

Investment Committee Agenda

REGULAR MEETING

TUESDAY, JULY 10, 2018

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

MEETING LOCATION:

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

Chairperson: Sung Won Sohn

Committee Members: Nilza R. Serrano
Vacant Position

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Erin Knight (Acting)

Legal Counselor: City Attorney's Office
Retirement Benefits Division

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

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETINGS OF [MAY 8, 2018](#) AND [JUNE 26, 2018](#), AND POSSIBLE COMMITTEE ACTION
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. COMMITMENT OF UP TO \$35 MILLION IN ALMANAC REALTY SECURITIES VIII, L.P. AND POSSIBLE COMMITTEE ACTION
- V. [REAL ESTATE FISCAL YEAR 2018-19 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION](#)
- VI. [INVESTMENT MANAGER CONTRACT WITH EAM INVESTORS, LLC, REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)
- VII. OTHER BUSINESS

VIII. NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, August 14, 2018, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

IX. ADJOURNMENT

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, JULY 10, 2018

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

MEETING LOCATION:

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President:	Cynthia M. Ruiz
Vice President:	Michael R. Wilkinson
Commissioners:	Elizabeth L. Greenwood Sandra Lee Nilza R. Serrano Sung Won Sohn
Commissioner – Elect:	Elizabeth Lee
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Erin Knight (Acting)
Legal Counsel:	City Attorney's Office Retirement Benefits Division

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
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- V. REAL ESTATE FISCAL YEAR 2018-19 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION
- VI. INVESTMENT MANAGER CONTRACT WITH EAM INVESTORS, LLC, REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION
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IX. ADJOURNMENT

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

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

May 8, 2018

11:18 a.m.

Agenda of: July 10, 2018

Item No: II

PRESENT:	Chairperson:	Sung Won Sohn
	Committee Member:	Annie Chao
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counselor:	Anya Freedman James Napier
TELECONFERENCE:	Committee Member	Nilza R. Serrano
		Harvard Medical School Joseph B. Martin Conf. Center/Bray Room 77 Ave Louis Pasteur Boston, MA 02115

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

I

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

II

APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF APRIL 10, 2018 AND POSSIBLE COMMITTEE ACTION – A Motion to approve the minutes of April 10, 2018 was moved by Committee Member Chao, seconded by Committee Member Serrano, and adopted by the following vote: Ayes, Committee Members Chao, Serrano, and Chairperson Sohn –3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, stated the Investment Committee Calendar was distributed to the Committee Members.

IV

PRIVATE EQUITY CONSULTANT SEMI-FINALIST INTERVIEWS AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, Bryan Fujita, Chief Operating Officer, and Wilkin Ly, Investment Officer II, briefly discussed this item and proceeded to introduce the semi-finalists.

The first presenter was Cambridge Associates. Andrea Auerbach, Partner, Managing Director, Anita Ng, Managing Director, Audrey The, Managing Director, and Chris Shepler, Client Services Representative, at Cambridge Associates made their presentation to the Committee.

Committee Chair Sohn recessed the Regular Meeting at 12:26 p.m., and reconvened the Regular Meeting at 12:30 p.m.

The second presenter was Cliffwater LLC. Kathleen Barchick, Senior Managing Director, Gabrielle Zadra, Senior Managing Director, and James Feidler, Senior Managing Director, at Cliffwater LLC made their presentation to the Committee.

Committee Chair Sohn recessed the Regular Meeting at 1:00 p.m., and reconvened the Regular Meeting at 1:05 p.m.

The third presenter was Torrey Cove Capital Partners. David Fann, President and CEO, Heidi Poon, Senior Vice President, and Jeff Goldberger, Senior Vice President, at Torrey Cove Capital Partners made their presentation to the Committee.

After discussion by the Committee, Rod June, Chief Investment Officer, stated staff's rankings: 1) Torrey Cove Capital Partners, 2) Cambridge Associates, and 3) Cliffwater LLC. Committee Member Serrano made a motion directing staff to renegotiate with Cambridge Associates on lowering their fees to a maximum of \$4 million over a five year period and to make changes to the proposed Cambridge Associates team. If Cambridge Associates complies with said directions, staff can go directly to the Board for approval; If Cambridge Associates does not lower their fees, the Committee approval will be given for staff's recommendation of Torrey Cove Capital Partners as finalist. Chairperson Sohn seconded Committee Member Serrano's recommendation, and adopted by the following vote: Ayes, Committee Member Serrano and Chairperson Sohn –2; Nays, Committee Member Chao –1.

V

INVESTMENT MANAGER CONTRACT WITH CORECOMMODITY MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE LONG-ONLY COMMODITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Bryan Fujita, Chief Operating Officer and Wilkin Ly, Investment Officer II discussed this item. Committee Member Serrano made a motion directing staff to renegotiate the fees with Core Commodity Management, LLC; If recommendations are adhered to, staff can go directly to the Board for approval. Committee Member Chao seconded Committee Member Serrano's motion with the recommendation, seconded by Chairperson Sohn, and adopted by the following vote: Ayes, Committee Members Chao, Serrano, and Chairperson Sohn –3; Nays, None.

VI

OTHER BUSINESS – There was no other business.

VII

NEXT MEETING – The next Investment Committee Meeting is scheduled for Tuesday, June 12, 2018, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

VIII

ADJOURNMENT – There being no further business before the Chairperson Sohn adjourned the Meeting at 2:51 p.m.

Sung Won Sohn
Chairperson

Neil M. Guglielmo
Manager-Secretary

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

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

June 26, 2018

12:41 p.m.

Agenda of: July 10, 2018

Item No: II

PRESENT:	Chairperson:	Sung Won Sohn
	Committee Member:	Annie Chao Nilza Serrano
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counselor:	James Napier

The Investment Committee Meeting for June 26, 2018 was cancelled and therefore no items were discussed and no action was taken.

Sung Won Sohn
Chairperson

Neil M. Guglielmo
Manager-Secretary



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



Report to Investment Committee

From: *m. Lita Payne*
Neil M. Guglielmo, General Manager

Agenda of: **JULY 10, 2018**

ITEM: **V**

SUBJECT: REAL ESTATE FISCAL YEAR 2018-19 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

Recommendation

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2018-19 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2018-19 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

Strategic Plan Impact Statement

The annual real estate strategic plan assists the Board in building a diversified real estate and total fund portfolio with an attractive risk-adjusted return profile (Goal IV). Development and adoption of such a plan also promotes good governance practices (Goal V).

This report was prepared by Eduardo Park, Investment Officer I, Investment Division.

RJ:BF:EP:ag

Attachment: Proposed Real Estate Portfolio Strategic Plan – The Townsend Group

MEMORANDUM

TO: The Board of Los Angeles City Employees' Retirement System
DATE: July 2018
SUBJECT: Real Estate Strategic & Investment Plan – Executive Summary
FROM: The Townsend Group

Executive Summary

The purpose of this report is to recommend changes to the Los Angeles City Employees' Retirement System ("LACERS" or the "System") Real Estate Strategic Plan ("Strategic Plan"). A corresponding Real Estate Investment Plan ("Investment Plan") includes actions which will help LACERS to capitalize on current market opportunities while still meeting the guidelines set forth in the proposed Strategic Plan.

Townsend was re-engaged by LACERS's Board in 2015 to serve as its real estate consultant. Since that time, Townsend has worked with LACERS Staff to successfully transition the Portfolio to reflect a more conservative risk profile. The investment strategy from 2015 to-date has emphasized \$220 million of investment into Core funds, \$120 million into tactical Non-Core funds and close monitoring of pre-GFC underperforming investments which have begun to mature and liquidate.

In April 2018, LACERS Board adopted changes to its Asset Allocation targets, as advised by its general consultant. The impact to real estate was to increase capital from 5.0% of Total Plan Assets to 7.0% of Total Plan Assets.

The Strategic and Investment Plan recommendations for 2018 are summarized below.

2018 Strategic Recommendations

Townsend is not recommending any significant strategic changes in 2018. A proposed change to the Strategic Plan is summarized below.

1. *Document Real Estate Allocation increase from 5.0% to 7.0%.* Consistent with the aforementioned election by the Board to increase its real estate allocation from 5.0% to 7.0% of Total Plan Assets, Townsend recommends revising the Real Estate Strategic Plan to reflect this.

END OF STRATEGIC RECOMMENDATIONS

2018-2022 Investment Recommendations

The LACERS Program (the “Program”) now has a 7.0% allocation target (with an allowable range of ± 2.0%). As of September 30, 2017, the market value of the Portfolio was \$947 million on a committed and funded basis (5.7% of Total Plan Assets). With the combination of the recently approved increased allocation to real estate, and planned liquidations, LACERS will need to deploy significant capital in order to reach its 7.0% allocation target over the coming years.

The following table depicts a range of capital shortfalls between 2018 and 2022 under three different scenarios:

Portfolio Growth Scenario	Core Growth Assumption	Non-Core Growth Assumption	Total Capital Needed until 2022	Capital per Annum until 2022
Conservative	0%	4%	\$865 million	\$173 million
Baseline	2%	6%	\$790 million	\$158 million
Aggressive	4%	8%	\$700 million	\$140 million

According to the Baseline Scenario, LACERS has capacity to make cumulative commitments of approximately \$790 million over five years in order to reach its 7.0% allocation to Real Estate (targeting approximately \$150 million per year).

Townsend recommends the following 2018-2019 Goals to LACERS for consideration:

Overall Portfolio Goals

- Refrain from over-committing in peak market vintage years, simply due to the increase in allocation
- For compelling opportunities, consider increasing average commitment size to reflect the new real estate allocation

Core Portfolio Goals

- In 2H2018, evaluate existing Open-End Core fund portfolio and consider rebalancing portfolio to maximize benefits and improve returns, as necessary.
- Maintain relative weightings to Core v. Non-Core to maintain an appropriate level of defensiveness.

Non-Core Portfolio Goals

- Substantial realizations by Non-Core managers, particularly from pre-GFC investments, will result in declining market exposure with no additional commitments.
- Focus on up to three incremental commitments in Non-Core (ranging from \$35 to \$50 million per investment).
- Target commitments to preferred property types and regions based on LACERS Portfolio exposures:
 - Debt (mezzanine or preferred equity with kickers to provide equity-like returns with downside protection),
 - US Office (projected to be 7.0% underweight compared to ODCE by 2020; being highly selective with a proven office manager executing in high conviction markets with strong demand-drivers),
 - US Retail (projected to be 4.0% underweight compared to ODCE by 2020; consider one investment with a proven high-street or grocery anchored retail manager),
 - Other/Niche (may include student accommodation, seniors housing or medical office),
- Actively source opportunities from the Emerging Manager universe as available.
- Emphasize current income and pre-specified portfolios to mitigate J-curve.

END OF INVESTMENT RECOMMENDATIONS



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Real Estate Portfolio

Fiscal Year 2018-2019 Strategic Plan





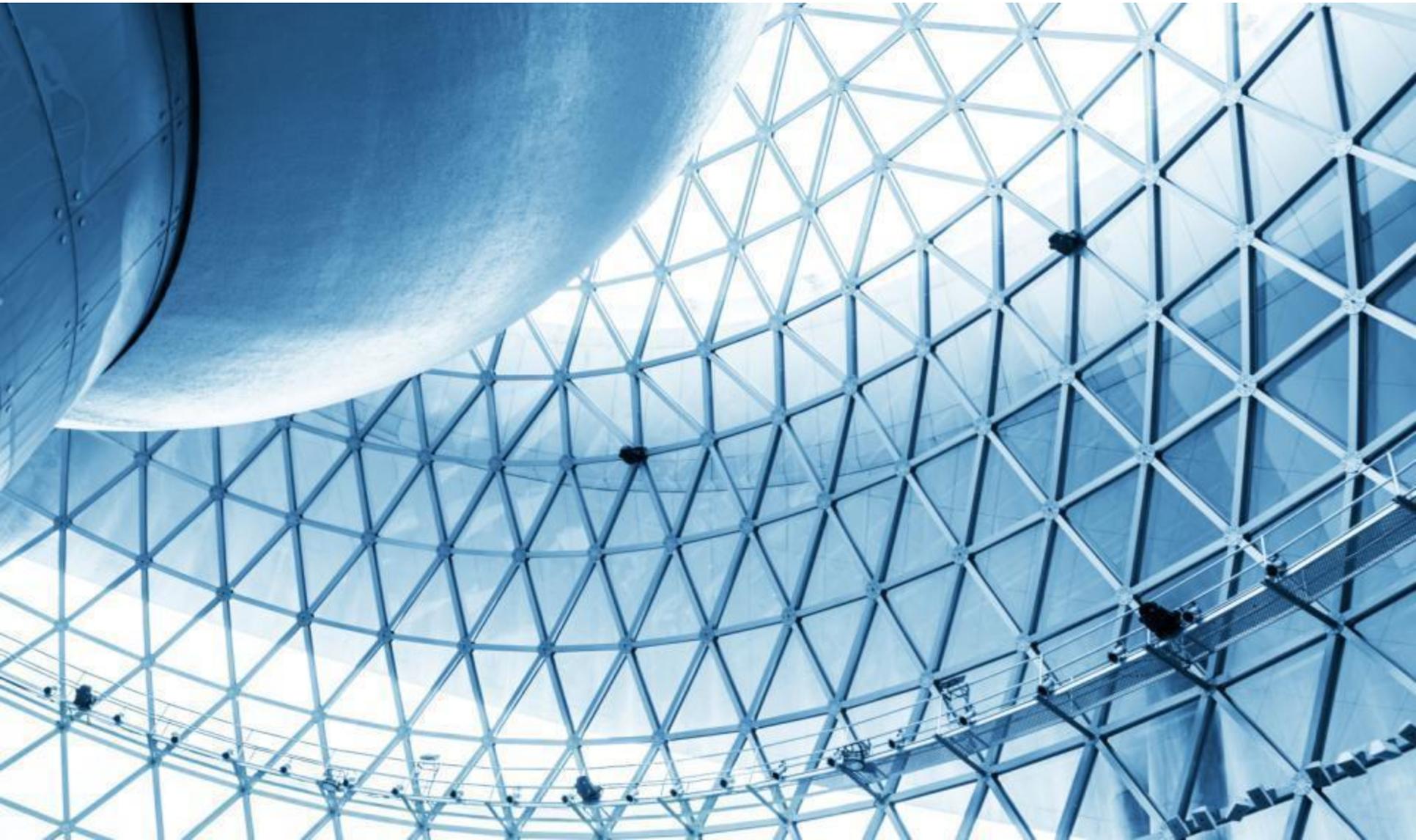
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- A. LACERS Real Estate Program Overview
- B. LACERS Commitment History
- C. LACERS Proposed 2018-2022 Objectives
- D. Sourcing and Deal Flow

A. LACERS Real Estate Program Overview

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LACERS Real Estate Program Overview

- LACERS began investing in Real Estate in 1989.
- In April 2018, LACERS' Board elected to increase its real estate allocation from 5.0% to 7.0% of Total Plan Assets (with an allowable range of $\pm 2.0\%$).
- As of September 30, 2017, the market value of the Portfolio was \$836 million (5.0% of Total Plan Assets).
- Forecasts show that several investments will be liquidating from the Portfolio over the next three-year period.

	3Q17 Market Value (\$ millions)*	% LACERS Plan
LACERS Total Plan Assets	16,709	
Real Estate Target	1,170 (as of 1Q-2018)	7.0% (as of 1Q-2018)
RE Market Value:		
Core	525	
Non-Core	291	
Timber	21	
Total RE Market Value	836	5.0%
Unfunded Commitments	111	0.7%
RE Market Value + Unfunded Commitments	947	5.7%
Remaining Allocation	(223)	(1.3%)

*Figures may not add due to rounding.

LACERS Real Estate Program Overview (continued)

	<i>Strategic Targets</i>		<i>Portfolio Composition (9/30/2017)*</i>	
	Target Allocation	Tactical Range	Funded	Funded & Committed
Core	60%	40% - 80%	62.8%	55.4%
Non-Core	40%	20% - 60%	34.8%	42.4%
<i>Value Add Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>15.2%</i>	<i>21.9%</i>
<i>Opportunistic Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>19.6%</i>	<i>20.5%</i>
Timber	N/A	N/A	2.5%	2.2%

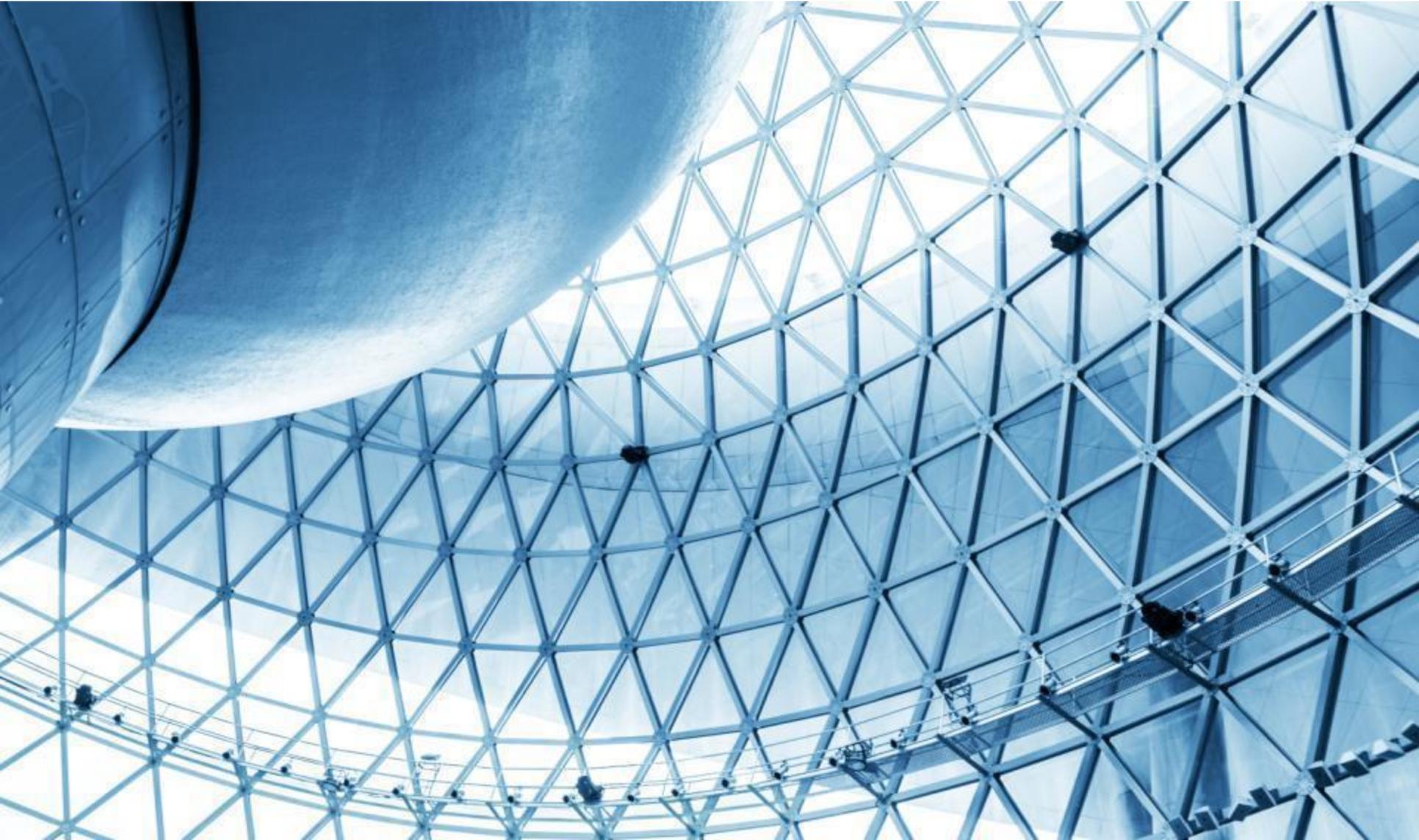
- In May 2014, the Board approved the strategic targets displayed above in order to reflect a more conservative risk profile going-forward. At the time, the Portfolio had 30% exposure to Core and 70% exposure to Non-Core.
- Since that time, and in an effort to transition the Portfolio, the LACERS Board approved \$220 million in new Core commitments. All of these commitments were called as of 9/30/17.
- The LACERS Board also approved \$95 million in Non-Core investments since 2014. These investments focused on Value Add strategies with pre-specified portfolios, embedded value and/or an element of current income. The most recent approved investment was a \$25 million commitment Heitman Asia Pacific Property Investors in May 2017.
- Through a combination of Core commitments and Non-Core liquidations, the LACERS Portfolio is within its strategic targets as of 9/30/2017, as expected.
- The Private Real Estate Portfolio utilizes 34.4% leverage measured on a loan-to-value (LTV) basis:
 - Core Portfolio LTV: 27.7%, below the 40.0% constraint,
 - Non-Core Portfolio LTV: 43.9%, below the 75.0% constraint.

**Figures may not add due to rounding.*

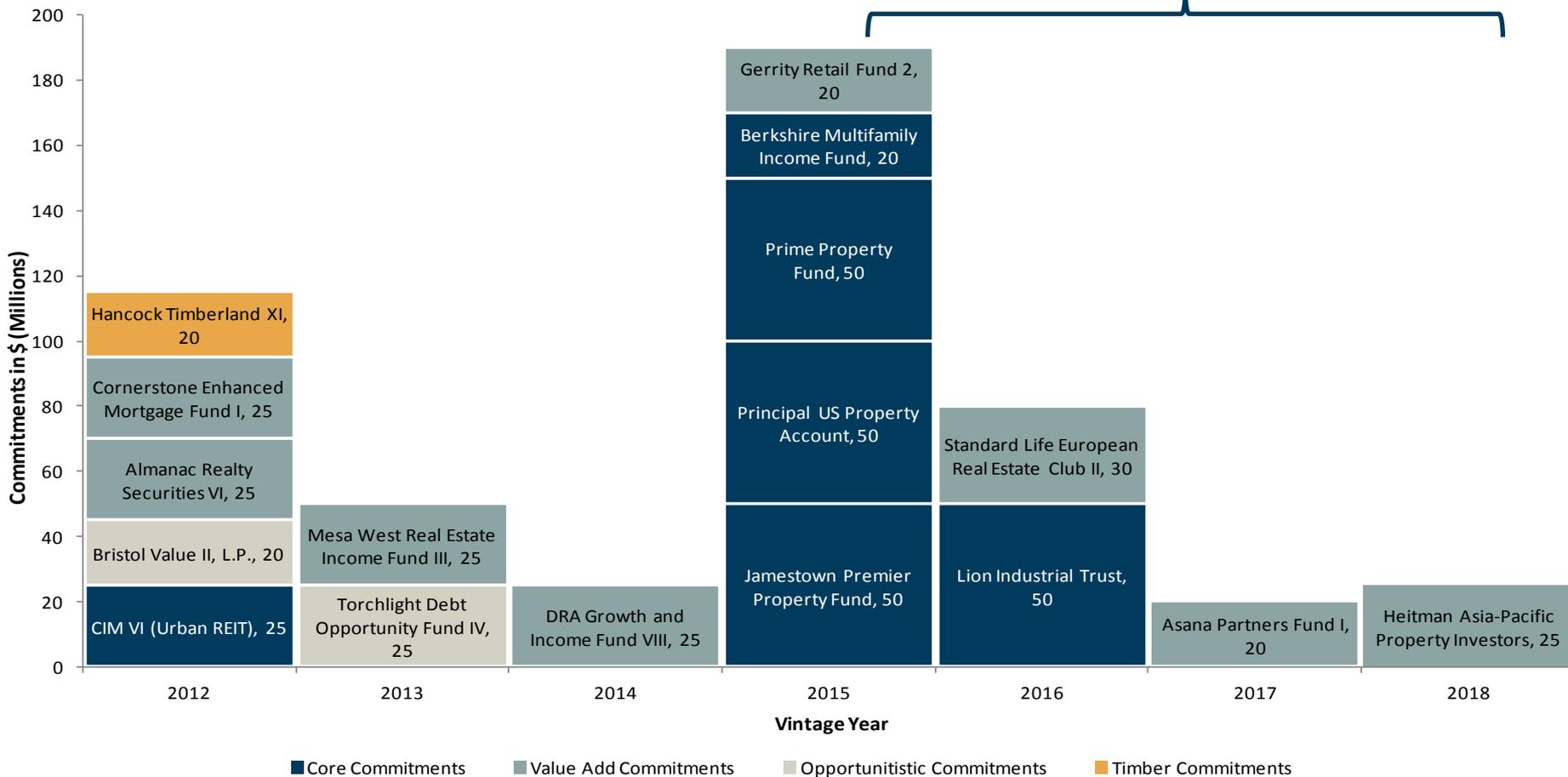
B. LACERS Commitment History

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LACERS Commitment History

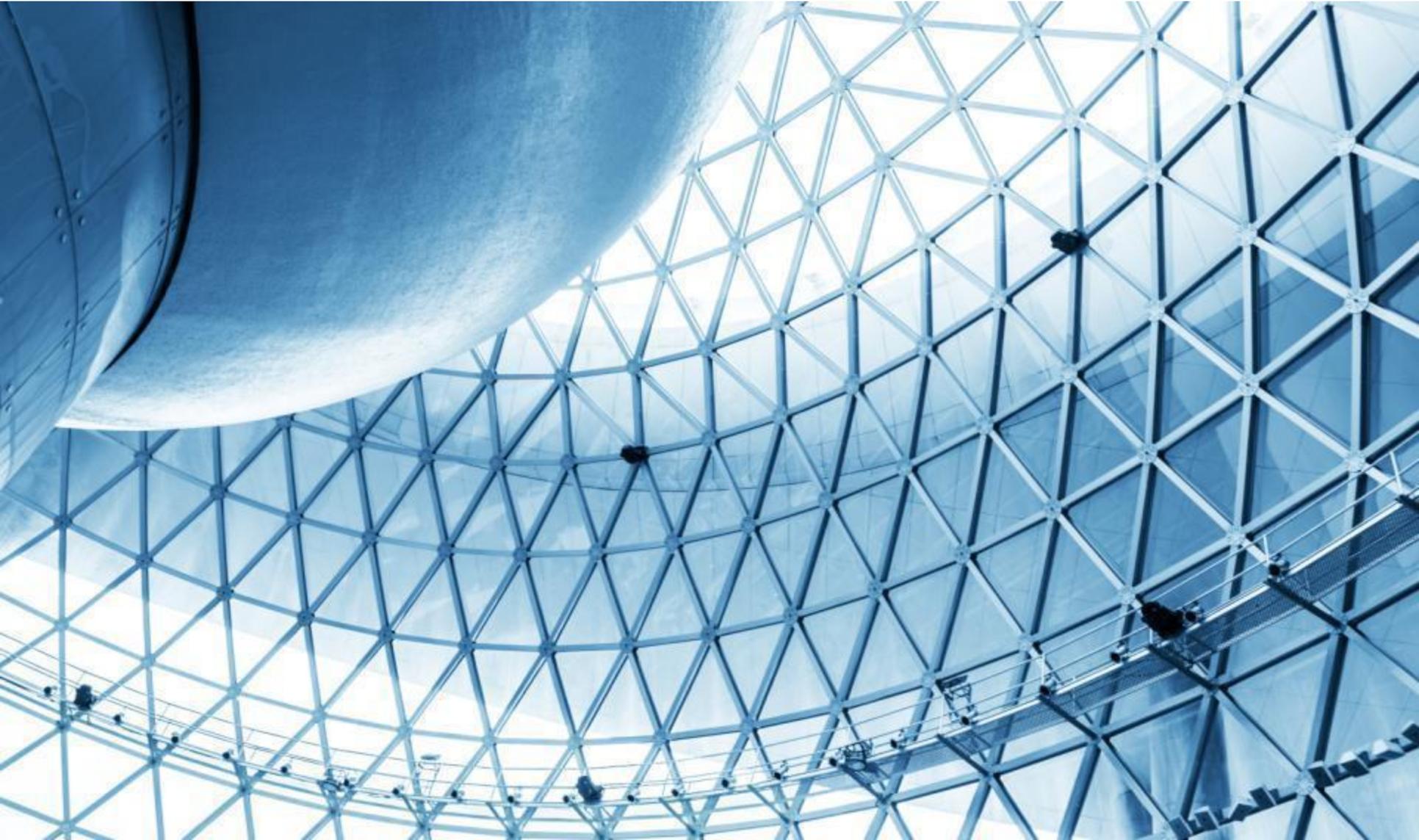


- LACERS has committed \$505 million since 2012, of which \$315 million (~60%) have been Townsend-initiated activities since 2015 .
- 42% of Non-Core commitments since 2015 (Gerrity and Asana) met LACERS Emerging Manager guidelines. In the Core OECF space, there are currently no managers meeting these guidelines.
- Vintage year classifications are based on LACERS’ first capital call (or expected capital call), though commitments may have been approved in prior years.

C. LACERS 2018-2022 Objectives and Investment Plan

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LACERS 2018-2022 Objectives

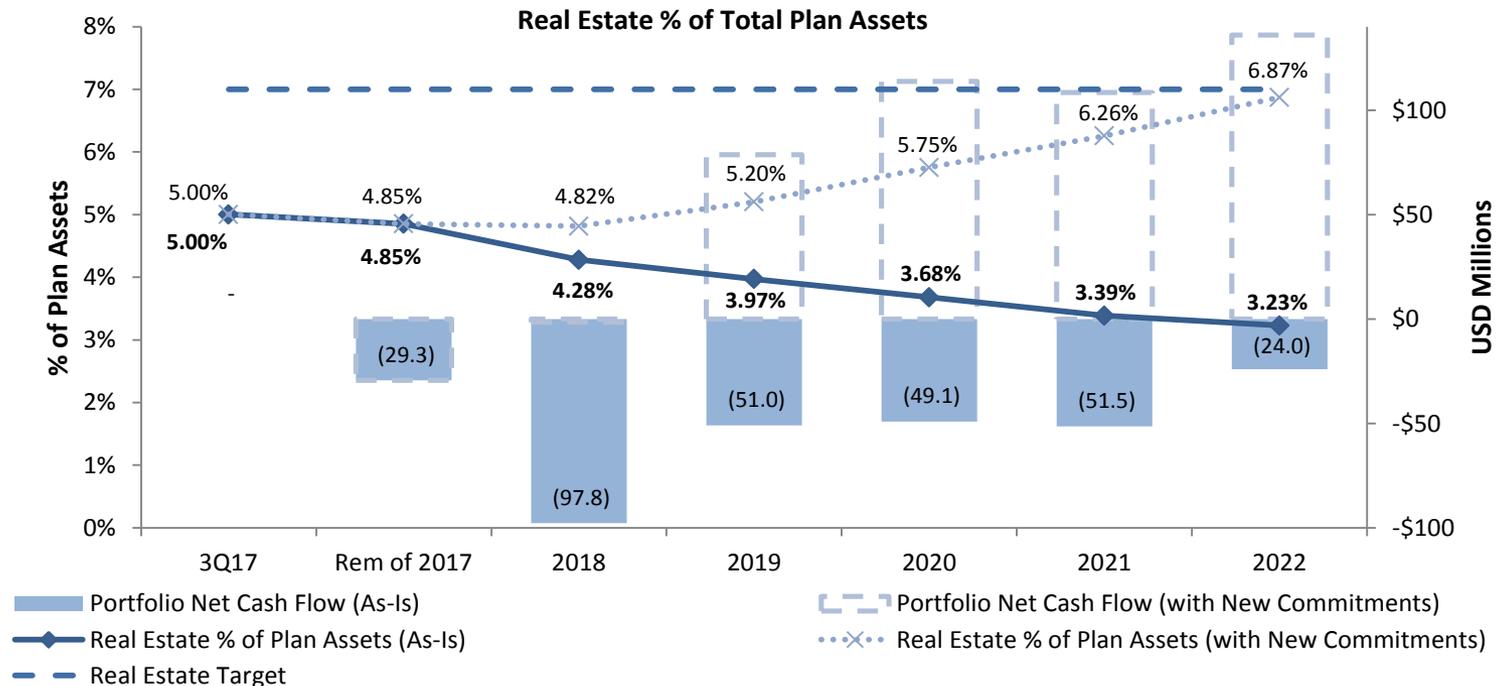
- Townsend ran three scenarios to model real estate capital pacing between 2018 and 2022. All three scenarios assume a Total Plan Growth Rate of 4.0% p.a.
- LACERS has capacity to commit an additional \$700-\$865 million between now and 2022 in order to increase its Real Estate allocation to 7.0% of Total Plan Assets (targeting \$140-\$175 million per year over the next five years).
- Capital pacing was determined based upon LACERS existing manager input, along with various forward-looking return assumptions which may or may not materialize according to plan.
- Townsend will work with LACERS Staff to prudently allocate capital over the next five years, and will exercise discretion in preserving capacity for future out-year investments.

Portfolio Growth Scenario	Core Growth Assumption	Non-Core Growth Assumption	Total Capital Needed until 2022	Capital per Annum until 2022
Conservative	0%	4%	\$865 million	\$173 million
Baseline	2%	6%	\$790 million	\$158 million
Aggressive	4%	8%	\$700 million	\$140 million

LACERS 2018-2022 Objectives

Base Case Growth

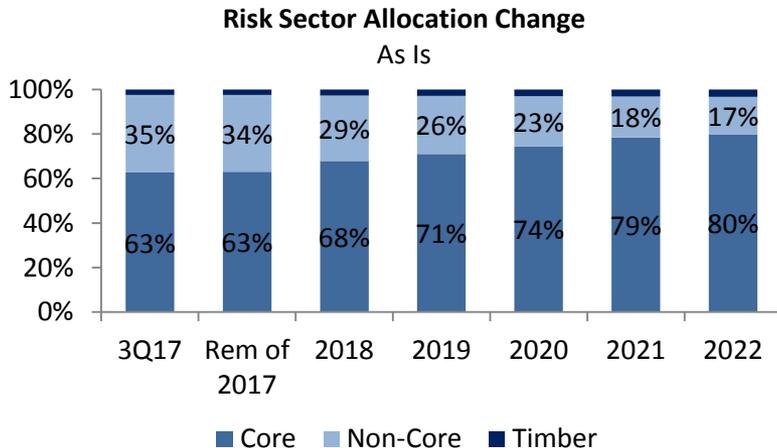
- The Base Case Model assumes a 2.0% annual growth rate for Core returns and 6.0% annual growth rate for Non-Core returns, which we view as moderately conservative return assumptions.
- According to Base Case Capital Projections, LACERS has approximately \$790 million of additional private real estate investment capacity in order to grow its allocation to 7.0% of Plan Assets by 2022 (\pm \$158 million per annum over five years).
- Townsend will work with Staff to carefully manage LACERS investment exposure.
 - Preserve investment capacity to allow LACERS take advantage of opportunities during all market cycles (not all capital needs to be deployed at once).
 - Monitor contribution and distribution/withdrawal activities, and forecasts provided by LACERS' managers.
 - Consider Non-Core investments, which may include one or more Emerging Manager commitments.



LACERS 2018-2022 Investment Plan

Real Estate Program Proposed Plan

- Vintage year diversification is a tool to control risk by reducing exposure to market cycles.
 - Tactical adjustments to overweight or underweight a particular vintage are based on market views and portfolio exposure relative to the 7.0% allocation target and benchmark.
 - Adjustments may be made based upon specific opportunities presented.
- As the cycle matures, consider a conservation of capital that is available to deploy in later years.
 - This may result in fewer commitments in 2018-2019.
- Identify opportunities to improve the quality and income component of the Portfolio.
 - Target specialist operators to reduce fees and exploit niche expertise and sourcing capabilities.
- Remain mindful of the strategic targets of 60% Core/40% Non-Core, and of the Total Real Estate Benchmark (ODCE+80bps).
 - Currently the portfolio is trending towards the higher end of the Core allocation target range (left chart), which will lead to difficulty outperforming the Benchmark. New proposed annual commitments of approximately \$60M to Core and \$100M to Non-Core strategies would bring the portfolio closer to its target (right chart).



LACERS 2018-2019 Investment Plan

2018-2019 Overall Portfolio Activity

- Refrain from over-committing in peak market vintage years, simply due to the increase in allocation
- For compelling opportunities, consider increasing average commitment size to reflect the new real estate allocation

2018-2019 Core Activity

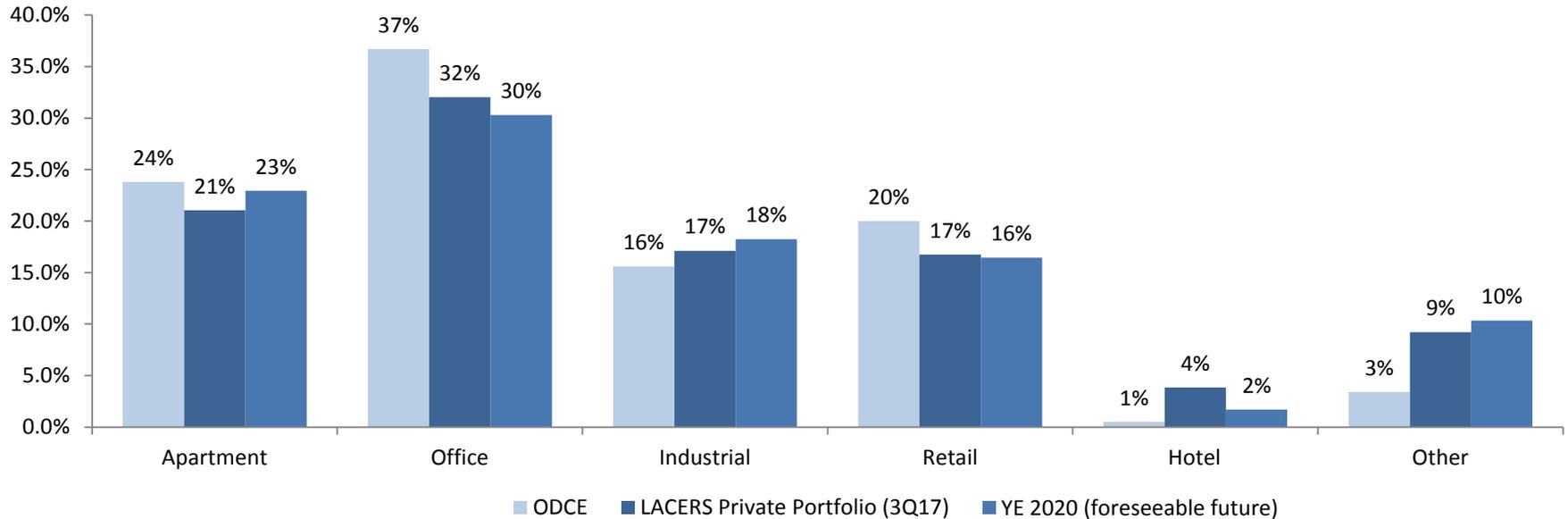
- In 2H2018, evaluate existing Open-End Core fund portfolio and consider rebalancing portfolio to maximize benefits and improve returns, as necessary.
- Maintain relative weightings to Core v. Non-Core to maintain an appropriate level of defensiveness.

2018-2019 Non-Core Activity

- Substantial realizations by Non-Core managers, particularly from pre-GFC investments, will continue to place downward pressure on market exposure.
- Focus on up to three incremental commitments in Non-Core (ranging from \$35 to \$50 million per investment).
- Target commitments to preferred property types and regions based on LACERS Portfolio exposures:
 - Debt (mezzanine or preferred equity with kickers to provide equity-like returns with downside protection),
 - US Office (projected to be 7.0% underweight compared to ODCE by 2020; being highly selective with a proven office manager executing in high conviction markets with strong demand-drivers),
 - US Retail (projected to be 4.0% underweight compared to ODCE by 2020; consider one investment with a proven high-street or grocery anchored retail manager),
 - Other/Niche (may include student accommodation, seniors housing or medical office),
- Actively source opportunities from the Emerging Manager universe as available.
- Emphasize current income and pre-specified portfolios to mitigate J-curve.

LACERS Diversification Projections

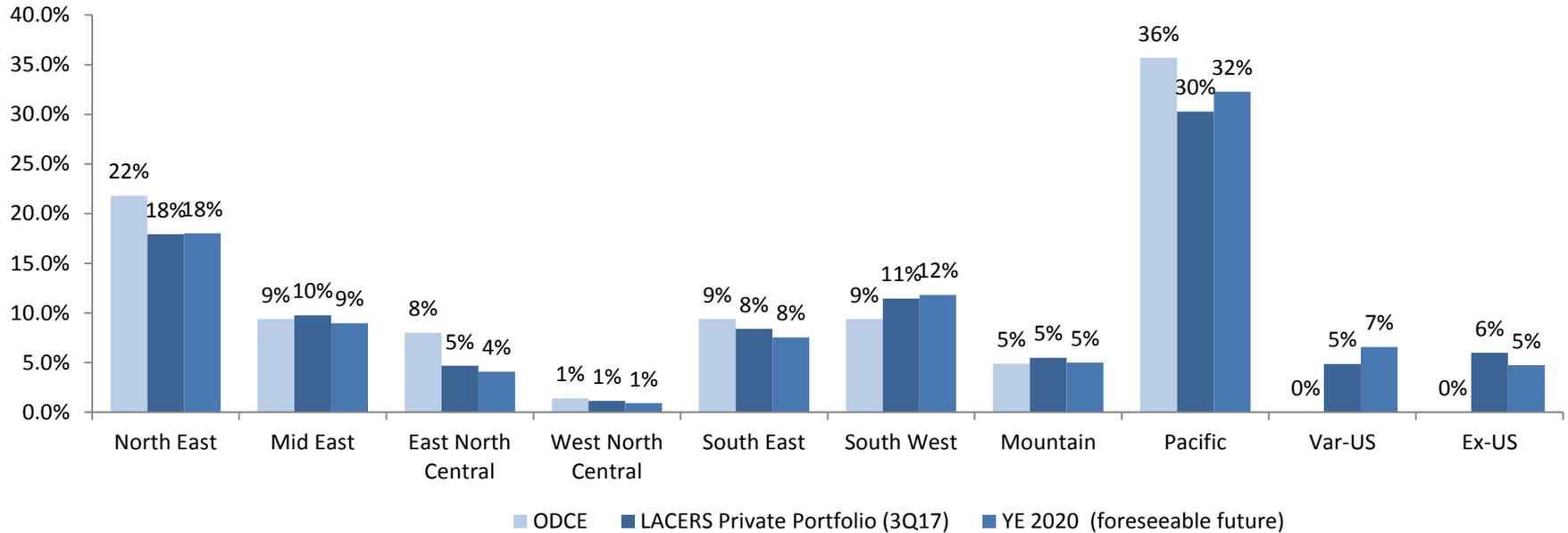
Private Real Estate Portfolio - Property Type Diversification



- LACERS continues to be underweight to Office and Retail, which Townsend would support. However, taking a considerable off benchmark position over the mid to long term could result in relative underperformance should these sectors do well.
 - LACERS may consider small tactical investments into niche retail strategies focused on high-street retail and/or grocery anchored retail in high barrier to entry markets with good investment fundamentals.
 - LACERS may also consider small tactical investments into urban office in high growth markets whereby technology, advertising, media, internet, science and technology drivers continue to absorb available space.
- Maintaining slight overweight to industrial and other/niche, and neutral weight to apartment and office is supported by Townsend at this time.

LACERS Diversification Projections

Private Real Estate Portfolio - Geographic Diversification

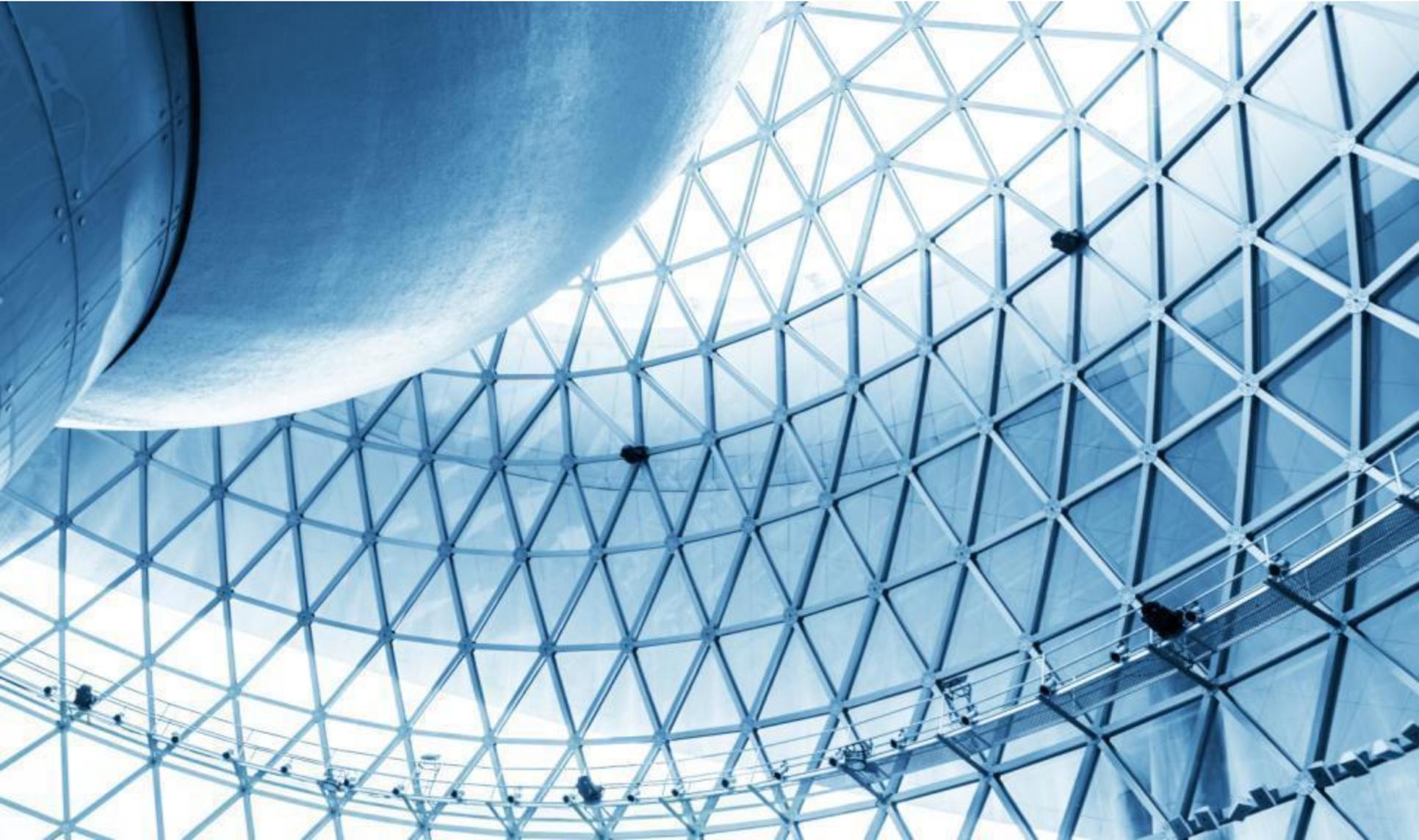


- LACERS continues to be underweight to the North East, East North Central and the Pacific regions. Pacific, in particular, is a market that has been outperforming and is expected to continue to do so.
 - Continue to seek exposure to the Pacific region.
 - Consider modest tactical opportunities in the North East.
 - Maintain relative underweight to the East North Central region.
- Consider additional Ex-US opportunities to enhance geographic diversification and returns.

D. Sourcing and Deal Flow

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Manager Sourcing & Due Diligence

Core and Core Plus Fund Sourcing and Selection

- Townsend's dedicated open-end fund team reviews and monitors the open-end universe on a monthly and quarterly basis.
- As of December 31, 2017, the statistics for the existing open-end fund universe were as follows:
 - 28 Core Diversified Funds,
 - 12 Core Plus Funds,
 - 10 Specialty Funds (Property Type Specific and Debt Funds).
- Townsend also evaluates Core closed-end funds, though fewer exist.
- Comprehensive review, evaluation and selection process:
 - Sourcing and evaluation of new fund launches,
 - Quarterly data collection and analysis,
 - On-site meetings and quarterly reviews,
 - Advisory board participation ,
 - Ongoing platform assessment,
 - Continual due diligence.

Manager Sourcing & Due Diligence

Non-Core Fund Sourcing and Selection

- In addition to the work completed for 10 specialty open-end commingled funds (evaluation process outlined on the previous page), Townsend is continuously analyzing the universe of Non-Core closed-end funds available for investment.
- As of December 31, 2017, Townsend's statistics for the Non-Core fund universe were as follows:
 - 612 funds originated and screened.
 - 68 funds in detailed due diligence.
 - 54 funds approved for client investment.
 - 54% North America, 13% Europe, 15% Asia, 15% Global and 4% Rest of the World.
- Detailed due diligence follows a three-phase due diligence process:
 - Sourcing and evaluation of new fund launches.
 - On-site due diligence meetings.
 - Evaluation of investment characteristics includes, but is not limited to the following:
 - *Executive Summary*: Strategy Overview, Comparative Advantages, Potential Issues and Concerns.
 - *Strategy*: Overview, Leverage, Investment Guidelines, Pipeline.
 - *Sponsor*: Organizational Background/History, Turnover, Compensation, and Retention.
 - *Investment Process*: Overview, Investment Committee, Affiliate Transactions, Limited Partner Advisory Committee, Exclusivity and Allocations, Valuations.
 - *Fund Structure*: Key Terms, Fees and Distributions, Analysis of Fees.
 - *Performance*: Detailed Summary of Prior Vehicles, Vintage Year Comparison, Dispersion of Returns, Investment Highlights.
- Ongoing due diligence includes fund coverage, investment monitoring, reporting, advisory board representation and client advocacy.

Emerging Manager Sourcing Process

Emerging Manager Sourcing

- Townsend focuses on identifying emerging managers during its sourcing and monitoring process.
- Network and establish new relationships through regular sourcing channels, outreach and conference attendance.
- Seek new and unique opportunities that align with Townsend View of the World.
- Uncover experienced niche operating partners interested in raising third-party capital.
- Oversight and management of dedicated Emerging Manager programs across the firm.
- Maintain active pipeline of Emerging Manager candidates.
- Actively vetting new owner/operators as potential Emerging Manager candidates.

LACERS Emerging Manager Efforts

- LACERS has been focused on de-risking the Portfolio over the past three years, resulting in more Core search activity:
 - Majority of new commitments in Core open-end commingled fund space.
 - Few (if any) Core real estate fund candidates match the current LACERS Emerging Manager criteria.
- Majority of Emerging Manager opportunity set is in the Non-Core segment:
 - 2014-2015: 50% of LACERS Non-Core commitments qualified under the LACERS Emerging Manager Program.
 - 2016: In 2H2016, Townsend conducted a LACERS-specific Emerging Manager search resulting in the recommendation of a \$20 million Non-Core commitment to Asana Partners I, which was approved by the Board in August 2016.



Report to Investment Committee

for Litz Payne

From: Neil M. Guglielmo, General Manager

Agenda of: **JULY 10, 2018**

ITEM: **VI**

SUBJECT: INVESTMENT MANAGER CONTRACT WITH EAM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP GROWTH EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION

Recommendation

That the Committee recommend to the Board a three-year contract renewal with EAM Investors, LLC for management of an active U.S. small cap growth equities portfolio.

Discussion

Background

EAM Investors, LLC (EAM) manages an active U.S. small cap growth equities portfolio for LACERS benchmarked against the Russell 2000 Growth Index. EAM's strategy seeks to identify companies undergoing positive fundamental changes that will potentially accelerate the companies' earnings growth rates. The strategy is co-led by Travis Prentice, Chief Executive Officer and Chief Investment Officer, and Montie Weisenberger, Managing Director, both of whom have over 20 years of industry experience.

EAM was hired through the 2014-2015 Active U.S. Small Cap Growth Equities search, and a three-year contract was authorized by the Board on June 9, 2015. At the time of hire, EAM qualified as an Emerging Investment Manager pursuant to the LACERS Emerging Investment Manager Policy. The contract was executed on October 1, 2015, and expires on September 30, 2018. LACERS' separate account was valued at \$124 million as of May 31, 2018. In light of the short time period that EAM has managed assets for LACERS, staff recommends a second three-year contract term to allow a full market cycle over which to evaluate this strategy.

Organization

EAM was founded in 2007 and currently is 56% employee-owned and 44% owned by Roth Capital Partners. The firm is headquartered in Cardiff-by-the-Sea, California and has a total of 16 employees. As of May 31, 2018, EAM managed \$2.3 billion in assets, with \$1 billion of assets in the U.S. small cap growth equities strategy.

Due Diligence

Travis Prentice was added as a co-portfolio manager to the U.S. small cap growth equities strategy on January 22, 2018. In addition to co-managing this strategy, he is also a portfolio manager of EAM's U.S. microcap growth equities strategy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, discussed this organizational change with EAM and do not believe it will adversely impact the U.S. small cap growth equities strategy and performance.

Performance

As of May 31, 2018, EAM outperformed its benchmark, net-of-fees, for the 3-month, 1-year, and 2-year periods and underperformed since inception as presented in the table below. EAM is in compliance with the LACERS Manager Monitoring Policy.

Annualized Performance as of 5/31/18 (Net-of-Fees)				
	3-Month	1-Year	2-Year	Since Inception ¹
EAM	12.00	33.86	27.06	15.79
Russell 2000 Growth Index	7.83	25.08	22.36	17.70
<i>% of Excess Return</i>	4.17	8.78	4.70	-1.91

¹Inception date: 10/1/15

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

Calendar Year Performance (Net-of-Fees)				
	1/1/18 to 5/31/18	2017	2016	10/1/15 to 12/31/15
EAM	13.31	22.68	4.65	1.63
Russell 2000 Growth Index	8.85	22.17	11.32	4.32
<i>% of Excess Return</i>	4.46	0.51	-6.67	-2.69

Fees

At its meeting of April 11, 2017, the Committee requested EAM to reduce the fee charged to LACERS. EAM subsequently provided LACERS a discount of 10 basis points, resulting in an effective fee of 71 basis points (0.71%), which is approximately \$880,400 annually based on the value of LACERS' assets as of May 31, 2018. The new fee ranks in the 16th percentile of EAM's peers based on the eVestment U.S. Small Cap Growth universe.

General Fund Consultant Opinion

NEPC concurs with staff's recommendation.

Strategic Plan Impact Statement:

A contract renewal with EAM Investors, LLC, will allow the fund to maintain a diversified exposure to the U.S. small cap equities markets, which is expected to help achieve satisfactory long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, and Eduardo Park, Investment Officer I, Investment Division.

RJ:BF:BS:EP:ag

Attachments: A) Consultant Recommendation – NEPC, LLC
B) Workforce Composition



To: Los Angeles City Employees' Retirement System Investment Committee
From: NEPC, LLC
Date: July 10, 2018
Subject: EAM Investors – Contract Renewal

Recommendation

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

Background

EAM has been an investment manager for LACERS since October 1, 2015. As of May 31, 2018, EAM managed \$124 million, or 0.7% of Plan assets in the small cap growth product with an asset-based fee of 0.71% annually. This fee ranks in the 16th percentile of its peers in the eVestment U.S. Small Cap Growth Universe. The performance objective is to outperform the Russell 2000 Growth Index with a realized tracking error budget ranging from four to six percent, net of fees, annualized over a full market cycle (normally three-to-five years). Performance of the EAM portfolio is currently compliant with LACERS' manager monitoring policy.

The firm was founded by Montie Weisenberger, Travis Prentice and Joshua Moss. All three founders came from Nicholas-Applegate and started the firm in 2007. Their product lineup focuses on small and microcap names in the U.S. and outside of the U.S. The firm received venture funding by Roth Capital Partners, a boutique investment bank, in exchange for a 49% ownership stake. Today Roth owns 44% of the organization and they are a strategic, "evergreen" investor. EAM has an option to buy the firm if Roth wants to sell their interest. There is no timetable for Roth to divest their interest. The investment team owns 42% of the firm and the last 14% is owned by the marketing and operations team at EAM. Roth participates in the profits of the organization. The bulk of the firm's assets are in the U.S. small cap growth product (\$1 billion), US microcap has \$300 million and ultra-microcap has under \$100 million. All of these products are open and have capacity. The non-U.S. products were incepted 3.5 years ago and include international small cap (\$100 million), emerging markets small cap (\$200 million) and international microcap (\$600 million). The international microcap product is closed to new business. All products use the same team, investment process and tools. As of May 31, 2018, the firm managed \$2.3 billion with a majority of assets (\$1 billion) in the small cap growth product.

The firm's investment philosophy is routed in identifying companies undergoing positive fundamental change that will accelerate their growth rate and where the implications are not yet fully appreciated by market participants. EAM's process has three broad phases which include: Discover, Analyze and Challenge. The Discover phase is where they evaluate the technical side of change relative to price screening with above average volume. They



want to see at least one sign that a company is already performing. They screen in real time using the William O'Neil system and the Portfolio Manager sets the priority for what gets covered. During the Analyze phase, each analyst builds out the fundamental analysis to identify positive changes. During the Challenge phase, new names are evaluated against the existing names in the portfolio. Portfolios typically hold 150 names and position sizes are capped at 2%. Portfolio tracking error is 4%-6%. More recently, the trailing twelve months tracking error has been less than 4% primarily due to lower volatility exhibited in markets overall.

Travis Prentice, Portfolio Manager of the US microcap growth product, was recently added as a portfolio manager alongside Montie Weisenberger for the small cap growth product. The rationale provided was that the firm wanted to strengthen the product, improve the investment process and add a senior level portfolio manager to the product. All team members (four portfolio managers, four research analysts and two traders) are generalists and work on all products. Besides the three founders, John Scripp, Portfolio Manager, Richard Hornbuckle, Trader and Kevin O'Connell, Trader also came from Nicholas-Applegate.

Performance

Referring to Exhibit 1, since inception (October 1, 2015), the EAM Small Cap Growth portfolio has underperformed the Russell 2000 Growth Index by 4.02%, returning 12.05%, net of fees. Ended March 31, 2018, the portfolio ranked in the 83rd percentile of its peer universe since October 1, 2015, had an information ratio of -0.71 and active risk as measured by tracking error of 5.0%. Ended April 30, 2018, the since inception return has trailed the benchmark by 3.56% (11.99% vs 15.55%). In the one-year period ended March 31, 2018, the portfolio outperformed the index by 2.44% (21.07% vs. 18.63%) and ranked in the 16th percentile among its peers. Outperformance in the one-year time period was driven by security selection within Consumer Discretionary, Healthcare and Information Technology sectors.

Since October 1, 2015, referring to Exhibit 2, much of the historical underperformance is a result of a large drawdown in the first quarter of 2016. The drawdown of approximately 6.50% was primarily driven by a sell-off in out-of-favor companies and subsequent rally in low earnings quality companies.

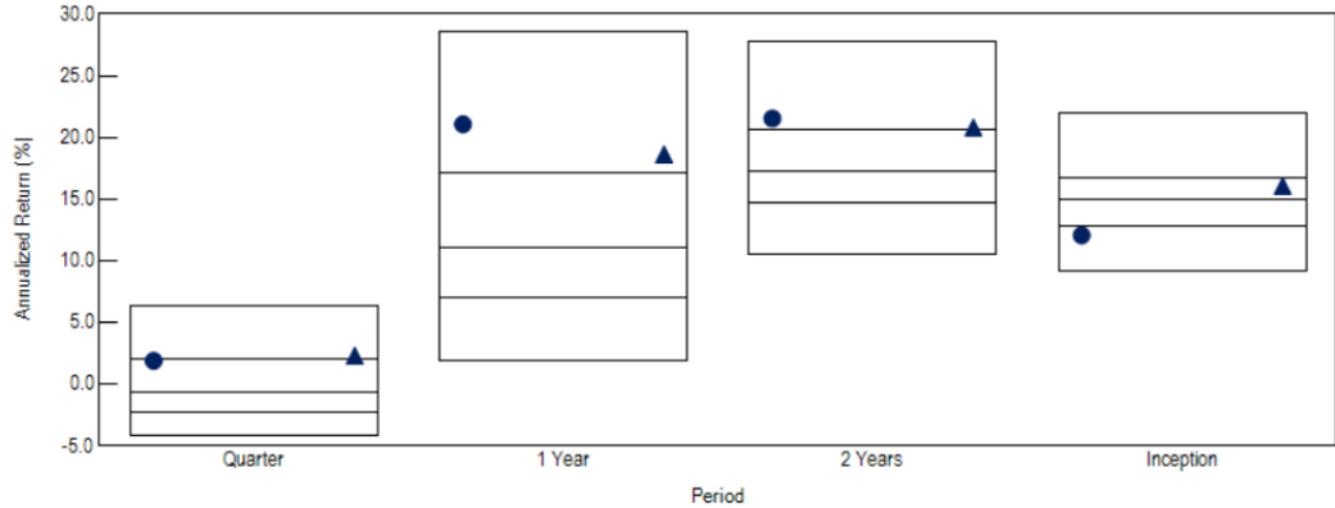
Conclusion

EAM has underperformed its benchmark index since October 1, 2015 and has gone through a portfolio management change recently in order to focus the team's efforts on deeper research. The firm has exhibited stability in their investment process, investment team, strategy and philosophy suggesting that their approach to asset management does have merit. EAM's strategy of seeking out underappreciated growth in the small cap universe is subject to a longer-term time horizon for themes to materialize and investors in this product may expect periods of underperformance. 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

**eV US Small Cap Equity Net Return Comparison
Ending March 31, 2018**



	Return (Rank)			
	Quarter	1 Year	2 Years	Inception
5th Percentile	6.34	28.59	27.75	22.03
25th Percentile	2.01	17.13	20.64	16.66
Median	-0.63	11.03	17.28	14.99
75th Percentile	-2.35	7.06	14.67	12.82
95th Percentile	-4.22	1.93	10.51	9.11
# of Portfolios	405	404	398	391
● EAM Investors	1.86 (26)	21.07 (16)	21.54 (19)	12.05 (83)
▲ Russell 2000 Growth	2.30 (23)	18.63 (22)	20.81 (23)	16.07 (34)



Exhibit 2

Quarterly and Cumulative Excess Performance



Vendor **EAM Investors, LLC**
 Address **2533 S. Coast Hwy 101, Ste 24**
Cardiff by the Sea, CA 92007

Date Completed: **June 11, 2018**

Category **U.S. Small Cap Growth Equities**

TOTAL COMPOSITION OF WORK FORCE									
<u>Occupation</u>	<u>African</u>	<u>Hispanic</u>	<u>Asian or</u>	<u>American Indian/</u>	<u>Caucasian</u>	<u>Total</u>	<u>Percent (%)</u>	<u>Gender</u>	
	<u>American</u>	<u>Full Time</u>	<u>Pacific Islander</u>	<u>Alaskan Native</u>	<u>(Non Hispanic)</u>	<u>Employees</u>	<u>Minority</u>	<u>Male</u>	<u>Female</u>
	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>	<u>Full Time</u>
Officials & Managers	0	0	0	0	0	0	0.00%	0	0
Professionals	0	1	1	0	14	16	12.50%	12	4
Technicians	0	0	0	0	0	0	0.00%	0	0
Sales Workers	0	0	0	0	0	0	0.00%	0	0
Office/Clerical	0	0	0	0	0	0	0.00%	0	0
Semi-Skilled	0	0	0	0	0	0	0.00%	0	0
Unskilled	0	0	0	0	0	0	0.00%	0	0
Service Workers	0	0	0	0	0	0	0.00%	0	0
Other	0	0	0	0	0	0	0.00%	0	0
Total	0	1	1	0	14	16	12.50%	12	4