



## **Investment Committee Agenda**

### **REGULAR MEETING**

**TUESDAY, MARCH 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 March 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 (253) 215-8782

**Meeting ID#** 856 9475 6244

**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**

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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.

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- 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 FEBRUARY 9, 2021 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [TACTICAL ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION](#)
- V. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO GLP CAPITAL PARTNERS IV LP AND POSSIBLE COMMITTEE ACTION**
- VI. OTHER BUSINESS
- VII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, April 13, 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, MARCH 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  
Public Pensions General  
Counsel Division

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- 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. TACTICAL ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION
- V. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO GLP CAPITAL PARTNERS IV LP AND POSSIBLE COMMITTEE ACTION**
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- VIII. 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  
February 9, 2021, Regular meeting was conducted  
via telephone and/or videoconferencing

February 9, 2021

11:55 a.m.

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PRESENT via Videoconferencing: Co-Chair:	Nilza R. Serrano
Committee Member:	Elizabeth Lee
Manager-Secretary:	Neil M. Guglielmo
Legal Counselor:	James Napier
ABSENT: Chair:	Sung Won Sohn
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** – Co-Chair Serrano asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE MEETING OF JANUARY 12, 2021 AND POSSIBLE COMMITTEE ACTION – Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the forward calendar. Mr. June also shared that staff is modifying the Emerging Investment Manager Policy.

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 – Bryan Fujita, Investment Officer III, and Barbara Sandoval, Investment Officer II, presented and discussed this item with the Committee. After a 4 minute discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano-2; Nays, None.

V

DISCUSSION OF PRIVATE EQUITY BENCHMARK AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, and Carolyn Smith, Partner with NEPC, LLC, presented and discussed this item with the Committee for 20 minutes. Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee and Co-Chair Serrano -2; Nays, None.

VI

OTHER BUSINESS – There was no 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 responding to public health concerns relating to the novel coronavirus continue.

VIII

ADJOURNMENT – There being no further business before the Committee, Co-Chair Serrano adjourned the meeting at 12:31 p.m.

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Nilza R. Serrano  
Co-Chair

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Neil M. Guglielmo  
Manager-Secretary



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



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

**MEETING: MARCH 9, 2021**  
**ITEM: IV**

*Neil M. Guglielmo*

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

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

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### **Recommendation**

That the Investment Committee recommend to the Board a renewal of the Tactical Asset Allocation Plan for Fiscal Year 2021-2022.

### **Executive Summary**

This report provides an annual update on tactical rebalancing pursuant to the LACERS Rebalancing Policy and Tactical Asset Allocation Plan (TAAP) under Sections V.G and V.H of the Investment Policy Manual. No tactical rebalances have been initiated through February of fiscal year 2020-2021. Staff recommends renewal of the TAAP for fiscal year 2021-2022.

### **Discussion**

The LACERS Rebalancing Policy and TAAP (Sections V.G and V.H of the Investment Policy Manual) authorize staff to conduct tactical rebalancing. The TAAP, initially adopted by the Board on May 28, 2019, addresses the goals and objectives of tactical asset allocation, roles and responsibilities of parties involved, decision-making and implementation framework, and reporting requirements.

Pursuant to Section VII of the TAAP, the CIO must provide an annual report to the Investment Committee of all tactical rebalances initiated in the current fiscal year and provide recommendations to modify, continue, or cease the TAAP. Through February of fiscal year 2020-2021, staff has not identified any opportunities to invoke the TAAP and no tactical rebalances have been initiated. Staff will continue to monitor market conditions and the investment portfolio for opportunities to tactically rebalance and recommends a renewal of the TAAP in its current form for fiscal year 2021-2022.

### **Strategic Alignment**

Renewing the Tactical Asset Allocation Plan aligns with the Strategic Plan Goals to optimize long-term risk adjusted investment returns (Goal IV) and to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/JW:jp

Attachment: 1. Tactical Asset Allocation Plan

## TACTICAL ASSET ALLOCATION PLAN

### TABLE OF CONTENTS

- I. Purpose and Scope
- II. Roles and Responsibilities
- III. Terminology
- IV. Tactical Asset Allocation Considerations
- V. Implementation
- VI. Risk Management Guidelines
- VII. Annual Review of the TAAP
- VIII. Appendix

#### **I. Purpose and Scope**

The Tactical Asset Allocation Plan (TAAP) is an addendum to Section I.V.G of the Investment Policy.

On February 12, 2019, the Board of Administration (“Board”) of the Los Angeles City Employees’ Retirement System (LACERS) approved revisions to the Investment Policy, which included a revision to the Rebalancing Policy (Section I.V.G). Specifically, a provision was added for Tactical Asset Allocation (TAA). Under the TAA section, staff is authorized to initiate tactical rebalancing pursuant to the Tactical Asset Allocation Plan (TAAP).

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

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

#### **II. Roles and Responsibilities**

*The Board of Administration*

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

#### *Investment Committee*

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

#### *Chief Investment Officer*

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

#### *General Fund Consultant*

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

#### *Internal Auditor*

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

### **III. Terminology**

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

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

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

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

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

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

#### **IV. Tactical Asset Allocation Considerations**

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

#### **V. Implementation**

Implementation of a Tactical Action will comply with the following procedures, as they may apply:

1. External Landscape Evaluation – Economic market outlook, including economic indicators, monetary and fiscal policies, geo-political events, Federal Reserve Bank actions, interest rates, inflation, etc.
2. Internal Operational Evaluation – Actual asset allocation of the Total Fund compared to policy targets, asset class movements and trends, portfolio valuations, operational cash, future, pending, or existing RFP manager searches and hiring of investment managers, pending investment manager terminations, market and economic landscape commentary or information from investment managers, and compliance with existing Investment Policy

3. General Fund Consultant Discussion and Concurrence (and discussion with other contracted Investment Consultants as warranted)
4. Written Tactical Rebalance Proposal should include the following decision considerations (as appropriate):
  - External Landscape and Internal Operational Evaluations;
  - Projected Impact on Asset Allocation and Asset Classes;
  - Projected Impact on Total Fund addressing Tactical Objectives:
    - Enhancement to Total Fund Value; and/or
    - Protection of Total Fund Value; and/or
    - Enhanced Risk/Return Profile and Compliance to Risk Budget
  - Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;
  - Financial Considerations - Funds directly impacted by a Tactical Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
  - Tactical Reversal (Partial or Full) as needed
5. Implementation of Tactical Action pursuant to the written Tactical Rebalance Proposal and TAAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a Tactical Rebalance
7. Quarterly Status Reporting of Tactical Rebalancing implementation
8. Internal Monthly Rebalancing and Compliance Staff Reviews per the Rebalancing Policy (Section I.V.G of the LACERS Investment Policy)
9. Annual Investment Committee Review of TAAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of TAAP based on Investment Committee Report as provided in Section VII of this plan

## **VI. Risk Management Guidelines**

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

1. A Tactical Rebalance may be initiated when the actual weighting of an asset class exceeds 70% of the range from its target weighting to its established bands.
2. A Tactical Rebalance Proposal shall not exceed 50% of the excess valuation that is over- or under-weight to its policy target at the time the decision to rebalance is made.

3. A Tactical Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Tactical Rebalance, which may extend the Tactical Rebalance up to an additional 12 months.
4. A Tactical Rebalance may be suspended after the first Tactical Action is completed if such single Tactical Action or subsequent Tactical Actions achieves the Tactical Objective(s) within the Tactical Rebalance Proposal pursuant to a Tactical Rebalancing Proposal.
5. A Tactical Rebalance Proposal may be modified or suspended by the CIO upon the concurrence of the General Fund Consultant if market conditions or other external landscape factors change or strategic asset class rebalances are necessary that disrupt the orderly implementation of the Tactical Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Tactical Rebalance Proposal such that the Tactical Objectives are no longer achievable within the established Tactical Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.
6. The General Fund Consultant must concur with the Tactical Rebalance Proposal prior to initiation.

## **VII. Annual Review of the TAAP**

### *Annual TAAP Review by the Investment Committee*

The CIO will prepare an annual report of all Tactical Rebalance Proposals that were initiated in the current fiscal year, the current status of Tactical Rebalances and Tactical Actions, and the projected and actual impact of the Tactical Rebalance(s) including (but not restricted to) performance, capital preservation, and/or risk factors. Staff may also include recommendations to modify, continue or cease the TAAP. The Annual TAAP Review will be presented to the Investment Committee no later than the month of April of each year.

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

### *Annual TAAP Approval or Repeal by the Board of Administration*

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

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

## VIII. APPENDIX

### *External Landscape and Internal Operational Considerations*

- I. *Economic Cycle Consideration* - A Tactical Action may be appropriate based on the economic cycle, as illustrated below:

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

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

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

- II. *Market Stages Consideration*

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

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

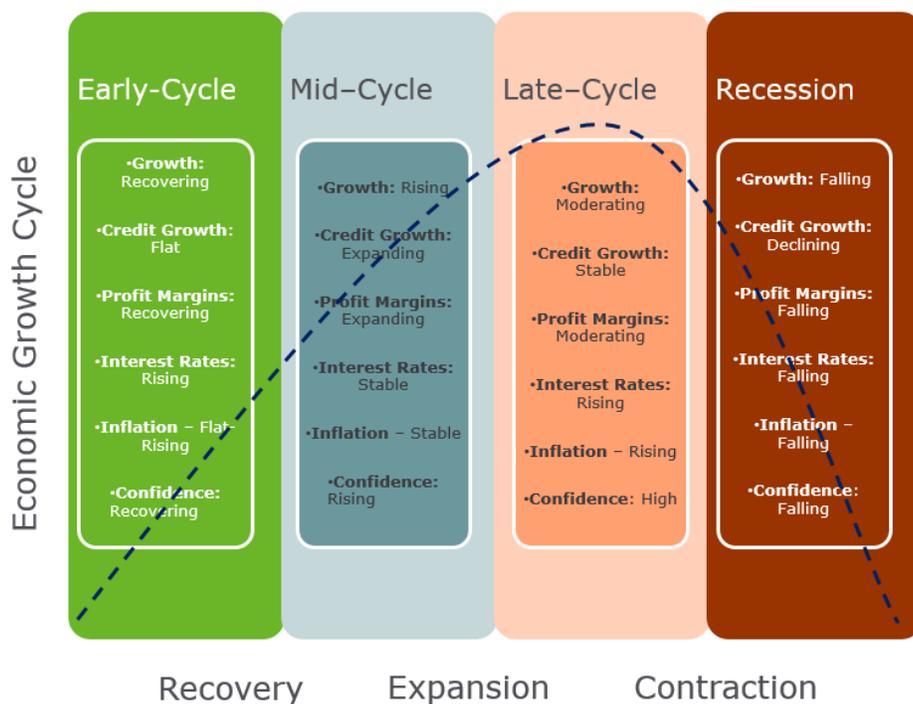
In the late-cycle period of the economic cycle, the economy typically experiences moderation in GDP growth, profit margins, and credit expansion. Consumer confidence is high and both interest rates and inflation are on the rise. Stocks trade at the higher band of long term averages while volatility tends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

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

III. *Assessment of Market Conditions*

Staff will evaluate and assess if the market is Early-Cycle, Mid-Cycle, Late-Cycle or in a Recession on a quarterly basis.

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



\*chart provided by NEPC, LLC

IV. *Economic and Market Risk Assessment*

Staff will address one or more of the economic, financial, and market indicators.

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

V. *Asset Valuations*

Staff will address the relevant market valuation indicators to include (but not restricted to):

- Current to Long-Term Historical Valuations reflected in Price to Earnings, Price to Book, and Dividend Yields
- Interest rate spreads, duration
- Growth versus Value

VI. *Internal Operational Considerations*

Staff will evaluate factors to include (but not restricted to):

- Benefits and Consequences of initiating a Tactical Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact