LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, MAY 9, 2023

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 one-way audio on Council Phone by calling (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside) or (310) 547-CITY (San Pedro Area).

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 non-exempt 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
Janna Sidley

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 ***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 11, 2023 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. PRESENTATION BY PGIM, INC. REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKET DEBT PORTFOLIO

V. PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2023-24 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

VI. INVESTMENT MANAGER CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION

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

VIII. INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE COMMITTEE ACTION

IX. OTHER BUSINESS

X. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 13, 2023, at 10:30 a.m., or immediately following the Board Meeting in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

XI. ADJOURNMENT

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MAY 9, 2023

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President: Vacant
Vice President: Elizabeth Lee

Commissioners: Annie Chao
Thuy T. Huynh
Janna Sidley
Sung Won Sohn
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

Agenda of:	**May 9, 2023**
Item No:	**II**

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

April 11, 2023

1:19 p.m.

PRESENT:	Co-Chair	Janna Sidley
	Committee Members:	Thuy Huynh
	Legal Counselor:	Anya Freedman
	Manager-Secretary:	Neil M. Guglielmo
	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 Sidley asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no public comment cards submitted.

II

APPROVAL OF MINUTES FOR THE MEETING OF MARCH 14, 2023 AND POSSIBLE COMMITTEE ACTION – Committee Member Huynh moved approval, and adopted by the following vote: Ayes, Committee Member Huynh and Co-Chair Sidley -2; Nays, None.

III

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

- Investment Committee Forward Calendar

IV

INVESTMENT MANAGER CONTRACT WITH WASATCH ADVISORS, INC. D/B/A WASATCH GLOBAL INVESTORS REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKETS SMALL CAP EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Ellen Chen, Investment Officer II, presented this item to the Committee. After a brief discussion, Committee Member Huynh moved approval, adopted by the following vote: Ayes, Committee Member Huynh and Co-Chair Sidley -2; Nays, None.

V

INVESTMENT MANAGER CONTRACT WITH EAM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, presented this item to the Committee. After a brief discussion, Committee Member Huynh moved approval, adopted by the following vote: Ayes, Committee Member Huynh and Co-Chair Sidley -2; Nays, None.

VI

OTHER BUSINESS – There was no other business.

VII

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, May 9, 2023, at 10:30 a.m. or immediately following the Board Meeting, in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

VIII

ADJOURNMENT – There being no further business before the Committee, Co-Chair Sidley adjourned the meeting at 12:14 p.m.

Janna Sidley
Co-Chair

Neil M. Guglielmo
Manager-Secretary

Los Angeles City Employees Retirement System

Portfolio Review

May 2023

PGIM FIXED INCOME

The Global Fixed Income Business of Prudential Financial, Inc.
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Confidential – Not for further distribution.
For Professional Investors Only. All investments involve risk, including possible loss of capital.
Please see Notice Page for important disclosures regarding the information contained herein.

Presenter Biographies

Mariusz Banasiak, CFA, is a Managing Director and Head of Local Currency Rates and FX for PGIM Fixed Income's Emerging Markets Debt Team. Mr. Banasiak is also a senior portfolio manager for the Emerging Markets hedge fund product as well as being responsible for developing currency strategy for Global and Core plus mandates. Prior to assuming this position in the Emerging Markets Debt Team, he was responsible for developing portfolio strategies on USD sovereign and local emerging market yield curves and currencies in the Europe, Middle East, and Africa (EMEA) region. Previously, Mr. Banasiak was an Analyst for emerging market debt portfolios in the Portfolio Analyst Group. Earlier, he was responsible for risk analysis and performance attribution for the Firm's proprietary portfolios. Mr. Banasiak joined the Firm in 2004. He received a BS with Honors in Finance from Rutgers University and holds the Chartered Financial Analyst (CFA) designation.

Peter Taggart is a Principal, Client Advisory for PGIM Fixed Income. Mr. Taggart works with our largest institutional investors in developing fixed income solutions to meet their needs. Mr. Taggart has more than 20 years of experience in the investment management business, structuring and managing portfolios for U.S. and international institutions. Prior to joining the Firm in 2002, Mr. Taggart was Executive Director of Marketing with WestAM. Previously, Mr. Taggart was Managing Director with Forstmann-Leff, where he was responsible for marketing equity, fixed income and private equity investment services to institutions. Prior to Forstmann-Leff, Mr. Taggart was with Salomon Brothers Asset Management for nine years, in both bond portfolio management and client relations positions and at First Boston Asset Management, where he was a bond Portfolio Manager. Mr. Taggart received a BA in Computer Science from Colgate University.

For purposes of the biographies, the "Firm" is defined as Prudential Financial, Inc. ("PFI"). All PGIM and Prudential named entities are subsidiaries or affiliates of PFI. PFI. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

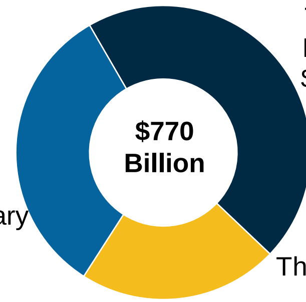
PGIM FIXED INCOME

Assets Under Management

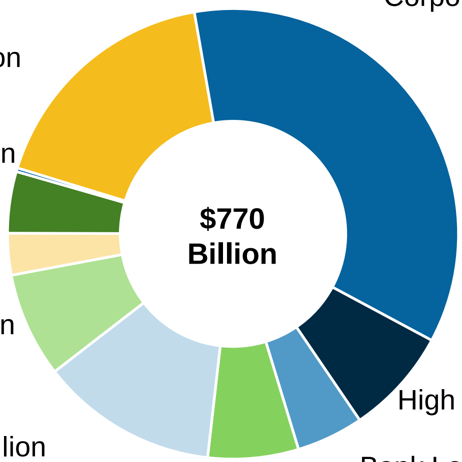
Firm Overview: Active Strategies Across Global Fixed Income Markets

- **Scale and breadth of capabilities**
- **Global experience, stability and continuity**
- **366 investment professionals**
- **995 institutional clients, 1,119 employees**
- **Collegial culture with a heritage of honest debate**
- **Attract, develop, retain and promote diverse talent**
- **ESG factors are also integrated into our fundamental analysis, and are reflected in our proprietary ESG impact ratings framework**

Assets Under Management



Expertise Across a Broad Range of Sectors



Assets as of December 31, 2022. Staffing as of December 31, 2022. ***Please see the Reference section for important disclosures, including risks and ESG.*** *Source: PGIM Fixed Income. Assets under management (AUM) are based on company estimates and are subject to change. PGIM Fixed Income's AUM includes the following businesses: (i) the PGIM Fixed income unit within PGIM, Inc., located in the USA; (ii) the public fixed income unit within PGIM Limited, located in London; (iii) PGIM Japan Co., Ltd. ("PGIM Japan"), located in Tokyo; (iv) the public fixed income unit within PGIM (Singapore) Pte. Ltd., located in Singapore ("PGIM Singapore"); (v) the public fixed income unit within PGIM (Hong Kong) Ltd. located in Hong Kong ("PGIM Hong Kong"); and (vi) PGIM Netherlands B.V., located in Amsterdam ("PGIM Netherlands"). Asset class breakdown based on company estimates and is subject to change. [1]Other includes Japanese equities and Japanese real estate equities.*

Emerging Markets Debt Investment Team

Experienced and Stable Team

- Investment team averages 13 years with the firm and 19 years investment experience
- Approach leverages full resources of the firm

Senior Portfolio Manager

Cathy Hepworth, CFA
Head of Emerging Markets Debt
37 yrs Investment Experience

Portfolio Management

Hard Currency and Blend

Cathy Hepworth, CFA
Senior Portfolio Manager
37 yrs Investment Experience

- Zulfi Ali, *Portfolio Manager, LATAM, 28 yrs inv exp.*
- Johnny Mak, *Portfolio Manager, Asia, 23 yrs inv exp.*
- Todd Petersen, *Portfolio Manager, EMEA, 18 yrs inv exp.*
- Eric Giza, *Portfolio Manager, EM Hard Currency, 15 yrs inv exp.*
- Rodrigo Navarro, CFA, *Portfolio Manager, EM Hard Currency, 15 yrs inv exp.*

EMD Corporates

Aayush Sonthalia, CFA
Senior Portfolio Manager
23 yrs Investment Experience

- Mark Thurgood[1], *Portfolio Manager, EM Corporates, CEE, GCC, 25 yrs inv exp.*

Product Specialist

- Denis Cole, *Product Specialist, EMD, 17 yrs inv exp.*

Local Currency and Blend

Mariusz Banasiak, CFA
Senior Portfolio Manager
18 yrs Investment Experience

- Pradeep Kumar, PhD, CFA, *Portfolio Manager, Local Rates/FX, 26 yrs inv exp.*
- David DiChiacchio, *Portfolio Manager and Trader, Local Rates/ FX, 10 yrs inv exp.*
- Zan Huang, PhD, CFA, *Quantitative Portfolio Manager, Rates and FX, 12 yrs inv exp.*
- Luke Zhou, *Portfolio Manager, Asset Selection, 11 yrs inv exp.*
- Markus Zehnder, *Trader, Local Rates / FX, 23 yrs inv exp.*
- Monika Patel, *Trader, Local Rates / FX, 8 yrs inv exp*
- Charles Wells[1], *Trader, Local Rates / FX, 10 yrs inv exp*

Global Macroeconomic Research & Investment Strategy

U.S.

- Daleep Singh, *Chief Global Economist and Head of Global Macroeconomic Research, 25 yrs inv exp.*
- Robert Tipp, CFA, *Chief Inv. Strategist and Head of Global Bonds, 39 yrs inv exp.*
- Gerwin Bell, PhD, *Lead Economist, Asia, 31 yrs inv exp.*
- Mehill Marku, *Lead Geopolitical Analyst, 24 yrs inv exp.*
- Francisco Campos-Ortiz, PhD, Lead Economist, LATAM, *11 yrs inv exp.*
- Kishlaya Pathak, CFA, *Investment Strategist, 23 yrs inv exp.*
- George Jiranek, *Investment Strategist, 8 yrs inv exp.*

London

- Katharine Neiss[1], *Chief Economist, Europe, 23 yrs inv exp.*
- Magdalena Polan[1], Lead Economist, EM, 19 yrs inv exp.
- Guillermo Felices[1], *Investment Strategist, 21 yrs inv exp.*
- Giancarlo Perasso[1], *Lead Economist, CEEMEA, 36 yrs inv exp.*

Emerging Market Corporate Debt Research

U.S.

- Nick Ivanov, CFA[2], *Head of Emerging Markets Corporate Bond Research, 29 yrs inv exp.*
- Elizabeth Gunning, CFA, Analyst, EMEA/LATAM Corporates, *23 yrs inv exp.*
- Omari Douglas-Hall, Analyst, EMEA/LATAM Corporates, *13 yrs inv exp.*
- Michael Pettit, CFA, Analyst, EMEA/LATAM Corporates, *11 yrs inv exp.*

Singapore

- Yanru Chen[3], *Analyst, Asian Corporates, 17 yrs inv exp.*
- Umar Manzoor[3], *Portfolio Manager/Analyst, Asian Corporates, 22 yrs inv exp.*
- Yi Ming Oh[3], *Analyst, Asian Corporates, 8 yrs inv exp.*

Staff as of December 2022. Years of experience as of December 31, 2022. [1]European Team members are employees of a PGIM affiliate who have been providing services to PGIM Limited, a UK subsidiary that is authorized and regulated by the Financial Conduct Authority. [2]Member of PGIM Fixed Income's credit research group. [3]Employee of a wholly-owned subsidiary of PGIM, Inc., PGIM (Singapore) Pte. Ltd.

Los Angeles City Employees' Retirement System

Investment Performance
As of March 31, 2023

				Annualized	
	2021	2022	YTD	1 Year	Since Inception[1]
Portfolio - Gross (%)	-4.48	-12.44	3.01	-1.86	-6.76
Portfolio - Net (%)	-4.77	-12.75	2.92	-2.19	-7.08
Benchmark (%)[2]	-4.97	-14.75	3.51	-3.83	-7.93
Increment - Gross (bps)	**+48**	**+231**	**-51**	**+198**	**+117**
Increment - Net (bps)	**+20**	**+201**	**-59**	**+164**	**+85**

Increment may not sum due to rounding.

= Attribution to Follow

LACEREMB
Source of portfolio returns: PGIM Fixed Income. Performance shown gross of fees and other expenses. Performance reported in USD.
Past performance is not a guarantee or a reliable indicator of future results. Performance over one-year is annualized.
1. Inception Date: February 12, 2021
2. Benchmark: 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI-EM Global Diversified. Source of Benchmark: JP Morgan.
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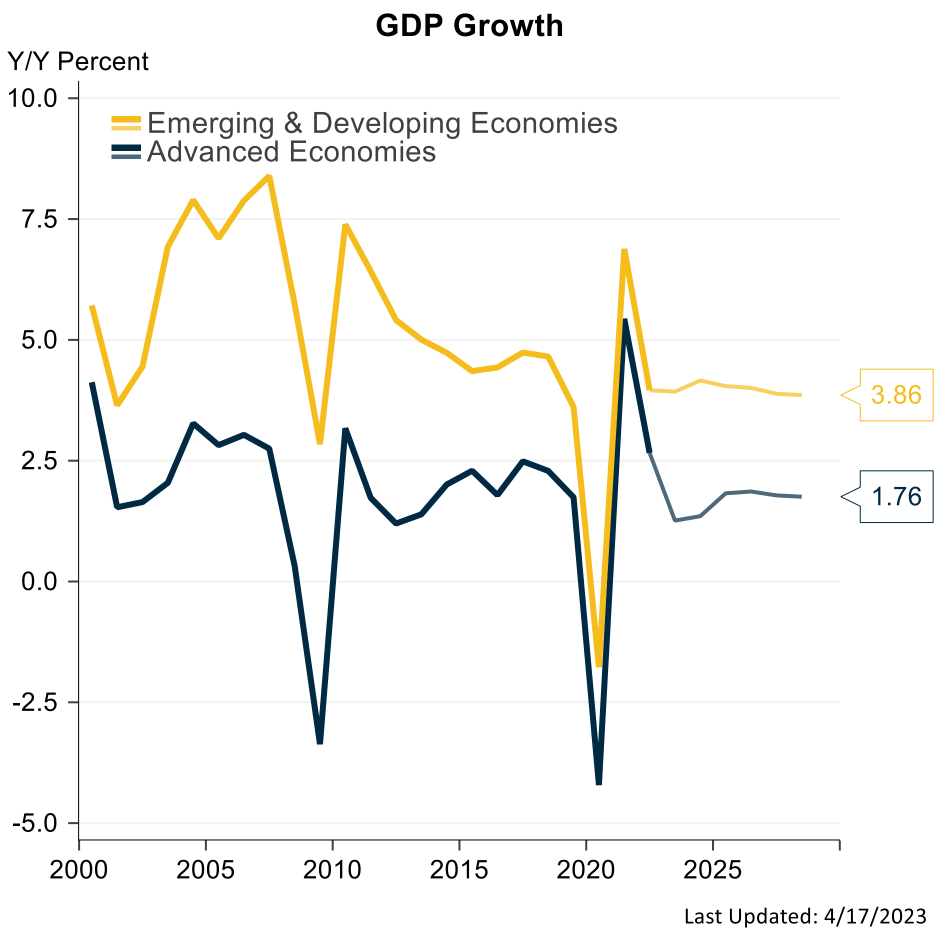
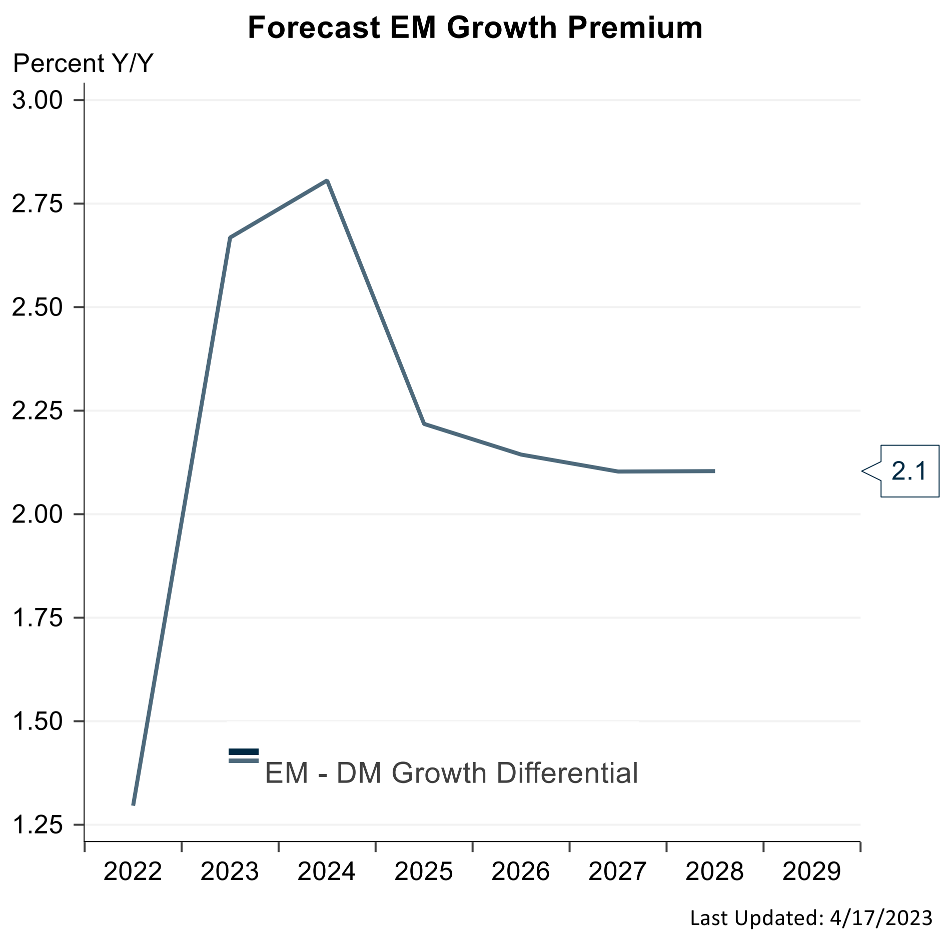
PGIM FIXED INCOME

EM Growth Outlook

EMs Regaining Their Growth Premium



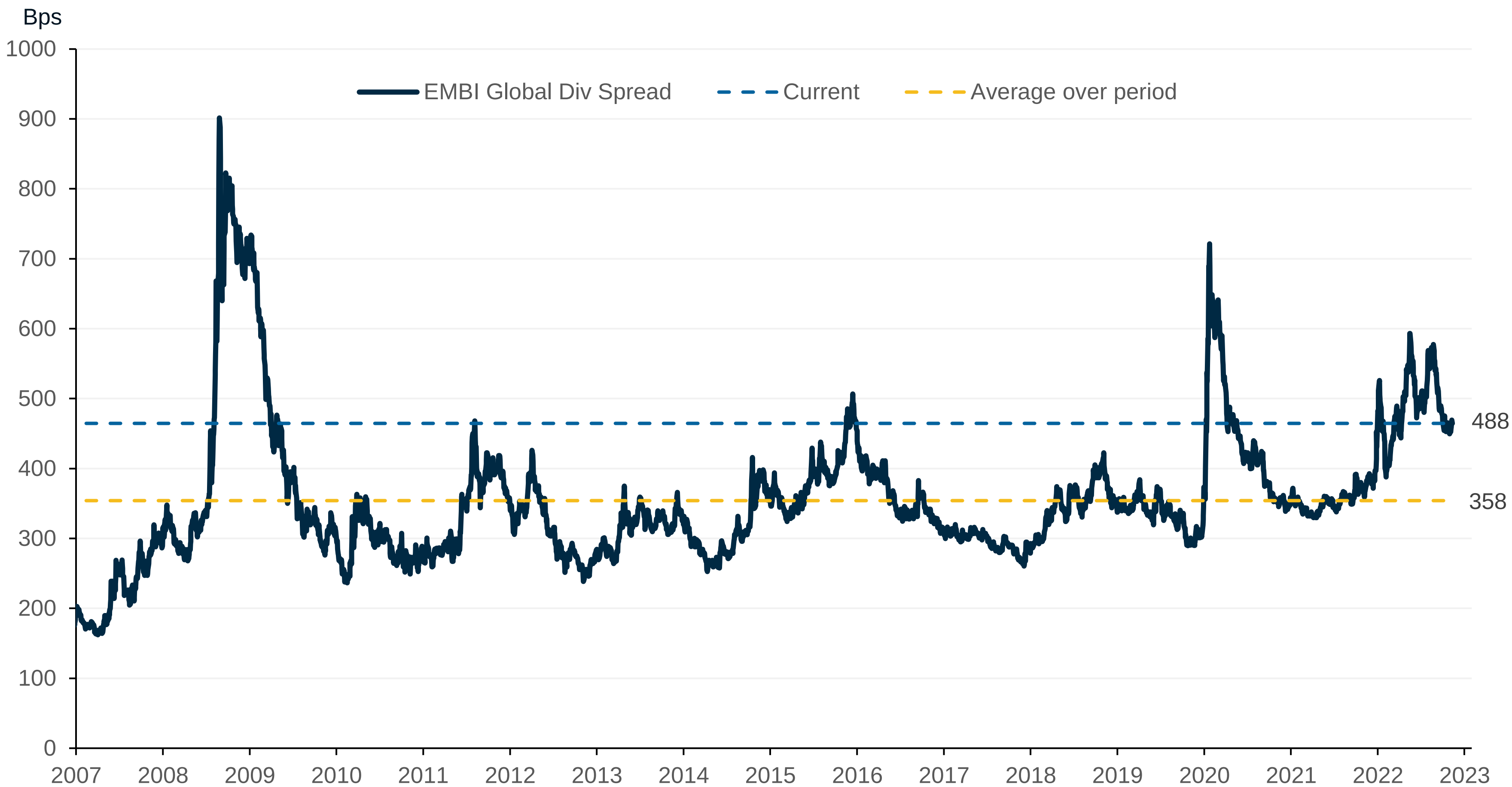


Source: IMF. Macrobond. There can be no assurance that the forecasts will be achieved.

While Spreads Are Off the Recent Wides, Valuations Still Offer One of the Best Entry Points

- Current spreads are in the 90th percentile of the last 15 years

Emerging Markets Debt Spreads



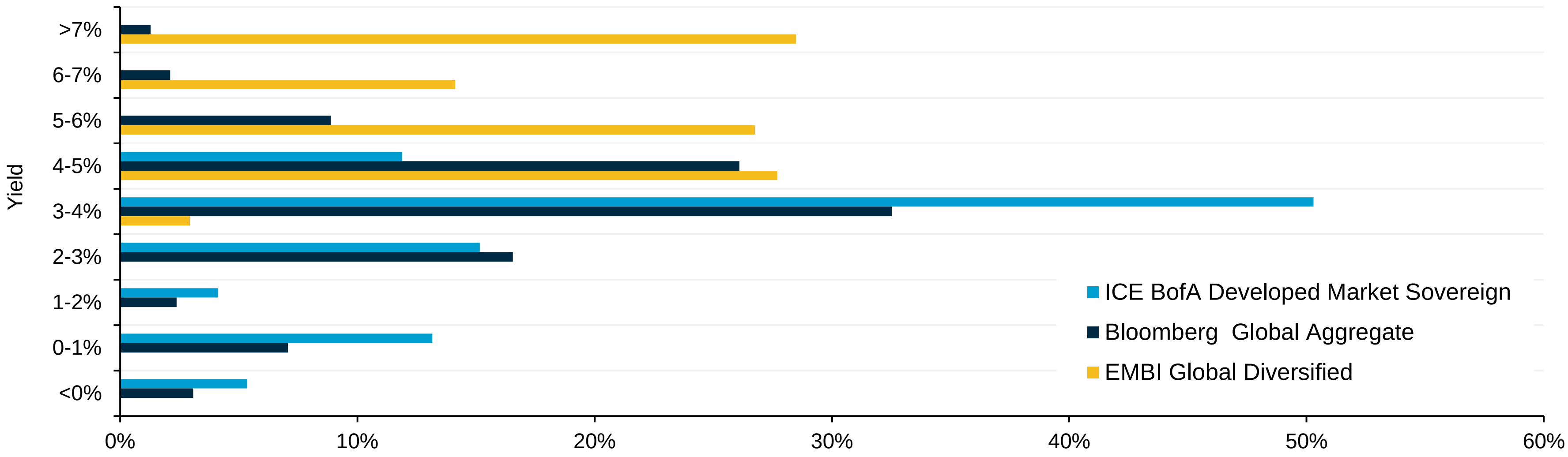
Source: JPMorgan, as of March 28, 2023. The comments, opinions, and estimates contained herein are based on and/or derived from publicly available information from sources that PGIM Fixed Income believes to be reliable. We do not guarantee the accuracy of such sources or information. This outlook, which is for informational purposes only, sets forth our views as of this date. The underlying assumptions and our views are subject to change. Past performance is not a guarantee or a reliable indicator of future results

PGIM FIXED INCOME

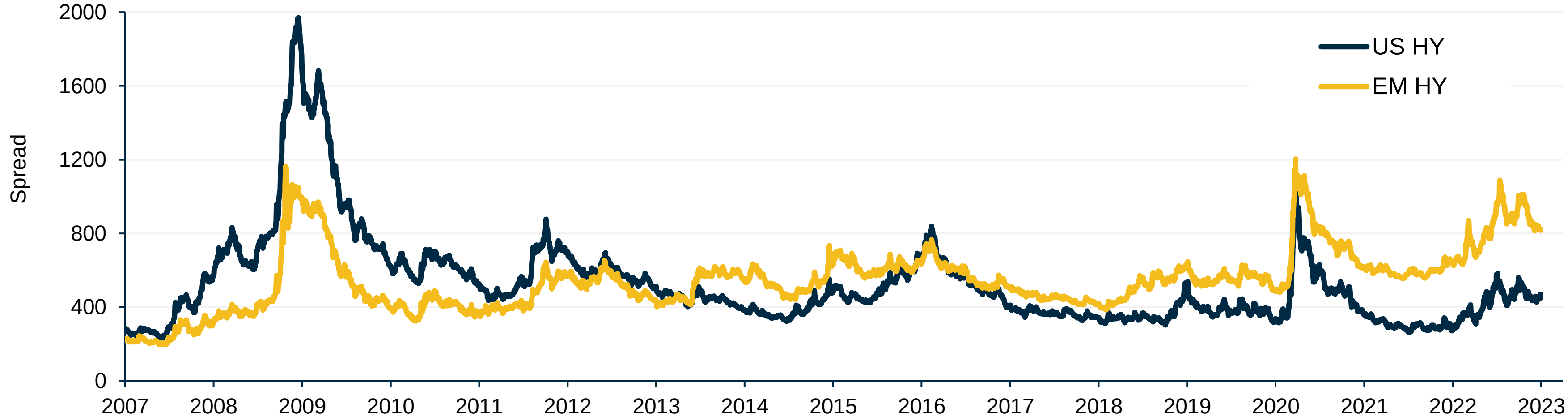
The Case for Emerging Markets

Across the Ratings Spectrum, EM Can Offer Value

Despite Being 50% Investment Grade, EM Debt Offers Value Against Developed Markets and More Popular Fixed Income Allocations



Emerging Markets Near Widest Level to U.S. HY in a Decade



As of March 31, 2023. Source: Bloomberg, Bank of America, JPMorgan Past performance is not a guarantee or a reliable indicator of future results. Please see the Reference section for important disclosures and index descriptions. For illustrative purposes only. An investment cannot be made directly in an index.

PGIM FIXED INCOME

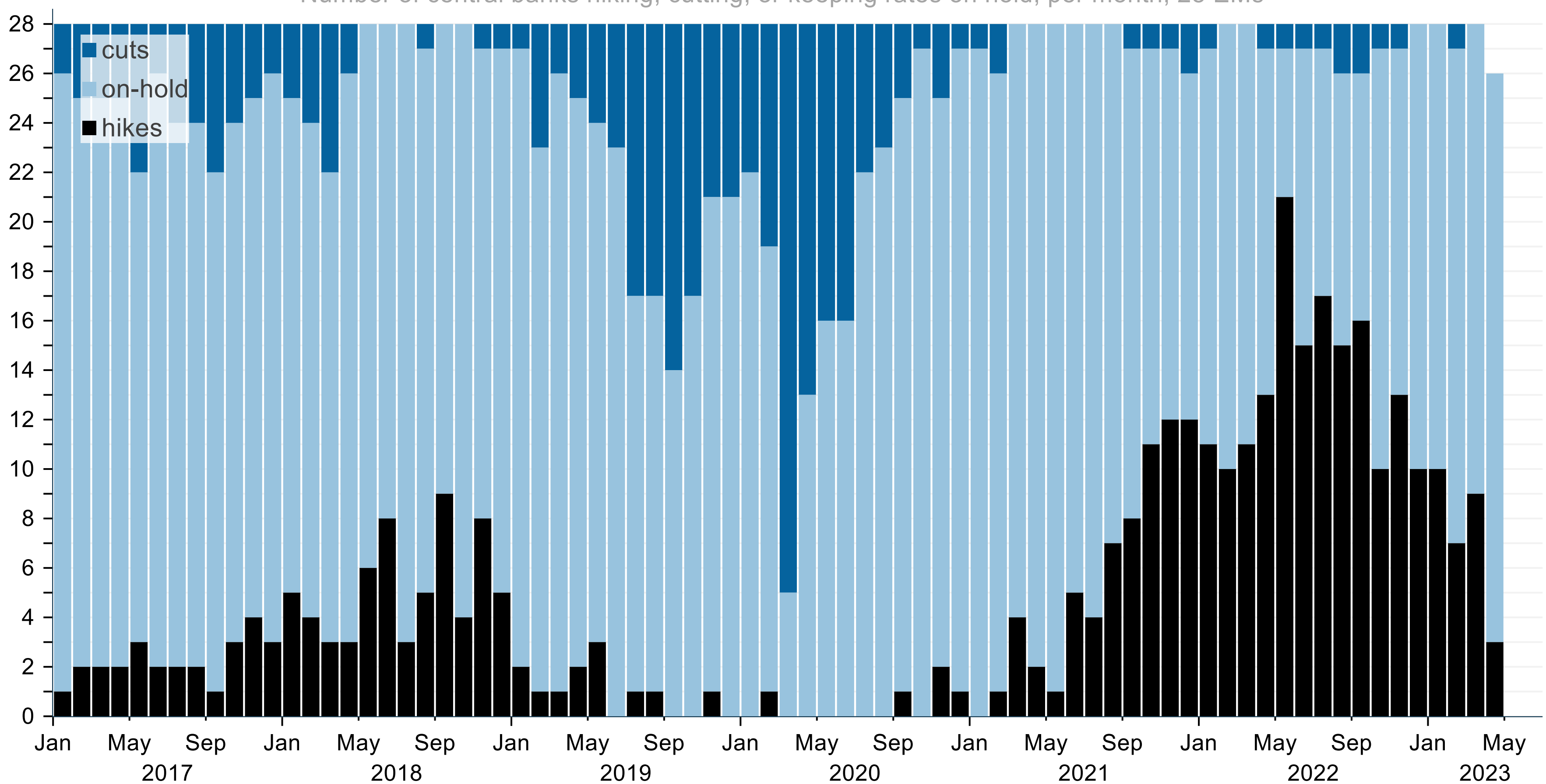
EM Inflation and Policy Rates

EM Central Banks Are Also Finishing With Hikes

- Inflation – though sticky – should start decreasing.
- EM central banks now balancing fight with inflation with concerns for growth and currency and financial stability
- Most have opted for at least a pause in rate hikes

EM central banks' policy rate decisions

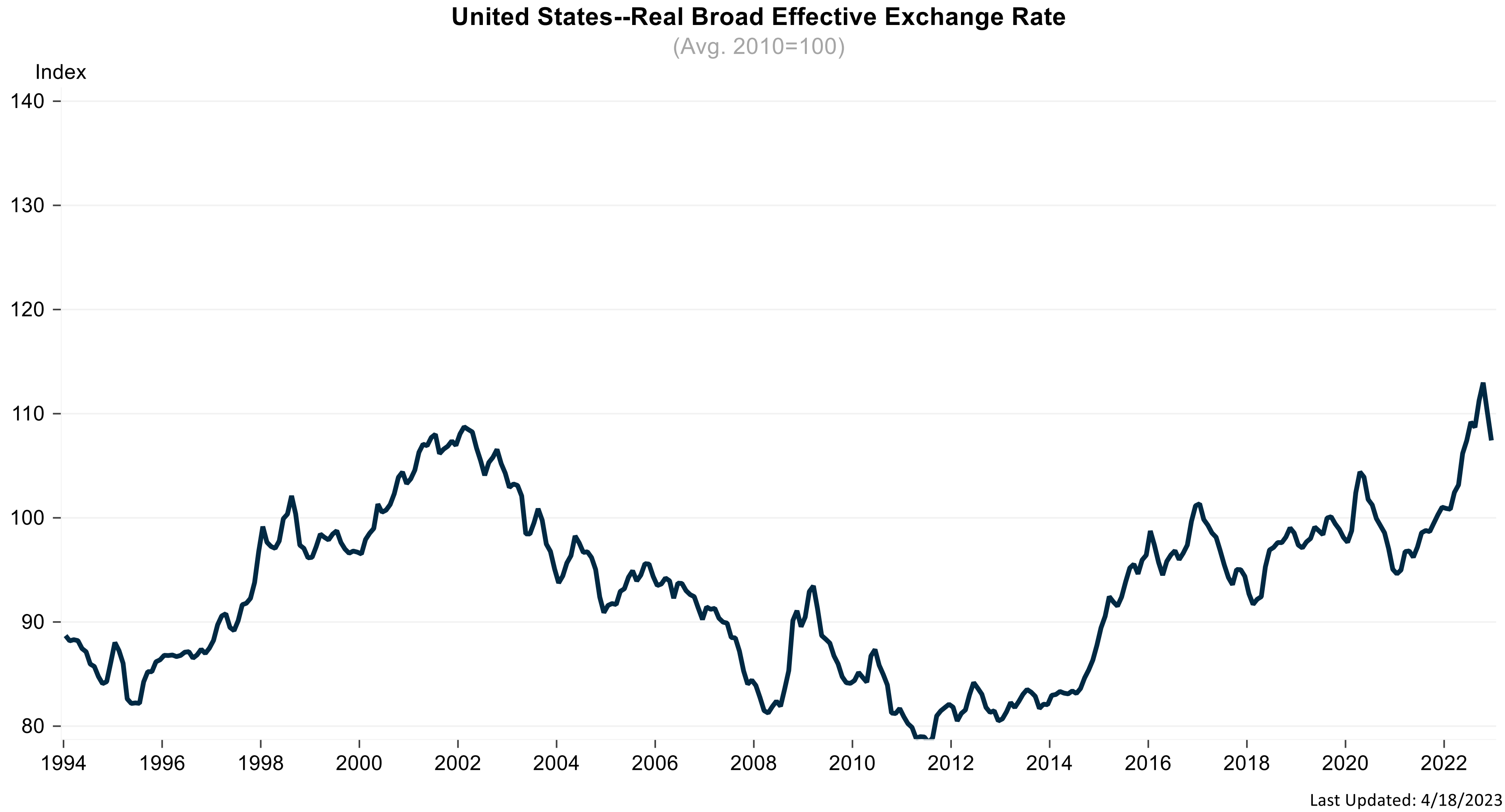
Number of central banks hiking, cutting, or keeping rates on hold, per month, 28 EMs



Last Updated: April 17, 2023

Source: BP Statistical Review of World Energy, Macrobond.

U.S. Dollar Valuation Looks Increasingly Expensive



Source: Macrobond. Bank for International Settlements.

PGIM FIXED INCOME

Portfolio Positioning

Los Angeles City Employees' Retirement System

Top Country and Issuer Exposure (Hard Currency)

As of March 31, 2023

Top 10 Country Overweights

Country	Portfolio *(% MV)*	Active *(% MV)*	Portfolio DC *(yrs)*	Active DC *(yrs)*
Indonesia	3.9	1.4	0.30	0.10
Mexico	4.6	2.0	0.31	0.09
Israel	1.1	1.1	0.07	0.07
Dominican Republic	2.5	1.1	0.18	0.07
India	1.5	1.1	0.08	0.06
Cote D'Ivoire	0.9	0.7	0.06	0.05
South Africa	2.7	1.3	0.14	0.05
The Republic of Serbia	1.2	1.0	0.06	0.05
Romania	1.8	0.7	0.14	0.05
Brazil	2.4	0.7	0.15	0.04

Top 10 Issuer Overweights

Issuer	Portfolio (%MV)	Active (%MV)	Portfolio DC (yrs)	Active DC (yrs)
Indonesia	2.3	1.0	0.21	0.08
Dominican Republic	2.5	1.1	0.19	0.07
Mexico City Airport Trust	0.7	0.6	0.06	0.05
Cote D Ivoire	0.9	0.7	0.06	0.05
Petroleos Mexicanos	2.0	1.0	0.11	0.05
Romania	1.8	0.7	0.14	0.05
Serbia	1.2	1.0	0.06	0.05
Israel	0.2	0.2	0.04	0.04
Abu Dhabi Crude Oil Pipeline Llc	0.3	0.3	0.04	0.03
Qatar Energy	0.5	0.1	0.07	0.03

Bottom 5 Country Underweights

Country	Portfolio (% MV)	Active (% MV)	Portfolio (yrs)	Active (yrs)
Chile	0.8	-0.8	0.06	-0.11
Turkey	0.6	-1.6	0.02	-0.08
China	0.4	-1.9	0.02	-0.08
Uruguay	0.7	-0.5	0.07	-0.06
Malaysia	0.6	-0.7	0.07	-0.05

Bottom 5 Issuer Underweights

Issuer	Portfolio (%MV)	Active (%MV)	Portfolio DC (yrs)	Active DC (yrs)
CDX.EM.39.V1	0.6	0.6	-0.42	-0.42
Turkey	0.5	-1.6	0.02	-0.08
Chile	0.3	-0.6	0.02	-0.08
Uruguay	0.7	-0.5	0.07	-0.06
Mexico	0.9	-0.4	0.08	-0.05

LACEREMB
Source of portfolio data: PGIM Fixed Income. Benchmark: 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI-EM Global Diversified. Source of Benchmark: JP Morgan.
Please refer to Reference section for important disclosures regarding the information contained herein. Benchmark statistics based on PGIM analytics and may differ from published statistics by official benchmark vendors.

Portfolio Positioning

Los Angeles City Employees' Retirement System

Sovereign, Quasi-Sovereign, and Corporate Allocations (Hard Currency)

As of March 31, 2023

Top 10 Active Country Allocations in Spread Duration Contribution (yrs)

Country	Sovereign	Quasi-Sov	Corporate	Total
Indonesia	0.07	0.03	0.00	0.10
Mexico	-0.05	0.10	0.05	0.10
Israel	0.04	0.00	0.03	0.08
Dominican Republic	0.07	0.00	0.00	0.07
India	0.00	0.02	0.04	0.06
Cote D'Ivoire	0.05	0.00	0.00	0.05
South Africa	0.00	0.03	0.01	0.05
Romania	0.05	0.00	0.00	0.05
Serbia, Republic of	0.05	0.00	0.00	0.05
Brazil	0.01	0.01	0.02	0.04

Top 10 Corporate and Non EMBI Quasi-Sovereign Overweights (%)

Issuer	Portfolio	Benchmark	Active
ECOPETROL SA	0.4	0.0	0.4
ENERGEAN ISRAEL FINANCE LTD	0.3	0.0	0.3
CEMEX SAB DE CV	0.3	0.0	0.3
SASOL FINANCING USA LLC	0.3	0.0	0.3
NK KAZMUNAYGAZ AO	0.2	0.0	0.2
BANCO INTERNACIONAL DEL PERU SAA - INTERBANK	0.2	0.0	0.2
LEVIATHAN BOND LTD	0.2	0.0	0.2
POWER FINANCE CORPORATION LTD	0.2	0.0	0.2
GOHL CAPITAL LTD	0.2	0.0	0.2
DELHI INTERNATIONAL AIRPORT LTD	0.2	0.0	0.2

Top 5 Active Corporate Exposure by Country in Spread Duration Contribution (yrs)

Country	Active
Mexico	0.05
India	0.04
Thailand	0.04
Israel	0.03
Peru	0.03

LACEREMB

Source: PGIM Fixed Income. Benchmark: 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI-EM Global Diversified. Source of Benchmark: JP Morgan.Benchmark statistics based on PGIM analytics and may differ from published statistics by official benchmark vendors

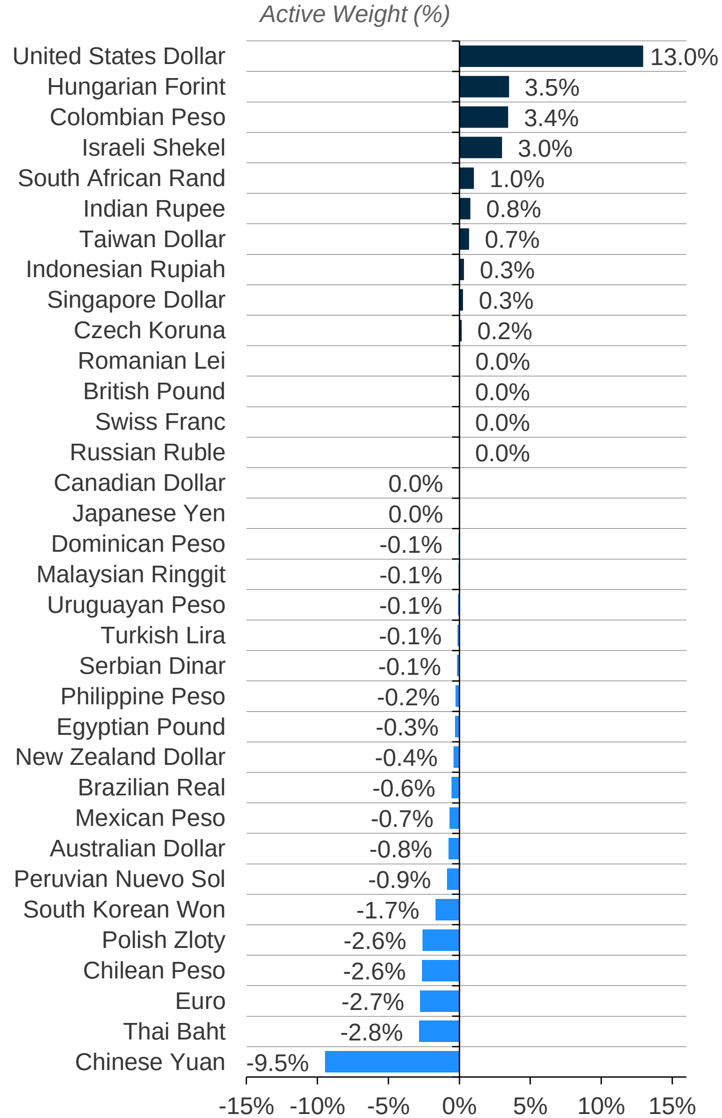
Portfolio Positioning

Los Angeles City Employees' Retirement System

As of March 31, 2023

(Sorted by Active Weight)

Active Currency Exposure



Top 10 Local Country Overweights—Duration Contribution

Country	Portfolio	Benchmark	Active
Korea (South), Republic of	0.31	0.00	0.31
Brazil	0.29	0.11	0.18
Mexico	0.39	0.23	0.16
Poland	0.22	0.13	0.09
Indonesia	0.32	0.28	0.05
Czech Republic	0.16	0.15	0.01
Peru	0.07	0.07	0.00

Bottom 5 Local Country Underweights—Duration Contribution

Country	Portfolio	Benchmark	Active
Colombia	-0.02	0.09	-0.11
Malaysia	0.21	0.30	-0.09
Chile	0.03	0.07	-0.03
South Africa	0.27	0.28	-0.02
Turkey	0.00	0.02	-0.02

LACEREMB
Source of portfolio data: PGIM Fixed Income. Benchmark: 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI-EM Global Diversified. Source of Benchmark: JP Morgan.
Benchmark statistics based on PGIM analytics and may differ from published statistics by official benchmark vendors.
Please refer to Reference section for important disclosures regarding the information contained herein.

Los Angeles City Employees' Retirement System

As of March 31, 2023

Characteristics	Portfolio	Benchmark
Market Value *($)*	442,701,812	---
Effective Duration *(yrs)*	6.28	5.91
Effective Yield *(%)*	8.52	7.06
Option Adjusted Spread *(bps)*	212	162
Average Quality	Baa3	Baa3

Quality Breakdown[1]	Portfolio *(% MV)*	Active *(% MV)*
AAA[2]	5.74	0.00
AA	4.93	-1.33
A	13.55	-9.20
BBB	35.53	-0.04
BB	26.20	4.55
B	9.50	-1.40
Below B and NR	4.55	1.67

Sector Breakdown	Portfolio *(% MV)*	Active *(% MV)*	Portfolio DC *(yrs)*	Active DC *(yrs)*	Portfolio SDC *(yrs)*	Active SDC *(yrs)*
FX	**0.2**	**0.2**	**0.00**	**0.00**	**0.00**	**0.00**
Hard Currency	**60.7**	**10.6**	**3.34**	**-0.10**	**3.33**	**-0.17**
Sovereign	39.2	-1.7	2.69	-0.13	2.70	-0.16
Quasi-Sovereign	11.2	1.9	0.75	0.14	0.76	0.14
Corporates	6.8	6.8	0.30	0.30	0.32	0.32
Swaps	0.5	0.5	0.01	0.01	-0.46	-0.46
Futures	-	0.0	-0.41	-0.41	0.00	0.00
Cash	3.0	3.0	0.00	0.00	-	-
Local Currency	**39.1**	**-10.8**	**2.95**	**0.47**	**-**	**-**
Sovereign	39.0	-10.9	2.34	-0.13	-	-
Swaps	-0.5	-0.5	0.61	0.61	-	-
Currency Options	-0.1	-0.1	0.00	0.00	-	-
Cash	0.7	0.7	-	0.00	-	-

LACEREMB
Source of portfolio data: PGIM Fixed Income. Benchmark: 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI-EM Global Diversified. Source of Benchmark: JP Morgan.
Please refer to Reference section for important disclosures regarding the information contained herein. Benchmark statistics based on PGIM analytics and may differ from published statistics by official benchmark vendors.
1. Quality Ratings are reported as the median of Moody's, S&P and Fitch.
2. AAA Category includes cash and cash equivalents.

Performance Attribution Summary

Los Angeles City Employees' Retirement System

Performance Attribution

Quarter-to-Date as of March 31, 2023

	Performance Impact
Hard Currency Interest Rate Impact	+14 bps
Hard Currency Credit	-35 bps
Hard Currency Country Impact	+14 bps
Hard Currency Issue Selection	-48 bps
Local Currency Duration Impact	-22 bps
Local Currency Curve & Issue Selection	+28 bps
Currency Selection	-21 bps
Trading	-15 bps
Total	-51 bps

Market Commentary

Hard Currency

- 2023 began by carrying over a constructive tone for EM with reduced rate-hike expectations, declining yields, softening USD and a stronger risk appetite along with the better global growth scenarios. Uncertainty increased in February on the back of elevated inflation prints and then exploded in March as Silicon Valley and Signature Bank failed and Credit Suisse and other regional banks like First Republic experienced distress.
- Concerns of financial instability have created a negative confidence shock that have further pressured valuations and created even more dispersion between higher quality and lower quality issuers.
- EMBI Global Diversified Spreads widened by 32bps during 1Q, however, after spreads hit a tight of 428bps in early February, they widened 56bps to 484bps at quarter end, leading the EMBIGD to a spread return of -1.3%. Investment grade significantly outperformed with a spread return of -0.7% versus a high yield spread return of -1.95%.
- CEMBI Broad Diversified spreads ended the quarter at 375bps, widening 29bps on the quarter and 60bps from the tights of February. If we adjust performance for the YTD strength in China property, spreads have widened even further. During the first quarter we saw unexpected distressed situations in countries like Brazil, but credit fundamentals are still resilient and we believe defaults will remain below historical averages.

Local Currency

- Local rates have been volatile year-to-date, with yields declining by 27bps, trading directionally with developed markets. Inflation data has been mixed to start the year – some countries are still battling sticky inflation while others are seeing a reduction in inflationary pressures.

Currency Selection

- EM currencies registered gains year-to-date (ELMI+ Index registered gains of 3.1% in 1Q), but those have been concentrated to Latin America and Europe and overall, high carry currencies have outperformed.

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Source of portfolio attribution: PGIM Fixed Income. Attribution shown above is based on gross returns. Represents attribution vs. the 50% JP Morgan EMBI Global Diversified/50% JP Morgan GBI-EM Global Diversified. Source of Benchmark: JP Morgan. Totals may not sum due to rounding. Past performance is not a guarantee or a reliable indicator of future results. Please refer to Reference section for important disclosures regarding the information contained herein.

Reference

PGIM FIXED INCOME

Senior Leadership Team

PGIM Fixed Income
Michael Lillard, CFA, Head of Fixed Income[1]

President John Vibert[2]	**Quantitative Analysis and Risk Management** Stephen Warren	**Co-Chief Investment Officers** Craig Dewling & Gregory Peters	**Credit** Richard Greenwood, CFA	**Emerging Markets and FX** Cathy Hepworth, CFA
Chief Business Officer Daniel Malooly	**Chief Operating Officer** Paul Parseghian	**Client Advisory Group** Brad Blalock, CFA	**Head of Japan** Taisaku Kunisawa	**Head of EMEA** Sarah McMullen, CFA

Human Resources Yuko Ikeda[3]	**Finance** Vasel Vataj[3]	**Legal** Yogesh Rai[3]	**Compliance** Matthew Fitzgerald[3]

As of December 2022.
[1]Michael Lillard retiring in April 2024.
[2]John Vibert will be appointed as President and CEO of PGIM Fixed Income, effective January 1, 2024.
[3]Dedicated functional teams that have a direct, independent reporting relationship to corporate senior management of the company.

Emerging Markets Debt Philosophy

We Believe….

A long-term investment perspective contributes to strong long-term performance

- Our deep credit, macroeconomic and investment resources allow us to establish long-term views of opportunities within hard, local and FX emerging markets within and across countries
- Typically, we do not actively sell on bad news—trading is expensive and once news is released it is priced in for all managers, regardless of size

High confidence, contrarian investing can capture attractive, undervalued opportunities when consistent with long-term investment views

- When other market participants are selling, we utilize our deep investment resources to build high conviction positions at attractive entry points

The "barbell" can capture the upside while minimizing the downside

- We invest in higher yielding securities in short term tenors with an eye toward holding to maturity
- We complement those investments with less volatile, high conviction, higher quality relative value positions in longer tenors

Diversification and conviction win in the long term

- Emerging markets debt securities can be volatile—we believe holding overly concentrated positions is sub-optimal
- We believe a key to long-term success in emerging markets is to establish highly diversified portfolios with the largest investments in our highest relative value convictions

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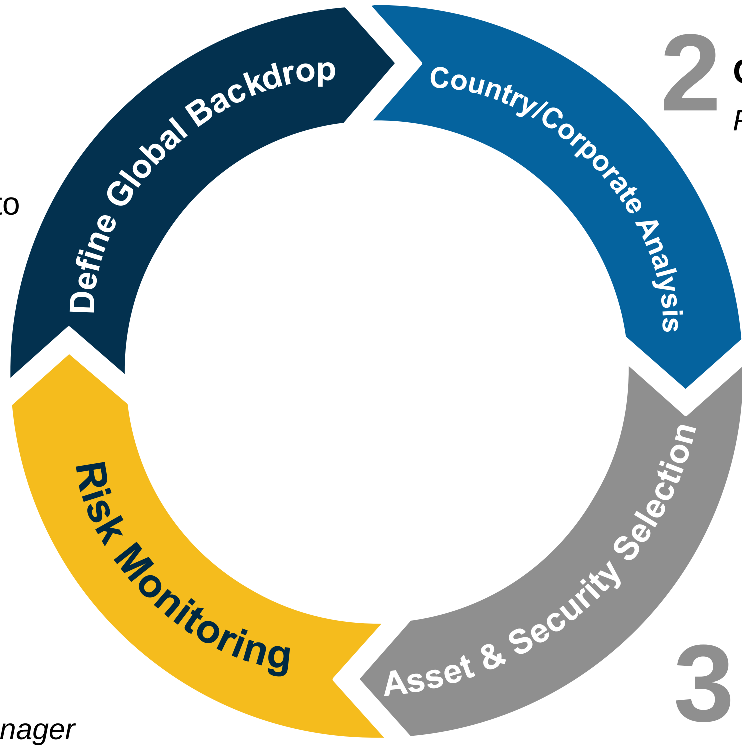
A Disciplined Approach



1 Global Backdrop & Portfolio Strategy

Senior Portfolio Manager

- Assess global risk appetite to determine portfolio risk profile and refine portfolio positioning, leveraging firm's resources

2 Country & Corporate Analysis

Regional Economists/ Corp Analysts

- Develop comprehensive economic outlook by country
- Evaluate each country from quantitative and qualitative perspective and assign an internal rating
- Analyze EM corporates and assign an internal rating
- ESG integration and engagement on countries and corporates

3 Asset & Security Selection

Regional Portfolio Managers/Economists/Analysts

- Seek to determine best risk/reward opportunities across markets: hard currency (sovereign, quasi-sovereign, corporates), local rates, and FX
- Use proprietary tools to highlight relative value opportunities within markets
- Relative value assessment incorporates ESG factors

4 Risk Monitoring

Senior Portfolio Manager/Risk Manager

- Employ a rigorous process to tightly monitor risk at all levels
- Use proprietary tools to verify performance achieved is appropriate for risk taken

Country Analysis—Sovereign Ratings

Internal Country Rating Assigned

	Internal Rating	Average Agency Rating	Difference in Notches Between Internal and Average Agency Rating	ESG Rating
Czech Republic	AA	AA-	1	65
South Korea	AA-	AA	-1	70
Israel	A	A+	-1	60
Poland	BBB+	A-	-1	55
Hungary	BBB	BBB	0	50
Chile	BBB-	A	-4	55
Malaysia	BBB-	A-	-3	45
Mexico	BBB-	BBB	-1	35
China	BBB-	A+	-5	25
Peru	BBB	BBB	0	40
Romania	BB	BBB-	-2	50
Thailand	BBB	BBB+	-1	35
Philippines	BBB	BBB	-3	30
Russia	D	C	0	0
Colombia	BB+	BBB-	-1	45
Indonesia	BBB-	BBB	-1	30
India	BB	BBB-	-2	25
Brazil	B+	BB-	-1	45
South Africa	BB-	BB-	0	35
Turkey	B+	B	1	35
Argentina	B-	CCC-	3	45
Venezuela	SD	C	0	15

= Example of Internal Rating Higher than Average (green)

= Example of Internal Rating Lower than Average (yellow)

Internal rating used to determine value and capture conviction of country view

As of June 2022 for Internal and ESG PGIM Fixed Income Ratings and October 2022 for Bloomberg Average Agency Ratings. ***Please see the Reference section for important disclosures, including risks and ESG. For illustrative purposes.*** *Provided for discussion purposes solely as an illustration of our country evaluation process. Does not constitute a recommendation regarding the merits of investing in securities of any of the issuers referenced therein or a complete listing of issuers analysed. Does not constitute a recommendation regarding the merits of any investments. Does not constitute investment advice and should not be used as the basis of any investment decision. Does not constitute a representation that PGIM Fixed Income would purchase any securities of the countries referenced or that an investment in any securities of such countries would be profitable. There can be no assurance that the matrix will be effective in evaluating countries or that opportunities identified within the matrix can be effectively implemented.*

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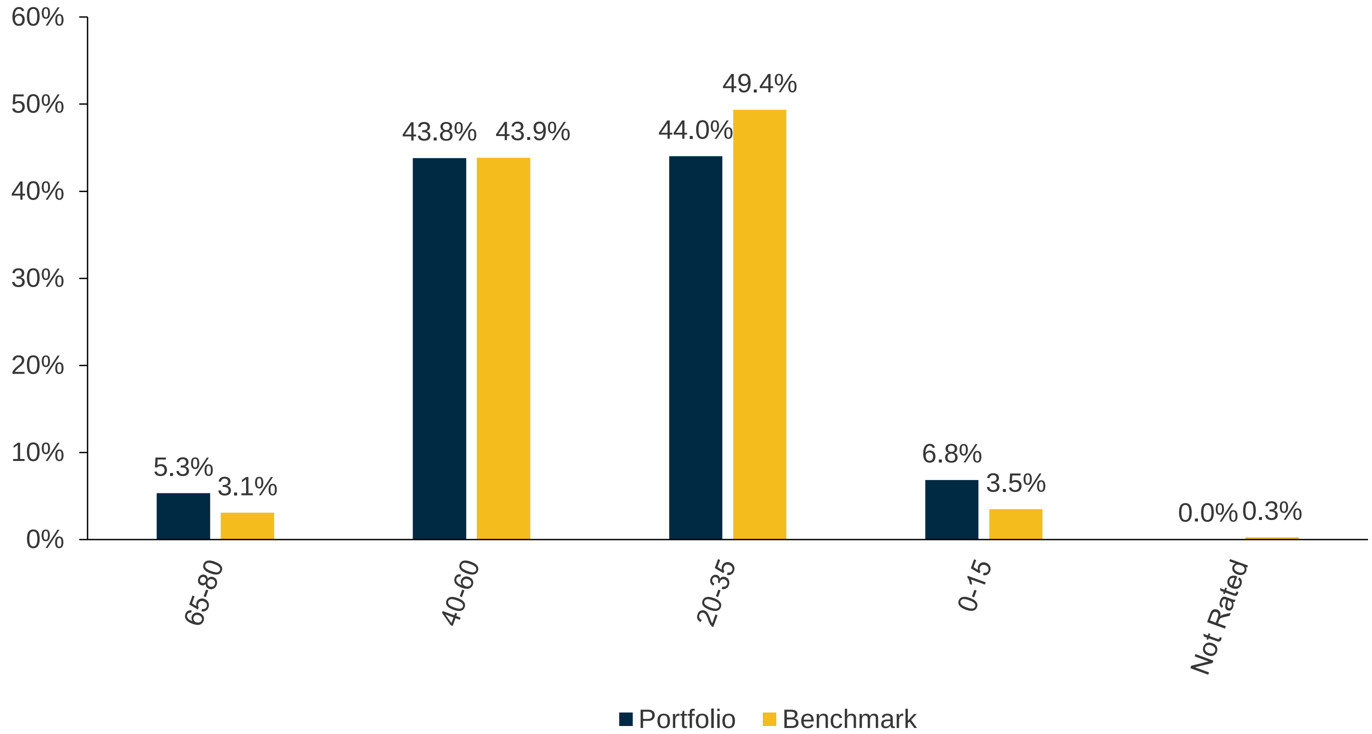
ESG Positioning Based on PGIM FI ESG Impact Ratings

Los Angeles City Employees' Retirement System

As of March 31, 2023

Portfolio PGIM FI Impact Rating	Benchmark PGIM FI Impact Rating
38.66	38.49

PGIM FI ESG Impact Ratings Breakdown by Market Value %



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Benchmark Descriptions

Bloomberg U.S. Aggregate Bond Index (Bloomberg U.S. Aggregate Index)
(Core Fixed Income: Inception Date: January 1, 1991, Core Plus: Inception Date: January 1, 1996, Core Conservative: Inception Date: January 1, 1989)
The Bloomberg U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate or step up, taxable bond market of SEC-registered securities and includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

Nomura-BPI Overall (Nomura-BPI Overall Index)
(Japan Core Bond: Inception Date: January 1, 2003)
The Nomura-BPI Overall index tracks total returns of all fixed income securities in the Japanese bond market that meet certain criteria. Nomura Fiduciary Research & Consulting Co., Ltd. Nomura Fiduciary Research & Consulting Co., Ltd. does not guarantee accuracy, completeness, reliability, usefulness, marketability, merchantability and fitness of the Index, and does not account for performance of the fund with the use of the Index. This disclaimer is applicable to Nomura-BPI Overall Index referenced herein.

Bloomberg Global Aggregate Bond Index USD Unhedged (Bloomberg Global Aggregate Index)
(Global Core: Inception Date: September 1, 2008, Global Total Return: Inception Date: November 1, 2002)
The Bloomberg Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment-grade 144A securities. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB) or better using the middle rating of Moody's, S&P, and Fitch.

FTSE World Government Bond Index
(Former benchmark for Global Total Return: Inception Date: November 1, 2002)
FTSE World Government Bond Index is a market-capitalization-weighted benchmark that tracks the performance of the government bond markets. The composition of the index consists of sovereign debt denominated in the domestic currency. Securities must be rated BBB-/Baa3 by S& P or Moody's.

ICE BofA US 3-Month Treasury Bill Index
(Absolute Return: Inception Date: May 1, 2011, Multi-Asset Credit: Inception Date: November 1, 2016, Global Dynamic Bond: Inception Date: January 1, 2016, Securitized Product (Unconstrained: Inception Date: January 1, 2016))
ICE BofA US 3-Month Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

ICE BofA 3-Month Deposit Offered Rate Constant Maturity Index
(Former Benchmark for Absolute Return: Inception Date: May 1, 2011, Multi-Asset Credit: Inception Date: November 1, 2016, Global Dynamic Bond: Inception Date: January 1, 2016, Securitized Product (Unconstrained: Inception Date: January 1, 2016)
The ICE BofA 3-Month Deposit Offered Rate Constant Maturity Index tracks the performance of a synthetic asset paying Libor to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day fixing rate) and rolled into a new instrument.

ICE LIBOR 3-Month Average (ICE LIBOR 3-Month Average Index)
(Former benchmark for Absolute Return: Inception Date: May 1, 2011, Multi-Asset Credit: Inception Date: November 1, 2016, Global Dynamic Bond: Inception Date: January 1, 2016)
The 3 Month LIBOR (London Interbank Offered Rate) is the stated rate of interest at which banks in the London wholesale money markets may borrow funds from one another for three months. The 90-day average of the daily rates set by the Intercontinental Exchange Benchmark Administration Ltd ("IBA") is used to derive the return for the month. ICE Data Indices, LLC, used with permission. ICE Data Indices, LLC is licensing the ICE Data Indices and related data "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE Data Indices or any data included in, related to, or derived therefrom, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend PGIM Fixed Income, or any of its products or services. Effective March 1, 2019, the Unconstrained Bond Composite was renamed the Strategic Bond Composite. The strategy benchmark also changed from the ICE LIBOR 3-Month Average to the Bloomberg Intermediate U.S. Aggregate Bond Index.

Bloomberg Intermediate U.S. Aggregate Bond Index (Bloomberg Intermediate U.S. Aggregate Bond Index)
(Strategic Bond: Inception Date: September 1, 2015)
The Bloomberg Intermediate U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed-rate or step up, taxable bond market of SEC-registered securities with maturities of 1-10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS sectors. Securities must be rated investment-grade (Baa3/BBB-/BBB- or above) using the middle rating of Moody's, S&: and Fitch and have at least 1 year until final maturity.

Bloomberg U.S. 1-3 Year Government/Credit Bond Index (Bloomberg U.S. 1-3 Year Government/Credit Index)
(Short Duration Core Plus: Inception Date: February 1, 2014)
Bloomberg U.S. 1-3 Year Government/Credit Bond Index covers USD-denominated and nonconvertible, publicly issued U.S. Government or investment-grade securities that are fixed-rate or step ups. Bonds must have a maturity from 1 up to (but not including) 3 years and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

Benchmark Descriptions (cont'd)

Bloomberg U.S. 1-5 Year Credit Bond Index (Bloomberg U.S. 1-5 Year Credit Index)
(Short Term Corporate: Inception Date: January 1, 1994)
Bloomberg U.S. 1-5 Year Credit Bond Index is a subset of the Bloomberg Credit Index with maturities of 1-5 years. The U.S. Credit Index is comprised of the U.S. Corporate Index and the non-native currency subcomponent of the U.S. Government-Related Index. The U.S. Credit Index includes publicly issued U.S. corporates, specified foreign debentures and secured notes denominated in USD. Securities must be rated investment-grade (Baa3/BBB-/BBB- or above) using the middle rating of Moody's, S&P, and Fitch, respectively.

Bloomberg U.S. High Yield 1-5 Year Ba/B 1% Issuer Constrained Index (Bloomberg U.S. HY 1-5 Year Ba/B 1% Issuer Capped Index)
(U.S. Short Duration Higher Quality High Yield: Inception Date: December 1, 2012)
The Bloomberg U.S. 1-5 Yr High Yield Ba-B 1% Issuer Constrained Index is an issuer-constrained version of the U.S. Corporate High-Yield Index that covers the 1-5 year maturing USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. The U.S. HY 1% Issuer Capped Index limits issuer exposures to a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. Securities must be rated Ba/B using the middle rating of Moody's, S&P, and Fitch, and have at least 1 year until final maturity.

Bloomberg U.S. Long Duration Government/Credit Index (Bloomberg U.S. Long Govt/Credit Index)
(Long Duration Government/Credit: Inception Date: December 1, 2009)
The Bloomberg U.S. Long Government/Credit Index covers USD-denominated and non-convertible, publicly issued U.S. Government or investment-grade securities that are fixed rate or step ups. Securities must have a maturity of 10 years or greater and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

Bloomberg U.S. Long Corporate Bond Index (Bloomberg U.S. Long Corporate Index)
(Long Duration Corporate: Inception Date: July 1, 2008)
The Bloomberg U.S. Long Corporate Bond Index covers USD-denominated and non-convertible, publicly issued securities that are fixed-rate or step ups. Securities must have a maturity of 10 years and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

Client-Directed Liability Based Benchmark
(Long Duration LDI: Inception Date: July 1, 1998)
The customized benchmark for the Long Duration Custom Composite is the weighted average of each composite member's benchmark return rebalanced monthly. The benchmarks are market-based indices/sub-indices constructed to reflect the liabilities of the portfolios. The benchmarks consists of various weights of the sub indices of the Bloomberg Intermediate (maturities from 1 up to but not including10 years), and Long (maturities of 10+ years) Government/Credit and US Corporate Indices. All securities must be rated investment-grade (Baa3/ BBB-/BBB-) or above using the middle rating of Moody's, S&P, and Fitch.

Bloomberg U.S. Credit Bond Index (Bloomberg U.S. Credit Index)
(Investment Grade Corporates: Inception Date: July 1, 1991)
The Bloomberg U.S. Credit Index is comprised of the U.S. Corporate Index and the non-native currency subcomponent of the U.S. Government-Related Index. The U.S. Credit Index includes publicly issued U.S. corporate, specified foreign debentures and secured notes denominated in USD. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

Bloomberg Euro Aggregate Corporate Index USD Hedged (Bloomberg Euro Aggregate Corporate Index USD Hedged)
(European Corporate Fixed Income (USD Hedged): Inception Date: February 1, 2008)
The Bloomberg Euro Aggregate Corporate Index USD Hedged Index is a benchmark that measures the corporate component of the Bloomberg Euro Aggregate Bond Index, a broad-based flagship benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. Inclusion is based on currency denomination of a bond and not country of risk of the issuer. The index is hedged to USD. As of January 1, 2020 composite benchmark was changed to the Bloomberg Euro Aggregate Corporate USD Hedged Index from the iBoxx Euro Corporate (USD Hedged) Index.

iBoxx Euro Corporate Index 100% USD Hedged (iBoxx Euro Corporate Index (USD Hedged))
(Former benchmark for European Corporate Fixed Income (USD Hedged): Inception Date: February 1, 2008)
The iBoxx EUR benchmark is made up of only fixed-rate bonds or step ups whose cash flow can be determined in advance. The indices are comprised solely of bonds. Treasury Bills and other money market instruments are not eligible. The iBoxx EUR indices include only Euro and legacy currency denominated bonds. Securities must be rated investment-grade (Baa3/ BBB-/BBB-) or above by at least one of the following rating agencies: Standard & Poor's, Moody's or Fitch and have at least 1 year until final maturity at the rebalancing date.

Bloomberg Global Aggregate Corporate Index Unhedged (Bloomberg Global Corporate Index (Unhedged))
(Global Corporate (Unhedged): Inception Date: May 1, 2010)
The Bloomberg Global Corporate Aggregate Index is a component of the Global Aggregate Index that includes the global investment-grade, fixed-rate or step up, taxable securities sold by industrial, utility and financial issuers. The three major components of this index are the U.S. Aggregate Corporate, the Pan-European Aggregate Corporate, and the Asian-Pacific Aggregate Corporate indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian corporate securities, and USD investment-grade 144A securities. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch.

Bloomberg Global Aggregate Corporate Bond Index (USD Hedged) (Bloomberg Global Corporate Index (USD Hedged))
(Global Corporate (USD Hedged): Inception Date: October 1, 2011)
The Bloomberg Global Aggregate Corporate Bond Index (USD Hedged) is a component of the Global Aggregate Index that includes the global investment-grade, fixed-rate or step up, taxable securities sold by industrial, utility and financial issuers. The three major components of this index are the U.S. Aggregate Corporate, the Pan-European Aggregate Corporate, and the Asian-Pacific Aggregate Corporate indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian corporate securities, and USD investment-grade 144A securities. Securities included in the index must have at least 1 year until final maturity and be rated investment-grade (Baa3/ BBB-/BBB-) or better using the middle rating of Moody's, S&P, and Fitch. The index is hedged to USD.

Benchmark Descriptions (cont'd)

Bloomberg U.S. Corporate High Yield Ba/B 1% Issuer Capped Bond Index (Bloomberg U.S. High Yield Ba/B 1% Issuer Capped Index)
(Higher Quality High Yield: Inception Date: July 1, 1998)
The Bloomberg U.S. High Yield Ba/B 1% Issuer Capped Index is an issuer-constrained version of the Bloomberg U.S. High Yield Index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. The Bloomberg U.S. High Yield 1% Ba/B Issuer Capped Index limits issuer exposures to a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. Securities must be rated below investment-grade (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P, and Fitch, and have at least a one year until final maturity.

Bloomberg US High-Yield 1% Issuer Capped Index (Bloomberg US High-Yield 1% Issuer Capped Index)
(Broad Market High Yield: Inception Date: March 1, 2002)
The Bloomberg US High-Yield 1% Issuer Capped Index is an issuer-constrained version of the US High-Yield Index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. The US HY 1% Issuer Capped Index limits issuer exposures to a maximum 1% and redistributes the excess market value index-wide on a pro-rata basis. Securities must be rated below investment-grade (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P, and Fitch, and have at least 1 year until final maturity. Effective October 1, 2020 the Benchmark changed to the Bloomberg US High-Yield 1% Issuer Capped Index, prior to that the Benchmark was the Bloomberg US Corporate High Yield Bond Index.

Bloomberg U.S. Corporate High Yield Bond Index (Bloomberg U.S. High Yield Index)
(Former benchmark for Broad Market High Yield: Inception Date: March 1, 2002)
Bloomberg U.S. Corporate High Yield Bond Index covers the USD-denominated, non-investment grade, fixed-rate or step ups, taxable corporate bond market. The index excludes Emerging Markets debt. Securities must be rated below investment-grade (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P, and Fitch, respectively and have at least 1 year until final maturity.

Credit Suisse Leveraged Loan Index (CS Leveraged Loan Index)
(U.S. Senior Secured Loans: Inception Date: May 1, 2007)
The Credit Suisse Leveraged Loan Index is a representative, unmanaged index of tradable, U.S. dollar denominated floating rate senior secured loans and is designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market. The Index return does not reflect the impact of principal repayments in the current month.

ICE BofAML European Currency High Yield ex Finance 2% Constrained Index (ML Euro HY ex Finance 2% Constrained Index)
(European High Yield (Euro Hedged):Inception Date: November 1, 2010)
The ICE BofAML European High Yield ex Finance 2% Constrained Index tracks the performance of EUR and GBP denominated below investment grade corporate debt publicly issued in the eurobond, sterling domestic or euro domestic markets. Qualifying securities must have a below investment grade rating and an investment grade country of risk. The index contains all non-Financial securities but caps issuer exposure at 2%. Source: ICE Data Indices, LLC, used with permission. ICE Data Indices, LLC is licensing the ICE Data Indices and related data "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE Data Indices or any data included in, related to, or derived therefrom, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend PGIM Fixed Income, or any of its products or services.

Credit Suisse Western European Leveraged Loan Index (EUR Hedged) (CS Western European Leveraged Loan Index (EUR Hedged)
(European Senior Secured Debt: Inception Date: July 1, 2006)
Credit Suisse Western European Leveraged Loan Index: All Denominations Euro Hedged. The Index is a representative, unmanaged index of tradable, floating rate senior secured loans designed to mirror the investable universe of the European leveraged loan market. The index is hedged to EUR. The Index return does not reflect the impact of principal repayments in the current month.

Bloomberg Global High Yield Index (Euro Hedged)
(Global High Yield (Euro Hedged): Inception Date: May 1, 2002)
The Bloomberg Global High Yield Index provides a broad-based measure of the global high yield fixed income markets. It includes U.S. high yield, Pan-European high yield, U.S. emerging markets high yield, and Pan-European emerging markets high yield indices. Securities included in the index must be fully taxable, have at least on year until final maturity, and be rated high yield (Ba//BB+/BB+ or below) using the middle rating of Moody's S&P and Fitch.

CS Blend Lev. Loan & West European Lev. Loan: Euro Denominated (USD Hedged)
(Global Senior Secured Loans: Inception Date: December 1, 2011)
The custom benchmark for this composite is comprised of the Credit Suisse Leveraged Loan Index and the Credit Suisse Western European Leveraged Loan Index Euro Denominated (hedged to USD) and is rebalanced monthly. As of December 31, 2021, the weights are 75% and 25%, respectively. The Credit Suisse indices are representative unmanaged indices of tradeable, floating rate senior secured loans designed to mirror the investable universe of the U.S. and European Leveraged Loan markets.

JP Morgan Emerging Markets Bond Index Global Diversified (JPM EMBI Global Diversified Index)
(Emerging Markets Debt: Inception Date: July 1, 1996)
The Emerging Markets Bond Index Global Diversified (EMBI Global) tracks total returns for USD-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. To be deemed an emerging market by the EMBI Global Diversified Index, a country must be rated Baa1/BBB+ or below by Moody's/S&P rating agencies. Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2022, JPMorgan Chase & Co. All rights reserved.

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Benchmark Descriptions (cont'd)

Blend: JPM EMBI Global Diversified & GBI-EM Global Diversified
(Emerging Markets Blend: Inception Date: December 1, 2007, Emerging Markets Blend Plus: Inception Date: August 1, 2014)
The customized benchmark for this composite is an even blend of the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index and the JPMorgan Emerging Markets Bond Index Global Diversified Index. The Government Bond Index-Emerging Markets Global Diversified Index (GBI-EM Global) tracks total returns for local currency bonds issued by emerging market governments while the Emerging Markets Bond Index Global Diversified (EMBI Global) tracks total returns for USD-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. *Copyright 2022, JPMorgan Chase & Co. All rights reserved.*

JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (JPM GBI-EM Global Diversified Index)
(Emerging Markets Debt (Local Currency): Inception Date: January 1, 2011)
The Government Bond Index-Emerging Markets Global Diversified Index (GBI-EM Global) tracks total returns for local currency bonds issued by emerging market governments. *Copyright 2022, JPMorgan Chase & Co. All rights reserved.*

JPMorgan Corporate Emerging Markets Bond Index Broad Diversified (JPM CEMBI Broad Diversified)
(Emerging Markets Corporate Debt: Inception Date: March 1, 2013)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. *Copyright 2022, JPMorgan Chase & Co. All rights reserved.*

Bloomberg US 1-15 Year Municipal Index
(National Municipal Bond: Inception Date: January 1, 1994)
The Bloomberg US 1-15 Year Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The bonds must be fixed-rate or step ups, have a dated date after Dec. 13, 1990, and must have a maturity from 1 up to (but not including) 15 years. Non-credit enhanced bonds (municipal debt without a guarantee) must be rated investment-grade (Baa3/ BBB-/BBB-) or better by the middle rating of Moody's, S&P, and Fitch. Effective April 1, 2020 the Benchmark changed to the Bloomberg 1-15 Yr. Muni Unhedged Index, prior to that the Benchmark was the Bloomberg Municipal Bond index

Bloomberg Municipal Bond Index
(Former benchmark for National Municipal Bond: Inception Date: January 1, 1994)
The index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The bonds must be fixed-rate or step ups, have a dated date after Dec. 13, 1990, and must be at least 1 year from their maturity date. Non-credit enhanced bonds (municipal debt without a guarantee) must be rated investment grade (Baa3/BBB-/BBB- or better) by the middle rating of Moody's, S&P, and Fitch.

Blend: Bloomberg Muni High Income/Muni Index
(High Income Municipal Bond: Inception Date: January 1, 1994)
The customized benchmark for this composite is an even blend of the Bloomberg Municipal High Yield Bond Index and Bloomberg Municipal Bond Index. The Bloomberg Municipal Bond Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The bonds must be fixed-rate or step ups, have a dated date after Dec. 13, 1990, and must be at least 1 year from their maturity date. Non-credit enhanced bonds (municipal debt without a guarantee) must be rated investment-grade (Baa3/ BBB-/BBB- or better) by the middle rating of Moody's, S&P, and Fitch. The Bloomberg Municipal High Yield Bond Index is the high yield component of the Bloomberg Municipal Bond Index.

ICE BofA US 3-Month Treasury Bill Index
(U.S. Liquidity Relative Value: Inception Date: July 1, 2002, Emerging Markets Long/Short: Inception Date: November 1, 2007, Global Liquidity Relative Value: Inception Date: July 1, 2014)
ICE BofA US 3-Month Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. Effective April 1, 2020 the Benchmark changed to the ICE BofA U.S. 3-Month Treasury Bill Index, prior to that the Benchmark was 3-Month U.S. Dollar LIBOR.

3 Month U.S. Dollar ICE LIBOR Reset Weekly
(Former benchmark for U.S. Liquidity Relative Value: Inception Date: July 1, 2002)
The 3 Month U.S. Dollar ICE LIBOR Reset Weekly, ICE LIBOR (formerly known as BBA LIBOR), is a widely used benchmark for short-term interest rates, providing an indication of the average rates at which LIBOR panel banks could obtain wholesale, unsecured funding for set periods in particular currencies. It is produced for five currencies (CHF, EUR, GBP, JPY and USD) and seven tenors (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months and 12 Months) based on submissions from a reference panel of between 11 and 16 banks for each currency, resulting in the publication of 35 rates every applicable London business day. The benchmark for the Composite uses the 3 Month USD rate on the 8th, 15th, 23rd and month end to derive the return for the subsequent period. If a reset day is a weekend or holiday, then the rate of the preceding business day is used.

3-Month U.S. Dollar ICE LIBOR Reset Monthly
(Former benchmark for Emerging Markets Long/Short: Inception Date: November 1, 2007, Global Liquidity Relative Value: Inception Date: July 1, 2014)
The 3-Month U.S. Dollar ICE LIBOR Reset Monthly, ICE LIBOR (formerly known as BBA LIBOR), is a widely used benchmark for short-term interest rates, providing an indication of the average rates at which LIBOR panel banks could obtain wholesale, unsecured funding for set periods in particular currencies. It is produced for five currencies (CHF, EUR, GBP, JPY and USD) and seven tenors (Overnight/Spot Next, 1 Week, 1 Month, 2 Months, 3 Months, 6 Months and 12 Months) based on submissions from a reference panel of between 11 and 16 banks for each currency, resulting in the publication of 35 rates every applicable London business day. The benchmark for the Composite uses the 3 Month USD rate of the prior month end to derive the return for the current month.

S&P 500 Total Return Index (S&P 500 Index)
(U.S. Liquidity Relative Value (S&P 500 Overlay): Inception Date: April 1, 2014)
S&P 500 Total Return Index is a commonly recognized, market capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: MAY 9, 2023**
From: Neil M. Guglielmo, General Manager | **ITEM: V**

SUBJECT: **PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2023-24 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 2023-24 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2023-24 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.

Strategic Plan Impact Statement

The annual real estate strategic plan assists the Board in building a diversified real estate 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: Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/BF/WL/EP:rm

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

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MEMORANDUM

TO:	**The Board of Los Angeles City Employees' Retirement System**
DATE:	May 2023
SUBJECT:	Real Estate Strategic & Investment Plan for Fiscal Year 2023-2024 – 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.

Townsend was re-engaged by LACERS' Board in 2014 to serve as its real estate consultant. Since that time, Townsend has worked with LACERS Staff to successfully transition the Portfolio to reflect a more conservative risk profile. The investment strategy from 2014 to-date has emphasized $405 million of investments into Core funds and $700 million into tactical Non-Core funds.

In April 2018, LACERS Board adopted changes to its Asset Allocation targets, as advised by its general consultant. The impact to real estate was to increase the target from 5.0% of Total Plan Assets to 7.0% of Total Plan Assets. In May 2021, the Board elected to maintain a 7.0% real estate allocation with the adoption of the new asset allocation.

FY 2023-2024 Investment Recommendations

The LACERS Program (the "Program") has a 7.0% allocation target (with an allowable range of ± 2.0%). As of December 31, 2022, the market value of the Portfolio was $1.28 billion on a funded basis (6.1% of Total Plan Assets). LACERS will need to continue to deploy capital in order to reach its 7.0% allocation target over the coming years.

Townsend recommends the following 2023-2024 Goals to LACERS for consideration:

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	LACERS Annual Investment Plan FY 2023-2024
Core Capital	Up to $100 M
Non-Core Capital	Up to $200 M
Total Annual Commitments	**Up to $300 M**

Core Portfolio Goals

- Consider top-up commitments to high conviction managers with optimal portfolio positioning (e.g. overweight apartment, industrial, and alternative sectors).
- Consider new Core/Core Plus funds if tactical opportunities arise (e.g. buying portfolios at a discount or accessing complementary exposures).
- Identify opportunities to rebalance the Core portfolio to optimize fees, increase exposure to outperforming managers and desired property types.
- Explore sale of underperforming positions if liquidity options present themselves (e.g. redemptions or secondary sales).

Non-Core Portfolio Goals

- Target $50-$75 million commitments per fund, but lower commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS' sizing policies.
- Focus on the following investment themes
  - U.S. multifamily: continue increasing exposure to reach overweight compared to benchmark in the long term.
  - Opportunistic strategies taking advantage of market dislocation or distress across a variety of sectors and regions.
  - Complementary niche exposures such as life sciences, industrial outdoor storage, cold storage, data centers, or others.
- Continue to target no less than 10% of commitments to Emerging Managers

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  - FY2022-2023: To date, 18.6% of real estate commitments made during the fiscal year were to emerging managers.
  - Townsend and staff are currently evaluating a shortlist of Emerging Manager candidates for possible 2023/2024 commitments and will continue due diligence.
- Focus on Buy-rated funds with high conviction managers.

END OF INVESTMENT RECOMMENDATIONS

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Real Estate Portfolio

Fiscal Year 2023-2024 Investment Plan

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PROPRIETARY & CONFIDENTIAL
April 2023

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Table of Contents

A. Real Estate Market Outlook

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Global Economic Outlook

Major economies face a challenging 2023 with recovery anticipated in 2024

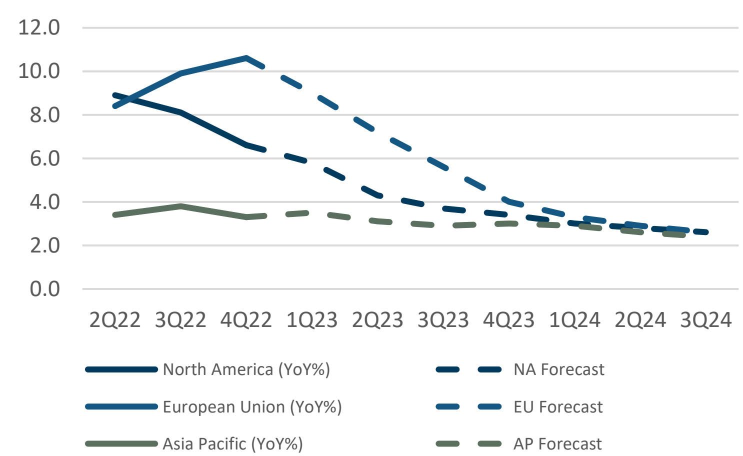
- Developed economies have been slowing through 2023 and interest rates rising in H2 22 and Q1 23.
  - The Russian invasion of Ukraine disrupted economic activity; primarily in Europe but with globally widespread secondary effects.
  - Lagged Covid stimulus related spending in the US, Chinese 're-opening' (following the abandonment of its 'Zero-Covid' policy), and Brexit related friction variously stressed supply chains and added to inflationary pressures.
- Economies were showing signs of adjustment to a prolonged Ukrainian war and gradual normalisation of higher interest rates, but recent developments in the banking sector have unsettled markets .
  - Global stock market indices down
  - Global bond rates lower
- While uncertainty remains high, the average financial health of consumers, businesses, and banks is widely considered more sound than 2008.
- Consensus forecasts anticipate weak economic growth for the northern hemisphere regions in 2023 and 2024 while China's continued strong growth (albeit below its recent average) underpinning growth in the Asia Pacific region.

Consensus Forecasts – Real GDP Growth (YoY%)

Major Regions	2022	2023	2024	2025
North America	2.3	1.0	1.1	2.0
European Union	3.6	0.5	1.4	1.9
Asia Pacific	3.5	4.4	4.3	4.2

Selected Markets	2022	2023	2024	2025
United States	2.1	1.0	1.0	2.0
United Kingdom	4.2	-0.4	0.9	1.7
Germany	1.8	0.0	1.1	1.6
China	3.0	5.3	5.0	4.7
Japan	1.0	1.1	1.1	1.0
Australia	3.7	1.7	1.6	2.3

Consensus Forecasts - Quarterly CPI



Source: : Bloomberg (March 2023)

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.

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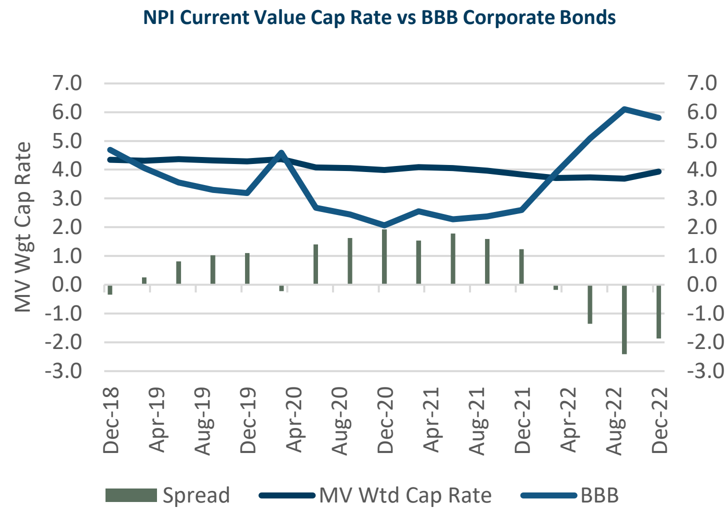
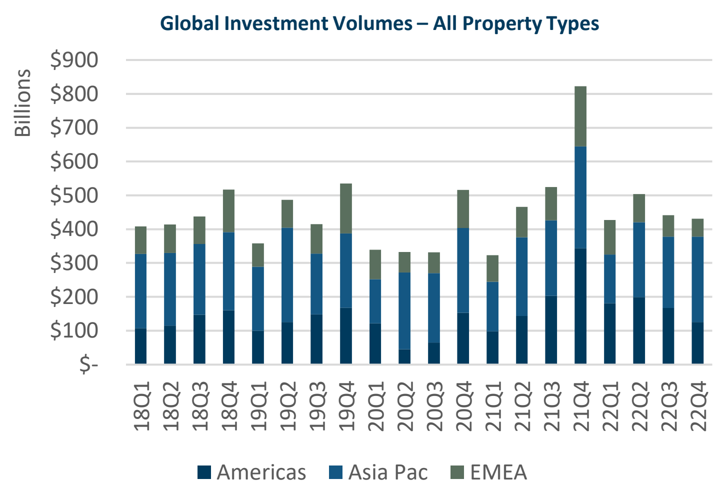
Real Estate Market Conditions

Transaction volumes lower as economic conditions have softened

- Global rising interest rates have risen sharply in recent quarters.
- The relative attractiveness of real estate has declined relative to more pure fixed income investments.
- Owners and developers of institutional real estate confront higher finance costs (from higher interest rates) and construction costs (from supply chain difficulties and input price increases).
- For stabilized real estate, the 'spread' between borrowing costs and cap rates has diminished or disappeared.
- Expectations of future growth are likely to keep some buyers active, albeit most forecasts of near-term growth are being lowered due to rising expectations of recessions.
- Refinancing is getting increasingly more difficult as many debt providers, mostly banks, have paused lending; further, given the current cost of debt, historical LTVs might not be feasible requiring equity re-ups.
- Transaction volumes were solid in 2022 but Q4 – normally the busiest – was muted as inflation fears and interest rates increased.
- Anecdotally, transaction volumes have declined in 2023, and the sectors that have recently performed most strongly – notably logistics and residential – have seen sharp declines, albeit from high levels.





Source: NCREIF, Federal Reserve Bank of St. Louis, Real Capital Analytics. (March 2023)

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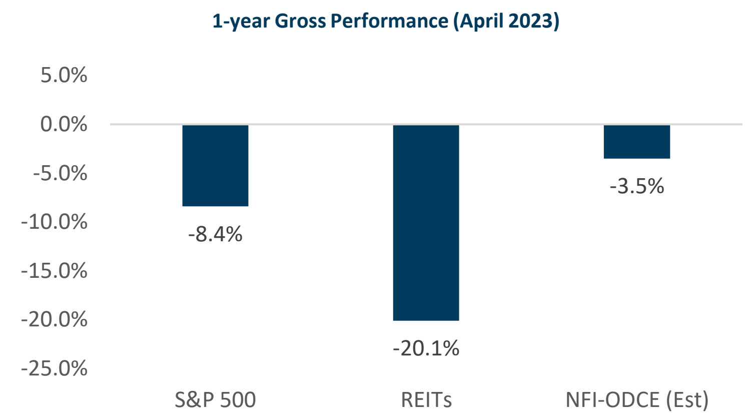
Denominator Effect May Limit Capital Flows Potentially Hurting Valuations

- Private real estate has significantly outperformed equities, leading to denominator effect driven selling pressure coming from investors. Redemption queues have increased significantly in private real estate open-end commingled funds as investors seek to get back in line with RE allocation. Per Townsend, redemption queues totaled over $30 billion in 4Q22 and rising.

- We believe it is likely that investors will slow new commitments, leading to a reduction in equity available towards the private real estate sector over the coming months.

- The large gap in performance between the public and private markets has created a large implied discount between public and private real estate valuations. Data suggests that private real estate is lagging public valuations, which historically is driven by appraisal lag in the private real estate sector.

- US private real estate experienced modest cap rate expansion in 2022. It is widely anticipated that cap rates will continue to expand to reflect the impact of rising interest rates and higher cost of debt.



Cap Rate Analysis
TTG, NCREIF, Implied from GS

Index[1]	Apartment	Industrial	Office	Retail
ODCE Median	3.70%	3.12%	4.14%	4.95%
Diversified Core+ Median	3.91%	3.27%	4.58%	5.17%
Sector Specific Median	3.79%	3.25%		
NCREIF	3.77%	3.17%	4.44%	5.04%
GS REIT Implied Cap	6.41%	4.45%	9.77%	8.48%
REIT Implied Discount				
Vs Core	-42%	-30%	-58%	-42%
Vs Core+	-39%	-27%	-53%	-39%
Vs NCREIF	-41%	-29%	-55%	-41%

Source: The Townsend Group, Yahoo Finance, NCREIF, Green Street (March 2023)
[1]Private real estate cap rates as of 12/31/22. REIT implied cap rates based on ending price as of 3/24/23
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.

Core Real Estate Gross Annual Returns Since 2000

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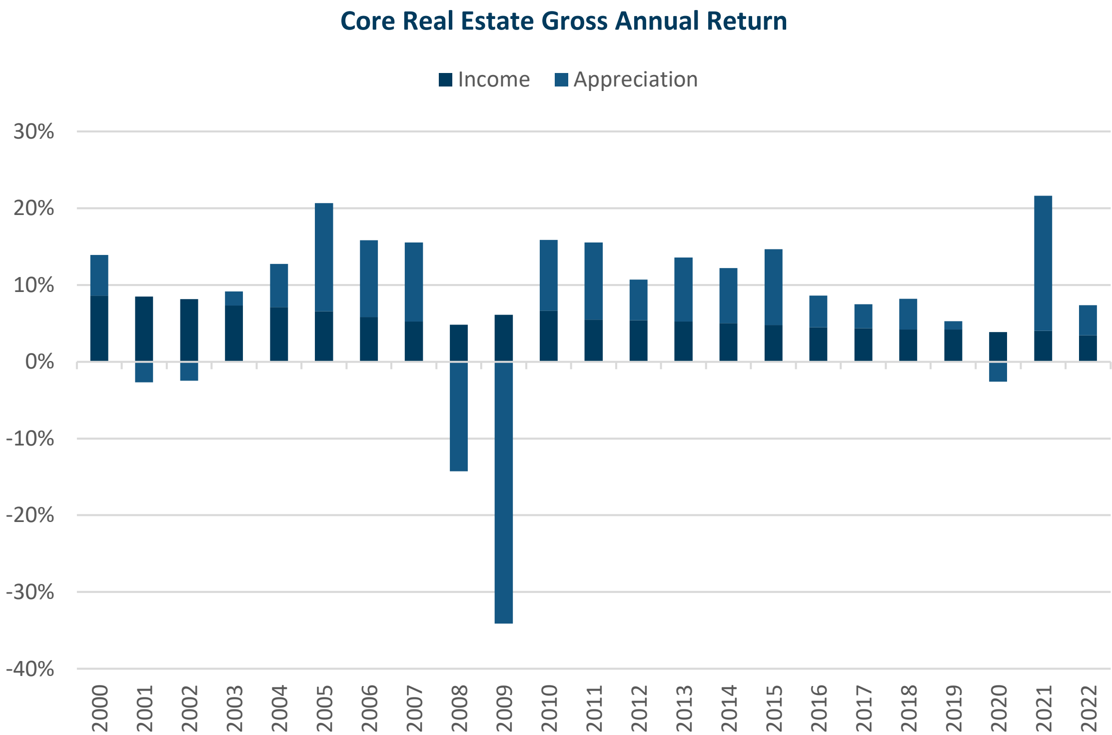

Source: NCREIF (March 2023)

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Higher Secular Growth In Industrial & Apartments Anticipated To Lead To Higher Relative Performance, Despite Negative Spreads

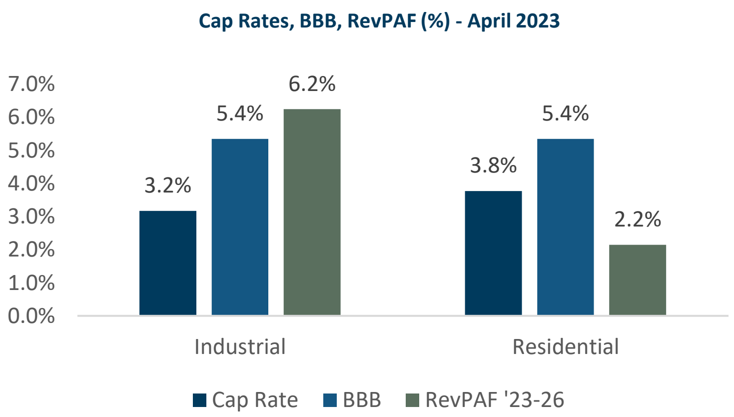
- We believe the significant negative spread to the borrowing costs are a short-term valuation risk especially as the near-term rent growth is anticipated to slow due to imminent recession.
- Deals initiated prior to rate hikes were re-traded and many of them abandoned after the interest rate environment changed.

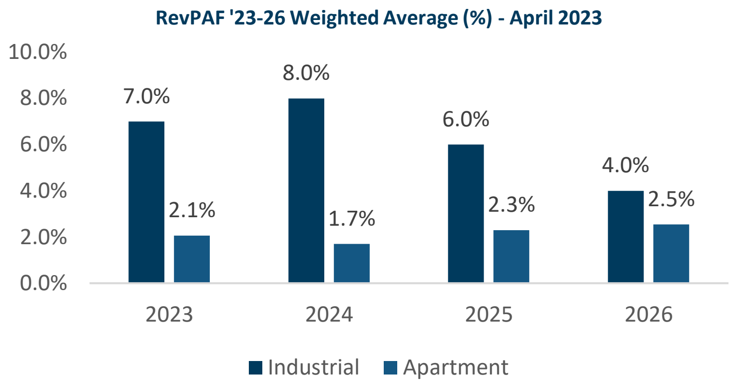
Industrial Sector

- The persistent growth in the e-commerce sector continues to lead to a strong demand for warehouses.
- Supply remains constrained in the current environment due to lack of availability of construction financing.
- The low occupancy in the key submarkets is likely to get even lower.
- In the short-term, rent pressures could emerge due to imminent recession, but the long-term growth story still looks viable.

Apartment Sector

- Apartment supply in the select high-growth markets is further constrained today due to a lack of construction financing. Initial constraints remain due to a lack of material and labor.
- In the near-term, demand can weaken as the labor market softens and people start to double up.
- However, in the medium to long-term, rental demand is likely to remain strong as higher mortgage rates and home values will limit ownership.





Source: The Townsend Group, NCREIF, GreenStreet. (October 2022). Market Revenue per Available Foot (M-RevPAF) is a Green Street metric combining changes in rents with changes in occupancies. 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.

Negative Spreads In The Office & Retail Sectors Point To Valuation Risks, Given The Low Anticipated Rental Growth

- The negative spreads to interest rates are a risk for these sectors as the debt is dilutive to earnings & the long-term growth remains low.
- Currently, most potential buyers are out of the market due to the risk in these sectors.
- As legacy debt matures, it will be difficult to refinance in these sectors to the same level of LTV, leading to some stressed buying opportunities.

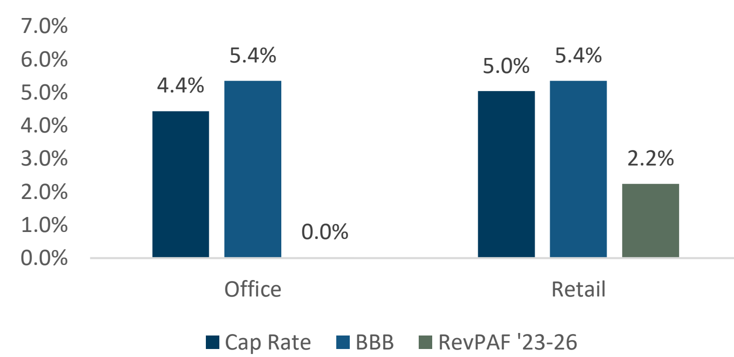
Office Sector

- Market expectations for rent growth, which are already low, can decrease further if recession leads to widespread layoffs.
- In a slowing economic growth environment, tenants are likely to come under increased cost reduction pressure leading to rationalizing space and reducing rental expense.
- Strong bifurcation in performance anticipated by quality, location and ESG credentials of the buildings .

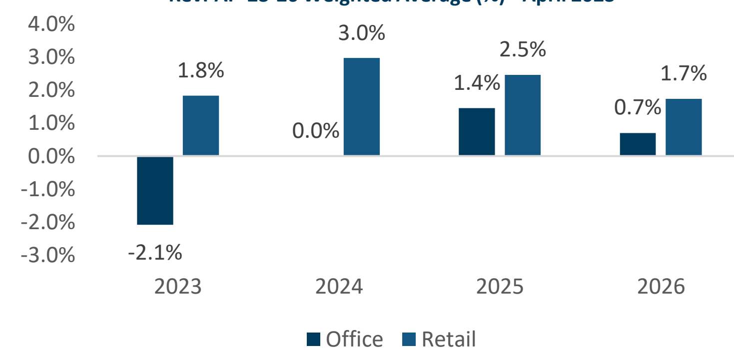
Retail Sector

- Post pandemic, as people started coming out of their houses, retail assets witnessed a jump in foot traffic, but it is anticipated that most assets will revert back to the pre-pandemic trend.
- While neighborhood retail might still have good fundamentals, the future for most other formats is still a bit uncertain.
- There is a significant appraisal lag in this particular asset class due to a thin transaction market.

Cap Rates, BBB, RevPAF (%) - April 2023



RevPAF '23-26 Weighted Average (%) - April 2023



Source: The Townsend Group, NCREIF, GreenStreet. (October 2022). Market Revenue per Available Foot (M-RevPAF) is a Green Street metric combining changes in rents with changes in occupancies. 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.

Global Real Estate Investment Themes

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1

Evolution of the Global Supply Chain

Expansion/modernization across the supply chain, including bulk distribution, last mile, and specialized distribution real estate

E-COMMERCE PENETRATION

US: While anticipated growth is likely to continue, the near-term faces recession driven headwinds in rental growth; medium-to-long term prospects still strong

Low cap rates face some expansion pressure in the near-term, but the medium-term return profile still attractive

Coastal markets continue to offer more embedded value growth

Innovation in the asset class creating outdoor storage, shared storage space, and cold storage offer attractive opportunities

Asia: E-commerce related real estate infrastructure still under-developed; Attractive investment opportunities in key geographies of Australia, Japan, and Korea with secondary focus on Singapore and Hong Kong

Europe: Economic slowdown related rent growth weakness likely in the short-run, but the medium-term is attractive

All regions: Lack of availability of construction financing and slowing rent growth to limit supply in the short-term, making rent growth prospects beyond a potential recessionary period attractive

2

Housing Shortage and Suburban Migration

Shortage of affordable housing stock across most global developed markets

Migration to less urban markets due to remote work and anticipated tax savings

APARTMENT

US: High mortgage rates over the next few years can lead to a stronger growth for rental properties

However, in the near-term, economic slowdown and weakness in labor market can reduce demand and increase rent affordability woes

Asia: Select opportunities in Japan (Tokyo & Osaka), and key cities of Australia, but the opportunity set remains low

Europe: Rent controls across many parts of the continental Europe led to a low returning opportunity dominated by local, lower cost of capital investors

SINGLE FAMILY RENTAL

Predominantly a US based opportunity

Work-from-home and aging millennials (largest age cohort) offer strong tailwinds

High mortgage rate driven potential housing market correction could offer good entry opportunity

All regions: Housing shortage remains a global challenge and higher cost of debt could potentially worsen the situation

3

Dislocation in Select Property Types

SOME ASSETS REQUIRE RECAPITALIZATION

Debts markets are not fully functional and risk premiums have significantly expanded

Marginal cost of debt significantly higher than most proforma

Debt service coverage ratios to be hurt in refinancing due to higher cost of debt, limiting LTVs

The above situation further worsened by potential reset in property values

Lastly, denominator effect might limit equity available for investment

POTENTIAL MITIGANTS

Banks more willing to accommodate loan extensions

In general, property markets are not over-leveraged

Still high-level of dry-powder both in debt and equity funds will limit the downside

BIFURCATION OF DISTRESS

Sectors and regions with strong medium-term rent growth outlook will offer attractive entry points

However, those with uncertain outlook (e.g., office, retail, etc.) might be value traps (some exceptions apply to this general view)

Source: The 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.

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Global Real Estate Investment Themes (Cont.)

4

Emergence of Niche Property Types

Niche strategies may offer stable income, differentiated demand dynamics, and upside potential through operating efficiencies

Office and retail sectors (once the largest two sectors) both face uncertain outlook, driving the need to institutionalize other real estate sectors

INSTITUTIONALIZATION BEYOND THE 4

US: Witnessing many sectors evolve in the private real estate industry including data centers, student housing, medical office, cold storage, production studios, shared storage spaces, etc.

Typically, cap rates exhibit premium to traditional sectors (with good fundamentals)

However, most sectors require strong operating companies and often they are in short supply

Asia: Opportunity set is evolving, but still limited

Select opportunities in Korea, Australia, Japan, Singapore, and Hong Kong

Europe: Opportunity set is slow in evolving as operating platforms with strong credentials remain in short supply

All regions: Each niche sector has its own unique fundamentals, constraints and operating capability requirements making investment decisions challenging

However, investors need to start building capabilities as these sectors are rapidly growing

5

Evolving Work-Life Balance and Work-From-Home

Headwinds driven by potential economic slowdown and associated employment market weakness

Bifurcation in performance based on asset quality, location and ESG likely to be the dominant theme

WORK-FROM-HOME

US: Mix of employer guidelines and requirements have evolved; some require five-day work in the office, some are fully remote, but most offer flexibility or have two- or three-day work in the office requirement

Above trend is pointing to rationalization of office space leading to multi-year gentle demand reduction leading to rent growth pressures

Bid-ask spreads high limiting price discovery

Asia: Smaller apartments and homes, and cultural factors will keep greater proportion of workforce in office, but some impact anticipated across most regions, but greater impact expected in Australia

Softness in asset values could selectively offer attractive value add opportunities

Europe: Given the Ukraine crisis, the economic outlook remains more uncertain limiting opportunities, but investors should opportunistically seek opportunities in well located green buildings with modern amenities

6

Aging Population and Complemental Strategies

Demographics driving demand for healthcare, life sciences, medical office, and senior housing

SENIOR HOUSING

Over the next 10 years, growth in global population aged 65-74 and age 75+ are anticipated to increase significantly, leading to more opportunities in markets like the US, Europe, Japan, & Australia

LIFE SCIENCES ASSETS

Over the medium to long term, Life Sciences R&D continues to see accelerating growth in funding from an array of sources, including VCs, public funding, and corporates

But VCs getting increasingly cautious in the short-term and focused on preserving cash for existing portfolio companies

US: The VCs have grown increasing cautious in the current environment pointing to limited near-term growth in research driven companies

Near-term weakness in rental growth and asset values anticipated, but the demographic driven medium-term outlook remains attractive

Asia & Europe: Select opportunities emerging in Europe and Asia, but these markets are less institutionalized

Source: The 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.

B. Executive Summary

Executive Summary

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LACERS Annual Investment Plan 2023-2024

Private Real Estate Portfolio

Core Portfolio – Up to $100M

- Top-up commitments to select core and/or core-plus funds in portfolio to increase exposure to highest conviction managers and sectors.

Non-Core Portfolio - Up to $200M

- 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.

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C. LACERS Real Estate Program Overview

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LACERS Real Estate Program Overview

(Data as of December 31, 2022)

	Market Value ($ millions)*	% LACERS Plan*
LACERS Total Plan Assets	20,979	
Real Estate Target	1,469	7.0%
RE Market Value:		
Core	886	
Non-Core	377	
Timber	21	
Total RE Market Value	1,284	6.1%
Unfunded Commitments	384	1.8%

*Figures may not add due to rounding. For certain funds, data as of 9/30/22 was used if 12/31/22 data was not yet finalized.
Source: The Townsend Group. Data as of December 2022. 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.

LACERS Real Estate Program Overview (continued)

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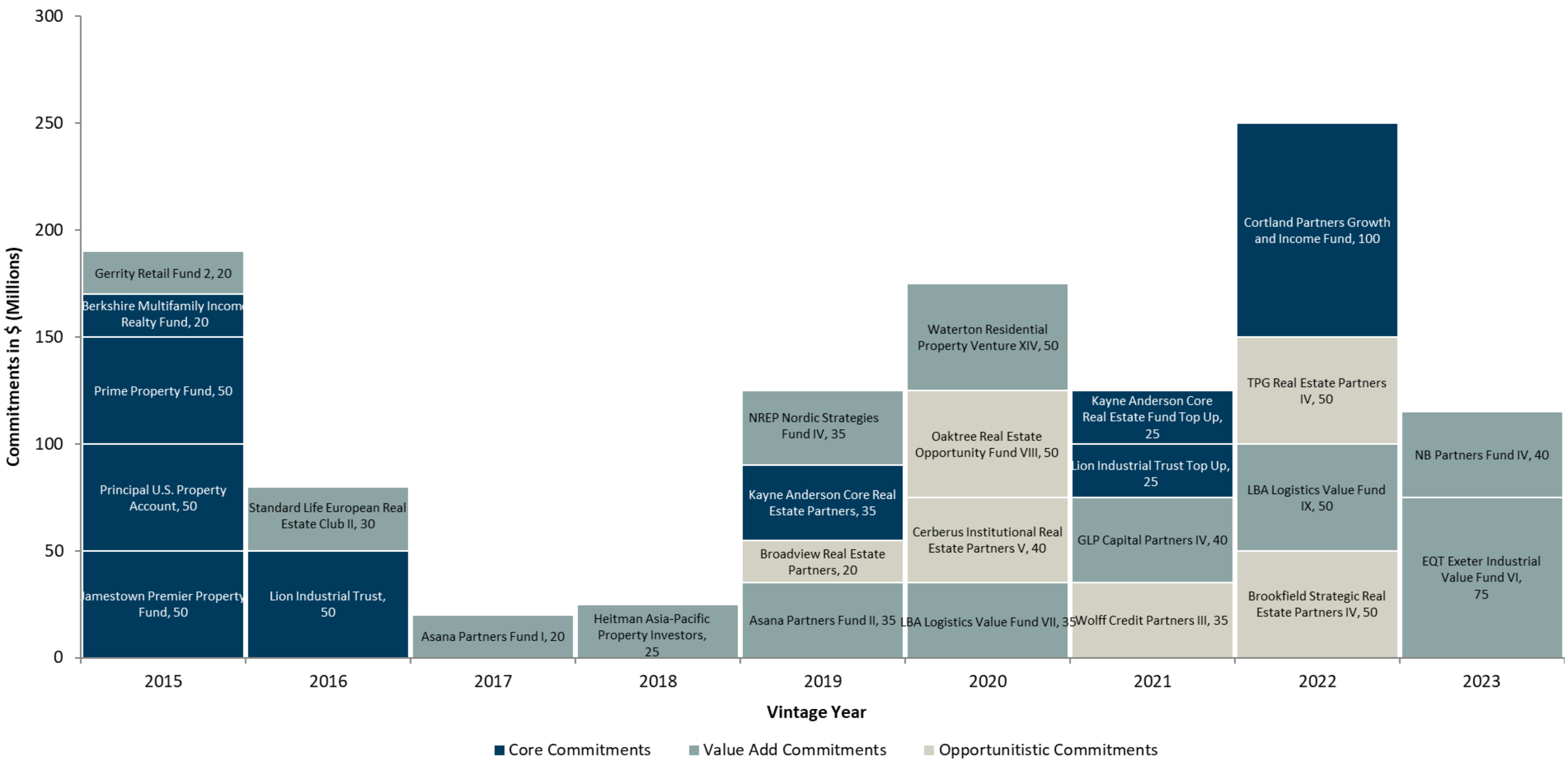
	Strategic Targets		Portfolio Composition (12/31/2022)*	
	Target Allocation	Tactical Range	Market Value	Market Value & Unfunded Commitments
Core	**60%**	**40% - 80%**	**69.0%**	**53.1%**
Non-Core	**40%**	**20% - 60%**	**29.4%**	**45.6%**
Value-Add Portfolio	*N/A*	*N/A*	*18.4%*	*25.8%*
Opportunistic Portfolio	*N/A*	*N/A*	*11.0%*	*19.7%*
Timber	**N/A**	**N/A**	**1.6%**	**1.3%**

- In May 2014, the Board approved the strategic targets displayed above in order to reflect a more conservative risk profile going-forward. At the time, the Portfolio had 30% exposure to Core and 70% exposure to Non-Core.
- As of 12/31/22, LACERS is overweight to its Core and underweight to its Non-Core target allocation but within the respective tactical ranges. Unfunded commitments will bring exposures closer to long-term targets.

*Figures may not add due to rounding. For certain funds, data as of 9/30/22 was used if 12/31/22 data was not yet finalized.
Source: The Townsend Group. Data as of December 2022. 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.

LACERS Commitment History



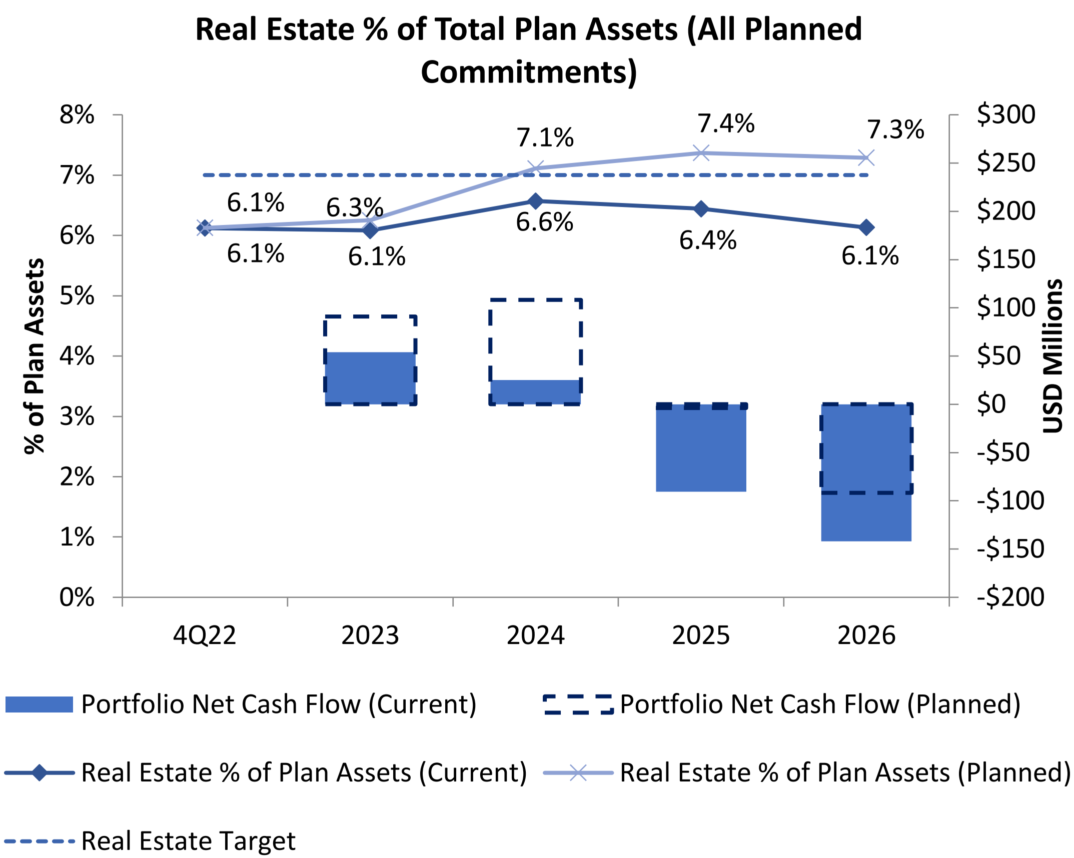
- LACERS is currently in the redemption queue for Berkshire Multifamily Income Realty Fund and Jamestown Premier Property Fund.
- Vintage year classifications are based on the first capital call or anticipated capital call.

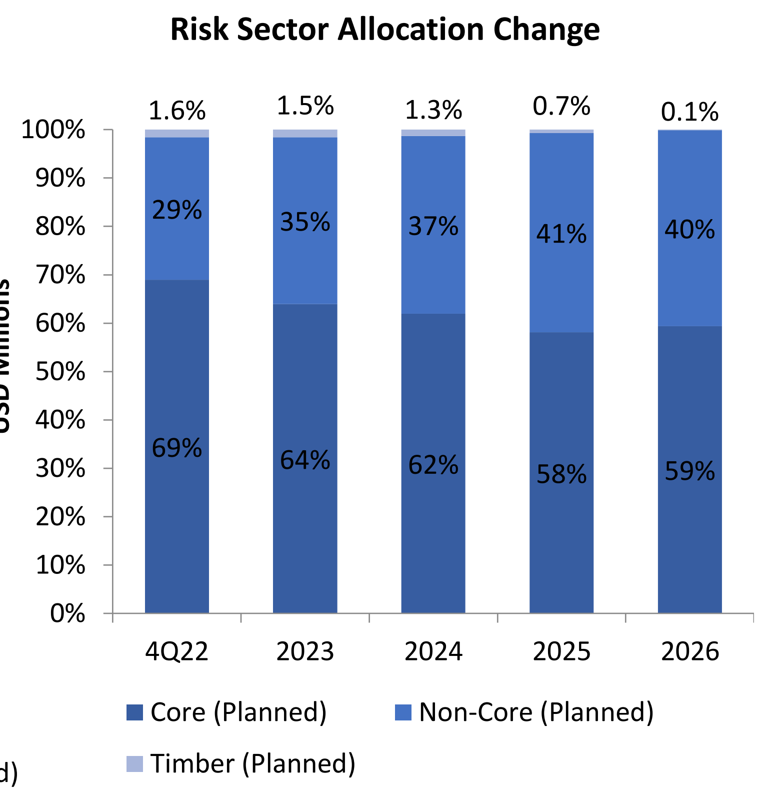
Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

D. LACERS 2023-2024 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 currently forecast to be slightly overweight after 2024; however, Townsend will re-adjust annual pacing assumptions and investment planning as needed to maintain and reach targets and respond to changing market environments.





Source: The Townsend Group. Data as of December 2022. 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.

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LACERS 2023-2024 Investment Plan – Core Portfolio

COMMIT UP TO $100 MILLION TO CORE IN 2023-2024

- Core commitment activity was paused in the second half of 2022 due to anticipated valuation adjustments across the open-end core and core plus fund universe. Additional write-downs are anticipated in 2023 and Townsend recommends resuming Core commitments after valuations adjust further.
- Consider top-up commitments to high conviction managers with optimal portfolio positioning (e.g. overweight apartment, industrial, and alternative sectors).
- Consider new Core/Core-Plus funds if tactical opportunities arise (e.g. buying portfolios at a discount or accessing complementary exposures).
- Identify opportunities to rebalance and consolidate the Core portfolio to optimize fees.
- Explore sale of underperforming positions if liquidity options present themselves (e.g. redemptions or secondary sales).

LACERS Core Open-End Portfolio Summary ($ Millions)	12/31/22 Market Value	Outstanding Redemptions	New Capital
LACERS Core Open-End Portfolio Summary			
Berkshire Multifamily Income Realty Fund	$19	($19)	
Cortland Partners Growth and Income Fund	$93		
INVESCO Core Real Estate	$239		
Jamestown Premier Property Fund	$30	($30)	
JP Morgan Strategic Property Fund	$89		
Kayne Anderson Core Real Estate Fund	$67		
Lion Industrial Trust	$176		
Prime Property Fund	$69		
Principal U.S. Property Account	$87		
Core/Core Plus Top-Up or New Commitments			$100

Source: The Townsend Group. Data as of December 2022. 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.

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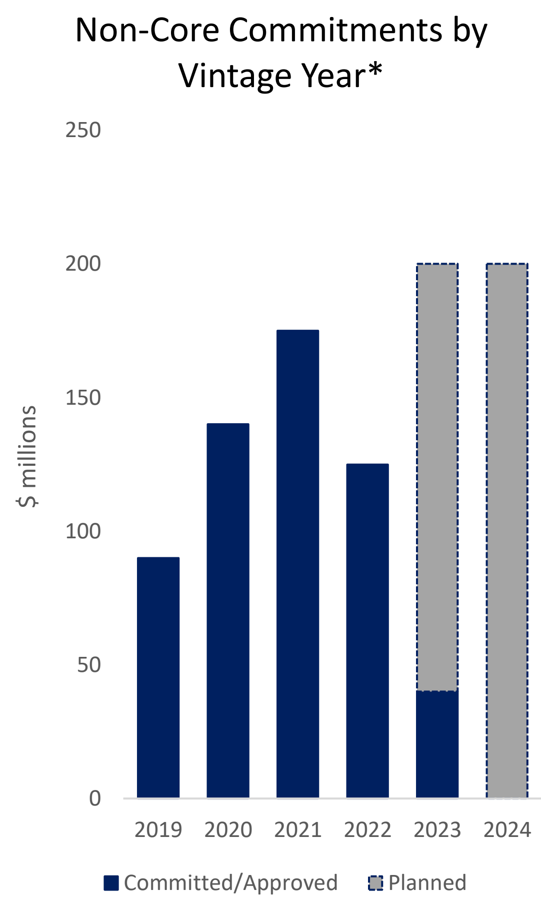
LACERS 2023-2024 Investment Plan – Non-Core Portfolio

- **COMMIT UP TO $200 MILLION TO NON-CORE IN 2023-2024.** Target $50-$75 million commitments per fund, but lower commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS' sizing policies.
- Focus on the following investment themes
  - U.S. multifamily: continue increasing exposure to reach overweight compared to benchmark in the long term.
  - Opportunistic strategies taking advantage of market dislocation or distress across a variety of sectors and regions
  - Complementary niche exposures such as life sciences, industrial outdoor storage, cold storage, data centers, or others
- Continue to target no less than 10% of commitments to Emerging Managers
  - FY2022-2023: To date, 18.6% of real estate commitments made during the fiscal year were to emerging managers.
  - Townsend and staff are currently evaluating a shortlist of Emerging Manager candidates for possible 2023/2024 commitments and will continue due diligence.
- Focus on Buy-rated funds with high conviction managers.



Source: The Townsend Group. Data as of December 2022. 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.

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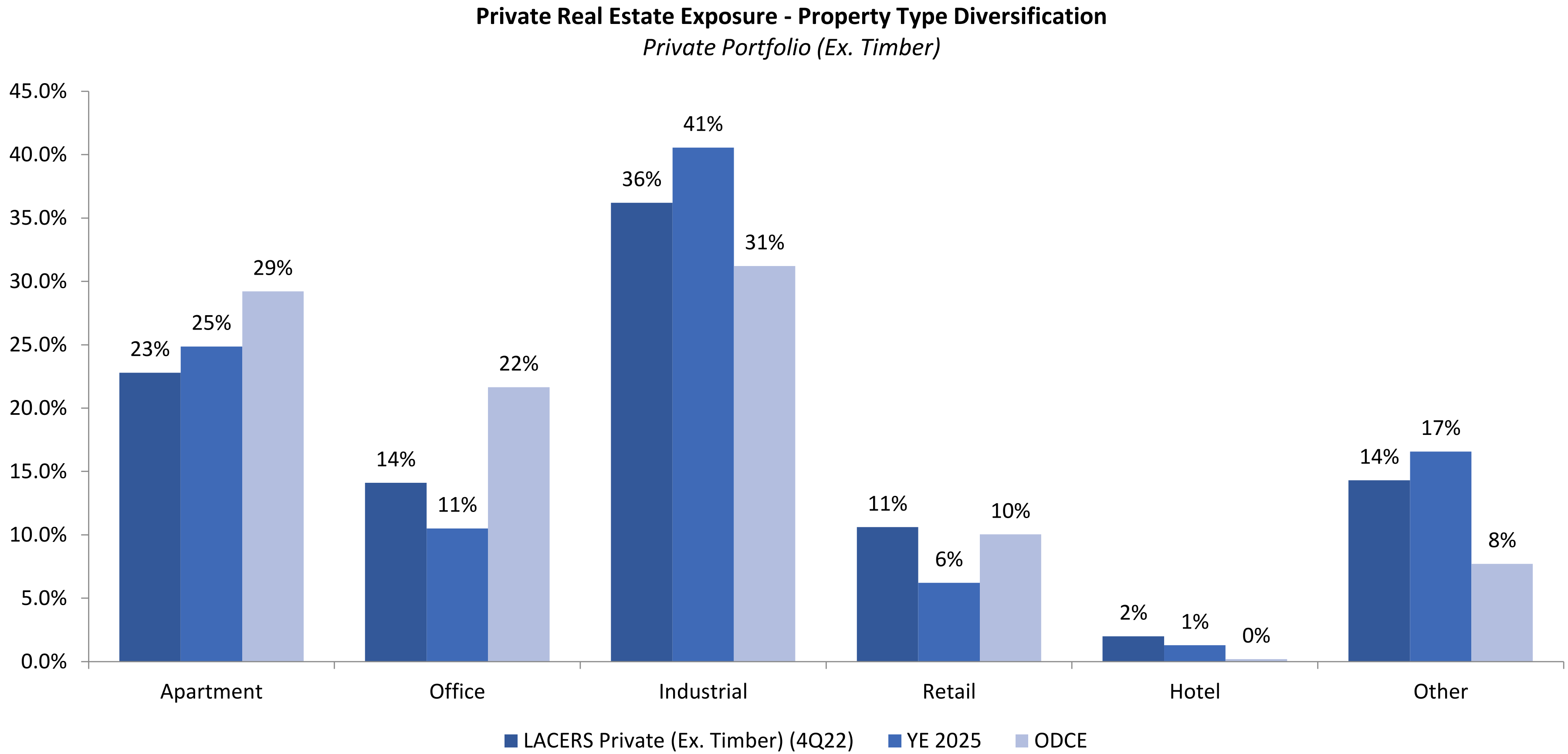
LACERS Diversification Projections



’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.
Source: The Townsend Group. Data as of December 2022. 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.

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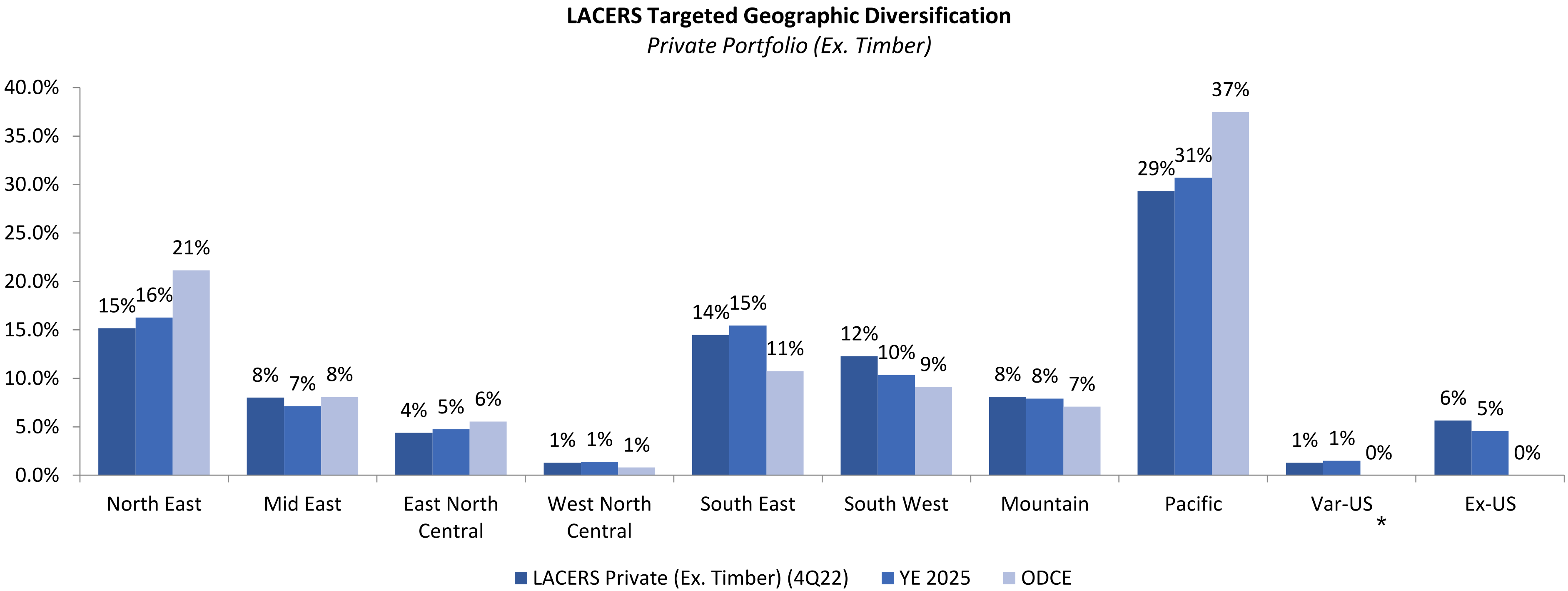
LACERS Diversification Targets



*Var-US includes any investments that are not directly tied to specific regions, such as real estate debt investments through Torchlight or entity-level investments through Almanac.

Source: The Townsend Group. Data as of December 2022. 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.

E. Real Estate Strategic Plan Overview

Overview – Strategic Plan (Objectives, Policies and Procedures)

- LACERS' Real Estate program is governed by a Strategic Plan, which establishes long-term objectives and risk controls.

Program Framework	Strategic Goals	Risk Controls	Mechanics
Allocation to Real Estate	**Role of Real Estate**	**Investment Diversification**	**Permitted Vehicles**
• 7% of total plan assets with allowable range of +/- 2.0%	• The LACERS Board has determined that the Role of Real Estate will be to provide: • Income • Diversification • Risk-adjusted Return • Hedge against inflation	• Single Manager: ≤ 30% of total Real Estate portfolio • Single Commitment: ≤ 10% of total targeted Real Estate allocation	• Wide range of permitted structures and vehicles • Primary focus on open-end and closed-end commingled funds
Core/Non-Core Blend	**Return Objective (Benchmark)**	**Property Type and Geographic Diversification**	**Roles and Responsibilities**
• Core: • **60% Target** • *40-80% Range* • Non-Core: • **40% Target** • *20-60% Range* • Timberland and Public Security (or REIT) investments will also be tracked within the Real Estate Portfolio, separate from the targeted Private Portfolio composition above. At no time will these investments represent greater than 10.0% of the targeted Real Estate Portfolio	• The return objective for the LACERS Private Real Estate Portfolio is the NFI-ODCE + 80 basis points ("bps"), measured on a net of fee basis over five-year time periods* • While no return objectives are stated by strategy, relative performance comparisons will be made to the NFI-ODCE for Core Real Estate, and the NFI-ODCE + 200 bps for Non-Core Real Estate. The Timber Portfolio will be benchmarked against the NCREIF Timberland Index, gross of fees.	• Apartment, Office, Retail, Industrial, and Hotel • +/- 10% of the NFI-ODCE • Other/Alternative Property Types • 0-20% of Private Real Estate Portfolio • Maximum of 30% outside the United States	• Collaborative approach between Staff and Consultant, with Board oversight and control • Consultant prepares and presents Strategic Plan, Investment Plan, investment recommendations, performance measurement reports, market outlooks and other relevant reports and analyses to Staff, Investment Committee and Board
		Leverage Limit	
		• Core: LTV ≤ 40% • Non-Core: LTV ≤ 75%	

1."ODCE" is an index of U.S., core-oriented, open-end funds.
2."LTV" is loan-to-value ratio.
Source: The 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. One cannot invest directly in an index.

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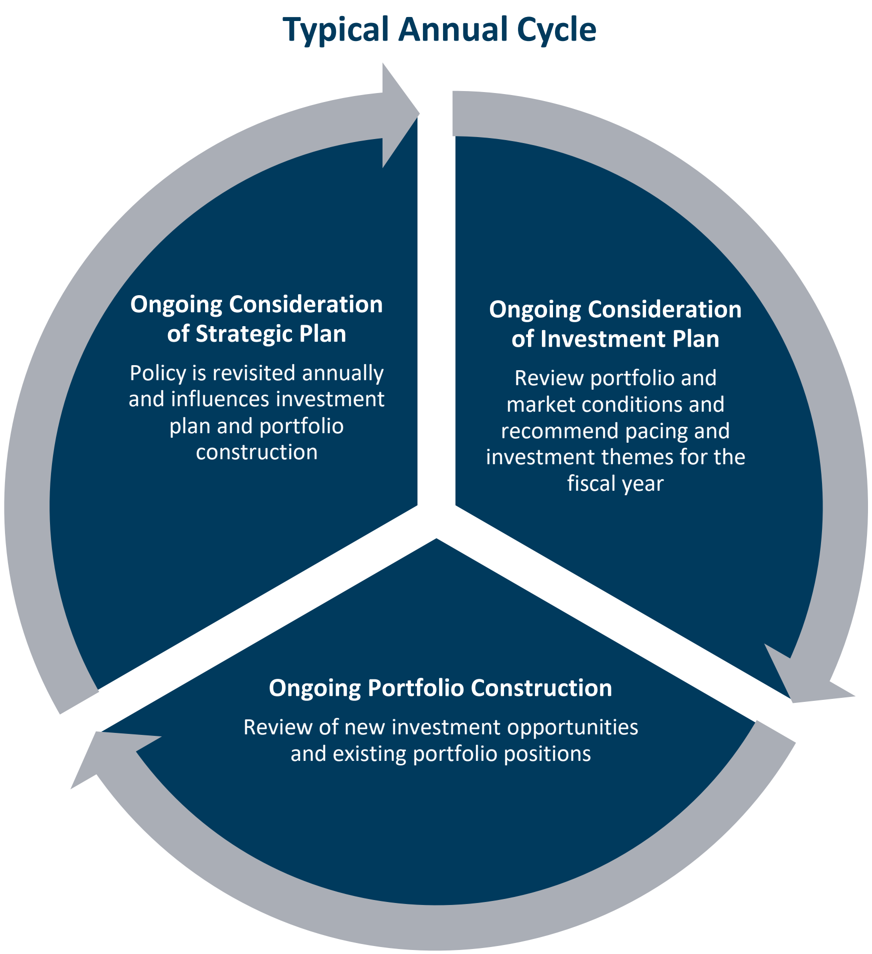
Overview - Process

- Strategic Planning, Investment Planning, and Portfolio Construction are an ongoing process.



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F. Sourcing & Deal Flow

Manager Sourcing & Due Diligence

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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.

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice.

Manager Sourcing & Due Diligence

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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.

Townsend’s views are as of the date of this publication and may be changed or modified at any time and without notice.

Emerging Manager Sourcing Process

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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 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:
  - Since 2015, LACERS has committed $135 million to real estate emerging managers (19.3% of LACERS' $700 million commitments to non-core real estate over that time frame).
- In 2021, LACERS updated its Emerging Manager Policy to the following:
  - The fund size may not be larger than $2 billion.
  - First, second or third institutional fund for a given General Partner.
  - The firm must have been in existence for a minimum of one year (6 months if all senior staff come from an established manager as part of a spin-out).
  - The team must have a minimum track record of five years.
  - No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.
  - No Limited Partner can represent more than 30% of the total Fund's capital.
  - The fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment.
  - For first-time institutional funds, LACERS commitment shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower (20% or $40 million for second- and third-time institutional funds).

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice.

Disclosures

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There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results.

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Disclosures and Definitions

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GENERAL DISCLOSURES

There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results. Investing involves risk, including possible loss of principal.

Returns reflect the equal-weighted returns calculated during the periods indicated. Note: If including Core, this is value-weighted. In addition, the valuations reflect various assumptions, including assumptions of actual unrealized value existing in such investments at the time of valuation. As a result of portfolio customization/blending and other factors, actual investments made for your account may differ substantially from the investments of portfolios comprising any indices or composites presented.

Due to the customized nature of Townsend's client portfolios, the performance stated may be considered "hypothetical" as it does not reflect the experience of individual client portfolios, but rather aggregate client positions in the stated investment strategy.

NON REGULATORY ASSETS UNDER MANAGEMENT

As of September 30, 2022, Townsend had assets under management of approximately $23.9 billion. When calculating assets under management, Townsend aggregates net asset values and unfunded commitments on a quarterly basis. Townsend relies on third parties to provide asset valuations, which typically takes in excess of 90 days after the quarter end. Therefore, assets under management have been calculated using September 30, 2022 figures where available but may also include June 30, 2022 figures. Assets under management are calculated quarterly and includes discretionary assets under management and non-discretionary client assets where the client's contractual arrangement provides the client with the ability to opt out of or into particular transactions, or provides other ancillary control rights over investment decision-making (a/k/a "quasi-discretionary"). Regulatory AUM is calculated annually and can be made available upon request.

ADVISED ASSETS

As of September 30, 2022, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding $119.2 billion. Advised assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals. The recent change in Advised Assets is due to a change in the reporting of certain special projects.

GLOBAL NON-CORE SPECIAL SITUATIONS STRATEGIES employ a global non-core multi strategy approach with 50% or more of the investments invested in non primary fund investments such as co-investments, joint ventures, secondaries and clubs. Strategies are diversified by geography, sector, property type, manager and vintage year.

U.S. CORE/CORE-PLUS STRATEGY and U.S. CORE/CORE-PLUS STRATEGY – ERISA employ a global core/core plus multi strategy approach investing in primary funds, joint ventures, co-investments, secondaries, direct investments, debt strategies and REITs. Strategies are diversified by geography, sector, property type, manager and vintage year.

SEPARATE ACCOUNTS includes all Townsend active discretionary accounts which invest in a variety of investment styles and structures.

Disclosures

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GLOBAL NON-CORE SPECIAL SITUATIONS STRATEGIES

Townsend's Global Non-Core Special Situations Strategies employ a global non-core multi strategy approach with 50% or more of the investments invested in non primary fund investments such as co-investments, joint ventures, secondaries and clubs. Strategies are diversified by geography, sector, property type, manager and vintage year.

Global Opportunistic Strategy:

Townsend's 2007 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (U.S. Public Pension Fund-of-One).

Global Value-Add Strategy:

Townsend's 2007 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (U.S. Public Pension Fund-of-One).

Townsend's 2008-10-11 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and two commingled funds (HNW and Small Institution Fund (White Label)).

Townsend's 2012 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and one commingled fund (Global Non-Core Special Situations Strategy).

Townsend's 2015 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and one commingled fund (Global Non-Core Special Situations Strategy).

Townsend's 2018 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and one commingled fund (Global Non-Core Special Situations Strategy).

Note: Investment level net IRR's and equity multiples are reported. Net IRR is the net return earned by an investor over a particular time frame, including the performance of both realized and unrealized investments, at fair value. The Net IRR is based upon daily investor level cash flows, current quarter net asset value as hypothetical liquidation mark, and is after the deduction of fees. Investment performance data is reported to Townsend on a quarterly basis by the underlying investment manager. The value of unrealized investments is subject to change.

Net Investment Multiple: Based upon daily investor level cash flows. Calculated as ([Since Inception Distributions + Since Inception Withdrawals + Net Asset Value])/Paid in Capital).

The Townsend Group's Investment Committee (IC) collaboratively makes all strategic investment decisions affecting Townsend's client portfolios.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 9, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: VI**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Loomis, Sayles & Company, L.P. for management of an active high yield fixed income portfolio.

Executive Summary

Loomis, Sayles & Company, L.P. (Loomis) has managed an active high yield fixed income portfolio for LACERS since October 2020. LACERS' portfolio was valued at $224 million as of March 31, 2023. Loomis is in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal.

Discussion

Background
Loomis manages an active high yield fixed income portfolio for LACERS benchmarked against the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index. Loomis' U.S. High Yield strategy is benchmark aware and provides a diversified, actively managed exposure to the U.S. high yield fixed income market. The strategy seeks to outperform through issue and sector selection, highlighting the importance of a disciplined portfolio construction and risk assessment process. The strategy is managed by a team of portfolio managers which include Matt Eagan (32 years of experience), Brian Kennedy (32 years of experience), Elaine Stokes (35 years of experience), and Todd Vandal (28 years of experience), all of whom have worked at Loomis for over two decades. The U.S. High Yield team has dedicated investment strategists and key support professionals and has full access to the firm's wider resources, including teams in credit research, trading, risk management and macro strategies. LACERS' portfolio was valued at $224 million as of March 31, 2023.

The Board hired Loomis through the 2019-2020 Active High Yield Fixed Income search process and authorized a three-year contract on February 11, 2020; the contract became effective on September 1, 2020. The current contract expires on August 31, 2023. Representatives of Loomis most recently presented a portfolio review to the Investment Committee on March 8, 2022.

Loomis also manages an active core fixed income portfolio for LACERS currently benchmarked against the Bloomberg U.S. Aggregate Bond Index. This core fixed income portfolio has undergone several mandate changes going back to its inception in July 1980. As of March 31, 2023, this core fixed income portfolio Loomis manages for LACERS was valued at $589 million.

Organization
Loomis is headquartered in Boston and has over 800 employees, of whom approximately 429 are investment personnel. Loomis is a wholly-owned subsidiary of Natixis S.A., a publicly traded France-based firm offering corporate and investment banking, asset and wealth management, financial investments, payments, and insurance services. As of March 31, 2023 the firm managed over $302.1 billion in total assets with over $2.3 billion in the U.S. High Yield strategy.

Due Diligence
Staff conducts routine due diligence of the manager; in addition to meeting virtually for quarterly portfolio reviews and ad hoc investment discussions, LACERS staff conducted an onsite meeting at Loomis' headquarters on April 13, 2023 to interview key personnel across the organization. Based upon these due diligence activities as well as staff's and NEPC's continuous monitoring, it has been noted that Loomis' organization, investment philosophy, strategy, and process have not changed materially over the contract period. Staff and NEPC continue to deem Loomis capable of managing assets for LACERS under the high yield fixed income strategy.

Performance
As of March 31, 2023, Loomis has generated a positive since inception net excess return and has underperformed the benchmark over the 3-month, 1-year and 2-year time periods, as presented in the table below.

Annualized Performance as of 3/31/2023 (Net-of-Fees)				
	3-Month	1-Year	2-Year	Since Inception 10/28/2020
Loomis	3.03	-5.16	-2.76	1.50
Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index	3.57	-3.35	-2.02	1.01
% of Excess Return	*-0.54*	*-1.81*	*-0.74*	*0.49*

The since inception outperformance over the benchmark is attributed to the excess return produced in the partial calendar year 2020, as presented in the table below.

Calendar Year Performance as of 3/31/2023 (Net-of-Fees)				
	1/1/2023-3/31/2023	2022	2021	10/28/2020-12/31/2020
Loomis	3.03	-11.24	4.23	8.77
Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index	3.57	-11.18	5.26	5.82
% of Excess Return	*-0.54*	*-0.06*	*-1.03*	*2.95*

Loomis' overweight positioning in CCC-rated bonds, which performed remarkably well during the recovery phase of the current credit cycle, contributed to the 2020 outperformance relative to the benchmark. In 2021, spreads continued to tighten as the market entered the expansion phase of the current credit cycle. Credit spreads reflect the difference in yield between a government bond and a corporate bond of the same maturity. Narrower or tighter credit spreads are indicative of perceived lower credit risk and can therefore bolster market valuation of fixed income spread products. The strategy underperformed the benchmark due to its underweight to the high yield sector (subject to a minimum exposure to below investment grade rating; the strategy's investment management guidelines allow for exposure to sectors other than high yield). In 2022, interest rates rose and fears of an impending recession led spreads to widen. On a gross-of-fees basis, the strategy outperformed the benchmark due to portfolio risk reduction measures undertaken by Loomis beginning early in 2022 in response to the global rate-hiking environment.

As the current credit cycle transitions to the downturn phase and eventually into the credit repair phase, Loomis expects strong positive total returns from high yield fixed income over the coming 12 to 24 months. Loomis aims to outperform on the strength of its security selection, focusing on each name's long-term enterprise value while minimizing risks. As the foundation for its bottom-up credit work, Loomis intends to continue utilizing credit cycle analysis to evaluate the factors driving the cycle, anticipate broad sector mispricings, and seek to take advantage of changes in risk premiums. Additionally, Loomis will look to exercise its flexibility to invest in sectors other than high yield on an opportunistic basis to help mitigate risk and enhance total return potential.

Loomis is in compliance with the LACERS Manager Monitoring Policy; the short performance track record of the LACERS account is insufficient to cover a conventional market cycle and therefore does not provide adequate time to fully evaluate the effectiveness of the manager under this particular strategy. Staff and NEPC recommend renewing Loomis' contract for another three-year period and will continue to monitor the manager and strategy pursuant to policy.

Fees

For management of the high yield portfolio, LACERS pays Loomis an effective fee of 37 basis points (0.37%), which is approximately $830,000 annually based on the value of LACERS' assets as of March 31, 2023. This fee ranks in the 15th percentile of fees charged by similar managers in the eVestment database (i.e., 85% of like-managers have higher fees). Since inception, LACERS has paid Loomis, for the high yield portfolio only, a total of $2.1 million in investment management fees as of March 31, 2023.

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with Loomis will allow the fund to maintain a diversified exposure to the active high yield fixed income markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's organization, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices that affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Jeremiah Paras, Investment Officer I, Investment Division

NMG/RJ/BF/JP:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: May 9, 2023

Subject: Looms, Sayles & Company, LP High Yield - Contract Renewal

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract for high yield services that is currently in place with Looms, Sayles & Company, LP ('Loomis' or 'Loomis Sayles') for a period of three years from the date of contract expiry.

Background

Loomis has been a high yield investment manager for LACERS since October 28, 2020. Loomis also manages a core fixed income portfolio for LACERS. As of February 28, 2023, Loomis managed $222.5 million, or 1.1% of Plan assets. The portfolio is benchmarked against the Bloomberg U.S. High Yield 2% Issuer Cap Index and has a performance objective of outperforming the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The Loomis portfolio is currently compliant with LACERS' manager monitoring policy.

Loomis traces its origins back to January 1926, when Robert H. Loomis and Ralph T. Sayles formed a partnership and established Loomis Sayles as an investment management company in Boston, Massachusetts. Since 2008, the firm is majority owned by Natixis Investment Managers, a subsidiary of a firm formed by two shareholders Caisse Nationale des Caisses d'Epargne ("CNCE") and Banque F'd'rale des Banques Populaires ("BFBP") who together form an entity named Groupe BPCE; a large banking group based in France. Groupe BPCE is the single voice of governance and strategic direction for Natixis. Natixis is a publicly traded company (ticker: NTXFY). Loomis manages $302.1 billion and employs 811 people as of March 31, 2023.

Loomis Sayles is one of over 30 subsidiaries wholly owned by Natixis. Natixis is described by Loomis management as the Bank of America of France. Three people from Natixis sit on the board of Loomis Sayles. Loomis counts on Natixis for a distribution network outside the US. Loomis' client base is currently 25% retail and 75% institutional. Relative to other Natixis affiliates, Loomis is strong in fixed income, and faces tougher competition for shelf space in the Natixis line-up on the equities side. From an incentive alignment standpoint, Loomis' ownership structure is stable and functioning. Natixis does place pressure on their asset managers to grow assets under management ('AUM'). Loomis can make hire/fire decisions and most business strategy decisions (strategy capacity/ asset level to close etc.) independently, but major decisions need Natixis approval (acquisitions or team lift outs for example). To seed a new strategy Loomis needs to work at length with Natixis to get them on board and get their support for the asset gathering phase of the new venture. One of the areas that Loomis is focusing on is the insurance space given secular growth in that area. They will be establishing an OCIO based in Paris. CEO Kevin Charleston is clearly focused on asset growth. The firm's growth target is close to double digits. Natixis receives 50% of Loomis' earnings.

Loomis' U.S. High Yield team's philosophy and approach is based on three considerations:

1. The market is inefficient pricing specific risk: fundamental research paints a clearer picture of intrinsic value. The team uses this foundation to identify mispriced securities when markets are short-term focused, illiquid, or irrational due to factors including fear and greed.
2. A credit cycle view can help identify opportunities and risks: the team follows a disciplined top-down framework to analyze the factors driving the macroeconomic cycle, evaluate how they might affect asset valuations, and seek to harvest credit risk premiums.
3. Risk management is integral, not an add-on: the team believes in a rigorous investment process that seeks to balances risk/reward tradeoffs effectively and integrates risk management at every step.

The team believes security selection can be most effective when paired with a rigorous top-down analysis of the macro environment. Credit cycle analysis is used to evaluate the factors driving the cycle, anticipate broad sector mispricing and seek to take advantage of changes in risk premiums at various stages of the cycle. The process helps the team identify which risk drivers they want to emphasize, or avoid in the portfolio, and it lays the foundation for bottom-up security selection.

The team managing the portfolio includes Matt Eagan, Elaine Stokes, Brian Kennedy and Todd Vandam, all of whom have been with Loomis over 20 years. On the macro level, the investment team works with the Loomis Sayles Macro Strategies team and leverages their analysis of the global economy and the economic prospects of individual countries, as well as quantitative frameworks. They also draw on the firm's sector teams, made up of portfolio managers, strategists, analysts and traders with expertise in investment grade credit, high yield credit, emerging market bonds, convertibles, securitized assets, bank loans, municipals, equities, and commodities. At the security selection decision, the team's partnership with the firm's fundamental research resources, including corporate credit, securitized, and sovereign debt provides the analysis and conviction required to execute the team's deep-value style. From the analyst standpoint, credit research has been the hallmark of Loomis Sayles Boston office and it continues to grow and show investment, including developing globally. While still taking advantage of the vast centralized research resources, the team did add a dedicated group of three analysts that are able to spend more time focusing on deeper credit dives for the team specifically. In past reviews we've noted credit miscues and the potential that the centralized credit research group was getting pulled in too many directions, given the number of teams it supports. The addition of this dedicated group should help to address these concerns.

Performance

Referring to Exhibit 1, as of February 28, 2023, since the portfolio's inception date of November 1, 2020, the portfolio has underperformed its benchmark by 0.2%. Over the past year, the portfolio has underperformed the benchmark by 0.5% and year-to-date the portfolio has underperformed by 0.3%. Referring to Exhibit 1A, over longer periods of time, Loomis clients in the U.S. High Yield product have experienced performance close to the benchmark though the product has underperformed over all trailing periods.

Referring to Exhibit 2, as of December 31, 2022, since inception the portfolio has underperformed its benchmark's return slightly and ranked in the 67th percentile in its peer group. In the past year, ended December 31, 2022, the portfolio also underperformed its benchmark return by a small margin and ranked in the 76th percentile in its peer group.

Referring to Exhibit 3, the cumulative effect of the relative underperformance in 2021 and 2022 has resulted in underperformance since inception. Underperformance in the portfolio can be attributed to Loomis' value orientation, sector allocation and credit positioning. More recently in 2022, performance has been more in line with the benchmark with high yield credit, investment grade credit, and emerging market credit sectors being top contributors while convertibles and U.S. Treasurys sectors were the main detractors from performance. Loomis' U.S. High Yield strategy is designed to be benchmark aware with a tracking error in the one-to-two percent range. Tracking error has been in line with expectations though excess returns have been slightly negative which is disappointing.

Fees

The portfolio has an asset-based fee of 0.37% annually. This fee ranks in the 15th percentile among its peers in the eVestment U.S. High Yield Fixed Income universe. In other words, 85% of the products included in the peer universe have a higher fee than the LACERS account.

Conclusion

Loomis has slightly underperformed its benchmark index since November 1, 2020. The portfolio is designed to be benchmark aware against the Bloomberg U.S. High Yield 2% Issuer Cap Index and has delivered performance in line with its mandate. The firm has exhibited stability in their investment process, investment team, strategy and philosophy. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

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

Exhibit 1: Performance Comparison Net of Fees as of February 28, 2023

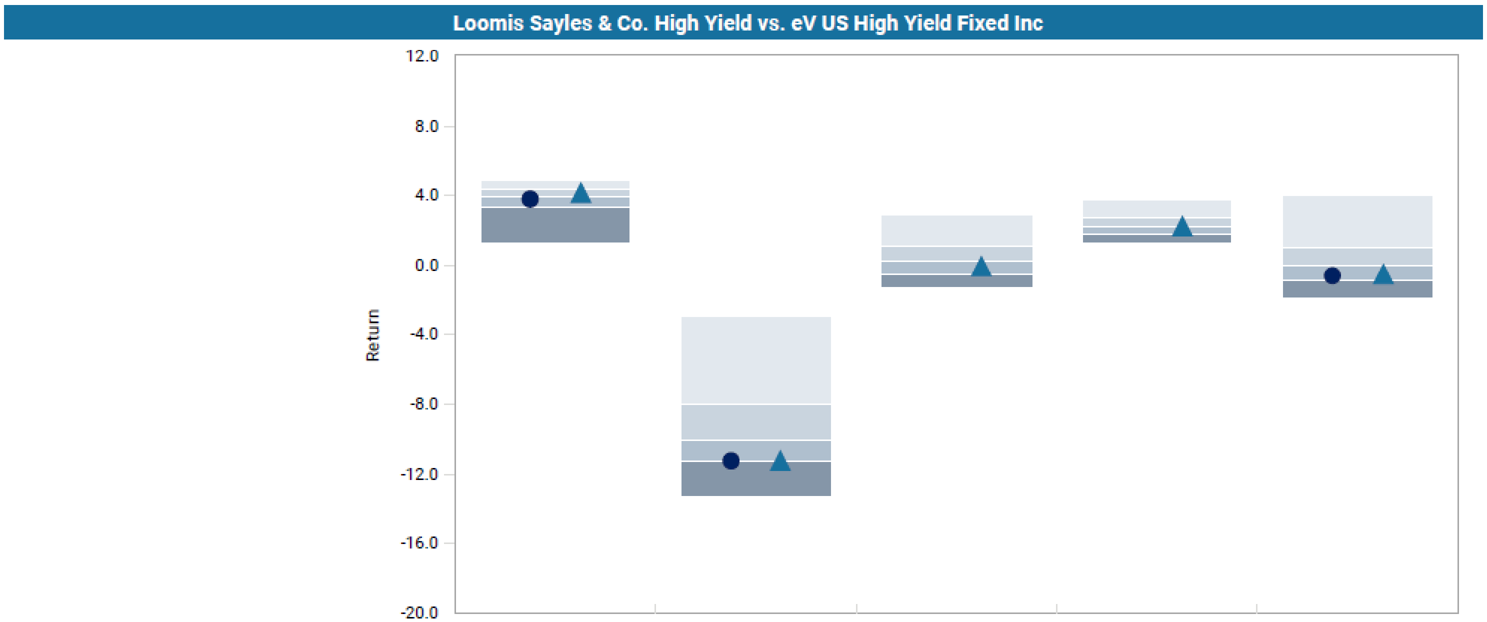
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	Inception	Inception Date
Loomis Sayles & Co. High Yield	-1.8	2.2	-6.0				0.4	Nov-20
Blmbg. U.S. High Yield - 2% Issuer Cap	-1.3	2.5	-5.5				0.6	
Over/Under	-0.5	-0.3	-0.5				-0.2	

Exhibit 1A: Performance Comparison Net of Fees Loomis U.S. High Yield Separately Managed Accounts Composite as of February 28, 2023

Product Name	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Returns - Since Inception 13.42 Years 10/2009 - 02/2023
Loomis Sayles & Co. High Yield	2.2	-6.4	0.9	2.0	4.7	3.8	5.9
Blmbg. U.S. High Yield - 2% Issuer Cap	2.5	-5.5	1.3	2.9	5.6	4.1	6.2
Over/Under	-0.3	-1.0	-0.4	-0.9	-0.8	-0.3	-0.3

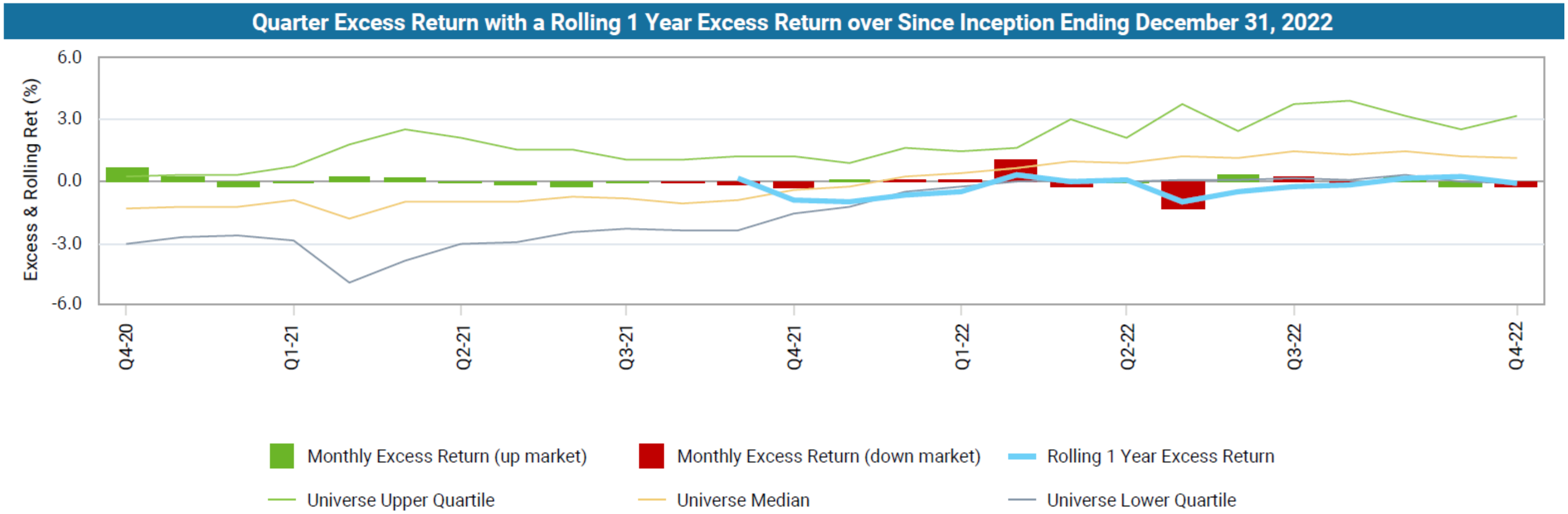
*Source: eVestment, Loomis Sayles & Company, LP U.S. High Yield net of fees separately managed accounts

Exhibit 2: Universe Performance Comparison Net of Fees Ending December 31, 2022



	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)
● Loomis Sayles & Co. High Yield	3.9 (57)	-11.2 (76)			-0.5 (67)
▲ *Blmbg. U.S. High Yield - 2% Issuer Cap*	*4.2 (35)*	*-11.2 (75)*	*0.0 (58)*	*2.3 (48)*	*-0.5 (62)*
5th Percentile	4.9	-2.8	2.9	3.9	4.0
1st Quartile	4.4	-8.0	1.2	2.7	1.1
Median	3.9	-10.0	0.3	2.3	0.0
3rd Quartile	3.3	-11.2	-0.5	1.8	-0.9
95th Percentile	1.3	-13.3	-1.3	1.3	-1.8
Population	231	228	225	217	226

Exhibit 3: Cumulative Excess Performance Net of Fees Ending December 31, 2022



LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 9, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: VII**

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

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

Recommendation

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

Executive Summary

Polen Capital Credit, LLC (Polen Credit) has managed an active hybrid high yield fixed income/U.S. floating rate bank loan portfolio for LACERS since October 2020. LACERS' portfolio was valued at $227 million as of March 31, 2023. Polen Credit is in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal.

Discussion

Background
Polen Credit manages an active hybrid high yield fixed income/U.S. floating rate bank loan portfolio for LACERS benchmarked against a custom blend of 50% of the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index and 50% of the Credit Suisse Leveraged Loan Index. With an active bias toward small-to-mid cap issues, Polen Credit's strategy seeks to exploit inefficiencies in the credit markets by adhering to a disciplined, bottom-up, fundamentally oriented investment process with a strict adherence to downside protection. The strategy is opportunistic and has the flexibility to invest in both high yield bonds (target range generally 50% to 95% of portfolio market value) and bank loans (allowable range typically 0% to 50% of portfolio market value); the strategy is not required, nor expected, to maintain an even allocation between high yield bonds and bank loans like its benchmark pursuant to its approved investment management guidelines. LACERS' portfolio was valued at $227 million as of March 31, 2023.

The strategy has three named co-portfolio managers: Dave Breazzano (43 years of experience/26 years with Polen Credit), Ben Santonelli (19 years of experience/18 years with Polen Credit), and John

Sherman (19 years of experience/15 years with Polen Credit), who all form part of a larger 17-member investment team.

The Board hired Polen Credit through the 2019-2020 Active Hybrid High Yield Fixed Income/U.S. Floating Rate Bank Loan search process and authorized a three-year contract on February 11, 2020; the contract became effective on September 1, 2020. The current contract expires on August 31, 2023. Representatives of Polen Credit most recently presented a portfolio review to the Investment Committee on October 11, 2022.

Organization
Polen Credit is headquartered in Waltham, Massachusetts. There are 43 employees working primarily in support of the credit business, 17 of whom are investment personnel. At the time of its hiring, Polen Credit, formerly known as DDJ Capital Management, LLC prior to rebranding, was 100% employee-owned. In January 2022, Florida-based growth equity asset management firm Polen Capital Management, LLC (Polen Capital) acquired Polen Credit as a wholly owned subsidiary. Polen Credit continues to operate autonomously from its parent Polen Capital. As of March 31, 2023, the firm managed over $6.9 billion in total assets with over $4.4 billion in their U.S. Opportunistic High Yield strategy. LACERS' capital comprises approximately 5.2% of this strategy.

Due Diligence
Staff conducts routine due diligence of the manager. In addition to meeting virtually for quarterly portfolio reviews and ad hoc investment discussions, LACERS staff conducted an onsite meeting at Polen Credit's headquarters on April 12, 2023 to interview key personnel across the organization. Based upon these due diligence activities as well as staff's and NEPC's continuous monitoring, it has been noted that Polen Credit's investment philosophy, strategy, and process have not changed materially over the contract period.

As to the aforementioned change in Polen Credit's ownership, staff placed Polen Credit under watch status in December 2021 pursuant to the LACERS Manager Monitoring Policy following the announcement of Polen Capital's planned acquisition of Polen Credit. During this evaluation period, staff and NEPC closely monitored the firm's integration progress and performance against specific standards set forth by policy. In February 2023, staff removed Polen Credit from watch status upon determining that the change in ownership did not detrimentally impact the firm's investment capabilities.

Staff and NEPC continue to deem Polen Credit capable of managing assets for LACERS under its hybrid high yield fixed income/U.S. floating rate bank loan strategy.

Performance
As of March 31, 2023, Polen Credit has underperformed the benchmark over the 1-year, 2-year, and since time periods, and delivered a marginal positive net excess return over the 3-month time period, as presented in the following table.

Annualized Performance as of 3/31/2023 (Net-of-Fees)				
	3-Month	1-Year	2-Year	Since Inception 10/28/2020
Polen Credit	3.36	-5.47	-2.13	1.01
50% Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index/50% Credit Suisse Leveraged Loan Index	3.35	-0.54	0.37	2.75
% of Excess Return	*0.01*	*-4.93*	*-2.50*	*-1.74*

Most of Polen Credit's cumulative underperformance relative to its benchmark can be traced to the strategy's significant underperformance during the calendar year 2022, as presented in the table below.

Calendar Year Performance as of 3/31/2023 (Net-of-Fees)				
	1/01/2023-3/31/2023	2022	2021	10/28/2020-12/31/2020
Polen Credit	3.36	-10.27	5.31	4.90
50% Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index/50% Credit Suisse Leveraged Loan Index	3.35	-6.14	5.34	4.61
% of Excess Return	*0.01*	*-4.13*	*-0.03*	*0.29*

The 2022 underperformance was driven by three primary factors. First, the portfolio maintains an underweight allocation to bank loans relative to the benchmark. (As discussed in the Background section, the portfolio is not required to be evenly allocated between high yield bonds and bank loans like its benchmark.) Floating rate bank loans outperformed fixed rate high yield fixed income by over 1,000 basis points in 2022 due to the rising interest rate environment, causing the strategy to lag the benchmark. Second, the strategy holds a sizable overweight to CCC-rated instruments relative to the benchmark. Polen Credit believes that the lower rated segments of the market are poised for a multi-year stretch of outperformance driven by attractive valuations and healthy fundamentals. In 2022, concerns over rising rates and an impending downturn led lower rated credits to meaningfully underperform higher rated instruments, which the portfolio had an underweight to. Third, the portfolio's structural underweight to the energy sector detracted from performance with the energy sector outperforming since the inception of portfolio. Polen Credit's structural underweight to energy is deliberate as the manager believes that the sector is heavily driven by the price of oil, which is volatile and difficult to predict and therefore does not lend itself well to Polen Credit's bottom-up fundamental research-based approach.

As presented in the table below, even with a significant underperformance in the most recent year, net excess return for the composite (all accounts managed in the strategy) remains positive for all time periods seven years and longer. Polen Credit believes that the portfolio is positioned to outperform the benchmark going forward for several reasons. First, Polen Credit expects a mean reversion to occur, resulting in high yield bonds outperforming bank loans over the next two to three years. Second, the manager believes that the portfolio's yield premium, which is higher relative to the benchmark, will largely be realized with the expectation of only a few credit impairments in the portfolio over the intermediate term. Third, Polen Credit considers the volatility in the current environment as an opportunity to add significant excess returns through superior security selection.

Composite Trailing Returns as of 3/31/2023 (Net-of-Fees)									
	3-Month	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Since Inception 3/31/1998
Polen Credit	3.46	-4.15	9.72	2.96	6.23	4.92	6.99	7.77	6.80
Benchmark	3.35	-0.54	7.18	3.41	4.85	4.00	5.70	5.91	5.26
% of Excess Return	*0.11*	*-3.61*	*2.54*	*-0.45*	*1.38*	*0.92*	*1.29*	*1.86*	*1.54*

Polen Credit is currently compliant with the LACERS Manager Monitoring Policy; however, the short performance track record of the LACERS account is insufficient to cover a conventional market cycle and therefore does not provide adequate time to fully evaluate the effectiveness of the manager under this particular strategy. Staff and NEPC recommend renewing Polen Credit's contract for another three-year period and will continue to monitor the manager and strategy pursuant to policy.

Fees
LACERS pays Polen Credit an effective fee of 52 basis points (0.52%), which is approximately $1,190,000 annually based on the value of LACERS' assets as of March 31, 2023. This fee ranks in the 86th percentile of fees charged by similar managers in the eVestment database (i.e., 86% of like-managers have lower fees). Since inception, LACERS has paid Polen Credit a total of $2.9 million in investment management fees as of March 31, 2023.

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with Polen Credit will allow the fund to maintain a diversified exposure to the active high yield fixed income and U.S. floating rate bank loan markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's organization, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices that affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Jeremiah Paras, Investment Officer I, Investment Division

NMG/RJ/BF/JP:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: May 9, 2023

Subject: Polen Capital Management, LLC - Contract Renewal

Recommendation

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

Background

Polen has been an investment manager for LACERS since October 28, 2020 managing a high yield/ bank loans strategy within the Credit Opportunities asset class. As of February 28, 2023, Polen managed $227.8 million, or 1.1% of Plan assets. The portfolio is benchmarked against a 50:50 split between the Bloomberg U.S. High Yield 2% Issuer Cap Index and the Credit Suisse Leveraged Loan Index. The portfolio has a performance objective of outperforming the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The Polen portfolio is currently compliant with LACERS' manager monitoring policy.

DDJ Capital Management was founded by Dave Breazzano in 1996. In December 2021 it was announced that Polen Capital Management, LLC, a privately held growth equity investment firm, would be acquiring DDJ, with the deal ultimately closing in January 2022. The transaction saw DDJ founder Dave Breazzano take an equity interest in Polen's holding company and become a member of the firm's Operating Committee. Other equity owners in DDJ, including departed partners who still held equity interest, were paid out 2/3rds up front, with the last 1/3rd expected to be paid out over three years based on certain business metrics. The senior investment team members of legacy DDJ received phantom equity in the Polen Capital Credit franchise business based on revenue share and will have the opportunity to become equity partners in the Polen holding company over time. DDJ has officially been rebranded as Polen Credit. There are three other growth equity teams at Polen, all bringing different expertise. Each group functions separately, but takes advantage of centralized operational and marketing resources. Polen Credit is now the fourth team under Polen Capital and is the only fixed income manager.

Polen Capital Management was founded in 1979 by David M. Polen, who was the sole owner until July 2007. In July 2007, employee ownership was broadened to 10% with David Polen owning 90%. David Polen passed away in June 2012 and his ownership interest passed to Polen Family Holdings (formerly the Polen Family Trust). In December 2012, an employee group led by Stan Moss, Dan Davidowitz and Damon Ficklin assumed majority ownership of the firm. From 2012 to 2015, employees owned 51% of the firm and Polen Family Holdings owned 49% as a passive owner. At year-end 2015, iM Global Partner (formerly iM Square), a London-based investment and development platform dedicated to the asset management business, acquired a 20% passive equity stake in Polen Capital. iM Global Partner purchased 20% directly from Polen Family Holdings. Polen

Family Holdings was further diluted by 9% as a result of new equity interests granted to Polen Capital employees. This increased employee ownership from 51% to 60%. On January 4, 2019, Polen Capital purchased 11% of equity from Polen Family Holdings. This increased employee ownership from 60% to 71%. Polen Capital is an independently controlled, employee-managed firm. The current ownership structure is 72% employees (Polen Capital Holdings LP), 20% iM Global Partner (passive interest) and 8% Polen Family Holdings (passive interest). Importantly, Polen Capital employees control 100% of the firm.

As of March 31, 2023, Polen Capital Management had approximately $61.3 billion in assets under management ('AUM'). As of December 31, 2022 total AUM for the Polen Credit team specifically was $6.9 billion, of which the Opportunistic High Yield strategy represented $4.3 billion. The firm has been trying to diversify strategies using the same basic credit platform and introduced the BB/B Upper Tier High Yield in 2012, Bank Loan in 2013 as well as higher octane Total Return Credit in 2010.

Polen focuses on the smaller issue size and lower-rated parts of the high yield and loan market. They believe the rating agencies have a size bias and will rate securities lower due to smaller size. Polen relies on in-depth enterprise analysis, with a loan to value lens. They want companies that generate cash flow and have enterprise value/asset value to help secure their positions. There is also a strong focus on the covenant/legal aspects to help them understand and protect value when credit events arise. Generally, their perspective is that of a long-term lender and they enter positions expecting to be a long-term holder and earn the coupon. Polen does not have a dedicated risk management team. Given the nature of the investments and the focus on lower tier high yield (and bank loans), risk management effectively comes in the underwriting and monitoring of investments. Polen's focused style does lead to larger position sizes in relatively less liquid markets, so investors should be aware of the portfolio's limited liquidity during stressful times. It is also not unusual for Polen to be involved in creditor battles and dealing with bankruptcies and restructurings where positions may become restricted.

Dave Breazzano is the head of the high yield team at Polen. He has been leading the group since DDJ's inception in 1996. Around him is a slightly younger generation. John Sherman (19 years industry/16 years Polen) and Ben Santonelli (19 years industry/19 years Polen) are co-PMs with Mr. Breazzano on the Opportunistic High Yield strategy. In addition to the portfolio managers, on the Investment Review Committee is the Associate General Counsel, Elizabeth Duggan. Jason Rizzo is the head trader. Supporting the Investment Review Committee is a nine-person research group, broken out by industry coverage.

Performance

Referring to Exhibit 1, as of February 28, 2023, since the portfolio's inception date of November 1, 2020, the portfolio has underperformed its benchmark by 1.8%. Over the past year, the portfolio has underperformed the benchmark by 4.4% and year-to-date the portfolio has outperformed by 0.8%. Referring to Exhibit 1A, over longer periods of time, Polen clients in the U.S. Opportunistic High Yield product have experienced outperformance over longer periods of time with 1% and 1.4% over 10 year and seven years respectively. Over the last five years the product has underperformed by 0.2% and over three years has outperformed by 1.2%.

Referring to Exhibit 2, as of December 31, 2022, since inception the portfolio has underperformed its benchmark's return by 2.3% and ranked in the 73rd percentile in its peer group. In the past year, ended December 31, 2022, the portfolio also underperformed its benchmark return 4.2% and ranked in the 54th percentile in its peer group.

Referring to Exhibit 3, underperformance over the course of 2022 has pulled the since inception cumulative results below benchmark returns. The portfolio underperformed in the second, third, and fourth quarter of 2022. Underperformance in the portfolio can be attributed to sector allocation and credit positioning. The portfolio's overweight to bonds and loans across the lower-rated spectrum and underweight to bonds across the higher-rated spectrum detracted significantly from total returns. Sector allocation detracted from relative performance primarily driven by the portfolio's overweight to bonds in the Brokerage/Asset Managers sector and underweight to bonds in the Electric and Energy sectors.

Fees

The portfolio has an asset-based fee of 0.52% annually. This fee ranks in the 86th percentile among its peers in the eVestment U.S. High Yield Fixed Income universe. In other words, 86% of the products included in the peer universe have a lower fee than the LACERS account.

Conclusion

Polen has underperformed its benchmark index since November 1, 2020. The portfolio is designed to invest in the smaller sized and lower-rated parts of the U.S. High Yield and bank loans investment universe and this area of the market has not been in favor. The firm managing the LACERS portfolio has exhibited some instability at the firm-level after having been purchased, though NEPC sees this as a net positive which provides long-term stability in firm operations. Polen's investment process, investment team, strategy and philosophy have been stable. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

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

Exhibit 1: Performance Comparison Net of Fees as of February 28, 2023

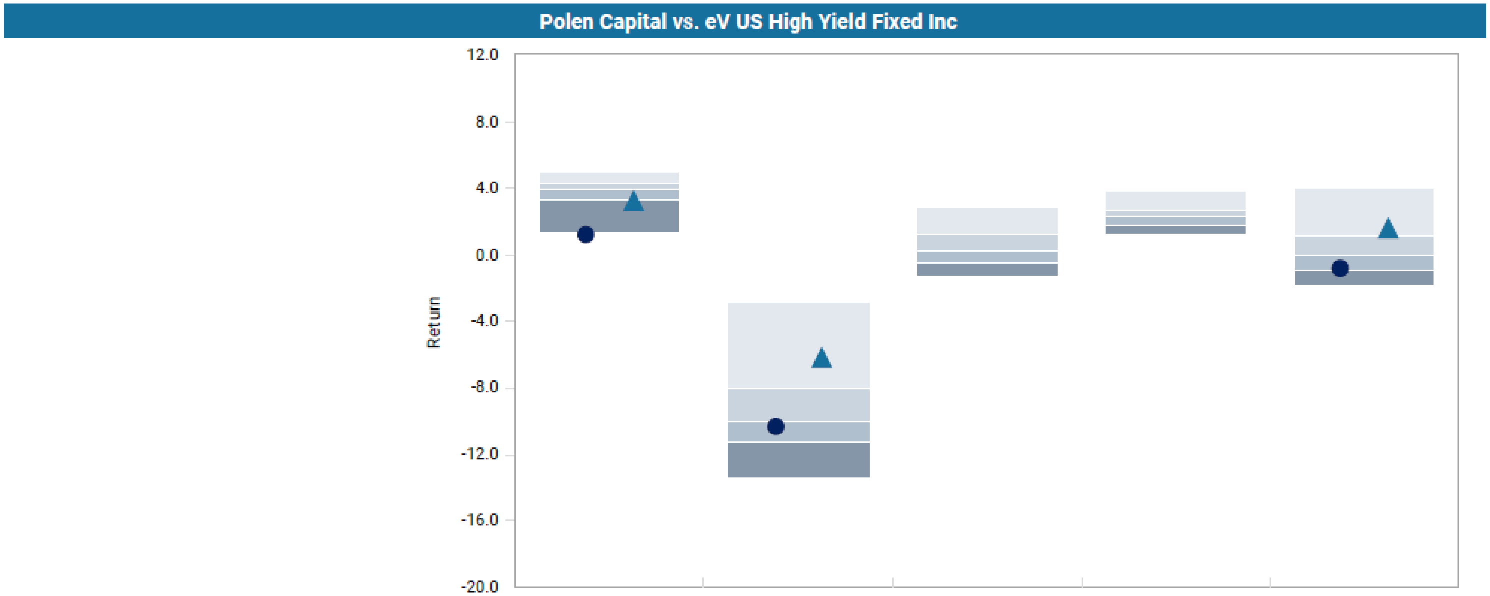
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	Inception	Inception Date
Polen Capital	0.1	3.7	-6.0				0.9	Nov-20
50% BBgBarc US High Yield 2% Issuer Cap / 50% Credit Suisse Leveraged Loan Index	-0.3	2.9	-1.6				2.7	
Over/Under	0.4	0.8	-4.4				-1.8	

Exhibit 1A: Performance Comparison Net of Fees Polen U.S. Opportunistic High Yield Separately Managed Accounts Composite as of February 28, 2023

Product Name	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Returns - Since Inception 24.92 Years 04/1998 - 02/2023
Polen Capital	3.7	-4.0	3.8	3.1	6.7	5.1	6.8
50% BBgBarc US High Yield 2% Issuer Cap / 50% Credit Suisse Leveraged Loan Index	2.9	-1.6	2.6	3.3	5.3	4.1	--
Over/Under	0.8	-2.4	1.2	-0.2	1.4	1.0	--

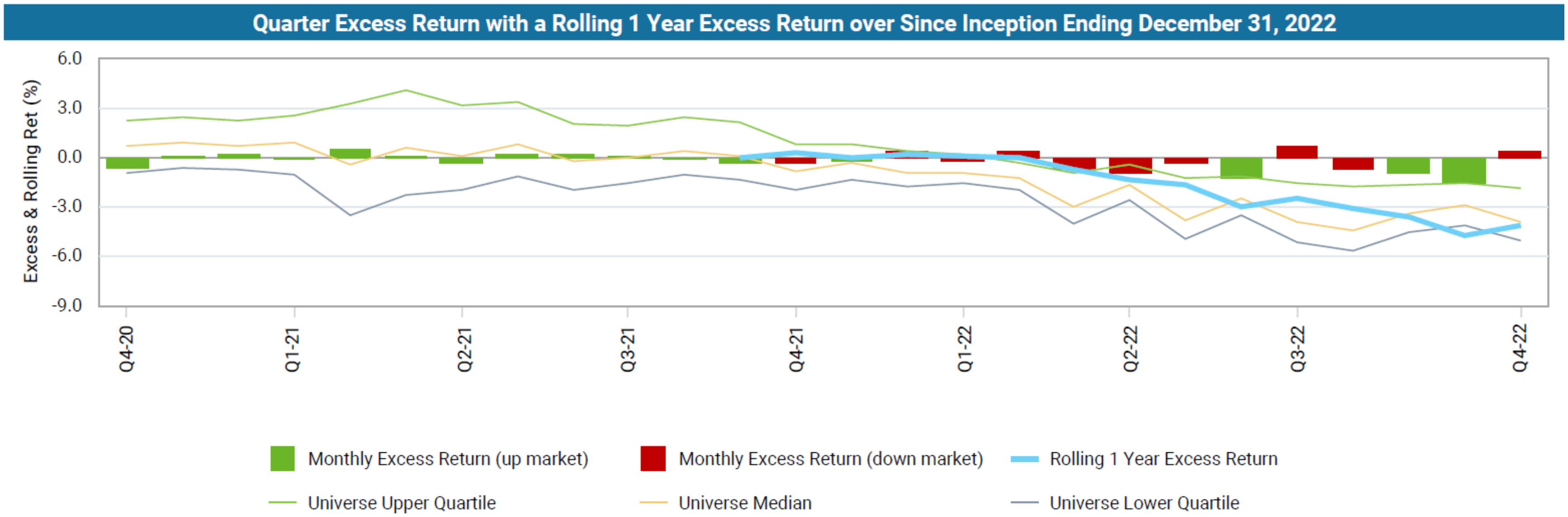
*Source: eVestment, Polen Capital U.S. Opportunistic High Yield separately managed account composite

Exhibit 2: Universe Performance Comparison Net of Fees Ending December 31, 2022



	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)
● Polen Capital	1.2 (96)	-10.3 (54)			-0.7 (73)
▲ *50% BBgBarc US High Yield 2% Issuer Cap / 50% Credit Suisse Leveraged Loan Index*	*3.3 (78)*	*-6.1 (19)*			*1.6 (20)*
5th Percentile	4.9	-2.8	2.9	3.9	4.0
1st Quartile	4.4	-8.0	1.2	2.7	1.1
Median	3.9	-10.0	0.3	2.3	0.0
3rd Quartile	3.3	-11.2	-0.5	1.8	-0.9
95th Percentile	1.3	-13.3	-1.3	1.3	-1.8
Population	231	228	225	217	226

Exhibit 3: Cumulative Excess Performance Net of Fees Ending December 31, 2022



LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 9, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: VIII**

SUBJECT: **INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee review the Investment Committee Charter for possible revisions and provide further direction to staff.

Discussion

Background
The Investment Committee Charter (Charter), initially adopted by the Board on March 28, 2017, establishes the Committee's governance framework and outlines its responsibilities. Section V of the Charter requires the Committee to conduct a routine review of the Charter at least once every three years to ensure it remains appropriate. The Committee last reviewed the Charter on March 10, 2020, resulting in the Board's approval of the existing Charter with no changes on March 24, 2020. Upon review of the current Charter, the Committee may direct staff to incorporate the Committee's proposed revisions for the Board's consideration.

Strategic Plan Impact Statement

Review of the Charter will allow the Committee to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: Bryan Fujita, Chief Operating Officer, Investment Division

NMG/RJ/BF:rm

Attachment: 1. Investment Committee Charter, Adopted March 24, 2020

Section 3.0 DUTIES AND RESPONSIBILITIES

3.9 Investment Committee Charter

Adoption: March 24, 2020

I. PURPOSE/ROLE

The purpose of the Investment Committee (Committee) is to provide assistance to the Board in fulfilling its fiduciary oversight of the LACERS Investment Program.

II. AUTHORITY

The Committee is authorized by this Investment Committee Charter to:

- Present investment recommendations to the Board for consideration and action.
- Seek information from readily-available research resources to include (but not limited to) LACERS' investment staff, investment consultants, investment managers, master trust custodian, and proxy voting agent.
- Render opinions on investment matters that are either delegated by the Board or delineated in the Investment Policy Statement.

III. COMMITTEE MEETINGS

The Committee shall meet no less than four times a year, and more often as needed. Through the General Manager, the Chief Investment Officer will support the Committee's designated duties and responsibilities. Coordinating through the Commission Assistant, the Chief Investment Officer will assist the Chair of the Committee with administrative tasks, as follows:

- Establish dates and times of the Committee meetings.
- Develop the Committee agenda.
- Review the minutes.
- Draft Committee reports.
- Provide other assistance to prepare for future Committee meetings.

IV. DUTIES AND RESPONSIBILITIES

The Committee's primary duty is to consider investment matters and make appropriate recommendations to the Board for further consideration and action. The Committee's oversight duties and responsibilities extends to three broad but distinct investment functions:

1. Policy and Strategy

    - Review the Investment Policy Statement at least annually; propose revisions and amendments as necessary.
    - Review and monitor the asset allocation policy on a periodic basis.
    - Review investment benchmarks as needed.

- Consider other investment matters that are consistent with the Committee Charter.

2. Operations

- Oversee the selection processes for hiring public market investment managers, investment consultants, and third-party investment support providers; make contracting recommendations consistent with the Investment Policy Statement and/or Board direction.
- Monitor public market investment managers, private market funds, investment consultants, and third-party investment support providers.
- Consider the termination of public market investment managers, consultants, and third-party investment support providers consistent with the Investment Policy Statement.
- Review investment activity reports including (but not limited to) the Emerging Investment Manager Program, Securities Lending Program, Proxy Voting, and Brokerage Commissions.
- Provide advisory input to the General Manager regarding the selection of the Chief Investment Officer.
- Consider investment opportunities and strategies as recommended by staff and consultant.
- Refer investment opportunities to staff for further review and consideration.

3. Education

- Request investment education.
- Hear investment manager presentations.
- Receive off-site investment education as necessary.

V. CHARTER REVIEW

The Committee and the Board will review this Charter at least once every three years to ensure it remains appropriate. The Committee will recommend any changes to the Board for review and approval. The Board may amend the Charter at any time.