybrid' investments that should be valued on a number of factors, only one of which is a company's underlying real estate value; and third, that REITs are capable of trading at implied real estate valuations which are materially different from the private real estate market. The result is a portfolio that allows CenterSquare to compare valuations across the REIT universe on a like-for-like basis over time, and identify over- and underpriced stocks across sectors, regions, and the investment universe as a whole.

Performance

Referring to Exhibit 1, as of September 30, 2020, since inception the portfolio has outperformed the FTSE NAREIT All Equity REITs Index by 1.27%, returning 6.61%, net of fees and the strategy ranked in the 21st percentile in its peer universe since May 2015. In the past year ended September 30, 2020 the portfolio outperformed the benchmark by 3.63% (-8.52% vs. -12.15%) and ranked in the 30th percentile in its peer group. The



information ratio, since inception, was 0.78 and active risk, as measured by tracking error was 1.63%.

Referring to Exhibit 2, the portfolio has added value on a cumulative basis against its benchmark since inception. In the short-run the portfolio has not benefitted from the security concentration investment guidelines during the extraordinary sectoral shifts taking place in the REIT universe in the wake of the COVID-19 epidemic. In the longer-run, the portfolio has benefitted from strong security selection and sector allocation with key underweights to Regional Malls and Office.

Fees

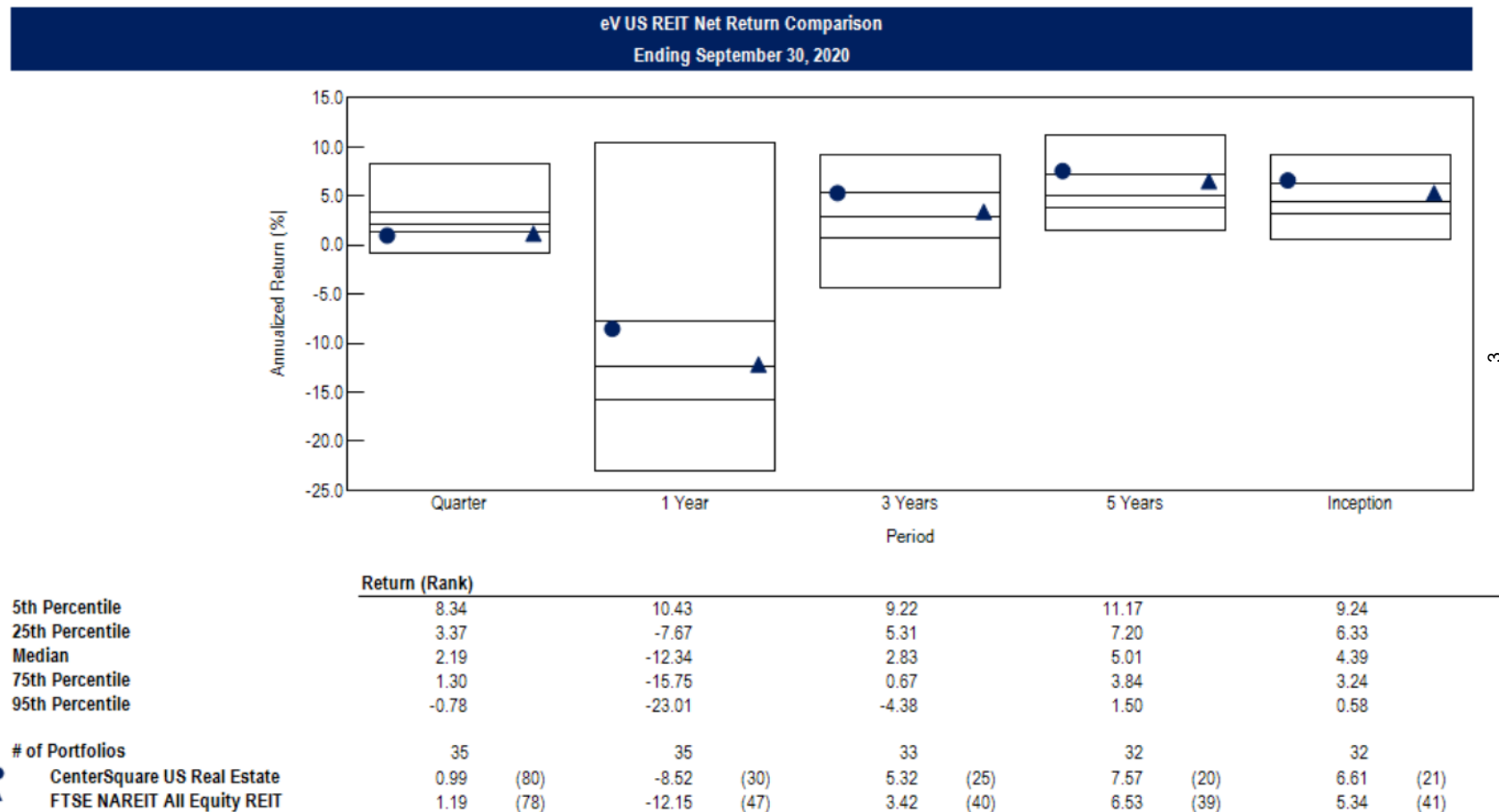
The portfolio has an asset-based fee of 0.44% (43.5 basis points) annually. This fee ranks in the 10th percentile among its peers in the eVestment US REIT Universe. In other words, 90% of the 53 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

CenterSquare has outperformed the index over trailing time periods one year and greater. Their risk-aware investment philosophy, strong investment process and stock selection skill are the basis for NEPC's high conviction in the U.S. Real Estate Securities platform. NEPC recommends a three-year contract renewal from time of contract expiry.

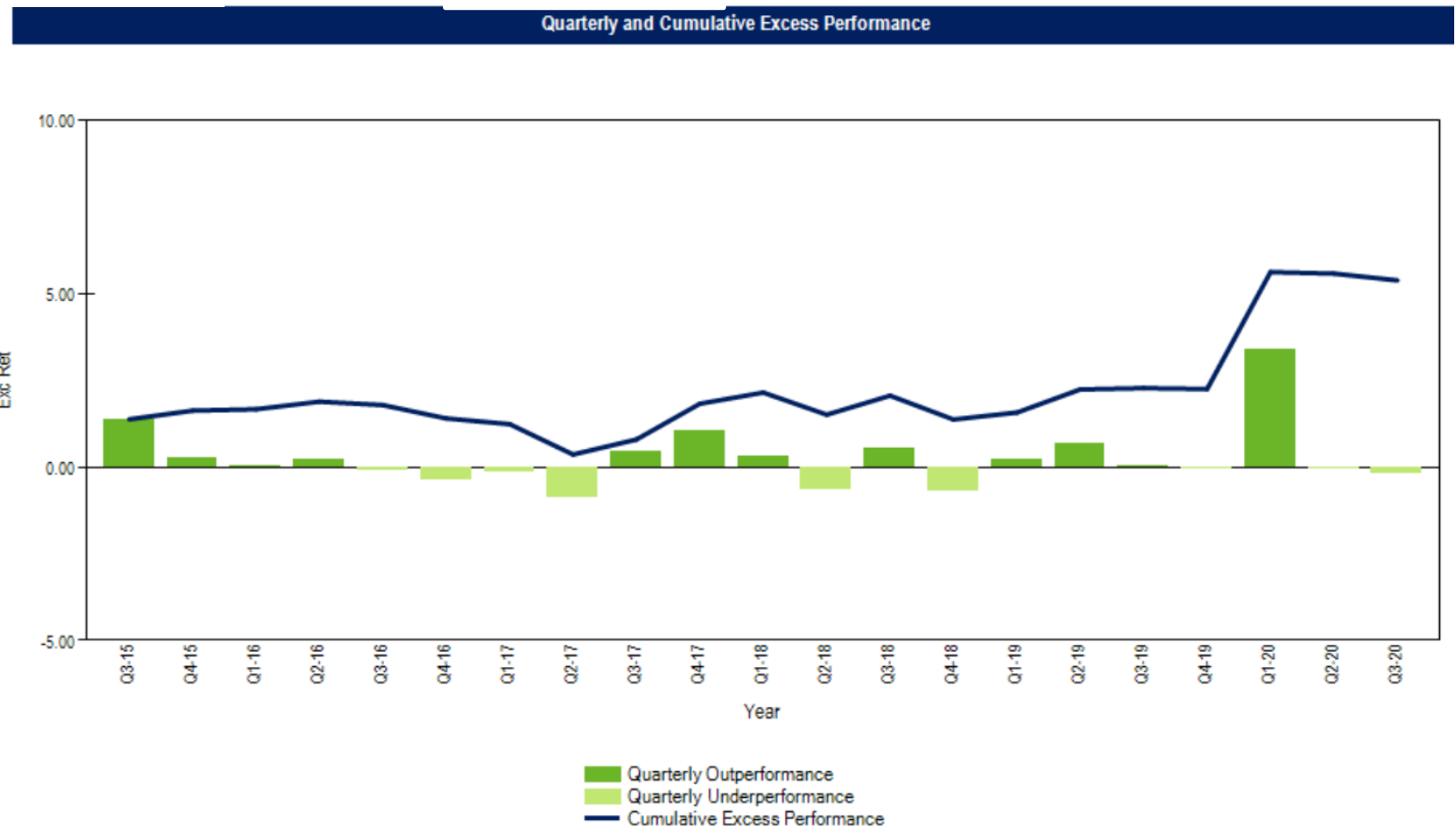
The following tables provide specific performance information, net of fees referenced above.

Exhibit 1



eA = eVestment Alliance
Note: Inception date is May 1, 2015

Exhibit 2



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

MEETING: NOVEMBER 10, 2020
ITEM: V

Neil M. Guglielmo

SUBJECT: INVESTMENT MANAGER CONTRACT WITH RHUMBLINE ADVISERS LIMITED PARTNERSHIP REGARDING THE MANAGEMENT OF MULTIPLE U.S. INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Committee recommend to the Board a five-year contract renewal with RhumbLine Advisers Limited Partnership for passive management of multiple U.S. equity index portfolios.

Executive Summary

RhumbLine Advisers Limited Partnership (RhumbLine) manages passive U.S. equity strategies for LACERS based on the S&P and Russell indices across the large and small company capitalization ranges. As of September 30, 2020, RhumbLine managed a total of approximately \$4 billion across two strategies for LACERS. RhumbLine's current contract expires on March 31, 2021. Staff and NEPC, LLC, (NEPC) LACERS General Fund Consultant, recommend a five-year contract renewal with RhumbLine.

Discussion

Background

The Board first hired RhumbLine in February 1993 to passively manage a U.S. large cap equity portfolio that tracks the S&P 500 Index. In April 2012, the Board authorized a search for investment managers to provide multiple passive investment strategies under a single contract, which would allow LACERS to gain exposure quickly to a variety of passive strategies in cases such as asset allocation changes, portfolio rebalancings, or manager terminations. RhumbLine was awarded a contract along with BlackRock Institutional Trust Company, N.A., and State Street Global Advisors.

In 2016, a five-year contract renewal was awarded by the Board. The five-year period in lieu of the traditional three-year contract renewal was awarded due to the low risk associated with passive investment strategies and to ease the administrative duty of the Board and staff by staggering the expiration of investment contracts. RhumbLine's current contract expires on March 31, 2021.

Under the multiple passive strategies contract, RhumbLine provides U.S. equity strategies based on the S&P and Russell indices across the large and small capitalization company ranges. RhumbLine's investment objective is to fully replicate the risk and return characteristics of the benchmarks using quantitative techniques. The specific strategies available under this contract and the amount of assets managed as of September 30, 2020 are presented in the following table:

Strategy	LACERS' AUM (in millions)	RhumbLine's AUM (in millions)
RhumbLine S&P 500 Index	\$ 3,901.4	\$ 23,300.0
RhumbLine Russell 1000 Growth Index	\$ 0.0	\$ 3,126.0
RhumbLine Russell 1000 Value Index	\$ 0.0	\$ 1,920.0
RhumbLine Russell 2000 Index	\$ 183.5	\$ 1,800.0
RhumbLine Russell 2000 Growth Index ¹	\$ 0.1	\$ 59.0
RhumbLine Russell 2000 Value Index ¹	\$ 0.3	\$ 231.6
Total Managed	\$ 4,085.3	\$ 30,436.6

¹ During September 2020, assets were fully withdrawn and transferred to active U.S. small cap strategies.

Organization

RhumbLine has 21 full-time employees (and 3 part-time employees) and is headquartered in Boston. The firm is 100% employee owned. As of September 30, 2020, RhumbLine managed \$73.1 billion of total assets across passive equity and fixed income strategies. Julie Lind serves as the portfolio manager of the various passive strategies under contract by LACERS; she is a limited partner of RhumbLine and has over 20 years of experience at the firm and 24 years of experience in the investment industry.

Due Diligence

RhumbLine's, investment philosophy, strategy, and process have not changed over the contract period. In December 2019, Denise D'Entremont, a 26 year veteran of RhumbLine, was promoted to President of RhumbLine. She is one of three general partners of the firm and reports directly to the firm's Chief Executive Officer, Wayne Owen. Ms. D'Entremont oversees distribution and client relationship management, and plays a significant role in developing and executing RhumbLine's vision and strategic initiatives.

Performance

As of September 30, 2020, RhumbLine's performance is in line with expectations, as presented in the following table. Differences in RhumbLine's performance relative to the benchmarks are primarily attributed to cash flows initiated by LACERS staff for operational liquidity or portfolio rebalancings. RhumbLine is in compliance with the LACERS Manager Monitoring Policy.

Annualized Performance as of 9/30/20 (Net-of-Fees)						
	3-Month	1-Year	3-Year	5-Year	10-Year	Since Inception ²
RhumbLine S&P 500	8.86	14.77	12.11	14.00	13.67	9.92
S&P 500 Index	8.93	15.15	12.28	14.15	13.74	9.78
% of excess return	-0.07	-0.38	-0.17	0.15	-0.07	0.14
RhumbLine Russell 2000	5.08	0.48	1.83	8.01	--	5.47
Russell 2000 Index	4.93	0.39	1.77	8.00	--	5.53
% of excess return	0.15	0.09	0.06	0.01	--	-0.06

²RhumbLine S&P 500 inception date: 2/28/1993. Since inception performance for the S&P 500 strategy is presented gross of fees as LACERS did not maintain net of fee performance records prior to July 2001.

RhumbLine Russell 2000 inception date: 3/10/2015

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

Calendar Year Performance (Net-of-Fees)											
	1/1/2020 to 9/30/20	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
RhumbLine S&P500	5.32	31.13	-4.33	21.75	11.82	1.38	13.65	32.34	15.96	2.28	15.56
S&P 500 Index	5.57	31.49	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06
% of excess return	-0.25	-0.36	0.05	-0.08	-0.14	0.00	-0.04	-0.05	-0.04	0.17	0.50
RhumbLine Russell 2000	-8.58	25.48	-10.90	14.64	21.14						
Russell 2000 Index	-8.69	25.52	-11.01	14.65	21.31						
% of excess return	0.10	-0.04	0.11	-0.01	-0.17						

Fees

LACERS pays RhumbLine an effective fee of 0.55 basis points (0.0055%), which is approximately \$224,692 annually based on the total value of LACERS' assets as of September 30, 2020. The fee ranks in the 1st percentile of fees charged by similar passive U.S. equity managers in the eVestment database (i.e., 99% of like-managers have higher fees).

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Alignment

A contract renewal with RhumbLine will allow the fund to access multi-passive U.S. equity strategies, and aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Barbara Sandoval, Investment Officer II, Investment Division

NMG/RJ/BF/BS/RM:jp

Attachment: 1. Consultant Recommendation – NEPC



To: Los Angeles City Employees' Retirement System Investment Committee
From: NEPC, LLC
Date: November 10, 2020
Subject: RhumbLine Advisers Limited Partnership

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System ('LACERS') renew the contract that is currently in place with RhumbLine Advisers Limited Partnership ('RhumbLine') for a period of five years from the date of contract expiry.

Background

LACERS currently contracts with three index fund providers including RhumbLine, BlackRock and State Street. It has been LACERS' practice to use index funds on both a strategic basis and on a temporary basis when changing from one active manager to another. Currently, RhumbLine manages two passive index portfolios on behalf of LACERS across large and small capitalization U.S. equities totaling \$4.08 billion, or 21.24%, of Total Plan Assets as of September 30, 2020. LACERS market values by U.S. equity index and allocation as a percent of Total Plan are outlined in the chart below as of September 30, 2020:

Portfolio	Market Value(\$)	% of Total Fund	Inception Date
RhumbLine Advisers Russell 2000	183,520,570	0.95	15-Apr
RhumbLine Advisers S&P 500	3,901,428,125	20.29	Feb-93

RhumbLine manages the LACERS accounts with an index replication portfolio management strategy. The FTSE Russell and S&P Dow Jones Indices are among the widest used and cited indexes in the industry.

RhumbLine Advisers is an index fund management specialist and focuses solely on index portfolio development, management and customization. RhumbLine is 100% owned by current and active employees and has no holding companies or affiliates. Their mission is to offer clients consistent index tracking and competitive fees through separately managed accounts. As of September 30, 2020, RhumbLine manages \$73.1B across 54 index-based products for 273 clients in 38 states.

Performance

The performance of the RhumbLine accounts has been in line with expectations. Referring to Exhibit 1, the excess returns observed in the accounts is due to cash flow timing and the performance calculation methodology used.



Fees

RhumbLine charges a fee based on the total AUM across all strategies and that fee totals 0.0055% or 0.55 basis points. This fee ranks in the 1st percentile across the eVestment US Large Cap S&P 500 Passive and eVestment US Small Cap Passive universes.

Conclusion

RhumbLine has proven skill in managing passive investment mandates fully replicated against their respective benchmarks. NEPC supports renewing the contract with RhumbLine for a period of five years from the date of contract expiry.

Exhibit 1: Performance, Net of Fees, as of September 30, 2020

Portfolio	Market Value(\$)	3 Mo(%)	YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	Inception(%)	Inception Date
RhumbLine Advisers Russell 2000	183,520,570	5.07	-8.58	0.47	1.83	8.01	--	4.83	15-Apr
<i>Russell 2000</i>		<i>4.93</i>	<i>-8.69</i>	<i>0.39</i>	<i>1.77</i>	<i>8</i>	<i>9.85</i>	<i>4.88</i>	<i>15-Apr</i>
RhumbLine Advisers S&P 500	3,901,428,125	8.87	5.34	14.79	12.12	14	13.68	--	Feb-93
<i>S&P 500</i>		<i>8.93</i>	<i>5.57</i>	<i>15.15</i>	<i>12.28</i>	<i>14.15</i>	<i>13.74</i>	<i>9.78</i>	<i>Feb-93</i>



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

MEETING: NOVEMBER 10, 2020
ITEM: VI

Neil M. Guglielmo

SUBJECT: PRIVATE EQUITY PROGRAM 2021 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Committee recommend to the Board the adoption of the Private Equity Program 2021 Strategic Plan.

Executive Summary

The Private Equity Program 2021 Strategic Plan provides the private equity strategic objectives and investment plan recommendations for calendar year 2021.

Discussion

Aksia TorreyCove Partners LLC (Aksia TorreyCove), LACERS' Private Equity Consultant, with input from staff, has developed the proposed Private Equity Program 2021 Strategic Plan, which considers strategic objectives and investment plan recommendations for calendar year 2021. Staff has reviewed the plan and recommends its adoption. Aksia TorreyCove will present the proposed plan.

Strategic Alignment

The annual private equity strategic plan assists the Board in building a diversified private equity and total fund portfolio and aligns with the Strategic Plan Goals of optimizing long-term risk adjusted investment returns (Goal IV) and promoting good governance practices (Goal V).

Prepared by: Wilkin Ly, Investment Officer III, Investment Division.

NMG/RJ/BF/WL:jp

Attachment: 1. LACERS Private Equity Program 2021 Strategic Plan – Aksia TorreyCove Capital Partners
LLC

Aksia LLC

LACERS Private Equity Program 2021 Strategic Plan

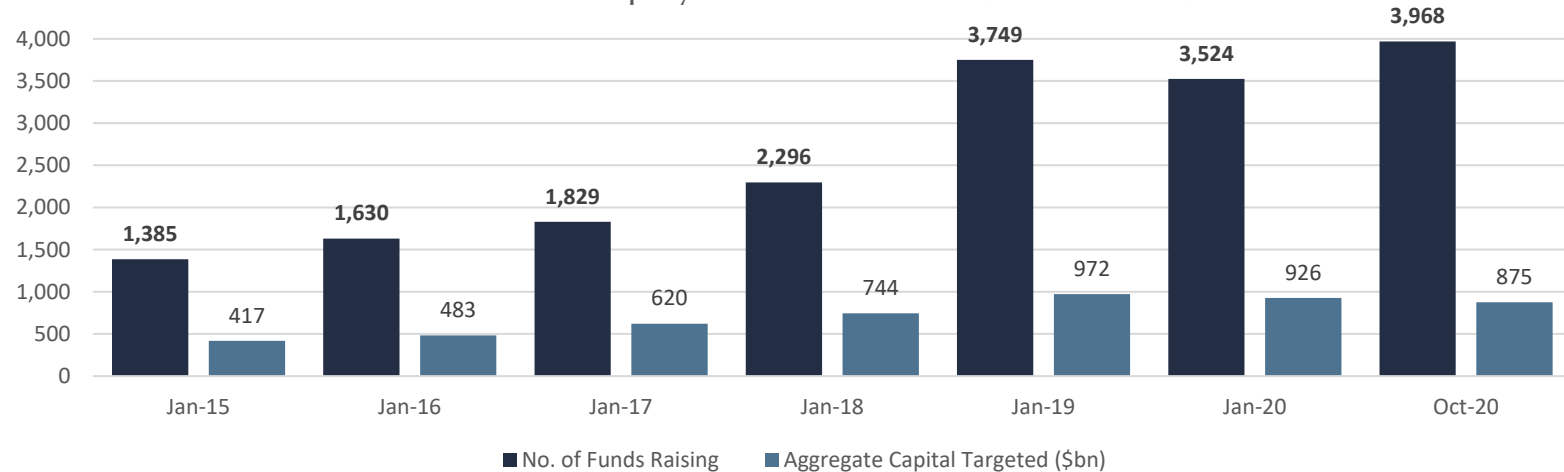


www.aksia.com

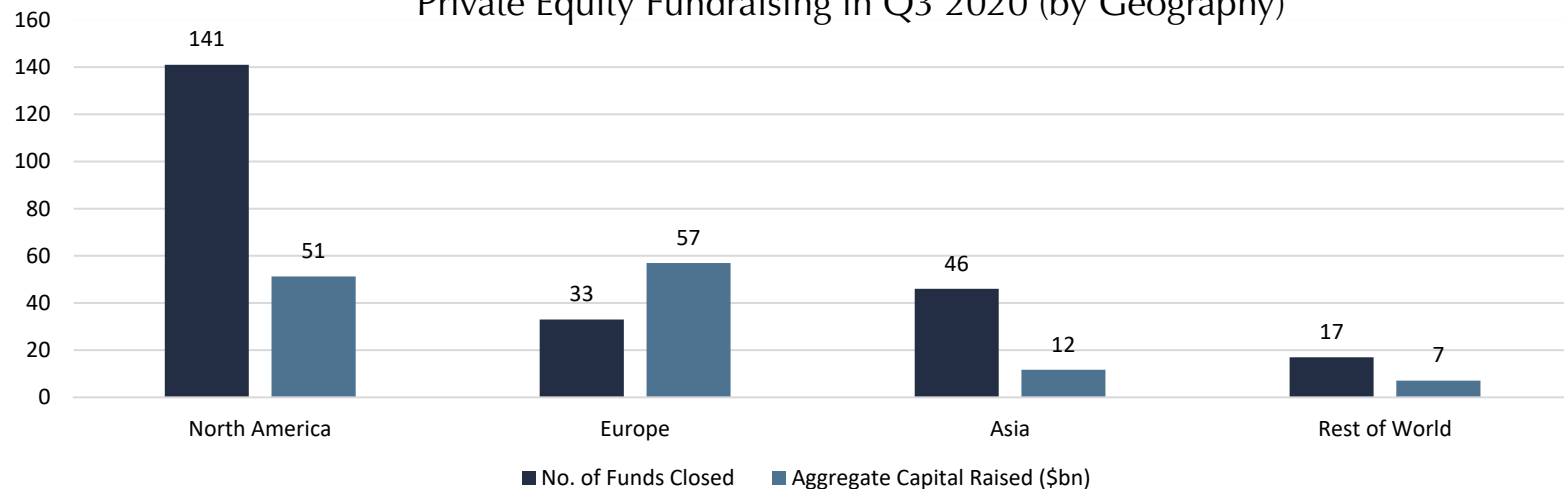
- Private Equity Market Overview
- 2020 Strategic Plan Refresher
- 2021 Pacing Analysis
- LACERS Portfolio Exposures
- 2021 Strategic Plan Recommendations

Private Equity Fundraising Update

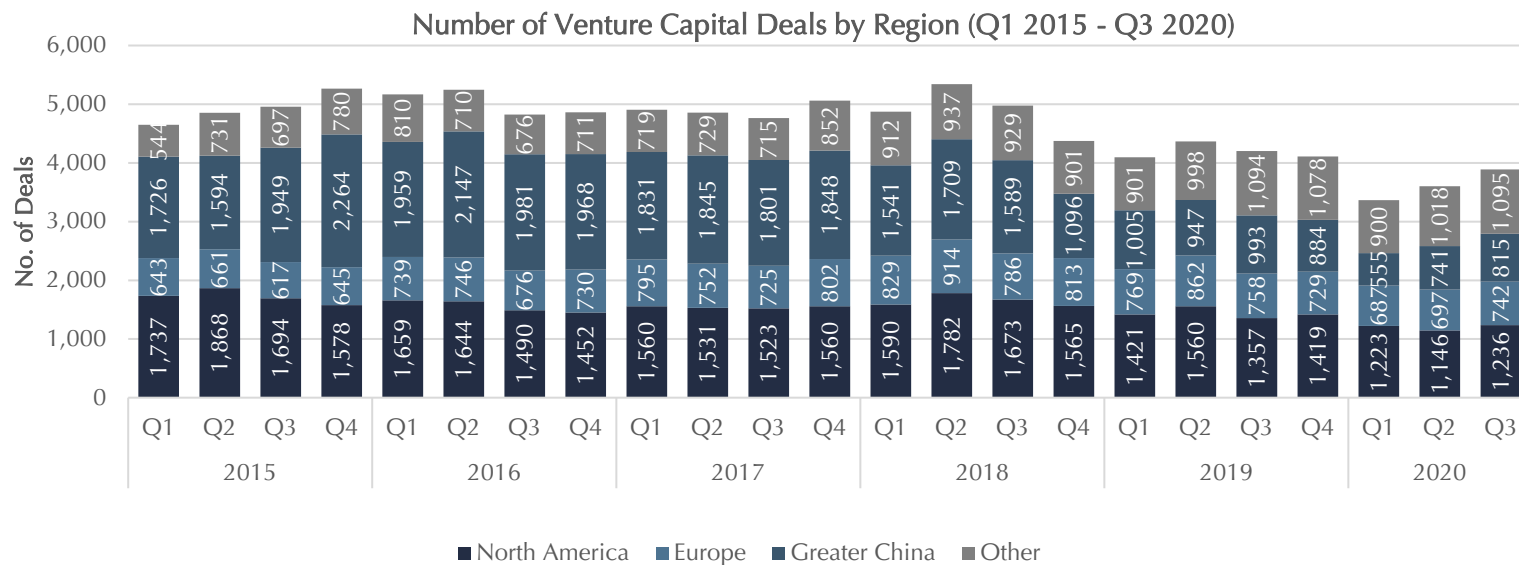
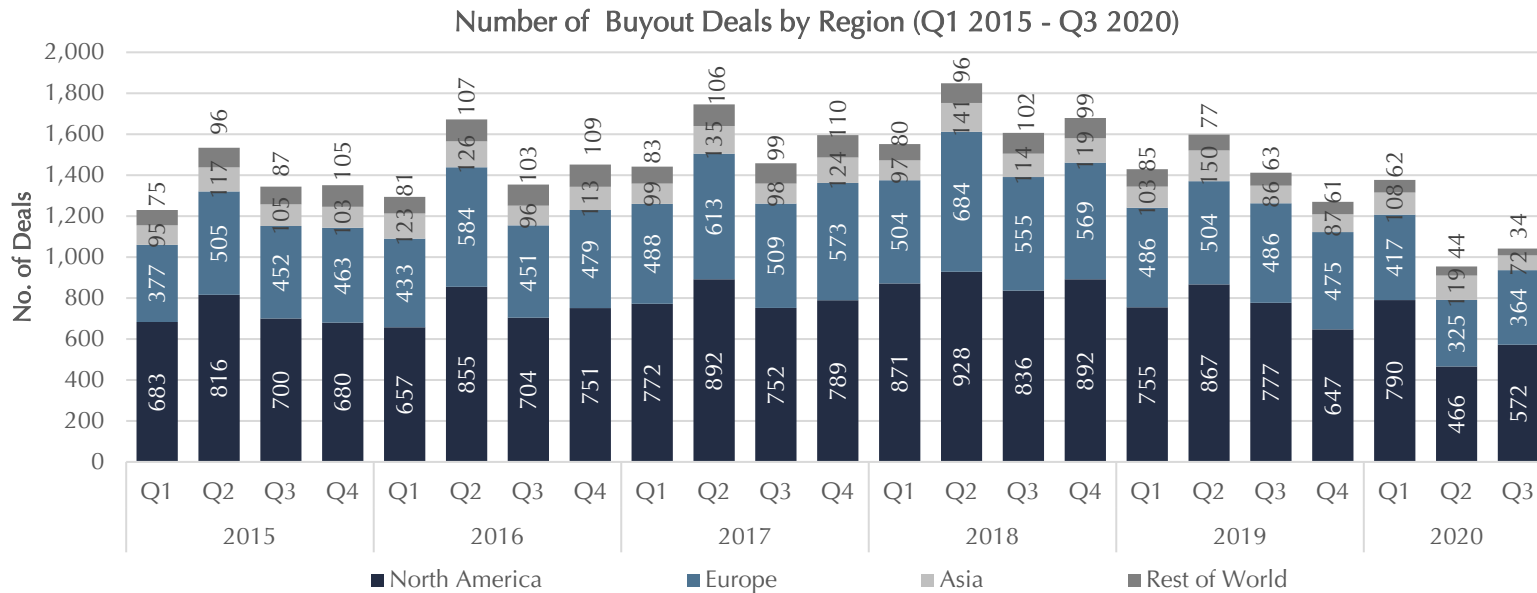
Private Equity Funds in Market (2015 - 2020)



Private Equity Fundraising in Q3 2020 (by Geography)



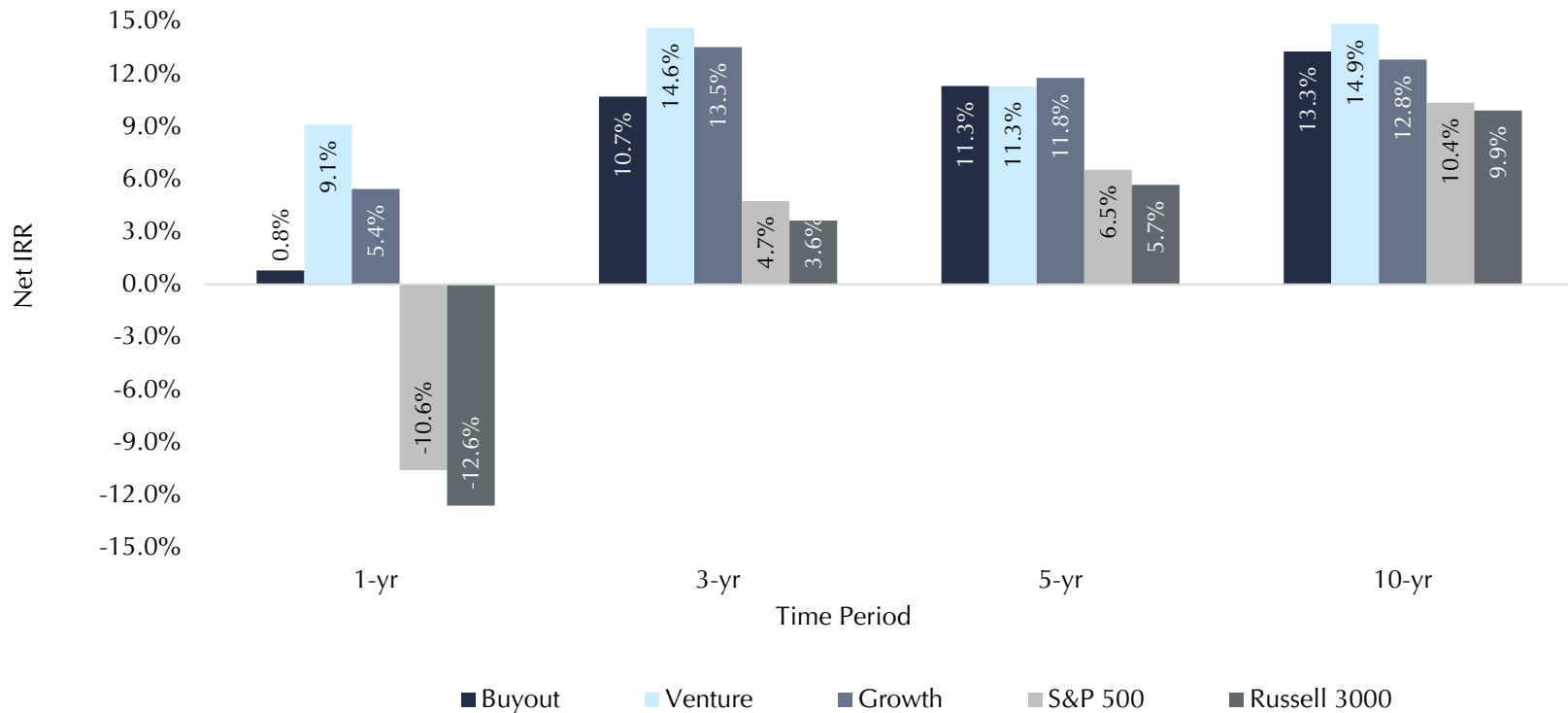
Private Equity Deal Activity Update



Private Equity Returns Relative to Public Markets

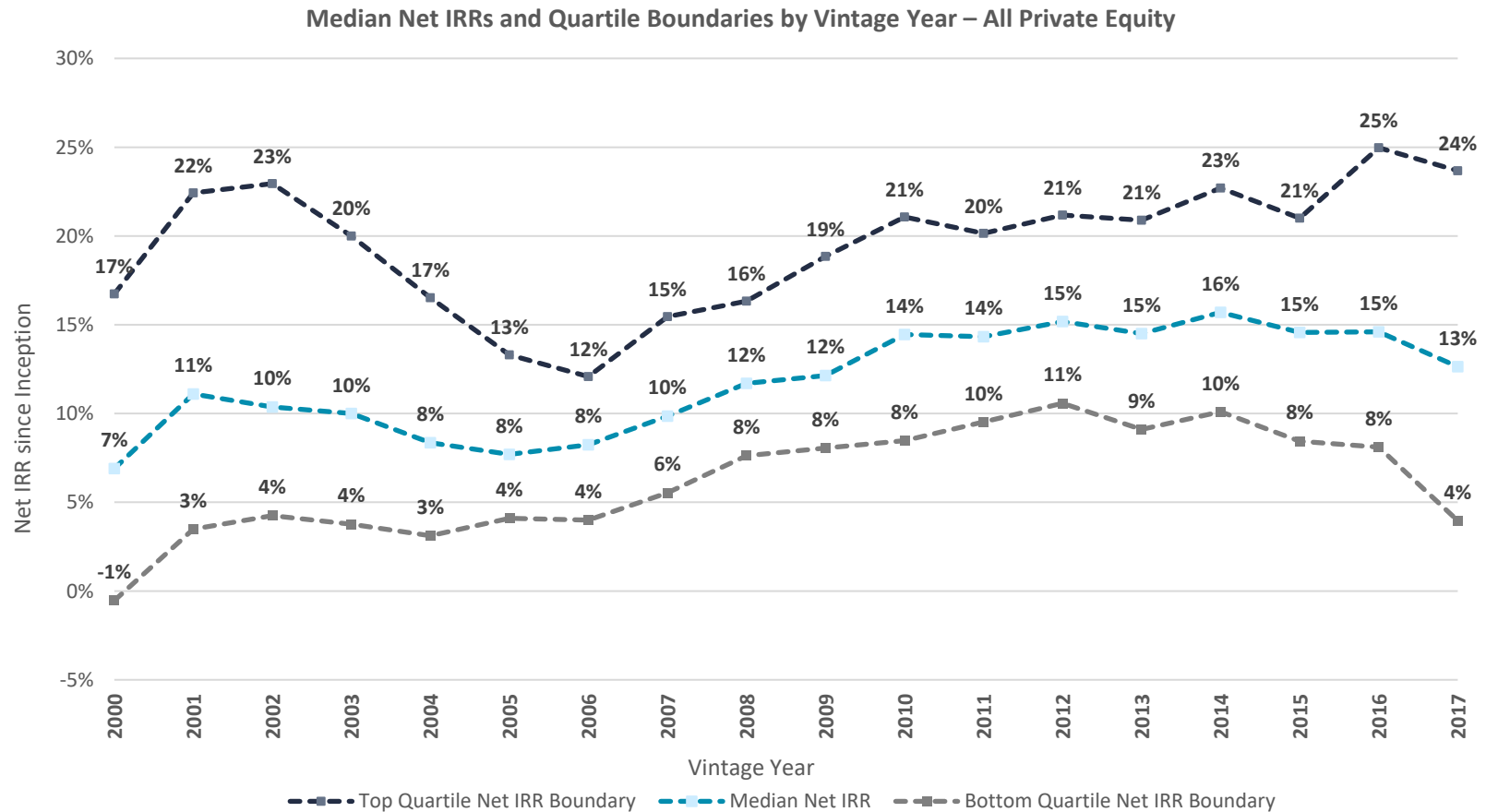
- ❖ Public markets suffered significant losses in Q1 2020 due to COVID 19 and the subsequent lockdown, but markets largely rebounded in Q2 2020
- ❖ Private equity returns, which are generally less volatile than public market returns, were not down as nearly much as public markets in Q1 2020, improving relative performance

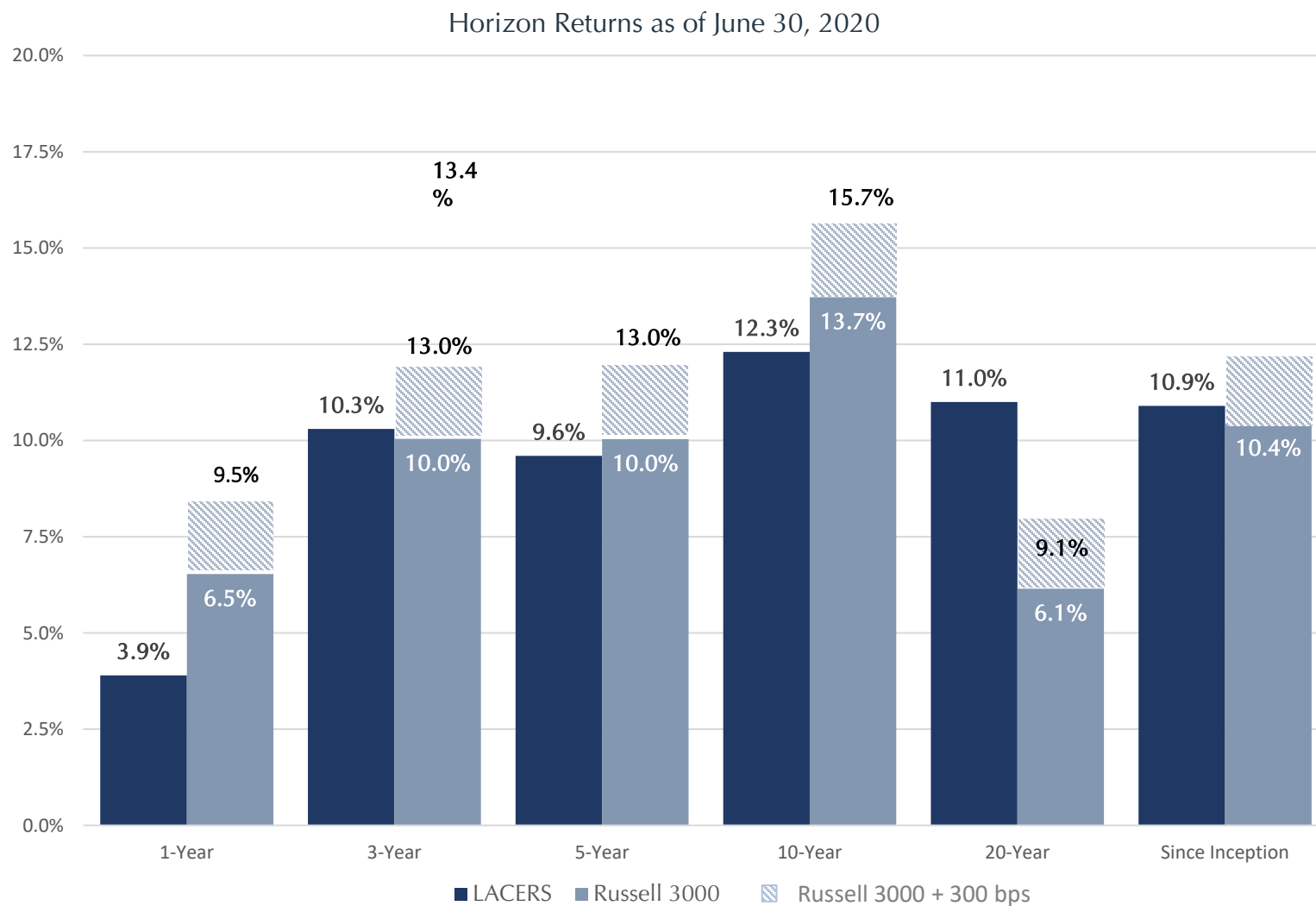
Horizon Returns (as of March 31, 2020)



Private Equity Returns By Quartile

- ❖ The difference in returns from top quartile to bottom quartile performing managers remains significant





2020 Strategic Plan - Refresher

❖ Pacing Recommendations

- ❖ Commitment plan of \$625 - \$675 million proposed for 2020.
- ❖ Commitments with 10 -14 firms with a target size of \$40 - \$60 million per commitment / relationship.
- ❖ Long term goal of making \$50 - \$100 million per commitment.

❖ Long Term Investment Recommendations

- ❖ Develop a framework for the implementation of a co-investment program – from both from an investment and policy perspective.
- ❖ Develop a framework for a potential Secondary sale – from both from an investment and policy perspective.

❖ Tactical Investment Recommendations

- ❖ Selectively add exposure internationally – primarily to Europe and Asia.
- ❖ Increase exposure to Buyouts relative to other sub-asset classes and decrease Venture Capital exposure.
- ❖ Consolidate commitments with top performing managers.
- ❖ Continue to manage underlying sector exposures.
- ❖ Add exposure to strategies designed to outperform in down markets – i.e. Value-Oriented Managers, Turnaround Managers, Distressed Managers.

2020 Summary Statistics

❖ Commitment Statistics

- ❖ \$530 million in total commitments for the calendar year 2020 (through October)
- ❖ Annual target is \$650 million – the middle end of the range (\$625 - \$675 million) for 2020 Strategic Plan

❖ Geographic Breakdown of Commitments

- ❖ ~66% to U.S.-focused funds
- ❖ ~17% to European-focused funds
- ❖ ~9% to Globally-focused funds
- ❖ ~8% to Asia Pacific-focused funds

❖ Sub-Sector Breakdown of Commitments

- ❖ ~67% to Buyout-focused funds
 - ❖ ~34% Medium Buyout funds
 - ❖ ~28% to Large Buyout funds
 - ❖ ~6% to Small Buyout funds
- ❖ ~17% to Venture / Growth-focused funds
- ❖ ~16% to Distressed-focused funds

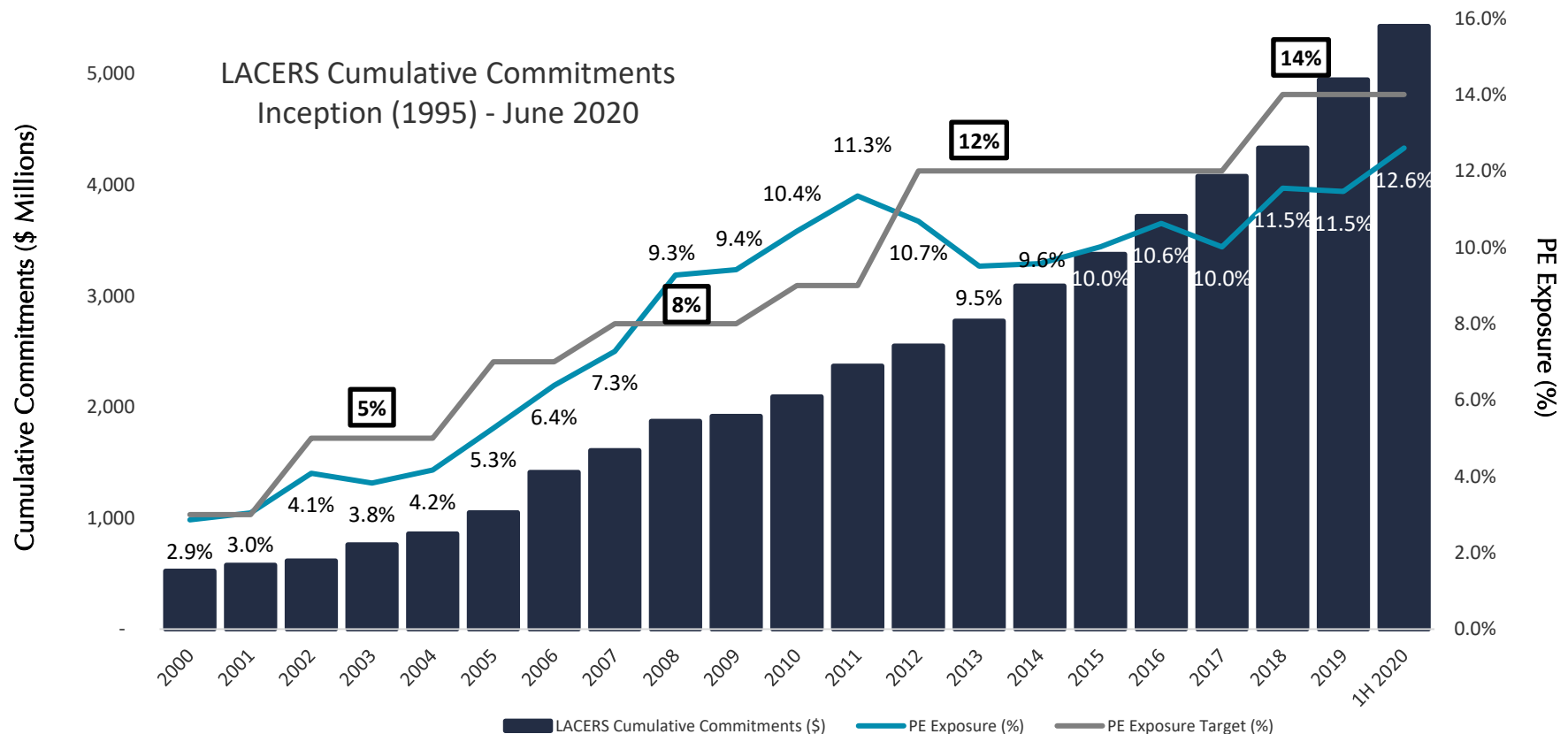
Aggregate Portfolio Summary As Of June 30, 2020

- ❖ As of June 30, 2020 the aggregate portfolio's fair market value of \$2.2 billion represents 12.6% of Total Plan Assets

Aggregate Portfolio Private Equity Exposure Summary	
Total Plan Market Value	\$17,688,591,960
Private Equity Exposure Target (%)	14.0%
Private Equity Exposure Target (\$)	\$2,476,402,874
Private Equity Exposure (%)	12.6%
Fair Market Value ("FMV")	\$2,222,304,621

- ❖ As of September 30, 2020 Total Plan Assets had increased to ~\$19.2 billion – which translates into ~11.6% exposure to private equity (based on private equity Fair Market Value as of 6/30/20)

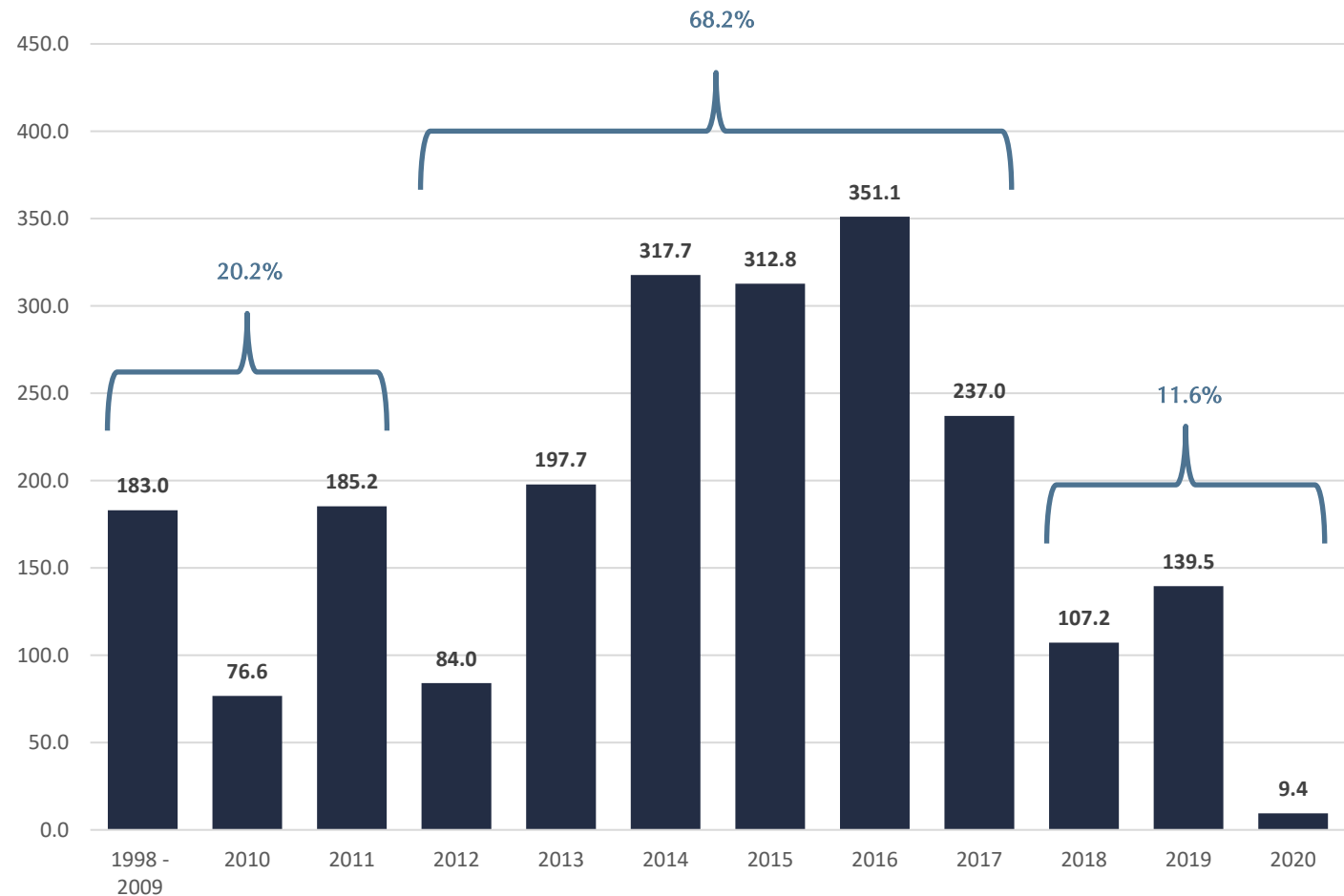
- ❖ Since inception (1995), LACERS has committed more than \$5.4 billion to private equity.
- ❖ At the current target of 14.0%, the desired exposure to private equity is ~\$2.5 billion.



LACERS Private Equity Program - Fair Market Value By Vintage Year

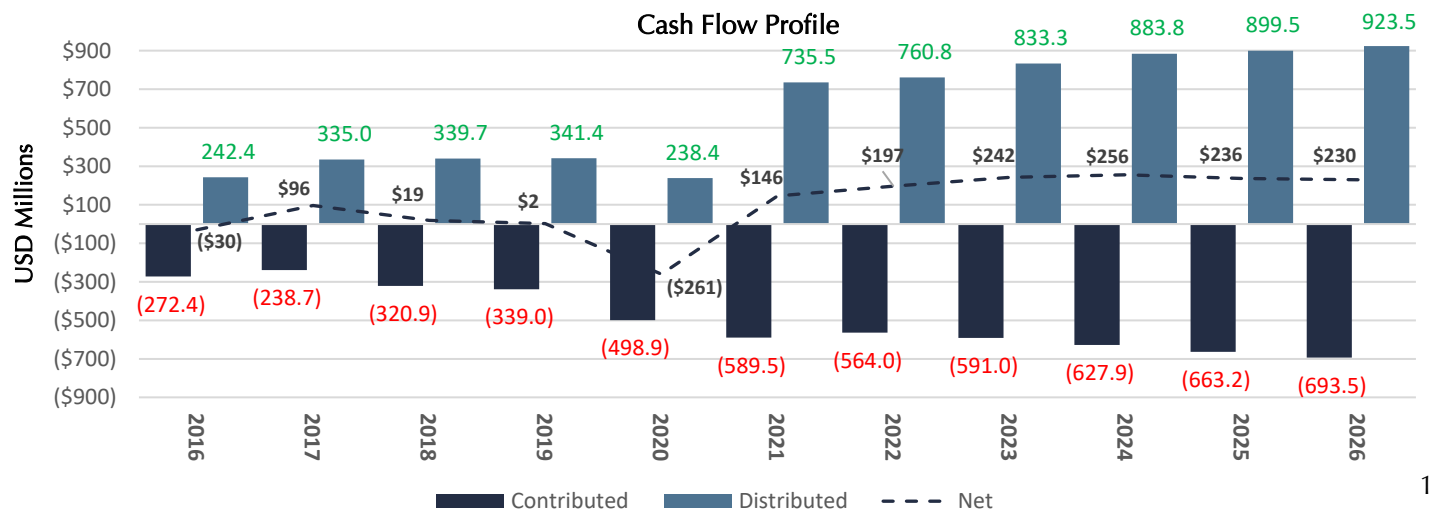
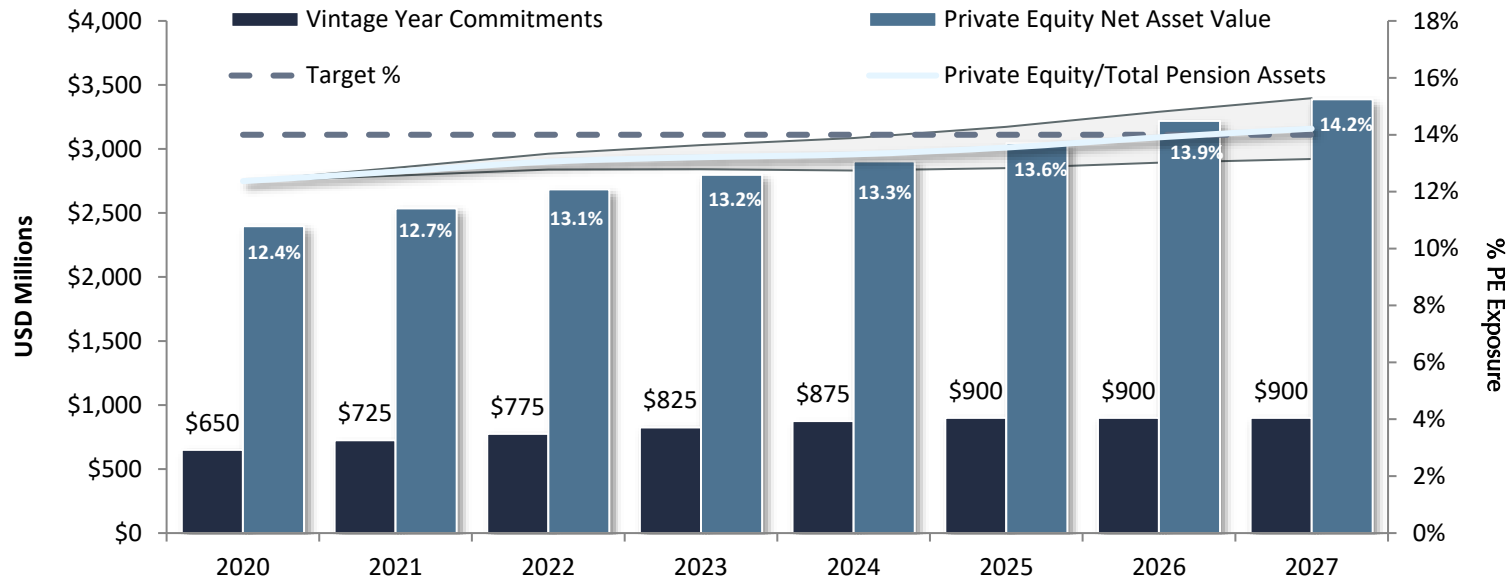
❖ Legacy exposure (1998 – 2011) accounts for ~20.2% of LACERS total private equity exposure

❖ The bulk of LACERS current private equity exposure (68.2%) is from funds with vintage years from 2012 – 2017



Updated Pacing Model – As of June 30, 2020

- ❖ The performance of public markets over the last 12-24 months has contributed to LACERS being underweight in PE
- ❖ The 2020 Strategic Plan had LACERS hitting it's 14.0% target in ~2024; without changing underlying assumptions, this date has been pushed out a bit

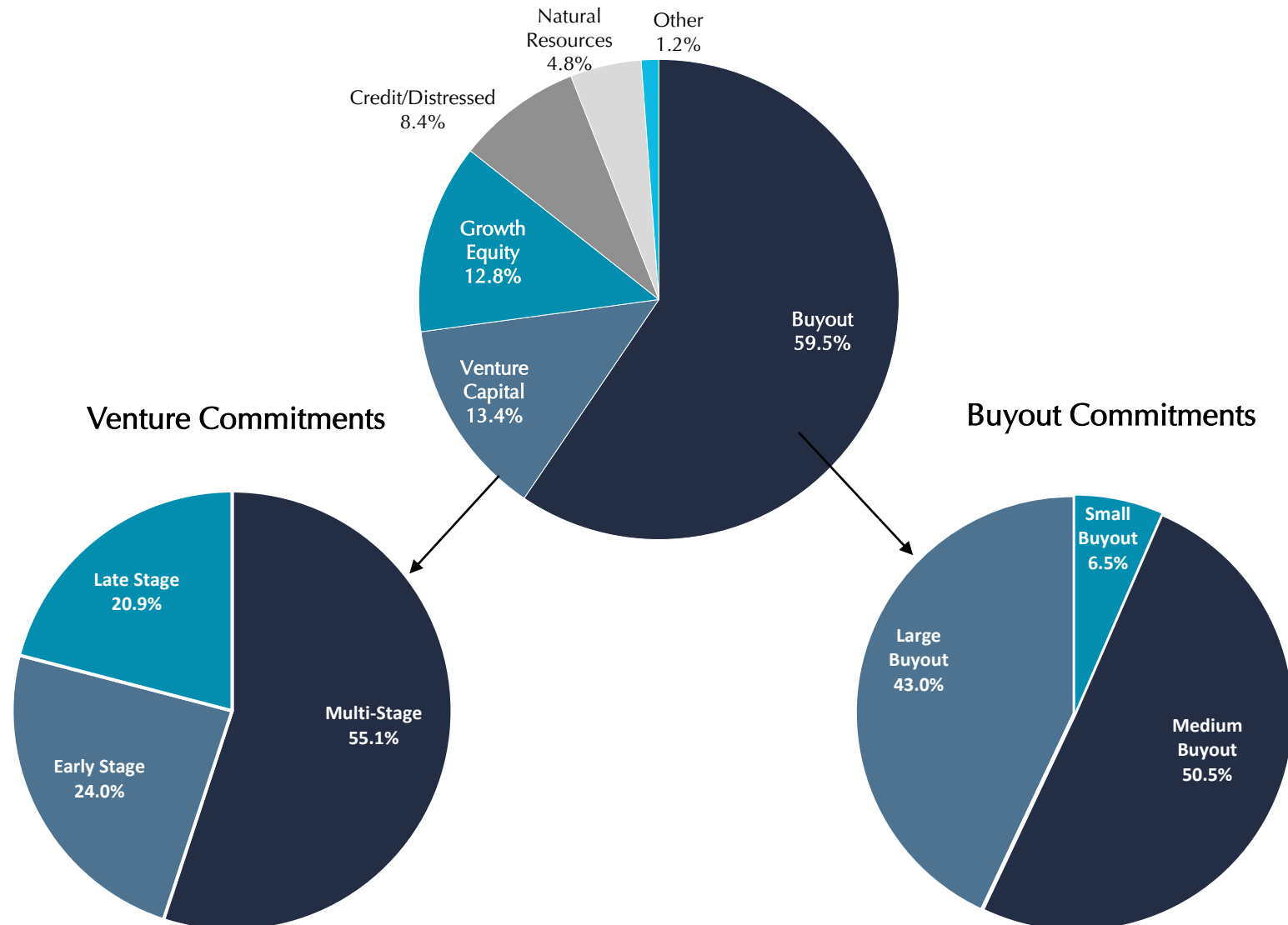


LACERS Private Equity Long Term Targets

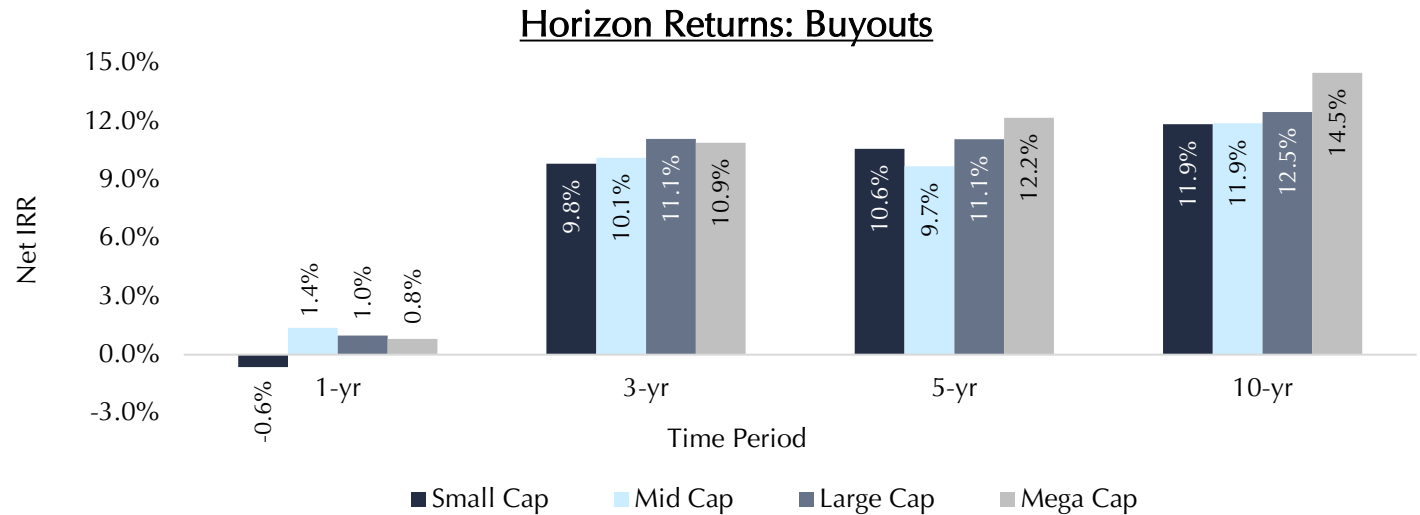
Private Equity Asset and Sub-Asset Classes	LACERS Exposure (%)	Aksia's Suggested Long-Term Target
Buyouts	59.7%	50% – 65%
Large Buyouts	30.0%	
Medium Buyouts	25.8%	
Small Buyouts	3.9%	
Venture Capital / Growth Equity	26.0%	10% – 35%
Venture Capital	13.3%	
Growth Equity	12.7%	
Credit / Distressed	8.4%	10% – 25%
Natural Resources / Other	5.9%	0% – 5%

LACERS Exposure / Commitments by Asset Class

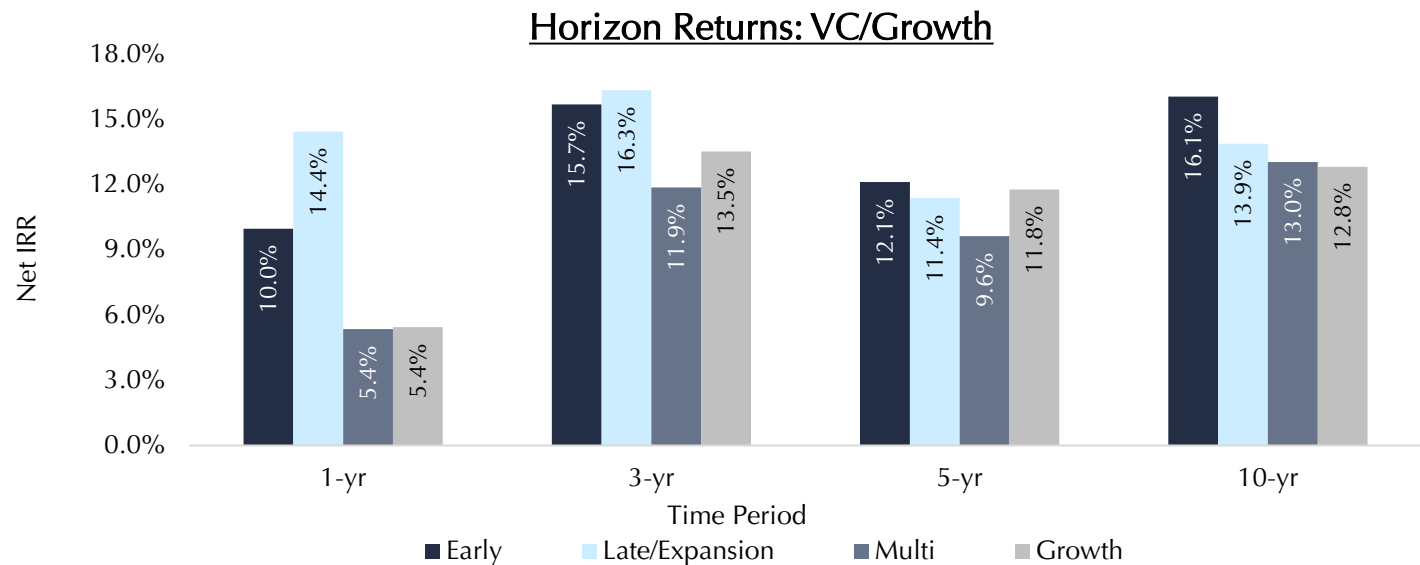
Current Exposure – By Asset Class



- ❖ Large and Mega Buyouts have outperformed Small Buyouts over time

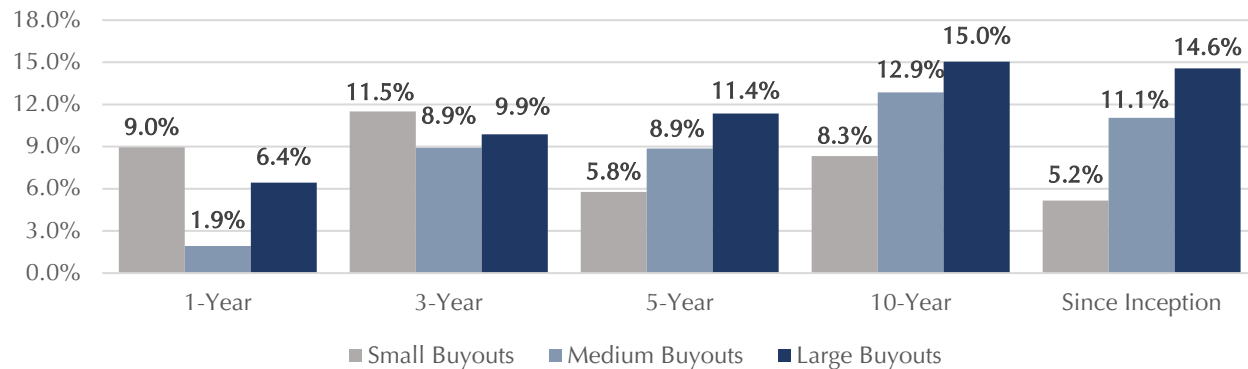


- ❖ Both Venture Capital and Growth funds have performed well on an aggregate basis over the last decade

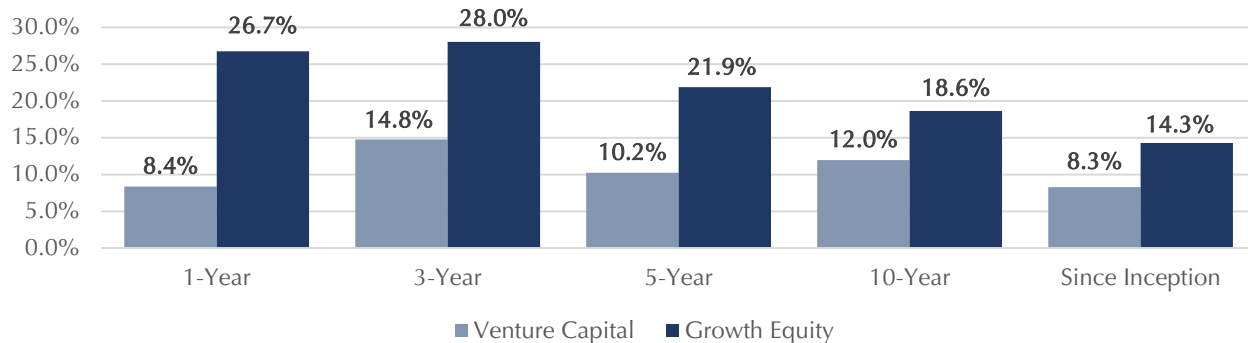


LACERS' Horizon Returns by Sub-Strategy

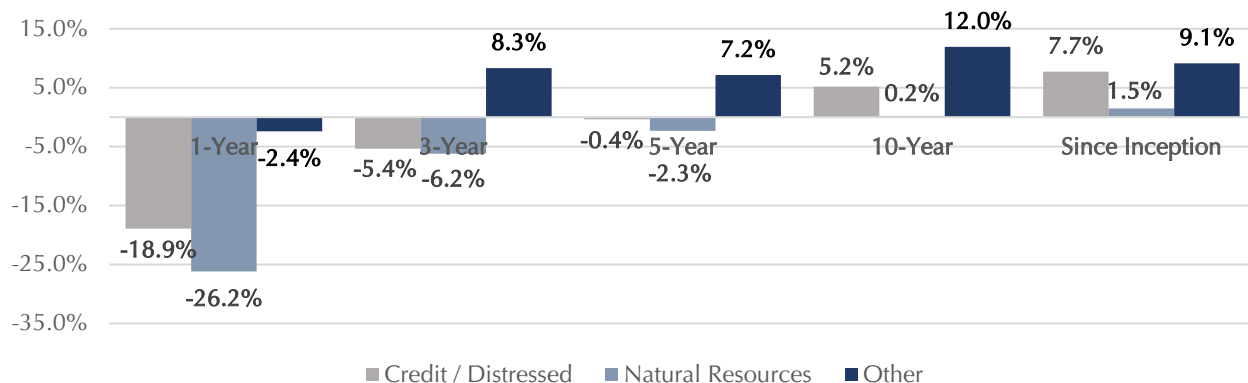
❖ Large and Medium Buyouts have outperformed Small Buyouts over time



❖ Growth Equity has outperformed Venture Capital over various time horizons

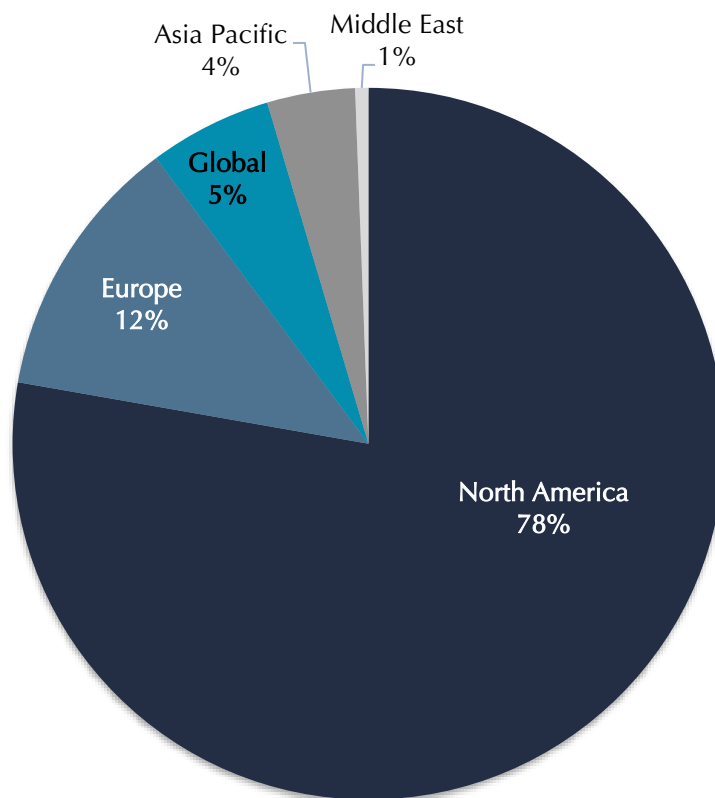


❖ Natural Resources funds have been challenged over time

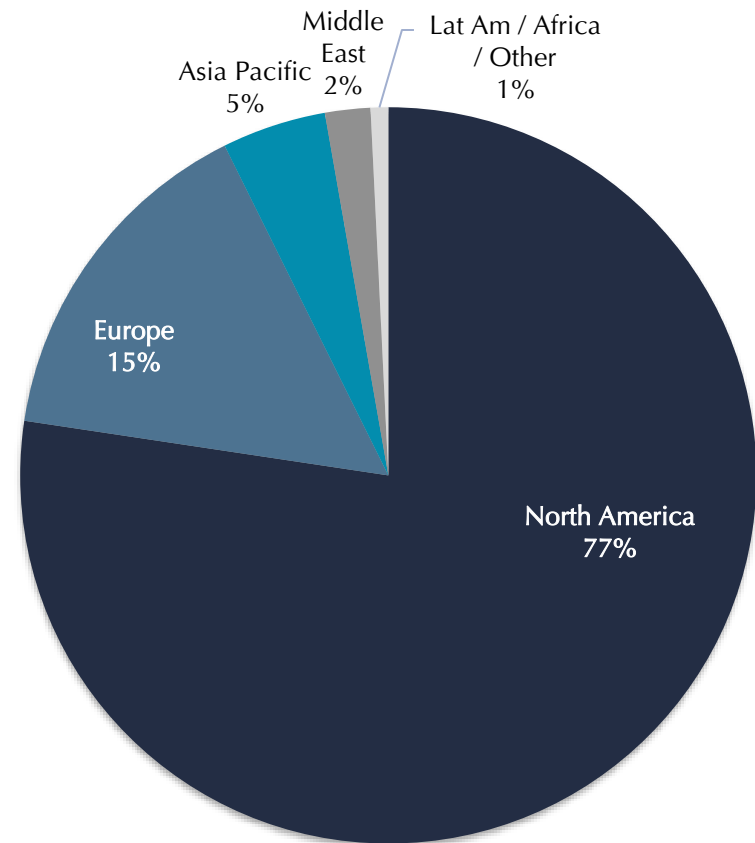


LACERS Commitments by Geography

Fund Commitments – By Geography



Current Exposure – By Geography

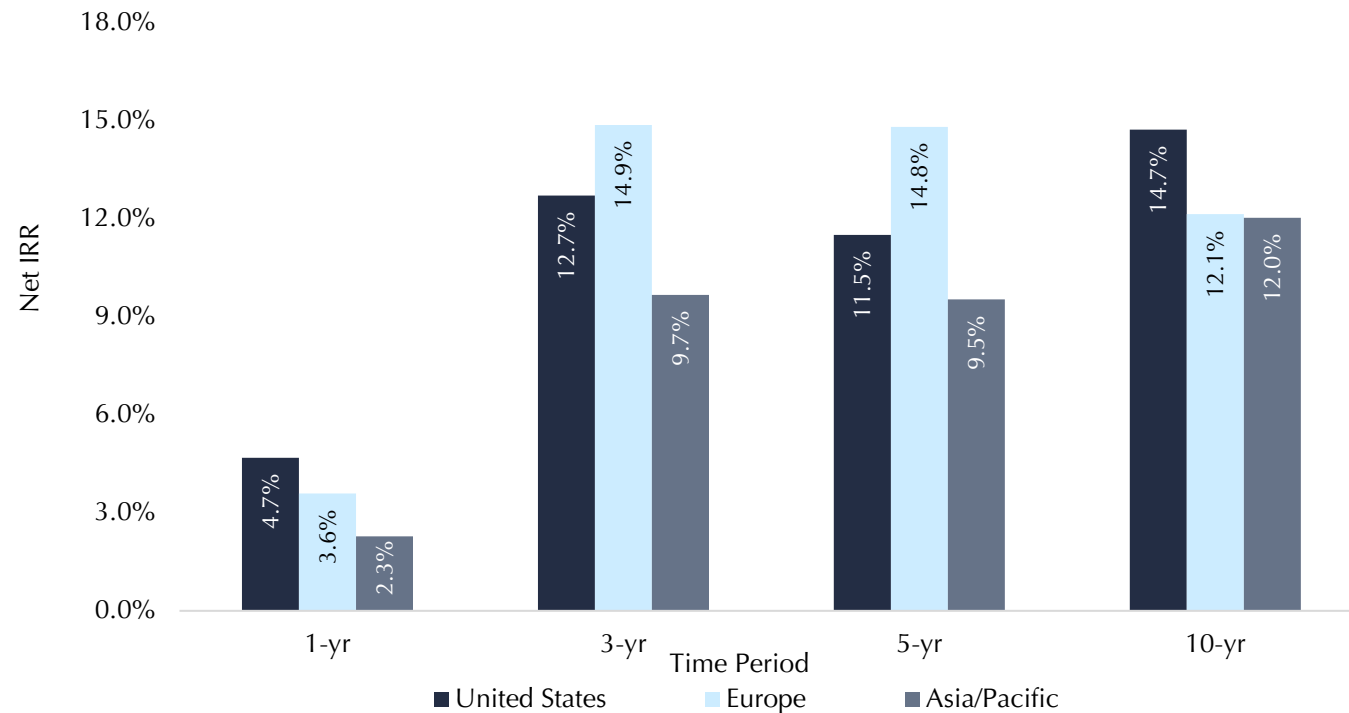


Horizon Returns By Geography

- Over the 3-year and 5-year time periods to March 31, 2020, European Private Equity outperformed both the U.S. and Asia/Pacific
- Over the 10-year time period to March 31, 2020, U.S. Private Equity outperformed both Europe and Asia/Pacific

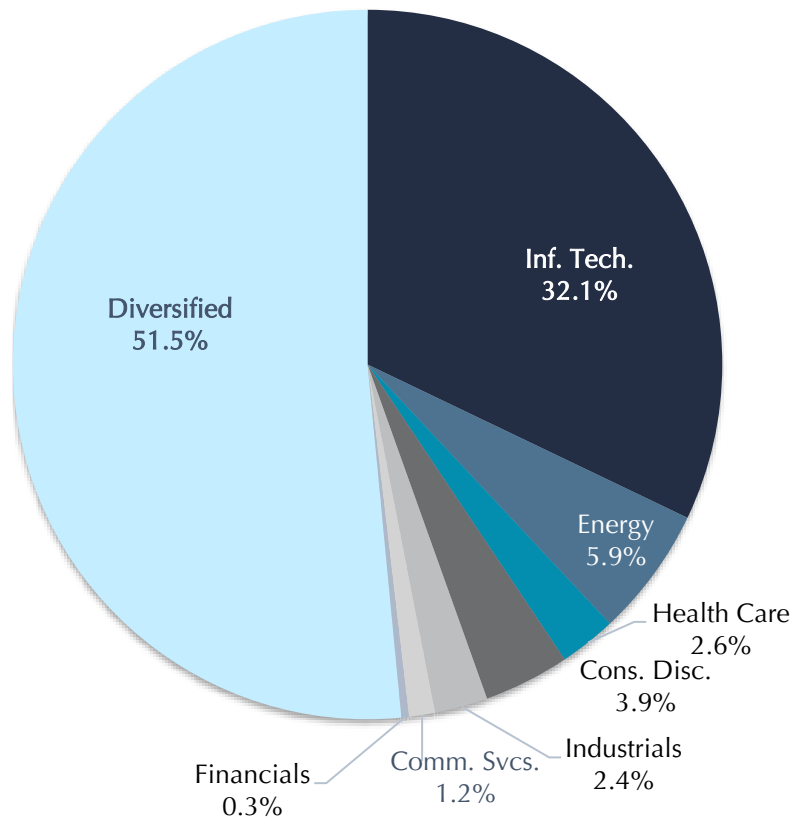
- ❖ While risk varies by specific geography, broadly speaking, Europe and Asia/Pacific appear to offer commensurate returns with the U.S.
- ❖ Adding international exposure can improve diversity in LACERS PE portfolio without sacrificing returns

Horizon Returns By Geography (as of March 31, 2020)

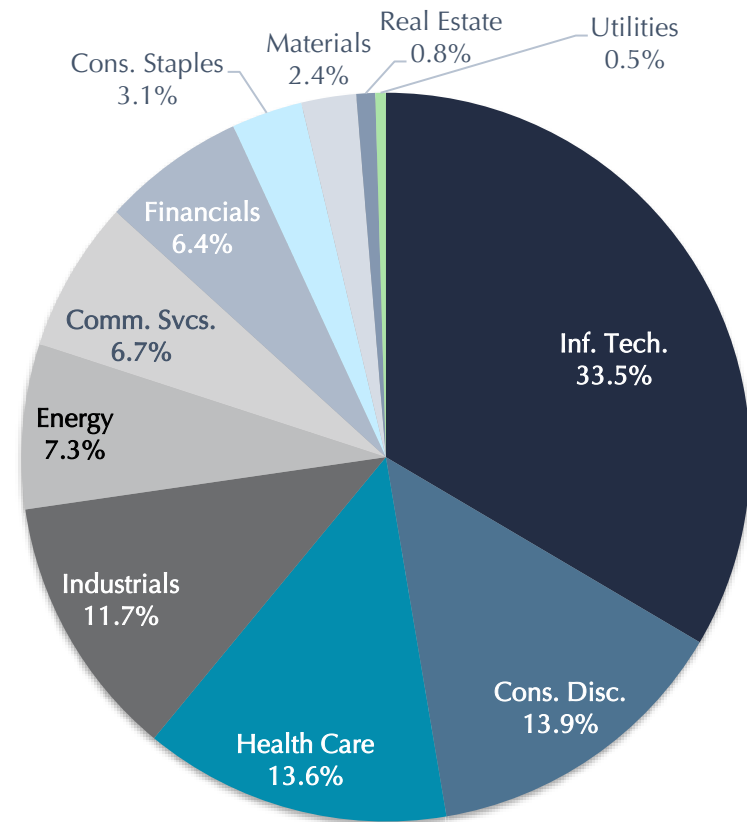


LACERS Commitments and Exposure by Sector

Fund Commitments – By Sector



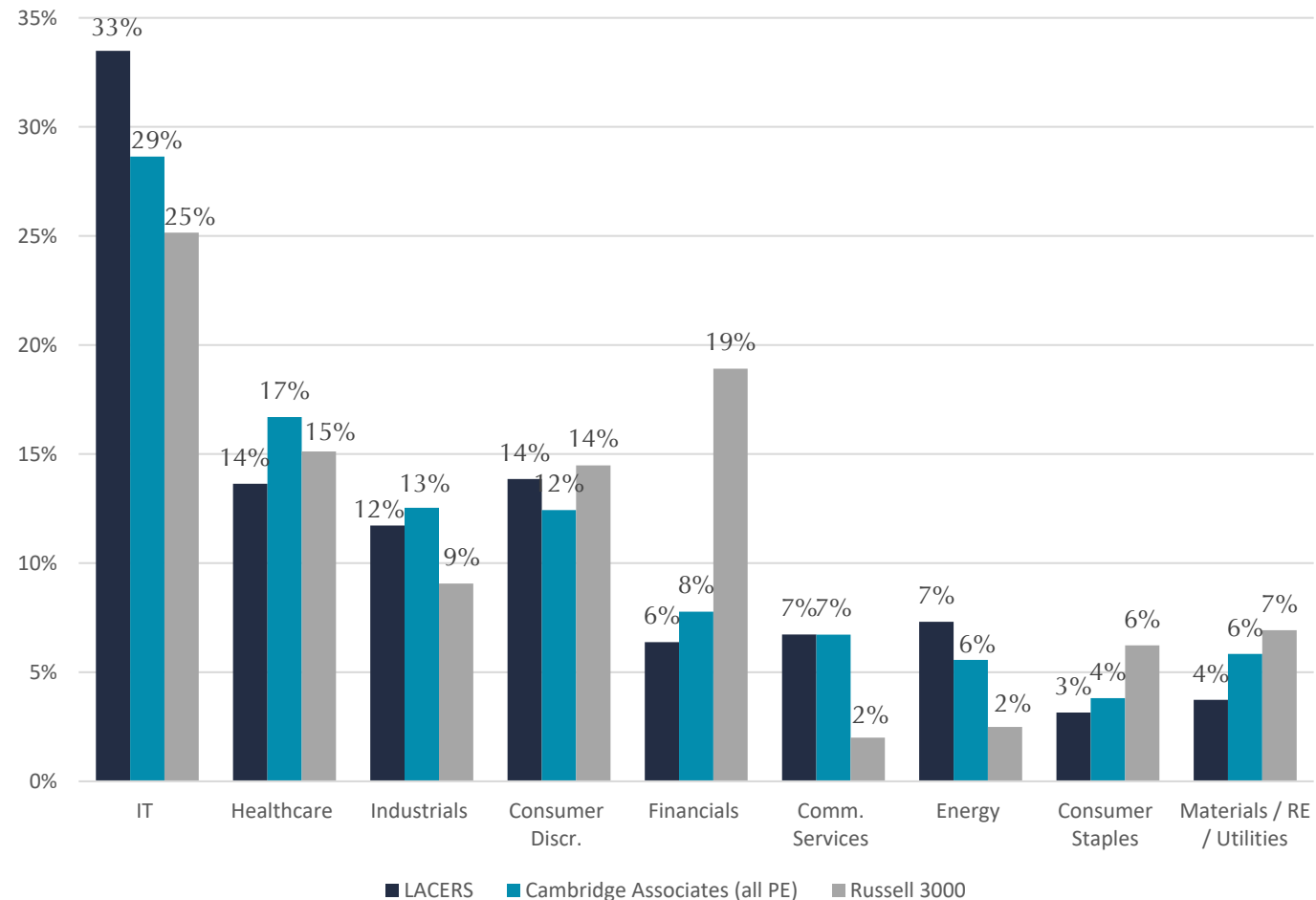
Current Exposure – By Sector



LACERS Exposure by Sector vs. Benchmarks

- ❖ When compared to public and private benchmarks, LACERS is overweight in the Information Technology sector
- ❖ When compared to public and private benchmarks, LACERS is underweight in the Healthcare sector
- ❖ LACERS biggest mismatch with public markets is in the Financials sector

LACERS Sector Exposure vs. Benchmarks



SWOT Analysis – Strengths & Weaknesses

❖ Strengths

- ❖ Existing GP Relationships: LACERS currently maintains relationships with a number of high-quality GPs that should continue to scale over time
- ❖ Brand / Reputation: LACERS has a reputation in the market as a long-term investor with a sophisticated and growing investment staff, which should open doors to new high-quality firms
- ❖ Disciplined Investment Process: LACERS investment process allows for disciplined decision making and consistent deployment regardless of market dislocations
- ❖ Flexible Mandate: LACERS has the ability to invest selectively across a variety of sub-sectors within private equity
- ❖ Sector Exposure: LACERS PE portfolio is currently weighted towards IT (33%) and Healthcare (14%), both sectors which have proven to be fairly resilient in a downturn

❖ Weaknesses

- ❖ Over Diversification: LACERS has an overdiversified private equity portfolio, with a large enough number of relationships that returns may exhibit reversion to the mean
- ❖ Legacy Performance: The legacy portfolio will continue to be a drag on performance, including the Specialized Portfolio
- ❖ Co-Investment Program: Today, LACERS does not have an active co-investment program while many other similar LPs are developing such programs
- ❖ Lack of Negotiating Power: Given the size of investments and the focus on commingled funds, LACERS has relatively limited negotiating power

SWOT Analysis – Opportunities & Threats

❖ Opportunities

- ❖ Market Volatility: Recent market turmoil and the potential for future market turmoil can be an opportunity for nimble and experienced investors in private equity
- ❖ Portfolio Consolidation: LACERS has existing relationships with several high-quality GP's, and has the potential to develop long-term relationships with other high-quality GP's
- ❖ Co-Investments: Pursuing co-investments in-house or through third parties can increase exposure to core GP's while simultaneously helping to mitigate costs
- ❖ Secondary Transactions: The secondary market has evolved to the point that it can be viewed as a potential investment as well as a portfolio management tool
- ❖ Emerging Managers: Today's emerging managers may be the new generation of top-tier performers. The ability to invest in these managers early on in their life may help with long-term access to outperforming emerging managers

❖ Threats

- ❖ Broad Co-Investment Appetite: Many LP's are seeking co-investments and are fostering relationships with GP's or third parties to secure access
- ❖ Market Volatility: The public markets have been fairly volatile recently; a significant drop in public markets can impact valuations of
- ❖ High Pricing: Entry Multiples in 2018 and 2019 surpassed 2007 highs; while these levels were tested in 2020 due to COVID 19, they have not come down significantly
- ❖ Disclosures / Regulations: AB2833 and other reporting requirements may be disagreeable to certain top-quartile GPs; potentially a bigger issue in Venture Capital vs Buyouts sub-sector

2021 Long Term Strategic Plan Recommendations

❖ Pacing

- ❖ Maintain consistent incremental increases in annual commitments until LACERS reaches its private equity target of 14.0%
- ❖ Commitment plan of \$675 - \$750 million proposed for 2021
- ❖ Commitments to 14 -18 firms with a target size of \$50 - \$70 million per commitment / relationship
 - ❖ Includes 3-5 investments of up to \$20 million in various Emerging Managers

❖ Broad Portfolio Considerations

- ❖ Continue consolidating commitments with top performing managers
- ❖ Continue to selectively add exposure internationally – primarily to Europe and Asia
- ❖ Continue increasing exposure to Buyouts relative to other sub-asset classes
- ❖ Continue to manage underlying sector exposures
 - ❖ Monitor IT exposure to make sure it doesn't get over 40% threshold
 - ❖ Potentially increase exposure to Healthcare and other select sectors
- ❖ Continue to add exposure to strategies designed to outperform in down or sideways markets – i.e. Value-Oriented Managers, Turnaround Managers, Distressed Managers

2021 Short Term Tactical Recommendations

Lean Into the Strengths

- ❖ Existing GP Relationships: Increase exposure to existing, high conviction managers that are back in market in 2021
- ❖ Brand / Reputation: Leverage LACERS reputation to initiate new relationships of scale with high quality GPs that are in market in 2021 and where the relationship can be scaled over time
- ❖ Flexible Mandate: Leverage LACERS ability to invest across sub-asset classes and take advantage of the full spectrum of private equity activities
 - ❖ Continue developing a framework for the implementation of co-investment program
 - ❖ Potentially invest in a commingled co-Investment fund in 2021 and begin broader strategic conversations
 - ❖ Continue developing a framework for the implementation of a secondary program
 - ❖ Potentially invest in a commingled secondary fund in 2021 and begin broader strategic conversations
 - ❖ Continue exploring a potential secondary sale when conditions are favorable
- ❖ Sector Exposures: Continue to overweight the IT sector while maintaining appropriate diversity across sectors
 - ❖ Potentially emphasize other sectors such as healthcare

2021 Short Term Tactical Recommendations

Capitalize on Opportunities

- ❖ Market Volatility: Continue to review and potentially invest with value-oriented, turnaround, and distressed investment managers
- ❖ Co-Investments: Continue to evaluate potential 3rd party co-investment managers and push forward on longer term plans to develop LACERS co-investment program
- ❖ Secondaries: Continue building a framework for to address secondary transactions – both on the “buy” and the “sell” side
 - ❖ Continue discussions and preparations for a potential portfolio secondary sale
- ❖ Emerging Managers: Continue targeting high-quality first-time managers / spin-outs / diverse managers

❖ Minimize Weaknesses / Counter Threats

- ❖ Over Diversification: Continue to trim relationships and consolidate capital with higher-conviction managers
- ❖ Legacy Performance: Continue to consider and lay the groundwork for a portfolio secondary sale when appropriate
- ❖ Co-Investment Program: Continue to lay the groundwork for a co-investment to help increase exposure to high-quality GPs and simultaneously mitigate fees and expenses

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

MEETING: NOVEMBER 10, 2020
ITEM: VII

Neil M. Guglielmo

SUBJECT: CONTINUED DISCUSSION OF INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Investment Committee consider and provide comments regarding the proposed revisions to the Manager Monitoring Policy.

Discussion

LACERS maintains a comprehensive Investment Policy (IP) pursuant to Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund to "...provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system."

Pursuant to Section V.I of the IP, the Board shall review the IP at least annually, with the assistance of staff and investment consultants, and revise as necessary. As part of the Board's 2020 annual IP review, staff and LACERS' general consultant, NEPC, LLC, propose amendments to the Manager Monitoring Policy, as contained in the attached redline document (Attachment 1). These amendments refine the evaluation process and quantitative factors pertaining to "On Watch" status for active and passive managers, as well as make other technical and administrative updates. Staff requests that the Committee consider the proposed amendments and provide comments as appropriate.

Strategic Alignment

Revising the LACERS Investment Policy Statement aligns with the Strategic Plan Goals to optimize long-term risk adjusted investment returns (Goal IV), to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V), and to maximize organizational effectiveness and efficiency (Goal VI).

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

NMG/RJ/BF/JW:jp

Attachments: 1. Manager Monitoring Policy – Proposed Revisions (Redline Version)
2. Manager Monitoring Policy – Proposed Revisions (Clean Version)
3. Manager Monitoring Policy – Current Board Approved Version

Proposed Revised Manager Monitoring Policy (Redline Version)
As of November 10, 2020

VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

A. Purpose

The purpose of this policy is to:

1. provide a disciplined, methodical process for determining whether to retain or terminate managers of liquid markets strategies due to poor relative performance, organizational or personnel issues, or other factors which reduce LACERS' conviction in the manager/strategy;
2. establish general guidelines for monitoring the effectiveness of implementing the liquid markets investment strategies for which the investment managers are retained;
3. provide a detailed framework and criteria for placing a manager "On Watch" status;
4. provide a systematic, consistent, and objective framework for recommending or electing to retain or terminate a manager.

LACERS' objective is to determine the likelihood of future success of the strategy; therefore, it is important that retention/termination decisions focus on qualitative aspects of each manager's investment philosophy, strategy and process, as well as quantitative assessment of past and current performance.

It is also important to consider that each manager's situation is unique, and must be analyzed on an individual basis, taking into account any unique circumstances affecting the manager and its relationship with LACERS.

Liquid market strategies are strategies where the securities are publicly traded on daily priced exchanges or via the bond auction markets and which are housed within separate account portfolios, mutual funds, or commingled/collective funds with at least monthly liquidity. For investment managers that are not classified as liquid, mainly Private Equity and Real Estate, separate policies have been set up in Section X and XI, respectively.

B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

1. Investment performance relative to a specific benchmark and an appropriate peer group;
2. Investment risk relative to specific benchmark and an appropriate peer group;
3. Performance per unit of risk relative to specific benchmark and an appropriate peer group (information ratio);
4. Adherence to the investment manager's philosophy, process, and stated investment style/strategy;
5. Organizational and personnel continuity;
6. Compliance with Investment Manager Guidelines and Investment Policy.

Proposed Revised Manager Monitoring Policy (Redline Version)
As of November 10, 2020

LACERS' Staff and the General Fund Consultant will review and evaluate investment managers, quantitatively and qualitatively, using the following procedures:

1. Quarterly quantitative review of performance and risk relative to its specific benchmark and an appropriate peer group of active managers over various measurement periods (normally three to five years);
2. Quarterly review of portfolio characteristics, performance trends, style consistency, and risk expectations (standard deviation and tracking error);
3. Annual due diligence meeting at LACERS' office;
4. Conduct a due diligence meeting at least once during the contract period at the investment manager's office for actively managed mandates (unless significant organizational change warrants immediate evaluation) and at staff's discretion for passively managed mandates if there are no triggered factors in either Sections VIII.E or VIII.F.;
- ~~4. Every three years (generally) conduct due diligence meeting at the investment manager's office, unless significant organizational change warrants immediate evaluation;~~
5. More frequent, detailed and formal review of investment managers "On Watch" (see Section VIII.C below).

Following any evaluation, Staff and General Fund Consultant will determine whether ~~the~~an investment managers will be placed "On Watch". An active mandate manager will be placed "On Watch" if the investment manager either:

- ~~1. it~~1. Fails to meet both two or more quantitative ~~and/or qualitative~~ factors as listed under the Active Mandates category of in Section VIII.E ~~and for two consecutive quarters~~VIII.F. Failure to meet only one of these factors will not warrant "On Watch" status; or
- ~~2. However, it~~2. Experiences situations where there is material organizational, personnel, or strategy ~~or personnel~~ changes which that directly impact the product in which LACERS is invested, causing a breach of any one of the qualitative factors as listed in Section VIII.F

A passive mandate manager will be placed "On Watch" if the investment manager either:

- ~~1. Fails to meet the quantitative factor as listed in~~1. Fails to meet the quantitative factor as listed under the Passive Mandates category of Section VIII.E ~~for two consecutive quarters; or~~
- ~~2. Experiences material organizational, personnel, or strategy changes that directly impact the product in which LACERS is invested, causing a breach of any one of the qualitative factors as listed in Section VIII.F, no additional factors would be required to place the firm in "On Watch" status.~~

Proposed Revised Manager Monitoring Policy (Redline Version)
As of November 10, 2020

C. Managers “On Watch”

LACERS shall notify investment managers in writing of their status should they be placed “On Watch”. Typically, “On Watch” status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period based on the progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

The Board is updated on a quarterly basis of all managers’ performance, status, and “On Watch”.

Managers “On Watch” will receive no additional funding from rebalancing, contributions or other sources. However, funds may be withdrawn for rebalancing or liquidity needs.

D. Newly-Hired Managers

Quantitative factors will be evaluated quarterly, but shall not cause a manager to be placed “On Watch” until three years or more after inception, unless the manager demonstrates performance that is materially inconsistent with expectations or experiences organizational issues.

E. Quantitative Factors

Factor	Trigger	Action
Annualized <u>net</u> performance relative to its benchmark for trailing <u>3- years</u>	Underperforms (net of fees) in 8 of 12 previous quarters	Place “On Watch” and notify manager
Annualized <u>net</u> performance relative to its benchmark for trailing <u>5- years</u>	¹Underperforms (net of fees)	Place “On Watch” and notify manager
<u>ACTIVE MANDATES</u> Annualized net performance relative to peer median performance for trailing <u>5- years</u> Moving	Underperforms (net of fees) trailing 5--year peer median performance¹ Greater than two standard deviations from ‘Since inception’ mean TE²	Place “On Watch” and notify manager <u>, if both active mandate quantitative factors fail for two consecutive quarters</u>

¹ For investment managers under contract with LACERS less than five years, a manager’s pre-hire composite performance data may be combined with LACERS performance data to evaluate this factor, subject to the provisions of Section VIII.D

² Or over at least a 5-year period using pre-hire data if inception less than five years.

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average tracking error (TE) for 3-years		
Moving average tracking error (TE) for 5-years	Greater than two standard deviations from 'Since inception' mean TE³	Place "On Watch" and notify manager
Moving average net Information Ratio for trailing 5-years	<u>Trailing 5-year Information Ratio</u> falls below 0.20 ¹	Place "On Watch" and <u>and notify manager, if both active mandate quantitative factors fail for two consecutive quarters if fails another quantitative factor</u>
PASSIVE MANDATES Annualized net performance relative to its benchmark for trailing 1-year	Underperforms (net of fees) by more than 0.2% <u>excluding the impact of cash flows initiated by LACERS staff- (e.g., cash withdrawals, monthly dividend sweeps)</u>	Place "On Watch" and notify manager
Annualized average tracking error (TE) for 1-year	Greater than 1%	Place "On Watch" and notify manager

³ ~~Or over at least a 10-year period using pre-hire data if inception less than ten years.~~

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F. Qualitative Factors

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may result in placing the investment manager on the “On Watch” status or an immediate termination.

Criteria	Factor	Action
Organization	Change in firm ownership and/or structure	Place “On Watch”, if determined that change might detrimentally affect performance and strategy
	Loss of one or several key personnel, specifically personnel on LACERS portfolio product	Place “On Watch”, if determined the turnover will impair the firm’s investment capabilities
	Significant loss of clients and/or assets under management	Place “On Watch”, if there is a high client turnover and high volume of outflows
	Significant and persistent lack of responsiveness to LACERS requests	Place “On Watch”, if service deterioration inhibits ability to monitor
	Regulatory agencies’ investigation and/or material litigation	Place “On Watch”, if nature, seriousness, and likely impact of charges on the firm and investment product warrant
Strategy and Risk Control	Deviation from stated investment philosophy, style, and process, and/or expected <u>portfolio characteristics as described in the investment management guidelines (e.g., tracking error, market capitalization range, duration)</u>	Place “On Watch” if deviation persists for more than 4 quarters. Terminate if no longer consistent with LACERS objective
	Risk management controls and procedures	Place “On Watch” for repeated guideline or policy violations

G. Courses of Action

After placing an investment manager “On Watch” status the following steps will be taken:

1. Staff will contact the investment manager and formally inform them of their status in writing. Notification shall indicate the reasons why the firm is “On Watch” and request the

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investment manager to explain and to provide plan of action to remove itself from “On Watch” status;

2. Staff and/or General Fund Consultant will meet with the investment manager, either in person or telephonically, following receipt of a written response from them;
3. Staff shall monitor the progress of the investment manager’s implementation of the plan of action;
4. After the initial one year period, Staff and General Fund Consultant shall determine whether to remove the manager from “On Watch” status or continue the “On Watch” status. Staff may recommend a manager termination subject to the Board’s approval.

If deemed necessary, the Board may request the investment manager to appear before the Board to explain the situation. Non-compliance with respect to the Board request shall be cause for an immediate termination recommendation by Staff to the Board.

H. Halting of Trading Activity

Investment managers may be required to halt trading activity by the Chief Investment Officer as soon as practicable due to unusual and significant operational risk factors that are deemed to have a material impact on the System; and, without immediate action taken by the Chief Investment officer, could result in material harm or impairment to LACERS’ portfolio. Halting of the trading activity is subject to the concurrence of LACERS General Manager and General Fund Consultant. The Chief Investment Officer shall report the action(s) at the next scheduled Board meeting. Authorization to resume trading activity by the Chief Investment Officer requires the concurrence of LACERS General Manager (or the acting designated Executive Officer or Assistant General Manager in the General Manager’s absence) and the General Fund Consultant.

I. Termination

The Board reserves the right to terminate an investment manager for any reason regardless of status. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board’s portfolio, including holding restricted issues;
2. Failure to achieve performance objectives specified in the manager’s guidelines;
3. Significant deviation from the manager’s stated investment philosophy and/or process;
4. Loss of key personnel;
5. Evidence of illegal or unethical behavior by the investment management firm;
6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios;
7. Loss of confidence by the Board in the investment manager;

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8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in a termination.

Upon the Board's approval of termination, Staff will notify the investment manager in writing of the termination process and the date on which to cease all trading based on operational needs. Staff will keep the Board informed of the termination progress.

All of LACERS investment management contracts under the Manager Monitoring Policy (Liquid Markets Strategies) allow LACERS to terminate the manager, with or without cause, after 30 days' written notice

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VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

A. Purpose

The purpose of this policy is to:

1. provide a disciplined, methodical process for determining whether to retain or terminate managers of liquid markets strategies due to poor relative performance, organizational or personnel issues, or other factors which reduce LACERS' conviction in the manager/strategy;
2. establish general guidelines for monitoring the effectiveness of implementing the liquid markets investment strategies for which the investment managers are retained;
3. provide a detailed framework and criteria for placing a manager "On Watch" status;
4. provide a systematic, consistent, and objective framework for recommending or electing to retain or terminate a manager.

LACERS' objective is to determine the likelihood of future success of the strategy; therefore, it is important that retention/termination decisions focus on qualitative aspects of each manager's investment philosophy, strategy and process, as well as quantitative assessment of past and current performance.

It is also important to consider that each manager's situation is unique, and must be analyzed on an individual basis, taking into account any unique circumstances affecting the manager and its relationship with LACERS.

Liquid market strategies are strategies where the securities are publicly traded on daily priced exchanges or via the bond auction markets and which are housed within separate account portfolios, mutual funds, or commingled/collective funds with at least monthly liquidity. For investment managers that are not classified as liquid, mainly Private Equity and Real Estate, separate policies have been set up in Section X and XI, respectively.

B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

1. Investment performance relative to a specific benchmark and an appropriate peer group;
2. Investment risk relative to specific benchmark and an appropriate peer group;
3. Performance per unit of risk relative to specific benchmark and an appropriate peer group (information ratio);
4. Adherence to the investment manager's philosophy, process, and stated investment style/strategy;
5. Organizational and personnel continuity;
6. Compliance with Investment Manager Guidelines and Investment Policy.

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LACERS' Staff and the General Fund Consultant will review and evaluate investment managers, quantitatively and qualitatively, using the following procedures:

1. Quarterly quantitative review of performance and risk relative to its specific benchmark and an appropriate peer group of active managers over various measurement periods (normally three to five years);
2. Quarterly review of portfolio characteristics, performance trends, style consistency, and risk expectations (standard deviation and tracking error);
3. Annual due diligence meeting at LACERS' office;
4. Conduct a due diligence meeting at least once during the contract period at the investment manager's office for actively managed mandates (unless significant organizational change warrants immediate evaluation) and at staff's discretion for passively managed mandates if there are no triggered factors in either Sections VIII.E or VIII.F;
5. More frequent, detailed and formal review of investment managers "On Watch" (see Section VIII.C below).

Following any evaluation, Staff and General Fund Consultant will determine whether an investment manager will be placed "On Watch". An active mandate manager will be placed "On Watch" if the investment manager either:

1. Fails to meet both quantitative factors as listed under the Active Mandates category of Section VIII.E for two consecutive quarters. Failure to meet only one of these factors will not warrant "On Watch" status; or
2. Experiences material organizational, personnel, or strategy changes that directly impact the product in which LACERS is invested, causing a breach of any one of the qualitative factors as listed in Section VIII.F

A passive mandate manager will be placed "On Watch" if the investment manager either:

1. Fails to meet the quantitative factor as listed under the Passive Mandates category of Section VIII.E; or
2. Experiences material organizational, personnel, or strategy changes that directly impact the product in which LACERS is invested, causing a breach of any one of the qualitative factors as listed in Section VIII.F

C. Managers "On Watch"

LACERS shall notify investment managers in writing of their status should they be placed "On Watch". Typically, "On Watch" status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period based on the progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

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The Board is updated on a quarterly basis of all managers' performance, status, and "On Watch".

Managers "On Watch" will receive no additional funding from rebalancing, contributions or other sources. However, funds may be withdrawn for rebalancing or liquidity needs.

D. Newly-Hired Managers

Quantitative factors will be evaluated quarterly, but shall not cause a manager to be placed "On Watch" until three years or more after inception, unless the manager demonstrates performance that is materially inconsistent with expectations or experiences organizational issues.

E. Quantitative Factors

Factor	Trigger	Action
ACTIVE MANDATES		
Annualized net performance relative to peer median performance for trailing <u>5- years</u>	Underperforms (net of fees) trailing 5-year peer median performance ¹	Place "On Watch" and notify manager, if both active mandate quantitative factors fail for two consecutive quarters
Moving average <u>net</u> Information Ratio for trailing <u>5-years</u>	Trailing 5-year Information Ratio falls below 0.20 ¹	Place "On Watch" and notify manager, if both active mandate quantitative factors fail for two consecutive quarters
PASSIVE MANDATES		
Annualized <u>net</u> performance relative to its benchmark for trailing <u>1- year</u>	Underperforms (net of fees) by more than 0.2%, excluding the impact of cash flows initiated by LACERS staff (e.g., cash withdrawals, monthly dividend sweeps)	Place "On Watch" and notify manager

¹ For investment managers under contract with LACERS less than five years, a manager's pre-hire composite performance data may be combined with LACERS performance data to evaluate this factor, subject to the provisions of Section VIII.D

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F. Qualitative Factors

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may result in placing the investment manager on the “On Watch” status or an immediate termination.

Criteria	Factor	Action
Organization	Change in firm ownership and/or structure	Place “On Watch”, if determined that change might detrimentally affect performance and strategy
	Loss of one or several key personnel, specifically personnel on LACERS portfolio product	Place “On Watch”, if determined the turnover will impair the firm’s investment capabilities
	Significant loss of clients and/or assets under management	Place “On Watch”, if there is a high client turnover and high volume of outflows
	Significant and persistent lack of responsiveness to LACERS requests	Place “On Watch”, if service deterioration inhibits ability to monitor
	Regulatory agencies’ investigation and/or material litigation	Place “On Watch”, if nature, seriousness, and likely impact of charges on the firm and investment product warrant
Strategy and Risk Control	Deviation from stated investment philosophy, style, process, and/or expected portfolio characteristics as described in the investment management guidelines (e.g., tracking error, market capitalization range, duration)	Place “On Watch” if deviation persists for more than 4 quarters. Terminate if no longer consistent with LACERS objective
	Risk management controls and procedures	Place “On Watch” for repeated guideline or policy violations

G. Courses of Action

After placing an investment manager “On Watch” status the following steps will be taken:

1. Staff will contact the investment manager and formally inform them of their status in writing. Notification shall indicate the reasons why the firm is “On Watch” and request the

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investment manager to explain and to provide plan of action to remove itself from “On Watch” status;

2. Staff and/or General Fund Consultant will meet with the investment manager, either in person or telephonically, following receipt of a written response from them;
3. Staff shall monitor the progress of the investment manager’s implementation of the plan of action;
4. After the initial one year period, Staff and General Fund Consultant shall determine whether to remove the manager from “On Watch” status or continue the “On Watch” status. Staff may recommend a manager termination subject to the Board’s approval.

If deemed necessary, the Board may request the investment manager to appear before the Board to explain the situation. Non-compliance with respect to the Board request shall be cause for an immediate termination recommendation by Staff to the Board.

H. Halting of Trading Activity

Investment managers may be required to halt trading activity by the Chief Investment Officer as soon as practicable due to unusual and significant operational risk factors that are deemed to have a material impact on the System; and, without immediate action taken by the Chief Investment officer, could result in material harm or impairment to LACERS’ portfolio. Halting of the trading activity is subject to the concurrence of LACERS General Manager and General Fund Consultant. The Chief Investment Officer shall report the action(s) at the next scheduled Board meeting. Authorization to resume trading activity by the Chief Investment Officer requires the concurrence of LACERS General Manager (or the acting designated Executive Officer or Assistant General Manager in the General Manager’s absence) and the General Fund Consultant.

I. Termination

The Board reserves the right to terminate an investment manager for any reason regardless of status. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board’s portfolio, including holding restricted issues;
2. Failure to achieve performance objectives specified in the manager’s guidelines;
3. Significant deviation from the manager’s stated investment philosophy and/or process;
4. Loss of key personnel;
5. Evidence of illegal or unethical behavior by the investment management firm;
6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios;
7. Loss of confidence by the Board in the investment manager;

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8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in a termination.

Upon the Board's approval of termination, Staff will notify the investment manager in writing of the termination process and the date on which to cease all trading based on operational needs. Staff will keep the Board informed of the termination progress.

All of LACERS investment management contracts under the Manager Monitoring Policy (Liquid Markets Strategies) allow LACERS to terminate the manager, with or without cause, after 30 days' written notice

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

A. Purpose

The purpose of this policy is to:

1. provide a disciplined, methodical process for determining whether to retain or terminate managers of liquid markets strategies due to poor relative performance, organizational or personnel issues, or other factors which reduce LACERS' conviction in the manager/strategy;
2. establish general guidelines for monitoring the effectiveness of implementing the liquid markets investment strategies for which the investment managers are retained;
3. provide a detailed framework and criteria for placing a manager "On Watch" status;
4. provide a systematic, consistent, and objective framework for recommending or electing to retain or terminate a manager.

LACERS' objective is to determine the likelihood of future success of the strategy; therefore, it is important that retention/termination decisions focus on qualitative aspects of each manager's investment philosophy, strategy and process, as well as quantitative assessment of past and current performance.

It is also important to consider that each manager's situation is unique, and must be analyzed on an individual basis, taking into account any unique circumstances affecting the manager and its relationship with LACERS.

Liquid market strategies are strategies where the securities are publicly traded on daily priced exchanges or via the bond auction markets and which are housed within separate account portfolios, mutual funds, or commingled/collective funds with at least monthly liquidity. For investment managers that are not classified as liquid, mainly Private Equity and Real Estate, separate policies have been set up in Section X and XI, respectively.

B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

1. Investment performance relative to a specific benchmark and an appropriate peer group;
2. Investment risk relative to specific benchmark and an appropriate peer group;
3. Performance per unit of risk relative to specific benchmark and an appropriate peer group (information ratio);
4. Adherence to the investment manager's philosophy, process, and stated investment style/strategy;
5. Organizational and personnel continuity;

ARTICLE III. BOARD INVESTMENT POLICIES

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

6. Compliance with Investment Manager Guidelines and Investment Policy.

LACERS' Staff and the General Fund Consultant will review and evaluate investment managers, quantitatively and qualitatively, using the following procedures:

1. Quarterly quantitative review of performance and risk relative to its specific benchmark and an appropriate peer group of active managers over various measurement periods (normally three to five years);
2. Quarterly review of portfolio characteristics, performance trends, style consistency, and risk expectations (standard deviation and tracking error);
3. Annual due diligence meeting at LACERS' office;
4. Every three years (generally) conduct due diligence meeting at the investment manager's office, unless significant organizational change warrants immediate evaluation;
5. More frequent, detailed and formal review of investment managers "On Watch" (see Section VIII.C below).

Following any evaluation, Staff and General Fund Consultant will determine whether the investment managers will be placed "On Watch" if it fails to meet two or more quantitative and/or qualitative factors as listed in Section VIII.E and VIII.F. However, in situations where there is organizational or personnel changes which directly impact the product in which LACERS is invested, no additional factors would be required to place the firm in "On Watch" status.

C. Managers "On Watch"

LACERS shall notify investment managers in writing of their status should they be placed "On Watch". Typically, "On Watch" status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period based on the progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

The Board is updated on a quarterly basis of all managers' performance, status, and "On Watch".

Managers "On Watch" will receive no additional funding from rebalancing, contributions or other sources. However, funds may be withdrawn for rebalancing or liquidity needs.

D. Newly-Hired Managers

Quantitative factors will be evaluated quarterly, but shall not cause a manager to be placed "On Watch" until three years or more after inception, unless the manager demonstrates performance that is materially inconsistent with expectations or experiences organizational issues.

ARTICLE III. BOARD INVESTMENT POLICIES

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

E. Quantitative Factors

Factor	Trigger	Action
Annualized <u>net</u> performance relative to its benchmark for trailing <u>3-years</u>	Underperforms (net of fees) in 8 of 12 previous quarters	Place “On Watch” and notify manager
Annualized <u>net</u> performance relative to its benchmark for trailing <u>5-years</u>	Underperforms (net of fees)	Place “On Watch” and notify manager
Moving average tracking error (TE) for 3-years	Greater than two standard deviations from ‘Since inception’ mean TE ¹	Place “On Watch” and notify manager
Moving average tracking error (TE) for 5-years	Greater than two standard deviations from ‘Since inception’ mean TE ²	Place “On Watch” and notify manager
Moving average <u>net</u> Information Ratio for trailing <u>5-years</u>	Falls below 0.20.	Place “On Watch”, if fails another quantitative factor
PASSIVE MANDATES Annualized <u>net</u> performance relative to its benchmark for trailing <u>1-year</u>	Underperforms (net of fees) by more than 0.2%.	Place “On Watch” and notify manager
Annualized average tracking error (TE) for 1-year	Greater than 1%	Place “On Watch” and notify manager

¹ Or over at least a 5-year period using pre-hire data if inception less than five years.

² Or over at least a 10-year period using pre-hire data if inception less than ten years.

ARTICLE III. BOARD INVESTMENT POLICIES

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

F. Qualitative Factors

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events may result in placing the investment manager on the “On Watch” status or an immediate termination.

Criteria	Factor	Action
Organization	Change in firm ownership and/or structure	Place “On Watch”, if determined that change might detrimentally affect performance and strategy
	Loss of one or several key personnel, specifically personnel on LACERS portfolio product	Place “On Watch”, if determined the turnover will impair the firm’s investment capabilities
	Significant loss of clients and/or assets under management	Place “On Watch”, if there is a high client turnover and high volume of outflows
	Significant and persistent lack of responsiveness to LACERS requests	Place “On Watch”, if service deterioration inhibits ability to monitor
	Regulatory agencies’ investigation and/or material litigation	Place “On Watch”, if nature, seriousness, and likely impact of charges on the firm and investment product warrant
Strategy and Risk Control	Deviation from stated investment philosophy, style and process	Place “On Watch” if deviation persists for more than 4 quarters. Terminate if no longer consistent with LACERS objective
	Risk management controls and procedures	Place “On Watch” for repeated guideline or policy violations

G. Courses of Action

After placing an investment manager “On Watch” status the following steps will be taken:

1. Staff will contact the investment manager and formally inform them of their status in writing. Notification shall indicate the reasons why the firm is “On Watch” and request the investment manager to explain and to provide plan of action to remove itself from “On Watch” status;

ARTICLE III. BOARD INVESTMENT POLICIES

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

2. Staff and/or General Fund Consultant will meet with the investment manager, either in person or telephonically, following receipt of a written response from them;
3. Staff shall monitor the progress of the investment manager's implementation of the plan of action;
4. After the initial one year period, Staff and General Fund Consultant shall determine whether to remove the manager from "On Watch" status or continue the "On Watch" status. Staff may recommend a manager termination subject to the Board's approval.

If deemed necessary, the Board may request the investment manager to appear before the Board to explain the situation. Non-compliance with respect to the Board request shall be cause for an immediate termination recommendation by Staff to the Board.

H. Halting of Trading Activity

Investment managers may be required to halt trading activity by the Chief Investment Officer as soon as practicable due to unusual and significant operational risk factors that are deemed to have a material impact on the System; and, without immediate action taken by the Chief Investment officer, could result in material harm or impairment to LACERS' portfolio. Halting of the trading activity is subject to the concurrence of LACERS General Manager and General Fund Consultant. The Chief Investment Officer shall report the action(s) at the next scheduled Board meeting. Authorization to resume trading activity by the Chief Investment Officer requires the concurrence of LACERS General Manager and the General Fund Consultant.

I. Termination

The Board reserves the right to terminate an investment manager for any reason regardless of status. Grounds for investment manager termination may include, but are not limited to, the following reasons:

1. Failure to comply with the guidelines agreed upon for management of the Board's portfolio, including holding restricted issues;
2. Failure to achieve performance objectives specified in the manager's guidelines;
3. Significant deviation from the manager's stated investment philosophy and/or process;
4. Loss of key personnel;
5. Evidence of illegal or unethical behavior by the investment management firm;
6. Lack of willingness to cooperate with reasonable requests by the Board for information, meetings or other material related to its portfolios;
7. Loss of confidence by the Board in the investment manager;
8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

The Board will carefully review any one of these factors; however, the presence of any one of these factors may not necessarily result in a termination.

ARTICLE III. BOARD INVESTMENT POLICIES

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

Upon the Board's approval of termination, Staff will notify the investment manager in writing of the termination process and the date on which to cease all trading based on operational needs. Staff will keep the Board informed of the termination progress.

All of LACERS investment management contracts under the Manager Monitoring Policy (Liquid Markets Strategies) allow LACERS to terminate the manager, with or without cause, after 30 days' written notice.