INVESTMENT POLICY MANUAL

Revised July 22, 2025

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Section 1 INVESTMENT POLICY

1.1 INVESTMENT POLICY

Revised: July 22, 2025

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Section 1 INVESTMENT POLICY

I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Los Angeles City Employees' Retirement System ("LACERS" and hereafter known as the "System"). Its purpose is to assist the Board of Administration (the "Board") in effectively supervising and monitoring the investments of the System, with the support of the LACERS staff (the "Staff"). Specifically, it will address:

A. The general goals of the Investment Policy, Section 1.II.a-g;
B. The policies and procedures for the management of the investments;
C. Specific asset allocations, rebalancing procedures, and investment guidelines;
D. Performance objectives; and
E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

"…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."

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

II. INVESTMENT GOAL STATEMENT

The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

D. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

G. Investment actions are expected to comply with "prudent person" standards as described:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (sometimes referred to as the 'prudent person' rule)." [1]

The "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

[1] ERISA 404(a)(1) (B).

III. DUTIES OF RESPONSIBLE PARTIES

A. Duties of the Board or its Designate(s)

The Board has the responsibility for the administration of the System for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

1. The Board develops and approves policies and guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.
2. A formal review of the Board's Investment Policy and investment structure, asset allocation, and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions, or the System's financial condition. Proposed policy amendments will include in the staff reports to the Investment Committee and/or the Board the results of the review and any additional opinions of the investment consultant(s) and the City Attorney.
3. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.
4. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.
5. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:
    a) Manager compliance to the Policy guidelines.
    b) Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
    c) Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.
6. The Board shall expect Staff to administer the System's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to,

management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.

7. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.

8. Voting of proxies in stocks held by the System will be done according to Board policy.

9. The Board may delegate certain duties of the Board to the Investment Committee as specified in the Investment Committee Charter.

B. **Duties of the Staff**

The Board's Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, the Investment Staff oversees and directs the implementation of Board policies and manages the System on a day-to-day basis. Furthermore, staff responsibilities include the following details:

1. Invests the System's cash without requiring Board's permission as set forth elsewhere in the Board's Investment Guidelines.
2. Monitors investment managers for adherence to appropriate policies and guidelines.
3. Evaluates and manages the relationships with brokers, managers, consultants, and custodian(s) to the System to ensure that they are providing all of the necessary assistance to Board and to Staff.
4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.
5. The Staff will manage Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.
7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.
8. The Staff shall advise and keep the Board apprised of any other events of investment significance.

C. **Duties of the Investment Managers**

The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.
2. Provide the Board with proof of liability and fiduciary insurance coverage.

3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.
6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.
7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:
    a) Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;
    b) Significant changes in ownership, organizational structure, financial condition, or senior personnel;
    c) Any changes in the Portfolio Manager or other personnel assigned to the System;
    d) Each significant client that terminates its relationship with the Investment Manager, within 30 days of such termination;
    e) All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and
    f) Meet with the Board and/or Staff on an as-needed basis.

D. **Duties of the Master Custodian**

The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.
2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
3. Provide in a timely and effective manner a monthly report of the Investment activities implemented by the investment managers. Prepare a quarterly report containing absolute and relative investment performance.
4. Collect all income and realized principal realizable, and properly report it on the periodic statements.

5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.
7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

E. **Duties of the General Fund Consultant**

The General Fund Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.
2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.
3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.
4. Assist the Board in the selection of a qualified custodian if necessary.
5. Provide topical research and education on investment subjects as requested by the Board or Investment Staff.

F. **Duties of Parties Involved in LACERS' Matters**

The Board is committed to maintaining a workplace that is free of sexual harassment and illegal discrimination. Investment managers, consultants, and other contractors assisting with the implementation of the Board's investment program shall adopt written policies prohibiting sexual harassment and illegal discrimination of any kind to ensure a safe working environment and to protect the System's assets from business risks arising from such misconduct.

Pursuant to this commitment, prior to finalizing its contract with the Board, every public markets contractor shall disclose to the Board all current, pending, and anticipated litigation concerning sexual harassment or related discrimination claims that may have a material impact on the Board's investment(s) managed by said contractor. This disclosure requirement is mandatory for such contracts or amendments dated March 1, 2019 or later.

IV. ASSET ALLOCATION POLICY

The policies and procedures of the Board's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as the System's conditions change and as investment conditions warrant. The Board reviews the Asset Allocation Policy strategically approximately every three years and on a tactical basis more frequently.

The Board adopts and implements the Asset Allocation Policy that is predicated on a number of factors, including:

A. A projection of actuarial assets, liabilities, benefit payments, and required contributions;
B. Historical and expected long-term capital market risk and return behavior;
C. An assessment of future economic conditions, including inflation and interest rate levels; and
D. The current and projected funding status of the System.

This policy provides for diversification of assets in an effort to maximize the investment return of the System consistent with market conditions. Asset allocation modeling identifies the asset classes the System will utilize and the percentage that each class represents of the total plan assets. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the Asset Allocation Policy and that periodic revisions will occur. The Board will monitor and assess the actual asset allocation versus policy and will rebalance as appropriate.

The Board will implement the Asset Allocation Policy using investment managers to invest the assets of the System's portfolio components subject to investment guidelines. Equity managers may not hold more than 10% of the market value of their portfolios in cash without Board approval, unless otherwise specified in their manager guidelines. The long-term asset allocation targets and ranges for the investments of the System's assets are presented in the latest Board-approved Asset Liability Study and Asset Allocation Policy.

The Board will allocate segments of the System's assets to each investment manager and specify guidelines, objectives and standards of performance, which are to apply to each manager's portfolio. These decisions will encompass allocating segments of the System assets, and segments of individual asset classes, between active and passive investment management, the active risk of the portfolio and to provide broad market exposure.

V. INVESTMENT POLICY

The Board will retain external investment managers to manage the System's assets using a specific style and methodology. Public external investment managers have been delegated authority for determining investment strategy, security selection, and timing. Public external investment managers are subject to the Board's policy and individual investment manager guidelines, legal restrictions, and other Board direction. Performance objectives will also be developed for each manager. The performance of each portfolio will be monitored and evaluated on a regular basis

relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles. Private market investment managers shall manage the System's assets pursuant to the respective asset class policy and the partnership fund's limited partnership agreement or other applicable legal documents.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board of such material changes within a reasonable timeframe as articulated within their respective investment guidelines.

Investment managers under contract to the Board shall have discretion to establish and execute transactions with securities broker/dealer(s). The investment managers will attempt to obtain best execution with respect to every portfolio transaction. The following transactions will be prohibited: net short sales; selling on margin; writing options other than covered options; "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA); and, transactions that involve a broker acting as a "principal," where such broker is also the investment manager making the transaction. The investments of the Board's assets will be subject to the following general policies.

A. **Manager Selection**

The selection of investment managers is accomplished in accordance with all applicable local, state, and federal laws and regulations. Each investment manager, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations. Section VII describes LACERS' Manager Search and Selection Policy which articulates the process that will be employed for each public markets manager search.

B. **Manager Authority**

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; Board rules or direction, applicable local, state, and federal statutes and regulations and individual management investment plans and executed contracts.

C**. Brokerage Policy**

The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution. Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment

managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

D. Proxy Voting

Proxy voting rights will be managed with the same care, skill, diligence, and prudence as is exercised in managing other assets. Proxy voting rights will be exercised in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board Proxy Voting Policy, which is found in Section XIV of this policy statement.

E. Securities Lending

The Board has authorized the execution of a "Securities Lending Program," which may be managed by the Board's custodian or delegated to a third-party provider. The Board will monitor and review the program. This program is described in the Securities Lending Policy (Section XV of this document) and in the Securities Lending Agreement of the securities lending provider. The initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and collateral are denominated in different currencies. Marking to market is performed every business day, and the borrower is required to deliver additional collateral when necessary. Stringent cash and non-cash collateral guidelines specify eligible investments, credit quality standards, and diversification, maturity and liquidity requirements.

F. Derivatives

The Board's investment managers may be permitted, under the terms of individual investment guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the movement of the pricing of other securities. The returns are to be consistent with the manager's mandate from the returns of other securities, indices, or allowable derivative instruments that include, but are not limited to, futures and forwards. Examples of appropriate applications of derivative strategies include hedging interest rates and currency risks, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration for fixed income. In no circumstances can managers borrow funds to purchase derivatives. Managers must ascertain and carefully monitor the creditworthiness of any counterparties involved in derivative transactions.

G. Rebalancing

The investment portfolio shall, on an ongoing basis in accordance with market fluctuations, be rebalanced to remain within the range of targeted allocations and distributions among investment advisors. The Board has a long-term investment horizon and utilizes an asset allocation that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs. However, the Board may authorize staff to rebalance assets within or among asset classes without breaching Board-established asset allocation policy threshold bands. Such rebalancing would be subject to an annually approved Adaptive Asset Allocation Plan (AAAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. The Board will consider the approval of a new AAAP or renewal of an existing AAAP within three months prior to the start of each fiscal year. The approved AAAP will be effective on July 1 of each year. Should the Board choose not to renew an AAAP, the existing AAAP may continue to be implemented; however, new AAA positions may not be introduced until a continuance of the existing AAAP or new AAAP is approved by the Board.

The Board delegates the responsibility of rebalancing to the Chief Investment Officer, who will seek the concurrence of the General Fund Consultant. Rebalancing generally will occur when the market values of asset classes (e.g., equities, fixed income, etc.) or sub-asset classes (e.g., large cap value, emerging markets, etc.) exceed their respective thresholds as established by the Board's approved asset allocation and asset class risk budgets.

The portfolio will be monitored daily, but reviewed by senior investment staff (i.e., Chief Investment Officer or Chief Operating Officer) at the beginning of each month to determine the need to rebalance asset classes or sub-asset classes within approved policy bands. Rebalancing will be conducted in a timely manner, taking into consideration associated costs and operational circumstances and market conditions. Rebalancing will be accomplished by using routine cash flows, such as contributions and benefit payments, by reallocating assets across asset classes, investment mandates, and investment managers.

Asset classes temporarily may remain outside of their ranges due to operational and implementation circumstances to include, but not limited to, illiquidity that prevents immediate rebalancing of certain asset classes such as private equity and private real estate; potential asset shifts pending in the portfolio over the next 12 months such as hiring/termination of a manager(s); an asset allocation review of the entire portfolio; or a structural review of a given asset class.

The Chief Investment Officer shall inform the Board in a timely manner of all rebalancing activity.

H. Adaptive Asset Allocation Plan

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I. Purpose and Scope

The Adaptive Asset Allocation Plan (AAAP) 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).

On October 26, 2021, the Board approved renaming TAA to Adaptive Asset Allocation (AAA) and the TAAP to the Adaptive Asset Allocation Plan (AAAP).

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. Adaptive Asset Allocation, pursuant to the Rebalancing Policy and procedures found in the AAAP, 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 AAAP provides additional approaches to the rebalancing of asset classes within established asset class policy target ranges. Rebalancing under the AAAP 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 AAAP. The Board delegates to staff the implementation of AAA within the adopted Rebalancing Policy, Asset Allocation Policy, and Risk Budget. The Board will review and approve the AAAP on or before July 1 of each year.

Investment Committee

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

Chief Investment Officer

The Chief Investment Officer (CIO) is responsible for the implementation of an Adaptive Asset Allocation rebalancing pursuant to the AAAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated Adaptive 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 as may be necessary) to seek concurrence with an Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an Adaptive Rebalance.

General Fund Consultant

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

Internal Auditor

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

III. Terminology

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

Adaptive Objectives – The driving force that underpins justification for an Adaptive 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.

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

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

Adaptive 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.

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

IV. Adaptive Asset Allocation Considerations

LACERS is a long-term strategic investor and implements the Asset Allocation Policy. AAA allows LACERS flexibility to adjust exposures to established asset classes to achieve one of several aforementioned AAA Objectives. AAA Factors that are considered when contemplating an Adaptive 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 an Adaptive 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 Adaptive Rebalance Proposal should include the following decision considerations (as appropriate):
    a. External Landscape and Internal Operational Evaluations;
    b. Projected Impact on Asset Allocation and Asset Classes;
    c. Projected Impact on Total Fund addressing Adaptive Objectives:
        i. Enhancement to Total Fund Value; and/or
        ii. Protection of Total Fund Value; and/or
        iii. Enhanced Risk/Return Profile and Compliance to Risk Budget
    d. Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;

   e. Financial Considerations - Funds directly impacted by an Adaptive Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
   f. Adaptive Reversal (Partial or Full) as needed
5. Implementation of Adaptive Action pursuant to the written Adaptive Rebalance Proposal and AAAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a Adaptive Rebalance
7. Quarterly Status Reporting of Adaptive 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 AAAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of AAAP 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 AAA Policy within a prudent risk-management framework.

1. An Adaptive Rebalance may be initiated when the actual market value weighting of an asset class exceeds 70% of the range from its target weighting to its established bands.
2. An Adaptive 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. An Adaptive Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Adaptive Rebalance, which may extend the Adaptive Rebalance up to an additional 12 months.
4. An Adaptive Rebalance may be suspended after the first Adaptive Action is completed if such single Adaptive Action or subsequent Adaptive Actions achieves the Adaptive Objective(s) within the Adaptive Rebalance Proposal pursuant to an Adaptive Rebalancing Proposal.
5. An Adaptive 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 Adaptive Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Adaptive Rebalance Proposal such that the Adaptive Objectives are no longer achievable within the established Adaptive Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.
6. A specific Adaptive Rebalance should not be initiated if it will cause another asset class to breach its regular Asset Allocation policy upper or lower rebalance threshold.
7. The General Fund Consultant must concur with the Adaptive Rebalance Proposal prior to initiation.

VII. Annual Review of the AAAP

Annual AAAP Review by the Investment Committee

The CIO will prepare an annual report of all Adaptive Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive Rebalances and Adaptive Actions, and the projected and actual impact of the Adaptive 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 AAAP. The Annual AAAP 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 AAAP requires any modifications including repeal. The Investment Committee recommendations will be then sent to the Board of Administration for approval.

Annual AAAP Approval or Repeal by the Board of Administration

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

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

VIII. APPENDIX

External Landscape and Internal Operational Considerations

I. *Economic Cycle Consideration* - An Adaptive 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. AAA 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. AAA 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.

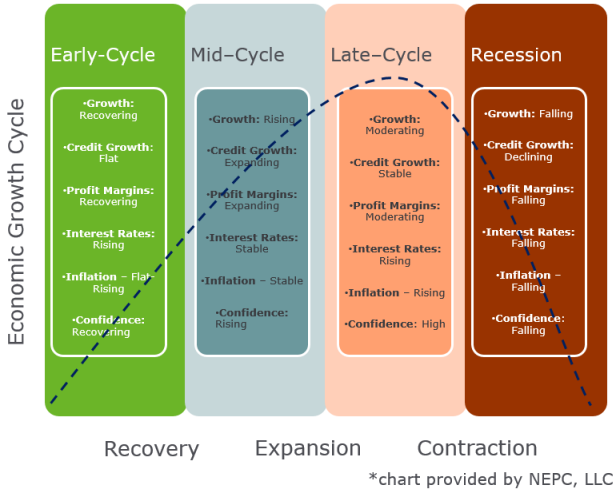

*chart provided by NEPC, LLC

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 an Adaptive Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact

I. **Evaluation of Policy**

The Investment Policy Statement shall be reviewed by the Board at least annually, with the assistance of the Staff and investment consultant(s), and revised as necessary.

VI. GENERAL INVESTMENT OBJECTIVES AND GUIDELINES

The general investment objective is to outperform the overall policy portfolio benchmark. The overall policy portfolio benchmark consists of weighted asset class benchmarks for each asset class as determined by the Board. The long term policy benchmarks are listed below:

Asset Class	Benchmark	Policy Target %
Domestic Equity	Russell 3000	23.00%
Non-U.S. Equity	MSCI ACWI ex-U.S.	20.00%
Fixed Income	Bloomberg (BBG) U.S. Aggregate	10.25%
Credit Opportunities	28.6% BBG US HY 2% Capped / 28.6% S&P UBS Leveraged Loan Index / 42.8% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD	7.00%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index	16.00%
Private Credit	S&P UBS Leveraged Loan Index + 200bps	5.75%
Real Assets	21.2% BBG US TIPS / 8.2% FTSE NAREIT US Equity Index / 29.4% S&P Global Infrastructure / 41.2% NFI-ODCE + 80bps	17.00%
Private Real Estate	*NFI-ODCE + 80bps*	*7.00%*
Public Real Assets	*36% BBG TIPS Index / 14% FTSE NAREIT US Equity Index / 50% S&P Global Infrastructure*	*10.00%*
Cash	90-Day Treasury Bill	1.00%

The portfolio is formally monitored by the Board quarterly versus its policy benchmark and also compared to the System's actuarial return target.

The Board will utilize the following portfolio investment components to fulfill the asset allocation targets and LACERS total fund performance goals established in this document.

A. **Equities**

The Board expects that over the long run, total returns of equities will be higher than the returns of fixed income securities, but they may be subject to substantial volatility during shorter periods. Equity investment managers retained by the Board will follow specific investment styles and will be evaluated against specific market indices that represent their investment styles. Additionally, in the case of active managers, investment results may also be compared to returns of a peer group of managers with similar styles. The components of the System's equity holdings, the benchmarks for the various equity portfolios, and the general guidelines are listed below:

Section 1 INVESTMENT POLICY

1. **Domestic Equities**

   a) **Index Funds/Core** – These investments will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

   b) **Large Cap Growth Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. The Board's large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

   c) **Large Cap Value Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   d) **Mid Cap Core Stocks** – The principal characteristic of the mid-cap core stock component is its emphasis in stocks with market capitalization generally ranging from $3.0 billion to $10.0 billion.

   e) **Small Cap Core Stocks** – The principal characteristic of the small cap core stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion.

   f) **Small Cap Value Stocks** – The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion, which are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   g) **Small Cap Growth Stocks** – The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $250 million to $2.0 billion, which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than value stocks.

   The benchmarks for the domestic equity portfolios may include the following indices:

Large Cap Core Stocks	S&P 500 Index
	Russell 1000 Index
Large Cap Value Stocks	Russell 1000 Value Index
Large Cap Growth Stocks	Russell 1000 Growth Index

Mid Cap Core Stocks	Russell Midcap Index
Small Cap Core Stocks	Russell 2000 Index
Small Cap Value Stocks	Russell 2000 Value Index
Small Cap Growth Stocks	Russell 2000 Growth Index

General U.S. equity guidelines for active managers include the following:

(1) No securities shall be purchased on margin or sold short.

(2) American Depository Receipts (ADRs) are permissible investments.

(3) Convertible securities can be held in equity portfolios and will be considered equity holdings.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company.

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

2. **Non-U.S. Equities**

a) **Index Funds/Core Non-U.S. Stocks** – This portfolio provides broadly diversified equity markets outside the U.S. and, consequently, plays a significant role in diversifying the Board's portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a macro approach.

b) **Developed Markets Core** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets.

c) **Developed Markets Value** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Value Index or the MSCI EAFE Value Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having higher than market dividend yields, lower than market book value, and lower than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

d) **Developed Markets Growth** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Growth Index or the MSCI EAFE Growth Index. These stocks represent large cap, mature companies generally with

global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having lower than market dividend yields, higher than market book value, and higher than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

e) **Small Cap Core** – This segment is comprised of non-U.S. stocks of the developed markets countries listed within the MSCI EAFE Small Cap Index. These stocks represent small cap companies which may have global products and customers or which may be dominant firms within their local country/regional markets. These stocks will generally have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus large cap developed market stocks.

f) **Emerging Markets Core** – This component is comprised of equity positions in companies located in emerging, rapidly growing countries around the world. The companies tend to be large cap and may have global products or customers or they may be dominant firms within their local countries/regions. Because these are countries that are typically in the early development stages of economic growth, the returns in these countries are higher and more volatile on a year-to-year basis.

g) **Emerging Markets Value** – This portfolio contains value-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have lower price-to-book, higher dividend yields and lower earnings growth rates.

h) **Emerging Markets Growth** – This portfolio contains growth-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have higher price-to-book, lower dividend yields and higher earnings growth rates.

i) **Emerging Markets Small Cap** – This portfolio contains equity positions in smaller capitalization companies located in emerging, rapidly growing countries around the world. The stocks represent small cap companies and in general will have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus larger capitalization emerging market stocks.

The benchmarks for the international equity portfolios may include the following indices:

Developed Markets Core (Passive)	MSCI World ex-U.S. Index
Developed Markets Core (Active)	MSCI EAFE Index
Developed Markets Value	MSCI EAFE Value Index
Developed Markets Growth	MSCI World ex-U.S. Growth Index
Non-U.S. Small Cap	MSCI EAFE Small Cap Index
Emerging Markets Core	MSCI Emerging Markets Free Index
Emerging Markets Value	MSCI Emerging Markets Value Index

Emerging Markets Growth	MSCI Emerging Markets Growth Index
Emerging Markets Small Cap	MSCI Emerging Small Cap Index

General Non-U.S. equity guidelines for active managers include the following:

(1) Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts, GDR's, ADRs, and equity securities of companies domiciled outside the U.S. including established and emerging countries.

(2) Managers will have discretion to hedge currencies of the countries in which their portfolio is invested to protect the value of the portfolio from currency risk. A manager's hedge ratio may not exceed 100% of the portfolio's value, at market, without obtaining prior approval from the Board.

(3) No securities shall be purchased on margin or sold short.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

B. **Fixed Income**

The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System's investment assets. The fixed income portfolios will be managed on a total return basis, following specific investment styles and evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The fixed income holdings are comprised of the following mandates.

1. **Core Fixed Income** – This segment will provide core exposure to the U.S. fixed income market including Treasury and government agency bonds, corporate debt, mortgages, and asset-backed securities. The portfolio will be primarily comprised of issues with duration within 30% of the benchmark. Overall portfolio quality will be at least investment grade rated.

2. **Index Bonds** – This passive fixed income portfolio is intended to track the characteristics of the benchmark.

3. **Credit Opportunities**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

a) Real return above inflation of between 3% and 5%;
b) Diversification versus LACERS' two main asset classes: equities and bonds; and,
c) Income

The target allocation to Credit Opportunities will include flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within or ± 3.25% of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The credit opportunities investment program can be comprised of both public and private credit opportunities strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' credit opportunities investment program:

a) **U.S and Non-U.S. High Yield Bonds** – Below investment grade (i.e., <BBB/Baa) rated bonds issued by public corporations with a perceived higher risk of default. Investors in these securities hope to benefit from spread tightening relative to investment grade bonds and from their higher overall yields, i.e., income.

b) **Emerging Markets Debt (Local, Hard, Sovereign and Corporate)** – Debt issued by the governments ("sovereign") of developing, or emerging, countries. Additionally, debt issued by corporations domiciled within emerging markets countries can be investment grade or below investment grade rated debt. Also can be issued in a foreign external, or "hard", currency (e.g., U.S. dollars, Euros, etc.) or in the country's local currency. Investors in these securities hope to benefit from spread tightening relative to investment grade and/or domestic bonds and from their higher overall yields.

c) **Leveraged Loans** – Loans extended to high yield (i.e., below investment grade) or levered borrowers, generally by banks or other financial institutions. The loans are *not* levered – the borrowers are. Hence, there is a perceived higher risk of default. Leveraged loans tend to have short maturities and are higher in the capital structure than regular debt of the company. Investors in these securities hope to achieve higher than investment grade bond returns due to their higher yields.

d) **Distressed Debt** – Debt of issuers that 1) are sufficiently financially impaired where there is a high risk of default or bankruptcy, 2) have already defaulted on financial obligations, or 3) have entered into bankruptcy proceedings. Investors in these securities hope to achieve high returns through financial or other restructuring at the issuing company.

e) **Opportunistic or Special Debt Situations** – Debt which may not fit within the preceding categories that may offer a unique investment opportunity due to broader economic or financial conditions.

The primary return objective for the LACERS' Credit Opportunities program is to outperform a custom weighted benchmark of 28.6% Bloomberg US HY 2% Capped / 28.6% S&P UBS Leveraged Loan Index[2] / 42.8% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD over a market cycle. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Credit Opportunities on the LACERS Total Fund. Returns will be calculated after management fees.

The benchmarks for the various fixed income portfolios may include the following indices:

Core Fixed Income	Bloomberg (BBG) BC Aggregate Bond Index
Intermediate Fixed Income	BBG BC U.S. Govt/Credit Intermediate Bond Index
High Yield Bonds	BBG BC U.S. High Yield 2% Capped Index
Emerging Market Debt	50% J.P. Morgan EMBI Global Diversified Index + 50% J.P. Morgan GBI EM Global Diversified Index
Bank Loans	S&P UBS Leveraged Loans Index

General fixed income guidelines include the following:

a) **Core Fixed Income**

(1) The total portfolio's average rating will be A or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.

(4) No securities shall be purchased on margin or sold short.

b) **Credit Opportunities**

High Yield Bonds

(1) The total portfolio's average rating will be B or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and investment grade bonds are permitted.

(4) No securities shall be purchased on margin or sold short.

[2] Following the acquisition of Credit Suisse by UBS in 2024, the Credit Suisse Leveraged Loan Indices have been rebranded as the S&P UBS Leveraged Loan Indices.

Bank Loans

(1) No more than 5% of any single portfolio holding will be invested in any one issuer.
(2) No more than 40%, in aggregate, invested in securities of non-U.S. issuers.
(3) No more than 20% of the portfolio invested in loans or bonds that are not first lien secured debt and no more than 10% invested in non-secured debt.
(4) No more than 30% of the portfolio's holdings in loans or bonds with a Moody's issue rating of Caa1 or lower.
(5) No securities shall be purchased on margin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, and special situations funds. The Private Equity Investment Policy is within Section XI of this document.

D. **Private Credit**

This portfolio is expected to provide portfolio diversification and additional return to the System's portfolio. Examples of private credit holdings include but are not limited to direct lending, specialty finance, distressed debt / special situations, mezzanine, real estate credit, and real assets credit. The Private Credit Investment Policy is within Section X of this document.

E. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;
2. Inflation hedge;
3. Diversification versus LACERS' two main asset classes: equities and bonds; and,
4. Income

The target allocation to Real Assets will include flexible rebalancing given the public/private composition of this asset class. Generally, the public actual allocation will be kept within ± 2.5% of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The real assets investment program will be comprised of both public and private real asset strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' real assets investment program:

1. **Private Real Estate** – This portfolio is expected to provide portfolio diversification and increase returns due to real estate's low correlation with the returns from equities and fixed income. The Private Real Estate Investment Policy is included in Section XI of this document.
2. **Public Real Estate "REITS"** – Publicly traded companies that trade on major stock exchanges and invest directly in real estate either through properties or mortgages. A distinguishing characteristic of this investment strategy versus private real estate is the improved liquidity and yield orientation.
3. **Treasury Inflation Protection Securities ("TIPS") or Global Inflation-Linked Bonds** – Securities where the principal value adjusts to reflect changes in the U.S. CPI or other sovereign-linked inflation measures upward or downward, but never below the original face amount at maturity. Semi-annual coupon payments are based upon the bond's adjusted principal which provides a direct inflation link.
4. **Commodities/Natural Resources** – Financial instruments, such as individual stocks, stock baskets or futures which represent companies or markets where the prices are directly linked to the ownership or trading of physical commodities/natural resources or companies whose primary source of revenues are tied directly or indirectly to the management, ownership or trading of physical commodities/natural resources. Commodities/natural resources are raw materials which are inputs to the production of goods and services. Thus, changes in commodities/natural resources prices typically lead inflation. Higher commodities/natural resources prices lead to increased prices goods and services, hence, a directly link to inflation.
5. **Timber/Farmland** – These are a hybrid investment strategy in that similar to commodities, they provide final and raw material in the production of goods and services and will tend to lead inflation. However, as private investments, they are similar to private real estate in that a potential increase in property value exists due to changes in supply and demand factors that influence inflation.
6. **Master Limited Partnerships ("MLPs")** – An MLP is a publicly traded partnership that combines individual limited partnerships into one entity to make the ownership interests more marketable with a general partner operating the business. MLPs are high income assets that should provide a consistent yield in between REITS and High Yield Bonds. As equities, they are also expected to earn returns commensurate with traditional public equities. An MLP is a pass-through entity that is taxed at the unit holder (i.e., share holder) level and not subject to tax at the partnership level. However, tax exempt investors may produce Unrelated Business Taxable Income ("UBTI"), which means tax-

exempt investors engaged in a 'business' outside of the purpose for their exemption may be subject to UBTI. The businesses of MLPs are related to the extraction, production, and distribution of natural resources or energy infrastructure.

7. **Infrastructure** – Private markets investments in essential physical infrastructure such as toll roads, bridges, airports and utilities accessed by most citizens and designed to provide a steady income stream via tolls, leases, etc. Income stream is periodically adjusted by owners and inflation escalation provisions are often "built in" to provide a direct link to inflation. Capital appreciation also directly linked to primary economic drivers such as inflation.
8. **Oil and Gas Limited Partnerships** – Private markets investments in limited partnerships which have the objective of exploring/develop/market oil/gas sources. Returns are primarily driven by an income stream as well as from profits earned at the end of the partnership. However, returns are influenced by rate at which oil and gas flow from source. Thus, this is considered a highly risky, speculative investment strategy.
9. **Multi-Asset Real Asset/Return Strategies** – Bundled public markets or combination private/public markets real assets and/or real return strategies where the investment objective is to provide a real return above inflation over a market cycle. The investment manager has the discretion to select the combination of real asset strategies and to establish the exposure to each respective real asset strategy.

The primary return objective for the LACERS' Real Assets program is to outperform a blend of 30% BBG US TIPS Index / 11.7% FTSE NAREIT US Equity Index / 58.3% Real Estate Blend (NFI-ODCE + 80 bps) over multiple market cycles and to outperform a secondary benchmark comprised of the Consumer Price Index (CPI) + 5% over a full market cycle, with appropriate consideration of risk. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Real Assets on the LACERS Total Fund. Returns will be calculated after management fees. The benchmarks for the various real assets portfolios may include the following indices:

Private Real Estate	NFI-ODCE + 80bps
Public Real Estate "REITS"	FTSE NAREIT US Equity Index
U.S. TIPS	Bloomberg U.S. TIPS Index
Commodities	Bloomberg Commodity Index

General real assets guidelines include the following:

a) **Private Real Estate** (see Private Real Estate Policy within Section XII of this document)

b) **Public Real Estate**

(1) At least 90% of the portfolio investments must be invested in REITS.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) For prudent diversification of the portfolio, the maximum amount that can be invested in any one issue shall be the greater of 7.5% of the portfolio or 125% of the index weight.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 3%. In total, out of benchmark securities shall not exceed 10% of the portfolio market value at time of purchase.

(5) At no time shall the Account own more than 5% of the outstanding voting securities of any one issuer. No issue shall be purchased in the portfolio if more than 15% of the outstanding voting shares of the company are held by LACERS in the total of all its accounts. All debt and all preferred stock of an issuer are each considered a single class for this purpose.

(6) No more than 50% in any one property type, including Regional Malls, Strip Shopping Centers, Apartments, Offices, Industrial, Healthcare, Manufactured Homes, Factory Outlets, and Other.

(7) No more than 40% in any one geographic region, including Northeast, Mideast, Southeast, Southwest, East North Central, West North Central, Pacific, and Mountain.

c) **Treasury Inflation-Protected Securities ("TIPS")**

(1) The total portfolio's average rating will be AAA by Moody's or Standard & Poor's.

(2) At least 80% of the portfolio investments must be invested in TIPS.

(3) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(4) The maximum effective duration shall be no more than 120% of the benchmark duration.

(5) The maximum asset allocation to a single security shall not exceed 200% of the benchmark weighting.

(6) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

(7) Securities of emerging market country (countries as defined by the J.P. Morgan EMBI Global Diversified Index) issuers are limited to a maximum of 5% of the portfolio market value.

d) **Commodities**

(1) At least 80% of the portfolio investments must be invested in publicly traded commodities.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) The maximum asset allocation to a single security shall not exceed 5%.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

VII. MANAGER SEARCH AND SELECTION POLICY

The purpose of the Manager Search and Selection Policy is to provide a comprehensive framework for the manager search and selection decision making process for the liquid market strategies. It specifically defines responsibilities and processes for the LACERS Board, Staff and General Fund Consultant.

A. **Roles and Responsibilities**

Role of Board	Role of Staff	Role of General Fund Consultant
• The Board is responsible for the authorization of the search for the investment manager(s). • The Board reviews and adopts active investment manager minimum qualifications and search and selection process based upon the written recommendation provided by the Staff and General Fund Consultant. • The Board reviews the semifinalist candidates as presented in the investment manager candidate evaluation report prepared by the Staff and General Fund Consultant. • The Board authorizes the finalist(s) investment manager(s) and approves contracting as recommended by Staff • The Board may delegate certain Board duties to the Investment Committee as described in the Investment Committee Charter. • The Board may request manager presentations.	• Staff, with input from the General Fund Consultant, recommends mandates for Board approval. • Staff reviews and adopts passive investment manager minimum qualifications and search and selection process. • Staff is responsible for the implementation of the manager search and selection process. • Staff develops a written set of minimum qualifications. Unique criteria not specified in the pre-approved minimum qualifications list will require Board approval. • Upon Staff concurrence of the semi-finalists, Staff and the General Fund Consultant provides the Board a written investment manager candidate evaluation and comparison report which will summarize the methodology for developing the list of semi-finalist candidates from the Qualified Respondents. • Staff conducts due diligence on the semi-finalist firms as reviewed by the Board. • Based on the findings of the due diligence, Staff will present a list of finalist investment managers for Board approval and contracting.	• The General Fund Consultant works with Staff to develop a manager search initiation recommendation. • The General Fund Consultant works with Staff on additional written minimum qualifications for Board approval as necessary. • The General Fund Consultant applies the System's minimum qualifications and any additional Board-approved criteria in order to arrive at list of "Qualified Respondents" who pass the minimum qualifications. • The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to then review and conduct due diligence upon. The investment manager candidate evaluation process will utilize the Evaluation Criteria as summarized in Section VII.B and may be adjusted as necessary.

B. **Sequential Search and Selection Process**

1. Staff and General Fund Consultant recommend mandate(s) for approval by the Board.
2. The Board authorizes the search of specific mandate(s) including minimum qualifications and the selection process for the search and will seek Board approval for unique minimum qualifications not specified in Section VII.C & Section VII.D.
3. The General Fund Consultant applies the minimum qualifications and any additional Board criteria to the Request for Proposal (RFP).
4. The General Fund Consultant develops a list of respondents that meet the minimum qualifications ("Qualified Respondents").
5. The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to review and approve.
6. Staff and General Fund Consultant provide for the Board's review an investment manager candidate evaluation and comparison report which summarizes the methodology for developing a list of semi-finalist candidates from the list of Qualified Respondents.
7. Staff conducts due diligence on the semi-finalist firms.
8. Based on the findings of the due diligence, Staff develops a suitable list of finalist candidate(s) for the Board to review, consider, and authorize for hire and contracting based on Staff's recommendation.

C. **Evaluation Criteria**

Evaluation Criteria - Active		**Weighting**
Qualitative Assessment		70%
Organization/People	*30%*	
Investment Process	*40%*	
Risk Management	*30%*	
Quantitative Assessment[3]		20%
Expected Fees		10%

Evaluation Criteria - Passive		**Weighting**
Qualitative Assessment		10%
Organization/People	*50%*	
Product AUM	*50%*	
Tracking Error		40%
Expected Fees		50%

[3]The quantitative assessment includes, but is not limited to, a skill test, information ratio, consistency means test and batting average.

D. **Active Investment Management – Search and Selection Criteria**

Minimum qualifications will focus on the key characteristics required by the LACERS Board and Staff for a candidate firm to receive consideration for hire. The following minimum qualifications will be applied for all active, liquid market strategy investment manager searches.

a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.

b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.

c) At least 60% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (12 of 20 quarters).

d) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 25% of the proposed product assets.

Staff and the General Fund Consultant submits revised and/or additional minimum qualifications for each active, liquid market investment manager search as deemed appropriate given the mandate and asset class.

E. **Passive Investment Management – Search and Selection Criteria**

Passive investment manager selection recommendations will focus on comparison of competitive fee structures subject to due diligence that will consider key manager selection criteria such as robustness of business operations, incorporation of best industry practices, and degree of passive investment management experience for said mandate. The following minimum qualifications will be used for all passive investment manager searches

a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.

b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.

c) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 50% of the proposed product assets.

F. **Emerging Managers**

The recommendation by Staff and the General Fund Consultant to initiate a search will include the expected number of firms that may meet LACERS' investment management search minimum criteria segregated by emerging and non-emerging investment managers. Emerging managers, as defined by LACERS' Emerging Investment Manager Policy (within Section IX of this document), will be highlighted in the investment management candidate evaluation summary report to the Board.

VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

A. Purpose

The purpose of this policy is to:

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

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

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

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

B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

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

Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

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

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

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

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

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

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

C. **Managers "On Watch"**

LACERS shall notify investment managers in writing of their status should they be placed "On Watch". Typically, "On Watch" status applies for one year from the initial placement date. However, the review period can be extended beyond the one year period based on the

progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

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

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

D. **Newly-Hired Managers**

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

E. **Quantitative Factors**

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

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

F. **Qualitative Factors**

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

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

G. **Courses of Action**

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

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

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

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

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

H. **Halting of Trading Activity**

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

I. **Termination**

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

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

7. Loss of confidence by the Board in the investment manager;
8. A change in the System's asset allocation program, which necessitates a shift of assets to another sector.

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

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

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

IX. EMERGING INVESTMENT MANAGER POLICY

A. Policy Objectives

The objective of this Emerging Investment Manager Policy ("Policy") is to identify investment firms with the potential to add value to the LACERS investment portfolio ("Fund") that would otherwise not be identified by the standard LACERS institutional investment manager search process. The Board believes that smaller investment management organizations may generate superior performance returns because of the increased market flexibility associated with smaller asset bases. The Policy provides criteria for LACERS to identify appropriate investment management organizations in their early business stages.

Consistent with the Board's fiduciary responsibility, the goal of this Policy is to locate and fund emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk. LACERS may consider an emerging investment manager mandate as part of any investment manager search undertaken by the Board, after Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate.

The Board recognizes that emerging investment managers may not possess the organizational depth and resources of larger investment management firms, and may represent a greater business risk. The Board also recognizes that prudent management of the System requires that emerging investment managers, once retained, will manage significantly smaller amounts of LACERS' assets than larger investment management firms. Each of these issues will result in greater oversight and administrative responsibilities for LACERS' staff, and will consequently be part of the evaluation whenever emerging investment managers are being considered for inclusion in a manager search.

Managers hired pursuant to this Emerging Investment Manager Policy will be held accountable to the same performance, reporting, and retention standards as all other LACERS investment managers within the same asset class.

B. Emerging Investment Manager Goals

Public Markets: The Emerging Investment Manager policy goal for public market asset classes is no less than 10%, provided that Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate. During the presentation of the Annual Emerging Manager Report, Staff will report and explain any differences between the policy goal and actual reported exposures; and further explain any Staff and Consultant initiatives planned for the next year in order to achieve the policy goal. Two metrics will be calculated at least annually to compare actual results versus the goal: 1) Asset Class Metric: total market value of all emerging investment managers accounts within a respective public market asset class

divided by total market value of the respective public market asset class; and 2) Manager Search Metric: total dollars approved for contract with an Emerging Manager(s) divided by the total dollars approved for funding the respective investment manager search.

Private Markets: The Emerging Investment Manager policy goal for private market asset classes is no less than 10%, provided that Staff and the appropriate fund consultant have determined that the emerging manager return and risk characteristics of the mandate under consideration are no less favorable than comparable, non-emerging investment manager opportunities available for that mandate. During the presentation of the Annual Emerging Manager Report, Staff will report and explain any differences between the policy goal and actual reported exposures; and further explain any Staff and Consultant initiatives planned for the next year in order to achieve the policy goal. Two metrics will be calculated at least annually to compare actual results versus the goal: 1) Asset Class Metric: total dollar commitments of all emerging investment manager partnerships within a respective asset class divided by the total dollar market value of the respective asset class; and 2) Manager Search Metric: total dollar commitments provided to Emerging Managers within a specific private market asset class divided by the total dollar value of all investment commitments in the same private market asset class over rolling 36-month periods.

C. **Emerging Investment Manager Criteria**

The following are criteria for firms to gain status at LACERS as an Emerging Investment Manager:

1. Public Market Asset Classes – *U.S. Equities, Non-US Equities, Core Fixed Income, Credit Opportunities, and Real Assets*

   a) Firm Assets Under Management: The firm will have no more than $2 billion in total firm assets under management at the time of hire.

   b) Strategy Assets Under Management: The firm must have a minimum of $50 million assets under management in the strategy being considered.

   c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

   d) Track Record: The portfolio manager must have a minimum of five years of verifiable experience managing the strategy being considered. The experience must include a GIPS-compliant performance track history attributable to the portfolio manager for the most recent 36-month period of the five-year verifiable experience requirement.

   e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) Maximum LACERS' Allocation: At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Private Credit, and Real Assets (not including Real Estate)*

a) Institutional Fund: First-, second-, or third-time institutional fund for a General Partner.

b) Maximum Fund Size: A first-time institutional fund for private equity or venture capital may have investor commitments of no more than $750 million, $1 billion for a second-time institutional fund, and $1.25 billion for a third-time institutional fund. A first-time institutional fund for private credit may have investor commitments of no more than $1 billion, $1.5 billion for a second-time institutional fund, and $2.0 billion for a third-time institutional fund.

c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's committed capital.*

g) Minimum Fund Size: The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.* For a venture capital fund strategy, the Fund shall have a minimum fund size of $75 million in committed capital inclusive of LACERS' pending commitment.*

h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower.

**Excludes co-investments or sidecar investment vehicles.*

3. Private Market Asset Class – *Private Real Estate*

a) Institutional Fund: First-, second-, or third-time institutional fund for a given General Partner.

b) Maximum Fund Size: The institutional fund may have investor commitments of no more than $2 billion.

c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's capital.*

g) Minimum Fund Size: The Fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment.*.

h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower. LACERS' commitment in the strategy for second- and third-time institutional funds shall not exceed 20% of the projected final fund closing size or $40 million, whichever is lower.

**Excludes co-investments or sidecar investments.*

D. **Provisions for Post-Emerging Firms**

1. Public Markets

LACERS expects that successful emerging investment management firms will grow beyond the maximum $2 billion in assets under management. An emerging investment manager firm under contract to LACERS that successfully grows its assets under management and meets the minimum investment manager search criteria may be considered for a larger-sized mandate subject to (at minimum) meeting the Manager Search and Selection Criteria provided in the LACERS Manager Search and Selection Policy (Section VII of this document).

2. Private Markets

LACERS expects that successful emerging investment management firms will grow beyond raising first-, second-, and third-time partnership funds. Opportunities for participating in subsequent funds may be considered provided that the strategy meets the criteria of LACERS' Private Equity Investment Policy, Private Real Estate Investment Policy, Credit Opportunities Strategy Statement, or another asset class policy unique to a respective private markets mandate.

E. **Research, Education and Outreach**

The Board believes that research and education are essential components of formulating approaches and developing outreach programs to reach the broadest number of qualified investment managers to participate in LACERS investment manager searches.

To achieve this end, the Board may direct Staff to conduct research to include (but not limited to) the issuance of surveys and questionnaires, attendance at educational conferences and academically-sponsored events, and participation in discussions with industry experts and peer organizations.

The Board has identified the use of LACERS' Organization Diversity Survey (ODS) as one particular tool that can be useful in the gathering information to further LACERS' research objectives. The ODS is attached to this policy as Exhibit 1. In conducting research using the ODS, LACERS Board and Staff will adhere to the ODS Guidelines set forth below:

1. Request in an investment procurement solicitation that each participating firm complete and submit an ODS prior to the RFP submission deadline; and for private market investments, request on a best efforts basis that each general partner complete and submit an ODS prior to, or within a reasonable period following, LACERS' participation in its fund closing;
2. Direct each firm to return the completed ODS to an email address under the Administrative Services Division (ASD) of LACERS (or other designated division or unit outside the Investment Division);
3. Ensure that each ODS remains in a secured and password-protected folder known only to designated ASD staff and that an appropriate firewall be maintained to control access;
4. Examine collected ODS's once all contracts within a specific mandate have been executed;
5. Authorize the General Manager or designee to assign particular LACERS staff to review ODS's and conduct analyses of collected data once all contracts within a specific mandate have been executed;
6. Limit access to the ODS to particular individuals (Board members, General Manager, Chief Investment Officer, and other such staff as determined by the General Manager) who are part of a mandate's procurement selection process so as to avoid real or perceived conflicts of interest;
7. Protect the identity of each firm's ODS to those individuals named in ODS Guideline #6 and from public disclosure;
8. Report statistical findings of ODS's collected data within the last calendar year as part of the Annual Report of the Emerging Investment Managers reporting requirement under Section F.7 of this Policy or more frequently as directed by the Board or General Manager.

Section 4 EMERGING INVESTMENT MANAGER POLICY

F. **Reporting**

Staff will report to the Board on the status of Emerging Investment Managers hired and retained on an annual calendar year basis. The annual report will include:

1. Names of Emerging Investment Manager firms hired during the calendar year.
2. Dollar amounts awarded to Emerging Managers.
3. Report of Emerging Investment Manager Goals Metrics pursuant to Section IX.B of this Policy.
4. List of all investment manager searches.
5. Staff and consultant efforts to increase the visibility of LACERS Emerging Investment Manager searches and Emerging Investment Manager representation within the total Fund portfolio.
6. Individual manager performance.
7. General trends and statistical findings of collected ODS's of the previous calendar year and other appropriate time periods.

Section 4 EMERGING INVESTMENT MANAGER POLICY – EXHIBIT 1

Los Angeles City Employees' Retirement System
Organization Diversity Survey (ODS)

The ODS is used for statistical purposes and is separate and apart from the RFP selection process. The surveys are opened and examined by LACERS staff only after the contract(s) is(are) awarded for the mandate. Please refer to the LACERS Emerging Investment Manager Policy, Section E, for more information on the use of the ODS.

Organization Information

Firm Name: _____ **As of Date:** _____

Address: _____

Base of Operations (City/State/Country): _____

This completed ODS is connected with the following RFP search (if applicable): _____

Firm AUM in $000,000: _____

Organization Workforce Composition

Total Number of Firm Employees: _____

Number of U.S.-Based Employees: _____

Instructions: *Provide employee count under the applicable Race/Ethnicity and Gender (columns) and under the applicable workforce category (rows). Grand total should equal total number of firm employees. For Veteran Status, Disability Status and LGBTQIA+ Status, provide employee count as classifiable under these statuses and under the applicable workforce category.*

	American Indian or Native Alaskan		Asian		Black or African American		Hispanic or Latino		Native Hawaiian or Other Pacific Islander		White		Two or More Races		TOTAL		Veteran Status	Diasbility Status	LGBTQIA+ Status
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Protected Veteran	Disabled	LGBTQIA+
Exec / Sr Officials & Managers															0	0			
Investment Professionals															0	0			
SUBTOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Professionals - Operations, Compliance, etc.															0	0			
Professional - Sales / Marketing & Client Services															0	0			
Administrative Support, Office/Clerical															0	0			
Other Non-Professionals															0	0			
SUBTOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTALS	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	0		**0**		**0**		**0**		**0**		**0**		**0**		**0**				
	0																		

Section 4 EMERGING INVESTMENT MANAGER POLICY – EXHIBIT 1

Board of Directors Composition

Number of Directors on the Firm's Board of Directors: _____

Instructions: *Provide Board Director count under the applicable Race/Ethnicity and Gender (columns). Grand total should equal total number of Directors on the Board of Directors. For Veteran Status, Disability Status and LGBTQIA+ Status, provide Director count as classifiable under these statuses.*

	American Indian or Native Alaskan		Asian		Black or African American		Hispanic or Latino		Native Hawaiian or Other Pacific Islander		White		Two or More Races		TOTAL		Veteran Status	Diasbility Status	LGBTQIA+ Status
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Protected Veteran	Disabled	LGBTQIA+
Board Members															0	0			
TOTALS	0		0		0		0		0		0		0		0				

American Indian or Native Alaskan A person having origins in any of the original peoples of North and South America (including Central America), and who maintain tribal affiliation or community attachment.
Asian A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian Subcontinent, including, but not limited to, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand and Vietnam.
Black or African American A person having origins in any of the black racial groups of Africa.
Hispanic or Latino A person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race.
Native Hawaiian or Other Pacific Islander A person having origins in any of the peoples of Hawaii, Guam, Samoa or other Pacific Islands.
White A person having origins in any of the original peoples of Europe, the Middle East or North Africa.

Firm Ownership

Percentage of Firm Owned by Employees: _____

Instructions: *Provide percentage of employee ownership under the applicable Race/Ethnicity and Gender. Grand total should equal percentage of firm owned by employees. For Veteran Status, Disability Status and LGBTQIA+ Status, provide percentage of ownership of employees as classifiable under these statuses.*

	American Indian or Native Alaskan		Asian		Black or African American		Hispanic or Latino		Native Hawaiian or Other Pacific Islander		White		Two or More Races		TOTAL		Veteran Status	Diasbility Status	LGBTQIA+ Status
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Protected Veteran	Disabled	LGBTQIA+
Employee Ownership (Percentage)															0.00%	0.00%			
TOTALS	0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%				

Section 4 EMERGING INVESTMENT MANAGER POLICY – EXHIBIT 1

Questionnaire

Is the firm majority-owned by women, racial or ethnic minorities, or other underrepresented groups? Please identify ownership composition in the space below.
Response:

Does the firm focus recruitment of women, racial or ethnic minorities, or other underrepresented populations particularly for senior-level positions? Please discuss successes and/or challenges in the space below.
Response:

Does the firm have a written Diversity and Inclusion Recruiting Program/Strategy? (i.e. outreach, hiring, mentoring and/or scholarship programs designed to create a pipeline of minority and women professional talent to the firm or promotion of such groups to senior-level positions within the firm). If Yes, please list initiatives or actions carried out by the firm under this program/strategy in the space below.
Response:

Please provide any additional explanation to the completion of the ODS and/or the aforementioned questions in the space below.
Response:

Contact Information

Completed by: _____

Position/Title: _____

Phone Number: _____

E-mail Address: _____

Date Completed: _____

X. PRIVATE CREDIT INVESTMENT POLICY

A. Introduction

This Private Credit Investment Policy ("Private Credit Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private credit, including direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private credit.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private credit portfolio ("Private Credit Portfolio") is 200 bps over the S&P UBS Leveraged Loan Total Return Index net of fees, expenses, and carried interest.

Returns are measured over the life of the portfolio and become meaningful for periods past the J-Curve. 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 Credit investments are generally 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 Credit Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Staff shall review the Private Credit Consultant's evaluation and assessment of risk in the Annual Private Credit Strategic Plan. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Credit Policy establishes the framework for the management of the Private Credit Portfolio. The Private Credit Consultant shall propose and seek LACERS' approval of new investments subject to Section F of the Private Credit Policy, monitor and advise on the sale of existing Private Credit investments and provide recommendations and program advice in accordance with the Private Credit Policy. The Private Credit Consultant will be evaluated annually as consultant for the Private Credit Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the Private Credit 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 Credit related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

The Private Credit Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F. With a recommendation from the Private Credit Consultant, Staff may effect investments in partnerships and new commitments in managed accounts up to and including $150 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 Credit partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Private Credit Consultant. However, non-U.S. dollar commitments to Private Credit 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 credit partnerships – Investments in direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions;

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 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 credit or private equity fund in which the limited partner has also invested. Therefore, the Private Credit Consultant will monitor co-investments for concentration risk and recommend adjustments in the private credit portfolio as needed in order to adequately manage such risk.

The Private Credit Consultant will address concentration risk in the Annual Private Credit 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 be reasonable and consistent with industry standards.

c) Secondary market purchases – Purchases of private credit related interests inwhich 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 be reasonable and consistent with industry standards.

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 Credit Consultant. Staff and the Private Credit Consultant shall manage the diversification risks as specified in section X.D.3. for SPVs and other investment structures and address the concentration risks in the Annual Private Credit Strategic Plan. In addition, there will be consideration of the level of ongoing information transparency provided by the manager with the goal of including a market-standard level of information rights.

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

LACERS' commitment to any given partnership shall not exceed 15% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. This limitation 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**

LACERS will seek to appropriately diversify the Private Credit Portfolio in order to manage risk based on the following guidelines:

a) Manager Concentration: New commitments may not cause exposure to any one manager to be more than 30% of the Private Credit target allocation.

b) Fund Concentration: New commitments may not cause exposure to any

single comingled fund to be more than 15% of the Private Credit target allocation.

c) Co-Investment & Secondaries Concentration: Up to 25% of the Private Credit Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

d) Vintage Diversification: The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio across vintage years when possible.

e) Geographic Diversification: The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio with respect to geographic distribution.

f) Industry Sector Concentration: The Private Credit Consultant shall monitor Portfolio investments with respectto GICS industry sector exposure with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

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 Credit Strategic Plan.

4. **Leverage**

LACERS may consider funds which utilize fund or strategy level leverage. As leverage is a significant risk factor, it must be considered as part of each investment and evaluated on a case-by-case basis.

5. **Illiquidity**

Private credit 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.

6. **Distributions**

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

E. **Review of Investment Guidelines**

The Private Credit Consultant and Staff periodically will review the above private credit investment guidelines at least once every three years and recommend changes if necessary.

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Credit Consultant
Strategy/Policy	• Select Private Credit Consultant. • Approve asset class funding level. • Review and approve the Private Credit Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Credit Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Credit Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Credit Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private credit fund investment(s). • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

Roles and Responsibilities continued

	Role of the Board	Role of Staff	Role of the Private Credit Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve the sale of any one existing partnership fund on the secondary market greater than $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Credit Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Credit Consultant, invest up to and including $150 million in partnerships without Board approval. • In conjunction with Private Credit Consultant, make recommendations to Board for approval for investments greater than $150 million. • In conjunction with Private Credit Consultant, review and concur with approval of sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments greater than $150 million. • Propose investments of up to and including $150 million for Staff concurrence. • Present recommendations to Staff pertaining to the sale of existing partnership funds on the secondary market greater than $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • 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). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

XI. 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 turnaround), 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 to outperform the Cambridge Associates Global Private Equity and Venture Capital 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 XI.D.3 below) and due diligence.

C. Scope

The Private Equity Consultant, with Staff concurrence, shall propose 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 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 XI.F. With Staff concurrence on a recommendation from the Private Equity Consultant, LACERS may effect investments in partnerships up to and including $150 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 investments that arise from unique circumstances such as bankruptcies, restructurings, and spin-offs;

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 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 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 be 1) reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) 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 be 1) reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) 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:

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 Global Private Equity and Venture Capital 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 6 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Equity Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 6 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve direct co-investment opportunities greater than $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market greater than $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Equity Consultant, invest up to and including $150 million in partnerships without Board approval. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments greater than $150 million. • In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities up to and including $50 million. • 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. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments greater than $150 million. • With Staff concurrence, approve investments of up to and including $150 million. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • Present recommendations to staff pertaining to the sale of existing partnership funds on the secondary market greater than $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • 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). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

XII. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Ethical Contracting Compliance Policy and in the Third-Party Marketing and Referrals Disclosure Policy, as amended periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. **Real Estate**

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). Additionally, LACERS may also invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case-by-case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. **Fiduciary Standards**

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. **Scope**

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage

defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

The Real Estate Consultant will evaluate and recommend commingled fund investments, co-investments, and secondary investment recommendations consistent with the roles and responsibilities defined in Section XII.H. Managers will be responsible for property level due diligence. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant according to the delegated discretion provided in Section H of the Real Estate Policy or if outside delegated discretion limits, when the Board approves the recommended investment. However, non-U.S. dollar commitments to real estate 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 will not require further Board approval.

Pursuant to City Charter Section 1120, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor, or the general partner is the only other investor.

Staff and the Real Estate Consultant shall conduct a review of this policy at a minimum of once per year and set forth strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XII.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value add and core investments.

5. **Inflation-Hedge**

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The actual Real Estate Portfolio allocation percentage achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and controlling rights generally not available to commingled fund investors.

Section 7 PRIVATE REAL ESTATE INVESTMENT POLICY

The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies are referred to as core/core plus and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and high risk associated with institutional real estate investments. Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

a) **Core and Core Plus**

Equity investment in operating and substantially leased Institutional-quality real estate at or above market occupancy levels, focused on traditional property types such as apartments, offices, retail, industrial, and hotels. Core investments may also include high-quality, non-traditional property types such as student housing, medical office, and self-storage, which produce stable income with low risk. Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 8% range (net of fees) with an annual standard deviation near 6.0%. Core investments typically feature current income as a large portion of overall return often as much as 70% along with appreciation that generally matches or exceeds inflation. Leverage of 50% or less on a portfolio basis is typical.

Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or existing, performing obligations extended to creditworthy borrowers, featuring reasonable terms such as a loan-to-value (LTV) below 50% and a debt service coverage ratio (DSCR) of 1.25 or higher and are managed by institutional caliber managers with demonstrable experience and a credit track record. During periods of market illiquidity, core debt investments can provide attractive yield spreads and a reasonable inflation-hedge so long as markets are not over-supplied.

Core Plus investments typically will target a higher leverage ratio, around 50% on a loan-to-value basis and may contain non-operating real estate investment exposure of around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, high-quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 9% to 12% range (net of fees). Value add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies ("REOCs"). Value add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments typically targeting 50% to 65% on a portfolio basis.

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 12% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Opportunistic investments typically have even greater appreciation potential than value-add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value-add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XII.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is

based on local economic fundamentals and the other risk attributes (e.g., weather, natural disaster, and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts ("REITs"). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to

redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

d) **Secondary Market Transactions**

Purchases or sales of private real estate 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 secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any intent to commit.

Direct Investments

LACERS may pursue direct equity/debt investments through separate account vehicles; however, these investments require thoughtful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and recommended by Staff for Board approval.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. **Manager/Investment Concentration**

LACERS shall limit its exposure to any single manager or investment, and adhere to additional investment restriction, as outlined below, to mitigate risk.

a) **Maximum Manager Allocation**

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) **Maximum Investment Commitment**

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) **Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. The fund shall have a minimum fund size of $150 million in committed capital inclusive of LACERS pending commitment (excludes co-investments and sidecar investments).

d) **Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate

Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon-based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. **Investment Processes And Procedures**

1. **Real Estate Manager Selection Process**

The following discussion describes the process by which LACERS selects Managers and investments.

a) **Universe of Potential Manager Candidates**

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will initiate or manage an on-going search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's selection criteria. The Real Estate Consultant shall provide Staff with relevant candidate information sourced from its databases for review. The Staff will set forth any additional candidates to be considered for the global list of candidates. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates relevant to current years strategic plan and portfolio fit.

b) **Minimum Manager Qualifications**

Minimum Manager Qualifications include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) **Manager Candidate Selection**

The Real Estate Consultant shall convene with staff on a monthly basis to discuss the pipeline of candidates. Such discussions shall include organization, track record, personnel, alignment of interests, terms and fees or any other prospective managers. The Real Estate Consultant will move forward with due diligence once alignment to strategic plan and portfolio fit has been established with Staff.

d) **Due Diligence**

Upon the selection of prospective managers, the Real Estate Consultant selects the most qualified managers with Staff input and shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related criteria. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

Section XII. H, establishes the role of the Board, Staff, and Real Estate Consultant for investment selection. Approval of the real estate transactions generally require Board approval; and in limited cases, such approval is delegated to staff and Real Estate Consultant for certain commingled fund commitments or secondary market transactions subject to the criteria provided in Section XII. H.

The Board shall receive a Notification of Commitment report from Staff at a future Board meeting within a reasonable period of time upon the close of a transaction that is consistent with the Brown Act.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties pursuant to the Private Real Estate Investment Policy.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and Staff, as available), will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings, virtually, telephonically, or directly either at LACERS, the Manager's or the Real Estate Consultant's office(s).

Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

Section 7 PRIVATE REAL ESTATE INVESTMENT POLICY

H. **Roles and Responsibilities (Part 1 of 2)**

	Role of the Board	**Role of Staff**	**Role of Private Real Estate Consultant**
Strategy/Policy	• Select Private Real Estate Consultant. • Approve asset class funding level. • Review and approve the Private Real Estate Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Real Estate Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Provide input to the Private Real Estate Consultant in the development of the Private Real Estate Annual Strategic Plan.	• Under the guidance of staff, assist in the development of policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Develop the fiscal year Private Real Estate Annual Strategic Plan for the fiscal year, incorporating staff input, and present it to the Board on or before the fiscal year's end.
Investment Management and Monitoring	• Review and approve policies, procedures, guidelines, allocation targets, ranges, and assumptions. • Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual, and other periodic monitoring reports prepared by the Private Real Estate Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Real Estate Consultant's recommendations on partnership amendments and consents. • Execute contract amendments and consents. • Manage and approve the wind-down and/or dissolve private real estate fund investment(s) with Private Real Estate Consultant's concurrence. • Manage and execute secondary market transactions up to and including $50 million in Fair Market Value. • Prepare Commitment Notification Reports for the Board.	• Maintain regular contact with existing Managers in the portfolio to ascertain significant events within the portfolio. • Recommend contract amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

H. **Roles and Responsibilities (Part 2 of 2)**

	Role of Board	**Role of Staff**	**Role of Private Real Estate Consultant**
Investment Selection	• Review and approve investments in commingled funds that exceed $65 million, or in any fund that does not receive the Real Estate Consultant's highest unconditional fund-quality rating for similar institutional investors. • Review and approve direct co-investment and separately managed account (SMA) opportunities. • Review and approve secondary market transactions exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Review due diligence reports and conduct meetings with prospective or existing general partners to discuss investment opportunities. • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • Consider and approve an investment up to and including $65 million in commingled funds that have received the Real Estate Consultant's highest non-conditional quality rating for like-institutional investors. If Staff does not concur with Real Estate Consultant recommendation, staff will refer items to the Board for a decision. • Recommend to the Board the approval of investments exceeding $65 million and/or investments not meeting the consultant's highest unconditional fund-quality rating for similar institutional investors, as advised by the Private Real Estate Consultant. • Make recommendations to the Board for co-investment and separately managed account (SMA) opportunities recommended by the Real Estate Consultant • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on commingled fund investments for Staff review. • Provide due diligence reports for each new commingled fund investment, secondary market transaction, direct investment, co-investment, and separately managed account (SMA) opportunity. • Recommend commingled fund investments to Staff for consideration up to and including $65 million; investments exceeding $65 million will be brought forth to the Board for review and approval. • Prepare investment reports for Board/Staff consideration of commingled fund investments. • Recommend direct co-investment and separately managed account (SMA) opportunities to Staff for Board approval. • Recommend secondary market transaction opportunities to Staff for consideration up to and including $50 million in Fair Market Value; transactions exceeding $50 million will be brought to the Board for review and approval. • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. Coordinate meetings with Managers at the request of Staff. • Advise on and negotiate investment terms.

XIII. UNIQUE INVESTMENT OPPORTUNITIES POLICY

A. Purpose

The Board believes that LACERS Total Fund (Total Fund) is best managed when additional tools are available for Staff to address and respond to dynamic and rapid changes to investment markets or a particular sector. The Unique Investment Opportunities Policy (UIOP) sets forth a framework and guidelines to invest in unique, time-sensitive strategies (Unique Investment Opportunities or UIO) expected to enhance Total Fund risk-adjusted returns. UIO investments typically arise during periods of market stress, dislocations, or changing market dynamics and have the potential to generate returns in excess of those expected from traditional investments within the LACERS portfolio. UIO investments generally have limited windows of opportunity, short-term investment horizons, and reasonable likelihood of return of capital; therefore, this policy is designed to expediently and efficiently consummate such investments.

B. Investment Objectives

The objective of the UIOP is to proactively identify and utilize opportunistic investments within public and private markets that may or may not have an existing long-term asset allocation policy or risk budget targets in the LACERS portfolio. UIO investments may be made in order to accomplish one or more of the following:

1. Generate incremental returns equal to or in excess of LACERS' actuarial assumed rate of return, commensurate with risk.
2. Generate incremental returns in excess of expected returns from LACERS' traditional portfolio of investments—as identified by the asset allocation policy and risk budget targets—commensurate with risk.
3. Reduce downside volatility and optimize risk-adjusted returns for the LACERS portfolio by investing in UIO that have low correlations to existing investments.

C. Scope and Characteristics of Unique Investment Opportunities

UIO investments may be public or private markets investments and may span the capital structure of companies, properties, and other asset types or investment vehicles. Investments to be pursued under the UIOP generally exhibit, but are not limited to, the following characteristics:

1. Situational Economic and Market Conditions - UIO investments generally arise from the following economic and market circumstances:

    - Capital shortages – driven by low market liquidity or scarce capital that result in attractive asset pricing

    - Extreme valuations – driven by unique events or macroeconomic environments, in some cases unrelated to fundamentals and resulting in significantly discounted valuations relative to the historical long-run values

- Stressed or distressed markets – where economic stresses force non-economic sellers to transact at a significant discount relative to fair market value

- Structural changes – caused by abrupt structural changes including technological disruptions, regulatory changes, capital market structures, or other factors

- Innovations – where a new phenomenon or development creates opportunities driven by a slow market response to new information and expected trends

- Niche investment markets – characterized by narrow markets with limited opportunities for capital deployment such as sector-focused fund investments and other funds with niche strategies

2. Limited Windows of Opportunity and Investment Horizons – UIO investments are generally fleeting investment opportunities with brief windows of opportunity to access the investment and execute a transaction. UIO investments may have shorter term holding periods of approximately one to five years as the economic and/or market pressures driving the UIO dissipate and the underlying investment theme matures.

3. Limited Liquidity – UIO investments, particularly those made in private markets or in non-traditional asset classes, may require a lock-up of capital in order to capture the return potential of the opportunity.

4. Non-traditional Risk-Return Profiles – UIO investment risk-return profiles may differ from traditional public or private market investments due to the idiosyncratic nature of UIO investments, which may emphasize certain risk factors such as deep value style bias, sector/industry concentration, or credit risk. UIO investments may have unusual cash flow patterns (e.g., asymmetric payoffs) and may distribute cash more or less frequently than traditional strategies.

D. **Investment Guidelines**

UIO investments may be made in public or private market investment strategies that are either not currently utilized by LACERS (i.e., the strategy does not have an existing target allocation pursuant to the approved Asset Allocation Policy and risk budgets) or have existing allocations in the LACERS portfolio. UIO shall be managed by external investment managers and have time horizons deemed appropriate for the strategy and commensurate with similar investments held in the LACERS portfolio. Both public and private market UIO investments may be implemented through separate accounts, open-end commingled funds, closed-end commingled funds, or any other suitable investment structure.

For public market UIO investments, each investment may not exceed 0.5% of the total market value of the LACERS portfolio at the time of investment. For private market UIO investments, the commitment size of each investment may not exceed 0.5% of the total

market value of the LACERS portfolio at the time of commitment. Total value of UIO investments and unfunded commitments shall be limited to 3% of the total market value of LACERS portfolio.

Each UIO shall be attributed to an existing asset class in LACERS' allocation strategy. The underlying assets of each UIO investment shall be considered to determine which asset class it will be classified under for purposes of overall portfolio construction, diversification, risk budgeting, risk management, and asset allocation considerations.

The funding of any UIO investment shall not cause any asset class weighting to move beyond its established minimum or maximum target ranges, but may cause an asset class to deviate from its asset allocation policy target.

All UIO investments shall be subject to LACERS Responsible Investment Policy and ESG Risk Framework. UIO investments in strategies with existing LACERS allocations pursuant to the adopted asset allocation and risk budgets shall be subject to existing LACERS investment policies. Investment management guidelines will be negotiated for UIO investments that utilize separate account vehicles.

All UIO investments shall be institutional quality and non-speculative, and, when the investment is effectuated, shall have a reasonable, foreseeable path to liquidity and exit.

E. **Investment Process**

Staff, with written concurrence from LACERS investment consultant(s), shall select and consummate new UIO investments in accordance with the following investment process. UIO investments shall not be subject to a competitive bidding search process (i.e., request for proposal process) due to the time-sensitive nature of these investments. For each UIO investment considered, Staff shall justify in writing why a competitive bidding process was not utilized.

1. Sourcing and Due Diligence

Staff and/or the appropriate LACERS investment consultant (Consultant) shall be responsible for sourcing UIO investments. All UIO investments are subject to a thorough and rigorous investment due diligence process conducted by Staff and/or Consultants. That process may include but is not limited to analysis of projected return, expected holding period, risks (including but not limited to ESG factors, liquidity, and operational risks), correlation with existing LACERS portfolio investments, and exit strategy. Further operational due diligence on the investment management team, risk management processes, legal, and other factors will also be conducted. Section F describes the general qualifications desired of investment managers to be considered for UIO investment mandates.

2. Approval of Investments

Staff shall submit written investment proposals for consideration under the UIOP to a Review Committee (RC) comprised of the Chief Investment Officer, Chief Operating Officer, and Director of Private Markets or their designees. The proposal shall include (a) an investment thesis, (b) summary of the investment opportunity, (c) the expected risk, return, and holding period of the investment, (d) expected path to liquidity, (e) a pro forma analysis to justify the proposed investment meets one of the investment objectives of Section B of this policy, (f) confirmation the proposal complies with the Investment Guidelines required by the UIOP, (g) any other information deemed necessary by the RC to evaluate the proposal including written concurrence from the appropriate LACERS investment consultant, and (h) justification for not using a competitive bidding process. Unanimous approval of the RC is required to proceed with any proposed UIO investment.

Following the RC's unanimous recommendation to approve the proposed UIO investment, it will be presented to the Investment Committee (Committee) for consideration. If the Committee approves, the UIO investment will be presented to the Board for further consideration and final approval. Once the Board approves the item, staff will execute the proposed UIO investment, subject to standard legal review.

If the General Manager (GM), in consultation with the Chairperson of the Committee, determines that time constraints or other factors would prevent a quorum of the Committee from meeting in order to consider the RC's recommendation to approve a UIO Investment, or, in consultation with the Board President, the GM determines that a quorum of the Board would not be available to consider the Committee's approval of a UIO investment in a timely manner, then the GM, Chief Investment Officer (CIO), Committee Chairperson, and Board President shall consider the RC's recommendation. If the GM, CIO, Committee Chairperson, and Board President unanimously approve the RC's proposed UIO investment, staff shall execute the proposed UIO investment, subject to standard legal review. Following execution of the investment, the CIO shall notify the Board, at the earliest possible opportunity, regarding the consummation of the investment. Notice shall be given in an agendized, written report that includes (but is not limited to) the following information:

- Name of the firm and if the firm qualifies as an emerging manager
- Investment strategy and thesis
- Total commitment or investment size
- Source of funding from within the LACERS portfolio
- The UIO's impact on the asset allocation and risk budget

3. Exiting Investments

To the extent that a UIO investment vehicle is liquid, Staff, with concurrence from the appropriate Consultant, shall have discretion to initiate an exit from a UIO investment when it is determined that (a) the UIO investment has met its expected objective or (b) the UIO investment will not meet its expected objective due to changing market

conditions, the investment manager's inability to execute the strategy, or other relevant factors.

For illiquid UIO investment vehicles with no redemption terms, exits will occur through distributions made by the investment manager over the life of the vehicle.

The Board shall be notified in writing as soon as reasonably practicable after an investment has been fully exited.

F. **Investment Manager Qualifications**

UIO investment managers selected by LACERS under the UIOP will exhibit the following characteristics:

- Demonstrates sufficient experience and a verifiable, positive performance track record in the given strategy LACERS is pursuing through the particular UIO.
- Investment thesis that distinguishes the manager from other, existing approaches already in the LACERS portfolio.
- Appropriate resources and research capabilities to identify and execute unique strategies.
- Disciplined execution process to protect against style drift.
- Niche or specific expertise that can be leveraged in unique market environments.
- Fee structure within industry standard for the strategy.
- Manager is a registered investment adviser under the Investment Advisers Act of 1940 or provides a valid exemption at the time of contract execution.

Staff may hire managers who may qualify under LACERS' Emerging Investment Manager Policy. Staff will make every reasonable effort to consider Emerging Investment Managers for UIO investment mandates when appropriate.

G. **Benchmarking and Reporting**

1. Performance Benchmarking

LACERS' assumed rate of investment return will serve as the baseline benchmark to measure the performance of UIO investments. The Review Committee may establish a higher or lower benchmark if the risk-return characteristics of the investment warrant doing so.

2. Monitoring

Staff and Consultant will diligently monitor the performance of any UIO investment including but not limited to reviewing quarterly, annual, and other periodic reports as well as meeting with the managers periodically when appropriate. Further duties are listed in Section H. Roles and Responsibilities. The Manager Monitoring Policy may not apply to these investments due to their unique nature; managers will be monitored against the objectives and benchmarks set forth by this policy.

3. Reporting

   Performance of individual UIO investments and performance of UIO investments at the aggregated level shall be incorporated into LACERS' established reporting practices. Certain UIO investments may be subject to transparency reporting requirements per California Government Code § 7514.7.

4. Policy Review

   This policy shall be reviewed by the Board at least once every three years to determine its effectiveness and applicability under prevailing circumstances and conditions.

H. **Roles and Responsibilities**

	Role of the Board	**Role of Staff**	**Role of Consultant**
Strategy / Policy	• Approve applicable policy. • Review policy at least once every three years.	• In consultation with appropriate LACERS' consultants, develop policies, procedures, guidelines, and allocation limits for recommendation to the Board.	• Consultation and feedback.
Investment Selection & Execution	• Investment Committee (Committee) considers UIO investments for Board consideration. • Board makes final decision to approve UIO investments. • When the Committee or the Board cannot meet in time to consider a particular UIO investment the General Manager (GM), Chief Investment Officer (CIO), Committee Chairperson, and	• Identify and evaluate UIO investment ideas. • The Chief Investment Officer, in conjunction with designated senior investment division staff, will approve or reject proposed investments for due diligence and Investment Committee review. • Conduct due diligence and prepare a written report for file. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing.	• Review investment opportunities. • Assist with due diligence as appropriate. • Provide written concurrence with proposed investments

	Board President shall consider the item. If the Board approves, or, in the alternative, the GM, CIO, Committee Chairperson, and Board President unanimously approve a proposed UIO investment, staff shall execute the proposed UIO investment.	• Ensure review of relevant fund documents by the City Attorney and/or external legal counsel. • Designate source of funding for the investment and prepare written justification report for file. • Prepare written report for file to justify why a competitive bidding process was not used.	
Investment Management & Monitoring	• Review investment notification reports. • Review periodic performance reports prepared by consultants.	• Monitor investment performance relative to the appropriate benchmark. • Conduct periodic meetings with existing managers. • Prepare investment notification reports for Board. • Review periodic reports prepared by investment managers and consultants. • Fund capital calls and manage distributions when necessary. • Execute partnership amendments and consents (General Manager or designee).	• Consultation and feedback.

Investment Wind Down and Exit	• Review investment exit notification reports	• Review investment wind down and exit strategies including secondary transactions. • Prepare investment wind down and exit documents. • General Manager and Chief Investment Officer authorize secondary transactions and/or execute other documents necessary to wind down investments as situation warrants. • Prepare exit notification reports for Board.	• Provide written concurrence on secondary transactions and other investment wind down actions.

XIV. RISK MANAGEMENT POLICY

The Board implements its risk management policy by monitoring the portfolio's compliance through the adoption of investment policies, guidelines, and procedures. The Board establishes reasonable risk parameters to ensure prudence and care in the management of the System's assets, while allowing flexibility in capturing investment opportunities as they may occur.

A. Purpose

A successful investment process fully integrates practical risk management concepts into a comprehensive framework that applies to all parties that monitor or manage assets on behalf of the System, including the Board, General Fund Consultant, Staff, investment managers, and other third parties involved in the investment of System's assets. Investment risk management is essential to prudent investment of pension plan assets because it improves the likelihood that the System is adequately compensated for the risks taken, and helps to avoid unexpected and unintended investment risk.

The purpose of this Policy is to provide a comprehensive framework for the management of investment risk of the System's assets at the total System, asset class and individual manager level in support of the fiduciary obligations of the Board and consistent with governing principles and other policies of the System. It specifically defines responsibilities, objectives, processes, and risk measures pertinent to investment risks incurred when investing plan assets to meet or exceed stated pension goals and objectives.

This Policy is dynamic and expected to be updated periodically with LACERS plan objectives, technology, and regulatory and/or market environment changes.

B. Roles and Responsibilities

1. Duties of the Board

a) The Board adopts and implements the long-term investment strategy through the System's asset allocation policy. This decision drives the long term performance, exposures, and risk of the System. The asset allocation decision provides the basis for monitoring strategic ("beta") investment risk.

b) The Board is also responsible for the asset class structure decisions. This decision drives the long term excess performance and excess risk for each of the asset classes in which the System invests. The target asset class structure provides the basis for monitoring active ("alpha") investment risk.

2. Duties of the Staff:

a) Staff monitors risks associated with the investment managers in accordance with the Manager Monitoring Policy described in Section VIII. Staff evaluates both qualitative and quantitative risk factors on a regular basis and conducts the due diligence in to the context of the total plan assets.

b) Staff reviews the asset allocation as determined by the Board, on a daily basis and rebalances the portfolio according to the Rebalancing Policy in Section V.G.

c) Staff also reviews any variance from the manager's investment guidelines and notifies the manager to become compliant.

d) Staff reviews on a quarterly basis industry standard risk and return metrics of the System.

3. **Duties of the Consultant:**

a) The consultant provides quarterly performance and risk metrics for Staff's review.

b) The consultant, as described in the Asset Allocation Policy in Section IV., conducts an asset allocation study every three years, or as needed, with updated risk and return capital market expectations

c) The consultant is responsible for developing the data necessary for the risk budgets to aid in the decision making process for the Board.

The risk management processes and guidelines established below determine the amount of risk the Board may use to implement these key decisions. Consultant and Staff will establish monitoring standards and periodically update these standards as conditions warrant.

C. **Risk Guidelines**

System Level

The largest driver of the System's total risk and return comes from the strategic asset allocation as approved by the Board. The Board determines the appropriate asset allocation through an asset-liability analysis where the Board evaluates multiple decision factors in order to determine the optimal asset allocation policy. The decision factors include, but are not limited to, funding status of The System, distribution of expected returns, new cash flow and distribution of employer cost. As part of that decision making process, the Board evaluates several optimal portfolios with varying risk profiles and takes into account the actuarial discount rate assumption.

Asset Class Risk Budgets

The next greatest driver of the System's return and risk is the asset class structure. Asset class structure decisions involve determining which strategies will be included within the asset class, the allocations to these strategies, and setting the active versus passive exposure.

A "risk budget" represents the amount of active risk the Board is willing to assume for each asset class. The Board adopts a risk budgeting approach to construct, measure, and monitor asset classes that include active and passive strategies. The Board believes that this approach provides an objective and systematic yet flexible means of constructing asset classes in a way which will maximize the probability of meeting long term asset class objectives while managing the risk of its public markets asset classes in a proactive manner.

LACERS' Risk Budgeting Process

In order to arrive at the optimal risk budget objective for each asset class, the Board engages in an objective, disciplined process that will be uniformly applied to all asset classes that

include active and passive strategies. This process involves a mean variance optimization approach which employs the following inputs for each strategy under consideration by the Board:

1. Expected excess return over the asset class benchmark
2. Expected excess risk over the asset class benchmark
3. Expected correlations between strategy excess returns
4. Constraints to ensure prudent exposures to strategies and risk factors

The objective of this mean variance optimization exercise is to arrive at an excess risk target (i.e., the risk budget) which maximizes the excess return desired by the Board. The risk budget reflects the amount of excess risk the Board is willing to take for that desired excess return.

Expected Excess Return

The expected excess return (i.e., “alpha”) is the excess return a strategy should produce over a market cycle net of fees. This excess return will be forward looking based upon the following criteria:

1. Market efficiency
2. Manager’s historical information ratio
3. Strategy characteristics
4. Peer universe historical excess return

Expected Excess Risk

The expected excess risk (i.e., “tracking error”) is the excess risk of a strategy as measured by standard deviation of the excess return. This excess risk assumption can be either forward looking or based upon historical actual excess risk as produced by the strategy under consideration versus the asset class benchmark. In order for historical excess risk to be employed in the risk budgeting process, the strategy must have at least 60 months of data points. If the strategy under consideration does not have 60 months of data points, then a forward looking expected excess risk assumption will be employed.

Expected Excess Correlations

Correlation is a measure of the degree to which asset class returns move together. In structuring asset classes, the Board seeks to avoid having too much exposure to common factor risks and to maximize the diversification potential of the strategies ultimately employed within the asset class. Expected excess correlations will be calculated using historical excess (versus the asset class benchmark) returns when available. If an insufficient excess return history exists (i.e., less than 60 months of data), then Consultant or Staff will employ their respective risk analytics to determine a reasonable excess correlation on a forward looking basis.

Framework for Policy Implementation

The risk budgeting process outlined above will be conducted in conjunction with the Board's asset/liability valuation process. The frequency of this process will be at least every three years or sooner if warranted based upon changes in market conditions or benefits to plan participants. The Board may choose at that time to revise or retain its existing risk budget as a result of this process.

The risk budgeting process will also be conducted at any time a strategy or manager change is contemplated so that alternative strategies or managers can be evaluated in the context of the entire asset class structure to determine the impact on the Board's asset class risk budget. This will be done in order to objectively evaluate alternatives in a disciplined, holistic fashion. The Board may choose to revise its risk budget target as a result of this evaluation process. Additionally, the risk budgeting process will be conducted when actual excess risk has been outside of the target risk budget range for four rolling 60-month periods in order to determine whether strategy/manager allocations should be altered or replaced altogether.

D. **Measurement and Monitoring of LACERS Risk Guidelines**

The Board periodically monitors actual strategic and active asset class risks versus the Board's respective risk target and asset class risk budgets. The Board is provided periodic fund risk reports which are used to analyze, evaluate, and detail exposures and drivers of System's risks.

The focus of the Board's monitoring activity is rolling 60-month periods. The Consultant will measure and monitor strategic and active asset class expected risk and return on a quarterly basis, Staff will review the information, and report to the Board its findings, including the key drivers of risk and return, as part of the quarterly performance report.

XV. RESPONSIBLE INVESTMENT (RI) POLICY

The Responsible Investment (RI) Policy is LACERS' master policy framework that addresses Environmental, Social, and Governance (ESG) issues that are consistent with the Board's fiduciary standards and the overarching Investment Policy. The primary purpose of this policy is to outline various forms of ESG risk and to identify strategic paths and actions that can add long-term value to LACERS investments. Given the broad nature of ESG issues, the RI Policy also makes references to other existing LACERS policies and documents that specifically address environmental risk factors such as climate transition and renewable energy; social risk factors such as human rights and employment conditions; and governance risk factors such as proxy voting and influencing the behavior of corporate leadership. Conscientious development and thoughtful implementation of the RI Policy will ensure that LACERS capital will be invested and managed in a responsible manner that meets the Board's fiduciary obligations.

A. Definitions

Environmental, Social, and Governance (ESG) – refers to three broad categories of risk factors that measure the sustainability and societal impact of an investment. Please refer to Section H Scope for examples.

Responsible Investment (RI) – is the strategy and practice to incorporate material risk and return ESG factors in investment decisions and active ownership.

Principles for Responsible Investment (PRI) - a signatory membership organization comprised of global investors who have committed to understanding the investment implications of ESG factors and incorporating these factors into their investment decisions.

Sustainability – is the balance between the environment, equity, and economy. The United Nations World Commission on Environment and Development defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

ESG Integration – is the process of assessing the effect of ESG factors on investment risks and returns throughout the investment life-cycle and across all asset classes.

B. LACERS and Board's Commitment to Responsible Investing

LACERS and the Board are committed to integrating ESG risk factors into its management of the System in a manner that is consistent with the Board and Staff's fiduciary responsibilities to act in the best interest of the members, retirees, and beneficiaries of the System. This is consistent with LACERS' role as a prudent, long-term, responsible investor.

LACERS has long recognized the importance of addressing ESG risks in order to protect and enhance investment returns of the portfolio. Since the mid-1980s, LACERS has adopted several

policies to address ESG risks[4]; engaged with both listed and privately-held companies, its own investment managers, regulatory bodies, and membership organizations to improve ESG-related practices; and collaborated with like-minded institutional investors to better understand and mitigate ESG risks.

LACERS ushered in a new era in its understanding and importance of ESG when it applied to the PRI for signatory status on June 25, 2019, and was later granted signatory status on September 3, 2019. Signatories to PRI make this commitment:

> "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

Consistent with the PRI framework, LACERS bases its own ESG practices and process in order to become a more responsible investor that, in meeting its fiduciary responsibilities to its members and beneficiaries, is cognizant of how the broader societal impact of its investment decisions can likewise affect investment returns.

C. Goals

The Goals of the RI Program are:

1) That the Board of Administration fulfills its fiduciary obligations as provided by California State Constitution, Section 1106 of the City Charter, and LACERS Policies;
2) Consider material ESG risk and return factors in order to achieve superior risk-adjusted returns;
3) Explore and consider sustainable investment initiatives that align with LACERS' fiduciary duties and the RI Policy;
4) Collaborate with like-minded organizations and entities that are progressing towards responsible investing through multiple investment approaches;
5) Provide periodic progress reports to the Board.

D. Responsible Investment Framework

The RI Program serves to fulfill the goals and objectives set forth in the RI Policy and is governed by Board-approved program documents, to include:

1) Responsible Investment Policy

   The RI Policy formalizes LACERS' ESG policies and procedures to ensure that LACERS follows the direction set forth by the Board through the ESG Risk Framework, Proxy Voting Policy, Emerging Investment Manager Policy, and other subsequent Board policies and directives that may be incorporated into the RI Policy. This Policy will provide program guidance on integrating material ESG factor considerations within LACERS' Investment Program.

[4] Policies include the former Geopolitical Risk Policy (superseded by this Responsible Investment Policy), Proxy Voting Policy, and Emerging Investment Manager Policy.

2) Proxy Voting Policy

LACERS' Proxy Voting Policy supports sound corporate governance practices by aligning the interests of shareholders and corporations to build long-term sustainable growth in shareholder value. This policy provides LACERS' position and rationale for shareholder votes regarding corporate topics and issues to include (but not limited to) environmental and social issues, board of directors, election of the audit committee and appointment of external auditors, compensation of executives, shareholder rights and takeover defenses, capital structure, and corporate restructuring.

Proxy votes are cast by a proxy voting agent with the voting results monitored by staff and reported to the Board annually. Investment staff relies on research expertise and voting recommendations of its proxy voting agent when LACERS' Proxy Voting Policy is either silent or not directly applicable to the issue as stated on the proxy ballot.

3) Emerging Investment Manager Policy

The objective of LACERS Emerging Manager Policy is to identify investment firms with the potential to add value to the LACERS' investment portfolio that otherwise would not be identified by LACERS standard investment manager search and selection process. The Board believes that smaller investment organizations may generate superior returns because of the increased market flexibility associated with smaller asset bases.

4) PRI Action Plan

To ensure that LACERS continues to advance, progress, and continually develop its RI Program, an operational PRI Action Plan ("Plan") developed by staff was approved by the Board on November 12, 2019, with subsequent amendments. The Plan outlines initiatives and recurring activities that LACERS may pursue over a near-term horizon of approximately four years. The Plan is divided among broad functional categories: 1) policy; 2) operational; 3) research; and 4) collaboration and promotion. The Plan does not contain an exhaustive list of ESG initiatives that LACERS could pursue, but a feasible set of initiatives and actions that will allow LACERS to maintain a commitment to PRI and ultimately its ardent support of ESG. The Plan is updated and reviewed by the Board on an annual basis.

5) ESG Risk Framework

The Framework is a dynamic document, subject to changes based on economic outlook, market assumptions, and the Board's sensitivity and prioritization of material ESG issues. As LACERS continues to integrate and assess material and relevant ESG factors through this critical risk lens, staff will continue to adopt best practices and recommend to the Board appropriate Framework adjustments to keep its Investment Program and ESG initiatives focused squarely on the best interests of LACERS members and beneficiaries.

E. Responsible Parties and Roles

The roles and responsibilities surrounding the RI Policy are defined by the Board; several of those responsibilities are delegated to staff (including staff of the City Attorney's Office), consultants

and advisers, and investment managers to ensure a cost-efficient and effective implementation, as outlined in the matrix below.

Responsible Parties and Roles			
Board	**Staff**	**Consultants / Advisers**	**Investment Managers**
- Governance - Policy Setting - Oversight	- Due Diligence - Engagement - Implementation and Compliance - Policy Recommendations - Legal Guidance and Opinions via City Attorney's Office - Vote on PRI matters to include PRI election of board, auditor, governance measures; fulfilling other routine administrative and compliance requirements and requests	- Provide ESG education to the Board and Staff - Furnish research reports, customized reports, and other tools to understand current trends in ESG - Advise on Policy Matters	- Implement ESG directives and actions - Interpret and assess ESG risks and its impact on LACERS portfolio - Inform LACERS staff of any material ESG issues - Report ESG activities to LACERS to meet PRI Reporting requirements

F. Legal Framework

1. Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members and beneficiaries takes precedence over any other duty.

The System is sensitive to concerns that ESG and other risk factors may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Investments shall not be selected or rejected based solely on ESG or other risk factors. However, consideration of material ESG risk factors alongside traditional financial factors should provide a better understanding of the risk and return characteristics of sustainable investments.

Sustainable returns over long periods of time are in the economic interest of the System. Importantly, the System's ownership of securities in a corporation does not signify approval of any or all of a company's policies, products, or actions.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles and Article XVI, Section 17 of the California Constitution for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the required purpose of the System, as mandated by the City Charter:

"(1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; (2) to minimize City contributions; and (3) to defray the reasonable expenses of administering the system."[5]

The Board's "duty to system participants and their beneficiaries shall take precedence over any other duty."[6] In furtherance of this purpose, the Board shall have "sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for the exclusive purposes of: (1) providing benefits to system participants and their beneficiaries; and (2) defraying the reasonable expenses of administering the system."[7]

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, the primary consideration of the Board has been its implementation of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

2. Performance Priority

LACERS has a fiduciary duty to act in the best long-term interests of the System's beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that ESG issues may affect the performance of the investment portfolio. Through the years, the Board has adopted various policies to address ESG risks, with an emphasis on social and governance issues.

The System's general investment goals are broad in nature. The following goals are adopted to be consistent with the above described purpose, the City Charter, the State Constitution, and applicable federal law:

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[5] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

[6] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

[7] L.A. Charter § 1106(b); Cal. Const. Art. XVI, §17(a).

Section 10 RESPONSIBLE INVESTMENT POLICY

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.[8]

D. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article XVI, Section 17 of the California State Constitution.

E. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

G. Investment actions are expected to comply with "prudent person" standard, with all duties discharged:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." [9]

[8] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).

[9] L.A. Charter § 1106(c); Cal. Const. Art. XVI, §17(c); ERISA § 404(a)(1)(B).

This "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

H. The System is required to "[d]iversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.[10]

3. Impact Priorities

In conjunction with LACERS' fiduciary responsibilities, Staff will also take into consideration the materiality of the ESG risk in LACERS' investment. The Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's ESG risk factors on investment returns.

G. Responsible Investment Mobilization Framework

Consistent with its fiduciary responsibilities, LACERS supports ESG within an implementation framework based on the Six Principles of PRI outlined below with examples of how LACERS supports these Principles:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- Staff will seek to incorporate relevant and material ESG considerations into LACERS' investment due diligence, decision-making, and monitoring processes for all of its external managers. Investment recommendations consider the manager's ESG policies and practices, focusing on the risks, opportunities, and standards relevant to the investment under consideration. LACERS' Investment Consultants will be directed to include relevant ESG commentaries in their independent diligence documentation.

[10] L.A. Charter § 1106(d); Cal. Const. Art. XVI, §17(d).

- LACERS will support development of ESG-related tools, metrics, and analyses; investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) are encouraged to integrate ESG factors into evolving research and analysis.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

- LACERS' RI Policy is updated annually or more frequently as needed to consider new ESG issues and evolving risk factors.

- LACERS' PRI Action Plan, which is a living document, outlines proposed multi-year actions for each of the Six Principles, and is updated annually.

- LACERS' Emerging Investment Manager Policy supports emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk.

- LACERS' Proxy Voting Policy provides proxy voting guidance on ESG risks and is updated annually.

- Staff will participate in the development of ESG and ESG-related policies, standard setting (such as promoting and protecting shareholder rights), file shareholder resolutions consistent with long-term ESG considerations, engage with companies on ESG issues, either through intervention with investment managers or directly to the company, and participate in collaborative engagement initiatives such as securities litigation.

- LACERS will advocate ESG training for the Board and staff as well as attend ESG-related conferences.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Staff and/or Consultants will consider standardized questionnaires to Investment Managers for ESG disclosures.

- LACERS will support shareholder initiatives and resolutions promoting ESG disclosure.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

- Individually and in collaboration with other investors and thought-leadership organizations, LACERS will promote acceptance and implementation of ESG best practices within the investment industry.

- LACERS' division letterhead and website will highlight LACERS PRI Signatory Status. LACERS may provide press releases, include principles-related requirements in requests for proposals (RFPs), and sit on ESG conference panels to reflect LACERS' promotion and acceptance of ESG.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Staff will keep abreast of PRI Reporting changes and provide (at a minimum) an annual staff report to the Board and submit recommendations for Board consideration to improve its implementation of ESG actions.

- LACERS will support and participate in networks and information platforms to share tools, pool resources, make use of investor reporting as a source of learning, and develop or support appropriate collaborative initiatives.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

- As part of its commitment to the PRI, LACERS shall report its progress in implementing the PRI's Six Principles through both the PRI Annual Report and LACERS annual PRI Action Plan Report to the Board.

- LACERS shall continue to foster open communication with LACERS members by responding to the Freedom of Information Act (FOIA) and California Public Records Act (CPRA) Requests.

H. Scope

The scope of the RI Policy encompasses the entire investment portfolio to the extent it is prudent and practicable. The broad and specific ESG Risk Factors provided in the table below are examples and additional risk factors may not have been specifically listed below. The risk factors may have varying degrees of risk impact and unique risk mitigation measures depending on the asset class or investment strategy type. In addition, specific ESG risk factors are dynamic and may be impactful to more than one broad ESG risk factor.

Broad and Specific ESG Risk Factors

Environmental
• Climate Change
• Resource Depletion

• Waste • Pollution • Deforestation
Social • Human Rights • Modern Slavery • Child Labor • Working Conditions • Employee Relations • Diversity, Equity, and Inclusion • Gender and Sexual Orientation Pay Equality • Discrimination based on Race, Gender including Women, Age including Senior Citizens and Children, Sex, Sexual Orientation, LGBTQIA+, Disability, Veterans Status, Language, or Social Status • Freedom of Speech and Press • Right to Civil Liberties including Speech and Press, Peaceful Assembly and Association, Freedom of Religion, National Origin /Racial/Ethnic Minorities, Freedom of Movement within a Country, Foreign Travel, Emigration, and Repatriation • Freedom of Civil Unions/Same Sex Marriage
Governance • Bribery and Corruption • Executive Pay • Board Diversity and Structure • Political Lobbying and Donations • Tax Strategy • Right of Citizens to Change their Government

I. Stewardship

LACERS will focus its engagement efforts on Board directed stewardship initiatives, that are core to LACERS belief that consideration of ESG risk factors can add long-term value to LACERS investments. In addition, LACERS receives requests from stakeholders, fellow investors, and other interested parties to engage on particular issues. These ad-hoc requests are analyzed in consultation with the City Attorney in order to take best course of action to meet LACERS needs.

J. Identifying and Mitigating Material ESG Risks within the Portfolio

LACERS staff will research and keep the Board apprised of material and relevant ESG issues, initiatives, and collaboration opportunities, and take into account actions of other like prudent investors using the process outlined below:

1. Once ESG risks factors of material significance within the portfolio have been identified and discussed with the ESG Consultant, staff will bring such risks to the attention of the Board.

2. LACERS Board may decide at any point after considering research and staff findings that further action of various degrees of magnitude and impact may be appropriate and necessary to mitigate risk factors. This Policy identifies four distinct action levels that may be implemented, subject to Board direction:

Action Level	Possible Action(s) to include but not limited to:	Responsible Parties	Estimated Risk to Plan Assets
1	*Relationship Initiatives:* Collaboration with other Agencies Engagement/Advocacy Letters Joint-Agency Endorsements Company Presentations to LACERS Board Disassociation with Misaligned Organizations Outreach/Association with Emerging Managers Discussion at Advisory Board Meetings or Annual Meetings of Private Market Funds	Staff Consultants Industry Organizations Agencies	**None** Level 1 actions do not include any portfolio restructurings resulting in virtually no discernable adverse risks to portfolio valuations.
2	*Policy Implications/Contractual:* Proxy Voting Amendments Investment Manager Guidelines Investment Policy Amendments Contract Side Letter Provisions	Staff Consultant(s) Investment Managers Proxy Voting Agent City Attorney	**None to Medium** Level 2 actions do not include significant portfolio restructurings but may have an indirect impact on portfolio management, investment valuations, or investment manager relationships.
3	*Strategic Investment Approaches:* ESG-Sensitive Strategies Climate-related Investment Strategies Socially Responsible Investment Strategies Corporate Governance Investment Strategies	Staff Consultant(s) Investment Mangers	**Low to Medium** Level 3 actions may have a direct impact on individual portfolios due to removal, substitution, or addition of mandates. Such actions may impact performance; implementation risk and costs; fee structures; tracking error; create opportunity costs.
4	*Restructure:* Security/Securities Divestment Sale of Partnership Interests Portfolio Restructure Termination of Investment Managers	Staff Consultant(s) Investment Managers Transition Managers Bank Custodian	**Medium to High** Level 4 actions may lead to immediate and significant realized losses due to market illiquidity; tracking error; transition management risk; timing and implementation risks; create opportunity costs; sub-optimal asset allocation structure misaligned with approved Asset Allocation Policy.

3. The Board will consider such investment actions only to the extent they are consistent with the Board's fiduciary duties.
4. Staff will implement Board investment actions in an orderly, cost- efficient, and risk-mitigating manner.
5. Staff will provide the Board with periodic verbal updates or formal written reports on investment action status.
6. Staff will communicate Board decisions to the System's active public investment managers to adhere to the Board's actions going forward and work with its bank custodian to assist with further monitoring of ESG risk factors. If consistent with existing contractual agreements and appropriate to the investment mandate, such Board decisions will be communicated to appropriate private market investment managers.
7. The Board may wish to pursue other options to mitigate ESG risk factors and/or enhance the Investment Program through long-term ESG investment approaches.

K. Engagement Campaigns

Engagement with other like-minded organizations helps LACERS leverage its beliefs and promotion of ESG principles for the benefit of its beneficiaries. As LACERS becomes aware of engagement opportunities via letter campaigns (Campaigns), staff will bring the most impactful Campaign requests to the Board for review and consideration. Campaigns may request several actions including LACERS placing its name on the Campaign sponsor's master letter or request that LACERS send an independent letter to the targeted organization. If a Campaign deadline does not permit adequate time to bring the letter request to the Board for consideration, the Board delegates specific authority to the General Manager (GM), the Chief Investment Officer (CIO), and the LACERS Board President to support and endorse a Campaign. If the GM, CIO, and Board President reach consensus to support a Campaign, the CIO shall report the action to the Board at its next meeting. If the GM, CIO, and Board President do not reach a consensus on a Campaign, LACERS will take no action.

L. ESG Education

To stay apprised of ESG-related matters, LACERS will leverage research and education provided by industry organizations, investment managers, investment consultants, membership organizations, and peer plans. LACERS will actively participate at ESG conferences to understand better the evolving ESG landscape. Additionally, LACERS will participate in industry working groups to explore and research ESG issues to include (but not limited to) diversity, equity, and inclusion within the investment industry and the impact of regulatory reform on corporate governance and shareholders.

Staff, in conjunction with LACERS' ESG Consultant and investment managers, will invite leaders in ESG to provide further education to the Board including latest trends, regulations, issues, and best practices.

M. Scope of Reporting

To monitor the implementation of LACERS RI Program and ensure that it continues to develop and evolve, this policy will be provided to the Board or the appropriate Committee for review on an annual basis or more frequently as needed.

The following reports will be reported accordingly:

1) PRI Progress Board Report – LACERS is required to complete the annual PRI Questionnaire about LACERS portfolio and ESG efforts. Once results of the Questionnaire are provided to LACERS, the Board will be provided a summary of the findings.

2) PRI Action Plan – The Plan will be reviewed with the Board once a year to ensure that LACERS is meeting its ESG goals.

3) ESG Risk Framework – Staff will monitor the status of initiatives and on-going actions against time-bound objectives. These initiatives and actions will be incorporated into the PRI Action Plan. The Framework will be reviewed in conjunction with the PRI Action Plan review.

4) Proxy Voting Report – The Annual Proxy Voting Report contains an account of LACERS voting history and is provided annually to the Investment Committee.

5) Emerging Investment Manager Report – The Annual Emerging Investment Manager Report contains program information specific to LACERS Emerging Managers, and includes capital exposure statistics, investment manager performance, and staff and consultant meetings and other encounters with Emerging Managers. In addition to the aforementioned, an Organizational Diversity Survey (ODS) is completed by prospective and contracted investment managers of LACERS that captures workforce, board, and ownership diversity. The Emerging Investment Manager Report is provided annually to the Investment Committee; the ODS is managed pursuant to the Emerging Investment Manager Policy.

Section 11 PROXY VOTING POLICY

XVI. PROXY VOTING POLICY

A. Introduction

As good corporate governance practices are widely believed to increase shareholder value, public retirement systems across the country are becoming more active in encouraging good corporate governance practices among companies in which they own stock.

As such the core objectives of LACERS Proxy Policy are:

1. Manage proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing other assets.
2. Exercise proxy voting rights in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policy.
3. Provide a framework for voting shares responsibly and in a well-reasoned manner.
4. Align the interests of shareowners and corporate management to build long-term sustainable growth in shareholder value for the benefit of the System.

These primary objectives shall be considered whenever the Board and/or Governance Committee considers policy, reviews proxy voting issues, recommends corporate governance investment activities, or takes other corporate governance-related actions.

B. Statement of Purpose

The Board has formulated this policy to provide a guideline for proxy voting. This policy is set forth in the best interest of LACERS investment program to support sound corporate governance practices that maximize shareholder value.

All applications of this policy are executed by an outside proxy voting agent. The policy will be reviewed on a biennial basis, or more frequently as needed. The proxy voting agent provides quarterly voting reports summarizing all votes cast during that time period. These reports are reviewed for compliance with the proxy voting policy.

Section 11 PROXY VOTING POLICY

1. BOARD OF DIRECTORS

Electing directors is the single most important stock ownership right that shareholders can exercise. Shareholders can promote healthy corporate governance practices and influence long-term shareholder value by electing directors who share shareholder views. In evaluating proxy items related to a company's board, director accountability, independence and competence are of prime importance to ensure that directors are fit for the role and best able to serve shareholders' interests.

No.	Issue	LACERS Position	Rationale
1.1	ELECTION OF DIRECTORS IN UNCONTESTED ELECTIONS	LACERS supports company management in principle VOTING AGENT'S DISCRETION	It is prudent to vote for the prescribed full slate of directors as long as the slate of directors will conduct themselves in the best interest of the shareholders. Director nominees should be evaluated based on accountability, responsiveness to shareholders, independence from company management, and competence and performance.
1.2	BOARD INDEPENDENCE	FOR	At a minimum, a majority of the board should consist of directors who are independent. Corporate boards should strive to obtain board composition made up of a substantial majority (at least two-thirds) of independent directors.
1.3	MAJORITY THRESHOLD VOTING FOR THE ELECTION OF DIRECTORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim his or her seat in the boardroom. Even if holders of a substantial majority of the votes cast "withhold" support, the director nominee wins the seat. Under the majority vote standard, a director nominee must receive support from holders of a majority of the votes cast in order to be elected (or re-elected) to the board. In contested elections where there are more nominees than seats, a carve-out provision for plurality should exist.
1.4	SEPARATE CHAIR AND CEO	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A CEO who also heads a board is less accountable than one who must answer to an independent chairman as well as fellow directors. However, there could be times when it makes sense for one person to wear two hats. On balance, there appears to be more gained and less lost from separating the two jobs at major companies. The Board generally favors the separation of the chairman and CEO. However, the Board believes it may be in the best interests of a corporation and the shareholders to have one person fulfilling both positions in smaller companies.

Section 11 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
1.5	LIMITING BOARD SIZE	FOR	Proposals that allow management to increase or decrease the size of the board at its own discretion are often used by companies as a takeover defense. Shareholders should support management proposals to fix the size of the board at a specific number of directors, thereby preventing management (when facing a proxy contest) from increasing the size of the board without shareholder approval.
1.6	COMMITTEE INDEPENDENCE	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	The key board committees – audit, compensation, and nominating committees – should be composed exclusively of independent directors if they currently do not meet that standard. The company's board (not the CEO) should appoint the committee chairs and members. Committees should be able to select their own service providers to assist them in decision making.
1.7	DIRECTOR QUALIFICATIONS AND RESTRICTIONS Requires directors to own a minimum amount of stock; impose tenure limits; establishing a minimum or maximum age requirement	AGAINST	Establishing a minimum amount of stock ownership could preclude very qualified candidates from sitting on the board. Tenure limits and age restrictions could force out experienced and knowledgeable board members.
1.8	LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS	CASE-BY-CASE VOTING AGENT'S DISCRETION	This indemnifies corporate officers and directors against personal liability suits as a result of their official status. This indemnification is necessary to attract and keep the best-qualified individuals. However, officers' and directors' liability should not be limited or fully indemnified for acts that are serious violations of fiduciary obligations such as gross negligence or intentional misconduct.
1.9	OBLIGATION OF BOARDS TO ACT ON SHAREHOLDER PROPOSALS RECEIVING MAJORITY SUPPORT To ensure that the voices of the owners of the firm are heard.	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Boards are responsible for ensuring that the voices of the owners of the firm are heard. If the majority of shareholders have indicated they desire a particular governance change, the board should support the proposal in question.
1.10	DIRECTOR REMOVAL BY SHAREHOLDERS	FOR	Shareholders should have the right to remove directors or fill director vacancies. Lack of such a policy could allow management to protect themselves from various shareholder initiatives.

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No.	Issue	LACERS Position	Rationale
1.11	SHAREHOLDER ADVISORY COMMITTEES	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	It is often difficult for directors to communicate to and hear from shareholders, because shareholders tend to be numerous, unidentified, dispersed, and silent. This proposal establishes committees of shareholders to make communication easier and more effective. However, establishment of such committees can be time consuming and expensive. The Board prefers the establishment of such committees where there is no other available mechanism to communicate with the company boards.
1.12	PROXY CONTESTS	CASE-BY-CASE VOTING AGENT'S DISCRETION	A proxy contest is a strategy that involves using shareholders' proxy votes to replace the existing members of a company's board of directors. By removing existing board members, the person or company launching the proxy contest can establish a new board of directors that is better aligned with their objectives. Proxy contests should be examined on a case-by-case basis considering factors such as the company's performance relative to peers, strategy of incumbents vs. dissidents, experience of director candidates, current management's track record, etc.
1.13	REIMBURSEMENT OF PROXY SOLICITATION EXPENSES	CASE-BY-CASE VOTING AGENT'S DISCRETION	Most expenditures incurred by incumbents in a proxy contest are paid by the company. In contrast, dissidents are generally reimbursed only for proxy solicitation expenses, if they gain control of the company. Dissidents who have only gained partial representation may also be reimbursed in cases where the board and a majority of shareholders approve. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation.
1.14	LACK OF WOMEN REPRESENTATION ON CORPORATE BOARDS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	LACERS supports the election of women directors to corporate boards. LACERS encourages companies to have at least one diverse woman director who identifies as a member of an underrepresented group.[1] Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board. An exception will be made if there was a woman on the company's board at the preceding annual meeting and the board makes a firm commitment to add one or more women directors within a year. [1]Including but not limited to individuals identifying as Black or African American, Hispanic or Latinx, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander; individuals identifying as LGBTQIA+; individuals with disabilities; and veterans.

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1.15	DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Absent compelling, publicly disclosed reasons, directors who attend fewer than 75 percent of board and board-committee meetings for two consecutive years should not be renominated. Companies should disclose individual director attendance figures for board and committee meetings.
1.16	CLIMATE ACCOUNTABILITY	LACERS strongly supports this issue VOTING AGENT'S DISCRETION	For companies that are significant greenhouse gas (GHG) emitters, as identified by the Climate Action 100+ Focus Group list, LACERS will vote against incumbent directors in cases where the company is not taking at least the following steps necessary to understand, assess, and mitigate risk related to climate change to the company: 1) Providing detailed disclosure of climate-related risks as established by the Task Force on Climate-related Financial Disclosures (TCFD) or other reputable reporting framework; and 2) Establishing quantitative GHG emission reduction targets covering at least a significant portion of the company's direct emissions. LACERS generally will support directors that support climate accountability.
1.17	COMMON STOCK CAPITAL STRUCTURE WITH UNEQUAL VOTING RIGHTS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Generally abstain from voting or vote against directors, committee members, or the entire board (except new nominees, who should be considered case-by-base), if the company employs a common stock structure with unequal voting rights.

2. AUDIT-RELATED

Shareholders must rely on company-produced financial statements to assess company performance and the values of their investments. External auditors play an important role by certifying the integrity of these financial reports provided to shareholders. To ensure that an external auditor is acting in shareholders' best interest, the auditor must be independent, objective, and free of potential conflicts of interest.

No.	Issue	LACERS Position	Rationale
2.1	RATIFYING AUDITORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	The Board generally supports a company's choice of audit firms unless an auditor has a financial interest in or association with the company and is therefore not independent; there is reason to believe that the independent auditor has rendered an inaccurate opinion of the company's financial position; or fees are excessive as defined by ISS (Non-audit fee > audit fees + audit related fees + tax compliance/preparation fees).
2.2	LIMITING NON-AUDIT SERVICES BY AUDITORS	FOR	Auditor independence may be impaired if an auditor provides both audit-related and non-audit related services to a company and generates significant revenue from these non-audit services. The Board believes that a company should have policies in place to limit non-audit services and prevent conflicts of interest.
2.3	ROTATION OF AUDITORS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A long-standing relationship between a company and an audit firm may compromise auditor independence for various reasons including an auditor's closeness to client management, lack of attention to detail due to staleness and redundancy, and eagerness to please the client. Enron and Anderson is a prime example of this situation. The Board believes it may be prudent to rotate auditors every 5 to 7 years.
2.4	ELECTION OF THE AUDIT COMMITTEE Section 404 of the Sarbanes-Oxley Act requires that companies document and assess the effectiveness of their internal controls. The Audit Committee should be comprised of the independent directors	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Companies with significant material weaknesses identified in the Section 404 disclosures potentially have ineffective internal financial reporting controls, which may lead to inaccurate financial statements, hampering shareholder's ability to make informed investment decisions, and may lead to the destruction in public confidence and shareholder value. The Audit Committee is ultimately responsible for the integrity and reliability of the company's financial information, and its system of internal controls, and should be held accountable.

3. COMPENSATION

The Board endorses executive compensation plans that align management and shareholders' interest. Executive pay programs should be fair, competitive, reasonable, and appropriate. Pay-for-performance plans should be a central tenet of executive compensation and plans should be designed with the intent of increasing long-term shareholder value. Executives should not be incentivized to take excessive risks that could threaten long-term corporate viability and shareholder value.

No.	Issue	LACERS Position	Rationale
3.1	EXECUTIVE COMPENSATION APPROVED BY THE BOARD OF DIRECTORS	FOR	While some corporations allow compensation issues to be left to management, it is more prudent to have a compensation committee, composed of independent directors, approve, on an annual basis, executive compensation, including the right to receive any bonus, severance or other extraordinary payment. If a company does not have a compensation committee, then executive compensation should be approved by a majority vote of independent directors. The Board normally prefers to support the company's recommendation of executive compensation issues.
3.2	INDEPENDENT COMPENSATION CONSULTANT	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A company's board and/or compensation committee should have the power to hire an independent consultant – separate from the compensation consultants working with corporate management – to assist with executive compensation issues to avoid conflicts of interest. Disclosure should be provided about the company's, board's, and/or compensation committee's use of compensation consultants, such as company name, business relationship(s) and fees paid.
3.3	PAY FOR PERFORMANCE	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	A significant portion of an executive's pay should be tied to performance over time through the use of short and long-term performance-based incentives to align management and shareholders' interests. From a shareholders' perspective, performance is gauged by the company's stock performance over time. The attainment of executives' incentive goals should ultimately translate into superior shareholder returns in the long-term. Standard stock options and time-vested restricted stock are not considered performance-based since general market volatility alone can increase their value.
3.4	ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – SHAREHOLDER PROPOSALS	FOR	A non-binding "say on pay" vote would encourage the board's compensation committee to be more careful about doling out unduly rich rewards that promote excessive risk-taking. It also would be a quick and effective way for a board to gauge whether shareowners think the company's compensation practices are in their best interests.

Section 11 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
3.5	ADVISORY VOTES ON COMPENSATION (SAY ON PAY) – MANAGEMENT PROPOSALS	CASE-BY-CASE VOTING AGENT'S DISCRETION	The advent of "say on pay" votes for shareholders in the U.S. is providing a new communication mechanism and impetus for constructive engagement between shareholders and managers/directors on pay issues. In general, the management say on pay (MSOP) ballot item is the primary focus of voting on executive pay practices -- dissatisfaction with compensation practices can be expressed by voting against MSOP rather than withholding or voting against the compensation committee.
3.6	SAY ON PAY BALLOT FREQUENCY	FOR	The Board supports an annual MSOP for many of the same reasons it supports annual director elections rather than a classified board structure: because it provides the highest level of accountability and direct communication by enabling the MSOP vote to correspond to the information presented in the accompanying proxy statement for the annual shareholders' meeting. Having MSOP votes only every two or three years, potentially covering all actions occurring between the votes, would make it difficult to create meaningful and coherent communication that the votes are intended to provide.
3.7	STOCK OPTION PLANS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Stock options align the interests of management with the interests of shareholders. The Board prefers that options should be issued at or above fair market value. There should be no re-pricing of underwater options (stock options with little or no value due to poor performance), nor should there be a replenishment feature (automatic increases in the shares available for grant each year). Management must monitor the amount of dilution that stock options create. The total cost of the stock option plan should be reasonable relative to peer companies. The Board normally supports the use of stock options as a part of executive and management compensation.
3.8	HOLDING PERIOD FOR EQUITY COMPENSATION AWARDS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Executives should be required to hold a substantial portion of their equity awards, including shares received from option exercises, while they are employed at a company or even into retirement. Equity compensation awards are intended to align management interests with those of shareholders, and allowing executives to sell or hedge these shares while they are employees of the company undermines this purpose.
3.9	EXCLUDING PENSION FUND INCOME	FOR	Earnings generated by a pension plan should not be included for executive compensation purposes.

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No.	Issue	LACERS Position	Rationale
3.10	CLAWBACK OF INCENTIVE PAY	FOR	A company should recoup incentive payments made to executives and former executives if it is determined that the incentives were calculated from erroneous data, such as fraudulent or misstated financial results, and these incentive payments would not have been earned if correctly calculated.
3.11	GOLDEN PARACHUTES Golden parachutes are compensation arrangements that pay corporate managers after they leave their positions.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Golden parachutes can have a number of positive results: they can reduce management resistance to change, they help attract and retain competent talent, and they provide appropriate severance. Excessive golden parachutes not offered to other employees can damage their morale and can have a dilutive effect on shareholder wealth. A general rule is that the parachute should not exceed three times base salary. The Board is opposed to the payment of excessive executive compensation. Therefore, golden parachute agreements should be submitted to shareholders for ratification.
3.12	CHANGE OF CONTROL TRIGGERING UNJUSTIFIED ACCRUAL OF BENEFITS	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	A change of control event should not result in an acceleration of vesting of all unvested stock options or lapsing of vesting/performance requirements on restricted stock/performance shares, unless there is a loss of employment or substantial change in job duties for an executive.
3.13	GOLDEN COFFINS	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Golden coffins are death-benefit packages awarded to the heirs of high ranking executives who die during employment with a company. Benefits awarded can include, but are not limited to, unearned salary and bonuses, accelerated stock options and perquisites. The Board is against excessive executive compensation, but recognizes that offering golden coffin benefits may be necessary to attract top talent.
3.14	SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPS)	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	SERPs are executive-only retirement plans designed as a supplement to employee-wide plans. These plans may be structured to contain special provisions not offered in employee-wide plans such as above market interest rates and excess service credits. Incentive compensation may also be used in calculating retirement benefits, resulting in better benefit formulas than employee-wide plans and increased costs to the company. The Board supports SERPs if these plans do not contain excessive benefits beyond what is offered under employee-wide plans.
3.15	PROPOSALS TO LIMIT EXECUTIVE COMPENSATION OR OTHER BENEFITS	AGAINST	Executive pay should not have a blanket limit such as being capped at a specified multiple of other workers' pay. There should not be an absolute limit to retirement benefits, nor a mandate that stipulates that there be salary reductions based on corporate performance.

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No.	Issue	LACERS Position	Rationale
3.16	DIRECTOR COMPENSATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	This is normally automatically approved unless the program is exceptional or abusive. Directors should be compensated with a mix of cash and stock, with the majority, but not all, of the compensation in stock to align their interests with shareholders. There should be no blanket limits on directors' compensation, but pay should be commensurate with expected duties and experience. The Board normally prefers to support company management's decision. The Board prefers that compensation issues be decided by a majority vote of the independent directors.
3.17	NON-EMPLOYEE DIRECTOR RETIREMENT BENEFITS	AGAINST	Since non-employee directors are elected representatives of shareholders and not company employees, they should not be offered retirement benefits, such as defined benefit plans or deferred stock awards, nor should they be entitled to special post-retirement perquisites.
3.18	DISCLOSURE OF EXECUTIVE COMPENSATION	FOR	The Board supports shareholder proposals seeking additional disclosure of executive compensation.
3.19	EMPLOYEE STOCK OWNERSHIP PROGRAMS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	On one hand, ESOPs have the potential for motivating and rewarding employees. On the other hand, there is concern about their use as management entrenchment devices and their potential dilutive effects on existing shareholder value. The Board believes that future purchasers must bear the same risk as current shareholders. Employee wealth obtained through stock ownership should be tied to shareholder value. The Board prefers no retroactive compensation. The Board supports the use of ESOPs.
3.20	401(K) EMPLOYEE BENEFIT PLANS	FOR	A 401(k) plan provides a highly visible benefit to employees that can be used to attract and retain quality personnel. The Board supports proposals to implement a 401(k) savings plan for employees.
3.21	OMNIBUS BUDGET RECONCILIATION ACT (OBRA) OF 1993 - RELATED COMPENSATION PROPOSALS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	IRS Section 162(m) of OBRA, prohibits a company from deducting more than $1 million of an executive's compensation for tax purposes unless certain prescribed actions are taken to link compensation to performance such as establishment of performance goals by a compensation committee of outside directors and shareholder approval of the compensation plan. The Board generally supports proposals to approve new compensation plans or amend existing compensation plans to comply with Section 162(m) if the company can obtain tax benefits and increase shareholder value, and the plans do not result in excessive executive compensation.

4. SHAREHOLDER RIGHTS & TAKEOVER DEFENSES

Companies should feature shareholder rights in their corporate governance principles to allow shareholders the opportunity to participate directly in monitoring management. A 2003 study by the National Bureau of Economic Research found that "firms with weaker shareholder rights earned significantly lower returns, were valued lower, had poor operating performance, and engaged in greater capital expenditure and takeover activity."

No.	Issue	LACERS Position	Rationale
4.1	ACCESS TO PROXY PROCESS	FOR	Access proposals allow shareholders who own a significant number of shares to access management's proxy material to evaluate and propose voting recommendations on proxy proposals and director nominees, and to nominate their own candidates to the board. These proposals are based on the belief that shareholder access rights provide for increased corporate accountability and healthy communication.
4.2	ADVANCE NOTICE REQUIREMENTS	LACERS supports this issue in principle. VOTING AGENT'S DISCRETION	Advance notice bylaws, holding requirements, disclosure rules and any other company imposed regulations on the ability of shareholders to solicit proxies beyond those required by law should not be so onerous as to deny sufficient time or otherwise make it impractical for shareholders to submit nominations or proposals and distribute supporting proxy materials.
4.3	CLASSIFIED BOARDS AND STAGGERED BOARDS A structure for a board of directors in which a portion of the directors serve for different term lengths.	LACERS opposes this issue in principle. VOTING AGENT'S DISCRETION	Although shareholders need some form of protection from hostile takeover attempts, and boards need tools and leverage in order to negotiate effectively with potential acquirers, a classified board tips the balance of power too much toward incumbent management at the price of potentially ignoring shareholder interests.
4.4	CONFIDENTIAL VOTING A shareholder's voting position is kept confidential.	FOR	Shareholders over whom management have some power (for example, employee shareholders, money managers who stand to gain or lose company business, banks, insurance companies and companies with interlocking boards) may be deterred from voting against management if they know their votes will become known to management. Companies that can discover who is voting in which way prior to the meeting also have an advantage not enjoyed by any shareholder supporting or opposing any issue on the ballot, and in targeting those shareholders who vote against management and pressuring them to change their votes.

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No.	Issue	LACERS Position	Rationale
4.5	CUMULATIVE VOTING Allows each shareholder to take the voting rights he or she has with respect to director candidates and accumulates them to vote for only one director, or for a smaller number of directors.	FOR	Cumulative voting enhances shareholders' abilities to elect a single director or a small number of directors, thus increasing their ability to have a voice on the board even when they lack the voting power to affect change-in-control or other major decisions. Some fear that allowing cumulative voting can allow or encourage disruptive or predatory shareholders.
4.6	SHAREHOLDER'S RIGHT TO ACT INDEPENDENTLY OF MANAGEMENT -- CALLING SPECIAL MEETINGS AND ACTING BY WRITTEN CONSENT	FOR	These include giving shareholders the ability to call a special meeting of shareholders without management's consent, and the ability to act by written consent (saving the costs and difficulties of holding a meeting). Most corporations support the retention, restoration, or creation of these rights. Shareholders need realistic mechanisms to protect their interests in situations where their interests are not aligned with management interest.
4.7	SUPERMAJORITY PROVISIONS Voting majority that is higher than those set by state law.	AGAINST	Sets a level of approval for specified actions that is higher than the minimum set by state law. These requirements often exceed the level of shareholder participation at a meeting, making action that requires a supermajority all but impossible.
4.8	LINKED (BUNDLED) PROPOSALS Combining more than one proposal.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Linked proposals often include "sweeteners" to entice shareholders to vote for a proposal (that includes other items) that may not be in the shareholders' best interest. The Board normally opposes linked proposals where one or more of the linked proposals is in opposition to the Board's proxy position.
4.9	VOTES TO ABSTAIN MEANS A CASTED VOTE	FOR	Counting abstained votes in the total pool of all votes cast.
4.10	BROKER VOTING RESTRICTIONS	FOR	Broker non-votes and abstentions should be counted only for purposes of a quorum.
4.11	FAIR PRICING	FOR	Fair price provisions prevent two-tier tender offers in which a buyer offers a premium price for only enough shares to obtain a controlling interest. It is unfair to pay some shareholders (those that did not tender in the first group) less than other shareholders.
4.12	GREEN MAIL Greenmail is the practice of shareholders accumulating a large block of stock in a company, then selling the stock back to the company at an above market price in exchange for agreeing not to attempt to take control for a lengthy period of time.	AGAINST	A vote of the holders of a majority of the outstanding shares of common stock, regardless of class, shall be required to approve any corporate decision related to the finances of a company which will have a material effect upon the financial position of the company and the position of the company's shareholders.

Section 11 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
4.13	POISON PILLS A method used by boards, which prevent anyone from acquiring a large portion of the company stock for a corporate takeover.	LACERS opposes this issue in principle VOTING AGENT'S DISCRETION	Poison pills can consist of a wide variety of provisions adopted by boards without shareholder approval, designed to make it financially unattractive – indeed, often financially devastating – for a shareholder to purchase more than a small percentage of the company's stock, often by triggering the creation of a large number of new stocks or warrants that dilute the offending shareholder's interest to the point of making it virtually valueless. The Board is normally opposed to the use of poison pills.
4.14	NET OPERATING LOSS (NOL) POISON PILLS See 4.13 for poison pill definition.	CASE-BY-CASE VOTING AGENT'S DISCRETION	NOLs may be used to reduce future income tax payments and have become valuable assets to many corporations. If a corporation experiences an ownership change as defined by Section 382 of the tax code, then its ability to use a pre-change NOL in a post-change period could be substantially limited or delayed. NOL pills are adopted as a takeover deterrent to preserve the tax benefit of NOLs.
4.15	POISON PILLS – ALLOW FOR SHAREHOLDER VOTE	FOR	Since poison pills ultimately impact the wealth of shareholders, the Board supports voting measures that allow for the shareholders to vote on matters pertaining to the use of poison pills.
4.16	RE-INCORPORATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Corporations may wish to reincorporate in another state to take advantage of favorable corporate law, while providing maximized shareholder values and operational flexibility. On the other hand, reincorporation laws of other states could be such as to limit shareholder rights or reduce shareholder wealth. The Board normally supports company management's decisions on re-incorporation matters.
4.17	STATE ANTI-TAKEOVER LAWS	CASE-BY-CASE VOTING AGENT'S DISCRETION	State anti-takeover laws seek to deter hostile takeover attempts of state-based corporations with the intent of keeping target companies locally based and preserving jobs. These laws may also complicate friendly mergers and impose great costs and delays on shareholders and stakeholders in the corporation. Most state anti-takeover provisions allow companies to "opt in" or "opt out" of coverage via shareholder vote.
4.18	TARGETED SHARE PLACEMENTS Placing stock in the hands of friendly investors	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Targeted share placements (or "White Squire" placements) occur when a company puts large blocks of stock or convertible securities into the hands of a friendly investor or group of investors. This is often an inexpensive method of raising cash for a company. The Board prefers that company management seeks authorization before establishing a targeted share placement but supports this corporate action.

5. CAPITAL STRUCTURE

Corporate financing decisions can have a significant impact on shareholder value, particularly when these decisions may result in common share dilution. As a result, shareholders must analyze all management proposals to modify capital structure to determine whether these financing decisions are in their best interests.

No.	Issue	LACERS Position	Rationale
5.1	INCREASES IN THE NUMBER OF AUTHORIZED SHARES OF STOCK	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Companies need the flexibility of issuing additional shares for stock splits, stock dividends, financings, acquisitions, employee benefit plans and general corporate purposes. The Board prefers that increases should not exceed three times the number of existing outstanding shares and that the company specify a purpose for the proposed increase.
5.2	ONE SHARE, ONE VOTE Each share of common stock, regardless of its class, shall be entitled to vote in proportion to its relative share of the total common stock equity of the corporation.	FOR	The right to vote is inviolate and may not be abridged by any circumstances or by any action of any person. Each share of common stock, regardless of its class, shall be treated equally in proportion to its relative share in the total common stock equity of the corporation, with respect to any dividend, distribution, redemption, tender or exchange offer. In matters reserved for shareholder action, procedural fairness and full disclosure are required.
5.3	PAR VALUE ADJUSTMENT OF COMMON STOCK	FOR	In extraordinary cases when a stock price falls below its par value, a company wishing to issue additional stock would be unable to do so without reducing par value. Companies may also propose reductions in par value to conform to state legislative changes in the required minimum level of par value.
5.4	PREEMPTIVE RIGHTS Provides current stockholders an option to maintain their relative ownership position.	AGAINST	Preemptive rights require a company issuing new shares to offer them to their existing shareholders first, in proportion to their existing holdings. This gives current shareholders the ability to maintain their relative equity position as a shareholder. Preemptive rights generally have limited importance, given the increase in the size and liquidity of the secondary market and their potential for abuse.
5.5	DEBT RESTRUCTURING	CASE-BY-CASE VOTING AGENT'S DISCRETION	As part of a debt restructuring plan, a company may propose to increase and issue common and/or preferred shares. These proposals should be evaluated considering dilution to existing shareholders, potential changes in company control, the company's current financial position, terms of the offer, whether bankruptcy is imminent and alternatives.

Section 11 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
5.6	CONVERSION OF SECURITIES	CASE-BY-CASE VOTING AGENT'S DISCRETION	Proposals to convert securities, such as converting preferred stock to common shares, should be evaluated based on the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.
5.7	SHARE REPURCHASES Corporations buy back a portion of the outstanding shares.	FOR	The Board normally favors of share repurchase plans if the company boards feel that the stock is undervalued or there is a legitimate corporate purpose.
5.8	REVERSE STOCK SPLITS	FOR ONLY IF THE NUMBER OF AUTHORIZED SHARES IS PROPORTIONATELY REDUCED. OTHERWISE, VOTING AGENT'S DISCRETION.	A reverse stock split reduces the number of shares owned and increases the share price proportionately. A reverse stock split has no effect on the value of what shareholders own. Companies often reverse split their stock when they believe the price of their stock is too low to attract investors to buy their stock or to avoid being delisted. If the number of authorized shares is not proportionately reduced with a reverse stock split, then LACERS treats these proposals as a request to increase authorized shares.
5.9	BLANK CHECK PREFERRED STOCK Blank check preferred stock is authorized stock over which the board has complete discretion to set voting rights, dividend rates, and redemption and conversion privileges.	AGAINST	There is the potential for abusing this kind of stock by the board. Although some guidelines note that blank check preferred stock gives management great flexibility, and this might be valuable and in the corporate interest, in general it is felt that this kind of flexibility, free of shareholder control, is insufficient justification for the creation of this type of stock.

6. CORPORATE RESTRUCTURINGS

Corporate restructurings, such as mergers and leveraged buyouts, can have a major effect on shareholder value. Many of these transactions require shareholder approval and must be examined carefully to determine whether they are in the best financial interests of the shareholders.

No.	Issue	LACERS Position	Rationale
6.1	ASSET SALES	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Asset sales should be evaluated based on the impact on the balance sheet/working capital, value received for the asset, and potential elimination of inefficiencies. The Board generally supports management decisions to sell assets.
6.2	GOING PRIVATE TRANSACTIONS (LEVERAGED BUYOUTS AND MINORITY SQUEEZEOUTS)	CASE-BY-CASE VOTING AGENT'S DISCRETION	Going private transactions such as leveraged buyouts and minority squeezeouts should be evaluated on a case-by-case basis taking into account the following: offer price and imbedded premium, fairness opinion, how the deal was negotiated, conflicts of interest, other alternatives/offers considered, and the risk to shareholders if the attempt to take the company private fails.
6.3	LIQUIDATIONS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Liquidation proposals are generally bad news for long-term investors. They usually occur after a prolonged period of declines in earnings and share prices. However, liquidation may be an attractive option if the sale of the firm's assets on a piece-meal basis can be accomplished at a higher-than-market price. Liquidation proposals should be evaluated based on management's efforts to pursue other alternatives, appraised value of assets, the compensation plan for executives managing the liquidation, and the likelihood of bankruptcy if the liquidation proposal is not approved.
6.4	MERGERS AND ACQUISITIONS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Case-by-case votes are recommended on mergers or acquisitions since the circumstances by which they arise are unique. The Board supports the company management's decision on mergers and acquisitions when such decision is based upon the findings of a thorough due diligence process and is in the best interest of the shareholders.
6.5	SPIN-OFFS	CASE-BY-CASE VOTING AGENT'S DISCRETION	Corporations may seek to streamline their operations by spinning off less productive or unrelated subsidiary businesses. The spun-off companies are expected to be worth more as independent entities than as parts of a larger business. Spin-offs are evaluated case-by-case depending on the tax and regulatory advantages, planned use of sale proceeds, managerial incentives, valuation of spinoff, fairness opinion, benefits to the parent company, conflicts of interest, corporate governance changes, and changes in the capital structure.

7. MISCELLANEOUS CORPORATE GOVERNANCE			
No.	**Issue**	**LACERS Position**	**Rationale**
7.1	ANNUAL MEETING DATE & LOCATION	LACERS supports company management in principle VOTING AGENT'S DISCRETION	Mandatory rotation of the annual meeting would not significantly increase stockholders' access to management since there are convenient alternatives available to interested stockholders. It would decrease the company's flexibility without a material benefit to stockholders. The Board normally supports company management's decision on this issue.
7.2	CORPORATE NAME CHANGE	FOR	A company may seek a name change to better portray its strategic image or re-brand itself. The Board supports company management's decision on this issue.
7.3	CORPORATION CHARTER & BYLAW AMENDMENTS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Charters and bylaws should not be amended without shareholder approval unless the changes are of a housekeeping nature such as minor corrections or updates.

8. SOCIAL & ENVIRONMENTAL

On April 9, 2019, the Board of Administration approved becoming a signatory of the Principles for Responsible Investment ("PRI"), a policy of global best practices for environmental, social, and governance ("ESG") investing. LACERS officially became a PRI signatory on September 3, 2019. LACERS current proxy voting agent, Institutional Shareholder Services, ("ISS"), is a signatory to the PRI and incorporates them into its proxy analysis process. Therefore, when considering how to vote on most ESG proposals, investment staff relies on the research expertise and voting recommendations of ISS.

No.	Issue	LACERS Position	Rationale
8.1	DIVERSIFICATION OF BOARDS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Women and minorities have played major and responsible roles not only in government, higher education, law and medicine, but also in communications, electronics, and finance. The Board normally prefers to support diversification on company boards. However, the Board recognizes that such a mandate carried out without regard to the selection of the most highly qualified candidates might not be in the best interest of these companies.
8.2	CORPORATE BOARD MEMBERS SHOULD WEIGH SOCIO-ECONOMIC, LEGAL AND FINANCIAL FACTORS WHEN EVALUATING TAKEOVER BIDS	CASE-BY-CASE BASIS. VOTING AGENT'S DISCRETION	While broad social and environmental issues are of concern to everyone, institutional shareholders acting as representatives of their beneficiaries must consider, specifically, the impact of the proposal on the target company. A decision on whether to support or oppose such proposals shall focus on the financial aspects of social and environmental proposals. If a proposal would have a negative impact on the company's financial position or adversely affect important operations, LACERS would oppose the resolution. Conversely, if a proposal would have a clear and beneficial impact on the company's finances or operations, LACERS would support the proposal.
8.3	INDEPENDENT REVIEW OF COMPANY OR PLANT OPERATIONS	AGAINST	An independent review of company or plant operations which will be provided at company expense to the shareholders to consider the cost of and alternatives to the present or proposed projects on the primary operation. This process would be costly and time-consuming.
8.4	DISCLOSURE OF OFFICERS, DIRECTORS AND INVOLVED OUTSIDERS' GOVERNMENTAL AFFILIATIONS	AGAINST	Miscellaneous issues include disclosures of lists of officers, directors and involved outsiders who have served in any governmental capacity during the previous five years. In addition, disclosure includes the lists of law firms employed by the companies, rundowns on fees and the revelation as to whether any elected or appointed official have partnership interest in the retained law firms. To the extent that potential conflicts of interest cannot be controlled by corporate procedures, professional ethics, and law, these disclosures will make no difference.

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No.	Issue	LACERS Position	Rationale
8.5	CORPORATE AFFIRMATION OF ITS NON-COERCIVE POLITICAL PRACTICES	AGAINST	This affirmation is intended to ensure that the corporation avoids a number of coercive political practices such as distribution of contribution cards in favor of one political party. Since these practices are illegal, the issue is moot.
8.6	LIMITING CORPORATE PHILANTHROPY	AGAINST	These proposals place restrictions and additional reporting obligations upon management's right to make corporate contributions to charitable, educational, community or related organizations. Most companies give money to charity. Because most companies must compete, those that do not contribute to charity risk damaging their good names.
8.7	STAKEHOLDERS' INTEREST BEFORE OR EQUAL WITH SHAREHOLDERS' INTEREST	ABSTAIN	Stakeholders include customers, suppliers, employees, communities, creditors and shareholders. Stakeholders are important to the success of the corporation and therefore the interests of each must be considered by directors and management. However, boards should not put the non-shareholder/stakeholder interests ahead of or on an equal footing with shareholders in terms of the corporation's ultimate purpose.
8.8	GENDER, RACE, OR ETHNICITY PAY GAP AND WAGE THEFT	FOR	Companies should provide reports on its pay data categorized by gender, race, or ethnicity and reports on a company's policies and goals to reduce any gender, race, or ethnicity pay gaps. Companies should also provide reports on a company's policies and practices that protect employees, particularly tipped workers, against various forms of wage theft.
8.9	PREPARE REPORT/PROMOTE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION (EEOC) RELATED ACTIVITIES	FOR	1) Shareholder proposals calling for action on equal employment opportunity and non-discrimination. 2) Shareholder proposals requesting non-discrimination in salary, wages, and all benefits. 3) Shareholder proposals calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, and labor policies and practices that affect long-term corporate performance. 4) Shareholder proposals that ask the company to report on its diversity and/or affirmative action programs.
8.10	MANAGEMENT CLIMATE-RELATED PROPOSALS	CASE BY CASE VOTING AGENT'S DISCRETION	Vote case-by-case on management proposals that request shareholders to approve the company's climate transition action plan, taking into account the completeness and rigor of the plan.

Section 11 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
8.11	RACIAL EQUITY AND/OR CIVIL RIGHTS AUDIT	FOR	Vote for proposals asking a company to conduct an independent racial equity and/or civil rights audit to understand the company's policies, process, or framework for addressing racial inequity and discrimination.
8.12	CLIMATE CHANGE / GREENHOUSE GAS (GHG) EMISSIONS	LACERS supports this issue in principle VOTING AGENT'S DISCRETION	Vote for shareholder proposals that request the company to disclose a report providing its greenhouse gas (GHG) emissions levels and reduction targets and/or its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions plan.

9. ISSUES NOT ADDRESSED BY POLICY

For proxy issues not addressed by this policy that are market specific, operational or administrative in nature, and likely non-substantive in terms of impact, LACERS gives ISS discretion to vote these items.

Substantive issues not covered by this policy and which may potentially have a significant economic impact for LACERS shall be handled accordingly:

1) ISS shall alert investment staff of substantive proxy issues not covered by policy as soon as practicable;
2) Investment staff and/or the General Manager shall determine whether the item requires Governance Committee ("Committee") and/or Board of Administration ("Board") consideration;
3) If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
4) If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
5) If time constraints prevent a formal gathering of the Committee and Board, then the Board delegates specific authority to the General Manager (GM), the Chief Investment Officer (CIO), the LACERS Board President, and Governance Committee Chair to consider the item. If the GM, CIO, Board President, and Governance Committee Chair unanimously support a voting position, staff shall vote the issue accordingly and the CIO shall report the action to the Board at its next meeting. If unanimous support for a voting position is not achieved, LACERS will abstain from voting on the item.

XVII. SECURITIES LENDING POLICY

A. Objectives

The primary goal of LACERS' Securities Lending Program ("Program") is to enhance returns for the System by lending securities owned by LACERS to qualified borrowers. The Program features customized guidelines for prudent risk controls and is designed to not interfere with LACERS' overall investment strategy.

B. Scope

The securities lending agent ("Agent"), pursuant to the securities lending contract, is responsible for locating creditworthy securities borrowers, facilitating securities lending transactions, managing collateral pledged by borrowers, providing daily mark-to-market, and acting in a fiduciary capacity in carrying out its lending duties on behalf of LACERS. The Agent may manage two distinct types of collateral with the goal to maximize net income, split between the Agent and the System, consistent with the safety of principal, maintenance of liquidity and LACERS' guidelines.

Cash collateral is reinvested by the Agent in a separate account based on LACERS' guidelines. Guidelines for the cash collateral separate account are provided in detail in the securities lending contract and address the eligible investments, credit quality, diversification, liquidity, and trading for the Program.

Non-cash collateral is held in a separate account established expressly for LACERS. Guidelines for the non-cash collateral separate account are provided in detail in the securities lending contract and address collateralization levels, eligible instruments, credit quality, and diversification.

C. Roles and Responsibilities

1. **The Board:**
   a) Reviews and approves the Securities Lending Policy.
   b) Modifies or terminates the Program.
   c) Selects and terminates the Securities Lending Agent.
   d) Reviews the Program's overall performance.
2. **Staff:**
   a) Oversees the performance of the lending agent and the cash collateral investment manager in carrying out the objectives of the Program and complying with pre-determined guidelines.
   b) Consistent with the Program objectives and the securities lending contract, reviews, approves, and removes the counterparties as proposed by the Agent.
   c) If the Board is unable to convene in a timely manner to address unusual and significant risk factors that are deemed to have a material adverse impact (e.g. a material reduction in cash reinvestment market liquidity) on the integrity of the Program, LACERS' General Manager and Chief Investment Officer may decide

jointly to modify or suspend the Program. The Chief Investment Officer shall report the action(s) and reasons for such action(s) at the next scheduled Board meeting.

d) Reports to the Board an annual report summarizing securities lending activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

3. **The Agent:**

a) Ensures that counterparties that borrow LACERS' securities are qualified pursuant to LACERS' approved credit standards.

b) Indemnifies LACERS against borrower default.

c) Accepts and invests collateral according to collateral investment guidelines agreed upon with LACERS.

d) Provides the following reports to LACERS:

Reporting Requirements of the Agent		
Ad hoc Reports	Monthly Reports	Quarterly Reports
• Any borrower defaults within a practicable time frame. • Any violations of LACERS' guidelines with a plan for correction within a practicable time frame.	• Volume and lending spreads for the Program. • Total income received by LACERS and by the Agent for borrowing activity. • Investment management activities and risk characteristics of the collateral investment portfolio including sector allocation, quality exposures, maturity exposures, borrower exposures, average days' liquidity, etc.	• LACERS lending activity, earnings, risk characteristics and general trends in the security lending marketplace.

D. **Potential Risks**

LACERS acknowledges the following primary risks of its securities lending activities:

1. **Counterparty Risk**

Counterparty risk arises when the borrower defaults on the return of the securities on loan to the lender. This risk is mitigated by LACERS' guideline requirements that borrowed securities are over-collateralized and marked to market on a daily basis by the Agent. Additionally, the Agent is bound by the securities lending contract to indemnify LACERS for any shortfalls in collateral in the event of a borrower default.

2. **Cash Reinvestment Risk**

Cash reinvestment risk arises when the investments in the cash collateral separate account become impaired or decrease in value, potentially resulting in a collateral

deficiency and loss of principal. LACERS' guidelines are designed to minimize cash reinvestment risk.

3. **Interest Rate Risk**

Interest rate risk arises when the rebate rate that LACERS pays to the borrowers exceeds the return on the cash collateral investments. The Agent monitors and manages the interest rate exposure of the cash collateral pool versus the Agent's current interest rate forecast by using statistical analysis. Any negative earnings that occur as a result of interest rate risk will be shared between LACERS and the Agent at the same percentage as the fee arrangement.

4. **Other Risks**

Trade settlement and operational risks associated with securities lending are assumed by the Agent. Corporate actions such as voting rights remain with the security and will become the right of the borrower when the security is on loan. LACERS can still vote proxies for those shares not on loan or may instruct the Agent to return shares so that any specific proxy can be voted.

XVIII. SECURITIES LITIGATION POLICY

A. Purpose

The Board adopts this Securities Litigation Policy to establish procedures and guidelines for monitoring, evaluating, and participating in both securities class actions and other securities- related litigation as appropriate, to protect and maximize the recovery value of LACERS' assets.

B. Objective

The objective of the Securities Litigation Policy is to carry out the Board's fiduciary obligation to monitor securities class actions and other securities-related litigation in which LACERS has an interest, and to participate in such actions and recover damages when appropriate to protect and maximize the recovery value of LACERS' assets.

C. Guidelines

1. Use of Outside Experts As Needed

LACERS may engage the services of its custodian bank, third-party vendors, and with the concurrence of the City Attorney's Office, outside counsel, to assist LACERS with monitoring securities litigation cases in which LACERS may have an interest, evaluating LACERS' potential losses, providing recommendations about whether to take an active role in litigation, representing LACERS in cases in which the Board has agreed to seek an active role, assisting LACERS with participation in foreign securities actions, representing LACERS in corporate investigations and resulting derivative actions, and/or assisting LACERS with recovering assets in antitrust actions.

2. Board Determinations and Delegated Authority to City Attorney and Staff

a) Domestic Securities Actions

i. As a general matter, absent compelling circumstances, unless the Plan incurs a potential loss net of gain (loss) in excess of Five Million U.S. Dollars ($5,000,000.00) calculated on a last in, first out (LIFO) basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, the Plan shall proceed as a passive member of a domestic securities class action and file a claim to receive its pro rata share of any resulting settlement or judgment as set forth in Section XVIII.C.3. If no class action has been filed, the General Manager, or their designee (Staff), the City Attorney's Office, and outside counsel may make a consensus recommendation to the Board to initiate an independent action or a class action in closed session.

ii. If the potential loss exceeds Five Million U.S. Dollars ($5,000,000.00) but is less than Ten Million U.S. Dollars ($10,000,000.00) calculated on a LIFO basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, Staff and the City Attorney's Office, in consultation with outside counsel, may reach a consensus determination to recommend that the Board seek lead plaintiff status or pursue an independent action after applying the considerations listed in Section XVIII.C.2.a.iv. If the General Manager, Staff, or the City Attorney's

Office determine that the most prudent approach in a case is to remain a passive class member, then no Board consideration or action shall be required.

iii. If the potential loss exceeds Ten Million U.S. Dollars ($10,000,000.00) calculated on a LIFO basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, the matter shall be considered by the Board in closed session in order for the Board to determine whether to seek lead plaintiff status, pursue an independent action, or remain a passive member of the class.

iv. When determining whether to seek a leadership role in a particular securities lawsuit, Staff and the City Attorney's Office, in consultation with outside counsel, shall support the Board's fiduciary decision-making process by evaluating the following relevant factors:

1. whether the Plan's estimated LIFO loss is likely to be the largest suffered by any individual class member;
2. whether another responsible institutional investor with a larger LIFO loss and comparable experience leading securities class actions is likely to pursue leadership in the case;
3. whether Staff, the City Attorney's Office, and outside counsel recommend seeking lead plaintiff appointment;
4. how large the potential recovery may be for the Plan if such a claim is pursued;
5. whether the Plan's active participation is expected to increase the monetary value of a settlement;
6. how the Plan's involvement could impact the investment portfolio's value or the Board's other fiduciary obligations;
7. whether the Plan's active participation will add non-monetary value to the potential recovery, such as governance reforms;
8. whether the plaintiff is likely to succeed on the merits of the action;
9. what is the nature and severity of the conduct alleged; and
10. what is the potential administrative burden for Staff.

b) Foreign Securities Actions

i. A foreign securities action is a lawsuit pending or proposed to be filed outside the United States, involving securities purchased on a foreign securities exchange or other non-domestic transactions by LACERS or on its behalf. In contrast to domestic securities class actions, in which LACERS may remain a passive class member and receive its pro rata share of any recovery, participation as a class member in a foreign securities action generally requires LACERS to "opt-in" through registration or other affirmative action by the Plan. Additionally, unlike domestic actions in which law firms provide representation on a contingency fee basis, foreign actions are typically financed by litigation funding groups. Law firms and/or litigation funding groups assist investors with complex participation agreements and/or claim

forms that have strict deadlines. Litigation costs and fees are typically paid as a percentage of the resulting recovery.

ii. The General Manager, City Attorney's Office, and Staff, after evaluating advice from outside counsel, have delegated authority to decide whether LACERS will participate and/or file a claim to recover Plan assets in a foreign action. Before advising Staff to participate and/or file a claim in the foreign action, the City Attorney and outside counsel shall review the structure of litigation funding, review retention agreements with foreign counsel, analyze insurance contracts, and review powers of attorney. To inform their consensus decision, the General Manager, the City Attorney's Office, and Staff shall consider the relevant factors listed in Section XVIII.C.2.a.iv, as well as the following additional factors:

1. whether outside counsel recommends participation;
2. whether there is a strong legal basis for recovery in that foreign jurisdiction, which is supported by case precedent;
3. whether there are risks to participation for the Plan, including potential out-of-pocket costs; and
4. whether the funding group and outside legal counsel are qualified and have sufficient financial support to handle the action.

iii. Upon reaching a consensus determination to participate and/or file a claim, the City Attorney and Staff are authorized to engage outside counsel and/or a third-party funding group to pursue a claim on behalf of LACERS and/or take the actions necessary to participate as a class member in a foreign case. When submitting a form or taking similar administrative action is the only required step to obtain part of a settlement, a consensus decision is not required, and the City Attorney may file a claim on behalf of the Plan or, if necessary, direct outside counsel, the custodian bank, or a third-party to do so. Fees for assistance with the process shall only be paid if and when LACERS recoups money in the case and must be reasonable in light of the complexity of the claim and the cost for similar claims in comparable cases.

iv. The Board provides a standing delegation of authority to the General Manager or their designee to execute all necessary documents on behalf of LACERS with respect to foreign actions, including powers of attorney, participation agreements, follow-up documents to cure claim deficiencies, and documents to direct payment of settlement proceeds.

c) Derivative Actions and Engagement on Corporate Governance

i. The Board authorizes the General Manager, City Attorney, and Staff, consistent with this Securities Litigation Policy, the Responsible Investment Policy, and other relevant Board policies, to initiate an inspection of books and records under Delaware Corporate Law Section 220 (or the equivalent provisions of other state law, as applicable) to determine if there are meritorious claims that can be asserted derivatively on behalf of the company, a confidential process that typically proceeds a derivative action.

ii. If the City Attorney ’s Office and Staff have determined that an inspection of books and records is appropriate, they will seek targeted proposals from LACERS’ current bench of securities monitoring firms under contract and make a selection to assist LACERS in the matter. In determining whether to pursue a books and records inspection, the General Manager, City Attorney, and Staff shall make a consensus determination based on the following factors:

1. what is the potential harm to the company and its shareholders;
2. whether the Plan has the capacity to facilitate governance improvements; and
3. whether there is potential to promote LACERS’ Principles for Responsible Investment that are relevant to LACERS’ interests as a long-term fiduciary investor.

iii. Following the inspection of books and records and any other confidential investigation relating to this matter, the Board shall determine whether LACERS will pursue a potential derivative action by deciding whether to authorize the City Attorney and outside counsel to publicly file a derivative complaint against the company’s Board of Directors and/or Corporate Officers. Outside counsel will support the City Attorney and Staff with legal advice to the Board, regarding the merits of pursuing a potential derivative action.

iv. In addition to monitoring for potential derivative actions, LACERS’ bench of securities monitoring firms shall also, upon request, review and provide advice to the Board, Staff, and the City Attorney regarding non-litigation tactics to strengthen engagement with publicly traded companies in which LACERS is a shareholder, including the development of engagement policies, the creation of proxy voting guidelines, and the formulation of written communications to promote the Responsible Investment Policy.

d) Antitrust Actions

Antitrust actions in which the Plan may have a financial interest are typically filed as class action lawsuits that involve financial products, such as derivatives. Given that filing a claim for recovery in an antitrust settlement is an onerous administrative burden for Staff, the City Attorney ’s Office is authorized to engage outside counsel and/or a claim filing service to assist with the claim filing process for antitrust settlements. Fees for assistance with the process shall only be paid if and when LACERS recoups money in the case and must be reasonable in light of the complexity of the claim and the cost for similar claims in comparable cases.

3. Diligent Asset Recovery in All Cases

In cases in which LACERS has not assumed an active role but has suffered losses, Staff and the City Attorney, working in conjunction with the custodian bank and outside counsel, shall take prudent steps to obtain the Plan’s fair share of any securities litigation

recovery in which the Plan has a valid claim.

D. Operational Roles and Responsibilities

1. The Board

a) Pursuant to the Guidelines set forth in Section XVIII.C.2.a, and upon considering the recommendations of Staff, the City Attorney's Office, and/or any outside counsel engaged to assist the City Attorney's Office, the Board shall make the final determination whether to actively participate in a particular domestic action. The Board shall also make the final determination whether to file a public derivative litigation action on behalf of a company, as outlined in Section XVIII.C.2.c.

b) Consistent with Charter Section 275 and Section XVIII.D.4, the Board shall make recommendations of one or more outside law firms to serve as monitoring and litigation counsel to assist the City Attorney's Office in discharging the duties required by the Securities Litigation Policy.

c) As set forth in Charter Sections 273(a) and 272(c), the Board shall have the authority to approve or reject any settlement of litigation in which LACERS is an active participant, and to initiate and provide strategic client direction in actions in which LACERS serves as the lead party.

2. Custodian Bank, Outside Counsel, and/or Third-Party Vendor

LACERS' Custodian Bank and/or Third-Party Vendor shall be responsible for:

a) Reviewing all securities actions brought or pending within the United States or a foreign jurisdiction in which LACERS has suffered losses.

b) Timely filing complete and accurate proof of claims forms on LACERS' behalf, including the necessary supporting documents and information, necessary to recover damages in every securities class action brought or pending within the United States in which LACERS has suffered losses.

c) Providing timely notice to LACERS of each settlement recovery, with sufficient time to allow LACERS to opt-out of domestic actions, and/or opt-in to foreign actions. Staff shall have the authority to determine, and to communicate to the Custodian Bank and/or Third-Party Vendor, the deadline for such notice in each particular case.

d) Providing quarterly reports to Staff and the City Attorney's Office regarding these functions, including any securities litigation proceeds recovered.

e) Providing outside securities litigation monitoring counsel which has been engaged by LACERS pursuant to Section XVIII.D.4 with access to LACERS' securities holdings and transaction information in order to enable such counsel to identify losses associated with existing and potential lawsuits.

3. LACERS Staff

Staff shall be responsible for:

a) Monitoring the functions performed by the Custodian Bank and/or Third-Party Vendor as described above and shall keep the Board apprised of any unusual or extraordinary events.

b) Working with the City Attorney's Office to provide support and information regarding securities holdings and activity for litigation purposes.

c) Preparing for the Board an annual report summarizing securities class action activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

d) Assisting the City Attorney's Office to evaluate and recommend outside counsel law firms to the Board, which can assist the City Attorney's Office in discharging its duties under the Securities Litigation Policy.

e) Assisting the City Attorney's Office to provide recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

4. The City Attorney's Office

The City Attorney's Office, assisted by Staff and outside counsel as needed, shall be responsible for:

a) Identifying and recommending to the Board qualified outside law firms to assist the City Attorney's Office with advising and representing LACERS under this Securities Litigation Policy. Once engaged, outside securities monitoring counsel shall be authorized to receive access to LACERS' securities holdings and transaction information from the Custodian Bank and/or Third Party Vendor, as provided by Section XVIII.D.2. Such outside counsel firms shall also be eligible to be engaged to represent LACERS in a particular litigation matter.

b) Identifying and recommending to the Board qualified outside counsel that would be competent to serve as lead counsel, supervised by the City Attorney's Office, in a particular securities case in which LACERS has determined to seek appointment as lead plaintiff or as plaintiff in an opt-out securities fraud case. The Board shall select such firms to represent the Plan, subject to the written consent of the City Attorney's Office.

c) Providing recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

d) Once the Board has made a determination to seek an active role in a particular case, preparing targeted solicitations for distribution to the firms that have been engaged to provide securities monitoring services, evaluating proposals, and recommending one or more finalist firms to the Board.

e) Working with Staff to identify and select outside counsel from the Board's bench of engaged securities monitoring firms to serve as outside counsel for a demand for inspection of books and records, and if warranted and authorized by the Board, in derivative litigation, consistent with Section XVIII.C.2.c.

f) Assisting Staff to provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which LACERS is a party and/or lead plaintiff.

g) Assisting LACERS in its role as lead plaintiff in a class action or as a plaintiff in an opt-out case, including supervising the law firm appointed to serve as lead counsel. Such supervision may include participation in significant motions and settlement discussions when permitted by parties or the court and filing objections concerning attorney fee requests.

XIX. ENFORCEMENT ACTION AND LITIGATION REPORTING POLICY

1. **Purpose**

This policy ensures the Board is timely advised of material government enforcement actions, non-routine regulatory proceedings, disciplinary actions, and litigation involving investment managers and consultants (together referred to in this Policy as “investment contractors”) contracted with the Board so that the Board can make prudent decisions regarding the involved investment contractors. The purpose of this policy is to establish guidelines, roles and responsibilities, and procedures for when and how such information should be reported to the Board.

This Policy shall be incorporated into all investment contracts with the Board that incorporate the Board Investment Policies, and is intended to clarify reporting duties to strengthen and supplement existing contractual obligations requiring reporting by the investment contractor to the Board.

B. **Materiality**

1. Information shall be deemed “material” under this policy (sections xix(b)(1) and xix(b)(2)) when there is a substantial likelihood that a reasonable investor (here, the board) would have considered the information important in evaluating the investment contractor’s advisory business or the integrity of its asset management operations, or other factors that might be relevant to the investor’s contracting decisions. Factors that may be considered when evaluating materiality include: (1) the proximity of the person(s) involved to the investment contractor’s advisory function and the services provided to lacers; (2) the nature of the conduct and/or infraction that led to the enforcement action and/or litigation; (3) the severity of resulting sanctions or damages, if any; and (4) the likelihood that the conduct has caused harm to lacers, or could cause such harm if repeated.
2. The general manager shall be responsible for making materiality determinations under this policy section xix, in consultation with the city attorney’s public pensions general counsel division (city attorney). Examinations by the below-listed regulatory agencies, which are not prompted by specific allegations of wrongdoing and which have not resulted in evidence of material wrongdoing, will generally not be considered material for purposes of this policy.

C. **Chief Investment Officer Collection and Review of Reports Regarding Investment Manager and Consultant Conduct**

For all investment contractors contracted with the Board, the Chief Investment Officer and their designated investment staff member(s) shall collect and review reports and publicly reported information regarding:

1. Securities and Exchange Commission (SEC) enforcement actions;

2. Department of Justice enforcement actions;

3. State attorney general enforcement actions;

4. Other federal, state, or foreign agency enforcement actions;

5. Other financial industry disciplinary proceedings, including but not limited to FINRA and other self-regulatory non-governmental entities;

6. Criminal prosecution or investigation; or

7. Civil litigation or arbitration.

Such reports may consist of contractually-required investment contractor notifications, voluntary investment contractor notifications, required regulatory reports and forms submitted by investment contractors, investment consultant notifications, publicly reported information, and/or any other sources that provide such reports. Where investment contractor notifications are required by contract, investment contractors shall notify the Chief Investment Officer and/or their designated investment staff member(s) within three (3) days of the investment contractor having notice of such information, unless otherwise required by law.

D. **Elevation of Reports from the Chief Investment Officer to the General Manager**

The Chief Investment Officer shall evaluate the reports described in Section XIX(C) for possible elevation to the General Manager. The Chief Investment Officer shall elevate reports to the General Manager when they contain any of the following attributes:

1. An investment contractor or a principal or employee thereof was charged with, convicted of, or pleaded guilty to a felony;

2. An investment contractor or a principal or employee thereof was charged with, convicted of, or plead guilty to a misdemeanor involving: investments or an investment-related business, or any fraud, false statements or omissions, theft, embezzlement, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;

3. An investment contractor or a principal or employee thereof was charged with, or found to have been involved, in a violation of an investment-related statute, regulation, or rule;

4. An investment contractor or a principal or employee thereof was the cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted;

5. A self-regulatory organization or commodities exchange: suspended or expelled from membership a principal of an investment contractor or an employee in a managerial

position thereof; denied, suspended, revoked or restricted their authorization to do business; barred or suspended them from association with other self-regulatory organization or commodities exchange members; or otherwise restricted their activities;

6. The SEC, Commodity Futures Trading Commission, other federal regulatory agency, state regulatory agency, any foreign financial regulatory authority, self-regulatory organization, or commodities exchange charged or found that an investment contractor or a principal or employee thereof made a material false statement or omission, or was dishonest, unfair, or unethical or in material violation of the contractor's fiduciary or contractual duties to its clients;

7. The investment contractor provided the report as a contractually-required notification to the Board of any regulatory proceeding or material litigation relating to the investment contractor's business to which the investment contractor or any of its owners, principals or employees is a named party; or

8. An investment contractor or a principal or employee thereof was the subject of a civil self-regulatory, or administrative proceeding, or a litigation or arbitration claim alleging damages in excess of $100,000, involving any of the following:

   a) Any investment or an investment-related business or activity;

   b) Fraud, material false statement or omission;

   c) Theft, embezzlement, or other wrongful taking of property;

   d) Bribery, perjury, forgery, counterfeiting, or extortion;

   e) Dishonest, unfair, or unethical practices, or

   f) Breach of fiduciary duty.

The Chief Investment Officer shall confer with the City Attorney for assistance in determining whether reports should be elevated to the General Manager pursuant to Section XVIII(D).

E. **General Manager Evaluation and Reporting to the Board**

1. Upon receipt of reports described in Section XIX(D), the General Manager shall evaluate them for possible reporting to the Board. The General Manager will report investment contractor conduct to the Board when such conduct is deemed to be material under this Policy, and/or because:

   a) The General Manager believes that the conduct creates reputational risk to the Board and/or the Plan through their association with the investment contractor;

b) There is a substantial likelihood that the conduct may lead to media inquiries or other publicity, such that the Board should have in place a coordinated plan to respond to such inquiries, and/or the General Manager deems it prudent to inform the Board prior to such publicity to ensure the Board receives accurate and complete information;

or

c) Upon request of one or more Commissioners.

As part of the evaluation process, the General Manager shall confer with the City Attorney and specialized outside counsel, as appropriate, and may seek additional information from the Chief Investment Officer.

2. When the General Manager determines that investment contractor conduct is required to be reported to the Board pursuant to Section XIX(E)(1), the General Manager or their designee, through the Commission Executive Assistant, shall send separate emails to each Commissioner briefly summarizing the conduct and the contractual relationship between the investment contractor and the Plan. Such emails shall copy the Managing Assistant City Attorney, Public Pensions General Counsel Division and refer any follow up questions to the General Manager or the Managing Assistant City Attorney.

3. If the General Manager concludes that, in addition to the emails briefing Commissioners described in Section XIX(E)(2) of this Policy, Board discussion at a public meeting would be in the best interest of the Plan, or is required to seek the Board's consideration and approval of recommended action(s), the General Manager shall confer with the Board President to schedule the item on the agenda for Board consideration and possible action at an upcoming Board meeting. Upon the request of the General Manager, the City Attorney, with the assistance of specialized outside counsel, as appropriate, shall provide confidential attorney-client privileged written advice to the Board in connection with the General Manager's report to the Board on the item, including legal advice on the recommended Board action(s) to be taken by the Plan, if any.

4. Commissioners and staff members shall not respond to media inquiries regarding investment contractor conduct. Pursuant to the Board Communications Policy (Section 1.3 of the Board Administrative Policies), the General Manager and/or their designee will act as spokesperson for the Plan should the need arise.

   If necessary, the Board President and the Board Vice President shall review and approve any final press release regarding investment contractor conduct prior to any dissemination and publication.

F. Reporting Regarding Investment Contractor Candidates

Excepting section XIX(E), this Policy shall apply to investment contractor candidates who have responded to Requests for Proposals (RFPs) and are eligible to contract with the Board. All investment contractor RFPs shall require applicants to provide reports summarizing any involvement in the previous five (5) years in any of the categories listed in Section XIX(C) .

Where an investment contractor candidate who has provided such a report is an RFP finalist, investment staff shall determine if the report is “material” such that it would need to be reported to the Board under this Policy if the Board awarded the candidate a contract. If investment staff determines that the report is material, staff shall include a brief summary of the report in the Board report presenting the finalist candidate to the Investment Committee and/or the Board. As part of the evaluation and reporting process for RFP finalist candidates, Investment staff shall consult with the City Attorney.

XX. APPENDIX: GLOSSARY

ASSET CATEGORIES

Cash/Cash Equivalent: Cash equivalent securities with a maturity less than or equal to fifteen months are considered to include interest bearing or discount instruments, money market funds, corporate issued commercial paper, bank issued Certificates of Deposit, bankers acceptances, fully collateralized repurchase agreements or participation in commingled (cash equivalents) funds managed by a bank, insurance company, or other professional cash equivalents investment manager. Both U.S. and foreign securities issued in U.S. markets are permissible.

Commodities: Physical commodities are the raw inputs (e.g., oil, wheat, gold, etc.) into the production of goods. Commodities investment is conducted through futures, the prices of which are directly tied to the underlying physical commodity. Commodities are real assets and are expected to provide inflation hedging in commodities-driven inflationary environments.

Convertibles: A preferred stock or bond that can be exchanged for common stock of the issuing company. The conversion is at the investor's option and usually must occur within a specified time limit. Convertibles may be considered fixed income or equity investments when calculating investment returns and determining asset allocation.

Direct Placements: Sale of securities to a long-term institutional investor such as a pension fund without the use of underwriters.

Fixed Income: Debt instruments of corporations, government or agencies characterized by a fixed or variable interest rate and stated maturity date. Included are marketable bonds, cash equivalents and Rule 144A securities. Certain fixed income assets, such as cash equivalents, are often categorized separately.

Preferred Stock: A security which has preference over common stock (but not bonds) with regard to dividends and the distribution of assets in the event of a corporate liquidation. Preferred stock combines elements of both common stock and bond forms of investment.

Private Equity: Equity investments in companies that do not trade publicly on an organized exchange. They may include private equity, venture capital, buyout, mezzanine financing, distressed securities, natural resources and hedge funds. These investments are frequently made in some pooled format, usually a limited partnership or limited liability corporation.

Private Real Estate: Land and all physical property related to it, including buildings, landscaping, and all rights to the air above and earth below the property. Assets not directly associated with the land are considered personal property.

Public Equities: Shares that represent ownership of a publicly traded corporation. Included in this category are publicly traded common stocks, rights, warrants, convertible securities and American and Global Depository Receipts.

REITS: Real Estate Investment Trusts. Publicly-traded stocks of real estate investment companies the assets of which are 100% comprised of income producing real estate such as apartments, shopping centers, etc. or the mortgages of real estate property assets.

Total Fund: All assets of the fund including equities, fixed income, cash equivalents, cash and other securities.

Treasury Inflation Protected Securities (TIPS): Debt instruments of the U.S. Government that adjust monthly for changes in inflation as represented by the non-seasonally adjusted U.S. CPI-Urban. Similar to other fixed income instruments, TIPS have a fixed interest rate component and stated maturity.

EQUITY TERMS

American Depository Receipts (ADRs): Negotiable certificate issued by a U.S. bank for shares of stock issued by a foreign corporation. The securities are held in a custodial account, either at the issuing bank or an agent. ADRs are registered with the Securities and Exchange Commission, and give the holder the same benefits of ownership as shareholders. Two types of American Depository Receipts include sponsored ADRs, which are approved and promoted by the issuing corporation; and unsponsored ADRs, which are not backed by the issuer. ADRs are priced in U.S. dollars, and trade on stock exchanges and over-the-counter markets in the same fashion as U.S. issued securities.

Debt-to-Equity: Quantifies a firm's financial leverage. It is the long-term debt of the company divided by shareholder's equity. Higher levels of debt are often associated with earnings volatility.

Dividend: A payment to owners of common or preferred stock. Dividends are usually paid out of the current earnings of a corporation. On preferred stock shares, the dividend is usually a fixed amount. On common stock shares, the dividend will vary with the fortunes of the corporation. Dividends are usually declared and paid quarterly.

Dividend Growth: Measures the average percentage increase, over the trailing five years, of the per share dividend.

Dividend Yield: The annual per share dividend divided by the market price of the security. Higher dividend yields tend to support the price of the security.

Global Depository Receipts (GDRs): Negotiable certificate held in the bank of one country representing a specific number of shares of a stock traded on an exchange of another country. While American Depositary Receipts allow international companies to

offer shares to U.S. citizens, GDR's allow companies in Europe, Asia, the United States and Latin America to offer shares in markets around the world.

Market Capitalization: The number of common shares outstanding multiplied by the per share price of the stock which represents the market's valuation of a company.

Price-Earnings (P/E) Ratio: The market price of a share of common stock divided by the company's earnings per share.

Price-to-Book: The market price of a share of common stock divided by the company's per share book value.

Return on Equity: A firm's net profit divided by its shareholder's equity. It is one of two basic factors (the other being earnings retention ratio) that determine a firm's earnings growth rate.

FIXED INCOME TERMS

Accrued Interest: Interest accumulated on a bond since the last interest payment was made. The buyer of the bond pays the market price plus accrued interest.

Asset Backed Bond: Securities that are formed when similar assets or receivables, such as credit card receivables, auto loan receivables or home equity receivables, are pooled together and undivided interests in the pool are sold. The principal and interest payments are "passed-through" to the bondholders.

Banking Demand (Demand Deposit): Checking account balances or other accounts, which, without prior notice to the bank, can be withdrawn or transferred.

Bid-Ask Spread: The difference between the price a buyer is willing to pay (bid) for a security and the price an owner is willing to receive for the security.

Bond: An interest-bearing or discounted certificate of debt issued by corporations, municipalities, governments and governmental agencies that represent a loan to the issuer and obligates the issuer to pay the bondholder a specified sum of money, usually semiannually, and to repay the principal amount of the loan at maturity.

Certificate of Deposit: A receipt from a bank for funds deposited for a stated period of time and normally paying a stated rate of interest.

Convexity: A measurement of the sensitivity of a fixed income security's duration given changes in interest rates. The higher a bond's convexity, the less sensitive it is to interest rate changes versus a comparable duration security and the opposite is true when comparing lower convexity bonds versus similar duration bonds.

Section 15 GLOSSARY

Coupon: Interest rate on a bond that the issuer agrees to pay to the bondholder until maturity, expressed as an annual percentage of face value. More simply, the periodic interest payment made to bond owners during the life of a bond.

Credit spread: The difference in yield between Treasuries and non-Treasuries of similar maturity, duration, convexity etc. Credit spread is generally viewed as the premium assigned by investors to the default risk of a bond.

Debenture: A promissory note backed by the general credit of a corporation -- usually not secured by a mortgage or lien on any specified property.

Duration: A calculation measuring the price sensitivity of a bond or other financial instrument to changes in interest rates while taking into consideration its coupon and maturity.

Fed: The seven-member governing board that oversees Federal Reserve Banks establishes monetary policy (interest rates, availability of credit, etc.) and monitors the economic health of the country.

Federal Reserve Bank: One of 12 regional banks in the Federal Reserve System. The role of each bank is to monitor the commercial and savings banks in their region to ensure they follow Federal regulations. The reserve banks also provide central bank services such as check collection, access to the Fed's wire network and credit advances from the Fed's discount window. Reserve banks act as depositories for banks in their region.

Inflation: The overall general upward price movement of goods and services in an economy, usually measured by the Consumer Price Index in the U.S. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their investments.

Interest Rate: Cost of money or credit expressed as a percentage rate per period of time usually one year.

Maturity: The date on which a bond becomes due and the issuer redeems or pays the face value or principal.

Mortgage-Backed Asset: Securities that are formed when mortgages are pooled together and undivided interests in the pool are sold. The principal and interest payments are usually "passed-through" to the certificate holders.

Sector Swap: Exchange of one security or asset for another, often done to alter the quality, change the duration, or increase the yield to maturity.

Yield Curve: A graph showing the relationship between yields and maturities of fixed income securities issued by the same or similar issuers having the same risk characteristics. Normally, the curve slopes upward and to the right because short-term

investments have lower yields than long-term investments. From time to time, the curve may become inverted, when short-term yields are higher than long-term yields.

DERIVATIVE TERMS

Cash Settlement Contract: The feature of certain futures contracts or options that allows delivery or exercise to be conducted with an exchange of cash rather than the physical transfer of assets.

Covered Option: A strategy in which the writer sells options while simultaneously owning an equivalent position in the underlying security.

Credit Default Swap: A derivative instrument that transfers the credit risk from the buyer to the seller in exchange for a specified premium. The seller receives a quarterly payment from the buyers in exchange for absorbing the risk inherent in owning the credit. The buyer receives payment only when a credit event occurs such as: bankruptcy, failure to pay, obligation acceleration, restructuring or sovereign repudiation/debt moratorium.

Counterparty: Entity, usually an investment bank and/or broker/dealer, through which an OTC financial transaction is completed or traded. Counterparties may be known or unknown to the investor.

Derivative: Instruments or contracts whose value is determined by the price of the asset to which the contract is tied.

Forward Contract: A customized transaction in which two parties agree to the purchase or the sale of a security, currency or commodity at some future time under such conditions as the two agree upon. Those who use forward contracts often expect to make or take physical delivery of the commodity or financial instrument.

Futures Contract: A standardized agreement between two parties to purchase or sell an asset or currency at a later date at a fixed price. The contract trades on a futures exchange and is subject to a daily mark-to-market procedure.

Interest Rate Swap: Agreements between two parties to exchange types of cash flows. They are derivative securities because their payoffs are determined by the price of the underlying financial security. Swaps trade in dealer markets or are directly negotiated.

Option: A contract that gives one party the right, but not the obligation, to buy or sell an asset, currency, or a futures contract for a fixed price over a specific period of time.

Naked (uncovered) Option: A short option position in which the writer does not own an equivalent position in the underlying security.

Over the Counter ("OTC"): Non-exchange traded derivatives, usually swaps, which are established with select counterparties.

Section 15 GLOSSARY

PRIVATE EQUITY TERMS

Additional Fees: The amount of capital an investor pays into a fund/investment that does not count against the investors' commitment. Additional fees typically consist of management fees or late-closing interest expenses.

Capital Committed: An investor's financial obligation to provide a set amount of capital to the investment.

Capital Contributed: Capital contributed from an investor's capital commitment to fund partnership investments, organizational expenses and management fees and partnership expenses.

Capital Distributed: Cash or stock disbursed to the investors of an investment.

Co- Investment: A co-investment is a direct investment made alongside a partnership.

Corporate Finance/Buyout: Partnerships seeking to make controlling and non-controlling investments in established companies that have the potential to achieve greater value through improved performance.

Cost Basis: Capital contributions less return of principal.

Direct Investment: A direct investment is a purchased interest of an operating company.

Fund-Of-Funds: An investment vehicle that invests in other private equity partnerships.

Fund/Investment Size: The total amount of capital committed by investors to a fund.

Investment Category: Used to identify investments in one of the following categories: co-investments, direct investments, fund-of-funds, primary funds, secondary fund-of-funds, or secondary purchases.

Investment Strategy: A sub-classification of a partnership's investment type, such as co-investment, direct investment, corporate finance/buyout, mezzanine, real estate, special situation, or venture capital.

Life Cycle Period: The current stage of a partnership depending on the percentage contributed to date. Life cycle periods are investment and realization.

J-Curve/J-Curve Effect: Period in which partnerships are making investments and drawing management fees, which results in capital account balances that are less than cumulative contributions.

Mezzanine: An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure.

Section 15 GLOSSARY

Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

Net Internal Rate Of Return ("IRR"): The discount rate that equates the net present value of the partnership's cash outflows with its inflows and residual value at the time of calculation. The calculation is net of management fees and the general partner's carried interest.

Originator: The institution responsible for recommending a client commit to an investment.

Ownership Percentage: The investor's percent of ownership as measured by capital committed divided by fund or investment size.

Paid-In Capital: The amount of capital an investor has contributed to a partnership, which includes capital contributions and additional fees.

Pooled Average IRR: An IRR calculation that aggregates cash flows (paid-in capital and capital distributed) and the reported market values of each investment within a portfolio to create one portfolio investment and return.

Portfolio Holding Exposure: The limited partner's pro-rata allocation to an underlying investment based on its ownership percentage of the partnership.

Primary Fund: Defines when the investor acquired an interest in the partnership. Primary fund is the investment category when an investor participates in a closing at the inception of the partnership.

Private Equity Partnership: A professionally managed pool of capital that generally invests in unlisted companies or securities. Common investment strategies include corporate finance/buyout, mezzanine, special situations, and venture capital.

Realized Multiple: Ratio of cumulative distributions to paid-in capital.

Return On Investment ("ROI"): A calculation based on the total value (market value plus distributions) divided by paid-in capital for an investment.

Reported Market Value: The investment's capital account balance at quarter end, which includes the general partner's reported value of the underlying holdings and other assets and liabilities.

Secondary Fund-Of-Funds: A private equity vehicle formed to purchase active partnership interests from an investor.

Secondary Purchase: A purchase of an existing partnership interest or pool of partnership interests from an investor.

Special Situation: Partnerships that make investments using a unique strategy. Examples include distressed and turnaround, industry focused and multi-stage partnerships.

Top Tier Fund: A fund managed by a general partner that has a demonstrated track record of superior performance measured against its peers by its given strategy or a fund managed by a general partner that, based on the Private Equity Consultant's extensive expertise, has the requisite skill set and market opportunity to prospectively produce superior performance compared to its peers by a given strategy.

Total Exposure: Calculated by the summation of market value and unfunded commitments.

Venture Capital: An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

Vintage Year: The year in which a partnership makes its first capital call for an investment into a portfolio company/holding.

PRIVATE REAL ESTATE TERMS

The following is a list of commonly used terms in Real Estate Investments and their respective definitions.

Appreciation Return: Expressed as a percentage, the return generated by the Capital Appreciation of a property or portfolio over the period of analysis.

Capital Appreciation: The change in market value of property or portfolio over the period of analysis, adjusted for Capital Improvements and Partial Sales for the period.

Capital Expenditures: Investment of cash or the creation of a liability to acquire or improve an asset, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for expense items that are normally considered part of the current period's operations.

Capital Improvements: Expenditures that cure or arrest deterioration of property or add new improvements and appreciably prolong its life. By comparison, repairs merely maintain property in an efficient operating condition.

Capitalization Rate: The Capitalization Rate or Cap Rate is a ratio used to estimate the value of income producing properties. It is computed by dividing the annual net operating income by the sales price or value of a property.

Section 15 GLOSSARY

Commingled Funds: A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account or other multiple ownership entity.

Open-end Fund: A commingled fund with no finite life that allows continuous entry and exit of investors, and typically engages in on-going investment purchase and sale activities.

Closed-end Fund: A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not re-invest the sales proceeds.

Diversification Attributes:

Equity: Direct undivided ownership in real estate that has not been financed using borrowed funds.

Leveraged Equity: Direct undivided ownership in real estate that has been financed using borrowed funds

Equity Oriented Debt: A mortgage loan with a stated interest rate in addition to equity participation by the lender via annual cash flow and/or sale proceeds or refinancing proceeds.

Traditional Debt: A mortgage loan payable at one or more stated interest rates.

Life Cycle:

Pre-development: Raw land.

Development: Properties under construction including preparation and installation of infrastructure.

Leasing: Completed construction that is less than 60% leased and that has been available for occupancy one year or less.

Operating: Properties with greater than 60% average leasing, or that have been available for occupancy for more than one year.

Redevelopment: Properties that are undergoing substantial expansion or re-tenanting, rehabilitation or remodeling.

Property Size: Property size categories refer to gross asset value of each property. The dollar amount

entered in each category should reflect net asset value within each category.

Property Type:

Office:	Low-rise, mid-rise and high-rise office buildings and office parks.
Industrial:	Warehouse, manufacturing, office showroom, flex space and research and development.
Retail:	Neighborhood center, community center, regional center, super regional center, fashion/specialty center, power center, theme/festival center and outlet center.
Residential:	High-rise elevator projects, low-rise projects and garden type projects.
Hotel/Motel:	Hotels, resorts and motels.
Timberland:	Timber, timberland and mineral rights.
Agriculture:	Row crops, permanent crops, pasture/ranch and agribusinesses.
Vacant Land:	Undeveloped land.
Other:	Mobile home parks, self storage facilities, etc.

Gross Asset Value: The fee simple or leased fee market value of an investment, without regard to the debt balance or ownership percentages.

Gross Income: The income or loss of a portfolio or entity, resulting after deducting all expenses, (except for portfolio and asset management fees), but before realized and unrealized gains and losses on investments.

Income Return: Expressed as a percentage, the component of return derived from property operations during the period of analysis.

Lease Expiration Exposure Schedule: A tabulation listing the total leasable square footage of all current leases that expire in each of the next five years, without regard to renewal options.

Net Assets: Total Assets on a market value basis less total liabilities on a market value basis.

Net Investment Income (Net Income): The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

Net Operating Income: Rental and other income of property, less operating expenses other than Capital Expenditures and mortgage debt service.

Net Sales Proceeds: Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs, and marketing expenses.

Partial Sales: The sale of an interest in real estate which is less than the whole property. This may include, for example, a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment. (See Net Sales Proceeds)

Principal Payments: The return of invested capital to the lender, as compared to interest payments, which represents a return on invested capital.

Separate Accounts: A term applied to an investment vehicle for investors with the ability to commit substantial funds to real estate assets who may prefer to invest through individual portfolios specifically tailored to their unique investment requirements. Separate accounts provide clients with a greater degree of control and enable them to capitalize on specific investment opportunities.

Time Weighted Annual Rate of Return: The yield for a year calculated by geometrically compounding the previous four quarters' returns.

Total Assets: The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the Statement of Assets and Liabilities.

Total Return: The sum of the quarterly income and appreciation returns.

Weighted Average Equity: The denominator of the fraction used to calculate investment level Income, Appreciation, and Total returns on a quarterly basis, consisting of the Net Assets at the beginning of the period adjusted for Weighted Contributions and Distributions.

STATISTICAL TERMS

Active Risk: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with tracking error.

Active Share: A measure of dispersion between a manager's portfolio and the portfolio benchmark based upon the individual portfolio holdings versus volatility, which is used to calculate tracking error, another measure of dispersion. A Yale study[11] found high active share portfolios tended to outperform low active share portfolios.

[11] Cremers, K.J. Martijn, and Antii Petajisto, 2009. "How Active is your Fund Manager? A New Measure That Predicts Performance", *Review of Financial Studies* 22 (9): 3329-65

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Alpha: A measure of risk adjusted return that represents that part of a return above or below a benchmark and is typically attributed to investment skill.

Attribution: The result of investment performance analysis whereby the key sources of value-added or detracted versus the benchmark are identified and quantified in terms of the contribution to value-added or detracted from that source.

Basis Point: One one-hundredth of one percent, i.e., 100 basis points = 1%.

Beta: A measure of the extent to which the returns on a given stock or portfolio move with the stock market.

Correlation: A statistic describing the goodness of fit about a linear relationship between two variables (returns). It measures the degree to which two variables (assets) move in tandem, with -1 corresponding to perfect negative correlation (vary inversely) and +1 corresponding to perfect positive correlation (move together). A value of zero would indicate no relationship between the two variables.

Information Coefficient ("IC"): a measure of investment manager skill which, together with a measure of breadth provides the manager information ratio according to the Fundamental Law of Active Management[12]. Similar to the correlation coefficient, the IC ranges between 0 and +1.

Information Ratio: A measure of the level of reward per unit of risk. The information ratio is calculated by dividing the alpha (difference between the portfolio return and the benchmark return) by the standard deviation of the alpha.

Mean: The traditional average; it is calculated by adding up all the numbers and dividing the total by the number of observations.

Mean Absolute Deviation: The average value of differences from the mean, where the differences are evaluated without regard to sign. It is a measure of dispersion.

Median: The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

Negative Semi-variance: This measure considers only downside dispersion. Since measures of dispersion are frequently used to measure risk in securities and portfolios, the amount of uncertainty as to future value is one definition of risk. Some investors find this definition difficult to accept because they feel that only below-average expectations represent risk.

Range: The difference between the minimum and maximum in a series.

[12] Grinold, Richard C. and Ronald N.Kahn, *Active Portfolio Management*, 2nd ed., New York: McGraw-Hill (2000)

R-Squared (R2): The proportion of a portfolio's variability that is explained by the relation between the portfolio and the market.

Standard Deviation: This measure is the square root of the variance. The standard deviation is a useful and widely used measure because, for a normal, or bell-shaped, distribution, 68 percent of the observations fall within one standard deviation and 95 percent fall within two standard deviations. Since it is usually reasonable to suggest that distributions in finance are normal, a good estimate of the dispersion of a distribution around its average is provided by the standard deviation measure. In a portfolio context, the higher the standard deviation, the higher the risk associated with a given level of return on that portfolio.

Tracking Error: Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with active risk.

Variance: The variance is a true measure of the width of the distribution. Variance relates each observation to the average by squaring each number (multiplying a negative number by itself produces a positive number).

DESCRIPTION OF MANAGER STYLES

Equity Styles

Bottom Up: A method of analysis that begins with fundamental factors at the company or micro economic level.

Currency Overlay: Strategy to use currency futures, forwards, and options as an overlay on existing international portfolios to protect against losses in currency movements.

Enhanced Index: In general, a manager utilizing this style attempts to outperform an index by analyzing quantifiable characteristics of a given stock or sector. The strategy is characterized by low to moderate levels of active risk.

Growth: Seeks investments whose future potential for growth is above the growth expectation for securities in general. From an analytical perspective, growth portfolios will generally exhibit the following characteristics:

Projected Earnings Growth – greater than the index
Price to Earnings Ratio – generally greater than the index
Price to Book Ratio – generally greater than the index
Five Year Earnings Growth Rate – greater than the index

Index/Passive: An index strategy would strive to match the return of the appropriate index by holding a portfolio of securities that closely tracks the index.

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International Equity Active Country and Sector/Passive Security Selection: Through an overall review of economic, social, and political issues worldwide, decisions are made with respect to the allocation of investments among countries and sectors. The investment decisions are implemented through passive security selection.

Large Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell 1000 Index.

Mid Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell Mid Cap Index.

Quantitative: Stock selection and portfolio construction are implemented through computerized models which consistently employ fixed criteria and/or decision rules which may or may not involve manual intervention.

Small Capitalization Domestic Equity: Investments in a portfolio of securities that approximate the average market capitalization of the Russell 2000 Index.

Top Down: A method of analysis that begins with broad macroeconomic topics associated with an economy and industry.

Value: Investments in equities whose potential is temporarily unrecognized by other investors. Value stocks typically are companies whose assets, future cash flows, products or services are overly discounted relative to the broader market. Typically, value portfolios will exhibit the following characteristics:

Price to Book Ratio – less than the index
Price to Earnings Ratio – less than the index
Dividend Yield – greater than the index

Fixed Income Styles

Bank Loans: Managers that invest in short and intermediate term senior subordinated debentures of below investment grade issuers. This debt is adjustable rate and may provide modest inflation protection in a rising rate environment. Also, these debentures are higher in the capital structure than high yield bonds, which affords greater creditor protection in stressed environments in addition to a shorter duration.

Core: Seeks investments in the large, more liquid sectors such as governments, mortgage-backs and investment grade corporates that do not represent significant deviation from a given index in terms of sector, quality, coupon and maturity exposures. While some over/under weighting may occur in the portfolio, these will result from the manager's security selection process and not represent a deliberate attempt to bias the portfolio.

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Core Plus: A core plus manager has the latitude to invest the portfolio in core sectors as well as high yield (below investment grade) non-dollar denominated and/or the debt of emerging markets.

Emerging Market Debt: Seeks investment in either investment grade or below investment grade debt of sovereign or corporate issuers domiciled in emerging market countries. This debt can be "hard currency" (i.e., dollar) denominated or denominated in the local currency of the issuing entity.

High Yield: Seeks investments in below investment grade corporate securities.

Intermediate: Managers that invest in shorter than market duration securities with an average portfolio duration range of between three and four years. Securities invested in will range across sectors and could be either investment grade and/or non-investment grade rated. Portfolios can also include non-U.S. issued securities in addition to securities issued in the U.S.

Medium-Grade: Seeks investments from the complete range of global fixed income sectors. The medium-grade manager has broad latitude to invest the portfolio's assets in opportunistic sectors such as high-yield (below investment grade) non-dollar, emerging markets and convertible debt investments. The manager may use investment grade sectors as a defensive alternative to opportunistic sectors.

Inflation Protected: Invests in fixed instruments that have a real and inflation-linked return component. The securities are typically issued by government entities. An example would be the Treasury Inflation Protected Securities (TIPS) issued by the United States Government.

Structured credit: A traditional bond that has had its repayment structure altered to produce non-traditional payoffs derived from one or more of the underlying assets rather than from the borrower's (i.e., issuer's) cash flow. Structured credits are a blend of bonds and derivatives (usually swaps). Often, downside risk is protected beyond a certain level.

RATES OF RETURN

Capital Appreciation (Depreciation): Both realized and unrealized gains or losses in the market value of a portfolio from beginning to end of the time period being measured.

Dollar-Weighted Return: This rate is also called the internal rate of return (IRR). It is sensitive to the timing and size of cash flows. The rate of return for each sub-period such as a month or a quarter is weighted by the dollars invested in that period. Thus, the cash flows in the fund, as well as investment performance, will have an impact on calculated returns. The dollar-weighted return is important in measuring the actual growth of a fund over time.

Income Return: The rate of return attributable to interest and/or dividends.

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Market Value: The market value of an asset is the realizable value at any point in time. In practice, publicly traded stocks are valued at the day's closing price and bonds are generally valued at the day's final bid price. Different pricing services can result in different market prices especially in the bond market.

Real Rate of Return: The rate of return earned from an investment's income/loss and appreciation/depreciation after being adjusted for inflation. The most common measure of inflation is the U.S. Bureau of Labor Statistics' All Urban Consumer Price Index (CPIU).

Time-Weighted Rate of Return: The amount and timing of cash flows do not impact time-weighted rates of returns since the returns for each sub-period are equally weighted. Since investment managers have little control over cash flow, time-weighted returns are an appropriate method of analyzing the manager's performance.

Total Fund Total Rate of Return: The "overall" rate which reflects the combination of income as well as realized and unrealized appreciation or depreciation for all segments or portfolios in the total plan.

TIME PERIODS

Annualized: A rate of return for a time frame that is less than or greater than one year expressed as an average annual return.

Compound Annual: A compound average annual rate of return for a period greater than 1 year expressed in annual terms.

Rolling Time Period: A series of investment returns each covering a specified period of time with each new return in the series encompassing the most recent return of the period and dropping the oldest return of the period. For example, a rolling one-year return, calculated monthly would consist of the previous 12 monthly returns. The next return in the series would be calculated at the end of the following month. It would consist of the current monthly return and the previous 11 months (dropping the oldest return in the series).

Trailing Period: A time period that immediately precedes a specified date. For example, as of December 31, 20X1, the trailing 9 months would include the period April 1, 20X1 to December 31, 20X1.

Unannualized: A rate of return for a period of less than one year or greater than one year. An unannualized return that represents cumulative results that is for a month, quarter, five quarters or any other non-twelve month period.

RELATIVE PERFORMANCE RANKING

Policy Index (Policy Portfolio): A weighted combination of two or more indices. The Policy Index is constructed to match a fund by weighting the indices in the same ratio as

the fund's target commitment to the different asset classes such as equities, bonds, real estate and cash.

Median: The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

Percentile Rank: Time-weighted rates of return are percentile ranked against the Universe. For example, a fund's rate of return may rank in the 20th percentile of the sample. This value indicates that 80% of the funds in the sample had worse performance. The highest percentile rank is 1 while the lowest is 100. Bar graphs may be divided by percentiles with the top of each bar denoting the tenth percentile followed by lines for the 25th, 50th, 75th and 90th percentiles.

Quartiles: Percentile rankings are divided by the first, second and third quartiles. The first quartile is the 25th percentile, the second is the 50th percentile (or median) and the third is the 75th percentile.

Reasonable (as it pertains to a portfolio risk level relative to the Index): A reasonable risk level relative to the Index means that, if portfolio risk is substantially above the risk of the Index, portfolio return should also be substantially above the return of the Index. Conversely, if portfolio return were substantially less than the Index, then portfolio risk would also be expected to be less than that of the Index. Under normal market conditions, reasonable means a combination of risk and return that yields a return to risk ratio for the portfolio that is equal to or greater than that of the Index which serves as the portfolio's performance benchmark.

Typical Market Cycle: A typical market cycle is the recurrence of periods of significant appreciation and depreciation of asset values. One cycle extends from a price or market value baseline through one substantial rise and one decline and back to the base line. The length of a typical or fair market cycle varies across asset classes, depending on the frequency and duration of changes in those economic factors that drive the market value of the assets. For those assets that trade on auction markets and are sensitive to short-term business cycle activity, such as equity and fixed income securities, the typical market cycle has historically been approximately three years. For those assets whose market values are not based on quoted prices and which are sensitive to longer-term demographic changes, such as private real estate or private equity, the typical market cycle has historically been approximately seven to ten years.

INDICES

Fixed Income

Bloomberg Aggregate: An aggregate of the Government/Corporate Bond Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The index

contains fixed rate debt issues with at least one-year maturity, $100 million par value outstanding, and investment grade ratings by Moodys, S&P or Fitch (in that order). Returns are market-value weighted inclusive of accrued interest.

Bloomberg Universal: This index contains the Barclays Capital Aggregate index bonds plus approximately 10% of the remaining index includes U.S. High Yield, Eurodollar, Emerging Markets, 144A Private Placements, and CMBS bonds.

Bloomberg U.S. Govt/Credit Intermediate: This index is a sub-component of the Barclays Capital Aggregate index. Bonds consist of the U.S. Treasury, U.S. Agency (non-MBS), and U.S. Investment-grade credit holdings with a maturity range of 1 to 10 years.

Bond Rating Methodology: Bond ratings are intended to characterize the risk associated with holding a particular bond or categories of bonds. These ratings are the risk assessed by the market and that the bond issuer must pay to attract purchasers to the bond. These ratings are expressed as a series of letters and sequences.

Rating Categories in Descending Order:

AAA: The best quality rating, stable cash flows, very protective bond covenant, very low probability of default.

Aa: The second best rating. Stable cash flows, less protective bond covenants, very low probability of default.

A: Stable cash flows, less protective bond covenant, long-term probability of default is higher than AAA or Aa.

Baa: Medium quality rating, reliable cash flows short term, less-reliable cash flows long term, bond covenants offer limited protection. Moderate probability of default. Downgrade to a lower rating is also possible. Baa bonds are the lowest rating still considered 'investment grade.'

Ba thru B: Highly speculative. Long-term assurance of cash flows and protective elements are low. Purchasers of these bonds generally specialize in assessing credit risk of specific bond issues. Much higher spreads versus investment grade bonds provide the incentive for purchasers. High default or downgrade risk.

Caa thru C: Poor standing. Either close to default or in default. Highly probable loss of principal.

D: Coupon payments were not paid on the due date which puts the bond In default. Unless both protective covenants and issuer assets are adequate (not likely), holder loses all likelihood of recovering principal.

Equity

Dow Jones Industrial Average: This index is the price-weighted average of 30 actively traded blue chip stocks.

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NASDAQ: A market value weighted index that measures all domestic and non-U.S. based securities, more than 4700 companies listed on the NASDAQ stock market.

Russell Midcap Value: Contains Russell Midcap stocks having less than average value orientation and are included in the Russell 1000 Growth Index.

Russell Midcap Value: Contains Russell Midcap stocks having less than average growth orientation and are included in the Russell 1000 Value Index.

Russell 1000: Consists of the 1000 largest securities in the Russell 3000 Index. The Russell 1000 is capitalization-weighted.

Russell 1000 Growth: Contains Russell 1000 stocks having greater than average growth orientation. Stocks tend to exhibit lower dividend yields and higher price-to-book ratios, price-earnings ratios and forecast growth values than the Value universe. The index is capitalization-weighted (as opposed to equal-weighted).

Russell 1000 Value: Contains those Russell 1000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe. Russell 1000 Value is capitalization-weighted.

Russell 2000: Contains the smallest 2,000 stocks in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The index is capitalization-weighted (as opposed to equal-weighted).

Russell 2000 Growth: Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.

Russell 2000 Value: Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.

Russell 3000: Measures performance of the 3000 largest U.S. companies based on total market capitalization. This index represents approximately 98% of the investable U.S. equity market. The Russell 3000 is capitalization-weighted.

Standard and Poors 500: The S&P, which represents approximately 75% of NYSE market capitalization and 30% of NYSE issues, contains 500 industrial, utility, transportation and financial companies in the U.S. markets (mostly NYSE issues). The S&P is capitalization-weighted (as opposed to equal-weighted), calculated on a total return basis with dividends reinvested.

FTSE All Share: An arithmetic, market value-weighted average of approx. 680 securities representing 98-99% of the UK market capitalization, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

MSCI All Country World except USA: An arithmetic, market value-weighted average of approx. 1800 securities from outside the United States. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes.

MSCI Emerging Market Free: Contains securities of the following counties which are available to all investors regardless of local status: Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Portugal, South Africa, Sri Lanka, Thailand, Turkey and Venezuela.

MSCI EAFE: An arithmetic, market value-weighted average of over 900 securities from Europe, Australia, and the Far East. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes. The following countries are represented: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

Real Assets

Bloomberg Treasury Inflation Protected Securities Index: The TIPS Index contains approximately 30 U.S. Treasury-issued inflation protected securities of varying maturities up to 20 years.

Bloomberg Commodity Index Total Return (formerly Dow Jones UBS Commodities Index): comprised of 24 commodity futures index constituents including: Natural Gas, WTI Crude Oil, Brent Crude Oil, Unleaded Gasoline, Heating Oil, Live Cattle, Lean Hogs, Wheat, Corn, Soybeans, Soybean Oil, Sugar, Cotton, Coffee, Cocoa, Aluminum, Copper, Zinc, Nickel, Gold, Silver, Lead, Tin and Platinum.

NCREIF Property Index: The NPI contains investment-grade, non-agricultural, income-producing properties which may be financed in excess of 5% gross market value; were acquired on behalf of tax exempt institutions; and are held in a fiduciary environment. Data is collected quarterly from a membership of investment managers and plan sponsors. Returns are gross of fees; include income, realized gains/losses, and appreciation/depreciation; and are market-value weighted. Property values are determined by consistent appraisal methodology and sold properties are removed in the quarter of the sale (the historical data remains). Current quarter performance is preliminary.

Financial Times Securities Exchange ("FTSE") NAREIT U.S. Real Estate Index: Includes all REITS listed on the NYSE and NASDAQ indices. The index excludes LLPs

and LLCs. The sectors are as follow: Healthcare, Self-Storage, Office/Industrial, Residential, Retail and Lodging/Resorts.

Cash

90-Day Treasury Bills: An average of the last three 90-day treasury bill issues' monthly return equivalents of yield averages, which are not marked to market. Month-end discount yields are converted to bond-equivalent yields, then a simple average is taken, and that number is decompounded to a monthly return using the actual number of days in the month and a 365-day year.

Policy Benchmarks

Current Long-Term Policy Targets Adopted 5/11/2021*:

Domestic Equity	21% Russell 3000
Non U.S. Equity	26% MSCI ACWI ex-U.S.
Core Fixed Income	11.25% BBG U.S. Aggregate
Credit Opportunities	12.75% [11.8% BBG US HY 2% Capped / 11.8% Credit Suisse Leveraged Loan Index / 31.4% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 45% Credit Suisse Leveraged Loan Index QTR Lagged]
Private Equity	16% Cambridge Associates Global Private Equity and Venture Capital Index
Real Assets	12% [30% BBG US TIPS Index / 11.7% FTSE NAREIT US Equity Index / 58.3 NFI-ODCE + 80 bps]
Private Real Estate	*7% NFI-ODCE + 80 bps*
Public Real Assets	*5% [72% BBG US TIPS Index / 28% FTSE NAREIT US Equity Index]*
Cash	1% 90-Day Treasury Bill

TOTAL: 21% U.S. Equity; 26% Non-U.S. Equity; 11.25% Core Fixed Income; 12.75% Credit Opportunities; 16% Private Equity; 12% Real Assets; 1% Cash

*On September 14, 2021, the Board adopted a series of interim policy targets for fiscal years 2021 to 2024 to transition the portfolio to the long-term policy targets by the beginning of fiscal year 2025:

Fiscal Year 2021 Interim Policy Target:

Domestic Equity	22.5% Russell 3000
Non U.S. Equity	27% MSCI ACWI ex-U.S.
Core Fixed Income	16.75% BBG BC U.S. Aggregate
Credit Opportunities	7.25% [20.7% BBG US HY 2% Capped / 20.7% Credit Suisse Leveraged Loan Index / 55.0% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 3.6% Credit Suisse Leveraged Loan Index QTR Lagged]
Private Equity	13.5% Cambridge Associates Global Private Equity and Venture Capital Index

Real Assets	12% [41.7% BBG US TIPS Index / 25% FTSE NAREIT US Equity Index / 33.3% NFI-ODCE + 80 bps]
Private Real Estate	*4% NFI-ODCE + 80 bps*
Public Real Assets	*8% [62.5% BBG US TIPS Index / 37.5% FTSE NAREIT US Equity Index]*
Cash	1% 90-Day Treasury Bill

TOTAL: 22.5% U.S. Equity; 27% Non-U.S. Equity; 16.75% Fixed Income; 7.25% Credit Opportunities; 13.5% Private Equity; 12% Real Assets; 1% Cash

Fiscal Year 2022 Interim Policy Target:

Domestic Equity	22% Russell 3000
Non U.S. Equity	27% MSCI ACWI ex-U.S.
Core Fixed Income	16% BBG BC U.S. Aggregate
Credit Opportunities	8% [18.75% BBG US HY 2% Capped / 18.75% Credit Suisse Leveraged Loan Index / 50% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 12.5% Credit Suisse Leveraged Loan Index QTR Lagged]
Private Equity	14% Cambridge Associates Global Private Equity and Venture Capital Index
Real Assets	12% [37.5% BBG US TIPS Index / 25% FTSE NAREIT US Equity Index / 37.5% NFI-ODCE + 80 bps]
Private Real Estate	*4.5% NFI-ODCE + 80 bps*
Public Real Assets	*7.5% [60% BBG US TIPS Index / 40% FTSE NAREIT US Equity Index]*
Cash	1% 90-Day Treasury Bill

TOTAL: 22% U.S. Equity; 27% Non-U.S. Equity; 16% Core Fixed Income; 8% Credit Opportunities; 14% Private Equity; 12% Real Assets; 1% Cash

Fiscal Year 2023 Interim Policy Target:

Domestic Equity	21.5% Russell 3000
Non U.S. Equity	26.5% MSCI ACWI ex-U.S.
Core Fixed Income	14.75% BBG BC U.S. Aggregate
Credit Opportunities	9.25% [16.25% BBG US HY 2% Capped / 16.25% Credit Suisse Leveraged Loan Index / 43% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 24.5% Credit Suisse Leveraged Loan Index QTR Lagged]
Private Equity	15% Cambridge Associates Global Private Equity and Venture Capital Index
Real Assets	12% [33.3% BBG US TIPS Index / 25% FTSE NAREIT US Equity Index / 41.7% NFI-ODCE + 80 bps]
Private Real Estate	*5.0% NFI-ODCE + 80 bps*
Public Real Assets	*7.0% [57.14% BBG US TIPS Index / 42.86% FTSE NAREIT US Equity Index]*
Cash	1% 90-Day Treasury Bill

TOTAL: 21.5% U.S. Equity; 26.5% Non-U.S. Equity; 14.75% Core Fixed Income; 9.25% Credit Opportunities; 15% Private Equity; 12% Real Assets; 1% Cash

Fiscal Year 2024 Interim Policy Target:

Domestic Equity	21.4% Russell 3000
Non U.S. Equity	26.1% MSCI ACWI ex-U.S.
Core Fixed Income	13.25% BBG BC U.S. Aggregate
Credit Opportunities	10.75% [14% BBG US HY 2% Capped / 14% Credit Suisse Leveraged Loan Index / 37% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 35% Credit Suisse Leveraged Loan Index QTR Lagged]
Private Equity	15.5% Cambridge Associates Global Private Equity and Venture Capital Index
Real Assets	12% [33.3% BBG US TIPS Index / 16.7% FTSE NAREIT US Equity Index / 50% NFI-ODCE + 80 bps]
Private Real Estate	*6% NFI-ODCE + 80 bps*
Public Real Assets	*6% [66.7% BBG US TIPS Index / 33.3% FTSE NAREIT US Equity Index]*
Cash	1% 90-Day Treasury Bill

TOTAL: 21.4% U.S. Equity; 26.1% Non-U.S. Equity; 13.25% Core Fixed Income; 10.75% Credit Opportunities; 15.5% Private Equity; 12% Real Assets; 1% Cash

Historical Policy Benchmarks

4/10/2018 through 5/11/2021:

Domestic Equity	19% Russell 3000
Non U.S. Equity	27% MSCI ACWI ex-U.S.
Fixed Income	13.75% BBG BC U.S. Aggregate
Credit Opportunities	12.25% [15% BBG BC U.S. HY Capped + 45% Credit Suisse Leveraged Loans Index + 20% J.P. Morgan EMBI-GD + 20% J.P. Morgan GBI EM-GD]
Private Equity	14% Russell 3000 + 300 bps
Private Real Estate	7% NFI-ODCE + 80 bps
Public Real Assets	6% U.S. Consumer Price Index + 5%
Cash	1% 90-Day Treasury Bill

TOTAL: 19% U.S. Equity; 27% Non-U.S. Equity; 13.75% Fixed Income; 12.25% Credit Opportunities; 14% Private Equity; 7% Private Real Estate; 6% Public Real Assets; 1% Cash

1/10/2012 through 4/10/2018:

Domestic Equity	24% Russell 3000
Non U.S. Equity	29% MSCI ACWI ex-U.S.
Fixed Income	19% BC U.S. Aggregate
Credit Opportunities	5% 65% BC U.S. HY Capped+ 35% J.P.EMBI-GD
Private Equity	12% Russell 3000 + 300 bps
Private Real Estate	5% NFI-ODCE + 80 bps

Public Real Assets	5%	U.S. Consumer Price Index + 5%
Cash	1%	90-Day Treasury Bill

TOTAL: 24% U.S. Equity; 29% Non-U.S. Equity; 19% Fixed Income; 5% Credit Opportunities; 12% Private Equity; 5% Private Real Estate; 5% Public Real Assets; 1% Cash

7/1/2007 through 12/31/2011:

U.S. Equity	43% Russell 3000
Non U.S. Equity	20% MS ACWI ex U.S. Net Div
Core Fixed Income	24% BC Universal
Real Estate	5% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually. Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.
Cash	1% 90 day Treasury Bill

TOTAL: 43% U.S. Equity: 20% Non U.S. Equity; 24% Core Fixed; 5% Real Estate; 7% Alternative; 1% Cash

1/01/2007 through 6/30/2007:

U.S. Equity	44% Russell 3000
Non-U.S. Equity	20% MS ACWI ex U.S. GD
Core Fixed Income	25% BC Universal
Real Estate	4% NCREIF
Alternative	6% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 44% U.S. Equity; 20% Non-U.S. Equity; 25% Core Fixed; 4% Real Estate; 6% Alternative; 1% Cash

3/31/2006 through 9/30/2006:

U.S. Equity	45% Russell 3000
Non-U.S. Equity	21% MS ACWI ex U.S. GD
Core Fixed Income	25% BC Universal
Real Estate	3% NCREIF
Alternative	5% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 45% U.S. Equity; 21% Non-U.S. Equity; 25% Core Fixed; 3% Real Estate; 5% Alternative; 1% Cash

6/30/2001 through 3/31/2006:

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD

Core Fixed Income	27% BC Universal
Real Estate	7% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill

TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 27% Core Fixed; 7% Real Estate; 7% Alternative; 1% Cash

01/01/2001 through 6/30/2001:

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD
U.S. Fixed	25% BC Universal
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	5% NCREIF
Alternative	5% "15%"
Cash	1% 90-day Treasury Bill

TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 5% Real Estate; 5% Alternative; 1% Cash

01/01/2000 through 12/31/2000:

U.S. Equity	43% Russell 3000
Non-U.S. Equity	21% MSCI EAFE
U.S. Fixed	25% BC Aggregate thru 6/30/00, BC Universal as of 7/1/00
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	2% NCREIF
Alternative	2% "15%"
Cash	1% 90-day Treasury Bill

TOTAL: 43% U.S. Equity; 21% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 2% Real Estate; 2% Alternative; 1% Cash

Through 12/31/99:

U.S. Equity	40% consisting of 33.75% S&P 500; 35.0% Russell 1000 Value; 12.5% Russell 1000 Growth; 12.5% Russell 2000 Value; 6.25% Russell 2000 Growth
Non-U.S. Equity	20% consisting of 25% MSCI EAFE; 22.5% MSCI Pacific; 15% TOPIX; 12.5% MSCI Europe; 25% MSCI Emerging Markets Free x Malaysia
U.S. Fixed	25.5% consisting of 17.65% BC Intermediate Government Corporate; 11.76% Intermediate Government; 7.84% BC Long Government Corporate; 3.92% BC Long Government; 58.8% BC Aggregate
Non-U.S. Fixed	7% JPM World
Real Estate	3% NCREIF
Alternative	3% "15%"

Cash 1.5% 90-day Treasury Bills

TOTAL: 40% U.S. Equity; 25.5% Fixed Income; 20% International Equity; 7% JPM Global Hedged; 3% NCRIEF; 3% Alternative 15%; 1.5% Treasury Bills

1 Yr: One-year rate of return. The linked quarterly returns of the previous four quarters.

X Yr Ann: X year annualized rate of return. The one-year equivalent return of the X year cumulative return.

X Yr Cum: X year cumulative rate of return. The linked quarterly returns of the previous X years.

ASSET ALLOCATION

Market $: Net assets at market value including receivables, payables and accrued interest.

Market %: Market value as a percent of the total fund's market value.

Target %: Investment policy.

Invest %: Market value excluding cash and equivalents as a percent of total market value.

INVESTMENT PERFORMANCE

Time: The internal rate of return (accounting for daily cash flows) monthly based on trade-date, full accrual accounting, and using market values. For periods of greater than one month, a time series of linked monthly returns is maintained, introducing a time weighted effect. The private investment returns are lagged one quarter. The LACERS total fund return is dollar weighted to include private investments.

Market at Target: The weighted return made up of market returns weighted by LACERS' target allocation.

Market at Actual: The weighted return made up of market returns weighted by LACERS' actual allocation.

UNIVERSE COMPARISON

Universe comparisons will be specified in the quarterly Portfolio Performance Reports and LACERS will use broadly used universe comparisons as determined by the General Fund Consultant.

INVESTMENT IMPACT

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Allocation: Market returns weighted by LACERS' actual asset allocation less market returns weighted by LACERS' target allocation.

Management: The difference between a) market returns weighted by LACERS' sector allocation and b) market returns weighted by LACERS' actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS' sector allocation.

Overall: Actual returns less market returns weighted by LACERS' target allocation.

RISK

Mean Rate of Return: The geometric average of twenty quarterly returns, annualized.

Standard Deviation: The standard deviation (one sigma) of twenty quarterly returns, annualized.

CHARACTERISTICS

Historic Beta: The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

Return on Equity: The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE's of all stocks in the portfolio.

COMPLIANCE CALENDAR

Who	What	When	Page	Section No.	Policy Name
Board	Review of Investment Policy, investment structure, asset allocation, and financial performance	Annual or more frequently as needed	4	III.A.2	General
Board	Review Investments for consistency with policy guidelines	Quarterly or as needed	4	III.A.3	General
Board	Review Asset Allocation Policy	Every 3 years or sooner if warranted	8	IV	General

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Board	Review Annual Brokerage Commissions and Recapture Report	Within four months of fiscal year end	10	V.C	General
Staff	Report on rebalancing activity	Ad hoc	11	V.G	Rebalancing
Board	Approve new Adaptive Asset Allocation Plan or renew an existing AAAP	Three months prior to the start of each fiscal year, annual	11	V.G	Rebalancing
Board/IC	Review Annual AAAP Review Report	Annual	16	V.H.VII	AAAP
Board	Review Investment Policy Statement	At least annually	18	V.I	General
Staff	Quantitative review of manager compared to benchmark and peer group	Quarterly	35	VIII.B	Manager Monitoring
Staff	Review manager portfolio characteristics, performance trends, style, risk expectations	Quarterly	35	VIII.B	Manager Monitoring
Staff	Due diligence meeting with manager at LACERS' office	Annual	35	VIII.B	Manager Monitoring
Staff	On-site due diligence meeting at manager's office	At least once per contract period	35	VIII.B	Manager Monitoring
Staff	Update Board on all managers' performance, status, and "On Watch".	Quarterly	36	VIII.C	Manager Monitoring
Staff	Report ODS Data (Calendar Year)	Annual with EM Report	44		Emerging Manager
Staff	Report on Emerging Investment Manager (Calendar Year)	Annual as of Calendar Year End	44		Emerging Manager
Staff/Consultant	Review Investment Guidelines of Private Equity Policy	Periodically	52	XI.E	Private Equity
Board	Review and approve Private Equity Strategic Plan	Annual	53	XI.F	Private Equity
Board	Review periodic Private Equity Portfolio Performance reports	Quarterly and annual	53	XI.F	Private Equity
Board	Review Private Equity Commitment Notification reports	Ad hoc	53	XI.F	Private Equity

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Board	Review and approve commitments to or sales of PE investments exceeding established thresholds	Ad hoc	54	XI.F	Private Equity
Staff	Review periodic performance reports prepared by consultant	Quarterly and annual	53	XI.F	Private Equity
Staff	Meet with existing managers	Periodically	53	XI.F	Private Equity
Staff	Attend private equity fund annual meetings	As appropriate	53	XI.F	Private Equity
Consultant	Provide periodic reports	Quarterly and annual	53	XI.F	Private Equity
Board	Review and approve Annual Real Estate Strategic Plan	Annual	55	XII	Real Estate
Board/IC	Review and approve Real Estate investments	Ad hoc	66	XII.G.1	Real Estate
Staff/Consultant	Meet with existing Real Estate managers via annual fund meetings, face-to-face/telephonic meetings, or at Managers' or RE consultant's offices	Periodically	66	XII.G.2	Real Estate
Consultant	Prepare Real Estate Portfolio Performance Review	Semi-Annual	66	XII.G.2	Real Estate
Board	Review and approve Risk Budgets	Every 3 years or sooner if warranted	73	XIV.C	Risk Management
Board	Review strategic risk and asset class risk vs. approved targets risk budgets	Periodically	73	XIV.C	Risk Management
Staff	Update Responsible Investment Policy	Annual or more frequently as needed	81	XV.G	Responsible Investment
Staff	Provide Board a report on PRI reporting changes and recommendations to improve ESG efforts	Annual	82	XV.G	Responsible Investment
Staff	Complete PRI Questionnaire (PRI Annual Report) and provide Board report summarizing findings	Annual	86	XV.L	Responsible Investment

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Board	Review PRI Action Plan and ESG Risk Framework	Annual	86	XV.L	Responsible Investment
Staff	Provide to Investment Committee the Annual Proxy Voting Report	Annual	86	XV.L	Responsible Investment
Board	Review Proxy Voting Policy	Biennial or more frequently as needed	87	XVI.B	Proxy Voting Policy
Consultant	Provide proxy voting report to staff summarizing votes cast	Quarterly	87	XVI.B	Proxy Voting Policy
Staff	Provide securities lending activity report to Board (Fiscal Year)	Annual within four months of fiscal year end	108	XVII.C	Securities Lending Policy
Board	Approve seeking lead plaintiff status in a class action or pursuing an independent legal action	Ad hoc	110	XVIII.C.2	Securities Litigation
Board	Approve participation (opt-in) in foreign securities legal actions	Ad hoc	111	XVIII.C.2	Securities Litigation
Outside Counsel	Provide quarterly reports to LACERS Staff and City Attorney's Office regarding securities litigation	Quarterly	112	XVIII.D.2	Securities Litigation
Staff	Prepare Board report on annual Securities Class Action Activity	Annual within four months of fiscal year end	112	XVIII.C.3	Securities Litigation