

## **Investment Committee Agenda**

### **REGULAR MEETING**

**TUESDAY, FEBRUARY 9, 2021**

**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 February 9, 2021, meeting will be conducted via telephone and/or videoconferencing.

**Important Message to the Public**  
**Information to call-in to listen and/or participate:**

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

**Meeting ID#** 845 0030 8045

**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 Ghokassian

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.ghokassian@lacers.org](mailto:ani.ghokassian@lacers.org).

**Disclaimer to Participants**

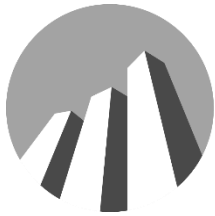
Please be advised that all LACERS Board and Committee Meeting proceedings are audio recorded.

[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 JANUARY 12, 2021 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES \(TIPS\) PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)
- V. [DISCUSSION OF PRIVATE EQUITY BENCHMARK AND POSSIBLE COMMITTEE ACTION](#)
- VI. OTHER BUSINESS
- VII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, March 9, 2021, 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 response to public health concerns relating to the novel coronavirus continue.
- VIII. ADJOURNMENT



## **Board of Administration Agenda**

### **SPECIAL MEETING**

**TUESDAY, FEBRUARY 9, 2021**

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

### **MEETING LOCATION:**

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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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- VIII. ADJOURNMENT

MINUTES OF THE SPECIAL MEETING  
**BOARD OF ADMINISTRATION**  
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 Board of Administration  
January 12, 2021, Special meeting was conducted  
via telephone and/or videoconferencing

January 12, 2021

11:29 a.m.

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PRESENT via Videoconferencing: Chair:	Sung Won Sohn
Committee Members:	Elizabeth Lee Nilza R. Serrano
Commissioners:	Annie Chao Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Legal Counselor:	Miguel Bahamon
PRESENT at LACERS offices: Executive Assistant:	Ani Ghoukassian

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

Commissioners Chao and Wilkinson were present, this is considered a Special Meeting of the Board of Administration. Any votes will be taken by Investment Committee members only.

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 DECEMBER 8, 2020 AND SPECIAL MEETINGS OF DECEMBER 9 AND DECEMBER 10, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Elizabeth Lee 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 also shared that recent organizational changes at Income Research & Management, a finalist in the Core Fixed Income Manager Search, are deemed by staff and NEPC, LLC to be positive developments for the firm.

### IV

INVESTMENT MANAGER CONTRACT WITH CORECOMMODITY MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE LONG-ONLY COMMODITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, and Carolyn Smith, Partner with NEPC, LLC presented and discussed this item with the Committee. After a 10 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.

### V

INVESTMENT MANAGER CONTRACT WITH BAIN CAPITAL SENIOR LOAN FUND, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE U.S. BANK LOANS FUND AND POSSIBLE COMMITTEE ACTION – Bryan Fujita, Investment Officer III, and Jeremiah Paras, Investment Officer I, presented and discussed this item with 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.

### VI

CORE FIXED INCOME MANAGER ALLOCATION PLAN AND POSSIBLE COMMITTEE ACTION – Barbara Sandoval, Investment Officer II, Jeremiah Paras, Investment Officer I, and Carolyn Smith, Partner with NEPC, LLC presented and discussed this item with the Committee. After a 30 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.

### VII

CONTINUED DISCUSSION OF INVESTMENT POLICY AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, Wilkin Ly, Investment Officer III, and Robert King, Investment Officer I, presented and discussed this item with the Committee. After a five 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.

### VIII

OTHER BUSINESS – There was no other business.

### IX

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, February 9, 2021, at 10:30 a.m. or immediately following the Board Meeting, at LACERS, 977 N.

Broadway, Suite 260, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while responding to public health concerns relating to the novel coronavirus continue.

X

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 12:33 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: FEBRUARY 9, 2021**  
**ITEM: IV**

*Neil M. Guglielmo*

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**SUBJECT: INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

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### **Recommendation**

That the Committee recommend to the Board a three-year contract renewal with Dimensional Fund Advisors LP for management of a U.S. Treasury Inflation Protected Securities portfolio.

### **Executive Summary**

Dimensional Fund Advisors LP (DFA) has managed an active U.S. Treasury Inflation Protected Securities (TIPS) portfolio for LACERS since July 2014. LACERS' portfolio was valued at \$848 million as of December 31, 2020. DFA 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*

DFA manages a U.S. TIPS portfolio for LACERS benchmarked against the Bloomberg Barclays U.S. TIPS Index. DFA's strategy provides protection against inflation by investing in inflation-linked bonds issued by the U.S. Treasury. The strategy offers benchmark-like duration and adds incremental value through yield curve positioning and low portfolio turnover. The portfolio is managed by a team of eight investment professionals led by Alan Hutchinson, Senior Portfolio Manager and Vice President, and Alexander Fridman, PhD, CFA, Senior Portfolio Manager and Vice President. LACERS' portfolio was valued at \$848 million as of December 31, 2020.

The Board hired DFA through the 2013 Active U.S. and Global Inflation-Linked manager search process and authorized a three-year contract on February 25, 2014; the contract became effective on July 1, 2014. Subsequently, the Board authorized a three-year contract renewal on January 24, 2017 and a one-year extension on May 26, 2020. The current contract expires on June 30, 2021.



### Organization

DFA is headquartered in Austin, Texas and has more than 1,400 employees globally. As of December 31, 2020, the firm managed approximately \$601 billion in total assets, with \$6.1 billion in the TIPS strategy.

### Due Diligence

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

### Performance

As of December 31, 2020, DFA has outperformed the benchmark over all time periods, as presented in the table below. DFA is in compliance with the LACERS Manager Monitoring Policy.

Annualized Performance as of 12/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since Inception <sup>1</sup>
DFA	1.67	11.97	10.24	6.31	5.45	3.57
Bloomberg Barclays U.S. TIPS Index	1.62	10.99	9.70	5.92	5.08	3.30
% of Excess Return	0.05	0.98	0.54	0.39	0.37	0.27

<sup>1</sup>Performance inception date: 7/17/14. Strategy was funded after contract inception date of 7/1/14.

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

Calendar Year Performance as of 12/31/20 (Net-of-Fees)							
	2020	2019	2018	2017	2016	2015	7/17/14 – 12/31/14
DFA	11.97	8.55	-1.15	3.22	5.13	-0.94	-2.86
Bloomberg Barclays U.S. TIPS Index	10.99	8.43	-1.26	3.01	4.68	-1.44	-2.31
% of Excess Return	0.98	0.12	0.11	0.21	0.45	0.50	-0.55

### Fees

LACERS pays DFA an effective fee of 5 basis points (0.05%), which is approximately \$424,000 annually based on the value of LACERS' assets as of December 31, 2020. This fee ranks in the 2<sup>nd</sup> percentile of fees charged by similar managers in the eVestment database (i.e., 98% of like-managers have higher fees).

### General Fund Consultant Opinion

NEPC concurs with this recommendation.

## Strategic Alignment

A contract renewal with DFA will allow the fund to maintain a diversified exposure to public real assets, which aligns with the Strategic Plan Goal to 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: Barbara Sandoval, Investment Officer II, Investment Division

NMG/RJ/BF/BS:jp

Attachment: 1. Consultant Recommendation – NEPC



**To:** Los Angeles City Employees' Retirement System Investment Committee  
**From:** NEPC, LLC  
**Date:** February 9, 2021  
**Subject:** Dimensional Fund Advisors LP – U.S. TIPS Contract Renewal

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### **Recommendation**

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract with Dimensional Fund Advisors LP ('DFA') for a period of three years from the date of contract expiry.

### **Background**

DFA was funded on July 17, 2014 to provide the Plan with exposure to U.S. Treasury Inflation Protected Securities (U.S. TIPS) within the Plan's Public Real Assets asset class. As of December 31, 2020, DFA managed \$847.9 million, or 4.1% of Plan assets. The performance objective is to outperform the Bloomberg Barclays U.S. TIPS Index, net of fees, annualized over a full market cycle (normally three-to-five years).

DFA was founded in 1981 by University of Chicago MBA students David Booth and Rex Sinquefeld, whose intention was to start a fund management firm that would rely fully on academic theories of efficient markets. Papers from Finance Professors Eugene Fama and Kenneth French framed their thinking. Eugene Fama and Kenneth French remain Directors and Consultants to the company today, and the firm maintains its ties to the University of Chicago. Other notable Board Members include George Constantinides of the University of Chicago, Robert Merton of Harvard University, Myron Scholes of Stanford University, and Roger Ibbotson of Yale. Mr. Booth remains at the firm as Founder and Executive Chairman and Mr. Sinquefeld retired in 2005. The firm is a private company owned primarily by employees, directors and former employees (70%) and outside investors (30%). Headquartered in Austin, Texas, the firm has offices around the globe and as of December 31, 2020, the firm had \$600.8 billion in assets under management ('AUM') with over 1,400 employees. Approximately \$516.7 billion is managed in mutual funds, \$79.4 billion in separately managed accounts and the remainder in commingled investments.

The firm's core philosophy is to focus on a rules-based systematic investment approach that combines academic theory and empirical research. DFA believes that prices in liquid and competitive markets reflect available information about fundamental values and the aggregate risk and return expectations of market participants. They believe that diversification helps reduce uncertainty, manage risk, increase the reliability of outcomes and provide flexibility. They identify and focus on the tradeoffs that matter to targeting market premiums efficiently.



The strategy focuses on securities in the middle range of the universe's available maturities, between five and 20 years from the date of settlement, excluding both very short and very long securities, although it may continue to hold securities as their maturities fall below five years. The rationale for this approach is that there are substitutes such as short Treasuries that provide fairly good protection versus inflation over time and secondly investing beyond 20 years' maturity may provide less favorable returns.

The strategy employs a constant-maturity, low-turnover approach which can generally be described as a buy and hold strategy. The strategy does not seek to replicate the benchmark but instead provide systematic exposure to the asset class in a thoughtful, market-driven, and cost-effective manner. For the portfolio there is one issuer, the U.S. Treasury and there is no limitation on the investments of this issuer. Individual security weightings will be determined to target the duration of the Bloomberg Barclays U.S. TIPS Index.

DFA uses a team approach to investment management. The Investment Policy Committee focuses on any changes to long-term investment strategy through the combined contributions of Portfolio Research, Portfolio Management, and Trading. The Investment Committee supervises day-to-day investment management operations for all portfolios. They do not employ a traditional portfolio manager / research analyst structure. Investment Associates and Portfolio Analysts are part of the team that assists Portfolio Managers in the implementation of policies and procedures for the strategies. DFA's internal research team is comprised of research professionals engaged in academic research and product development. Though there has been some turnover over the past few years at the investment committee level, the team approach to portfolio management at DFA results in a diminished impact of any one team-member's departure.

### **Performance**

Referring to Exhibit 1, since August 1, 2014 (the first full month of performance after the account inception date of July 15, 2014), the DFA portfolio has outperformed the Bloomberg Barclays U.S. TIPS Index by 0.22%, returning 3.58%, net of fees, through December 31, 2020. In the five-year period ended December 31, 2020, the portfolio outperformed the index by 0.37% (5.45% vs. 5.08%). In the one-year period ended December 31, 2020, the portfolio outperformed the benchmark by 0.98% returning 11.97%. The portfolio has an information ratio of 0.32 and active risk as measured by tracking error was 0.67% since inception ending December 31, 2020.

Referring to Exhibit 2, on a cumulative basis, the portfolio has added cumulative gains since inception and is currently in good standing according LACERS' Manager Monitoring Policy. Positioning along the term structure in longer maturity securities contributed to positive relative returns.

### **Fees**

The DFA portfolio has an asset-based fee of 0.05% annually. The fee ranks in the 2<sup>nd</sup> percentile among its peers in the eVestment U.S. TIPS/ Inflation Fixed Income Universe. In other words, 98% of the 38 products included in the peer universe have a higher fee than the LACERS account.



**Conclusion**

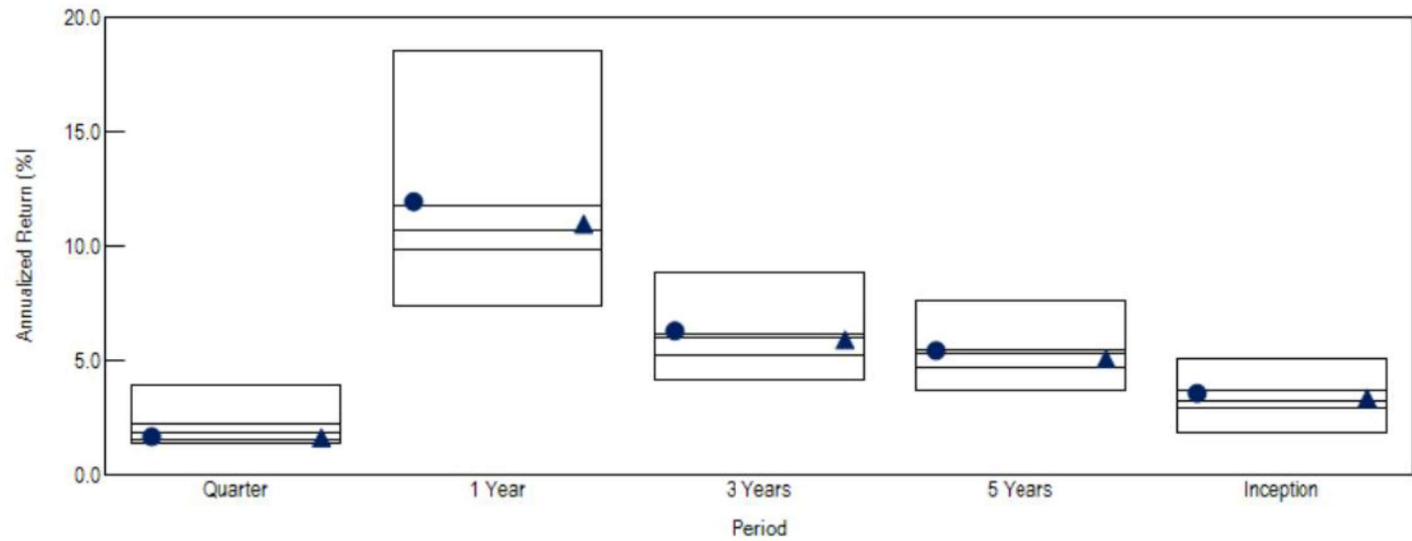
DFA has outperformed its benchmark index over the past five years and since inception ended December 31, 2020. The firm and team have been relatively stable in the past three-to-five years and employs a disciplined fundamental strategy. NEPC recommends a three-year contract renewal.

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



Exhibit 1

**eV US TIPS / Inflation Fixed Inc Net Return Comparison**  
**Ending December 31, 2020**



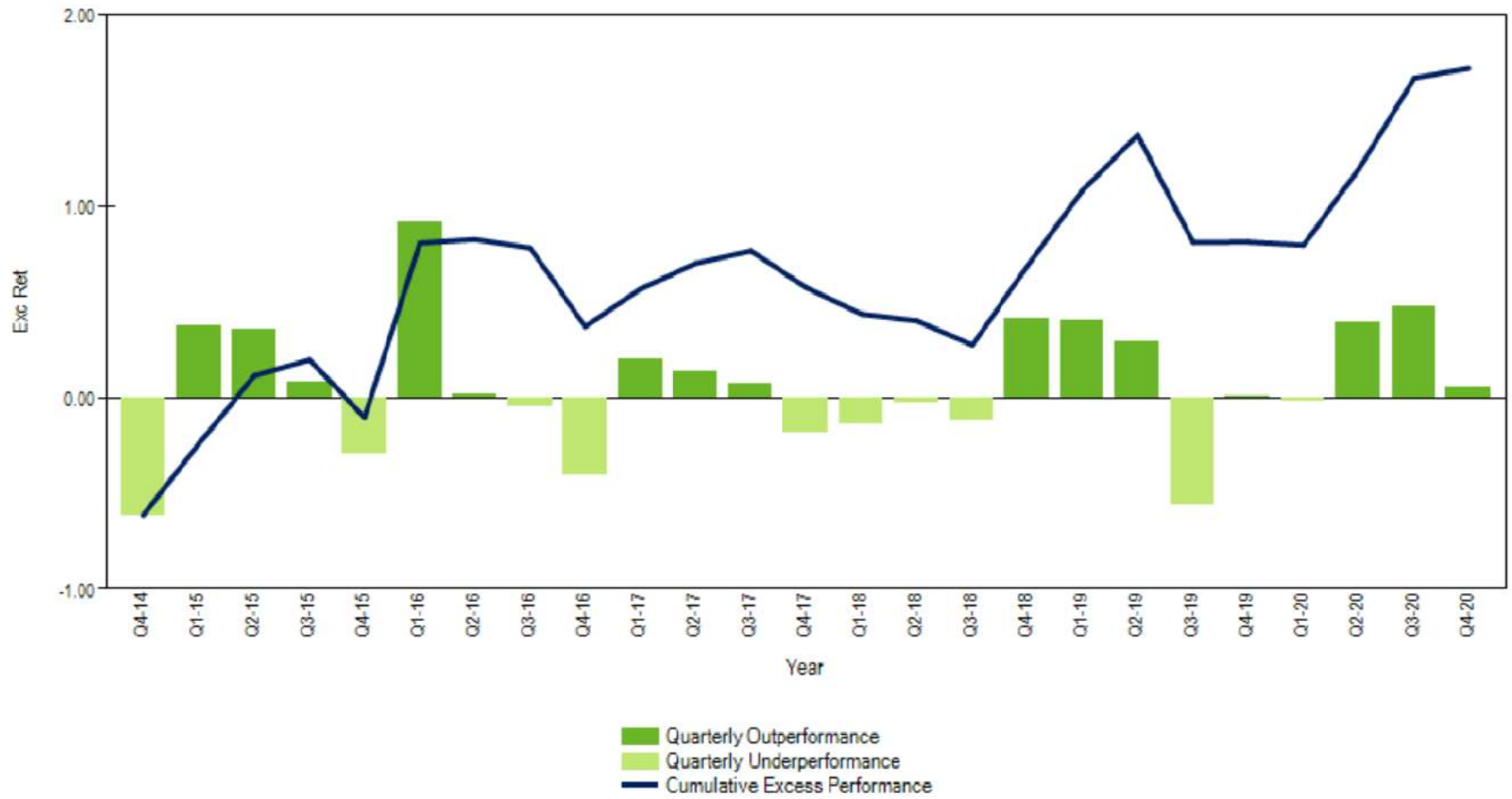
	Return (Rank)				
	Quarter	1 Year	3 Years	5 Years	Inception
5th Percentile	3.95	18.57	8.85	7.62	5.06
25th Percentile	2.23	11.80	6.14	5.44	3.66
Median	1.86	10.72	5.98	5.32	3.23
75th Percentile	1.56	9.84	5.23	4.72	2.90
95th Percentile	1.40	7.41	4.16	3.72	1.85
# of Portfolios	14	14	13	13	12
● DFA US TIPS	1.67 (70)	11.97 (20)	6.31 (18)	5.45 (25)	3.58 (28)
▲ BBgBarc US TIPS TR	1.62 (73)	10.99 (39)	5.92 (54)	5.08 (57)	3.36 (34)

NEPC performance record starts from the first full month of performance.



Exhibit 2

Quarterly and Cumulative Excess Performance



# PRIVATE EQUITY BENCHMARK DISCUSSION



## LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

February 9, 2021



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO



# PRIVATE EQUITY BENCHMARK

- **Recommendation**

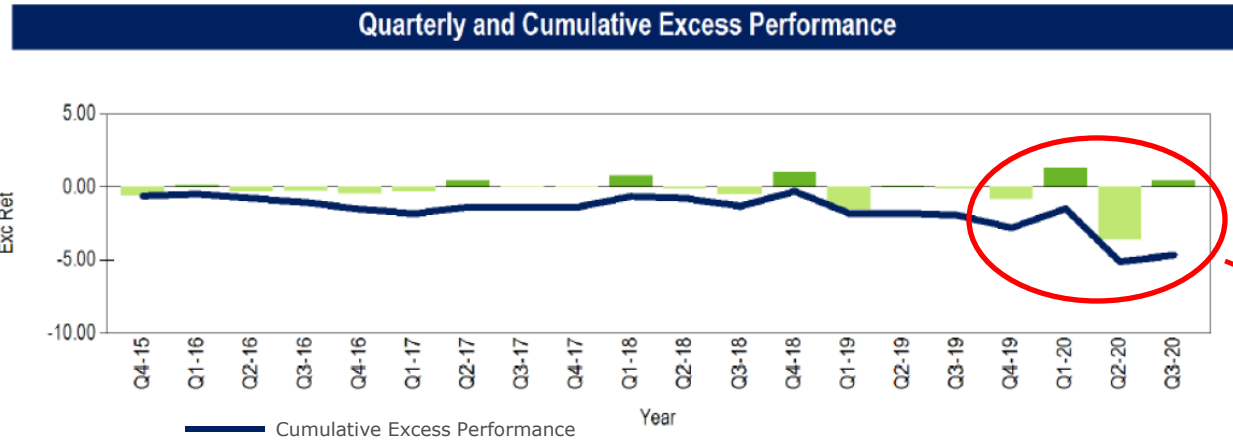
- Change the public market-based benchmark for private equity (Russell 3000 index + 3%) to a private equity universe benchmark (Cambridge Associates US All PE) for Policy Index
  - Can still incorporate public market measurement into the evaluation of private equity, just not at the Total Plan level

- **Rationale**

- Volatility of the private equity portfolio isn't reflected in the current benchmark
  - Lagging the current benchmark by one quarter to match up the returns will help with some of the large mismatch, but not all
- Private equity universe will offer an "apples-to-apples" comparison
- Public market benchmark doesn't show the performance of LACERS' private equity program in relation to the universe of private equity investments and accurately reflect the performance of LACERS' program



# LACERS POLICY BENCHMARK MISMATCH



- **Total Plan vs. Policy Index deviations can largely be attributed to private equity benchmark mismatch**
- **2020 was extreme due to public market volatility**
- **Quarterly difference between private equity portfolio and public market benchmark ranged from +23.7% to (32.4%)**
- **Lagging the public market benchmark by one quarter would have resulted in a quarterly difference ranging from +10.7% to (11.7%)**

Ending March 31, 2020

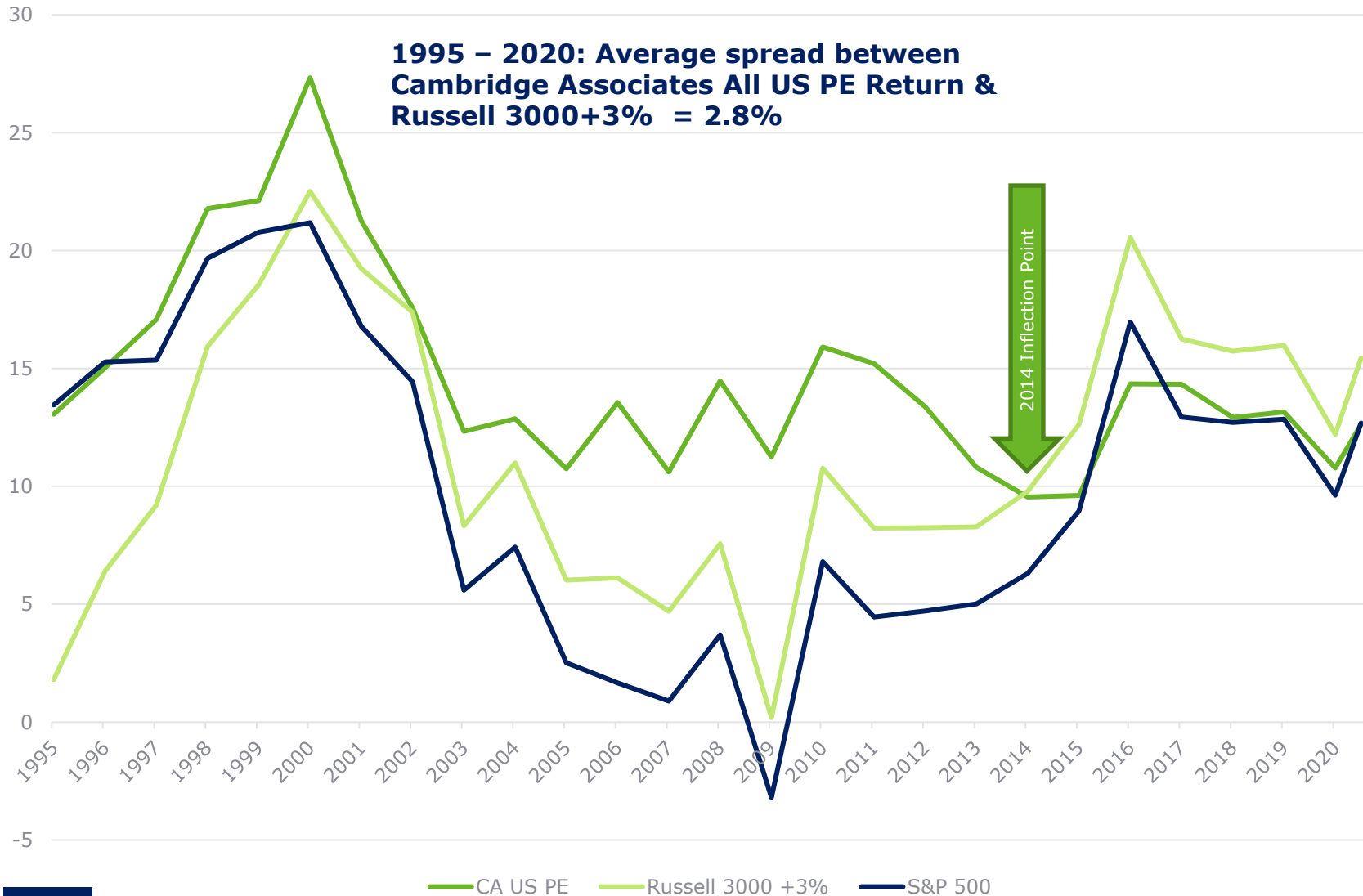
	Market Value(\$)	1 Mo(%)	3 Mo(%)	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	Inception(%)	Inception Date
Private Equity	2,168,845,778	2.81	3.48	3.48	5.96	10.98	12.82	10.83	12.48	10.46	Nov-95
Private Equity Blend		-13.51	-20.26	-20.26	-10.71	-6.37	7.12	8.93	13.67	12.08	Nov-95
Excess		16.32	23.74	23.74	16.67	17.35	5.70	1.90	-1.19	-1.62	
Ending June 30, 2020											
Private Equity	1,989,618,128	-0.49	-9.57	-6.43	-4.18	-4.18	7.36	7.97	10.97	9.89	Nov-95
Private Equity Blend		2.53	22.87	-2.02	9.71	9.71	13.32	13.31	17.32	12.89	Nov-95
Excess		-3.02	-32.44	-4.41	-13.89	-13.89	-5.96	-5.34	-6.35	-3.00	

Note: **Private Equity Blend** is the LACERS private equity custom benchmark and is comprised of:  
 Russell 3000 + 3%: February 1, 2012 – current  
 Russell 3000 + 4%: Inception – January 31, 2012



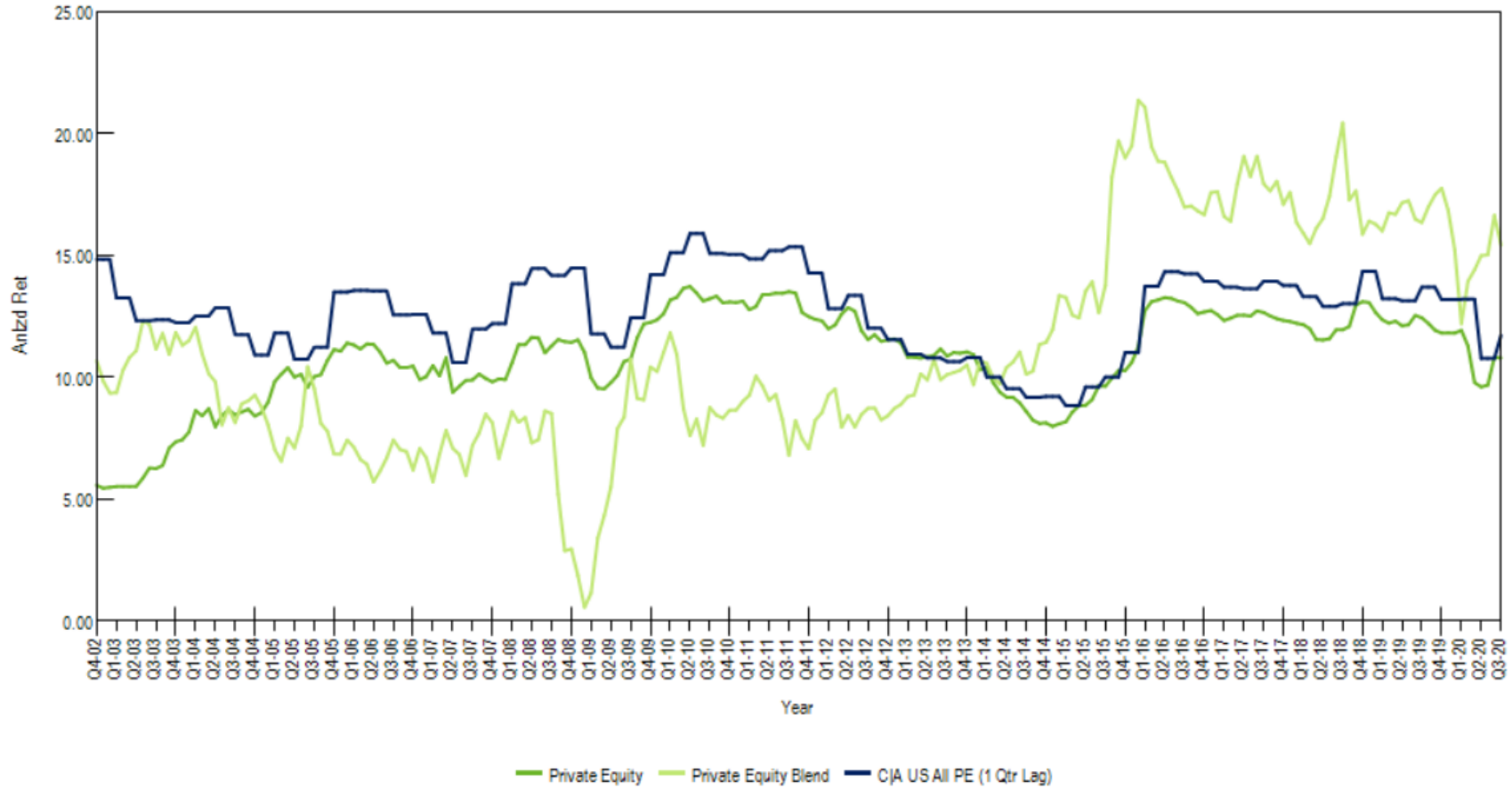
# ROLLING RETURNS (7 YEARS)

## US Private Equity vs. Public Equity Indices



# LACERS PRIVATE EQUITY PERFORMANCE

Rolling 7 Year Annualized Return (%)



Note: **Private Equity Blend** is the LACERS private equity custom benchmark and is comprised of:  
Russell 3000 + 3%: February 1, 2012 – current  
Russell 3000 + 4%: Inception – January 31, 2012

CJA refers to Cambridge Associates US All Private Equity benchmark

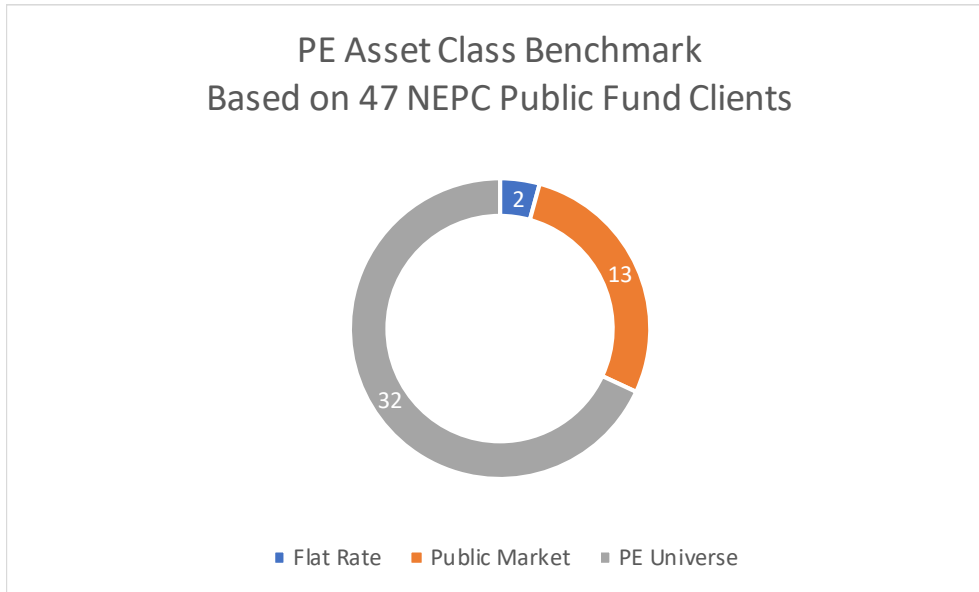


# PRIVATE EQUITY BENCHMARKS

Approach	Rationale	Advantages	Limitations
Private Equity Universe	<ul style="list-style-type: none"> <li>Best matching of assets</li> </ul>	<ul style="list-style-type: none"> <li>Compares performance directly to other PE funds</li> <li>Has volatility in benchmark reflective of the asset class</li> </ul>	<ul style="list-style-type: none"> <li>Not typically available until 105-120 days after quarter end</li> <li>Limited transparency</li> <li>Readily used benchmarks limited by PE strategy and geography</li> <li>Potential mismatch of maturity of PE program with average maturity of funds in benchmark</li> <li>Quality of data and return precision questions</li> </ul>
Public Market	<ul style="list-style-type: none"> <li>Opportunity cost of allocating capital to PE</li> </ul>	<ul style="list-style-type: none"> <li>Readily available</li> <li>High level of familiarity</li> <li>Can add basis points to reflect additional risk/illiquidity of PE</li> </ul>	<ul style="list-style-type: none"> <li>Public indices generally have higher short-term volatility than private equity</li> <li>Public companies generally larger than most private equity-backed companies</li> <li>When unlagged, creates mismatch of timing of actual and benchmark valuation changes</li> <li>Appropriate risk/illiquidity premium varies</li> <li>"Opportunity Cost" approach is not used to benchmark other asset classes</li> </ul>
Flat Rate	<ul style="list-style-type: none"> <li>Minimum return expected for asset class</li> </ul>	<ul style="list-style-type: none"> <li>Easy to understand</li> </ul>	<ul style="list-style-type: none"> <li>Not responsive to changes in economic conditions</li> <li>Not effective for short term comparisons</li> </ul>
Actual Return	<ul style="list-style-type: none"> <li>PE benchmarking in total Plan is too problematic</li> </ul>	<ul style="list-style-type: none"> <li>Removes PE from total plan benchmarking assessment (makes benchmark PE neutral)</li> </ul>	<ul style="list-style-type: none"> <li>Does not recognize PE program as source of alpha to the Plan</li> </ul>



# WHICH PE BENCHMARK FOR POLICY INDEX?



**The most common benchmark used is the Cambridge Associates US All PE index (49%)**

- **Flat Rate**
  - 7.5%, 10%
- **Public Market**
  - Russell 2000
  - Russell 3000 + 1%, 2%, or 3%
  - S&P 500 + 3%, 5%
  - 75% Russell 3000/25% MSCI ACWI ex US + 3%
  - NASDAQ without income
- **PE Universe**
  - Cambridge Associates US All PE
  - Cambridge Associates Global All PE
  - Venture Economic PE
  - SSgA PE Index
  - Burgess All PE
  - ILPA All Funds
  - TUCS

# CAMBRIDGE ASSOCIATES US ALL PE INDEX

## Overview

- Contains the historical performance records of over 2,000 fund managers and over 7,300 funds. Performance information is captured on over 80,000 investments in venture capital, growth equity, buyout, subordinated capital and private equity energy funds. This is one of the largest collections of portfolio-level performance information and represents the investments of approximately 77% of these funds on a count basis and 83% on a total commitment basis.
- Fund and investment-level performance information is drawn from the quarterly and audited annual financial statements of the fund managers and each manager's reported performance numbers are independently recreated from the financial statements and verified by Cambridge Associates.
- The return is calculated by aggregating all cash flows and ending NAVs in a sample to calculate a dollar-weighted return.

## Sources of Benchmark Data

- The database utilizes quarterly unaudited and annual audited fund financial statements produced by the fund managers (GPs) for their Limited Partners (LPs). These documents are provided to Cambridge Associates by the fund managers themselves. Cambridge Associates does not use Freedom of Information Act (FOIA) requests, regulatory filings, manager surveys, or press "scrapings" to obtain information. The goal is to have a complete historical record of the quarterly cash flows and net asset values for all funds in the benchmarks. Cambridge uses a number of paths to encourage fund managers to submit their performance data to their database: clients for whom they provide private investment performance reporting, their research organization's regular meetings with thousands of managers, special projects designed to enhance existing benchmarks or launch new ones, exclusive relationships with over ten globally-diverse fund manager associations, and finally, exclusive relationships with Thomson Reuters and the Institutional Limited Partners Association (ILPA).



# ALTERNATIVE INVESTMENT DISCLAIMER

## **It is important to note the following characteristics of many non-traditional investment strategies including hedge funds and private equity:**

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

