

## **Investment Committee Agenda**

### **REGULAR MEETING**

**TUESDAY, DECEMBER 8, 2020**

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

### **MEETING LOCATION:**

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Investment Committee's December 8, 2020, meeting will be conducted via telephone and/or videoconferencing.

#### Important Message to the Public

**Information to call-in to listen and/or participate:**

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

**Meeting ID#** 897 6727 9107

#### **Instructions for call-in participants:**

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

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

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee  
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

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

#### Notice to Paid Representatives

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

#### Request for services

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

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

#### Disclaimer to participants

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

[CLICK HERE TO ACCESS BOARD REPORTS](#)

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

- II. [APPROVAL OF MINUTES FOR THE MEETING OF NOVEMBER 10, 2020 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [INVESTMENT MANAGER CONTRACT WITH STATE STREET GLOBAL ADVISORS TRUST COMPANY REGARDING THE MANAGEMENT OF MULTI PASSIVE INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION](#)
- V. [CONTINUED DISCUSSION OF INVESTMENT POLICY AND POSSIBLE COMMITTEE ACTION](#)
- VI. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER SALE OF ONE PARTICULAR, SPECIFIC PENSION FUND INVESTMENT AND POSSIBLE COMMITTEE ACTION**
- VII. OTHER BUSINESS
- VIII. NEXT MEETING: The Special meetings of the Investment Committee are scheduled for Wednesday, December 9, 2020 and Thursday, December 10, 2020, at 8:30 a.m. at LACERS, 977 N. Broadway, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. The next Regular meeting of the Investment Committee is scheduled for Tuesday, January 12, 2021, at 10:30 a.m., or immediately following the Board Meeting, at LACERS, 977 N. Broadway, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while response to public health concerns relating to the novel coronavirus continue.
- IX. ADJOURNMENT

## **Board of Administration Agenda**

### **SPECIAL MEETING**

**TUESDAY, DECEMBER 8, 2020**

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

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President: Cynthia M. Ruiz  
Vice President: Sung Won Sohn

Commissioners: Annie Chao  
Elizabeth Lee  
Sandra Lee  
Nilza R. Serrano  
Michael R. Wilkinson

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

Legal Counsel: City Attorney's Office  
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Counsel Division

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- IV. INVESTMENT MANAGER CONTRACT WITH STATE STREET GLOBAL ADVISORS TRUST COMPANY REGARDING THE MANAGEMENT OF MULTI PASSIVE INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION
- V. CONTINUED DISCUSSION OF INVESTMENT POLICY AND POSSIBLE COMMITTEE ACTION
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- IX. ADJOURNMENT

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

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

November 10, 2020

1:15 p.m.

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PRESENT via Videoconferencing: Chair:	Sung Won Sohn
Committee Members:	Elizabeth Lee
	(left at 3:13 p.m.) Nilza R. Serrano
Manager-Secretary:	Neil M. Guglielmo
Legal Counselor:	James Napier
PRESENT at LACERS offices: Executive Assistant:	Ani Ghoukassian

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*The Items in the Minutes are numbered to correspond with the Agenda.*

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – **THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT – PRESS \*9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD** – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE MEETING OF OCTOBER 13, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Serrano moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the forward calendar. Mr. June stated the interviews for the Core Fixed Income Managers will be held on December 9 & 10, 2020. He also shared that Bernzott, LACERS small cap investment manager, experienced a departure of key members of the investment team. Staff and

consultant will recommend an appropriate course of action for Investment Committee and Board consideration.

IV

INVESTMENT MANAGER CONTRACT WITH CENTERSQUARE INVESTMENT MANAGEMENT LLC REGARDING THE MANAGEMENT OF A U.S. REITS PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer and Barbara Sandoval, Investment Officer II, presented this item to the Committee. After a 10-minute discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

V

INVESTMENT MANAGER CONTRACT WITH RHUMLINE ADVISERS LIMITED PARTNERSHIP REGARDING THE MANAGEMENT OF MULTIPLE U.S. INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, presented this item to the Board. After a 10-minute discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

VI

PRIVATE EQUITY PROGRAM 2021 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION – David Fann, President and Jeff Goldberger, Senior Vice President, with AON/TorreyCove, presented this item to the Committee. After a 45-minute discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

VII

CONTINUED DISCUSSION OF INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer and Bryan Fujita, Investment Officer III, presented this item to the Committee. After a 15-minute discussion, Committee Member Serrano moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

Chair Sohn recessed the Regular Meeting at 2:53 p.m., to convene in Closed Session.

VIII

**CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO OAKTREE REAL ESTATE OPPORTUNITIES FUND VIII, L.P., AND POSSIBLE COMMITTEE ACTION**

Committee Member Serrano left the Regular Meeting at 3:13 p.m.

Chair Sohn reconvened the Regular Meeting at 3:53 p.m.

IX

OTHER BUSINESS – There was no other business

X

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, December 8, 2020 at 10:30 a.m. or immediately following the Board Meeting, at LACERS, 977 N. Broadway, Suite 260, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while responding to public health concerns relating to the novel coronavirus continue.

XI

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 3:54 p.m.

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Sung Won Sohn  
Chair

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Neil M. Guglielmo  
Manager-Secretary



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

**MEETING: DECEMBER 8, 2020**  
**ITEM: IV**

*Neil M. Guglielmo*

**SUBJECT: INVESTMENT MANAGER CONTRACT WITH STATE STREET GLOBAL ADVISORS TRUST COMPANY REGARDING THE MANAGEMENT OF MULTI PASSIVE INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

**Recommendation**

That the Committee recommend to the Board a five-year contract renewal with State Street Global Advisors Trust Company for passive management of multiple index portfolios.

**Executive Summary**

State Street Global Advisors Trust Company (SSgA) offers multiple passive equity and fixed income commingled fund strategies to LACERS under a single contract. Under this contract, SSgA manages approximately \$657 million of LACERS assets in a U.S. Aggregate Bond Index Fund (as of October 31, 2020). SSgA's current contract expires on May 31, 2021. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a five-year contract renewal with SSgA.

**Discussion**

*Background*

In April 2012, the Board authorized a search for investment managers to provide multiple passive investment strategies under a single contract, which would allow LACERS to gain exposure quickly to a variety of passive strategies in cases such as asset allocation changes, portfolio rebalancings, or manager terminations. SSgA was awarded a contract along with BlackRock Institutional Trust Company, N.A., and RhumbLine Advisers Limited Partnership.

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

Under the multiple passive strategies contract, SSgA provides LACERS access to equity and fixed income strategies via commingled fund vehicles. SSgA's investment objective is to fully replicate the risk and return characteristics of the benchmarks using quantitative techniques. The specific strategies



available under this contract, fee structures, and the amount of assets managed as of October 31, 2020 are presented in the following table:

<b>SSgA Funds</b>	<b>Negotiated Fees</b>	<b>LACERS' AUM</b>	<b>SSgA's AUM</b>
SSgA S&P 500 Flagship Non-Lending Fund	3 bps on first \$50M, 2 bps thereafter	-	\$19,057,463,625
SSgA Russell 1000 Growth Index Non-Lending Fund	4 bps on first \$50M, 3 bps thereafter	-	6,161,675,627
SSgA Russell 1000 Value Index Non-Lending Fund	4 bps on first \$50M, 3 bps thereafter	-	4,424,227,321
SSgA Russell 2000 Index Non-Lending Fund	5 bps on first \$50M, 4 bps on next \$50M, 3.5 bps thereafter	-	987,603,174
SSgA Daily MSCI Emerging Markets Index Non-Lending Fund	4 bps flat	-	11,681,918,184
SSgA U.S. Aggregate Bond Index Non-Lending Fund	4 bps on first \$50M, 3 bps on next \$50M, 2.5 bps thereafter	\$657,353,298	4,458,409,416
SSgA MSCI EAFE Small Cap Index Non-Lending Fund	4bps flat	-	569,580,734
Daily MSCI World ex US Index Non-Lending Strategy	6 bps on first \$50M, 5 bps on next \$50M, 4 bps thereafter	-	37,010,309,805
<b>Total Managed</b>		<b>\$657,353,298</b>	<b>\$84,351,187,887</b>

\* Strategy AUM as of 09/30/2020 for MSCI World ex USA. October 2020 Strategy AUM information has not been released yet. All other AUM is Fund Level and as of 10/31/2020

As presented in the table above, LACERS is currently invested in one index fund available under this contract, the SSgA U.S. Aggregate Bond Index Fund. LACERS also has a separate and distinct contract with SSgA for the management of a MSCI World ex-U.S. Investable Markets Index strategy via a separate account, which is currently valued at approximately \$1.4 billion. In total, SSgA manages approximately \$2.1 billion of LACERS assets.

#### *Organization*

SSgA is the affiliated asset management business of State Street Corporation (NYSE: STT) and is headquartered in Boston. SSgA employs more than 541 investment professionals with over 2,495 employees around the world and manages \$3.15 trillion in assets as of September 30, 2020.

#### *Due Diligence*

SSgA's organizational structure, key portfolio management personnel, investment philosophy, strategy, and process have not materially changed since the contract renewal on April 12, 2016. On November 19, 2020, SSgA announced that Richard F. Lacaille, SSgA's current Global Chief Investment Officer, will be assuming a newly-created Senior Investment Advisor role to lead the firmwide Environmental, Social, and Governance (ESG) program, effective March 31, 2021. Lori Heinel, who joined SSgA in 2014 as Chief Portfolio Strategist and has served as Deputy Global Chief Investment Officer since

2016, will assume the role of Global Chief Investment Officer. Staff deems this organizational change to have no adverse impact on the portfolio management of LACERS' accounts.

*Performance*

The performance of the SSgA U.S. Aggregate Bond Index Fund (the sole investment LACERS currently has under this contract) is in line with expectations, as presented in the following table. SSgA is in compliance with the LACERS Manager Monitoring Policy.

<b>Annualized Performance as of 10/31/20 (Net of Fees)</b>					
	3-Month	1-Year	3-Year	5-Year	Since Inception <sup>1</sup>
SSgA U.S. Aggregate Bond Index Non-Lending Fund	0.64	6.98	5.23	4.16	3.84
Bloomberg Barclay U.S. Aggregate Bond Index	0.62	6.98	5.24	4.18	3.85
<i>% of Excess Return</i>	<i>0.02</i>	<i>0.00</i>	<i>-0.01</i>	<i>-0.02</i>	<i>-0.01</i>

<sup>1</sup> 7/29/2014

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

<b>Calendar Year Performance (Net of Fees)</b>						
	2019	2018	2017	2016	2015	2014
SSgA U.S. Aggregate Bond Index Non-Lending Fund	8.71	0.01	3.51	2.62	0.54	1.79
Bloomberg Barclay U.S. Aggregate Bond Index	8.72	0.01	3.54	2.65	0.55	1.80
<i>% of Excess Return</i>	<i>-0.01</i>	<i>0.00</i>	<i>-0.03</i>	<i>-0.03</i>	<i>-0.01</i>	<i>-0.01</i>

Refer to Attachment 1 for annualized and calendar year performance (gross of fees) for all index funds available under this contract.

*Fees*

LACERS pays SSgA an effective fee of 2.7 basis points (0.027%) for the SSgA U.S. Aggregate Bond Index Fund, which is approximately \$177,500 annually based on the total value of LACERS' assets as of October 31, 2020. The fee ranks in the 2<sup>nd</sup> percentile of 78 portfolios in the eVestment U.S. Passive Fixed Income universe (i.e., 98% of like-managers have higher fees).

*General Fund Consultant Opinion*

NEPC concurs with this recommendation.

## **Strategic Alignment**

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

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

NMG/RJ/BF/EC:jp

Attachments:           1. Annualized and Calendar Year Performance for All Contracted Index Funds  
                                  2. Consultant Recommendation – NEPC

**State Street Global Advisors Trust Company Index Fund Annualized Performance**

<b>Annualized Performance as of 10/31/20 (Gross of Fees)</b>					
	3-Month	1-Year	3-Year	5-Year	Since Inception <sup>1</sup>
SSgA S&P 500 Flagship Non-Lending Fund	0.38	9.69	10.42	11.73	11.05
S&P 500 Index	0.37	9.71	10.42	11.71	11.02
<i>% of Excess Return</i>	<i>0.01</i>	<i>-0.02</i>	<i>0.00</i>	<i>0.02</i>	<i>0.03</i>
SSgA Russell 1000 Growth Index Non-Lending Fund	1.54	29.18	18.74	17.30	16.25
Russell 1000 Growth Index	1.56	29.22	18.76	17.31	16.27
<i>% of Excess Return</i>	<i>-0.02</i>	<i>-0.04</i>	<i>-0.02</i>	<i>-0.01</i>	<i>-0.02</i>
SSgA Russell 1000 Value Index Non-Lending Fund	0.26	-7.45	2.00	5.89	5.43
Russell 1000 Value Index	0.24	-7.57	1.93	5.82	5.35
<i>% of Excess Return</i>	<i>0.02</i>	<i>0.12</i>	<i>0.07</i>	<i>0.07</i>	<i>0.08</i>
SSgA Russell 2000 Index Non-Lending Fund	4.25	-0.11	2.22	7.33	6.74
Russell 2000 Index	4.24	-0.14	2.19	7.27	6.67
<i>% of Excess Return</i>	<i>0.01</i>	<i>0.03</i>	<i>0.03</i>	<i>0.06</i>	<i>0.07</i>
SSgA Daily MSCI Emerging Markets Index Non-Lending Fund	2.85	8.49	2.01	7.99	3.05
MSCI Emerging Markets Index	2.64	8.25	1.94	7.91	2.93
<i>% of Excess Return</i>	<i>0.21</i>	<i>0.24</i>	<i>0.07</i>	<i>0.08</i>	<i>0.12</i>
SSgA U.S. Aggregate Bond Index Non-Lending Fund	-1.27	6.23	5.10	4.11	3.83
Barclay U.S. Aggregate Bond Index	-1.30	6.19	5.06	4.08	3.80
<i>% of Excess Return</i>	<i>0.03</i>	<i>0.04</i>	<i>0.04</i>	<i>0.03</i>	<i>0.03</i>
SSgA MSCI EAFE Small Cap Index Non-Lending Fund	2.98	-1.28	-0.18	5.58	4.55
MSCI EAFE Small Cap Index	2.95	-1.36	-0.35	5.37	4.33
<i>% of Excess Return</i>	<i>0.03</i>	<i>0.08</i>	<i>0.17</i>	<i>0.21</i>	<i>0.22</i>
Daily MSCI World ex US Index Non-Lending Strategy	-1.18	-5.65	-0.62	3.72	1.88
MSCI World ex US Index	-1.19	-5.93	-1.02	3.31	1.49
<i>% of Excess Return</i>	<i>0.01</i>	<i>0.28</i>	<i>0.40</i>	<i>0.41</i>	<i>0.39</i>

<sup>1</sup> 7/31/2014

**State Street Global Advisors Trust Company Index Calendar Year Performance**

<b>Calendar Year Performance (Gross of Fees)</b>							
	1/1/20 - 10/31/20	2019	2018	2017	2016	2015	2014
SSgA S&P 500 Flagship Non-Lending Fund	2.74	31.50	-4.36	21.86	12.03	1.46	13.72
S&P 500 Index	2.77	31.49	-4.38	21.83	11.96	1.38	13.69
<i>% of Excess Return</i>	<i>-0.03</i>	<i>0.01</i>	<i>0.02</i>	<i>0.03</i>	<i>0.07</i>	<i>0.08</i>	<i>0.03</i>
SSgA Russell 1000 Growth Index Non-Lending Fund	20.07	36.36	-1.52	30.11	7.17	5.62	13.08
Russell 1000 Growth Index	20.11	36.39	-1.51	30.21	7.08	5.67	13.05
<i>% of Excess Return</i>	<i>-0.04</i>	<i>-0.03</i>	<i>-0.01</i>	<i>-0.10</i>	<i>0.09</i>	<i>-0.05</i>	<i>0.03</i>
SSgA Russell 1000 Value Index Non-Lending Fund	-12.64	26.57	-8.22	13.83	17.30	-3.65	13.44
Russell 1000 Value Index	-12.74	26.54	-8.27	13.66	17.34	-3.83	13.45
<i>% of Excess Return</i>	<i>0.10</i>	<i>0.03</i>	<i>0.05</i>	<i>0.17</i>	<i>-0.04</i>	<i>0.18</i>	<i>-0.01</i>
SSgA Russell 2000 Index Non-Lending Fund	-6.75	25.57	-10.98	14.71	21.47	-4.39	5.02
Russell 2000 Index	-6.77	25.52	-11.01	14.65	21.31	-4.41	4.89
<i>% of Excess Return</i>	<i>0.02</i>	<i>0.05</i>	<i>0.03</i>	<i>0.06</i>	<i>0.16</i>	<i>0.02</i>	<i>0.13</i>
SSgA Daily MSCI Emerging Markets Index Non-Lending Fund	1.12	18.39	-14.63	37.54	11.57	-15.14	-2.74
MSCI Emerging Markets Index	0.87	18.42	-14.57	37.28	11.19	-14.92	-2.19
<i>% of Excess Return</i>	<i>0.25</i>	<i>-0.03</i>	<i>-0.06</i>	<i>0.26</i>	<i>0.38</i>	<i>-0.22</i>	<i>-0.55</i>
SSgA U.S. Aggregate Bond Index Non-Lending Fund	6.35	8.75	0.04	3.56	2.67	0.59	5.98
Bloomberg Barclay U.S. Aggregate Bond Index	6.32	8.72	0.01	3.54	2.65	0.55	5.97
<i>% of Excess Return</i>	<i>0.03</i>	<i>0.03</i>	<i>0.03</i>	<i>0.02</i>	<i>0.02</i>	<i>0.04</i>	<i>0.01</i>
SSgA MSCI EAFE Small Cap Index Non-Lending Fund	-7.40	25.03	-17.63	33.31	2.42	9.69	-4.68
MSCI EAFE Small Cap Index	-7.54	24.96	-17.89	33.01	2.18	9.59	-4.95
<i>% of Excess Return</i>	<i>0.14</i>	<i>0.07</i>	<i>0.26</i>	<i>0.30</i>	<i>0.24</i>	<i>0.10</i>	<i>0.27</i>
Daily MSCI World ex US Index Non-Lending Strategy	-10.00	23.35	-14.24	25.65	3.38	-1.57	-4.08
MSCI World ex US Index	-10.27	22.91	-14.68	25.17	2.95	-1.95	-4.45
<i>% of excess return</i>	<i>0.27</i>	<i>0.44</i>	<i>0.44</i>	<i>0.48</i>	<i>0.43</i>	<i>0.38</i>	<i>0.37</i>



**To:** Los Angeles City Employees' Retirement System Investment Committee  
**From:** NEPC, LLC  
**Date:** December 8, 2020  
**Subject:** State Street Global Advisors Multi-Passive Index Contract Renewal

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### **Recommendation**

NEPC recommends Los Angeles City Employees' Retirement System ('LACERS') renew the contract that is currently in place with State Street Global Advisors ('SSgA') for a period of five years from the date of contract expiry.

### **Background**

LACERS currently contracts with three index fund providers including RhumbLine, BlackRock and SSgA. It has been LACERS' practice to use index funds on both a strategic basis and on a temporary basis when changing from one active manager to another. Currently, SSgA manages one passive index portfolio on behalf of LACERS under the Multi-Passive Index contract in core fixed income totaling \$660.3 million, or 3.43% of Total Plan Assets as of September 30, 2020.

The LACERS contract includes portfolio management on two index strategies in addition to the strategy listed above and they are portfolios managed against the MSCI Emerging Markets Index and MSCI EAFE Small Cap Index. SSgA manages the LACERS core fixed income portfolio using a sampling investment management strategy to replicate the returns of the Bloomberg Barclays U.S. Aggregate Bond Index. The Bloomberg U.S. Aggregate Bond Index is among the widest used and cited index in the U.S. investment-grade fixed income industry.

SSgA is wholly owned by its parent company State Street Bank and Trust Company and was founded in 1978 as the investment management arm of the global custodial bank. As of September 30, 2020, the firm manages over \$3.148 trillion in assets. As an index portfolio manager, SSgA is within the top three largest firms with assets under management alongside BlackRock and Vanguard. Not coincidentally, these three firms hold a majority of the market share within the Exchange Traded Fund industry which includes many passive and indexed investment portfolios. SSgA's approach to index portfolio management is to minimize costs and they do this through the scale of their portfolio management business which helps them keep transaction costs low through sheer volume of trades that are passing through the organization.

### **Performance**

The performance of the SSgA account has been in line with expectations. Referring to Exhibit 1, the SSgA U.S. Aggregate Bond portfolio has performed in-line with expectations



and the benchmark over short and longer-term trailing periods. In the past five years, the portfolio ranks in the top quartile in its peer group of passive U.S. fixed income portfolios.

### **Fees**

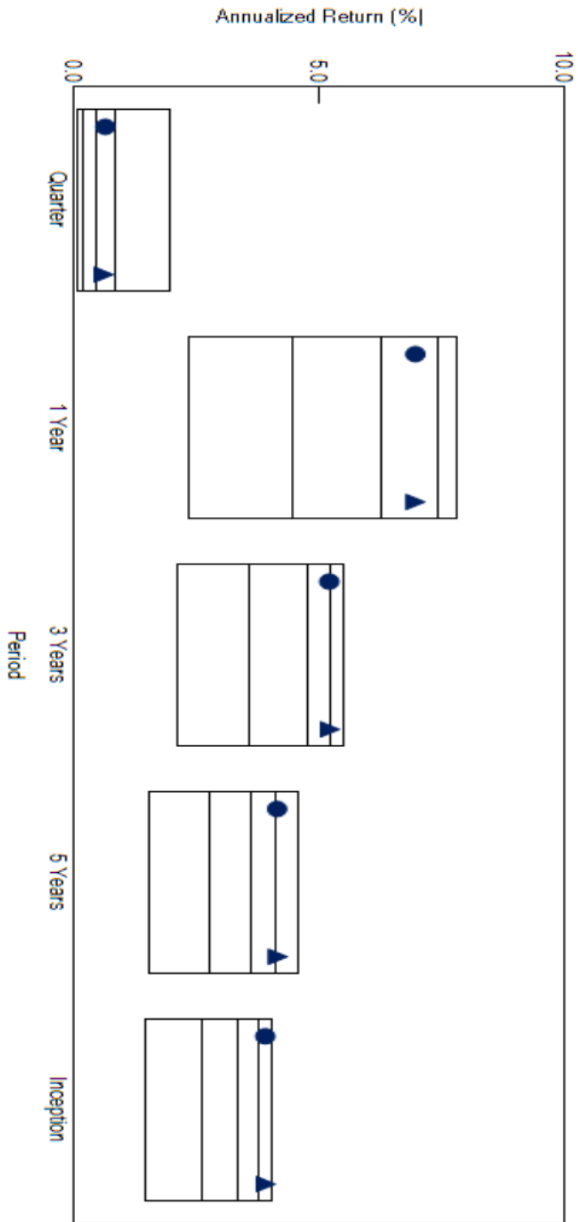
SSgA charges fees based on the specific strategy in which LACERS invests. The SSgA U.S. Aggregate Bond portfolio has a fee of 0.03% or 2.7 basis points and ranks in the second percentile of 78 portfolios in the eVestment U.S. Passive Fixed Income universe. That is, the core fixed income portfolio is less expensive than 98% of the portfolios in its peer group. For reference, the fee schedules of the MSCI Emerging Markets Index and MSCI EAFE Small Cap Index strategies are a flat 0.04% or 4 basis points charged on all assets. The lowest fee in the eVestment Global Emerging Markets Passive Equity universe is 0.05% and the lowest fee in the eVestment EAFE Passive Equity universe is also 0.05% and therefore, the currently contracted fee schedules would rank in the first percentile in their peer groups.

### **Conclusion**

SSgA has proven skill in managing passive investment mandates against the indexes chosen by LACERS. NEPC supports renewing the contract with SSgA for a period of five years from the date of contract expiry.

Exhibit 1 :

eV US Passive Fixed Inc Net Return Comparison  
 Ending September 30, 2020



	Quarter	1 Year	3 Years	5 Years	Inception
5th Percentile	1.96	7.83	5.50	4.59	4.05
25th Percentile	0.94	7.43	5.24	4.13	3.76
Median	0.45	6.29	4.78	3.60	3.36
75th Percentile	0.17	4.46	3.56	2.76	2.62
95th Percentile	0.08	2.36	2.11	1.54	1.47
# of Portfolios	8	8	8	8	6
● SsgA U.S. Aggregate Bond	0.65 (37)	6.98 (39)	5.23 (26)	4.16 (24)	3.92 (14)
▲ BBBarc US Aggregate TR	0.62 (39)	6.98 (39)	5.24 (25)	4.18 (24)	3.93 (13)







**REPORT TO TO INVESTMENT COMMITTEE**

**From: Neil M. Guglielmo, General Manager**

*Neil M. Guglielmo*

**MEETING: DECEMBER 8, 2020**

**ITEM: V**

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

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

**Recommendation**

That the Investment Committee consider and provide comments regarding the proposed revisions to the Private Equity Investment Policy.

**Discussion**

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

Pursuant to Section V.I of the IP, the Board shall review the IP at least annually, with the assistance of staff and investment consultants, and revise as necessary. As part of the Board's 2020 annual IP review, staff and LACERS' private equity consultant, Aksia TorreyCove Partners LLC, propose amendments to the Private Equity Investment Policy, as contained in the attached redline document (Attachment 1). These amendments are intended to clarify the investment guidelines, risk diversification, and roles and responsibilities associated with implementing co-investments and secondary transactions. Staff requests that the Committee consider the proposed amendments and provide comments as appropriate.

**Strategic Alignment**

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

Prepared By: Clark Hoover, Investment Officer I, Investment Division

NMG/RJ/BF/WL/CH:jp

Attachments:

1. Private Equity Investment Policy – Proposed Revisions (Redline Version)
2. Private Equity Investment Policy – Proposed Revisions (Clean Version)
3. Private Equity Investment Policy – Current Board Approved Version

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

**X. PRIVATE EQUITY INVESTMENT POLICY**

**A. Introduction**

This Private Equity Investment Policy (“Private Equity Policy”) sets forth guidelines that provide a general framework for selecting, building, and managing LACERS’ investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), venture capital and growth equity partnerships, co-investments, secondaries secondary market transactions, and other privately structured investments with like the return and risk characteristics of private equity.

**B. Investment Objectives**

**1. Return**

On a relative basis, the return objective for the LACERS’ private equity portfolio (“Private Equity Portfolio”) is 300 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership’s life may be negative due to the J-curve effect.

**2. Risk**

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to ~~reduce~~ assume risks that are ~~not~~ sufficiently compensated ~~adequately for~~ by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

**C. Scope**

The Private Equity Consultant ~~is engaged by LACERS to~~ shall select new investments, monitor and advise on the sale of existing private equity investments, ~~monitor existing investments~~, and provide recommendations and program advice in accordance with the Private Equity Policy. ~~This~~ The Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following factors: -portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration (“Board”) and LACERS Investment Staff (“Staff”); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS’ portfolio, including information on selected private equity related topics; identifying and

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Equity Consultant ~~has discretion to buy, sell, or otherwise effect~~ will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F., With Staff concurrence on a recommendation from the Private Equity Consultant, LACERS may effect investments infor all new partnerships up to and including \$50 million and for all follow-on partnerships up to and including \$100 million. With Staff concurrence, recommended investments ~~Recommendations in excess of these that exceed these~~ amounts must be presented ~~by the Private Equity Consultant to Staff for review and evaluation, and~~ to the Board for approval. Non-U.S. dollar commitments to private equity partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. ~~However n~~ Non-U.S. dollar commitments to private equity partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

**D. Investment Guidelines**

**1. Eligible Investments**

LACERS will invest in ~~top-tier~~ limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs), special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

- a) Private equity partnerships – Investments inincluding corporate finance/buyout, special situations, ~~and~~ venture capital and growth equity, secondaries, and co-investment funds. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage ~~“generalist”~~ partnerships;
- b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS (“direct co-investments”) or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall only be made alongside general partners with which LACERS has an active commitment. Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private equity fund in which the limited partner has also invested. Therefore, the Private Equity Consultant will monitor co-investments for concentration risk and recommend adjustments in the private equity portfolio as needed in order to adequately manage such risk. The Private Equity Consultant will address concentration risk in the Annual Private Equity Strategic Plan.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel), and break-up fees on potential Co-investments. The estimated magnitude of these items shall 1) be reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) be approved by the Chief Investment Officer in advance of any commitment.

- c) Secondary market purchases – purchases of private equity related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on potential secondary transactions. The estimated magnitude of these items shall 1) be reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) be approved by the Chief Investment Officer in advance of any commitment.

- d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).

- e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Equity Consultant.

~~b) Co-investments – direct investments made alongside a partnership;~~

~~c) Direct secondary purchases – purchases of an existing partnership interest or pool of partnership interests from an investor;~~

~~d) Other privately structured investments that are deemed appropriate within LACERS' risk profile that may include direct investments;~~

~~e) Consider sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).~~

**2. Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 20% of total commitments (by all limited partners and any other investors including the GP, excluding

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

any co-investments) in that partnership. Any commitments in excess of this threshold will require pre-approval by the Board's total commitments without the Board's approval.

These limitations shall not apply to specially constructed partnerships (such as a fund of one or two); or separately managed accounts (SMAs) where LACERS is the sole limited partner.

**3. Diversification**

The Private Equity Consultant, on behalf of LACERS, will seek to appropriately diversify the following sources of risk in the Private Equity Portfolio in order to manage risk based on the following guidelines:-

- a) Up to 15% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may be attributable to partnerships by the same manager at the time the commitment is made.
- b) Up to 25% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.
- c) The Private Equity Consultant shall appropriately diversify the Portfolio across vintage years when possible.
- d) The Private Equity Consultant shall appropriately diversify the Portfolio with respect to geographic distribution.
- e) The Private Equity Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure as compared to the Cambridge Associates US Private Equity Index with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.
- f) Private Equity Sub-asset Classes
  - (1) Assets committed to venture capital shall be appropriately diversified across the stages of venture capital (e.g., early-stage, mid-stage, late-stage, and growth equity).
  - (2) Assets committed to corporate finance/buyouts shall be appropriately diversified by target company size (e.g., mega, large, mid, and small).

~~a) Partnerships~~

- ~~(1) No more than 15% of the Private Equity Portfolio's total exposure (market value plus unfunded commitments) to private equity may be attributable to partnerships by the same manager at the time the commitment is made.~~
- ~~(2) The Private Equity Consultant shall diversify the Portfolio across vintage years when possible.~~

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

~~(3) The geographic distribution of investments shall be monitored for diversification by the Private Equity Consultant.~~

~~The Private Equity Consultant shall monitor investments with respect to industry. In the event that the current cost basis associated with a single industry exceeds 25% of the cost basis of the Private Equity Portfolio, the Private Equity Consultant shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry in question and with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.~~

~~b) Sub-asset Classes~~

~~(1) Assets committed to venture capital shall be diversified across the stages of venture capital (e.g., early stage, mid-stage, late stage, and growth equity).~~

~~(2) Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g., mega, large, mid, and small).~~

In addition to the diversification criteria listed above, LACERS' Board ~~along with the Private Equity Consultant~~ will adopt optimal sub-asset allocation targets, which will be updated [pursuant to the Annual Private Equity Strategic Plan](#) ~~periodically to reflect general changes in the economy.~~

~~The current optimal sub-asset class allocation ranges and targets for LACERS' private equity investments are highlighted in the most recent Private Equity Annual Strategic Plan.~~

**4. Illiquidity**

Private equity investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the [general partner, subject to the provisions of the partnership agreement, decides to](#) ~~partnerships, at their discretion,~~ sell [fund](#) investments and distribute proceeds [to limited partners](#).

**5. Distributions**

Staff is responsible for the final disposition of distributions from partnerships.

**E. Review of Investment Guidelines**

The Private Equity Consultant and Staff periodically will review [the above private equity](#) investment guidelines ~~as set forth in Section X.D (above)~~ and recommend changes if necessary.

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

**F. Roles and Responsibilities**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Strategy/Policy</b>	<ul style="list-style-type: none"> <li>Select Private Equity Consultant.</li> <li>Approve asset class funding level.</li> <li>Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">In consultation w</a>With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li><del>With staff and General Fund Consultant,</del> <a href="#">Help</a> develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>



Section 5 PRIVATE EQUITY INVESTMENT POLICY

<p><b>Investment Selection</b></p>	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Review and approve investments in new <del>management groups</del> <u>partnerships</u> of amounts greater than \$50 million prior to investment.</li> <li><u>Review and approve investments in follow-on partnerships of amounts greater than \$100 million prior to investment.</u></li> <li><u>Review and approve direct co-investment opportunities with existing relationship general partners that exceed \$50 million.</u></li> <li><u>Review and approve the sale of any one existing partnership fund on the secondary market exceeding \$50 million in Fair Market Value.</u></li> <li><u>Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.</u></li> </ul>	<ul style="list-style-type: none"> <li>Refer investments and forward to Private Equity Consultant for preliminary screening.</li> <li><u>Conduct meetings with prospective potential or existing general partners representing new investment opportunities new investments prior to recommending to the Board, if practical.</u></li> <li><u>Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer.</u></li> <li>In conjunction with Private Equity Consultant, invest up to <u>and including</u> \$50 million for new partnerships, and up to <u>and including</u> \$100 million for follow-on funds without Board approval. If <del>staff</del> <u>Staff</u> opposes <u>and Private Equity Consultant disagrees</u>, refer to Board for decision.</li> <li>In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over \$50 million in new partnerships, or over \$100 million in follow-on funds.</li> <li><del>Execute agreements.</del> <u>In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities, which are permitted alongside a firm with which LACERS has an active commitment, up to and including \$50 million.</u></li> <li><u>In conjunction with Private Equity Consultant, review and concur with the approval of sale of existing partnership funds on the secondary market up to and including \$50 million in Fair Market Value.</u></li> <li><u>General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing.</u></li> <li><u>Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.</u></li> </ul>	<ul style="list-style-type: none"> <li>Conduct <del>extensive</del> <u>appropriate</u> analysis and due diligence on investments.</li> <li><u>Prepare investment reports</u> <del>Recommend</del> for Board <u>consideration on approval</u> investments <del>exceeding over</del> \$50 million for new managers, or <del>exceeding over</del> \$100 million in follow-on funds.</li> <li><u>With <del>staff</del> <u>Staff</u> concurrence, approve investments of up to <u>and including</u> \$50 million for new partnerships, and up to <u>and including</u> \$100 million in follow-on funds.</u></li> <li><u>With Staff concurrence, approve direct co-investment opportunities with existing relationship general partners up to and including \$50 million.</u></li> <li><u>Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market exceeding \$50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval.</u></li> <li>Provide investment analysis reports for each new investment and <u>for sales</u> of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> <li>Communicate with <del>staff</del> <u>Staff</u> regarding potential <u>investment</u> opportunities undergoing <del>extensive</del> analysis and due diligence.</li> <li>Coordinate meetings <u>with general partners at the request of</u> <del>between staff</del> <u>Staff, Board, and general partner upon request.</u></li> <li><u>Advise on and <del>N</del>negotiate legal documents investment terms.</u></li> </ul>
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**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
<p><b>Investment Management and Monitoring</b></p>	<ul style="list-style-type: none"> <li>• <u>Review</u> quarterly, annual, and other periodic monitoring reports <u>and plans</u>.</li> <li>• <u>Review Commitment Notification Reports</u>.</li> <li>• <del>Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).</del></li> </ul>	<ul style="list-style-type: none"> <li>• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant.</li> <li>• Conduct meetings with existing managers periodically.</li> <li>• Attend annual partnership meetings when appropriate.</li> <li>• Fund capital calls and <u>manage</u> distributions.</li> <li>• Review Private Equity Consultant's recommendations on <u>partnership</u> amendments and consents.</li> <li>• Execute <u>partnership</u> amendments <del>to agreements</del> and consents.</li> <li>• Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence.</li> <li>• <u>Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).</u></li> <li>• <u>Prepare Commitment Notification Reports for Board.</u></li> </ul>	<ul style="list-style-type: none"> <li>• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>• Recommend amendments and consents to <del>staff</del> <u>Staff</u> for approval.</li> <li>• Provide quarterly, annual, and other periodic monitoring reports <u>and plans</u>.</li> </ul>

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

**X. PRIVATE EQUITY INVESTMENT POLICY**

**A. Introduction**

This Private Equity Investment Policy (“Private Equity Policy”) sets forth guidelines that provide a general framework for selecting, building, and managing LACERS’ investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), venture capital and growth equity, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private equity.

**B. Investment Objectives**

**1. Return**

On a relative basis, the return objective for the LACERS’ private equity portfolio (“Private Equity Portfolio”) is 300 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital). Additionally, the IRR performance in the first few years of a partnership’s life may be negative due to the J-curve effect.

**2. Risk**

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

**C. Scope**

The Private Equity Consultant shall select new investments, monitor and advise on the sale of existing private equity investments, and provide recommendations and program advice in accordance with the Private Equity Policy. The Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration (“Board”) and LACERS Investment Staff (“Staff”); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS’ portfolio, including information on selected private equity

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Equity Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F. With Staff concurrence on a recommendation from the Private Equity Consultant, LACERS may effect investments in new partnerships up to and including \$50 million and for all follow-on partnerships up to and including \$100 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to private equity partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. However, non-U.S. dollar commitments to private equity partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

**D. Investment Guidelines**

**1. Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs), special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

- a) Private equity partnerships – Investments in corporate finance/buyout, special situations, venture capital and growth equity, secondaries, and co-investment funds. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage partnerships;
- b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS (“direct co-investments”) or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall only be made alongside general partners with which LACERS has an active commitment. Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private equity fund in which the limited partner has also invested. Therefore, the Private Equity Consultant will monitor co-investments for concentration risk

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

and recommend adjustments in the private equity portfolio as needed in order to adequately manage such risk. The Private Equity Consultant will address concentration risk in the Annual Private Equity Strategic Plan.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel), and break-up fees on potential Co-investments. The estimated magnitude of these items shall: 1) be reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) be approved by the Chief Investment Officer in advance of any commitment.

- c) Secondary market purchases – purchases of private equity related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on potential secondary transactions. The estimated magnitude of these items shall: 1) be reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) be approved by the Chief Investment Officer in advance of any commitment.

- d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).
- e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Equity Consultant.

**2. Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 20% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. Any commitments in excess of this threshold will require pre-approval by the Board.

These limitations shall not apply to specially constructed partnerships (such as a fund of one or two); or separately managed accounts (SMAs) where LACERS is the sole limited partner.

**3. Diversification**

The Private Equity Consultant, on behalf of LACERS, will seek to appropriately diversify the Private Equity Portfolio in order to manage risk based on the following guidelines:

ARTICLE III. BOARD INVESTMENT POLICIES

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

- a) Up to 15% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may be attributable to partnerships by the same manager at the time the commitment is made.
- b) Up to 25% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.
- c) The Private Equity Consultant shall appropriately diversify the Portfolio across vintage years when possible.
- d) The Private Equity Consultant shall appropriately diversify the Portfolio with respect to geographic distribution.
- e) The Private Equity Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure as compared to the Cambridge Associates US Private Equity Index with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.
- f) Private Equity Sub-asset Classes
  - (1) Assets committed to venture capital shall be appropriately diversified across the stages of venture capital (e.g., early-stage, mid-stage, late-stage, and growth equity).
  - (2) Assets committed to corporate finance/buyouts shall be appropriately diversified by target company size (e.g., mega, large, mid, and small).

In addition to the diversification criteria listed above, LACERS' Board will adopt optimal sub-asset allocation targets, which will be updated pursuant to the Annual Private Equity Strategic Plan.

**4. Illiquidity**

Private equity investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the general partner, subject to the provisions of the partnership agreement, decides to sell fund investments and distribute proceeds to limited partners.

**5. Distributions**

Staff is responsible for the final disposition of distributions from partnerships.

**E. Review of Investment Guidelines**

The Private Equity Consultant and Staff periodically will review the above private equity investment guidelines and recommend changes if necessary.

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

**F. Roles and Responsibilities**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Strategy/Policy</b>	<ul style="list-style-type: none"> <li>• Select Private Equity Consultant.</li> <li>• Approve asset class funding level.</li> <li>• Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.</li> </ul>	<ul style="list-style-type: none"> <li>• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Investment Selection</b>	<ul style="list-style-type: none"> <li>• Review investment analysis reports.</li> <li>• Review and approve investments in new partnerships of amounts greater than \$50 million prior to investment.</li> <li>• Review and approve investments in follow-on partnerships of amounts greater than \$100 million prior to investment.</li> <li>• Review and approve direct co-investment opportunities with existing relationship general partners that exceed \$50 million.</li> <li>• Review and approve the sale of any one existing partnership fund on the secondary market exceeding \$50 million in Fair Market Value.</li> <li>• Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Refer investments and forward to Private Equity Consultant for preliminary screening.</li> <li>• Conduct meetings with prospective or existing general partners representing new investment opportunities.</li> <li>• Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer.</li> <li>• In conjunction with Private Equity Consultant, invest up to and including \$50 million for new partnerships, and up to and including \$100 million for follow-on funds without Board approval. If Staff opposes and Private Equity Consultant disagrees, refer to Board for decision.</li> <li>• In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over \$50 million in new partnerships, or over \$100 million in follow-on funds.</li> <li>• In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities, which are permitted alongside a firm with which LACERS has an active commitment, up to and including \$50 million.</li> <li>• In conjunction with Private Equity Consultant, review and concur with the approval of sale of existing partnership funds on the secondary market up to and including \$50 million in Fair Market Value.</li> <li>• General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing.</li> <li>• Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct appropriate analysis and due diligence on investments.</li> <li>• Prepare investment reports for Board consideration on investments exceeding \$50 million for new managers, or exceeding \$100 million in follow-on funds.</li> <li>• With Staff concurrence, approve investments of up to and including \$50 million for new partnerships, and up to and including \$100 million in follow-on funds.</li> <li>• With Staff concurrence, approve direct co-investment opportunities with existing relationship general partners up to and including \$50 million.</li> <li>• Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market exceeding \$50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval.</li> <li>• Provide investment analysis reports for each new investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> <li>• Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence.</li> <li>• Coordinate meetings with general partners at the request of Staff.</li> <li>• Advise on and negotiate investment terms.</li> </ul>



**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Investment Management and Monitoring</b>	<ul style="list-style-type: none"> <li>Review quarterly, annual, and other periodic monitoring reports and plans.</li> <li>Review Commitment Notification Reports.</li> </ul>	<ul style="list-style-type: none"> <li>Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant.</li> <li>Conduct meetings with existing managers periodically.</li> <li>Attend annual partnership meetings when appropriate.</li> <li>Fund capital calls and manage distributions.</li> <li>Review Private Equity Consultant's recommendations on partnership amendments and consents.</li> <li>Execute partnership amendments and consents.</li> <li>Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence.</li> <li>Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> <li>Prepare Commitment Notification Reports for Board.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>Recommend amendments and consents to Staff for approval.</li> <li>Provide quarterly, annual, and other periodic monitoring reports and plans.</li> </ul>

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

**X. PRIVATE EQUITY INVESTMENT POLICY**

**A. Introduction**

This Private Equity Investment Policy (“Private Equity Policy”) sets forth guidelines that provide a general framework for selecting, building, and managing LACERS’ investments in private equity, including corporate finance/buyout, special situations (including distressed debt, distressed turnaround and mezzanine strategies), venture capital partnerships, co-investments, secondaries, and other privately structured investments with like return and risk characteristics of private equity.

**B. Investment Objectives**

**1. Return**

On a relative basis, the return objective for the LACERS’ private equity portfolio (“Private Equity Portfolio”) is 300 bps over the Russell 3000 Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Additionally, the IRR performance in the first few years of a partnership’s life may be negative due to the J-curve effect.

**2. Risk**

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to reduce risks that are not compensated adequately for by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

**C. Scope**

The Private Equity Consultant is engaged by LACERS to select new investments, monitor existing investments, and provide advice in accordance with the Private Equity Policy. This Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration (“Board”) and LACERS Investment Staff (“Staff”); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS’ portfolio, including information on selected private equity related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

The Private Equity Consultant has discretion to buy, sell, or otherwise effect investment transactions pursuant to the roles and responsibilities defined in Section X.F, for all new partnerships up to and including \$50 million and for all follow-on partnerships up to and including \$100 million. Recommendations that exceed those amounts must be presented by the Private Equity Consultant to Staff for review and evaluation, and to the Board for approval. Non-U.S. dollar commitments to private equity shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Equity Consultant. Non-U.S. dollar commitments to private equity may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

**D. Investment Guidelines**

**1. Eligible Investments**

LACERS will invest in top tier limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows:

- a) Private equity partnerships – including corporate finance/buyout, special situations, and venture capital. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage “generalist” partnerships;
- b) Co-investments – direct investments made alongside a partnership;
- c) Direct secondary purchases – purchases of an existing partnership interest or pool of partnership interests from an investor;
- d) Other privately structured investments that are deemed appropriate within LACERS’ risk profile that may include direct investments;
- e) Consider sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).

**2. Limitation on Percent of Partnership’s Total Commitment**

LACERS’ commitment to any given partnership shall not exceed 20% of that partnership’s total commitments without the Board’s approval.

**3. Diversification**

The Private Equity Consultant, on behalf of LACERS, will diversify the following sources of risk in the Private Equity Portfolio.

- a) Partnerships
  - (1) No more than 15% of the Private Equity Portfolio’s total exposure (market value plus unfunded commitments) to private equity may be attributable to partnerships by the same manager at the time the commitment is made.

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

- (2) The Private Equity Consultant shall diversify the Portfolio across vintage years when possible.
- (3) The geographic distribution of investments shall be monitored for diversification by the Private Equity Consultant.

The Private Equity Consultant shall monitor investments with respect to industry. In the event that the current cost-basis associated with a single industry exceeds 25% of the cost basis of the Private Equity Portfolio, the Private Equity Consultant shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry in question and with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.

b) Sub-asset Classes

- (1) Assets committed to venture capital shall be diversified across the stages of venture capital (e.g., early-stage, mid-stage, late-stage, and growth equity).
- (2) Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g., mega, large, mid, and small).

In addition to the diversification criteria listed above, LACERS' Board along with the Private Equity Consultant will adopt optimal sub-asset allocation targets, which will be updated periodically to reflect general changes in the economy.

The current optimal sub-asset class allocation ranges and targets for LACERS' private equity investments are highlighted in the most recent Private Equity Annual Strategic Plan.

**4. Illiquidity**

Private equity investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the partnerships, at their discretion, sell investments and distribute proceeds.

**5. Distributions**

Staff is responsible for the final disposition of distributions from partnerships.

**E. Review of Investment Guidelines**

The Private Equity Consultant and Staff periodically will review investment guidelines as set forth in Section X.D (above) and recommend changes if necessary.

ARTICLE III. BOARD INVESTMENT POLICIES

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

**F. Roles and Responsibilities**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Strategy/Policy</b>	<ul style="list-style-type: none"> <li>Select Private Equity Consultant.</li> <li>Approve asset class funding level.</li> <li>Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.</li> </ul>	<ul style="list-style-type: none"> <li>With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>
<b>Investment Selection</b>	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Review and approve investments in new management groups of amounts greater than \$50 million prior to investment.</li> <li>Review and approve investments in follow-on partnerships of amounts greater than \$100 million prior to investment.</li> </ul>	<ul style="list-style-type: none"> <li>Refer investments and forward to Private Equity Consultant for preliminary screening.</li> <li>Conduct meetings with potential new investments prior to recommending to the Board, if practical.</li> <li>In conjunction with Private Equity Consultant, invest up to \$50 million for new partnerships, and up to \$100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision.</li> <li>In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over \$50 million in new partnerships, or over \$100 million in follow-on funds.</li> <li>Execute agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct extensive analysis and due diligence on investments.</li> <li>Recommend for Board approval investments over \$50 million for new managers, or over \$100 million in follow-on funds.</li> <li>With staff concurrence, approve investment of up to \$50 million for new partnerships, and up to \$100 million in follow-on funds.</li> <li>Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> <li>Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence.</li> <li>Coordinate meetings between staff, Board, and general partner upon request.</li> <li>Negotiate legal documents.</li> </ul>

ARTICLE III. BOARD INVESTMENT POLICIES

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

<p><b>Investment Monitoring</b></p>	<ul style="list-style-type: none"> <li>• Review quarterly, annual, and other periodic monitoring reports.</li> <li>• Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> </ul>	<ul style="list-style-type: none"> <li>• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant.</li> <li>• Conduct meetings with existing managers periodically.</li> <li>• Attend annual partnership meetings when appropriate.</li> <li>• Fund capital calls and distributions.</li> <li>• Review Private Equity Consultant's recommendations on amendments and consents.</li> <li>• Execute amendments to agreements and consents.</li> <li>• Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence.</li> <li>• Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>• Recommend amendments and consents to staff for approval.</li> <li>• Provide quarterly, annual, and other periodic monitoring reports.</li> </ul>
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