



Investment Committee Agenda

REGULAR MEETING

TUESDAY, MARCH 10, 2020

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

MEETING LOCATION:

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, CA 90012-4401

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

Notice to Paid Representatives

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

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee
Nilza R. Serrano

Manager-Secretary: Lita Payne

Executive Assistant: Ani Ghoukassian

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

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.

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- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. [APPROVAL OF MINUTES FOR THE REGULAR MEETING OF FEBRUARY 11, 2020 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [INVESTMENT MANAGER CONTRACT WITH NEUBERGER BERMAN INVESTMENT ADVISERS LLC REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)
- V. [INVESTMENT MANAGER CONTRACT WITH BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. REGARDING MANAGEMENT OF MULTIPLE PASSIVE INVESTMENT MANDATES AND POSSIBLE COMMITTEE ACTION](#)

- VI. [INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE COMMITTEE ACTION](#)
- VII. [INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE COMMITTEE ACTION](#)
- VIII. OTHER BUSINESS
- IX. NEXT MEETING: The next Special Meeting of the Investment Committee is scheduled for Tuesday, March 31, 2020, and next Regular Meeting of the Investment Committee is scheduled for Tuesday, April 14, 2020, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.
- X. ADJOURNMENT



Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MARCH 10, 2020

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President: Cynthia M. Ruiz
Vice President: Michael R. Wilkinson

Commissioners: Annie Chao
Elizabeth Lee
Sandra Lee
Nilza R. Serrano
Sung Won Sohn

Manager-Secretary: Lita Payne

Executive Assistant: Ani Ghoukassian

Legal Counsel: City Attorney's Office
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- X. ADJOURNMENT

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

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, California

February 11, 2020

Agenda of: March 10, 2020

Item No: II

12:07 p.m.

PRESENT:	Chair:	Sung Won Sohn
	Committee Members:	Elizabeth Lee Nilza R. Serrano
	Manager-Secretary:	Lita Payne
	Executive Assistant:	Ani Ghoukassian
	Legal Counselor:	James Napier

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

I

PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE SPECIAL MEETING OF JANUARY 14, 2020 AND SPECIAL MEETING OF JANUARY 21, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Serrano moved approval of the minutes for the Special Meetings of January 14, 2020 and January 21, 2020, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the 12-month forward calendar and Eduardo Park, Investment Officer I joined Mr. June and they discussed scheduling interviews of the semi-finalists of the emerging markets small cap equities manager search.

IV

INVESTMENT MANAGER CONTRACT WITH AEGON U.S.A. INVESTMENT MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. HIGH YIELD FIXED INCOME PORTFOLIO

AND POSSIBLE COMMITTEE ACTION – Jimmy Wang, Investment Officer I and Jeremiah Paras Investment Officer I introduced this item to the Committee and Committee Member Serrano moved approval of staff's recommendation, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

V

SEMI-FINALISTS OF THE ACTIVE EMERGING MARKET DEBT INVESTMENT MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION – Jimmy Wang, Investment Officer I and Jeremiah Paras Investment Officer I introduced this item to the Committee and Committee Member Serrano moved approval of staff's recommendation, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

VI

OTHER BUSINESS – There was no other business.

VII

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, March 10, 2020, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

VIII

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the Meeting at 12:26 p.m.

Sung Won Sohn
Chair

Lita Payne
Manager-Secretary



LACERS

LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



REPORT TO INVESTMENT COMMITTEE

From: Lita Payne, Executive Officer

Lita Payne

MEETING: MARCH 10, 2020

ITEM: IV

SUBJECT: INVESTMENT MANAGER CONTRACT WITH NEUBERGER BERMAN INVESTMENT ADVISERS LLC REGARDING THE MANAGEMENT OF AN ACTIVE CORE FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Committee recommend to the Board a one-year contract extension with Neuberger Berman Investment Advisers LLC for the management of an active core fixed income portfolio.

Executive Summary

Neuberger Berman Investment Advisers LLC (Neuberger Berman) has managed an active core fixed income portfolio for LACERS since November 1990. LACERS' portfolio was valued at \$829 million as of February 29, 2020. Neuberger Berman rebid for its mandate in the 2019-2020 active core fixed income investment manager search that is currently in progress. Neuberger Berman's current contract expires on June 30, 2020. Staff recommends a one-year contract extension with Neuberger Berman to allow time to complete the current search and execute contracts with the firms hired by the Board.

Discussion

Background

Neuberger Berman has managed an active core fixed income portfolio for LACERS since November 1990, and is currently benchmarked against the Barclays Capital U.S. Aggregate Bond Index. Neuberger Berman incorporates fundamental and quantitative analysis to develop a diversified, high-quality fixed income portfolio. The manager seeks to add value with security selection and variations in duration and sectors relative to the benchmark. The strategy is part of Neuberger Berman's Global Investment Grade Fixed Income business, which is co-headed by David Brown and Thanos Bardas. The two, together with Nathan Kush, are the lead portfolio managers for the Core Bond strategy. They are supported by several portfolio managers implementing the firm's sector specialist investment model. LACERS' portfolio was valued at \$829 million as of February 29, 2020. The Board most recently approved an extension of Neuberger Berman's contract on January 23, 2018; the current contract expires on June 30, 2020.

On October 23, 2018, the Board approved an active core fixed income manager search to assess the competitiveness of LACERS' four active core fixed income managers currently under contract; Neuberger Berman rebid for its mandate and is a candidate in this search. Staff anticipates bringing forth finalists for contract awards during the fourth quarter of fiscal year 2019-2020 and executing contracts in the first quarter of fiscal year 2020-2021, should firms be hired by the Board. In light of the expiration of Neuberger Berman's current contract on June 30, 2020, staff recommends a one-year extension to allow time to complete the search.

Organization

Neuberger Berman is a private, employee-owned global asset management firm headquartered in New York City, with approximately 2,197 employees in 35 cities across the globe. As of December 31, 2019, the firm had over \$356 billion in total assets under management, \$160 billion in fixed income strategies, and \$7.7 billion in the Core Bond strategy.

Due Diligence

As previously discussed with the Board and Committee, Andrew Johnson, former Co-head of Global Investment Grade Fixed Income and portfolio manager, retired at the end of calendar year 2018. Thanos Bardas, a member of the portfolio management team, was subsequently promoted to Co-head of Global Investment Grade Fixed Income alongside David Brown. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, consider this personnel transition to have no material impact to the strategy. Neuberger Berman's investment philosophy, strategy, and process have not changed since the last contract extension in 2018.

Performance

As of February 29, 2020, Neuberger Berman underperformed its benchmark over all time periods except since inception based on unaudited performance data. This information is presented in the table below.

Annualized Performance, Unaudited as of 2/29/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since 9/30/01 ¹
Neuberger Berman	3.45	11.25	6.85	4.80	3.56	5.71
Bloomberg Barclays Capital U.S. Aggregate Bond Index ²	3.69	11.68	7.34	5.01	3.58	4.81
<i>% of Excess Return</i>	<i>-0.24</i>	<i>-0.43</i>	<i>-0.49</i>	<i>-0.21</i>	<i>-0.02</i>	<i>0.90</i>

¹Neuberger Berman began managing assets for LACERS in November 1990. However, LACERS' custodian records only date back to September 30, 2001 due to a change in account numbers for this strategy.

²Changed from BC Universal Index on 7/1/13. Performance presented is a blend of the two indices.

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

Calendar Year Performance, Unaudited as of 2/29/20 (Net-of-Fees)						
	1/1/20- 2/29/20	2019	2018	2017	2016	2015
Neuberger Berman	3.41	9.19	-0.65	3.67	3.14	0.54
Bloomberg Barclays Capital U.S. Aggregate Bond Index	3.76	8.72	0.01	3.54	2.65	0.55
<i>% of Excess Return</i>	<i>-0.35</i>	<i>0.47</i>	<i>-0.66</i>	<i>0.13</i>	<i>0.49</i>	<i>-.01</i>

Pursuant to LACERS Manager Monitoring Policy, Neuberger Berman was placed "On Watch" for an initial one-year period effective March 21, 2019 for triggering the following Policy watch list criteria as of December 31, 2018:

1. Annualized net performance is below benchmark for trailing 5 years
2. Annualized net Information Ratio trailing 5 years relative to its benchmark is below 0.20

As of February 29, 2020, Neuberger Berman's unaudited performance continues to breach these Policy criteria. Therefore, staff and NEPC have determined to maintain Neuberger Berman's "On Watch" status for an additional one-year period.

Fees

LACERS pays Neuberger Berman an effective fee of 13.41 basis points (0.13%), which is approximately \$1.1 million annually based on the value of LACERS' assets as of February 29, 2020. The fee ranks in the 11th percentile of fees charged by similar managers in the eVestment U.S. Core Fixed Income Universe (i.e., 89% of like-managers have higher fees).

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract extension with Neuberger Berman Investment Advisers LLC will allow the fund to maintain a diversified exposure to the active core fixed income market. This is expected to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

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

RJ/BF/JP

Attachment: 1. Consultant Recommendation – NEPC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: March 10, 2020

Subject: Neuberger Berman Investment Advisers LLC– Contract Extension

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) extend the contract that is currently in place with Neuberger Berman Investment Advisers LLC ('Neuberger Berman') for a period of one year from the date of contract expiry.

Background

Neuberger Berman, and its predecessor firms, have had a relationship with LACERS since November 1990. Since the year 2001, the portfolio has changed strategy twice from a core mandate benchmarked against the Barclays Capital U.S. Aggregate Bond Index before June 30, 2000 to a core plus mandate during July 1, 2000 to June 30, 2013 benchmarked against the Barclays Capital U.S. Universal Index and currently manages a core fixed income portfolio benchmarked against the Bloomberg Barclays U.S. Aggregate Bond Index. As of January 31, 2020, Neuberger Berman managed \$816.9 million, or 4.3% of Plan assets. The performance objective is to outperform the Bloomberg Barclay's U.S. Aggregate Bond Index, net of fees, annualized over a full market cycle (normally three-to-five years). Neuberger Berman is currently on 'Watch' status according to LACERS' manager monitoring policy due to performance and should not be taken off of Watch given underperformance continuing year-to-date ended February 29, 2020.

Neuberger Berman is a privately held 100% employee-owned multi-asset class asset management firm with approximately \$355.8 billion in assets under management ('AUM'), 561 investment professionals and over 2,000 employees across 30 offices globally and headquartered in New York. The Core Fixed Income portfolio is managed by six portfolio managers Thanos Bardas, Managing Director, Global Co-Head of Investment Grade, Senior Portfolio Manager, David Brown, Managing Director, Global Co-Head of Investment Grade, Senior Portfolio Manager, Jon Jonsson, Senior Portfolio Manager, Nathan Kush, Portfolio Manager, Ugo Lancioni, Senior Portfolio Manager and Tom Sontag, Senior Portfolio Manager. Ronit Walny, Managing Director, Portfolio Manager on the core bond platform left the firm in November, 2018. Andrew Johnson, Co-head of Investment Grade retired on December 31, 2018. Mr. Johnson's retirement was known well in advance and NEPC was comfortable with the departure.



The team seeks to achieve their alpha target through issue selection, sector rotation, asset allocation and interest rate/duration decisions. The team does not have a permanent bias and portfolios are built to seek and achieve competitive results based on their risk-adjusted framework. Risk management is central to the team's style. They utilize proprietary models and systems to manage risk in line with their client's objectives. The team's philosophy follows from their belief that fixed income asset prices reflect consensus expectations across an array of factors including the level and path of interest rates, the shape of the yield curve, credit risk, cash flow patterns and volatility.

The firm's sector team identifies and executes on issue selection opportunities based on the relative advantage of market opportunities within each team's respective sector. These sector teams combine extensive qualitative and quantitative analysis for individual issue selection decisions. Ultimately their specialty sector research teams determine specific portfolio holdings, which must meet established risk exposure constraints. Allocation decisions are made using the team's quantitative proprietary Black-Litterman asset allocation model which uses their investment views as reflected by expected excess return and confidence levels to create target portfolio weightings.

Investment Management Fee

The portfolio has an asset-based fee of 0.13% (13 basis points) annually. This fee ranks in the 11th percentile among its peers in the eVestment U.S. Core Fixed Income Universe. In other words, 89% of the 223 U.S. core fixed income products included in the peer universe have a higher fee than the LACERS account.

Performance

Referring to Exhibit 1, since inception of the core fixed income strategy on July 1, 2013, the strategy has outperformed the Bloomberg Barclays U.S. Aggregate Bond Index by 0.92%, returning 5.57%, net of fees. The portfolio ranked in the 3rd percentile of its peer universe since July 1, 2013. The portfolio had an information ratio of 0.17 and active risk, as measured by tracking error, was 0.70%. In the one-year period ended December 31, 2019, the portfolio outperformed the index by 0.47% (9.19% vs. 8.72%) and ranked 41st in its peer universe.

Since July 1, 2013, referring to Exhibit 2, much of the historical outperformance is a result of positive relative performance in the last half of 2013 and first half of 2016. In 2013, outperformance was primarily driven by security selection within the Corporates sector and to a lesser extent duration exposure. In the first half of 2016, outperformance was driven by security selection in the Corporates sector as well as exposure to Treasury Inflation Protected Securities (TIPS). More recently, in the past year, outperformance was driven by security selection primarily within Investment Grade Credit and to a lesser extent Agency MBS, CMBS and ABS.

Conclusion

Neuberger Berman has outperformed the index since July 2013, exhibited stability in their investment process, strategy and philosophy which suggests that their approach to asset management does have merit. The firm has seen some turnover in portfolio management

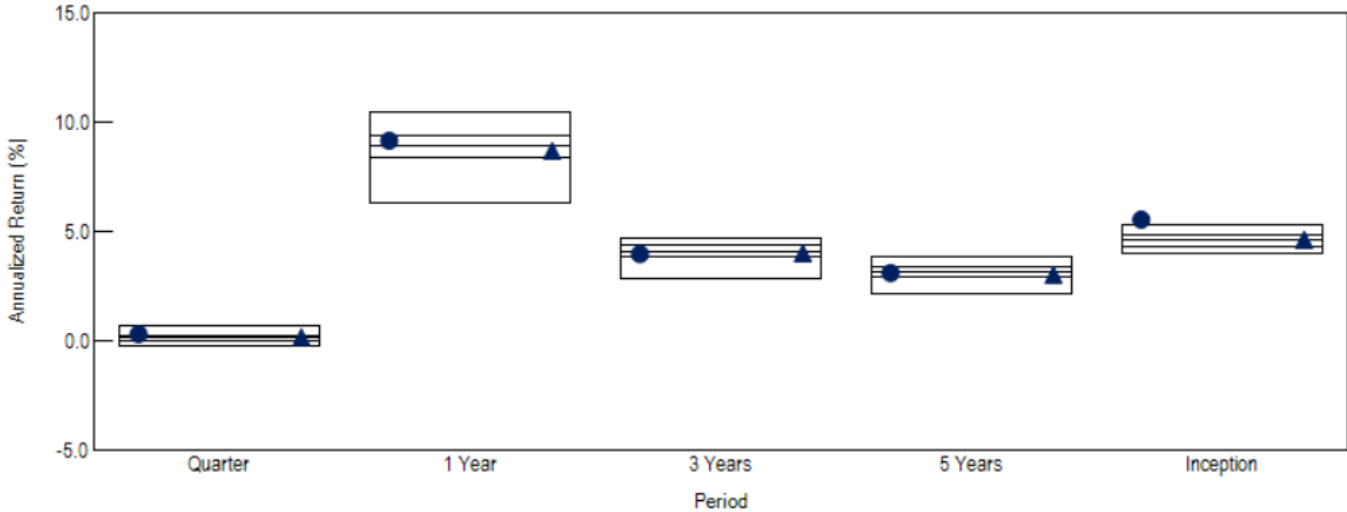


over the past three years, however, the firm's investment strategy and process have remained stable. NEPC recommends a contract extension for a period of one years from the period of contract expiry. This contract extension will allow for continual management of the existing portfolio while the core fixed income manager search is completed.

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

Exhibit 1

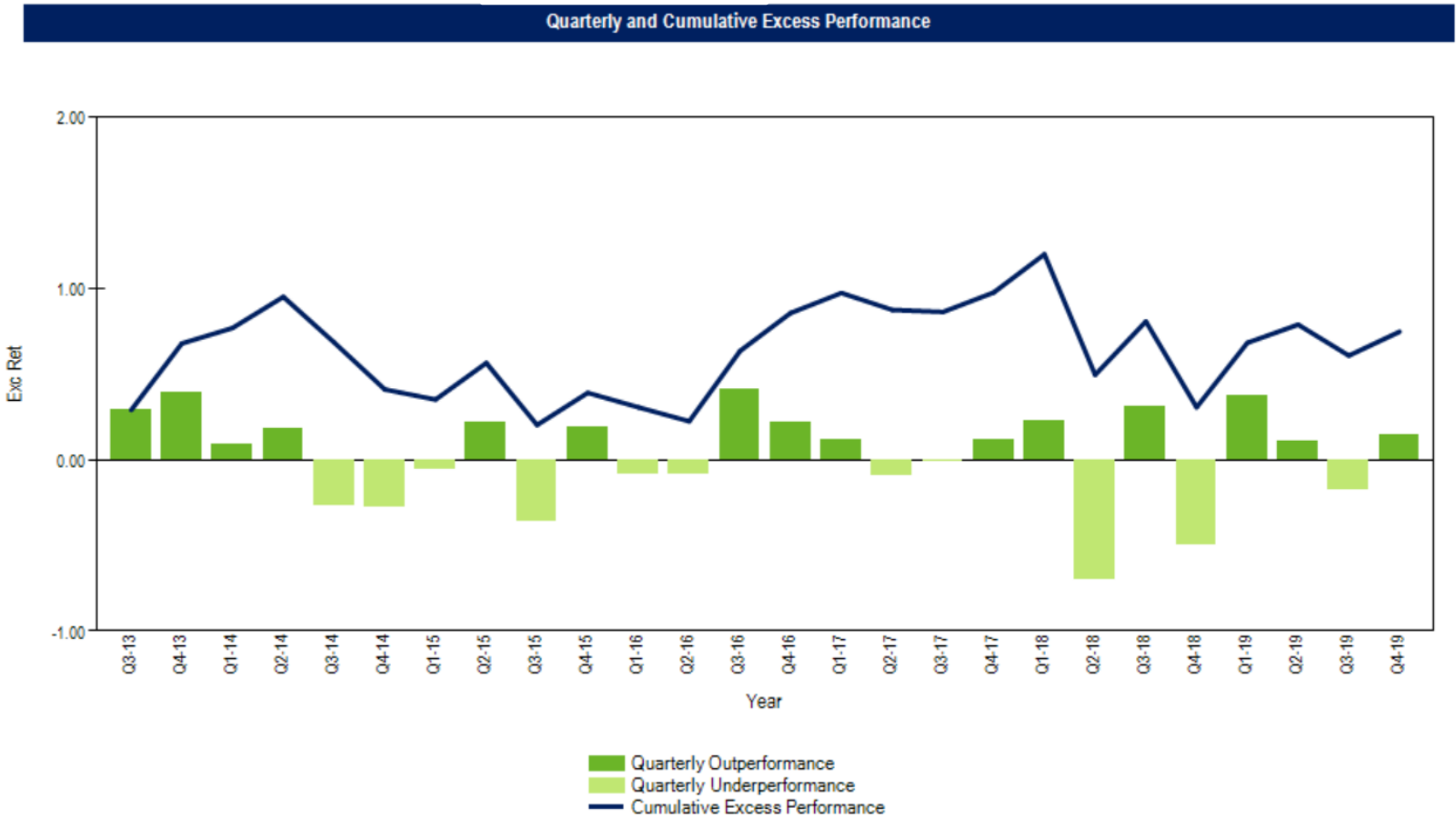
eV US Core Fixed Inc Net Return Comparison
Ending December 31, 2019

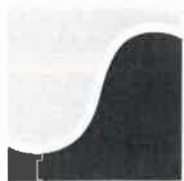


	Return (Rank)									
5th Percentile	0.72		10.50		4.70		3.89		5.32	
25th Percentile	0.27		9.43		4.37		3.42		4.84	
Median	0.15		8.96		4.09		3.14		4.59	
75th Percentile	0.01		8.45		3.89		2.96		4.35	
95th Percentile	-0.21		6.29		2.84		2.17		4.01	
# of Portfolios	146		146		144		141		84	
● Neuberger Berman	0.32	(18)	9.19	(41)	3.99	(62)	3.12	(54)	5.57	(3)
▲ Core Fixed Income Blend	0.18	(44)	8.72	(68)	4.03	(56)	3.05	(64)	4.65	(45)



Exhibit 2





LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



REPORT TO INVESTMENT COMMITTEE

From: Lita Payne, Executive Officer

Lita Payne

MEETING: MARCH 10, 2020

ITEM: V

SUBJECT: INVESTMENT MANAGER CONTRACT WITH BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. REGARDING MANAGEMENT OF MULTIPLE PASSIVE INVESTMENT MANDATES AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with BlackRock Institutional Trust Company, N.A. for passive management of multiple index strategies.

Executive Summary

BlackRock Institutional Trust Company, N.A. (BlackRock) provides LACERS access to multiple passive investment strategies under a single contract; this contract expires on May 31, 2020. The contract provides LACERS access to various passive public equities and fixed income commingled funds as needed. LACERS currently has no assets invested in any of BlackRock's funds.

Discussion

Background

In April 2012, the Board authorized a search for investment managers to provide multiple passive investment strategies under a single contract. This type of contract allows LACERS to gain exposure quickly to various passive strategies in cases such as asset allocation changes, portfolio rebalancings, or manager terminations. It also reduces the number of contracts administered for passive investment mandates. As a result of the search, the Board awarded contracts to BlackRock Institutional Trust Company, N.A. (BlackRock), RhumbLine Limited Partnership (RhumbLine), and State Street Global Advisors (State Street).

Under the multiple passive strategies contract, BlackRock provides equity and fixed income strategies on an as-needed basis for the indices listed in the following table via commingled fund vehicles. BlackRock's investment objective is to fully replicate the risk and return characteristics of the respective benchmarks using quantitative techniques. Currently, LACERS does not have assets invested in any BlackRock funds.

Strategy	BlackRock's AUM (in billions)*
BlackRock S&P 500	\$ 714.4
BlackRock Russell 1000 Growth Index	63.6
BlackRock Russell 1000 Value Index	50.6
BlackRock Russell 2000 Index	67.0
BlackRock Russell 2000 Growth Index	11.3
BlackRock Russell 2000 Value Index	12.1
BlackRock MSCI World ex-U.S. Index	20.2
BlackRock MSCI EAFE Growth Index	4.5
BlackRock MSCI EAFE Value Index	6.2
BlackRock MSCI Emerging Markets Index	68.4
BlackRock MSCI EAFE Small Cap Index	13.3
BlackRock Barclay's U.S. Aggregate Bond Index	230.3
Total AUM of Strategies Under Contract	\$ 1,261.9

**AUM numbers as of 12/31/19*

On May 10, 2016, the Board approved a two-year contract extension with BlackRock. On January 9, 2018, the Board approved a subsequent two-year contract extension that expires on May 31, 2020. The Board recognized the benefit of retaining BlackRock as a contractor due to its passive MSCI EAFE Growth and Value equities strategies, which are not available from LACERS' other passive contractors, RhumbLine and State Street; these strategies may become useful for future portfolio restructurings.

Further, the Board approved the most recent two-year contract extension with the expectation that a Request for Proposal (RFP) or Request for Information (RFI) would be launched to assess the competitiveness of BlackRock's strategies and fees. In light of other high priority investment RFPs currently in progress, staff has deferred seeking authorization from the Board to issue this RFP or RFI. Staff anticipates seeking Board approval to release this search subsequent to the completion of all RFPs currently in progress.

At this time, staff is seeking concurrence from the Committee for a recommendation to the Board for a three-year contract renewal. Such a contract renewal will provide LACERS options to place assets with BlackRock when the need may occur, such as in the event of future portfolio restructurings, and allow time to conduct an RFP or RFI.

Due Diligence

BlackRock is a publicly traded company (NYSE: BLK) headquartered in New York, and employs approximately 15,000 employees in more than 34 countries. As of December 31, 2019, BlackRock had approximately \$7.4 trillion of assets under management. The firm's organizational structure, key personnel, investment philosophy, strategy, and process have not changed over the contract period. Performance of the BlackRock passive strategies under contract is presented in the attached memo from NEPC, LLC (NEPC), LACERS' General Fund Consultant.

General Fund Consultant Opinion

NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with BlackRock will allow the fund to maintain investment options in passive strategies as needed, which is expected to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Barbara Sandoval, Investment Officer II, Investment Division

RJ/BF/BS/jp

Attachment: 1. Consultant Recommendation – NEPC



NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: March 10, 2020

Subject: BlackRock Institutional Trust Company, N.A.

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System ('LACERS') extend the contract that is currently in place with BlackRock Institutional Trust Company, N.A. ('BlackRock') for a period of three years from the date of contract expiry.

Background

LACERS currently contracts with three index fund providers including BlackRock, Rhumblin and State Street. BlackRock is the only index fund manager employed by LACERS that currently offers an array of index fund mandates that is as broad as LACERS' underlying active portfolios. It has been LACERS' practice to use index funds on both a strategic basis and on a temporary basis when changing from one active manager to another. In the event that LACERS needs coverage for index fund management in asset classes and/or strategies not provided by either Rhumblin or State Street, LACERS would need to conduct a publicly advertised search. Having a provider that can accommodate LACERS' index fund needs on short notice is beneficial. The current BlackRock contract provides that coverage.

BlackRock is the largest investment manager in the world with just under \$7.43 trillion in assets under management as of December 31, 2019. They are also one of the largest index fund managers covering over 750 different index strategies.

Exhibit 1 provides a performance summary of the various index strategies that LACERS may use. Exhibit 2 provides an investment manager fee summary against passive peer universes assuming a mandate size that may be applicable to the asset class as a replacement strategy.

Conclusion

The breadth and depth of BlackRock's index fund management is significant. While BlackRock does not currently manage an index fund portfolio for LACERS, the current contract does provide a backstop for LACERS in the event the need arises for an index fund (i.e., MSCI EAFE Growth, MSCI EAFE Value, etc.) not currently provided by either Rhumblin or State Street. We support staff's recommendation to extend BlackRock's current contract.



BlackRock Index Fund Performance
Periods ending 12/31/2019

Product Name	1 Year	3 Years	5 Years	7 years	10 years
EAFE Equity Value Index Fund	16.92	6.85	4.01	5.18	4.40
<i>MSCI EAFE Free Value-GD Index</i>	16.83	6.95	4.15	5.35	--
EAFE Growth Index*	28.19	13.12	8.00	8.15	7.23
<i>MSCI EAFE Growth-ND Index</i>	27.90	12.84	7.71	7.86	6.95
Equity Index (S&P 500)	31.54	15.32	11.75	14.78	13.63
<i>S&P 500 Index</i>	31.49	15.27	11.70	14.73	13.56
MSCI EAFE Small Cap Index (Lend)	25.57	11.45	9.34	9.90	9.16
<i>MSCI EAFE Small Cap-ND Index</i>	24.96	10.92	8.85	9.42	8.74
MSCI Emerging Markets Index Strategy	18.24	11.47	5.52	3.18	3.59
<i>MSCI EM-ND Index</i>	18.44	11.57	5.61	3.26	3.68
MSCI World Ex-US Index	23.01	9.80	5.87	6.47	5.74
<i>MSCI World ex-US-ND Index</i>	22.49	9.34	5.42	6.04	5.32
Russell 1000 Growth Index Fund	36.40	20.50	14.66	16.96	15.29
<i>Russell 1000 Growth Index</i>	36.39	20.49	14.63	16.92	15.22
Russell 1000 Index Fund	31.46	15.07	11.51	14.63	13.58
<i>Russell 1000 Index</i>	31.43	15.05	11.48	14.60	13.54
Russell 1000 Value Index Fund	26.66	9.83	8.40	12.30	11.91
<i>Russell 1000 Value Index</i>	26.54	9.68	8.29	12.20	11.80
Russell 2000 Equity Index Fund	25.68	8.80	8.47	11.90	12.05
<i>Russell 2000 Index</i>	25.53	8.59	8.23	11.65	11.83
Russell 2000 Growth	28.68	12.71	9.62	13.38	13.31
<i>Russell 2000 Growth Index</i>	28.48	12.49	9.34	13.08	13.01
Russell 2000 Value Index	22.61	4.69	7.01	10.22	10.68
<i>Russell 2000 Value Index</i>	22.39	4.77	6.99	10.13	10.56
US Debt Index Fund	8.81	4.12	3.14	2.83	3.86
<i>Bloomberg Barclays US Aggregate Index</i>	8.72	4.03	3.05	2.72	3.75

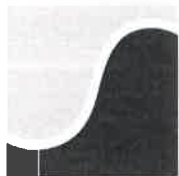
Source: eVestment.

Note: The returns shown are for securities lending eligible composites. LACERS is contracted for non-securities lending portfolios with BlackRock.



Exhibit 2: BlackRock Index Fund Fee Summary

Product Name	Investment Management Fee Schedule	Assumed Assets	Investment Management Fee	Universe (Commingle Funds)	Median Fee	Fee Rank	Observations
EAFE Equity Value Index Fund	100mm 8bps; >100mm 6bps	625 mm	0.06%	EAFE Passive Equity	0.07%	46	18
EAFE Growth Index	100mm 8bps; >100mm 6bps	675 mm	0.06%	EAFE Passive Equity	0.07%	46	18
Equity Index (S&P 500)	250mm 3 bps; >250mm 2 bps	3,600 mm	0.02%	US Passive S&P 500	0.03%	36	21
MSCI EAFE Small Cap Index	100mm 14bps; >100mm 12bps	300 mm	0.13%	EAFE Passive Equity	0.08%	86	18
MSCI Emerging Markets Index Strategy	100mm 16bps; >100mm 13bps	475 mm	0.14%	Global Emerging Markets Passive Equity	0.13%	58	15
MSCI World Ex-US Index	100mm 8bps; >100mm 6bps	1,900 mm	0.06%	Passive Non-US Diversified Equity	0.07%	37	31
Russell 1000 Growth Index Fund	250mm 3 bps; >250mm 2 bps	300 mm	0.03%	US Passive Russell 1000 Growth Equity	0.04%	14	7
Russell 1000 Index Fund	250mm 3 bps; >250mm 2 bps	3,600 mm	0.02%	US Passive Russell 1000 Equity	0.03%	26	5
Russell 1000 Value Index Fund	250mm 3 bps; >250mm 2 bps	300 mm	0.03%	US Passive Russell 1000 Value Equity	0.04%	14	7
Russell 2000 Equity Index Fund	100mm 8bps; >100mm 6bps	300 mm	0.07%	US Passive Small Cap Equity	0.04%	80	24
Russell 2000 Growth	100mm 8bps; >100mm 6bps	300 mm	0.07%	US Passive Small Cap Equity	0.04%	80	24
Russell 2000 Value Index	100mm 8bps; >100mm 6bps	300 mm	0.07%	US Passive Small Cap Equity	0.04%	80	24
US Debt Index Fund	100mm 7bps; next 400mm 5bps, >500mm 3bps	800 mm	0.05%	US Passive Core Fixed Income	0.03%	75	12



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



REPORT TO INVESTMENT COMMITTEE

From: Lita Payne, Executive Officer

Lita Payne

MEETING: MARCH 10, 2020

ITEM: VI

SUBJECT: INVESTMENT COMMITTEE CHARTER REVIEW AND POSSIBLE COMMITTEE ACTION

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

Recommendation

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

Discussion

Background

The Investment Committee Charter (Charter), approved by the Board on March 28, 2017, establishes the Committee's governance framework and outlines its responsibilities. Section V of the Charter requires the Committee to conduct a review of the Charter at least once every three years to ensure it remains appropriate. The Committee may recommend Charter changes to the Board for review and approval.

Strategic Plan Impact Statement

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

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

RJ/BF/EC/jp

Attachment: 1. Investment Committee Charter, Adopted March 28, 2017

ARTICLE I. BOARD GOVERNANCE STATEMENT

Section 3.0 DUTIES AND RESPONSIBILITIES

3.9 Investment Committee Charter

Adoption: March 28, 2017

I. PURPOSE/ROLE

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

II. AUTHORITY

The Committee is authorized by this Investment Committee Charter to:

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

III. COMMITTEE MEETINGS

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

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

IV. DUTIES AND RESPONSIBILITIES

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

1. Policy and Strategy

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

ARTICLE I. BOARD GOVERNANCE STATEMENT

Section 3.0 DUTIES AND RESPONSIBILITIES

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

2. Operations

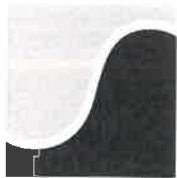
- Oversee the selection processes for hiring public market investment managers, investment consultants, and third-party investment support providers; make contracting recommendations consistent with the Investment Policy Statement and/or Board direction.
- Monitor public market investment managers, private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

3. Education

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

V. CHARTER REVIEW

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



REPORT TO INVESTMENT COMMITTEE

From: Lita Payne, Executive Officer

Lita Payne

MEETING: MARCH 10, 2020

ITEM: VII

SUBJECT: INVESTMENT POLICY MANUAL REVIEW AND POSSIBLE COMMITTEE ACTION

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

Recommendation

That the Investment Committee consider and provide comments regarding the Emerging Investment Manager Policy.

Discussion

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

Pursuant to Section V.I of the IP, the Board shall review the IP at least annually, with the assistance of staff and investment consultants, and revise as necessary. The Board's last review of the IP was completed on February 12, 2019. To initiate the 2020 annual IP review, staff requests that the Committee consider the attached Emerging Investment Manager Policy and propose revisions as necessary. Staff will bring forth proposed revisions to other sections of the IP at future meetings this year.

Strategic Plan Impact Statement

Revising the LACERS Investment Policy Manual will assist LACERS with optimizing long-term risk adjusted investment returns (Goal IV); upholding good governance practices which affirm transparency, accountability and fiduciary duty (Goal V); and maximizing organizational effectiveness and efficiency (Goal VI).

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

RJ/BF/CH/EC/jp

Attachment: 1. Emerging Investment Manager Policy Adopted February 12, 2019

Section 4 EMERGING INVESTMENT MANAGER POLICY

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 aspirational 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. 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.

Section 4 EMERGING INVESTMENT MANAGER POLICY

Private Markets: The Emerging Investment Manager aspirational 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. 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 Minimum Criteria

The following minimum criteria for firms to qualify as LACERS Emerging Investment Manager status under this Policy are as follows:

1. Public Market Asset Classes – U.S. Equities, Non-US Equities, Core Fixed Income
 - a) The firm will have no more than \$2 billion in total firm assets under management at the time of hire.
 - b) The firm must have a minimum of \$50 million assets under management in the strategy being considered.
 - c) The firm must have been in existence for a minimum of one year.
 - d) 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) 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) 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, Real Assets (not including Real Estate), Credit Opportunities
 - a) The General Partner will have no more than \$1 billion in firm-wide assets (based on the fair market value) of the previous fund at the time staff concurred on the proposed commitment plus the current amount of the drawdown commitment of the previous fund.
 - b) First- or second-time institutional fund for a General Partner.
 - c) The Fund shall have a minimum fund size of \$100 million in committed capital inclusive of LACERS' pending commitment.*

ARTICLE III. BOARD INVESTMENT POLICIES

Section 4 EMERGING INVESTMENT MANAGER POLICY

- d) The firm must have been in existence for a minimum of one year.
- e) 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.
- f) 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.
- g) No Limited Partner can represent more than 30% of the total Fund's* capital.
- h) 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) The General Partner will have no more than \$2 billion in firm-wide assets (based on the fair market value) of the previous fund at the time staff concurred on the proposed commitment plus the current amount of the drawdown commitment of the previous fund.
- b) First- or second-time institutional fund for a given General Partner.
- c) The Fund shall have a minimum fund size of \$150 million in committed capital inclusive of LACERS pending commitment.*
- d) The firm must have been in existence for a minimum of one year.
- e) 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.
- f) 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.
- g) No client can represent more than 30% of the total Fund's* capital.
- h) 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 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

ARTICLE III. BOARD INVESTMENT POLICIES

Section 4 EMERGING INVESTMENT MANAGER POLICY

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- and second-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. 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.