LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, JANUARY 12, 2021

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

MEETING LOCATION:

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Investment Committee's January 12, 2021, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to listen and/or participate:
Dial: (669) 900-6833 or (253) 215-8782
Meeting ID# 852 8880 9904

Instructions for call-in participants:

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

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

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

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

Notice to Paid Representatives

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

Request for Services

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

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

Disclaimer to Participants

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

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE

AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* - **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD**

II. APPROVAL OF MINUTES FOR THE MEETING OF DECEMBER 8, 2020 AND SPECIAL MEETINGS OF DECEMBER 9 AND DECEMBER 10, 2020 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. INVESTMENT MANAGER CONTRACT WITH CORECOMMODITY MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE LONG-ONLY COMMODITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION

V. INVESTMENT MANAGER CONTRACT WITH BAIN CAPITAL SENIOR LOAN FUND, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE U.S. BANK LOANS FUND AND POSSIBLE COMMITTEE ACTION

VI. CORE FIXED INCOME MANAGER ALLOCATION PLAN AND POSSIBLE COMMITTEE ACTION

VII. CONTINUED DISCUSSION OF INVESTMENT POLICY AND POSSIBLE COMMITTEE ACTION

VIII. OTHER BUSINESS

IX. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, February 9, 2021, at 10:30 a.m., or immediately following the Board Meeting, at LACERS, 977 N. Broadway, Suite 260, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while response to public health concerns relating to the novel coronavirus continue.

X. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, JANUARY 12, 2021

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

MEETING LOCATION:

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Investment Committee's January 12, 2021, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to listen and/or participate:
Dial: (669) 900-6833 or (253) 215-8782
Meeting ID# 852 8880 9904

Instructions for call-in participants:

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

Information to listen only: Live Board 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.

Request for Services

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

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

Disclaimer to Participants

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

CLICK HERE TO ACCESS BOARD REPORTS

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

II. APPROVAL OF MINUTES FOR THE MEETING OF DECEMBER 8, 2020 AND SPECIAL MEETINGS OF DECEMBER 9 AND DECEMBER 10, 2020 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. INVESTMENT MANAGER CONTRACT WITH CORECOMMODITY MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE LONG-ONLY COMMODITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION

V. INVESTMENT MANAGER CONTRACT WITH BAIN CAPITAL SENIOR LOAN FUND, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE U.S. BANK LOANS FUND AND POSSIBLE COMMITTEE ACTION

VI. CORE FIXED INCOME MANAGER ALLOCATION PLAN AND POSSIBLE COMMITTEE ACTION

VII. CONTINUED DISCUSSION OF INVESTMENT POLICY AND POSSIBLE COMMITTEE ACTION

VIII. OTHER BUSINESS

IX. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, February 9, 2021, at 10:30 a.m., or immediately following the Board Meeting, at LACERS, 977 N. Broadway, Suite 260, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while response to public health concerns relating to the novel coronavirus continue.

X. ADJOURNMENT

Agenda of:	**Jan. 12, 2021**
Item No:	**II**

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

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

December 8, 2020

12:23 p.m.

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

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

I

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

II

APPROVAL OF MINUTES FOR THE MEETING OF NOVEMBER 10, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, presented the Committee with the forward calendar. Mr. June also stated the following upcoming agenda items: Several investment manager contracts and Investment Policy discussion.

IV

INVESTMENT MANAGER CONTRACT WITH STATE STREET GLOBAL ADVISORS TRUST COMPANY REGARDING THE MANAGEMENT OF MULTI PASSIVE INDEX PORTFOLIO MANDATES AND POSSIBLE COMMITTEE ACTION – Bryan Fujita, Investment Officer III and Ellen Chen, Investment Officer I, presented this item to the Committee. After a 5 minute discussion, Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

V

CONTINUED DISCUSSION OF INVESTMENT POLICY AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, Wilkin Ly, Investment Officer III, Robert King, Investment Officer I, Clark Hoover, Investment Officer I, presented this item to the Committee. After a 10 minute discussion, Committee Member Elizabeth Lee moved approval, and David Fann, Vice-Chairman, and Jeff Goldberger, Managing Director, with Aksia TorreyCove Partners LLC, presented and discussed this item with the Committee for 30 minutes. After discussion, the Committee provided staff and the consultant with guidance and direction to bring this back for the Committee's review.

VI

Chair Sohn recessed the Regular Meeting at 1:40 p.m., to convene in Closed Session.

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER SALE OF ONE PARTICULAR, SPECIFIC PENSION FUND INVESTMENT AND POSSIBLE COMMITTEE ACTION

Chair Sohn reconvened the Regular Meeting at 2:03 p.m.

VII

OTHER BUSINESS – There was no other business

VIII

NEXT MEETING: The next Special meetings of the Investment Committee are scheduled for Wednesday, December 9, 2020 and Thursday, December 10, 2020, at 8:30 a.m. at LACERS, 977 N. Broadway, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. The next Regular Meeting of the Investment Committee is scheduled for Tuesday, January 12, 2021, at 10:30 a.m. or immediately following the Board Meeting, at LACERS, 977 N. Broadway, Los Angeles, CA 90012, and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while responding to public health concerns relating to the novel coronavirus continue.

IX

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 2:04 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary

Agenda of:	**Jan. 12, 2021**
Item No:	**II**

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

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020)
and due to the concerns over COVID-19, the
LACERS Investment Committee's
December 9, 2020, Special meeting was conducted
via telephone and/or videoconferencing

December 9, 2020

8:31 a.m.

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

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

I

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

II

FINALIST FIRMS OF THE CORE FIXED INCOME MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, Bryan Fujita, Investment Officer III, Barbara Sandoval, Investment Officer II, and Jeremiah Paras, Investment Officer I, introduced this item to the Committee for 10 minutes.

Gilbert Garcia, CFA, Managing Partner, and Ruby Munoz Dang, Partner, with Garcia Hamilton & Associates, L.P., presented and discussed their presentation with the Committee for 47 minutes.

Chair Sohn recessed the meeting at 9:28 a.m., for a break and reconvened the meeting at 9:31 a.m.

Bill O'Malley, CFA, Chief Executive Officer & Co-Chief Investment Officer, Jim Gubitosi, CFA, Co-Chief Investment Officer, Kara Maloy, CFA, Director of Credit Research, and Angela Meringoff, CFA, Senior Client Portfolio Manager, with Income Research & Management, presented and discussed their presentation with the Committee for 50 minutes.

Chair Sohn recessed the meeting at 10:21 a.m., for a break and reconvened the meeting at 10:26 a.m.

Susan Parekh, Executive Director & Portfolio Manager, Joseph Hisdorf, Executive Director & Investment Specialist, Lara Clarke, Managing Director & Client Advisor, and Richard Figuly, Managing Director & Portfolio Manager, with J.P. Morgan Asset Management, presented and discussed their presentation with the Committee for 45 minutes.

Chair Sohn recessed the meeting at 11:15 a.m., for a break and reconvened the meeting at 11:20 a.m.

James Dadura, CFA, Principal & Director of Fixed Income, and Clark Koertner, Principal & Director of Institutional Sales, with Segall Bryant & Hamill, LLC, presented and discussed their presentation with the Committee for 1 hour.

The Committee Members and staff briefly discussed the manager search.

III

OTHER BUSINESS – There was no other business

IV

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

V

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 12:28 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary

Agenda of:	**Jan. 12, 2021**
Item No:	**II**

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

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

December 10, 2020

8:35 a.m.

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

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

I

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

II

FINALIST FIRMS OF THE CORE FIXED INCOME MANAGER SEARCH AND POSSIBLE COMMITTEE ACTION – There was no discussion and the next manager immediately began their presentation.

Mary Ellen Stanek, CFA, Managing Director & Chief Investment Officer, Charles Groeschell, Managing Director & Senior Portfolio Manager, and M. Sharon deGuzman, Managing Director & Senior Portfolio Manager, with Robert W. Baird & Co., Inc., presented and discussed their presentation with the Committee for 57 minutes.

Chair Sohn recessed the meeting at 9:35 a.m., for a break and reconvened the meeting at 9:39 a.m.

Stephanie Lord, Vice President & Relationship Manager, John Hyll, Vice President & Portfolio Manager, and Neil Burke, Vice President & Portfolio Manager, with Loomis, Sayles & Company, L.P., presented and discussed their presentation with the Committee for 59 minutes.

Chair Sohn recessed the meeting at 10:39 a.m., for a break and reconvened the meeting at 10:45 a.m.

Brad Tank, Managing Director, Jennifer Laird, CAIA, Senior Vice President, David Brown, CFA, Managing Director, and Nathan Kush, Managing Director, with Neuberger Berman Investment Advisers LLC, presented and discussed their presentation with the Committee for 35 minutes.

The Committee Members provided their initial choices for this manager search.

Committee Member Serrano left the Meeting at 11:30 a.m.

Rod June, Chief Investment Officer, Bryan Fujita, Investment Officer III, and Carolyn Smith, Partner, with NEPC discussed and provided the Committee with their insight and staff's recommendation.

Committee Member Serrano returned to the Meeting at 11:40 a.m.

After further discussion, Committee Member Serrano moved approval of Robert W. Baird & Co., Inc., Loomis, Sayles & Company, L.P., Income Research & Management, and Garcia Hamilton & Associates, L.P., adopted by the following vote: Ayes, Committee Members Elizabeth Lee and Serrano -2; Nays, Chair Sohn -1. Committee Member Elizabeth Lee requested a friendly amendment to Committee Member Serrano's motion by adding J.P. Morgan Asset Management to the four managers selected by the Committee, adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn -3; Nays, None.

III

OTHER BUSINESS – There was no other business

IV

NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for January 12, 2021, at 10:30 a.m., or immediately following the Regular Board Meeting, at LACERS, 977 N. Broadway, Suite 260, Los Angeles, CA 90012 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while responding to public health concerns relating to the novel coronavirus continue.

V

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the meeting at 11:54 a.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JANUARY 12, 2021**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH CORECOMMODITY MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE LONG-ONLY COMMODITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board:

1. Termination of the contract with CoreCommodity Management, LLC for management of an active long-only commodities portfolio.

2. Redeployment of the assets to the unallocated cash account.

Executive Summary

CoreCommodity Management, LLC (CoreCommodity) has managed an active long-only commodities portfolio for LACERS since June 2015. LACERS' portfolio was valued at approximately $215 million as of December 31, 2020. CoreCommodity's current contract expires on May 31, 2021. Staff and NEPC, LLC (NEPC), recommend contract termination with CoreCommodity due to underperformance of the manager and a low expected return outlook for commodities strategies in general.

Discussion

Background
The Board hired CoreCommodity in 2014 to manage an active long-only commodities strategy benchmarked against the Bloomberg Commodity Index. CoreCommodity's strategy, named the Diversified I Program, seeks to generate excess returns through commodity yield enhancement techniques including forward futures contract selection, discretionary timing of execution, active and opportunistic trading, and risk monitoring. CoreCommodity's portfolio management team is led by Adam De Chiara, who is the Co-President and Co-Founder of CoreCommodity. Mr. De Chiara has 29 years of commodities experience, which includes his previous roles at Jeffries, AIG, and Goldman Sachs. Mr. De Chiara originally designed and launched the Dow Jones–AIG Commodity Index in 1997 (now known as the Bloomberg Commodity Index). LACERS' portfolio was valued at approximately $215 million as of December 31, 2020. CoreCommodity's current contract expires on May 31, 2021.

Organization
CoreCommodity was founded in 2003 and is owned by senior management and LAM Holdings LLC, which is a subsidiary of Leucadia National Corporation (NYSE: LUK). The firm has 25 employees and is based in Stamford, Connecticut. As of December 31, 2020, CoreCommodity managed approximately $4.2 billion of total firm assets, with approximately $1.4 billion of assets in the Diversified I Program and related strategies.

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

Performance
As of December 31, 2020, CoreCommodity has underperformed the benchmark (unaudited and net of fees) across all time periods, as presented in the table below.

Annualized Performance as of 12/31/20 (Unaudited Net-of-Fees)					
	3-Month	1-Year	3-Year	5-Year	Since Inception[1]
CoreCommodity	9.70	-3.39	-2.79	0.96	-3.88
Bloomberg Commodity Index	10.19	-3.12	-2.53	1.03	-3.69
% of Excess Return	*-0.49*	*-0.27*	*-0.26*	*-0.07*	*-0.19*

[1]*Inception date 4/15/15*

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

Calendar Year Performance as of 12/31/20 (Net-of-Fees)						
	2020[2]	2019	2018	2017	2016	4/14/15-12/31/15
CoreCommodity	-3.39	6.62	-10.82	2.16	11.78	-22.19
Bloomberg Commodity Index	-3.12	7.69	-11.25	1.70	11.77	-20.54
% of Excess Return	*-0.27*	*-1.07*	*0.43*	*0.46*	*0.01*	*-1.65*

[2]*Unaudited*

Pursuant to the LACERS Manager Monitoring Policy, CoreCommodity was placed "On Watch" for an initial one-year period effective September 15, 2020 for triggering the following Policy watch list criteria as of June 30, 2020:

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

In light of CoreCommodity's underperformance since inception and a low expected return outlook for commodities strategies in general according to NEPC's capital markets research (as discussed in

Attachment 1), staff and NEPC recommend termination of the contract and redeployment of the assets to LACERS unallocated cash account for operational liquidity needs. Additionally, staff and NEPC anticipate making a recommendation to eliminate the commodities allocation from the LACERS portfolio as part of the asset liability study to be completed in the current calendar year (2021).

Fees
LACERS pays CoreCommodity an effective fee of 60 basis points (0.60%), which is approximately $1,290,000 annually based on the value of LACERS' assets as of December 31, 2020. The fee ranks in the 67th percentile of fees charged by similar managers in the eVestment database (i.e., 66% of like-managers have lower fees).

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Alignment

A contract termination with CoreCommodity and reallocation of the assets aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/BS:jp

Attachment: 1. Consultant Recommendation – NEPC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: January 12, 2021

Subject: CoreCommodity Management, LLC – Contract Renewal

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) terminate its contract with CoreCommodity Management, LLC ('CoreCommodity'). NEPC is currently working on an Asset Liability Modeling study for LACERS. Within this context, we have evaluated the use of commodities in the Public Real Asset class and will not be recommending an allocation to commodities going forward. Our shorter-term (10 year) and longer-term (30 year) inflation assumptions are quite modest and therefore, we will be recommending a reduction to the Real Asset component of LACERS portfolio. With a very modest allocation to commodities currently (i.e., 1% of total plan assets) and a low expected return for the asset class, we want to take this opportunity to simplify LACERS' Real Asset portfolio. Further, we recommend that the assets currently with CoreCommodity be placed in the cash account.

Background

CoreCommodity was hired to manage an allocation to commodities on June 2, 2015 within the Public Real Assets allocation. The portfolio provides the Plan with exposure across 23 commodities found in the Bloomberg Barclays Commodity Index against which the portfolio's strategy is benchmarked. The performance objective is to outperform the Bloomberg Commodity Index over a full market cycle (normally three-to-five years). Performance of the CoreCommodity Diversified I strategy is currently on watch due to performance pursuant to the LACERS' Manager Monitoring Policy. As of November 30, 2020, CoreCommodity managed $206.0 million, or 1.0% of Plan assets.

The firm was founded in 2003 by executives from Jeffries Asset Management ('JAM') and currently has 25 employees based in Stamford Connecticut with $3.8 billion in assets under management as of October 31, 2020. In 2012, JAM rebranded the commodities business under the name CoreCommodity Management, LLC. CoreCommodity Management, LLC (the 'firm') is a wholly-owned subsidiary of CoreCommodity Capital, LLC. CoreCommodity Capital, LLC is owned by employees of CoreCommodity Management, LLC. Additionally, LAM Holding LLC, a wholly owned subsidiary of Leucadia National Corp., holds an economic interest in CoreCommodity Capital, LLC. The firm has not had any significant personnel turnover in the past year and has been stable over the past several years in positions of investment portfolio management and investment strategy.

The firm's Diversified I product has approximately $1.2 billion in total AUM. The investment objective of Diversified I is to provide investors with long exposure to commodities as an asset class and outperform the Bloomberg Commodity index. In order to gain exposure to commodities, the firm can purchase commodity futures contracts of the 23 global commodities included in the Bloomberg Commodity index. The firm invests directly in commodity futures contracts and does not use OTC swaps, structured notes or other OTC derivatives when managing portfolios. Portfolio weightings are rebalanced monthly in order to reduce directional basis risk and tracking error to the benchmark. They do manage the yield associated with the forward term structure of commodity futures markets in order to seek sustainable outperformance uncorrelated to market direction relative to the Bloomberg Commodity Index over time. The techniques utilized by the team are intended to mitigate the negative effects of roll yield on investors in both rising and falling commodity markets. Additionally, whereas passive strategies and benchmark indexes rely on end-of-day settlements as pricing inputs, active strategies like the Diversified I incorporate live execution, which provides for a wider opportunity set to add value via trade execution. The investment team additionally may consider such factors as the degree of liquidity and tradability of the underlying markets, technical perspectives, market fundamentals, volatility analysis, market perception of geopolitical risk/events, macroeconomic trends and indicators, among others, in selecting specific commodity futures contracts (i.e., selected calendar months) for inclusion in the portfolio. The investment approach is ultimately an iterative process between qualitative inputs from the investment management team and signals derived from the proprietary systems.

The portfolio does not employ the use of leverage except for the leverage inherent in trading futures contracts. The final portfolio will closely mirror the Bloomberg Commodity Index and be comprised of futures contracts along the forward curve. Forward curves and little or no spread volatility provide less opportunity for outperformance by yield management. Additionally, markets in which forward curves shift continuously and rapidly between contango / backwardation and backwardation / contango may be disadvantageous to the outperformance of the fund.

The LACERS portfolio is managed on an unleveraged basis, meaning, the notional value of exposures taken in the commodities futures markets is matched by a cash position held in the trust account. The cash position is swept into a Short-term Investment Fund ('STIF') and earns a short-term treasury-like yield.

Performance

Referring to Exhibit 1, as of November 30, 2020, the portfolio has underperformed the benchmark since inception by 0.09% (-4.86% vs. -4.77%). In the past year, ended November 30, 2020, the portfolio outperformed the benchmark by 0.32% (-2.74% vs. -3.06%). Referring to Exhibit 2, historical cumulative performance turned positive for approximately four quarters ending in the first quarter of 2019 when compared to the benchmark the portfolio has been underperforming. Active risk, as measured by tracking error, since inception ended November 30, 2020 has been 1.09% and the information ratio since inception has been 0.10.

Fees

The portfolio has an asset-based fee of 0.60% (60 basis points) annually. This fee ranks the 67th percentile in eVestment All Commodities universe. That is, 67% of the 14 portfolios within the universe are less expensive.

Conclusion

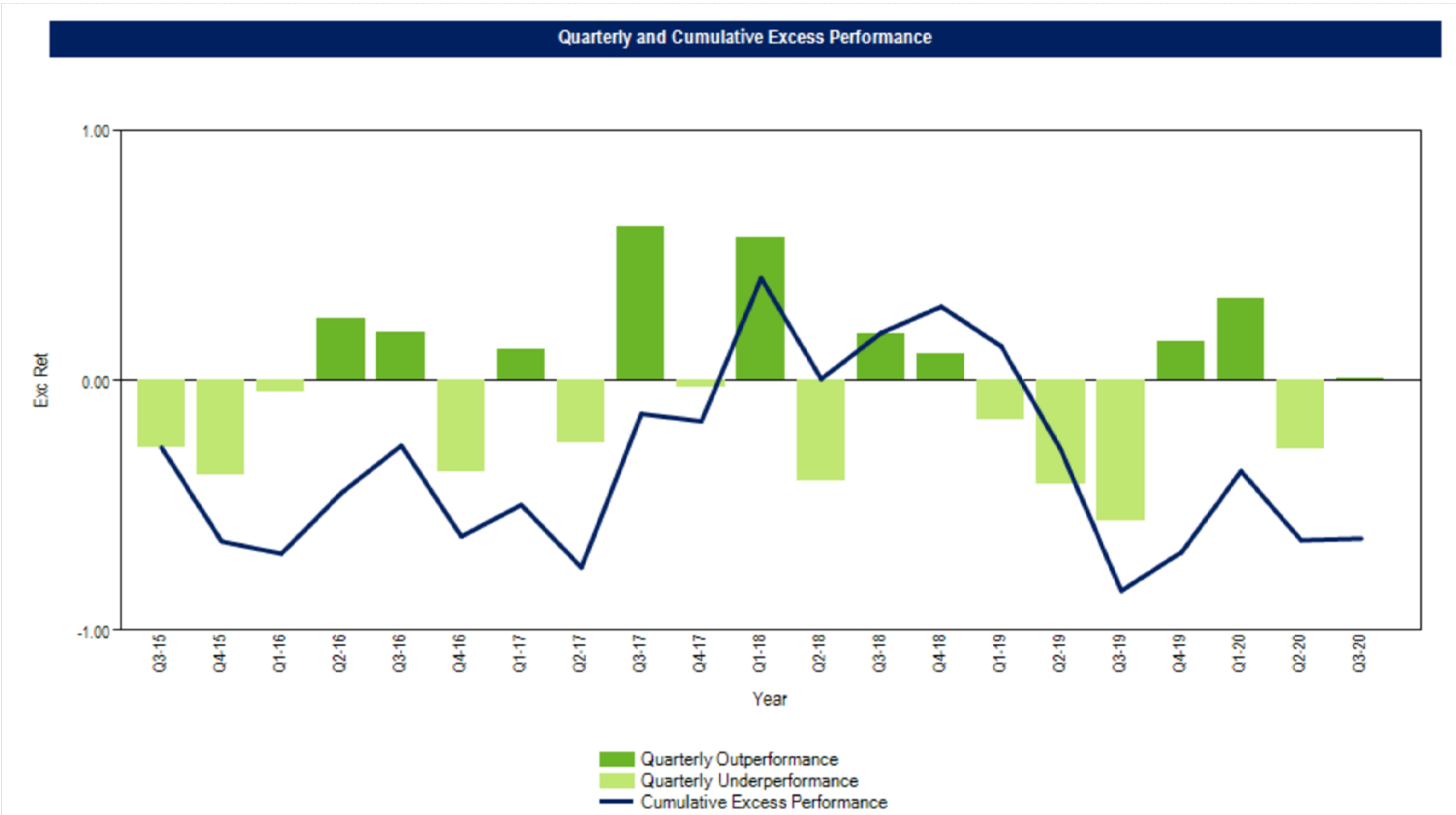
CoreCommodity Diversified I has performed in line with expectations, though underperforming its benchmark since inception. The team has been stable and has a sound investment process strategy that can lead to positive outcomes in certain market environments. Including a commodity portfolio provides: 1) diversification to traditional stock and bond exposure; 2) potential for return as demand for raw materials increases; and 3) can provide a potential hedge against inflation. However, based on our view of a low inflationary environment for the coming years and a low return assumption for commodities, NEPC will be recommending the elimination of the commodity portfolio and a reduction to LACERS' public Real Assets allocation. In anticipation of this, NEPC recommends that the contract extension not be granted for CoreCommodity.

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

Exhibit 1

	Ending November 30, 2020 Market Value($)	3 Mo(%)	YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Inception(%)
CoreCommodity Mgmt	205,988,940	1.67	-7.46	-2.74	-3.32	-0.27	-4.86
Bloomberg Commodity Index TR USD		1.45	-7.71	-3.06	-3.15	-0.57	-4.77
Excess		*0.22*	*0.25*	*0.32*	*-0.17*	*0.3*	*-0.09*

Exhibit 2


Quarterly and Cumulative Excess Performance
1.00
0.00
-1.00
Exc Ret
Q3-15
Q4-15
Q1-16
Q2-16
Q3-16
Q4-16
Q1-17
Q2-17
Q3-17
Q4-17
Q1-18
Q2-18
Q3-18
Q4-18
Q1-19
Q2-19
Q3-19
Q4-19
Q1-20
Q2-20
Q3-20
Year
Quarterly Outperformance
Quarterly Underperformance
Cumulative Excess Performance

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JANUARY 12, 2021**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH BAIN CAPITAL CREDIT, LP REGARDING THE MANAGEMENT OF AN ACTIVE U.S. BANK LOANS PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Bain Capital Credit, LP for management of an active U.S. bank loans portfolio.

Executive Summary

Bain Capital Credit, LP (Bain) has managed an active U.S. bank loans portfolio for LACERS since June 2015. LACERS' portfolio was valued at approximately $225.4 million as of November 30, 2020. Bain's current contract expires on June 30, 2021. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal with Bain.

Discussion

Background
The Board hired Bain, formerly known as Sankaty Advisors, LLC (Sankaty Advisors), in February 2015 to manage an active U.S. bank loans portfolio via a commingled fund vehicle called the Bain Capital Senior Loan Fund, L.P. (SLF). The strategy is benchmarked against the Credit Suisse Leveraged Loan Index and seeks to outperform its benchmark by utilizing proprietary research and analytics to identify mispriced bank loans. The portfolio management team is led by Andrew Carlino and John Wright, who are the co-heads of the firm's Liquid and Structured Credit business. Messrs. Carlino and Wright have 25 and 21 years of industry experience, respectively. The team overseeing the SLF consists of four additional portfolio managers: Kimberly Harris, Gauthier Reymondier, Nathaniel Whittier and Viva Hyatt. LACERS' portfolio was valued at $225.4 million as of November 30, 2020. The current contract expires on June 30, 2021.

Organization
Bain was founded as Sankaty Advisors in 1998 and is the credit-focused subsidiary of Bain Capital, LP, a global private equity firm. Bain is 100% employee-owned and is headquartered in Boston. As of September 30, 2020, the firm had 349 employees worldwide and managed $43.7 billion in credit with approximately $13.4 billion in bank loans and multi-asset credit, $12.6 billion in structured credit, $7.0

billion in private credit, and $10.7 billion in distressed and special situations. The SLF currently has approximately $1.0 billion in total assets.

Due Diligence
Bain's investment philosophy, strategy, and process have not changed over the contract period. In June 2019, Jon DeSimone, the head of the firm's Liquid Credit business and an SLF portfolio manager team retired from the firm after a seven-month transition period. As part of the transition, Andrew Carlino and John Wright, existing members of the SLF portfolio management team, were promoted as co-heads of the firm's Liquid and Structured Credit business while maintaining their SLF portfolio management responsibilities. Messrs. Carlino and Wright are long tenured Bain professionals who have been with the firm since 2002 and 2000, respectively. Staff and NEPC deem these planned organizational changes to have no material impact to Bain's management of the SLF.

Performance
As of November 30, 2020, Bain outperformed its benchmark across all time periods, as presented in the table below.

Annualized Performance as of 11/30/20 (Net-of-Fees)					
	3-Month	1-Year	3-Year	5-Year	Since Inception[1]
Bain Capital Senior Loan Fund, L.P.	3.93	4.98	4.03	4.93	4.02
Credit Suisse Leveraged Loan Index	3.01	3.10	3.68	4.72	3.92
% of Excess Return	*0.92*	*1.88*	*0.35*	*0.21*	*0.10*

[1]*Performance inception date 6/30/15.*

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

Calendar Year Performance as of 11/30/20 (Net-of-Fees)						
	1/1/20 - 11/30/20	2019	2018	2017	2016	7/1/15 - 12/31/15
Bain Capital Senior Loan Fund, L.P.	3.49	7.75	0.68	4.62	9.46	-3.70
Credit Suisse Leveraged Loan Index	1.46	8.17	1.14	4.25	9.88	-3.16
% of Excess Return	*2.03*	*-0.42*	*-0.46*	*0.37*	*-0.42*	*-0.54*

Pursuant to the LACERS Manager Monitoring Policy, Bain was placed "On Watch" for an initial one-year period effective July 28, 2020 for triggering the following Policy watch list criteria as of June 30, 2020:

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 November 30, 2020, Bain's unaudited performance no longer breaches these Policy criteria. In addition, as of the most recent quarter ending September 30, 2020, Bain's performance is compliant with the recently revised Policy criteria approved by the Board on November 24, 2020. However, staff will continue to monitor the manager's performance through the expiration of the one-year watch status period.

Fees
LACERS pays Bain Capital Credit an effective fee of 43 basis points (0.43%), which is approximately $969,000 annually based on the value of LACERS' assets as of November 30, 2020. The fee ranks in the 25th percentile of fees charged by similar managers in the eVestment database (i.e., 75% of like-managers have higher fees).

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Alignment

A contract renewal with Bain Capital Credit, LP will allow the fund to maintain a diversified exposure to the U.S. bank loans markets, and aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/JP:rm

Attachment: 1. Consultant Recommendation – NEPC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: January 12, 2021

Subject: Bain Capital Credit – Contract Renewal

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract that is currently in place with Bain Capital Credit ('Bain') for a period of three years from the date of contract expiry.

Background

The Board approved Bain Capital Credit as a manager within Credit Opportunities on February 24, 2015 and the performance inception date is July 1, 2015. As of November 30, 2020, Bain managed $225.4 million, or 1.1% of Plan assets in the Senior Loan Fund product. The performance objective is to outperform the Credit Suisse Leveraged Loans index annualized over a full market cycle (normally three-to-five years). Bain is currently on watch pursuant to the LACERS Manager Monitoring Policy due to performance.

Bain Capital Credit, LP was founded in 1998 as Sankaty Advisors ('Sankaty') by Jonathan Lavine, Co-Managing Partner of Bain Capital and Chief Investment Officer of Bain Capital Credit, LP as the credit investing arm of Bain Capital. In April of 2016, Sankaty was rebranded to Bain Capital Credit, LP (the 'firm') as part of a larger effort to rebrand their business lines under the Bain name. The firm is 100% employee owned and has approximately $42 billion in assets under management with $1 billion of that comprising the Senior Loan Fund product. The firm is a credit specialist managing roughly $13 billion in bank loans and multi-asset credit, $11 billion in structured credit, $7 billion in direct lending and $11 billion in distressed and special situations. Bain Capital Credit, LP's ultimate owner is Bain Capital Holdings, LP. The limited partners of Bain Capital Holdings, LP are its U.S. Managing Directors. As of July 1, 2020, Bain has 337 employees, 153 of whom are investment professionals.

Bain seeks to construct diversified portfolios of high quality companies and to add value through superior security selection and default avoidance. By employing a very large team of industry experts, Bain can add value by investing in issues and issuers that peer firms choose not to follow due to: 1) a lack of resources; or 2) firm size being so large such that the position would not have a meaningful impact on the portfolio. Bain employs a bottom-up approach to credit investing. Bain differentiates itself in its investment process by heavily emphasizing industry level research, where most peers begin at the company level. Portfolio positioning will tilt towards industries with attractive characteristics, such as high barriers to entry, low cyclicality, and diverse profit drivers. Within industries, analysts seek to identify the top companies by assessing product, pricing, customers, and costs with the goal of answering the simple question – "Does anyone care if this company goes away?" A thorough credit analysis is performed on companies where there is a potential investment opportunity. Analysts evaluate credits via a multi-factor assessment of leverage, free cash flow relative to debt, enterprise/liquidation value, and covenant structure. Creditor agreements also undergo a third-party legal assessment, which provides an independent evaluation of security structure.

In June 2019, Jonathan DeSimone, a Portfolio Manager and Managing Director in the Liquid & Structured Credit business, retired from Bain Capital Credit. Bain takes a team-based approach to managing the Senior Loan Strategy. The primary individuals involved with overseeing the comingled funds and related separate accounts in the senior loan strategy are Andy Carlino (CoHead of Liquid Credit), Kim Harris, Viva Hyatt, and Nate Whittier. John Wright (Co-Head of Liquid Credit), Stephanie Walsh, and Dom Debonis are primarily responsible for managing US CLO's and Structured Credit funds/SMA's. Gauthier Reymondier oversees European CLO's and European Loan funds. The teams work collaboratively together however, which provides critical redundancies and back up in the event of departures and/or retirements. John Wright and Andy Carlino assumed the roles of co-Heads after Mr. DeSimone's departure.

Performance

Referring to Exhibit 1, as of November 30, 2020, the portfolio has outperformed the benchmark since inception by 0.10% (4.02% vs. 3.92%). In the past year, ended November 30, 2020 the portfolio outperformed the benchmark by 1.88% (4.98% vs. 3.10%). Referring to Exhibit 2, since inception ended September 30, 2020, the Bain Senior Loan Fund, LP has underperformed the Credit Suisse Leveraged Loan Index by 0.06%, returning 3.53%, net of fees, and ranked in the 20th percentile its peer group. The portfolio has an information ratio of -0.06 and active risk, as measured by tracking error of 0.91%. In the one-year period ended September 30, 2020, the portfolio outperformed the index by 0.71% (1.55% vs. 0.84%) and ranked 15th in its peer group. Outperformance in the past one-year was driven by security selection in Energy, Telecom and Consumer Cyclicals.

Referring to Exhibit 3, much of the historical underperformance is a result of a drawdown in the fourth quarter of 2015 which was primarily due to security selection in Energy and Gaming & Leisure names. Positions in Energy, Consumer Cyclical, and Telecom have been net positive contributors to performance.

Fees

The portfolio has an asset-based fee of .43% (43 basis points) annually. This fee ranks in the 25th percentile of its peers in the eVestment Floating-Rate Bank Loan Universe. In other words, 75% of the 80 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

The Bain Senior Loan Fund, LP has outperformed the index since inception ended November 30, 2020 as well as outperforming over shorter periods of time. The Bain portfolio is a diversified, bottom-up fundamental bank loan strategy with flexibility to invest across the capital structure and geographies. NEPC recommends a contract extension for a period of three years from the period of contract expiry.

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

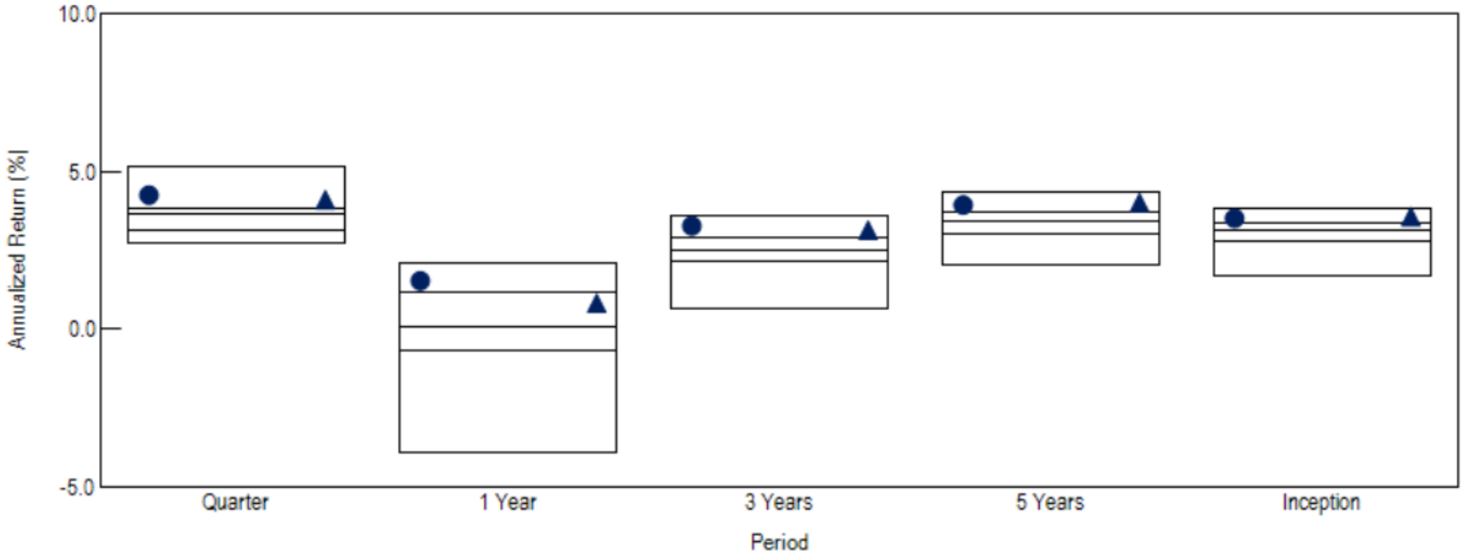
Exhibit 1

	Ending November 30, 2020 Market Value($)	3 Mo(%)	YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	Inception(%)
Bain Capital Senior Loan Fund, LP	225,374,840	3.93	3.49	4.98	4.03	4.93	4.02
Credit Suisse Leveraged Loans Index		3.01	1.46	3.10	3.68	4.72	3.92
Excess		*0.92*	*2.03*	*1.88*	*0.35*	*0.21*	*0.10*

NEPC, LLC

Exhibit 2

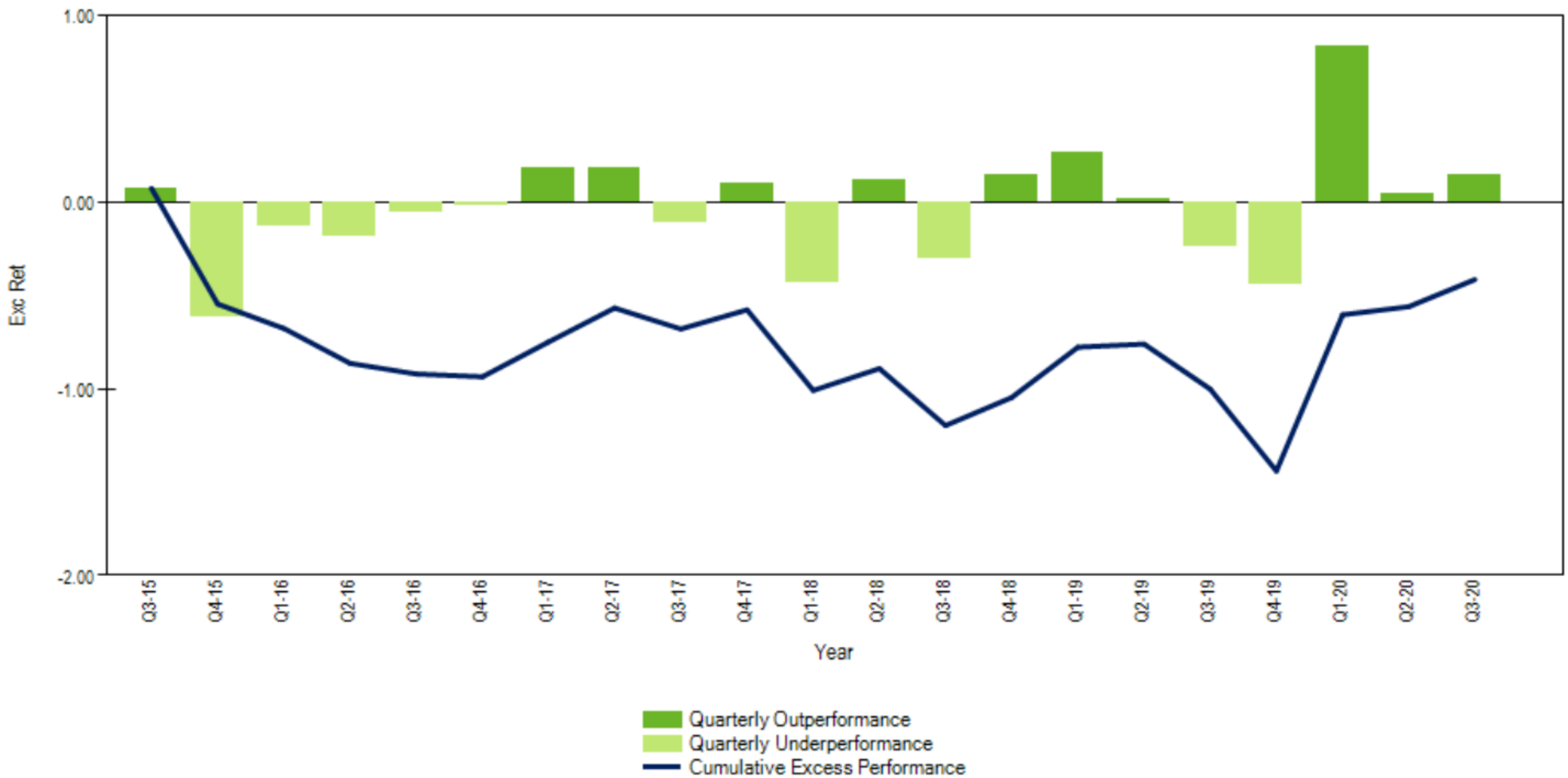
eV US Float-Rate Bank Loan Fixed Inc Net Return Comparison
Ending September 30, 2020



	Return (Rank)									
5th Percentile	5.17		2.09		3.61		4.34		3.86	
25th Percentile	3.86		1.21		2.94		3.73		3.39	
Median	3.64		0.09		2.52		3.44		3.12	
75th Percentile	3.16		-0.68		2.16		3.06		2.78	
95th Percentile	2.75		-3.89		0.67		2.06		1.68	
# of Portfolios	55		55		53		49		49	
● Bain Capital Senior Loan Fund, LP	4.27	(16)	1.55	(15)	3.29	(17)	3.95	(17)	3.53	(20)
▲ Credit Suisse Leveraged Loans	4.13	(19)	0.84	(36)	3.16	(20)	4.03	(15)	3.59	(19)

Exhibit 3

Quarterly and Cumulative Excess Performance



LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JANUARY 12, 2021**
From: Neil M. Guglielmo, General Manager **ITEM: VI**

SUBJECT: **CORE FIXED INCOME MANAGER ALLOCATION PLAN AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend the proposed core fixed income manager allocation plan to the Board for approval.

Discussion

At special meetings held on December 9 and 10, 2020, the Committee interviewed seven finalist firms for the Core Fixed Income Manager Search. Following a discussion with staff and NEPC, LLC (NEPC), LACERS General Fund Consultant, the Committee selected the following five firms to advance to the Board for possible contract award: Robert W. Baird & Co., Inc. (Baird), Garcia Hamilton & Associates, L.P. (GHA), Income Research & Management (IRM), J.P. Morgan Asset Management (JPMAM), and Loomis, Sayles & Company, L.P. (Loomis Sayles). The Committee instructed staff and NEPC to return with a recommendation for allocating the mandate among the five selected managers.

In accordance with the Core Fixed Income asset class target allocation of 13.75% and LACERS' total portfolio market value of approximately $21 billion as of December 31, 2020, approximately $2.88 billion will be allocated to this mandate. Based upon a risk budget optimization analysis of the five finalist managers (Attachment 1), staff and NEPC propose the allocation plan as presented in the following table for the Committee's consideration.

Manager	Proposed Allocation as a % of Asset Class	Proposed Allocation in $
Robert W. Baird & Co., Inc.^	25.00%	$720 million
Loomis, Sayles & Company, L.P.^	25.00%	$720 million
Garcia Hamilton & Associates, L.P.	16.67%	$480 million
Income Research & Management	16.67%	$480 million
J.P. Morgan Asset Management	16.67%	$480 million
Total	**100.00%**	**$2.88 billion**

^Incumbent LACERS core fixed income managers

This proposed allocation, identified as Portfolio 12 in Attachment 1, yields a substantial improvement in expected risk-return metrics versus LACERS' current allocation as summarized in the following table. Additionally, this proposed allocation has an expected tracking error of 0.68%, which is well within the bounds of the Board's adopted tracking error risk budget of 1.75% for the Core Fixed Income asset class.

Risk-Return Metrics	Current Allocation	Proposed Allocation
Expected Excess Return	0.53%	0.71%
Expected Tracking Error	0.70%	0.68%
Information Ratio	0.75	1.04

From a qualitative perspective, this proposed allocation expresses LACERS' experience and confidence with the two incumbent managers, Baird and Loomis Sayles, by allocating half of the mandate evenly between them. It expresses a small risk adjustment for establishing new relationships with GHA, IRM, and JPMAM by splitting the other half of the mandate evenly among these three managers, resulting in smaller allocations than those of the incumbent managers.

The current total market value of assets managed by LACERS' current stable of active core fixed income managers is approximately $2.5 billion. To fully fund the mandate size of $2.88 billion, the remaining balance of $380 million would be drawn from the passive core fixed income fund managed by State Street Global Advisors Trust Company, which is currently being used a placeholder for unfunded active fixed income strategies. Staff requests that the Committee consider this proposed allocation plan and recommend it to the Board for possible approval.

Strategic Alignment

The RFP for core fixed income investment managers aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV).

Prepared by: Barbara Sandoval, Investment Officer II, Investment Division
Jeremiah Paras, Investment Officer I, Investment Division

NMG/RJ/BF/BS/JP:rm

Attachment: 1. Core Fixed Income Manager Analysis and Risk Budget Optimization by NEPC, LLC

CORE FIXED INCOME MANAGER ANALYSIS AND RISK BUDGET OPTIMIZATION

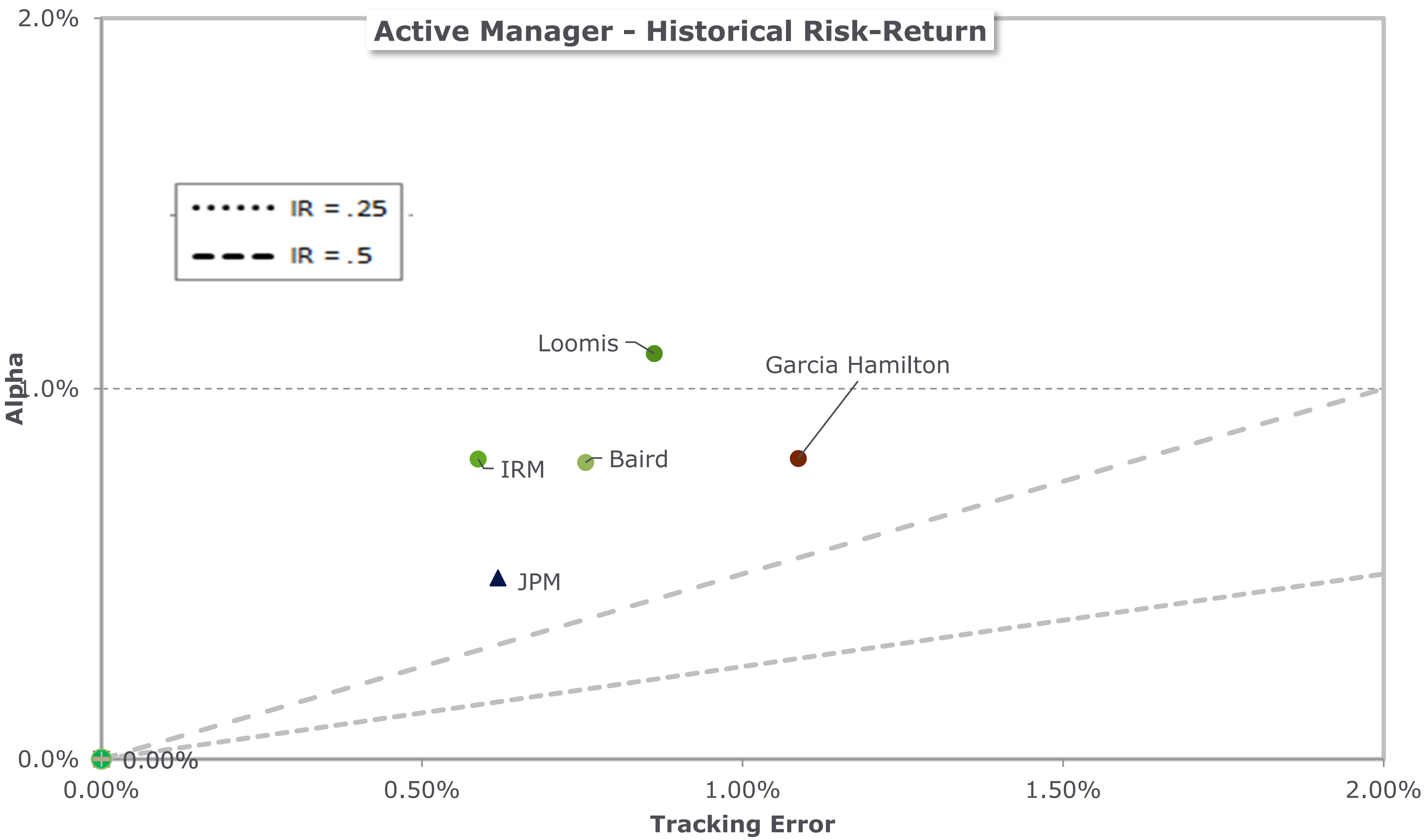
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

January 12, 2020

CORE FIXED INCOME MANAGER ALLOCATION

- **Recommendation**
  - Allocate 50% of the core fixed income allocation to the two incumbent managers
    - 25% Baird Advisors
    - 25% Loomis Sayles & Company, L.P.
  - Split the remaining 50% of the core fixed income allocation between the three new managers
    - 17% Garcia Hamilton & Associates, L.P.
    - 17% Income Research & Management
    - 17% J.P. Morgan Asset Management
- **Rationale**
  - After conducting a risk budgeting optimization exercise, there is no material difference between the expected risk, expected return and expected information ratio of various combinations of the five managers selected
  - LACERS has long-term relationships with both Baird and Loomis Sayles and therefore, our recommendation uses these two managers as the anchor to LACERS core fixed income allocation
  - Each of the new managers brings something different to the table and therefore, we favor an equal weighting to each

ACTIVE MANAGER RETURNS – 7 YR



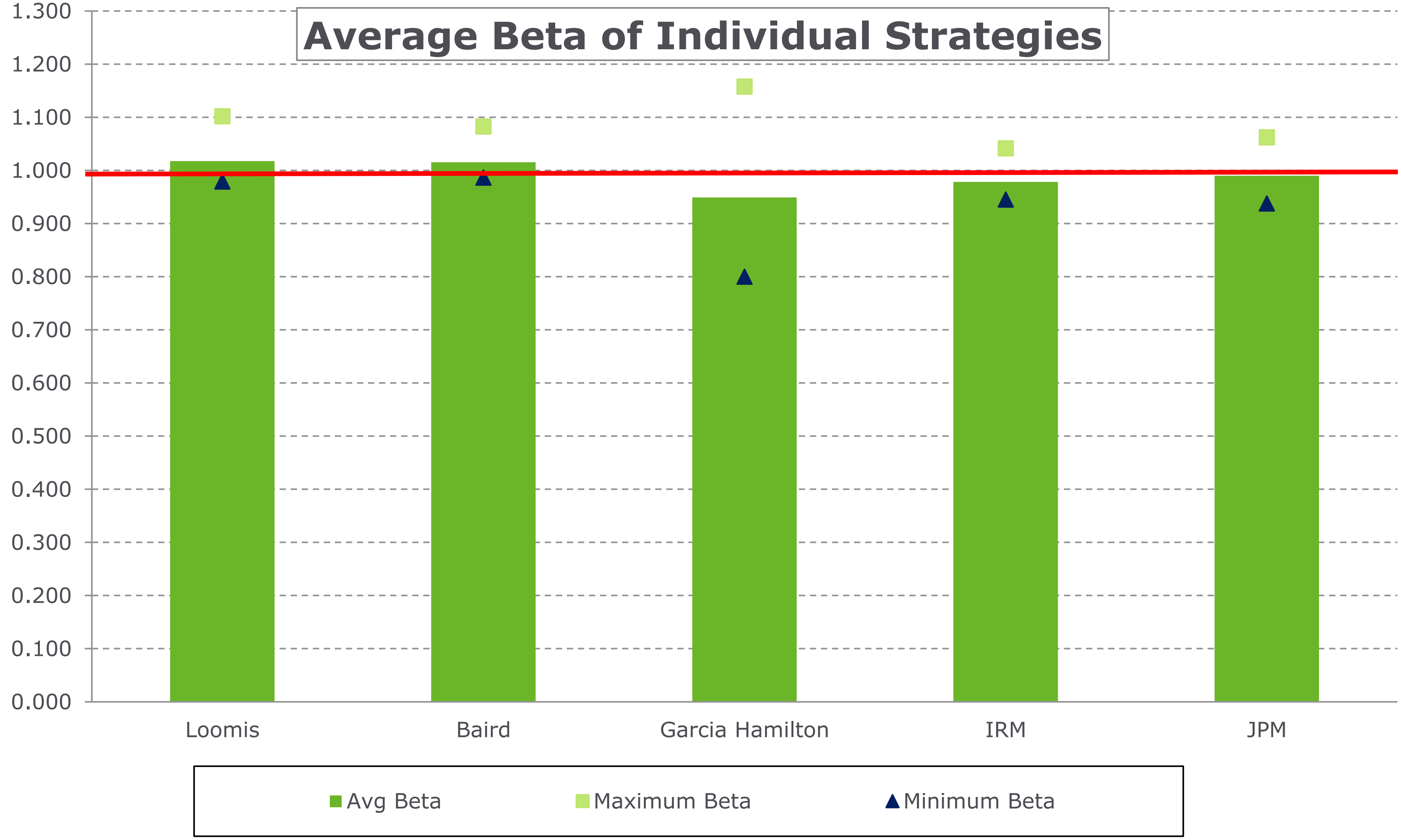
ALPHA CORRELATIONS – 7 YR

Alpha Correlations	Loomis	Baird	Garcia Hamilton	IRM	JPM
Loomis	1.00	0.94	0.31	0.91	0.59
Baird	0.94	1.00	0.39	0.88	0.51
Garcia Hamilton	0.31	0.39	1.00	0.38	0.28
IRM	0.91	0.88	0.38	1.00	0.50
JPM	0.59	0.51	0.28	0.50	1.00

Highly Negative (<-0.25)	Relatively Uncorrelated (-0.25 – 0.25)	Moderately Positive (0.25 – 0.50)	Highly Positive (>0.50)

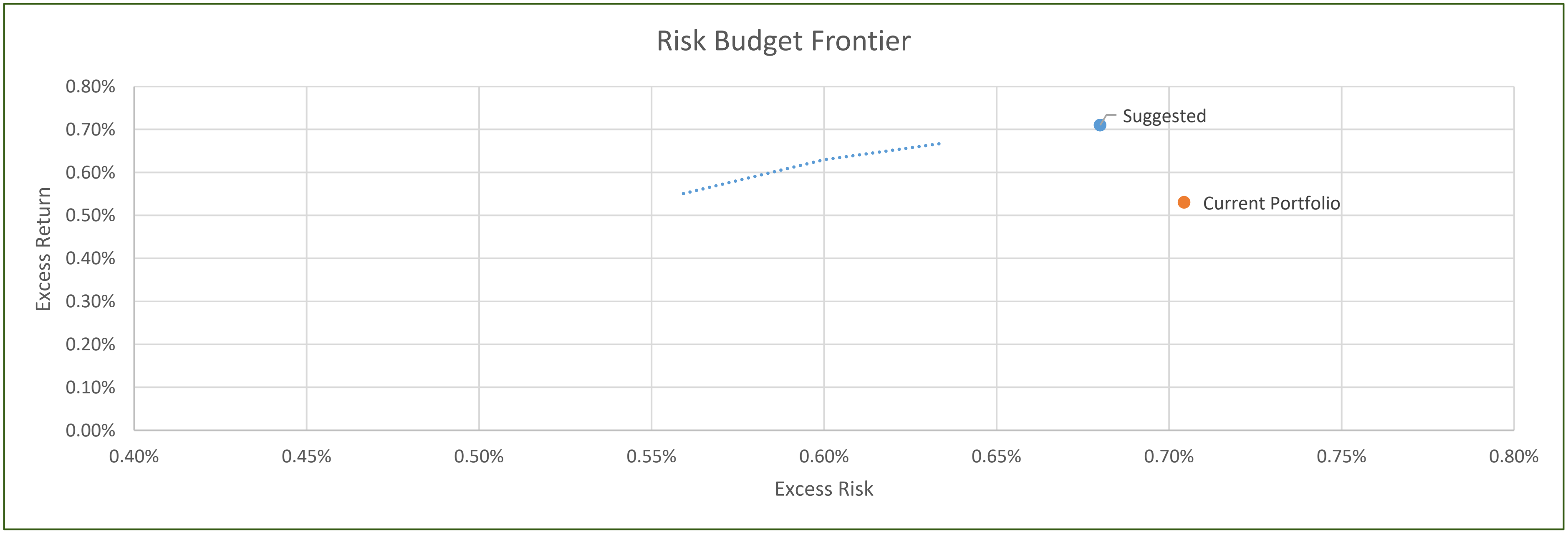
Based on a 7 year look-back ended 9/30/2020. Benchmark is BBG BC US Agg.

BETA PROFILES



RISK BUDGET OPTIMIZATION

Portfolio	Current Allocation	Expected Excess Return (%)	Tracking Error (%)	Current Excess Risk Contribution (%)	Suggested Allocation (%)	Suggested Excess Risk Conribution (%)
Loomis	28%	0.90%	0.90%	34%	25%	31%
NB	27%	0.55%	1.15%	43%		
Baird	12%	0.80%	0.80%	12%	25%	27%
Garcia Hamilton	0%	0.60%	1.15%		17%	17%
IRM	0%	0.65%	0.65%		17%	14%
JPM	0%	0.45%	0.65%		17%	11%
LM	12%	0.30%	0.80%	11%		
SSGA	21%	0.00%	0.00%	0%		
Expected Excess Return	0.53%				0.71%	
Expected Excess Risk	0.70%				0.68%	
Information Ratio	0.75				1.04	



Note: The risk budget frontier optimizes information ratio across excess risk and excess return levels. The frontier above is unconstrained. When we apply constraints we can marginally increase the excess return and excess risk profile at a marginal degradation of information ratio.

OPTIMIZATION DATA

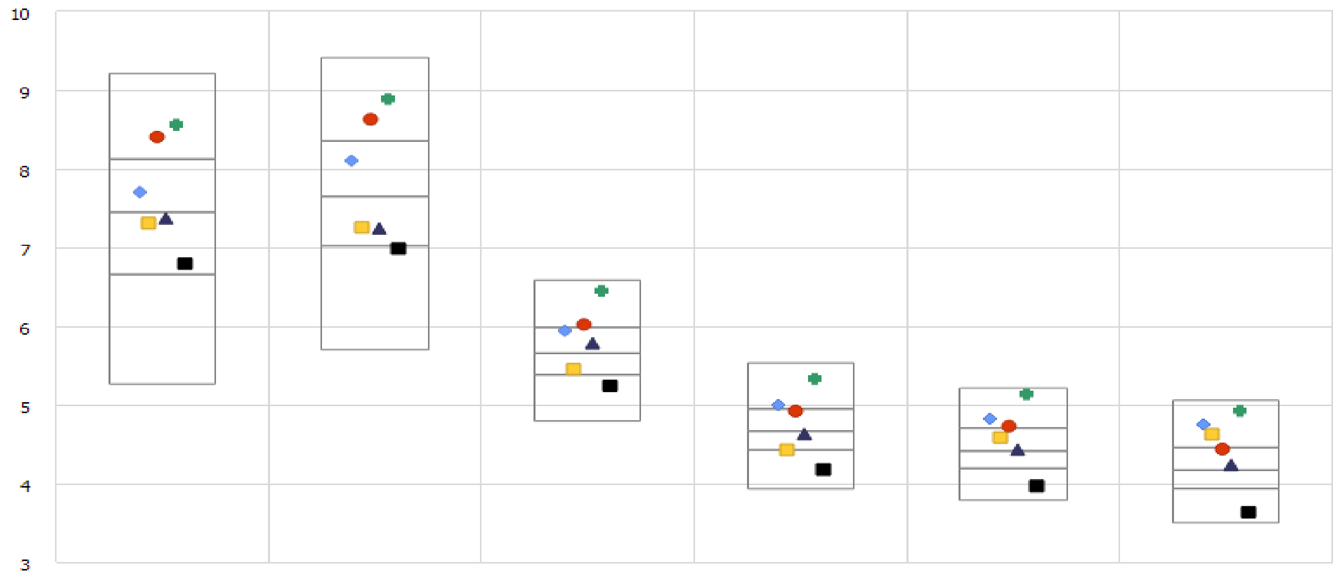
	Portfolios on Efficient Frontier			Portfolios not found on Efficient Frontier			
	Max Info Unconstrained	Max Info Unconstrained	Max Info Unconstrained	Max Information Ratio Min Allocation 10% Constrained	Max Information Ratio Min Allocation 18% Constrained	Max Information Ratio Max Allocation 25% Constrained	Suggested
	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 7	Portfolio 10	Portfolio 12
Loomis Sayles	0%	0%	5%	11%	24%	24%	25%
Baird	0%	21%	30%	26%	18%	25%	25%
Garcia Hamilton	6%	6%	6%	10%	18%	9%	17%
IRM	46%	49%	41%	37%	22%	25%	17%
J.P. Morgan	48%	24%	18%	16%	18%	17%	17%
Expected Excess Return	0.55%	0.63%	0.67%	0.68%	0.69%	0.71%	0.71%
Expected Excess Risk	0.56%	0.60%	0.64%	0.65%	0.67%	0.67%	0.68%
Info Ratio	0.98	1.05	1.05	1.05	1.04	1.05	1.04

APPENDIX

NEPC, LLC

PERFORMANCE SUMMARY

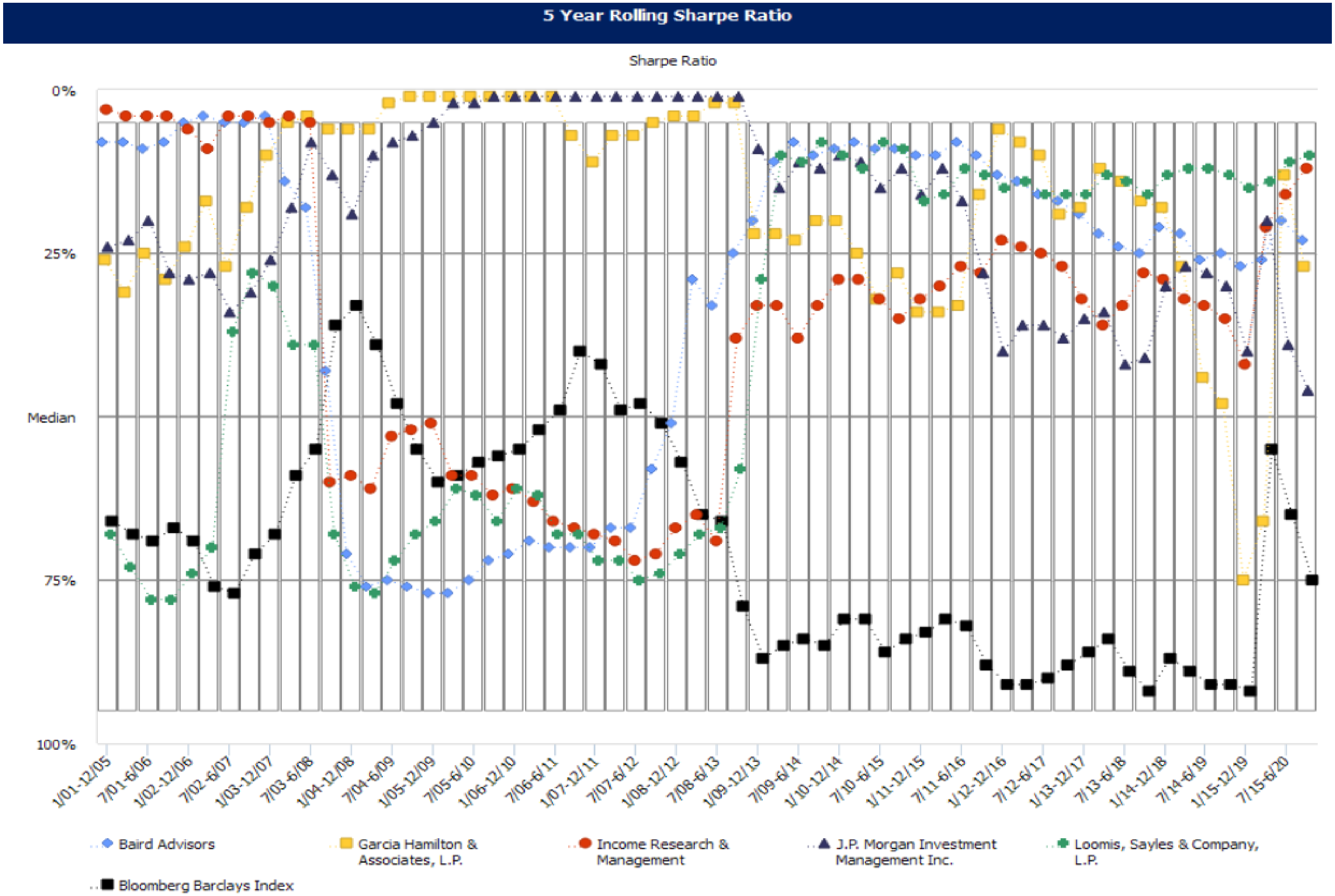
Trailing Returns Vs. Universe



Universe: eVestment US Core Fixed Income

	YTD	Rk	1 Year	Rk	3 Years	Rk	5 Years	Rk	7 Years	Rk	10 Years	Rk
5th percentile	9.2		9.4		6.6		5.5		5.2		5.1	
25th percentile	8.1		8.4		6.0		5.0		4.7		4.5	
Median	7.4		7.6		5.7		4.7		4.4		4.2	
75th percentile	6.7		7.0		5.4		4.4		4.2		3.9	
95th percentile	5.3		5.7		4.8		3.9		3.8		3.5	
# of Observations	260		260		256		249		243		236	
Baird Advisors	7.7	38	8.1	34	5.9	30	5.0	22	4.8	17	4.8	13
Garcia Hamilton & Associates, L.P.	7.3	56	7.3	65	5.5	68	4.4	75	4.6	34	4.6	17
Income Research & Management	8.4	16	8.6	16	6.0	22	4.9	28	4.7	23	4.4	27
J.P. Morgan Investment Management Inc.	7.4	52	7.2	66	5.8	39	4.6	54	4.4	48	4.2	43
Loomis, Sayles & Company, L.P.	8.6	13	8.9	10	6.4	6	5.3	10	5.1	6	4.9	7
Bloomberg Barclays Index	6.8	71	7.0	76	5.2	84	4.2	90	4.0	89	3.6	92

SHARPE RATIO UNIVERSE COMPARISON



LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

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

MEETING: JANUARY 12, 2021
ITEM: VII

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

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

Recommendation

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

Discussion

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

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

On December 8, 2020, the Committee reviewed and provided comments on an initial draft of the proposed revised Policy. The Committee directed staff to remove the proposed language limiting co-investment opportunities to existing general partner relationships in order to broaden the co-investment opportunity set; no other changes were requested. The attached revised draft Policy incorporates this amendment. Staff requests that the Committee consider the proposed amendment and provide comments as appropriate. Should the Committee be satisfied with the proposed change and have no further revisions, staff will move the revised Policy forward to the Board for further consideration and possible approval.

Strategic Alignment

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

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

NMG/RJ/BF/WL/CH:jp

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

Section 5 PRIVATE EQUITY INVESTMENT POLICY

X. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

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

B. Investment Objectives

1. Return

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

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

2. Risk

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

C. Scope

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

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

D. **Investment Guidelines**

1. **Eligible Investments**

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

a) Private equity partnerships – Investments in~~including~~ corporate finance/buyout, special situations, ~~and~~ venture capital and growth equity, secondaries, and co-investment funds. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage ~~"generalist"~~ partnerships;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall 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 1) be reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) be approved by the Chief Investment Officer in advance of any commitment.

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

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

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

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

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

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

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

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

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

LACERS' commitment to any given partnership shall not exceed 20% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. Any commitments in excess of this threshold will require pre-approval by the Board~~'s total commitments without the Board's approval~~.

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

3. **Diversification**

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

a) Up to 15% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may be attributable to partnerships by the same manager at the time the commitment is made.

b) Up to 25% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

c) The Private Equity Consultant shall appropriately diversify the Portfolio across vintage years when possible.

d) The Private Equity Consultant shall appropriately diversify the Portfolio with respect to geographic distribution.

e) The Private Equity Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure as compared to the Cambridge Associates US Private Equity Index with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

f) Private Equity Sub-asset Classes

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

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

~~a) Partnerships~~

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

~~(2) The Private Equity Consultant shall diversify the Portfolio across vintage years when possible.~~

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

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

~~b) Sub-asset Classes~~

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

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

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

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

4. **Illiquidity**

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

5. **Distributions**

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

E. **Review of Investment Guidelines**

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

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	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 w~~W~~ith Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• ~~With staff and General Fund Consultant,~~ Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.

Section 5 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 new ~~management groups~~partnerships of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $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 ~~potential~~or existing general partners representing new investment opportunities ~~new investments prior to recommending to the Board, if practical~~. • 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 $50 million for new partnerships, and up to and including $100 million for follow-on funds without Board approval. If ~~staff~~ Staff opposes and Private Equity Consultant disagrees, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • ~~Execute agreements.~~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 ~~extensive~~ appropriate analysis and due diligence on investments. • Prepare investment reports~~Recommend~~ for Board consideration on ~~approval~~ investments exceeding ~~over~~ $50 million for new managers, or exceeding~~over~~ $100 million in follow-on funds. • With ~~staff~~ Staff concurrence, approve investments of up to and including $50 million for new partnerships, and up to and including $100 million in follow-on funds. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • 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~~ Staff regarding potential investment opportunities undergoing ~~extensive~~ analysis and due diligence. • Coordinate meetings with general partners at the request of ~~between staff~~Staff~~, Board, and general partner upon request~~. • Advise on and ~~N~~negotiate ~~legal documents~~investment terms.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports. • ~~Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).~~	• 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 ~~to agreements~~ 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~~ Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

X. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

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

B. Investment Objectives

1. Return

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

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

2. Risk

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

C. Scope

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

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

D. **Investment Guidelines**

1. **Eligible Investments**

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

a) Private equity partnerships – Investments in corporate finance/buyout, special situations, venture capital and growth equity, secondaries, and co-investment funds. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage partnerships;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall 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 1) be reasonable and consistent with industry standards as determined by the Private Equity Consultant; and, 2) be approved by the Chief Investment Officer in advance of any commitment.

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

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

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

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

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

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

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

3. **Diversification**

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

a) Up to 15% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may be attributable to partnerships by the same manager at the time the commitment is made.

b) Up to 25% of the Private Equity Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

c) The Private Equity Consultant shall appropriately diversify the Portfolio across vintage years when possible.

d) The Private Equity Consultant shall appropriately diversify the Portfolio with respect to geographic distribution.

e) The Private Equity Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure as compared to the Cambridge Associates US Private Equity Index with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

f) Private Equity Sub-asset Classes

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

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

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

4. **Illiquidity**

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

5. **Distributions**

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

E. **Review of Investment Guidelines**

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

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. **Roles and Responsibilities**

	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.

Section 5 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 new partnerships of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $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 $50 million for new partnerships, and up to and including $100 million for follow-on funds without Board approval. If Staff opposes and Private Equity Consultant disagrees, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • 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 exceeding $50 million for new managers, or exceeding $100 million in follow-on funds. • With Staff concurrence, approve investments of up to and including $50 million for new partnerships, and up to and including $100 million in follow-on funds. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • 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.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
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 5 PRIVATE EQUITY INVESTMENT POLICY

X. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

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

B. Investment Objectives

1. Return

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

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

2. Risk

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

C. Scope

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

Section 5 PRIVATE EQUITY INVESTMENT POLICY

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

D. **Investment Guidelines**

1. **Eligible Investments**

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

a) Private equity partnerships – including corporate finance/buyout, special situations, and venture capital. Special situations is a broad investment strategy, which includes mezzanine and distressed debt partnerships, fund-of-funds (both direct and secondary), industry-focused, and multi-stage "generalist" partnerships;

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

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

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

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

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

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

3. **Diversification**

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

a) Partnerships

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

(2) The Private Equity Consultant shall diversify the Portfolio across vintage years when possible.

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

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

b) Sub-asset Classes

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

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

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

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

4. **Illiquidity**

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

5. **Distributions**

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

E. **Review of Investment Guidelines**

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

Section 5 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.	• With Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With staff and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Review investment analysis reports. • Review and approve investments in new management groups of amounts greater than $50 million prior to investment. • Review and approve investments in follow-on partnerships of amounts greater than $100 million prior to investment.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to $50 million for new partnerships, and up to $100 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $50 million in new partnerships, or over $100 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $50 million for new managers, or over $100 million in follow-on funds. • With staff concurrence, approve investment of up to $50 million for new partnerships, and up to $100 million in follow-on funds. • Provide investment analysis report for each new investment and sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

Investment Monitoring	• Review quarterly, annual, and other periodic monitoring reports. • Approve sale of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s).	• 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 distributions. • Review Private Equity Consultant's recommendations on amendments and consents. • Execute amendments to agreements 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).	• 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.