

**LACERS**

LA CITY EMPLOYEES'  
RETIREMENT SYSTEM

# **BOARD MANUAL**

**UPDATED: October 2021**

# BOARD MANUAL

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*This statement of governance makes clear the statutes, principles, structure, and assignment of duties which prevail in the Board's successful oversight of the Retirement System.*

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## Section 1.0 GOVERNANCE PRINCIPLES

### 1.1 LACERS Statement of Purpose

*Adopted: May 14, 2013; Affirmed: March 13, 2018*

LACERS' Board and Staff, in the course of their duties for the Retirement System, are expected to adhere at all times to the highest level of ethical conduct. Personal integrity, transparency of action and the primary dedication to the benefit of the LACERS Members and their beneficiaries will at all times guide the activities of the Board and Staff.

These policies are intended to provide Board members and Staff with a guide to help them conduct their official duties with integrity, transparency and for the benefit of the System's members, while complying with applicable Federal, State and City laws and regulations. These policies do not attempt to address every possible activity that could present a fiduciary dilemma for a Board or Staff member; it is assumed that a person of integrity will always abide by the spirit of these policies.

These policies shall not be construed as the sole provision of laws and administrative rules which must be observed by Board members and Staff. Nothing in these policies shall exempt any persons from any Federal, State or City law or regulation. When in doubt, affected persons are advised and encouraged to consult directly with the City Attorney's office or the Board's fiduciary counsel.

### 1.2 Fiduciary Duty

*Adopted: May 14, 2013; Affirmed: March 13, 2018*

The California Constitution, Article XVI, §17 and the Los Angeles City Charter, Section 1106, assign the Board of Administration Los Angeles City Employees' Retirement System as Fiduciaries of the Trust Fund and the System. The fundamental duties required to be fulfilled by a Fiduciary are:

#### ***Duty of Loyalty (or Primary Loyalty Rule)***

LACERS Board members and Staff shall discharge their duties with respect to the System and the Plan solely in the interest of the Members and their beneficiaries for the exclusive purposes of providing benefits to Members and beneficiaries, and defraying reasonable expenses of administering the Plan. This duty to System members and their beneficiaries shall take precedence over any other duty.

#### ***Duty to Act Prudently (or Prudent Person Rule)***

LACERS Board members and Staff must discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. Among other things, this requires that the Board:

- Diversify the investments of the System so as to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so;

## Section 1.0 GOVERNANCE PRINCIPLES

- Undertake appropriate analysis of proposed courses of action, including determination of the relevant facts, consideration of alternative courses of action and obtaining expert advice as needed;
- Acting in accordance with the documents and instruments governing the System;
- Provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.

### ***Exclusive Benefit Rule***

LACERS assets are trust funds and shall be held for the exclusive purposes of providing benefits to LACERS participants and their beneficiaries and defraying reasonable expenses of administering the system.

### ***Prohibitions Against Self-Dealing***

LACERS Board members, officers and employees shall never deal with the assets of the System for their own interest or for their own account, nor in their individual, or any other capacity, act in any transaction involving the System on behalf of a party, or represent a party, whose interest are adverse to the interests of the Plan or the interests of the Plan members and beneficiaries. Board members shall not receive any consideration for their personal account from any party conducting business with the System or seeking to conduct business with the System, in connection with a transaction involving the assets of the Plan.

## **1.3 Code of Ethics**

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*Revised: May 14, 2013; Affirmed: October 8, 2013; Affirmed: March 13, 2018*

Each member of the LACERS Board of Administration is bound by law to act in a fiduciary capacity in the best interest of LACERS members and their beneficiaries. To supplement their fiduciary duty, the Board of Administration adopts the following Code of Ethics.

- Board members shall maintain high ethical conduct at all times.
- Board members shall conduct themselves with integrity and dignity; strive to understand LACERS objectives; and exercise care, prudence and diligence in handling confidential information.
- Board members shall not seek or accept any compensation or political contributions that would violate the City's Governmental Ethics Ordinance or California law, including without limitation the Political Reform Act of 1974.
- Board members shall not seek or accept any gifts, or reimbursements for travel or any other activity, that is not specifically permitted in the City's Governmental Ethic Ordinance or California's Political Reform Act of 1974.
- Board members shall take positive steps to prohibit breaches of duty (through negligence or intentional action), unauthorized communication with individuals seeking to influence the Board, and unauthorized communication with individuals who may receive personal gains as a result of Board actions, such as, but not limited to, the conducting of serial meetings; discussion with any respondents of an RFQ or RFP while the selection process is underway.

## Section 1.0 GOVERNANCE PRINCIPLES

- Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. A conflict of interest is understood to be a situation where a relationship exists that could reasonably be expected to diminish independence of judgment in performance of official responsibilities as a Board member. Specifically, Board members may not participate in decisions which might result in personal economic advantage.
- Board members recognize that all LACERS business transactions are to be based on integrity, competence, financial merit and benefit to LACERS participants and their beneficiaries, and not on personal relationships.
- Board members shall act in accordance with the prudent expert rule.

*Related Policy: Conflict Governance Policy*

### 1.4 Mission, Vision, Guiding Principles, Strategic Goals

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*Adopted: March 12, 2013; Revised: February 12, 2019*

#### **Vision Statement**

Trusted by our Members and partners for excellence, innovation, professionalism, and transparency.

#### **Mission Statement**

To protect and grow our trust fund and to ensure the sustainable delivery of ethical, reliable, and efficient retirement service to our Members.

#### **Motto**

*“Securing Your Tomorrows”*

#### **Guiding Principles**

*Professionalism, Innovation, Respect, Kindness & Caring, and Teamwork*

#### **Strategic Goals**

- I. Customer Service – To provide outstanding customer service
- II. Benefits Delivery – To deliver accurate and timely Member benefits
- III. Health and Wellness – Improve value and minimize costs of Members’ health and wellness benefits
- IV. Investment – To optimize long-term risk adjusted returns through superior investments
- V. Governance – To uphold good governance practices which affirm transparency, accountability, and fiduciary duty
- VI. Organization – To increase organizational effectiveness, efficiency, and resilience
- VII. Workforce – To recruit, retain, mentor, empower, and promote a high-performing workforce

*Related Policy: Strategic Planning Policy*

## Section 2.0 GOVERNING STATUTES

### 2.1 Los Angeles City Charter, Section 1106

*Added to Board Governance Statement on May 14, 2013*

Pursuant to the City Charter and consistent with Article XVI, Section 17 of the California Constitution, and other governing laws, the Board has responsibility for the following:

- a) **Administration of the Pension or Retirement System.** Have sole and exclusive responsibility to administer its system for the following purposes:
- (1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services;
  - (2) to minimize City contributions; and
  - (3) to defray the reasonable expenses of administering the system.

The duty to system participants and their beneficiaries shall take precedence over any other duty.

- b) **Assets.** Have sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for the exclusive purposes of:
- (1) providing benefits to system participants and their beneficiaries; and
  - (2) defraying the reasonable expenses of administering the system.
- c) **Prudent Person Standard.** Discharge its duties with respect to its system with the care, skill, prudence, and diligence under circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- d) **Investments.** Diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.
- (1) **Investment Statement.** The board of each pension and retirement system shall adopt a statement of investment objectives and policies for the system. The statement shall include at least the desired rate of return and acceptable levels of risk for each asset class, asset allocation goals, guidelines for the delegation of authority, and information of the types of reports to be used to evaluate investment performance. At least annually, the board shall review the statement and change or reaffirm it. After each annual review, the board shall forward the statement to the Mayor and Council for informational purposes.
  - (2) **Performance Evaluation.** At least annually, the board of each pension and retirement system shall retain an outside performance evaluation firm to calculate the returns on all of the system investments.
- e) **Actuarial Services.** Have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of its systems in accordance with recognized actuarial methods.
- f) **Rules and Regulations.** Have the power to adopt any rules, regulations, or forms it deems necessary to carry out its administration of a pension or retirement system or assets under its control.

## Section 2.0 GOVERNING STATUTES

### **2.2 California Constitution Article XVI, Section 17**

*Added to Board Governance Statement on May 14, 2013; Affirmed: July 24, 2018*

Key sections:

Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:

- a. The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.
- b. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.
- c. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- d. The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.
- e. The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system.
- f. The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section.

### **2.3 General Laws**

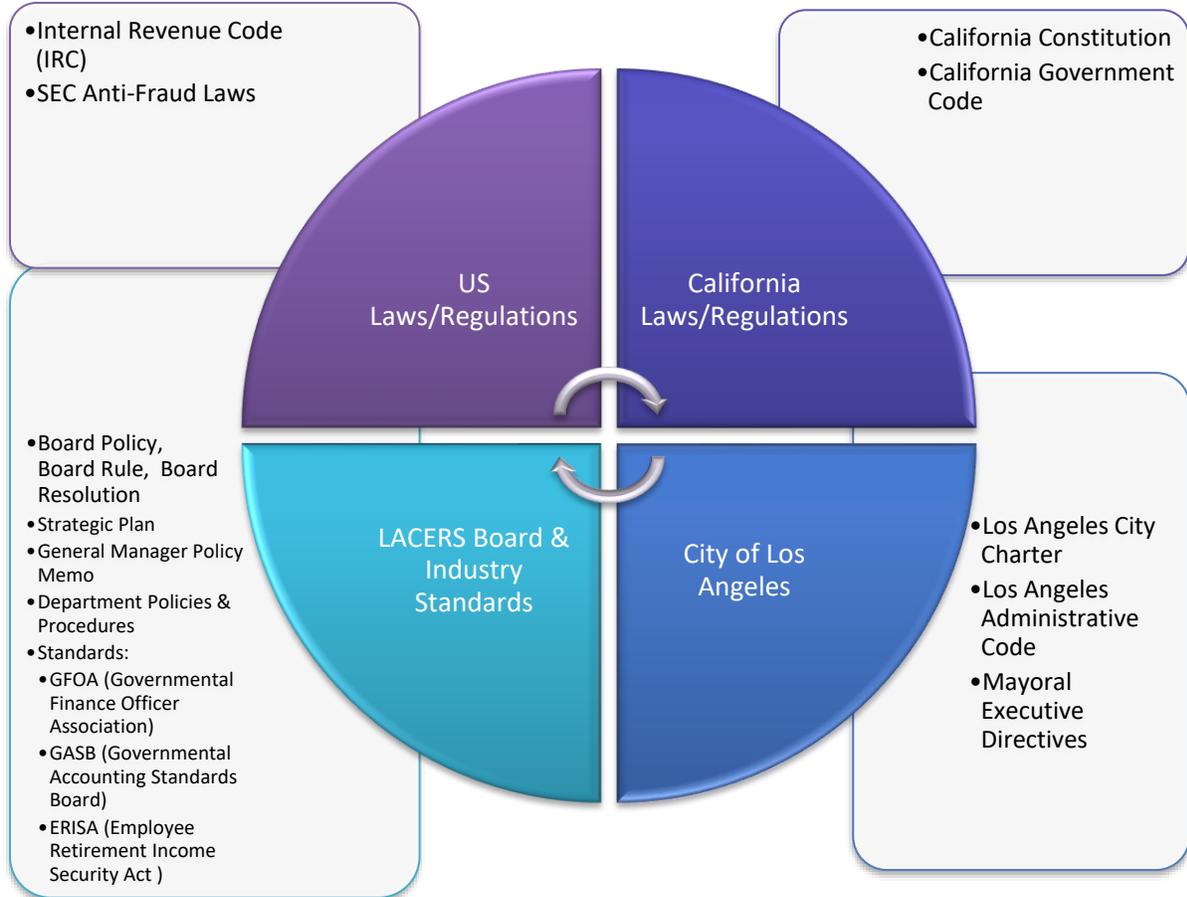
*Added to Board Governance Statement on May 14, 2013; Revised: July 24, 2018*

LACERS is one of a handful of California systems which are governed by its own City Charter and not State statutes\*. The Los Angeles City Charter along with the California Constitution, as described in the preceding sections, establish the governing provisions for the retirement system. However there are other laws and regulations which apply to various aspects of LACERS administration. Information provided in this section is meant to be introductory and not exhaustive. For citation of specific laws, it is advised that the City Attorney be consulted.

**Section 2.0 GOVERNING STATUTES**

Public retirement boards are responsible for the oversight of the system's administration, including ensuring compliance with the following:

- Federal laws and regulations (primarily those administered by the Internal Revenue Service and the US Treasury Department)
- State and local laws and regulations
- Industry standards, such as those set forth for accounting, financial reporting, and actuarial valuations, and
- The system's own strategic plan; policies, rules, and procedures.



\*Note: Key California public pension laws include:

1. California Public Employees Retirement Law ("PERL") – Applicable to CalPERS, CalSTRS, but not the UC Regents
2. County Employee Retirement Law ("CERL") – Applicable to 20 county public employee retirement systems in California
3. California Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA applies to all California systems except those under their own city or county charter. Effective January 1, 2013, PEPRA implements significant public pension reform in efforts to reduce the cost of the public employee pension benefits.

While private sector pensions are subject solely to federal regulation under ERISA (Employee Retirement Income Security Act of 1974)\*, government pension plans are governed through state and local statutes. As such, governmental plans must comply with applicable state and local constitutional and statutory requirements and case law; in addition to federal tax qualification laws; and governmental accounting and reporting standards.

## Section 2.0 GOVERNING STATUTES

### **Federal Laws and Regulations**

Governmental plans are subject to federal regulations relating to Federal tax qualification, enforced by the U.S. Treasury Department and the Internal Revenue Service; and anti-fraud laws promulgated by the U.S. Securities and Exchange Commission (SEC).

### **Internal Revenue Code**

LACERS, like most governmental retirement systems, have been established and maintained as qualified governmental retirement plan under the Internal Revenue Code ("IRC" or "Code") § 401(a). Ensuring compliance with 401(a) qualification requirements protects the favorable tax treatment for members' benefits under this status.

The laws/regulations that most commonly affect defined benefit (DB) pension plans include:

- IRC 401(a)(17): qualified DB plans must use pay that is the smaller of actual pensionable pay versus a dollar limit (called the 401(a)(17) limit) that changes yearly
- IRC 415: qualified DB plans must limit the dollar amount of the benefit paid from the plan under certain circumstances
- Non discrimination rules: IRC 410(b), IRC 401(a)(4), IRC 401(a)(26) Broadly speaking, forbids qualified DB plans from giving large amount of benefit to highly compensated employees
- Rules on distributions: lump sum must be no smaller than the lump sum calculated using mandated mortality and interest rate (IRC 417(e)), spouse consent necessary for any non joint and survivor form of benefit (joint and survivor percent must be 50% or larger)
- Rules against assignment, garnishment
- Top heavy rules (IRC 416): benefits for all non highly compensated employees must be increased if the benefits for highly compensated employees are too large  
[\[https://www.irs.gov/pub/irs-pdf/p7002.pdf\]](https://www.irs.gov/pub/irs-pdf/p7002.pdf)

### **Federal Securities Laws**

Federal Securities Laws require adequate compliance policies and procedures to prevent wrongdoing in their money management functions. While public pension funds are exempt from most of the federal securities laws governing other money managers, they are not exempt from important anti-fraud provisions that prohibit insider trading and other manipulative and dishonest behavior. When public pension funds come into possession of material non-public information, they must have safeguards specifically designed to prevent the misuse of inside information, and avoid any personal gain from such transactions.

[\[http://www.sec.gov/news/press/2008/2008-35.htm\]](http://www.sec.gov/news/press/2008/2008-35.htm)

### **State Laws and Regulations**

#### **Article XVI of the California State Constitution (aka "Proposition 162" or "The California Pension Protection Act of 1992")**

The California Pension Protection Act of 1992 amended Section 17 of Article XVI of the California State Constitution and made several changes to California's public retirement systems; the Act:

- Provided the authority for the board of each public pension system to administer the system's assets and actuarial function

**Section 2.0 GOVERNING STATUTES**

- Established that each public pension board is to make providing benefits to members and beneficiaries its' highest priority
- Set forth the conditions under which the terms and conditions for board membership may change; no changes may be made unless a majority of voters in the jurisdiction of the retirement system in question approve.

**California State Constitution, Article 1 §9**

California case law recognizes that public pension rights are governed by statute and not contract principles. "A public employee's pension constitutes an element of compensation, and a vested contractual right to pension benefits accrues upon acceptance of employment. Such a pension right may not be destroyed, once vested, without impairing a contractual obligation of the employing public entity [Gutierrez v. Board of Retirement, 72 Cal Rptr 2d 837(1998); Betts v. Board of Admin., 582 P.2d 614 (Cal. 1978)].

<http://www.nasra.org/content.asp?contentid=59>

**California Government Code Section 7500-7514.5**

Various provisions are contained in this section including: enabling the State Controller to gather information to compare and evaluate the financial condition of pension systems and to make such comparisons and evaluations; requiring the availability of direct deposit to members; enacting the California Actuarial Advisory Panel; addressing divestiture of plan assets; restricting use of placement agents; prohibiting lobbying within two years of leaving a retirement system; permitting purchase of fiduciary liability insurance; requiring an annual financial audit.

**City Laws and Regulations**

**Charter of the City of Los Angeles**

Statutes establishing the authority assigned to LACERS are contained in the City Charter.

The City Charter has two volumes. The first volume establishes governance of the City, establishing departments, their assignments and authorities. The second volume establishes the employment provisions for the management of City employees, assignment of their civil service rights, and benefits including pension benefits.

**Los Angeles Administrative Code (LAAC)**

The benefits promised to LACERS members by the City are detailed in the LAAC. The LAAC is the guiding document for staff to determine such matters as the City's contribution, member's contribution, eligibility for membership in LACERS for Tier 1 and Tier 3, calculation of the service retirement, rules on spousal/domestic partner benefits, the disability benefit, service purchase rules, reciprocal benefits with other retirement systems; and parameters of optional programs such as the Limited Term Retirement Plan, larger annuity program, family death benefit plan.

Generally the LAAC provides detailed provisions to accompany the broader Charter provisions. City Charter provisions may only be changed by the voters while the LAAC is revised through ordinances adopted by the City Council and Mayor. The LAAC describes the powers and duties of the City Council and Mayor, and the various categories of Departments and their authorities.

**Section 2.0 GOVERNING STATUTES**

It contains general provisions applicable to the operation of all departments including the Governmental Ethics Ordinance, provisions on finance, purchasing, contracting, and records.

**Executive Directives**

Through Executive Directives, the Mayor directs City Department actions in a variety of topic areas including guidance on City employee actions; participation in efforts to promote Mayoral goals such as emergency planning/coordination; improving traffic, census counts, sustainability practices, gender equality; to supporting the bike plan, good food purchases, homeless strategy and business inclusion.

**LACERS Policies and Rules**

**Board Policies**

The Board adopts policies to ensure consistent treatment of a particular matter in a direction stated by the Board.

**Board Rules**

The Board will adopt rules when the statutes or laws are unclear or silent, and consistency is required; or when designated by statute that the Board adopt rules and regulations for a specified program.

**Board Resolutions**

Board resolutions serve to document a specific decision of the Board in a standalone document.

In accordance with LAAC Sec. 21.16, "The powers conferred upon each board shall be exercised by order or resolution adopted by a majority of its members and recorded in the minutes with the ayes and noes at length. Such action shall be attested by the signatures of the President or Vice-President, or two members of the board, and by the signature of the Secretary of the board."

**Strategic Plan**

The Strategic Plan documents the Board's long-term goals for the System and sets the priority and direction for which the Board, staff, and key consultants should strive. In accordance with the Board's Strategic Planning Policy, progress on the accomplishment of the plan is analyzed and reported to the Board annually, and a comprehensive review of the plan is conducted triennially.

**General Manager Policy Memos**

The General Manager will issue policy memos to instruct staff on various matters.

**Department Policies and Procedures**

Department policies and procedures are established and updated regularly to ensure that all staff will perform functions uniformly and for a consistent purpose.

## Section 2.0 GOVERNING STATUTES

### 2.4 Standards of Practice

*Added to Board Governance Statement on May 14, 2013; Revised: July 24, 2018*

LACERS acknowledges that the following entities establish sound professional standards and that LACERS is not necessarily required to follow these standards of practice but will endeavor to meet these standards when in the best interest of LACERS members.

#### **Governmental Accounting Standards Board (GASB)**

GASB is an independent, non-governmental organization whose purpose is to establish standards and guidelines for state and local government accounting principles. GASB issues Statements of Governmental Accounting Standards for the purpose of providing taxpayers, legislators, municipal bond analysts, and others with information that is useful to their decision-making process regarding governmental entities. LACERS complies with GASB standards governing how public pension assets and liabilities are measured and reported.

#### **Government Finance Officers Association (GFOA)**

The goal of GFOA is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

LACERS adheres to GFOA guidelines in preparation of its annual Comprehensive Financial Report. LACERS will also monitor GFOA issued policy statements which establish best practice standards in such areas as: asset allocation, member communications, retiree health benefits, pension fund risk, retirement plan design, system governance, and investment policies.

#### **Employee Retirement Income Security Act of 1974**

Private sector plans are governed by the Employee Retirement Income Security Act (ERISA) of 1974. While ERISA requirements are not applicable to plans of state and local government, LACERS recognizes ERISA standards as a high standard and will endeavor to meet ERISA standards when possible. ERISA, rooted in the principles of trust law, governs the fiduciary conduct and reporting requirements of private sector employee benefits plans through a system of exclusively Federal rights and remedies. It also contains provisions governing employee benefit plans that preempt state laws.

[\[http://en.wikipedia.org/wiki/Defined\\_benefit\\_pension\\_plan\]](http://en.wikipedia.org/wiki/Defined_benefit_pension_plan)

### 2.5 Key Documents by Reference

*Added to Board Governance Statement on May 14, 2013; Addendum - September 23, 2014; Revised: July 24, 2018*

The following are considered key documents whose guidelines/rules apply to LACERS. These documents are incorporated into the manual only by reference. An introduction to the documents is provided below and a full copy is available to the Board on the Board website and by request.

#### **Board Procedural Rules**

## Section 2.0 GOVERNING STATUTES

### **“Brown Act”**

The Ralph M. Brown Act is California's open meeting law. The law's intent is to promote transparency and public access to government by requiring that the deliberations and actions of public bodies be conducted openly.

This law prohibits such acts as Board members having discussions of a quorum of the Board without public notice and public access; as well as having serial discussions which are conducted outside of a public meeting.

### **Governmental Ethics**

#### **State - California Political Reform Act of 1974 – “Form 700” Filing**

Because LACERS Trustees make decisions on investment of fund assets, you are placed in a special category by the California Government Code Section 87200-87210. As an “87200 filer” you must disclose certain financial interests that may pose a potential conflict between your personal interests and your public duties.

LACERS Trustees must file a “California Form 700” by April and October of each year.

- **California Fair Practices Act**  
<http://www.fppc.ca.gov/the-law.html>
- **California Fair Political Practices Commission (FPPC) Webpage**  
<http://www.fppc.ca.gov/>

#### **City of Los Angeles - Governmental Ethics Ordinance**

The Governmental Ethics Ordinance overlay California state law, but imposes various additional provisions and restrictions on City officials and employees. Among these are a ban on use of resources for private benefit; misuse of position and resources; the disclosure of economic interests by City officials; and restrictions on gifts, outside income, honorariums for making speeches, post employment lobbying, and political activities.

LACERS Trustees must file a City addendum to their California Form 700, known as the City Ethics Commission Form 11. This form helps Trustees comply with the additional requirements under the City’s Governmental Ethics Ordinance.

- **Governmental Ethics Ordinance (February 2014)**  
[http://ethics.lacity.org/PDF/laws/law\\_geo\\_february2014.pdf](http://ethics.lacity.org/PDF/laws/law_geo_february2014.pdf)
- **City Ethics Commission – Governmental Ethics Webpage**  
<https://ethics.lacity.org/ethics/commissioners/>

#### **City of Los Angeles Code of Ethics**

All City Officials and employees must abide by this Code of Ethics.

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- **City Code of Ethics** (August 23, 1979)  
<http://ethics.lacity.org/PDF/MayorExecDir/CityCodeofEthics.pdf>
- **Mayoral Executive Directive 1 – Ethics in Government** (October 20, 2005)  
[http://ens.lacity.org/mayor/villaraigosa/mayorvillaraigosa331283115\\_07032013.pdf](http://ens.lacity.org/mayor/villaraigosa/mayorvillaraigosa331283115_07032013.pdf)
- **Mayoral Executive Directive 7 – Governmental Ethics: Departmental Liaison, Training, and Compliance** (July 12, 2006)  
[http://ens.lacity.org/mayor/villaraigosa/mayorvillaraigosa331283121\\_07122006.pdf](http://ens.lacity.org/mayor/villaraigosa/mayorvillaraigosa331283121_07122006.pdf)

### **Financial and Funding Reports**

#### **Comprehensive Annual Financial Report (CAFR)**

As a means to demonstrate LACERS' commitment to transparency, LACERS annually produces a CAFR which presents a broad view of our financial condition including the System's financial statements, investment performance results, and actuarial valuations for retirement and health benefits.

The report is prepared in conformance with accounting principles generally accepted in the United States, the reporting guidelines set forth by the Government Accounting Standards Board (GASB), and the Los Angeles City Charter.

#### **Actuarial Valuations for Retirement and Health Benefits (Annual)**

An actuarial valuation can be thought of as a financial check-up for a pension or retiree health benefit plan. It measures current costs and contribution requirements to determine how much employers and employees should contribute to maintain appropriate benefit funding progress. The primary purpose of a valuation is to determine how much employers and employees should contribute to the plan during the upcoming year. The second key purpose of a valuation is to determine the plan's funding progress by examining how the plan's assets compare with its liabilities.

The LACERS Board selects the actuary to perform the actuarial studies; approves the actuarial methodologies and certain key assumptions; and monitors the funded status for both retirement benefits and health care benefits.

#### **Actuarial Experience Study (Triennial)**

The purpose of an experience study is to compare the actual experience of the system against the current assumptions and to recommend new actuarial assumptions if necessary. The study reviews retirement rates, termination rates, mortality rates and rates of salary increase.

### **LACERS Benefits**

#### **Summary Plan Description**

**Section 2.0 GOVERNING STATUTES**

A Summary Plan Description is a document written for plan members which contains a comprehensive summary of a retirement plan, including the terms and conditions of participation.

LACERS' prepares and distributes to members separate Summary Plan Descriptions for Tier 1 members and Tier 3 members.

**Audit Reports**

**Annual Financial Audit**

Each year an external auditor retained by the Board will conduct a financial audit of the System in accordance with standards promulgated by the American Institute of Certified Public Accountants (AICPA). An external audit report provides assurances to the Board that LACERS' accounting records are complete and in adherence to generally accepted accounting principles, industry standards and regulatory requirements.

**Actuarial Audit**

Every five to seven years, the Board may direct an audit of our actuarial findings. A second actuarial firm is retained to validate the results of the retirement and health benefits valuations conducted by the consulting actuary, and to ensure the reasonableness of the underlying actuarial assumptions and the actuarial cost method utilized in performing such actuarial valuations.

**City's Management Audit**

Pursuant to City Charter Section 1112, the Los Angeles City Controller, the Office of the Mayor, and the Los Angeles City Council jointly cause, once every five years, a management audit to be conducted of LACERS by an independent qualified management auditing firm. Management audit reports were issued in 2007 and in 2013. The next management audit is expected to be conducted in 2019.

The management audit report provides insight into perceived strengths and weaknesses of the pension system in comparison to industry best practices from the management audit firm's perspective.

## Section 3.0 DUTIES AND RESPONSIBILITIES

### 3.1 The Board's Role

*Revised: May 14, 2013; February 25, 2014; Revised: July 24, 2018*

All authority granted by statute in Article XVI, Section 17 of the California State Constitution, by Article XI of the City Charter and Administrative Code provisions of the City of Los Angeles, to the Board of Administration, is retained, except as delegated by specific resolution. Consistent with its fiduciary role as Trustee of the Fund, the Board's principal role is to proactively manage the delivery of benefits and investment of trust assets for the exclusive benefit of its members and beneficiaries. The Board will establish policies and procedures to ensure LACERS is appropriately governed and managed to meet its fiduciary obligations.

The Board's role is to:

#### A. Develop and Adopt Policies

1. Set the long-term strategic direction through the adoption of a strategic plan and set an annual business plan for LACERS through the adoption of the annual budget, focusing on the goals of LACERS against which its performance is measured and monitored.
2. Set policies for LACERS, which include:
  - a) A statement of investment objectives and policies for the system, inclusive of the desired rate of return, acceptable levels of risk for each asset class, asset allocation goals, guidelines for delegation of authority, and evaluation of investment performance.
  - b) An Actuarial Funding Policy, inclusive of the Actuarial Cost Method, Asset Smoothing Method, and Amortization Policy.
  - c) Board Governance policies, inclusive of clearly defined roles, responsibilities and permissible conduct of the key players; a Committee structure with charters defining their roles and responsibilities; and an educational and travel policy for Board and staff.
  - d) Board rules and regulations necessary to carry out the administration of the System or assets under its control
3. Select, regularly evaluate, and, if necessary, take disciplinary action against the General Manager.
4. Delegate execution of established Board policy and strategic objectives to the General Manager and through him/her re-delegation to the employees of LACERS.

#### B. Review and Evaluate Performance

1. Monitor organizational performance and regularly review results as compared to:
  - a) LACERS mission/vision statement
  - b) Strategic plan and other long-range goals
  - c) Annual business plans
  - d) Performance measures that include external as well as internal measures
2. Monitor investment performance and regularly review results as compared to benchmarks.
3. Monitor Actuarial Services, including:
  - Review, approve, and monitor actuarial data and assumptions.

### Section 3.0 DUTIES AND RESPONSIBILITIES

- Periodically review the services of the actuary and conduct an actuarial audit when the retained actuary has provided consecutive service for more than six years, or as reasonably determined.

#### C. Risk Control

1. Ensure the integrity of the financial control and reporting system.
2. Oversee all audits, including approval of the outside financial auditor, the annual internal audit plan, and provide that financial controls and reporting systems are set forth.
3. Review and consider the purchase of fiduciary liability insurance, to provide an optional layer of liability protection for Board Members and others acting in a capacity of Fiduciary to the LACERS trust in the event of legal claim(s) that the Trustee(s) have not fulfilled their fiduciary duty in any action or decision. The purchase of the policy will result in a cost to the System to cover the premium and a personal cost to the Trustee to cover the waiver of recourse annual premium which cannot be advanced by the Trust Fund in accordance with Government Code Section 7511.

#### D. Other Board Responsibilities

1. At all times meet high ethical standards.
2. Organize the Board of Administration; organize its Committees; and approve charters and delegations to Committees and the General Manager.
3. Periodically evaluate the Board, its performance, and take any steps necessary to improve Board operations.
4. Set the Board agenda by identifying, articulating, prioritizing, and scheduling matters the Board will regularly address.
  - a) Identify benchmarks that trigger Board review.
  - b) Identify information needs and determine how, when, and in what form information is to be delivered to Board Members so as to enable the Board to meet its responsibilities, having regard for time available.
5. Be primarily responsible and accountable to members and their beneficiaries, ensuring the System provides strong member relations and effective communications. Be responsive to inquiries of member representative organizations, and the public. Work collaboratively with stakeholders with oversight responsibilities for the Retirement System including the Plan sponsor, the Internal Revenue Service, and other governmental entities.
6. Provide for the election of employee and retired representatives on the Board.
7. Conduct member hearings and decide appeals.
8. The Board is responsible for creating and maintaining an atmosphere that encourages frank and collegial discussions both at the Board and Committee level and as between

### Section 3.0 DUTIES AND RESPONSIBILITIES

the Board and management. The Board strives to achieve a governing style that emphasizes:

- Strategic leadership
  - Outward vision
  - Focus on the future
  - Proactivity
  - Encouragement of collegiality
  - Respect for diversity in viewpoints
  - Governance by consensus
  - A partnership with LACERS management
  - Ethical conduct of Board business to avoid even the appearance of impropriety.
- The Board establishes and communicates Board policies and priorities, and then monitors performance in light of its established policies and priorities. The Board recognizes that the achievement of its goals requires self-discipline by the Board as a whole and by individual Board Members to live by the policies articulated herein and to govern with excellence.

### **3.2 General Manager**

*Revised: May 14, 2013; Revised February 25, 2014; Affirmed: July 24, 2018*

#### **Board/General Manager Relationship**

The Board has delegated to the General Manager the responsibility for the administration and management of the System. Policy and direction set by the Board is implemented through the General Manager so that a strong relationship between the Board and General Manager, and clear delineation of authority is critical to the accomplishments of the Board's objectives.

#### **General Manager Authority**

The Board has delegated to the General Manager responsibility for the administration and management of the System consistent with Board delegation of authority. This includes broad responsibility for the following:

- Employing, training, developing, supervising, monitoring, and evaluating senior managers and staff. This may include succession planning for senior managers.
- Preparing and monitoring the annual administrative expense budget.
- Governmental affairs/media relations – The General Manager is authorized to work directly with the City executive and legislative branches as well as respond to public records requests, keeping the Members of the Board informed during the General Manager's Report. The Board President retains authority as the Board's spokesperson.
- Actuarial valuations and studies – To the extent budgeted, the General Manager may direct actuarial services necessary for the administration of the System.

The General Manager's duties are defined by the Board and include the following:

### Section 3.0 DUTIES AND RESPONSIBILITIES

- With advice and counsel from the Board, achieve the long-term policies and strategic objectives established for the System by the Board, including as necessary:
  - Determine the appropriate methods for attaining the Board-established policies and strategic objectives.
  - Direct LACERS employees in furtherance of those objectives.
  - Ensure that management activities and decisions are within Board-approved policies.
  - Represent LACERS, or designate other staff representatives, to outside parties and organizations.
  - Provide leadership to LACERS employees by promoting conduct which emulates the Department's Guiding Principles.
  - Act as the liaison for communications and information flow between the Board and LACERS employees.
  - Provide annual goals of the General Manager which augment those in the Strategic Plan, if any, to be presented to the Board on or preceding the General Manager's annual evaluation, upon request.

### 3.3 Commitment of a LACERS Board Member

*Affirmed: July 24, 2018*

Members of the Board of Administration have a fiduciary responsibility to act solely for the exclusive benefit of members and beneficiaries with a secondary duty to minimize contributions of the employers. All responsibilities must be fulfilled in a cost effective and efficient manner.

Members function as part of a seven-member Board consisting of four appointed and three elected members.

The Board is required by the Administrative Code to meet twice per month. These meetings generally occur on the second and fourth Tuesday of each month and may last between one and four hours.

Committee meetings may last between one and two hours. Depending on the nature of the Committee assignment, meetings may be regular monthly meetings or on an as-needed (Ad Hoc) basis addressing single issues.

- Advanced preparation for the meetings is imperative. Depending on the Committee assignment, preparation can require between one and eight hours.
- Education is a fiduciary responsibility and is strongly encouraged. In-house seminars and outside conferences are available for this purpose. The time commitment for education is usually five days per year.

### Section 3.0 DUTIES AND RESPONSIBILITIES

- Most meetings take place during normal business hours, Monday through Friday; however, some travel and conferences take place over weekends.
- Members are expected to attend all regularly scheduled Board and Committee meetings. If a Board Member's attendance becomes sporadic, the Member should strongly consider resigning from the Board for the benefit of the members they have vowed to serve.

#### 3.4 Committee Protocol

*Revised: September 10, 2013; Affirmed: July 24, 2018*

There are two types of ordinary committees, standing and ad hoc, to which the Board may refer or commit matters under consideration. A standing committee is expected to have a continuing existence, whereas an ad hoc committee is expected to cease to exist upon completion of the submittal of a final report.

1. Standing and ad hoc Committees shall be established by a majority vote of the Board.
2. Committee Chairs and Members shall be appointed by the President or Acting President of the Board.
3. Committees shall each have three Members.
4. Committee Members shall serve from the time they are designated until their successors have been designated, and may be removed or replaced by the President or Acting President by his/her own act.
5. Committees shall operate under Robert's Rules of Order unless otherwise specified by statute or Board action.
6. Committees shall adhere to the same public notification and meeting requirements as the Board.
7. Committee meetings shall be called by the Committee Chair.
8. Committee agenda topics shall be set by the Committee Chair, but the Committee Chair shall take as an agenda item any matter submitted by two Committee Members.
9. Committee meetings shall be open to all Board Members; however, only Committee Members may vote.
10. Ad hoc committees shall not be established for a matter that falls within the purview of a standing committee.
11. Committees shall receive such assignments as fall within their Charter.
12. Committees shall communicate with the Board in the form of report(s) to the Board, offering recommendations and discussion upon referred matters for the Board's consideration.
13. Ad hoc committees shall cease to exist upon submittal of the final report to the Board.

**Section 3.0 DUTIES AND RESPONSIBILITIES**

**3.5 Committee Structure**

*Updated: November 21, 2016; Revised: July 24, 2018; Revised: August 7, 2019; Revised June 21, 2021*

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
COMMITTEE STRUCTURE FOR FISCAL YEAR 2021-22**

<b>STANDING COMMITTEES</b>	
<p><b>Audit</b></p> <p>Elizabeth Lee, Chair Sung Won Sohn Michael Wilkinson</p>	<p><b>Benefits Administration</b></p> <p>Michael R. Wilkinson, Chair Annie Chao Sandra Lee</p>
<p><b>Governance</b></p> <p>Nilza R. Serrano, Chair Annie Chao Cynthia Ruiz</p>	<p><b>Investment</b></p> <p>Sung Won Sohn, Chair Elizabeth Lee Nilza R. Serrano</p>

Standing Committees remain in existence for the life of the establishing Board. Ad Hoc Committees cease to exist upon completion of the submittal of a final report.

## Section 3.0 DUTIES AND RESPONSIBILITIES

### **3.6.1 Audit Committee Charter**

*Revised Committee Name Adopted: September 10, 2013; Revised Charter Adopted: November 12, 2013;  
Revised: September 23, 2014; Reaffirmed: November 13, 2018*

#### **I. PURPOSE/ROLE**

The Committee will provide assistance to the Board in fulfilling its fiduciary oversight responsibility to the participants, the City of Los Angeles, the investment community, and others relating to LACERS' financial statements, and the legal compliance, ethics programs and other related risks, as established by the Board. In so doing, it is the responsibility of the Committee, with approval of the Board, to maintain free and open communication between the Committee, independent auditors, the internal auditors, and management of LACERS. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with access to all books, records, facilities, and personnel of LACERS.

#### **II. AUTHORITY**

The Committee has the authority to direct the Departmental Audit Manager (DAM), external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee's scope of responsibility. It is empowered to:

- Seek any information it requires from LACERS staff or external parties, all of whom are directed by the Board to cooperate with the Committee's request.
- Appoint, compensate, and oversee the work of all public accounting firms employed by LACERS.
- Resolve any disagreements between LACERS management and the internal or external auditors regarding financial reporting, actuarial audits, or other related matters.
- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.
- Approve the consultants, or others retained by the organization to assist in the conduct of an audit, review, and/or special investigation.
- Meet with management, external and internal auditors, or outside counsel as necessary.

#### **III. COMPOSITION OF COMMITTEE**

The Committee shall consist of three LACERS Board Members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Committee.

#### **IV. FREQUENCY OF MEETINGS**

The Committee shall meet no less than four times during the calendar year, or more often as needed. Meetings will be conducted in accordance with open meeting and other applicable laws. Meeting agendas, along with appropriate briefing materials, will be prepared and

### Section 3.0 DUTIES AND RESPONSIBILITIES

provided in advance to Committee members and other required attendees. Minutes of the meeting will be prepared and approved by the Committee.

Meeting notices, agendas, and materials will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. The Committee may invite members of management, external auditors, internal auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems appropriate to carry out its responsibilities. The DAM shall support the Committee's activities and ensure appropriate staff and others are available to assist it. The DAM shall review minutes, draft reports, perform research, and render other types of assistance as reasonably requested by the Committee.

#### V. DUTIES AND RESPONSIBILITIES

The primary responsibility of the Committee is to oversee LACERS' financial reporting process on behalf of the Board and to report the results of its activities to the Board. Management is responsible for preparing LACERS' financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee is responsible for understanding risks affecting LACERS' operations and monitoring how management implements controls to minimize those risks.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take the appropriate actions to set the overall "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following are specific responsibilities with respect to LACERS' financial statements, internal controls, internal and external auditors, and compliance with laws and regulations.

##### A. *Financial Reporting*

- Review significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, significant adjustments or revisions to the financial statements, including any difficulties encountered.
- Inquire as to the external auditors' independent judgment about the appropriateness, not just the acceptability, or the accounting principles adopted by the organization and clarity of financial disclosures.
- Review LACERS' annual financial statements and any financial reports related to LACERS submitted to any governmental body; consider whether they are complete, consistent with information known to the Committee, and reflect appropriate accounting principles.
- Review the responsiveness and timeliness of management's actions to address findings and recommendations that resulted from the financial statement audit.

### Section 3.0 DUTIES AND RESPONSIBILITIES

- Review with management and the external auditors all matters required to be communicated to the Committee under general accepted auditing standards.
- Review with the City Attorney-Retirement Division the status of legal matters that may have an effect on the financial statements.
- Review, in consultation with the external auditors and the DAM, the integrity of the organization's financial reporting processes.

#### B. *Risk Control and Management*

- Review the adequacy of policies and practices designed to avoid or mitigate risks related to benefits administration, investments, and general operations.
- Review the effectiveness of the LACERS' system for assessing, monitoring, and controlling significant risks or exposures.
- Review LACERS systems of internal accounting and financial controls whenever a significant change occurs.
- Review controls over LACERS' information systems, including security access and program change controls as well as contingency plans on an annual basis.
- Review annually the internal control reports of LACERS custodian (Service Organization Control Report) and of the City of Los Angeles management letter.
- Review and forward to the Board all internal and external auditors' significant findings and recommendations, including the management response thereto.
- Make recommendations to the Board for retention of actuarial audit services or other specialized audit services, including review of staff reports pertaining to such services.

#### C. *Internal Control*

- Consider the effectiveness of the LACERS' internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of LACERS' internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's response.

#### D. *Internal Audit*

- Approve the LACERS' internal audit charter, and any revisions to the charter as needed.
- Advise on the appointment, replacement, or dismissal of the DAM in consultation with the General Manager as appointing authority.
- Review and recommend to the Board, the approval of a risk-based internal annual audit plan and all major changes to the plan. In consultation with the General Manager, review the DAM's performance relative to such plan.

### Section 3.0 DUTIES AND RESPONSIBILITIES

- Ensure that internal auditors have full, free, and unrestricted access to all functions, documents, information, systems, contractors, consultants, and LACERS' personnel.
- Review all internal audit reports, and bring to the attention of the Board any audit issues the Committee determines significant and appropriate for consideration by the Board.
- Obtain and review the quality assurance report for the Internal Audit Section at least once every five years. Review for any concerns noted.
- Delegate to the DAM the oversight and management of the contracts of all public accounting firms hired by LACERS.
- Designate the DAM as the primary point of contact for handling all matters related to audits, examinations, investigations, or inquiries of the City Controller auditors, state and other federal agencies. The DAM will keep the Committee and/or the General Manager informed as appropriate.

#### E. *Engagement of External Auditors*

- Obtain a clear understanding with management that the independent auditors are ultimately accountable to the Board and the Committee as representatives of LACERS participants. As appropriate, the Committee will recommend to the Board the appointment, retention, or discharge of the external auditors with input from the DAM, the General Manager, and other parties as appropriate.
- Approve all audit and non-audit services to be performed by the external auditors.
- Review the independent auditors' proposed overall scope and approach, including coordination of efforts with internal audit.
- Discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including LACERS system to monitor and manage business risk and legal and ethical compliance programs.
- Review and confirm the independence of the external auditors by obtaining a list of all payments to the external auditors (itemizing payments for audit, other attestation projects, and non-audit services provided) and statements from the auditors on relationships between the auditors and any LACERS staff, and discussing these relationships with the auditors.
- Prove guidelines and mechanisms so that no Committee member or LACERS' staff shall improperly influence the external auditors.
- Review with management and the independent auditor the financial statements of LACERS Comprehensive Annual Financial Report.

#### F. *Compliance*

- Review the effectiveness of the LACERS' system for monitoring compliance with laws, regulations, contracts, policies, and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

### Section 3.0 DUTIES AND RESPONSIBILITIES

- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/observations.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Obtain regular updates from management and the City Attorney's Retirement Division regarding compliance matters.

#### G. *Special Investigations and Whistleblower Mechanism*

- Institute and oversee special investigations as needed.
- Assess and, if appropriate, oversee the creation and maintenance of an appropriate whistleblower mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
- As appropriate, recommend to the Board the retention of accountants or other specialists to advise the Committee and the Board or assist in the conduct of an investigation.

#### H. *Other Responsibilities*

- Regularly report to the Board about Committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal auditors, the external auditors, and the Board.
- Review any other reports that LACERS issues that relate to Committee responsibilities.

## VI. CHARTER REVIEW

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

### 3.6.2 Internal Audit Charter

*Adopted by the Board: November 12, 2013; Revised: November 13, 2018*

#### I. PURPOSE

The purpose of this Charter is to formally define LACERS' internal audit function's purpose, authority, and responsibility. The internal audit charter establishes the internal audit function's position within LACERS including the nature of the Departmental Audit Manager's (or DAM) functional reporting relationship with the Board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. This Charter shall be reviewed annually and updated as necessary.

## Section 3.0 DUTIES AND RESPONSIBILITIES

### II. MISSION

The Mission of the Internal Audit Section is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Internal Audit helps LACERS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

### III. OBJECTIVES AND SCOPE

Assurance Objectives: The objectives of the Internal Audit Section's assurance services are to provide independent assurance to the Board, the Audit Committee, and LACERS' Executive Management that LACERS' assets are safeguarded, operating efficiency is enhanced, and compliance is maintained within prescribed laws, Board Rules, and management policies. Assurance objectives include independent assessment of LACERS' governance, risk management, and control processes.

Consulting Objectives: The objectives of the Internal Audit Section's consulting services, the nature and scope of which are agreed with management, are to provide management with assessments and advice for improving LACERS' governance, risk management and control without the Internal Audit Section assuming management responsibility. For example, consulting services may provide assessments and advice on the front-end projects so that risks can be identified, managed, and internal controls can be designed.

Scope: The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the LACERS' Board, Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for LACERS. Internal audit assessments include evaluating whether:

- Risk relating to the achievement of LACERS' strategic objectives are appropriately identified and managed;
- The actions of LACERS' officers, directors, employees, and contractors are in compliance with Board's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations or programs are consistent with established goals and objectives;
- Operations or programs are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Plan;
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity;
- Resources and assets are acquired economically, used efficiently, and protected adequately;

Opportunities for improving member service, management of risks, internal control, governance, and the organization's effectiveness and image may be identified during audits.

**Section 3.0 DUTIES AND RESPONSIBILITIES**

This information will be communicated to management and the Audit Committee as appropriate.

**IV. AUTHORITY**

The Internal Audit Section reports functionally to the Board through its Audit Committee, and administratively to the General Manager. The Audit Committee advises on the appointment, replacement, or dismissal of the Departmental Audit manager (DAM) in consultation with the General Manager as appointing authority.

The DAM is responsible for managing the Internal Audit Section and preparing an audit plan. The Audit Committee reviews and recommends the approval of the annual audit plan to the Board. The DAM shall periodically inform the Audit Committee regarding the status of the audit plan and changes needed. The DAM is authorized to allocate internal audit resources, set project frequencies, select audit subjects, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives. The DAM is authorized to hire (within budgetary constraints), retain, train, and develop internal audit staff to achieve the internal audit objectives as stated in this Charter.

The DAM and other Internal Audit staff are not authorized to perform operational duties for LACERS and/or its contractors. LACERS Internal Audit staff is not authorized to initiate or approve accounting transactions external to the Internal Audit Section. Internal Audit Section staff is not authorized to direct the activities of any LACERS employee not employed in the Internal Audit Section, except to the extent such employees have been assigned appropriately to auditing teams or to otherwise assist the internal auditors.

**V. ACCESS**

The Departmental Audit Manager and designated audit staff, as appropriate, are granted authority for full, free, and unrestricted access to all of LACERS' functions, records, files and information systems, personnel, contractors, physical properties, and any other item relevant to the function, process or unit under review. All LACERS' contracts with vendors shall contain language enabling the internal auditors, other auditors, and specialists to have access to relevant records and information. All LACERS employees are required to assist the staff of the Internal Audit Section in fulfilling its audit functions and fiduciary duties.

The DAM shall have free and unrestricted access to the Chairperson of the Audit Committee and Members, the President, Vice President, and Members of the Board of Administration. The DAM shall also have free and unrestricted access to the General Manager, other executive management, and all personnel, contractors and vendors, members, retirees, and beneficiaries of LACERS.

Staff of the Internal Audit Section shall handle documents and information given to them in the same prudent and confidential manner as by those employees normally accountable for them. The DAM shall ensure that the Internal Audit staff is instructed in the handling and safeguarding of confidential information.

**VI. INDEPENDENCE**

### Section 3.0 DUTIES AND RESPONSIBILITIES

Organizational Placement: To provide for the independence for the Internal Audit Section, its personnel report to the Departmental Audit Manager, who in turn reports functionally to the Board and administratively to the General Manager. By reporting functionally to the Board, the DAM is able to maintain independence and objectivity in planning and executing internal audit activities. The Board supports internal audit's role by maintaining internal audit's independence, and by recognizing and promoting internal audit as a value-added activity.

Professional Standards Independence: The Audit Committee recognizes that professional independence requires that the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the DAM will include as part of the reports to the Audit Committee, a regular report regarding internal audit personnel, including their qualifications, certifications, and development. The DAM shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks shall be those indicated in the Professional Standards section of this document.

Potential Impairment of Independence: The DAM should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee, as necessary. If objectivity is impaired in fact or in appearance, the details of the impairment should be disclosed to the General Manager and the Audit Committee. The nature of the disclosure will depend on the impairment. Each Internal Audit Section staff member (including the DAM) shall be required to annually certify to the Audit Committee that he/she has no actual or perceived conflicts of interest that would impair their objectivity or independence. The form for such certification is attached to this charter, and may be revised by the DAM with approval of the Audit Committee as needed.

## VII. RESPONSIBILITIES AND ACCOUNTABILITY

The Departmental Audit Manager is responsible for the following in order to meet the mission, objectives, and scope of this Charter and the Internal Audit Section:

1. Select, train, develop, and retain a competent Internal Audit staff who collectively have the abilities, knowledge, skills, experience, expertise, and professional certifications necessary to accomplish the mission, objectives, and scope of this Charter, subject to the General Manager's approval and budgetary considerations. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications.
2. Establish policies for conducting and directing internal audit activities, and technical and administrative functions according to LACERS' policies and direction provided by the Audit Committee and the Board, and professional standards described in Section VIII.
3. Perform an annual operational risk assessment. Develop and implement a flexible annual audit plan (audit plan) using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the audit plan to the Audit Committee for review and approval. The audit plan will include some unassigned hours

### Section 3.0 DUTIES AND RESPONSIBILITIES

in order to provide flexibility for changing conditions. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated, if necessary.

4. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out LACERS' business objectives.
5. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Internal Audit staff shall consider costs and benefits while formulating and discussing its recommendations.
6. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
7. Issue periodic reports to management and the Audit Committee and management summarizing results of assurance and consulting services. Any management letters issued should also be reported to the Audit Committee.
8. At least every three years, assess whether the purpose, authority, and responsibility, as defined in this Charter, continue to be adequate to enable the Internal Audit Section to accomplish its mission, objectives, and scope. The result of this assessment should be communicated to the Audit Committee.
9. Implement a quality assurance and improvement program. Obtain an external assessment no less frequently than every five years as required by the International Standards for the Professional Practice of Internal Auditing. Conduct periodic internal quality assurance and ongoing quality procedures. Results of the quality assurance and improvement program should be reported to the Audit Committee.
10. Lead the process for selecting the external audit firms. Coordinate/manage the contract(s) with any external audit firms and evaluate their performance. Report to the Audit Committee on all activities and associated cost of work performed by the external audit firms.
11. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to LACERS at a reasonable overall cost.
12. Act as the primary point of contact for handling all matters related to audits, examinations, investigations, or inquiries by other City entities, State or Federal agencies. Keep the Audit Committee and/or the General Manager informed as appropriate.
13. Evaluate annually the quality of the annual financial report and suggest improvements in the presentation and disclosure.

### Section 3.0 DUTIES AND RESPONSIBILITIES

14. Consult with LACERS management, as appropriate, regarding potential policy and procedural changes.
15. As appropriate, provide consulting services to management that add value and improve the organization's governance, risk management, and control processes without assuming management responsibility.
16. Participate in professional audit organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional organizations related to LACERS' mission. These may include, but are not limited to, organizations involved with benefits, investments, and accounting.
17. Periodically review LACERS' fraud and ethics policies.
18. Assist in the investigation of significant suspected fraudulent activities within LACERS and notify the General Manager, the Audit Committee, and other executives, as appropriate, of the results.
19. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues, and other significant matters.
20. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
21. Attend all Audit Committee meetings and ensure the attendance of additional audit staff and attendance by auditees as appropriate.

### VIII. PROFESSIONAL STANDARDS

The Internal Audit Section will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. Internal Audit Section shall also obtain guidance from professional standards of other relevant professional organizations including, but not limited to, the following:

- Information Systems Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the Information Systems Audit and Control Association (ISACA);
- Public Company Accounting Oversight Board (PCAOB) auditing standards, as applicable;
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable;
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office, as applicable; and

**Section 3.0 DUTIES AND RESPONSIBILITIES**

- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.

**IX. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROLS PROGRAMS**

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The Internal Audit Section's role is to provide an independent and objective assurance on the effectiveness of the risk management system.

Management is responsible for implementing the system of internal control. The Internal Audit Section is responsible to provide an independent and objective assurance that the internal control system is operating effectively.

**X. PROCUREMENT**

The Departmental Audit Manager occasionally may need to obtain expertise of persons outside of the Internal Audit Section. This expertise may be obtained within LACERS through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within LACERS that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside LACERS through contracts. In such cases, the DAM needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The DAM must document the scope of work, professional standards to be

used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed of the use of an external service provider.

**XI. RELATIONSHIP TO PREVENTION, DETECTION, AND CORRECTION ACTIVITIES**

Because LACERS recognizes that it is more expensive to detect and correct problems after the fact than it is to prevent them in the initial stages of a project, the Internal Audit Section will strive to participate in the initial stages of major projects so that risks can be managed appropriately and internal controls instituted in the design phase in order to prevent problems and minimize costs.

**Section 3.0 DUTIES AND RESPONSIBILITIES**

**Auditor Annual Independence Certification**

**DIRECTIONS:** Each auditor must complete this Evaluation form in its entirety. The purpose of this form is for individual auditor and LACERS Internal Audit management to consider all circumstances relative to internal audit projects, in order to identify and address any potential threats to independence by applying appropriate safeguards or controls.

In all matters relating to audit work, LACERS Internal Audit (IAS), and individual auditors must be independent, in compliance with Sections 1100, 1120 and 1130 of the International Standards for the Professional Practice of Internal Auditing (ISPPA). Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on audit work. Auditors should evaluate these considerations during the course of their audits and immediately report any potential or actual threats.

**Threat Consideration:** To be completed by all audit staff **annually**:

<b>Threat Categories:</b> Complete the following, considering the threat as a broad category that could potentially influence your independence.	<b>Yes</b>	<b>No</b>
<b>Self-interest threat</b> – Do you have a direct or indirect financial or other interest that will inappropriately influence your judgment or behavior?		
<b>Self-review threat</b> – Will any of the anticipated audit work put you in a position to audit the work, services, or judgments you previously performed during a non-auditing (consulting) service?		
<b>Familiarity threat</b> – Do you have any relationship with LACERS management or personnel, or personnel of LACERS contractors/consultants which may impact your ability to be objective as LACERS Internal Audit staff?		
<b>Undue influence threat</b> – Are you experiencing pressure from management, LACERS Staff or external parties, which will impact your ability or make independent and objective judgments on internal audit projects?		
<b>Management participation threat</b> – Have you taken on a management or any other role which has or will result in performing management functions for any unit within LACERS? If so, please list the unit(s) _____		
<b>Relationship</b> – Do you have any official, professional, financial, or personal relationship with anyone that might limit the extent of inquiry or disclosure, or weaken audit findings in any way?		
<b>Accounting</b> – During the past year, have you approved invoices, payrolls, claims, or other proposed payments for any unit within LACERS? During the past year, did you maintain any part of the official accounting records for LACERS?		
<b>Conflict of Interest or Secondary Employment</b> – Are you or have you been in a conflict of interest position or engaged in any secondary employment activities which may impact your ability, in any way, to perform internal audit projects?		
<b>Other Threat:</b> Is there any other relevant potential threat which may impact your independence or perception regarding any audit? (If so, disclose here. If you are not sure, discuss it with the Departmental Audit Manager.)		

**Section 3.0 DUTIES AND RESPONSIBILITIES**

**Auditor Annual Independence Certification**

**Safeguard Consideration:** If “yes” is marked in any boxes above, please complete the following section:

Potential Threat	Recommended Safeguard to mitigate Threat (and is risk reduced to an acceptable level?)	Departmental Audit Manager only: Does the safeguard eliminate or reduce the threat to an acceptable level?
<i>Ex. Accounting – I previously worked in the Fiscal Section, but I only handled the accounts payable.</i>	<i>I don't believe this is an unacceptable risk, as I don't manage or work in investment accounting or other areas within Fiscal Section, and I left about six months ago.</i>	<i>No. To avoid the perception of impairment, auditor is not approved to participate in audit projects relating to the Fiscal Section.</i>

**Acknowledgement:** (initial after each statement)

**Comply with ISPPIA:** I understand that I have a duty and obligation to ensure audit work is performed in full accordance with ISPPIA. In conducting my work, I have the obligation to immediately report any conditions or situations which may compromise compliance with any ISPPIA to the Departmental Audit Manager (DAM). \_\_\_\_\_

**Remain Independent:** I have been advised that during the course of any audit, if any personal, external, or organizational impairments or potential threats arise that may affect my ability to do the work and report findings impartially, I will notify the DAM promptly. Further, I will assess ongoing threats, identify potential safeguards, and engage the DAM in remedying any situations which may give rise to even the perception of bias or conditions which may impact the integrity of any audit work. \_\_\_\_\_

**Policies and Procedures:** I have been informed and am familiar with the policies and procedures of IAS, regarding independence and objectivity. I am also familiar with the requirements of the 2012 ISPPIA. \_\_\_\_\_

**Obligation to Report:** I understand that I have an obligation to report any instance or information regarding an actual or potential impairment by any auditor in IAS to the DAM. \_\_\_\_\_

**Direct Access to Audit Committee Chair:** If for any reason I am uncomfortable discussing any of the foregoing matters with the DAM, I understand that I am expected to discuss the matter with the Audit Committee Chairperson. \_\_\_\_\_

I certify that all the included information is complete and accurate and reflects my best ability to provide clear, detailed information regarding any activity or condition which may impair or to be perceived to impair independence and/or objectivity.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name (print): \_\_\_\_\_

**Departmental Audit Manager Review and Approval:**

*Overall Assessment:*

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*Restrictions:*

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Signature: \_\_\_\_\_ Date: \_\_\_\_\_

## Section 3.0 DUTIES AND RESPONSIBILITIES

### 3.7 Benefits Administration Committee Charter

*Adopted: March 26, 2013; Revised September 23, 2014; November 9, 2021*

#### I. PURPOSE/ROLE

The purpose of the Benefits Committee (Committee) is to provide assistance to the Board in fulfilling its oversight of the pension and retiree health care programs and related services.

#### II. AUTHORITY

The Committee is authorized to seek any information it requires from LACERS staff, consultants, or external parties as long as requests for staff time are not extraordinary and the expense for consultants or external parties, if any, has been approved by the Board in advance.

#### III. COMPOSITION OF COMMITTEE

The Committee shall consist of three LACERS Board Members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Committee. Additionally, the Chair may consider agenda items recommended by staff.

#### IV. FREQUENCY OF MEETINGS

The Committee shall meet no less than four times during the calendar year, or more often as needed. Meetings will be conducted in accordance with open meeting and other applicable laws. Through the General Manager, the Retirement Services Division and the Health Benefits and Wellness Division managers shall support the Committee's activities and ensure appropriate staff time and other resources, such as actuaries and consultants, are available to assist it. The managers shall schedule meetings, prepare meeting agendas and other materials after conferring with the Committee Chair, review minutes and draft reports, perform research, and render other types of assistance as reasonably requested by the Committee.

#### V. DUTIES AND RESPONSIBILITIES

The Committee's responsibilities are to:

- Recommend to the Board rules, policies and procedures for Member benefits and departmental administration in accordance with relevant laws and the LACERS mission statement
- Approve and recommend processes to monitor implementation of rules and policies within the Board's purview

**Section 3.0 DUTIES AND RESPONSIBILITIES**

- Propose adjustments to operations that the Committee deems appropriate for the sound administration of Member benefits and the Department as a whole
- Review and make necessary recommendations to the Board on RFPs and contract awards
- Evaluate insurance providers, consultants and other benefits contractors and make recommendations to the Board regarding the establishment or modification of services, and associated fees, provided to the Board, staff, and Members
- Review and recommend to the Board medical and dental subsidies and Medical Premium Reimbursement Program reimbursement limits
- Review and recommend to the Board annual medical, dental, and vision plan premium costs and any related plan design changes
- Review information on services and progress of programs
- Monitor progress of benefits-related goals in the strategic plan
- Address other issues as directed by the Board

**VI. CHARTER REVIEW**

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

**Benefits Administration Committee Work Plan**

*Approved by the Board: March 26, 2013; Revised: November 9, 2021*

August	October	November	February	April	June/July
Consider and approve recommendation to the Board regarding health plan, health related RFP's, health plan premium rates, health plan subsidies, and medical plan premium reimbursement amounts (A)	Review the wellness program plan for the coming year (I)	Evaluate whether additional benefits service providers are required (A)  Monitor progress of benefits-related goals in the strategic plan (I)	Review wellness program annual report of previous year (I)	Review information on services and programs (I)  Selection of health plan RFP finalists (A)  Review Health Plan Financial and Wellness Dashboards (I)	Selection of health plans from RFP (A)  Initial review of health plan renewals (I)  Review and possible recommendation to the Board for the Anthem Blue Cross, Delta Dental PPO, and vision plan Year-End Accounting (A)

**(A) = Action**  
**(I) = Information**

**Section 3.0 DUTIES AND RESPONSIBILITIES****3.8 Governance Committee Charter**

*Adopted by the Board: January 14, 2014; Revised: September 23, 2014; March 13, 2018*

**I. PURPOSE/ROLE**

The purpose of this Committee is to help ensure good governance internally at LACERS and in the corporations in which LACERS is invested to the extent that the governance impacts shareholder value.

Governance refers to the system by which an organization is directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the organization; specifies the rules and procedures for decision-making; and monitors actions, policies, and decisions of the organization. Good governance practices align interests among key stakeholders, leading to a higher probability that goals and objectives will be attained, maximizing stakeholder value if applicable. A good governance structure helps ensure effective organizational performance and reduce organizational risks.

**II. AUTHORITY**

The Committee has the authority to:

- Monitor developments in the corporate governance arena that may affect the value of the equity holdings in LACERS' portfolio and to review and make recommendations to the Board regarding corporate governance issues;
- Seek any information it requires from LACERS staff to develop recommendations for the Board on governance policies and for the monitoring of compliance with established governance policies; and,
- Seek information from outside service providers as long as the expense, if any, has been approved by the Board in advance.

**III. COMPOSITION OF COMMITTEE**

The Committee shall consist of three LACERS Board Members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Committee.

**IV. FREQUENCY OF MEETINGS**

The Committee shall meet no less than twice during the calendar year, or more often as needed.

The General Manager or designee will confer with the Committee Chair on the Committee agenda items. The Commission Executive Assistant shall schedule meetings and prepare meeting agendas and other materials. The General Manager will assign Investment staff members to draft reports, perform research, and render other types of assistance as reasonably requested by the Committee related to Corporate Governance items; and an

### Section 3.0 DUTIES AND RESPONSIBILITIES

Administrative Services staff member to draft reports, perform research, and render other types of assistance as reasonably requested by the Committee related to Board Governance and Department Administrative items.

#### **V. DUTIES AND RESPONSIBILITIES**

The Board assigns specific duties to the Committee as follows:

##### **Board Governance Policies & Monitoring**

- Establish a schedule for review of the LACERS' Board Governance Policies in light of best practices among public retirement systems;
- Consider and recommend to the Board, if appropriate, new governance policies or changes to the existing governance policies;
- Review management audit findings on Board Governance issues and recommend actions if appropriate;
- Monitor and report compliance with Board Governance Policies;
- Make recommendations for an annual schedule of Board Governance education; and,
- Make recommendations for a periodic Board Self-Evaluation.

##### **Consultant Monitoring**

- Review and make necessary recommendations to the Board on RFPs, contract awards, and on-going consultant monitoring in areas relating to contracted services except those assigned to Investment Committee, Benefits Administration Committee, and Audit Committee.

##### **Corporate Governance Policies & Monitoring**

- Examine the effectiveness of LACERS current corporate governance policies and activities;
- Review and recommend modifications of existing Corporate Governance Policies; and
- Report to the Board on activities of other state and national pension fund associations and of member stakeholder associations regarding corporate governance issues.

##### **Committee Annual Work Plan**

- Develop an annual work plan for the Committee;
- Make recommendations to the Board regarding new or continued strategic initiatives related to Governance and make the necessary budgetary requests to support the initiatives;
- Request reports to monitor expenditures throughout the year against budgeted amounts.

##### **Miscellaneous**

- Address other issues as directed by the Board.

#### **VI. CHARTER REVIEW**

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

## Section 4.0 BOARD PROCEDURES

*Section Affirmed: October 22, 2013; Revised: May 14, 2013; February 25, 2014; June 14, 2016; September 11, 2018; December 11, 2018; February 12, 2019*

### **4.1 GENERAL**

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#### **A. Procedural Standard**

The Board and its Committees shall operate under Robert's Rules of Order unless statutes or Board action provide otherwise.

#### **B. Board Actions**

Actions of the Board require four votes. The Los Angeles City Charter §503(c) requires that "Each board shall exercise the powers conferred upon it by the Charter by order or resolution adopted by a majority of its members. Action of the board shall be attested by the signatures of the President or Vice President, or two members of the board, and by the signature of the secretary of the board."

#### **C. Board Meeting Presiding Officer**

Board meetings shall be convened and presided over by the President of the Board. In the absence of the President, the Vice President shall assume all responsibilities and authority of the President. In the absence of both the President and Vice President, the General Manager/Manager-Secretary will open the meeting and call for nominations of a President Pro Tempore from the members present to serve for the duration of the meeting. Should the last presiding officer need to leave an open meeting, they shall designate a succeeding officer.

#### **D. Committee Assignments**

Committee assignments are to be determined by the President or Acting President, who shall also name the Committee Chair. An alternate will be appointed for each Committee to serve in the absence of Committee Members. Additional alternates may be appointed on an as-needed basis by the Board President.

#### **E. Committee Meeting Schedule and Attendance**

All Committee meetings of the Board shall be open to all Board members, but only Committee Members may vote. Committee meetings shall be scheduled to occur on the same day as regular Board meetings whenever possible.

#### **F. Closed Sessions**

Closed sessions of the Board and its Committees shall be limited to Board Members and only those other persons who are required by the Board.

#### **G. Closed Session Discussions and Decisions**

Pursuant to Section 54957.2, Chapter 9 of the California Government Code (The Ralph M. Brown Act), the legislative body of a local agency may, by ordinance or resolution, designate a clerk or other officer or employee of the local agency who shall then attend each closed session of the legislative body and keep and enter in a minute book a record of topics discussed and decisions made at the meeting. The Executive Assistant to the Board of Administration shall be designated to serve in this capacity; and the General Manager/Manager-Secretary is designated as the alternate.

#### **H. Board Member Compensation**

## Section 4.0 BOARD PROCEDURES

Members of the Board shall be compensated for attendance at all Regular and Special meetings of the Board at a rate of \$50 per meeting with a maximum of \$250 per month, except when such Special meeting is concurrently scheduled as a meeting of a Committee of the Board.

### I. **Board Meeting Schedule and Location**

The Board hereby approves the official meeting time for Regular Meetings of the LACERS Board of Administration as 10 a.m. on the second and fourth Tuesdays of each month, in the LACERS Boardroom at 202 West First Street, Suite 500, as the official place for Regular Meetings. All Board and Committee meetings are open to the public, with the exception of “closed session” meeting items.

### J. **Public Comment**

The Board shall provide a member of the public the opportunity to address the Board or Committee on any item under its jurisdiction as follows:

1. Agenda Items – With respect to any item which is already on the agenda, the public shall be allowed the opportunity to comment at the commencement of the Board or Committee meeting. The Board/Committee Meeting Presiding Officer may request to have the speaker give their public comment prior to the agenda item to be addressed. The public shall also be given an opportunity to comment on closed session items prior to adjournment into closed session.
2. Non-Agenda Items – Members of the public shall have the right to address the Board on items which are within the subject matter jurisdiction of the Board. Except as otherwise permitted by the Ralph M. Brown Act, no deliberation of action may be taken by the Board concerning a non-agenda item, except that members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board; (2) ask a question for clarification; or (3) provide a reference to staff for factual information. Furthermore, the Board may take action to direct staff to place a matter of business on a future agenda.

Each speaker giving a public comment shall be allotted two minutes per agenda item or new matter which is to be enforced by the Board/Committee Meeting Presiding Officer. The allotted time may be adjusted at the discretion of the Presiding Officer.

Written public comment addressing items on the meeting agenda shall be distributed to members of the Board or Committee prior to the beginning of the meeting but shall not be read out loud into the record by Board Members or LACERS’ staff during the meeting as a matter of course. All submitted public comments, including public comment cards, shall be posted with the Board meeting documents on LACERS’ website.

## **4.2 AGENDAS**

- A. The Commission Executive Assistant shall prepare an Agenda for each Board meeting which incorporates a consent agenda, new business, items previously requested by Board Member(s) for inclusion, as well as those items deferred from previous meeting(s)

### Section 4.0 BOARD PROCEDURES

- categorized in the order to be determined in concurrence with the General Manager and Board President.
- B. The consent agenda shall consist of approval of the minutes of the past meeting(s) and routine “receive and file” items which are presumed to be non-controversial, and which do not involve the investment of assets. The Board President and General Manager may concur on additional items to be routinely placed on the consent agenda. A Board Member may at any Board meeting, remove an item from the consent agenda for further discussion.
  - C. Items presented in the Board President’s Report, General Manager’s Report, Chief Investment Officer Report, or other requested Manager’s Report, may be provided verbally without a written report.
  - D. Informational items (i.e. “Receive and file” items):
    1. At Committee meetings – Shall be supported by a written report and presented by Staff or consultants, unless otherwise instructed by the Committee.
    2. At Board meetings – Shall be supported by a written report and presented by Staff or consultants upon request of any Board Member. The Staff or consultant should sit at the table and make a presentation only when cued or requested by the Board President.
  - E. All Board Members shall receive in advance of each meeting copies of all Committee agendas, regular meeting agendas, and all support documentation.
  - F. Committee reports: Following each Committee meeting in which a recommendation for action to the full Board is taken, the Staff, in consultation with the Committee Chair, will to the degree possible, prepare the Committee’s report to include a brief summary of the proposed Committee recommendation and attach the Staff’s report to the Committee report.
  - G. Materials supplied to Board Members shall be numbered to facilitate locating items under discussion.

### **4.3 MINUTES**

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- A. Minutes of the meetings of the Board shall conform in general to the format outlines in the “Trustees’ Handbook” published by the International Foundation of Employee Benefit Plans.
- B. At each Board meeting, Board Members shall have the opportunity to review and approve the minutes of the previous meeting(s) before the President affixes his signature upon approval by the Board.
- C. The Minutes shall be prepared with letter-size paper for review before approval, and that the historical record of approved and signed minutes shall be maintained electronically with all appropriate considerations for security and accessibility as required by law.

Section 4.0 BOARD PROCEDURES

**4.4 ELECTION**

*Revised: June 9, 2020*

The Election of Board Officers for the then current fiscal year shall be held on the second meeting of July each year, or when a Board Officer seat becomes vacant. The Board shall elect one of its members to the office of President, and one to the office of Vice President. The Board Officers shall hold office for one year and until replaced by the election of a successor or re-elected at the next Election, unless their membership on the Board expires sooner.

At the appointed time, the General Manager/Manager-Secretary shall call for nominations for the office of President. After nominations have concluded, the General Manager/Manager-Secretary shall call for the Ayes and Nays from among the Members of the Board for each candidate nominated. Upon one candidate securing a majority vote, the General Manager/Manager-Secretary shall announce that the office of President is filled until the newly elected Member is replaced or re-elected at the next election.

The General Manager/Manager-Secretary shall then call for nominations for the office of Vice President and repeat the election procedure described above until one candidate secures a majority vote, at which time the office of Vice President may be deemed filled.

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

### 1.1 CONFLICT GOVERNANCE POLICY

*Adopted: December 10, 2004; Revised: February 25, 2014; September 11, 2018; June 9, 2020*

In the interest of maintaining the integrity of the LACERS and affirmatively embracing best practices that would be perceived as representing the highest fiduciary standards of conduct and thus enhance public trust of the Board's decision-making process, the Board, in addition to its established Ethics Policy, adopts this Conflict Governance Policy to promote confidence in their governance and oversight of the management of the System.

Mindful of their fiduciary obligation to discharge their duties solely in the interest of the participants of the System and for the exclusive purpose of providing benefits to the participants of LACERS, the Board is committed to pursuing a course of conduct that insures full compliance with all applicable laws, transparency in the actions taken, and recognition that even appearances of bias may reflect negatively upon the System.

#### I. Required Disclosure

The Board is cognizant of the complex nature of the statutory laws regarding financial conflicts of interest.

- Government Code Section 1090, a broadly drafted conflict of interest statute, prohibits public officers and employees from being financially interested in any City contract that the officer or employee is involved in making. Section 1090 is concerned with financial interests that could prevent officers or employees from exercising absolute loyalty and undivided allegiance in furthering the best interests of LACERS. Any participation in the process by which the contract is developed, negotiated or approved, including making a recommendation on the contract, is a violation of Government Code Section 1090 if the officer or employee has a financial interest in the decision. Also, if a commissioner has a financial interest in a contract, the commission of which he or she is a member may not act on the matter. However, there are some interests defined by the Government Code as "remote interests" which would disqualify the commissioner but not the entire commission.
- Government Code Section 87100 et. seq., the Political Reform Act, prohibits a City officer or employee from making, participating in making or attempting to use his or her official position to influence any governmental decision in which he or she has a "disqualifying economic interest" within the meaning of the Act. The Act defines a "disqualifying economic interest" by first determining whether there exists an economic interest, as defined in the Act, whether it is reasonably foreseeable that the decision will have a material financial effect on the economic interest, and whether the decision will affect that economic interest in a way that is distinguishable from its effect on the public generally or a significant segment of the public. The Act defines an economic interest broadly to include the officer's or employee's finances, those of members of his or her immediate family, investments in a business, interests in real property, sources of income or gifts, and management positions in businesses.
- In addition to State conflicts of interest laws, the City Charter contains its own conflict of interest provision. The standard for disqualification under the Charter is whether it is "not in the public interest" for the officer or employee to act in a particular matter, contract, sale, or transaction. (City Charter Section 222). It is "not in the public interest" for an officer or

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

employee to act on a matter if that person believes that he or she cannot act impartially or if the public might reasonably reach that conclusion. To be disqualified under this standard, you do not need to have a conflict of interest within the meaning of State law; simply having any relation to the matter, even if financial interests are not involved, can be cause for recusal.

Recognizing the complexity of the provisions of State law governing conflicts of interest (Government Code Sections 1090 and 87100, *et seq.*) and City Charter Section 222, the Board desires to act with the highest levels of integrity and transparency, always keeping the duty of loyalty to the System's members and beneficiaries in the forefront of their actions. The Board embraces the obligation of each trustee to fully disclose at the earliest opportunity all potential conflicts for a determination by the City Attorney as to the course of action required under the law.

The Board recognizes that there may be instances where a relationship between a trustee and potential responder to a Request for Proposal (RFP) or Request for Qualifications (RFQ) is such that he or she could not act objectively or where the facts are such that there may be a perception that the trustee could not act objectively. Additionally, the Board recognizes that there may be instances wherein a trustee has a personal or special relationship with a person or entity appearing before the Board that may give the appearance of possible bias.

At a minimum, any matter that reasonably could be expected to interfere or be perceived to be interfering with a trustee's obligation to discharge their duties with respect to the System in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, requires disclosure. Members of the Board are expected to act prudently and reasonably in providing the necessary information to the Office of the City Attorney for a determination of the course of action required under both State law and the City Charter.

**II. Policy Requirements**

- A. To prevent even the appearance of bias, all RFPs or RFQs issued by the Board, or recommendations from consultants, shall contain the requirement that all respondents affirmatively provide information regarding any personal or business relationship with any Member of the Board or administrative staff of LACERS. All RFPs or RFQs, and due diligence reviews, will also require the disclosure by the respondents of any payments for placement services to any person, firm, or entity with respect to that contracting opportunity.
- B. The Department's Ethical Contract Compliance Policy prohibits discussion of upcoming contracts or the contract process by any individual, firm, or entity that is identified as a potential respondent to a contracting opportunity with any Member of the Board or with Department staff or consultants, except communications allowed through the RFP process. The Ethical Contract Compliance Policy requires proposer disclosure of any communications with Members of the Board, staff, or consultants; as well as any gifts given to these parties.

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

- C. In the event that the City Attorney opines that any commissioner is disqualified from acting on a matter under the provisions of State law or the Charter, the Commissioner who is recused shall publicly state the reason for their recusal and shall not participate in, or seek to influence in any manner, the matter before the Board. In addition, the Board may disqualify from consideration the proposer or responding entity with whom the financial or other relationship exists, but only to the extent that is consistent with the Board's fiduciary duty to LACERS, and to the participants and beneficiaries of the System.

**Potential City Attorney Conflicts of Interest**

From time to time, pursuant to the City Attorney's professional and ethical obligations under California Law, including Rule 3-310 of the California Rules of Professional Conduct, the City Attorney may determine that it would be prudent for it to avoid representation of the Board in a particular matter. In those situations, the City Attorney shall make a conflict determination, specifying the basis for and the scope of that conflict, and notify the Board of that determination.

- A. In the event the City Attorney believes a conflict exists, the Board, by a majority vote, shall select a law firm to serve as independent conflict counsel in the matter identified by the City Attorney's Office. Such independent conflict counsel shall be selected from those firms currently under a three-year contract with the City Attorney's Office for fiduciary law services who have the requisite professional expertise to handle the matter. As the Board shall select as conflict counsel a law firm currently under contract with the City Attorney's Office for Fiduciary law services, no additional consent from the City Attorney shall be required.

Once conflict counsel is engaged, all communications with and legal opinions from such independent conflict counsel will be handled as confidential attorney-client privileged communications between the Board and its independent conflict counsel. Only the Board may waive this privilege, by a majority vote.

- B. In the event the City Attorney does not believe a conflict exists, then the Board President and the General Manager may meet with the City Attorney to discuss the circumstances and reasoning of the Board's perceived conflict. After meeting with the City Attorney, if the City Attorney still does not believe a conflict exists, the Board may request the City Attorney to seek an opinion from outside fiduciary counsel regarding the perceived conflict. The outside counsel opinion may only be publicly released by a majority vote of the Board and the written consent of the City Attorney.

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

### 1.2 BOARD EDUCATION AND TRAVEL POLICY

*Adopted: May 29, 2009; Revised: June 22, 2010; December 13, 2011; March 11, 2014; September 23, 2014; February 12, 2019; January 14, 2020*

#### I. STATEMENT OF PURPOSE

Los Angeles City Charter Section 1106(c), consistent with Article XVI, Section 17 of the California Constitution requires the Board to exercise a *Prudent Person Standard*, discharging their duties with respect to its system, with care, skill, prudence, and diligence. It is imperative that LACERS Board Members maintain a broad and current understanding of issues affecting the administration of public pension systems to fulfill their fiduciary duties. This policy recognizes and affirms the role of education in ensuring Trustees have the knowledge to successfully discharge their duties as fiduciaries.

The Board establishes a standard of a minimum of 24 hours of Board Member education within the first two years of assuming office and for every subsequent two-year period in which the Board Members continue to hold membership on the Board. A report detailing the training and education received by the respective Board Members during the two-year periods will be published on the LACERS website.

#### II. EDUCATIONAL OBJECTIVES

This policy defines a *Prudent Person Standard* for Trustees as a general understanding of:

- A. The role of the Board Members and the role of staff
- B. The obligations and role of fiduciary and the paramount duties of loyalty and prudence
- C. The business model (including knowledge of true measure of success, the driving factors that determine success and the major business risks associated with public pension systems; namely, in the areas of investments and benefit administration).
- D. Governance principles
- E. The legal and legislative environment
- F. Actuarial principles
- G. Plan design and other benefit program
- H. Investment and asset allocation strategies

#### III. NEW TRUSTEE ORIENTATION PROGRAM

To ensure that newly appointed and elected LACERS Board Members are securely grounded in their role as fiduciaries at the outset of assuming such an important responsibility, each shall participate in the New Trustee Orientation Program which offers critical background information and education on the Board's governance responsibilities, the knowledge of which is essential for the fullest possible engagement of each Board Member in every aspect of pension fund management.

The structure of the orientation will generally be as follows:

- A. Day 1
  - Morning
    1. History and overview of LACERS
    2. Fiduciary Responsibility
    3. Ethics Training

Afternoon

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

1. Board Governance
2. Benefits and Services
3. Actuarial Concepts

### B. Day 2

1. Investment Concepts
2. Operations
3. Legal Representation and Law
4. Current Topics for LACERS
5. Tour of the offices and boardroom

## IV. **IN-HOUSE EDUCATION PROGRAM**

To provide updates on various issues affecting the administration of public pension systems, in-house education sessions will occur periodically at regular Board meetings or organized as stand-alone sessions. The General Manager will arrange in-house training for the Board based on the schedule below and as-needed:

### A. **Mentoring**

Any new Board Member may request a mentor to assist him or her in becoming familiar with his or her responsibilities on the Board. If a request is made, the Board President will designate an experienced Board Member to be a mentor to the new Board Member for a period of one year.

### B. **Investment Education**

At least once per fiscal year, an investment educational session for all Board Members shall be conducted. The General Manager shall survey the Board to identify specific investment topics of interest.

### C. **Fiduciary Education Sessions by Fiduciary Counsel**

Each year, outside Fiduciary Counsel will provide fiduciary education to the Board.

### D. **Actuarial Education**

Each year, an actuarial education session will be provided to the Board.

### E. **Healthcare Benefits Education**

Each year, a healthcare benefits education session will be provided to the Board.

### F. **Retirement Benefits**

Each year, an update of the issues regarding retirement benefits will be provided to the Board.

### G. **Ethics Training**

Board Members are required to participate or attend the City's Ethics training during the first year of appointment and then once every two years. Refresher ethics training will be provided to the Board annually.

### H. **Other As-needed Topics**

Staff will periodically coordinate educational sessions for the Board on topics of general interest or topics that Board Members may request.

## V. **EDUCATIONAL CONFERENCES/SEMINARS**

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

The complexities of sound management of the assets and liabilities of a trust fund impose a continuing need for all Members of the LACERS Board to attend professional and educational conferences, seminars, and other educational events that will better prepare them to perform their fiduciary duties.

### **A. Annual Approved List of Educational Seminars**

At the beginning of each fiscal year, the General Manager shall prepare for Board adoption a list of recommended conferences, seminars and meetings (Appendix A). The list shall identify recommended conferences for new trustees, and make a concerted effort to reflect educational opportunities at Southern California universities available for pension trust fiduciaries.

Board Members are encouraged to attend a minimum of one educational conference or seminar per fiscal year from this list.

The General Manager will prepare an annual blanket authority for Board approval for conferences included in the Approved List of Educational Seminars.

Every Board Member's participation in a pre-approved conference shall be noticed on the Board agenda following submission of the Board Travel request.

### **B. Travel Requiring Explicit Board Approval**

Subject to explicit approval of the Board for each conference, the requesting Board Member shall provide appropriate justification to the Board for consideration of:

1. Requests to travel to conferences outside the List of Educational Seminars (Appendix A) will be submitted to the Board for approval, so long as the trustee's education allocation is not exceeded.
2. Requests for travel outside the United States.

### **C. Travel Outside the United States**

All conferences and seminars which involve travel to a destination outside the United States must be approved by the Board. Each Board Member may attend no more than one conference which involves international travel in any 12-month period.

### **D. Travel to Washington D.C. or Sacramento**

The Mayor requires notification of any travel to Washington D.C. or Sacramento. Staff will process the appropriate forms on behalf of the Trustees.

### **E. Conference Invitations Received by a Board Member**

To provide all the Trustees with the same conference and seminar opportunities, the individual Board Member shall forward invitations they receive to a conference or seminar, to the General Manager or the Board Executive Assistant. LACERS will consult with the Office of the City Attorney or the City Ethics Commission for compliance with gift and disclosure requirements. If the conference or seminar clears the ethics compliance process, the Board Executive Assistant shall disseminate the conference or seminar invitation to all Board Members.

### **F. This section is intentionally left blank.**

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

### **G. Board Education and Travel Limitations**

Board Member travel shall adhere to the following guidelines:

- Board Members shall attend conferences or seminars that have a solid reputation for quality program content. (see Appendix A); i.e., agendas with a minimum of five hours of substantive educational content. Content shall not be geared toward marketing or the promotion of investment management and related sponsors. Topics covered during the conference or seminar must be related to the pension fund industry.
- The Board education travel budget per Trustee shall not exceed \$10,000 per fiscal year for conference fees and travel expenses. Expenses which exceed this annual allocation shall be the personal responsibility of the Board Member unless the Board approves additional travel and budget allocation prior to the conference. Expenses related to the Portfolio Concepts and Management Program offered by the International Foundation of Employee Benefits Plans in partnership with the Wharton School of the University of Pennsylvania (Wharton Executive Education: Investment Management Courses) shall not be counted as part of a Trustee's allotment of the \$10,000 per fiscal year. These courses shall be made available to new Trustees within the first two years of their service, as practicable.
- Board Members shall provide notification to the Board Executive Assistant of their interest to attend a conference or seminar at least sixty (60) days prior to the travel date.

### **H. Reports to the Board**

#### **1. Quarterly Travel Expenditure Report**

An educational travel expenditure report shall be provided to the Board on a quarterly basis, covering cumulative Board Member and staff travel for the fiscal year.

#### **2. Monthly Report on Seminars and Conferences Attended by Board Members on Behalf of LACERS**

There may be occasions where a Board Member attends seminars or conferences as a LACERS representative or in the capacity of a LACERS Board Member which are either complimentary (no cost involved) or with expenses fully covered by the Board Member.\* Since there is no expense incurred to LACERS, these seminars or conferences do not require Board approval. However, for the purpose of transparency and to avoid the appearance of impropriety, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, such conferences or seminars attended. Monthly reports will include conferences or seminars attended during the period preceding the said Board meeting.

*\*Please consult the City Ethics Commission for gift reporting limitations and reporting requirements.*

### **I. Meeting for Business Purpose in Compliance with the Ralph M. Brown Act**

In accordance with the Ralph M. Brown Act, a quorum comprising of majority of the members of the LACERS' Board or Committee to hear, discuss, or deliberate upon any matter which is under the subject matter jurisdiction of LACERS are meetings subject to the Brown Act. Board Members must be cognizant of this requirement and avoid

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

discussing LACERS' business when in meetings or discussions with other Members of the Board.

### VI. TRAVEL EXPENSE REIMBURSEMENT POLICIES

#### A. **The LACERS Board of Administration has full authority over the trust fund expenditures including the payment of all education and related travel expenditures which it deems reasonable and appropriate for the conduct of official LACERS business.**

The Office of the City Attorney has affirmed the LACERS Board's plenary authority and fiduciary responsibility for investment of trust assets and administration of the System as codified in the California Constitution (Section 17 of Article 16). The position is further strengthened by the Los Angeles City Charter §1110(b): "The board of each pension and retirement system shall have control over their respective funds. Transfers or expenditures shall be drawn upon funds only upon demands signed by the chief accounting employee of the board. All payments from the funds shall be made upon demands prepared and approved in accordance with the provisions of the Charter."

The City's travel policies as set forth in Division 4, Chapter 5, Article 4 of the Los Angeles Administrative Code (LAAC) provide the definitions, parameters, and guidance for the majority of travel circumstances encountered for LACERS travel and will be referenced as LACERS primary travel policy. LACERS departmental travel expense reimbursement policy is meant to be in compliance with the LAAC travel and augment the policy to facilitate LACERS business. LACERS travel reimbursement policy establishes standards of reasonableness, appropriateness, and necessity for the conduct of LACERS business, and applies to all travel expenditures paid by LACERS. Expenditures which are certified as to reasonableness and appropriateness by the Department Head are to be paid by the City Controller upon demand. The Board authorizes by resolution, authority to certify travel expenditures as required by the LAAC, to the Board President for Board Member and General Manager travels; the Board Vice President for Board President travel; and the General Manager for staff, City Attorney-Retirement Benefit Office counsel, and consultant travel.

LACERS acknowledges the Los Angeles City Controller's Travel Policy applies to most other City departments. However, LACERS Board and its designees retain their plenary authority to approve all education and related travel expenditures which are reasonable and appropriate for the conduct of official LACERS business. LACERS will consider the Controller's Travel Policy and will incorporate similar rules if appropriate.

#### B. **Reimbursable Expenses**

LACERS Travelers are entitled to reimbursement of travel expenses when on official LACERS business, including reimbursement of all transportation costs, registration or attendance fees, subsistence costs and other costs reasonably and necessarily incurred on official business, subject to the guidelines outlined in this policy and in compliance with the Internal Revenue Service accountable plan rules for travel reimbursements.

A list of reimbursable expenses is included in Appendix B, which includes a summary of allowable reimbursements under the LAAC and the corresponding LACERS policy

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establishing standards for reasonableness, appropriateness, and necessity.

**C. Non-Reimbursable Expenses**

Expenditures which are incurred by a Board Member or staff that are not substantive to LACERS' business will not be reimbursed by LACERS. A list of non-reimbursable travel expenses is included in Appendix B.

**D. Event Participation Report**

Whenever a Trustee attends a conference or other event at the expense of the Fund, it shall be his or her responsibility to complete the Board Members Education Evaluation Form (Appendix D) and to provide the Board information on concerns with the event, which they believe are of significance to the System. The evaluation form must be submitted with the request for reimbursement of expenses associated with each conference attended. A reimbursement will not be made without a completed evaluation form.

**E. Travel Activity Summary**

Upon the close of the fiscal year, the General Manager shall report to the Board on Trustee (along with staff) travel expenditures throughout that year.

**VII. APPENDICES**

- A. Appendix A – List of Educational Seminar Schedule
- B. Appendix B – LACERS Travel Expense Reimbursement Policy
- C. Appendix C – Board Travel Reimbursement Checklist
- D. Appendix D – LACERS' Board Member Education Evaluation Form

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**APPENDIX A  
LOS ANGELES CITY EMPLOYEES’ RETIREMENT SYSTEM  
LIST OF EDUCATIONAL SEMINARS – FISCAL YEAR 2021-22**

\*Local Conference

CONFERENCE / SEMINAR / MEETING	SUBJECT MATTER	TRUSTEE EVALUATION	
		TRUSTEE RATING Rate seminar with:	LEVEL
		<i>A</i> Excellent	<ul style="list-style-type: none"> <li>▪ Introductory</li> <li>▪ Intermediate</li> <li>▪ Advanced</li> </ul>
		<i>B</i> Very Good	
		<i>C</i> Good	
		<i>D</i> Not Beneficial	
<b>California Association of Public Retirement Systems (CALAPRS) – General Assembly</b> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> <li>▪ Audit &amp; Strategic Planning</li> </ul>	<b>A</b> (Sohn, 2016)  (Wilkinson 2018, 2021)  (Chao, Sohn 2020)	Intermediate
<b>CALAPRS – Principles of Pension Management For Trustees</b> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> <li>▪ Audit &amp; Strategic Planning</li> </ul>	<b>A</b> (Serrano, Wilkinson 2015)	Intermediate
<b>CALAPRS – Advanced Principles of Pension Management For Trustees</b> <ul style="list-style-type: none"> <li>▪ March 30 - April 1, 2022 (Los Angeles, CA)*</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> <li>▪ Audit &amp; Strategic Planning</li> </ul>		Advanced
<b>CALAPRS – Trustees’ Roundtable</b> <ul style="list-style-type: none"> <li>▪ October 29, 2021 (Virtual)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> <li>▪ Audit &amp; Strategic Planning</li> </ul>	<b>B</b> (Chao, 2016)	Intermediate
<b>Council of Institutional Investors (CII) – Conferences</b> <ul style="list-style-type: none"> <li>▪ <b>Fall Conference:</b> September 22 – 24, 2021 (Chicago, IL)</li> <li>▪ <b>Spring Conference:</b> March 7 – 9, 2022 (Washington, DC)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> <li>▪ Audit &amp; Strategic Planning</li> </ul>	<b>A</b> (Chao, 2017)  <b>B</b> (Wilkinson 2015)	Intermediate  Advanced

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<p>Harvard Kennedy School – Leadership Decision Making: Optimizing Organizational Performance</p> <ul style="list-style-type: none"> <li>▪ <b>Only Online options until further notice from conference website; In-person dates TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Public Leadership and Public Policy</li> </ul>			
<p>International Foundation of Employee Benefit Plans (<b>IFEBP</b>) – Annual Employee Benefits Conference</p> <ul style="list-style-type: none"> <li>▪ October 17 – 20, 2021 (Denver, CO)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Plan Admin</li> </ul>			
<p>International Foundation of Employee Benefit Plans (<b>IFEBP</b>) – Trustees and Administrators Institute</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Plan Admin</li> </ul>			
<p>International Foundation of Employee Benefit Plans (<b>IFEBP</b>) – Health Benefit Plan Basics – Certificate Series</p> <ul style="list-style-type: none"> <li>▪ September 29 – 30, 2021 (Orlando, FL)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> </ul>			
<p>International Foundation of Employee Benefit Plans (<b>IFEBP</b>) – New Trustees Institute</p> <ul style="list-style-type: none"> <li>▪ <b>Level I: Core Concepts:</b> October 16 – 18, 2021 (Denver, CO)</li> <li>▪ <b>Level II: Concepts in Practice:</b> October 16 – 17, 2021 (Denver, CO)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Plan Admin</li> </ul>			
<p>International Foundation of Employee Benefit Plans (<b>IFEBP</b>) – The Wharton School Advanced Investments Management</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>			
<p>International Foundation of Employee Benefits Plan (<b>IFEBP</b>) – The Wharton School Portfolio Concepts and Management Course</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>			
<p>National Conference on Public Employee Retirement Systems (<b>NCPERS</b>) – Annual Conference &amp; Exhibition</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>	<p><b>A</b></p> <p><b>B</b></p>	<p>(Wilkinson, 2017, Sohn 2018)</p> <p>(Ruiz, 2016)</p>	

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<p>National Conference on Public Employee Retirement Systems (<b>NCPERS</b>) – Trustee Educational Seminar (TEDS)</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>	<p><b>A</b></p>	<p>(Sohn, 2016)</p>	<p>Intermediate</p>
<p>National Conference on Public Employee Retirement Systems (<b>NCPERS</b>) – Legislative Conference</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>			
<p>Nossaman Annual Public Pensions and Investments’ Fiduciaries’ Forum Annual Update</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Legislative Governance</li> </ul>			
<p>Pension Real Estate Association (<b>PREA</b>) Spring Conference</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>	<p><b>A</b></p>	<p>(Chao, 2017)</p>	<p>Intermediate</p>
<p>Pension Real Estate Association (<b>PREA</b>) Annual Institutional Investor Conference</p> <ul style="list-style-type: none"> <li>▪ October 25 -27, 2021 (Chicago, IL)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>	<p><b>A</b></p>	<p>(Chao, 2017)</p>	<p>Intermediate</p>
<p>Pacific Pension &amp; Investments Institute (<b>PPI</b>)</p> <ul style="list-style-type: none"> <li>▪ <b>Summer Roundtable:</b> Date and Location <b>TBD</b></li> <li>▪ <b>Winter Roundtable:</b> Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>			
<p>Robert F. Kennedy (<b>RFK</b>) Human Rights Compass Conference</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>			
<p>State Association of County Retirement Systems (<b>SACRS</b>) Conference</p> <ul style="list-style-type: none"> <li>▪ <b>Fall Conference:</b> November 9 – 12, 2021 (Hollywood, CA)*</li> <li>▪ <b>Spring Conference:</b> May 10 – 13, 2022 (Rancho Mirage, CA)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Benefits Admin</li> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>	<p><b>A</b>  <b>B</b></p>	<p>(Wilkinson, 2015, 2017, 2018)  (Chao, 2017)</p>	<p>Intermediate</p>

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

<p>State Association of County Retirement Systems (<b>SACRS</b>) / <b>UC Berkeley Program</b>                  – Public Pension Investment Management Program</p> <ul style="list-style-type: none"> <li>▪ July 13 – 22, 2021 (Berkeley, CA)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>	<p><b>A</b></p>	<p>(Wilkinson, 2015)</p>	<p>Intermediate</p>
<p>United Nations Principles in Responsible Investing (PRI) in Person</p> <ul style="list-style-type: none"> <li>▪ Date and Location <b>TBD</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> <li>▪ Corporate Governance</li> </ul>			
<p>Western Economic Association International – Annual Conference</p> <ul style="list-style-type: none"> <li>▪ June 29 – July 3, 2022 (Portland, OR)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>			
<p>Women’s Alternative Investment Summit</p> <ul style="list-style-type: none"> <li>▪ November 11 – 12, 2021 (New York, NY)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>			
<p>Women’s Private Equity Summit</p> <ul style="list-style-type: none"> <li>▪ September 27 – 29, 2021 (Dana Point, CA)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Investments</li> </ul>			

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**APPENDIX B**

**LACERS TRAVEL EXPENSE REIMBURSEMENT POLICY  
AND RELATED PROVISIONS OF CITY TRAVEL POLICY  
(LAAC Chapter 5, Article 4, §§ 4.242.1-4.242.9)**

Approved March 11, 2014;  
Revised September 23, 2014; February 12, 2019; November 24, 2020

**I. GENERAL GUIDELINES**

A copy of the Travel and Education Policy including the Guidelines for Travel and Personal Expenses will be provided to new Board Members and staff before processing their first travel request.

- A. LACERS considers an individual traveling if:
  - i) the travel is outside the geographic boundaries of Los Angeles County [LAAC §4.242.2]; and more than 50 miles away from both LACERS' offices and the traveler's home; and
  - ii) the duties require the individual to be away from the general area of the individual's primary residence substantially longer than an ordinary day's work; or
  - iii) the individual needs to sleep or rest to meet the demands of work while away from the primary residence.
- B. Costs incurred on travel days which are not conference days are allowable (subject to limitations covered in the applicable sections of the guidelines): (i) on the day before the first educational session of the conference or seminar if transportation on the first conference day would require the traveler to leave his/her point of departure (e.g., home) earlier than 9:00 a.m.; or (ii) on the day after the last educational session of the conference or seminar if transportation on the last conference day would cause the traveler to get to his/her final destination (e.g., home) after 8:00 p.m.
- C. Board approval of travel is required prior to payment of any related fees. If a Traveler elects to personally incur travel-related fees prior to the Board's approval, the Traveler assumes personal financial liability that his or her expenses may not be reimbursed.

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**II. TRANSPORTATION**

<b>A. AIR TRAVEL</b>	
LAAC Requirement	LACERS Policy
<p>Except in the case of official necessity, air travel expenses are allowable only for the lowest regular fare available for regularly scheduled airlines for the date and time selected [§4.242.2(a)(1)]</p> <p>Claims for reimbursement of higher fare or extra charges for transportation by schedule airlines are allowable only if certified by the Department Head<sup>1</sup> that he or she has reviewed and concurs with the facts constituting the official necessity. [§4.242.2(a)(1)]</p>	<ol style="list-style-type: none"> <li>1. Air travel may be used when it is the most efficient means of travel.</li> <li>2. Travelers are strongly encouraged to use the City’s authorized business travel service, CalTravelStore, to book airline reservations, but may use another travel service or reserve directly with an airline.</li> <li>3. Purchase of airline tickets outside of CalTravelStore is allowed and will be reimbursed at the lower of the actual cost of the ticket or 150% of the lowest cost one-stop airfare for the same days of travel (personal travel days excluded). Traveler is responsible for the handling of any changes, cancellations, refunds, and credits involving non-CalTravelStore reservations. Purchase of traveler’s insurance is recommended for such reservations. Traveler bears this cost, not LACERS.</li> <li>4. Air travel shall be at coach or economy fare. Coach or economy fare is presumed to be the lowest regular fare available for regularly scheduled airlines. Airfare quotes from several airlines are not necessary.</li> <li>5. Non-stop flights are permissible if the airline ticket is coach or economy class and if the cost is no more than 50% higher than the lowest cost flight with one stop.</li> <li>6. If the airline ticket is purchased from a travel service other than CalTravelStore or directly from the airline, the traveler is required to obtain a quote from CalTravelStore generated on the same day the flight was booked or no later than 72 hours after the air travel reservation was made. The quote shall be for a one-stop coach/economy class ticket from any airline for the same days of travel. It will be used for cost comparison purposes as part of the reimbursement process.</li> <li>7. When the airfare receipt shows an upgrade to business or first class accommodation,             <ol style="list-style-type: none"> <li>a. Without further justification, the traveler</li> </ol> </li> </ol>

<sup>1</sup> Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

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	<p>may be reimbursed at the lower of the lowest regular fare rate available<sup>2</sup> and actual cost, or</p> <p>b. the traveler shall provide a memo stating the case of official necessity, for approval by the Department Head<sup>1</sup>.</p> <p>8. LACERS will pay directly for airfare booked with the City's authorized business travel service, CalTravelStore.</p> <p>9. If CalTravelStore is not used, LACERS travelers must use their personal credit card to book flights or other modes of transportation.</p> <p>10. Consistent with Federal and City travel standards, coupons, or promotional mileage credits earned by the traveler during the course of LACERS business travel may be used for LACERS or personal business. The traveler will not be reimbursed for such coupons or promotional mileage credits used for LACERS travel.</p> <p>11. Fees for the first checked baggage will be reimbursed. Fees for additional checked baggage may be reimbursed if a justification for an official business need is provided.</p> <p>12. The cost of air flight insurance is not eligible for reimbursement.</p> <p>13. With pre-approval of the Department Head<sup>1</sup>, refundable airline tickets may be purchased if the traveler provides acceptable justification that the benefit of booking a refundable ticket outweighs the risk of changes in travel plans.</p>
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<sup>2</sup> The acceptable amount will be the fare verified by the Accounting staff prior to encumbrance of the travel request.

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

<b>B. PERSONAL VEHICLE OR NON-AIR TRANSPORTATION</b>	
LAAC Requirement	LACERS Policy
<p>In all instances where a mode of transportation other than regularly scheduled airlines is chosen, the Department Head<sup>1</sup> shall authorize such alternate mode of transportation in advance and the allowable cost shall be the actual cost of the alternate mode of transportation or the cost allowable under Subsection (a)1, whichever is less. [§4.242.3.(a)(2)]</p> <p>In the case of travel by modes of transportation other than regularly scheduled airlines, transportation costs shall be the regular fare for the mode of transportation chosen. [§4.242.3(a)]</p>	<p>14. Pre-approval by the Department Head<sup>1</sup> is required for all non-air travel in advance of travel. Travelers must submit the following items for pre-approval:</p> <ul style="list-style-type: none"> <li>a. For travelers using personal automobiles for business purposes – Provide proof of automobile insurance at minimum coverage levels as follows: \$25,000 injury to or death of one person; and, \$50,000 injury to or death of more than one person; and, \$5,000 property damage for any one accident.</li> <li>b. Cost comparisons are required for all non-air travel, with exceptions listed below: Traveler shall submit: a quote for the lowest regular fare available for regularly scheduled airlines to the destination for the date and time selected; and the cost for regular fare on the alternative mode of transportation. <u>Exceptions</u> (no cost comparison is required): If traveling by vehicle to neighboring counties of Orange, Riverside, San Diego, San Bernardino, Ventura, Kern, Santa Barbara, and San Luis Obispo, or to the San Francisco Employees Retirement System to transport sensitive computer equipment for the LACERS emergency hot/warm site.</li> </ul> <p>15. Receipts for alternate modes of travel are required. Reimbursement will be for the lower of the actual cost of transportation or lowest regular airfare verified by Accounting prior to encumbrance of the travel request.</p>

<sup>1</sup>Pursuant to Board Resolution 140311-C, Department Head authority to approve and certify travel expenditures is delegated as follows: the Board President approves Board Member and General Manager expenditures; the Vice President approves Board President expenditures; the General Manager approves staff expenditures.

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<p>In the instance of the use of private automobile, mileage shall be in accordance with mileage provisions of Division 4, Chapter 5, Article 2 of the Administrative Code. [§4.242.3.(a)(2)]</p>	<ul style="list-style-type: none"> <li>16. Mileage reimbursement             <ul style="list-style-type: none"> <li>a. Mileage reimbursement for the Board will be calculated on a roundtrip basis between official’s residence and official destination.</li> <li>b. Mileage reimbursement for staff will be based on the distance in excess of home to City office for travels during regular work days; for other days, reimbursement will be based on a roundtrip between staff’s residence and official destination.</li> </ul> </li> <li>17. Additional travel time and expenses (such as meals and lodging) incurred in choosing other than the fastest and most direct mode of transportation are at the traveler’s own personal time and expense.</li> <li>18. Claims for repairs, replacements, towage, gas and car insurance are not reimbursable.</li> <li>19. Ground transportation refers to transportation from home to airport, airport to hotel and/or conference/ meeting/seminar location, and back. This includes taxis, shuttles, limousines, and private vehicles.</li> <li>20. Mileage reimbursement is provided when personal vehicle is used for ground transportation to/from airport. Commissioner’s mileage reimbursement will be computed based on roundtrip miles from residence to airport. Staff mileage reimbursement will be computed based on the distance in excess of home to City office for travels during regular work day; and roundtrip miles from residence to airport on non-work days.</li> </ul>
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<b>C. GROUND TRANSPORTATION</b>	
LAAC Requirement	LACERS Policy
<p>The least expensive and most practical form of public transportation shall be used, taking into consideration such factors as time, availability, and personal safety or health. [§4.242.3.(c)]</p>	<p>21. Reimbursement for airport parking is actual amount, not to exceed \$20 per day. Pre-approval is not required. Reimbursement for actual amounts in excess of \$20 per day requires the traveler submitting a memo to justify the expense based on time, availability, and personal safety or health.</p> <p>22. Reimbursement for use of taxi, shuttle, private car or limousine service is limited to the lesser of roundtrip taxi fare (<a href="http://www.taxifarefinder.com">http://www.taxifarefinder.com</a>)<sup>2</sup> or shuttle fare (<a href="http://www.shuttlefare.com">http://www.shuttlefare.com</a>)<sup>2</sup>.</p>
<b>D. AUTOMOBILE RENTAL</b>	
LAAC Requirement	LACERS Policy
<p>Such expenses are allowable if traveling by car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus. [§4.242.3.(d)]</p>	<p>23. Pre-approval by the Department Head<sup>1</sup> is required. Travelers must provide written justification that the traveling by car is less expensive or more efficient in conducting LACERS business than by use of taxi or bus.</p> <p>24. The traveler will not be reimbursed for car rental insurance within the United States. Car rental insurance costs required in foreign countries may be claimed for reimbursement.</p>

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<sup>2</sup> The acceptable amount will be the fare verified by the Accounting staff prior to encumbrance of the travel request.

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**III. LODGING, MEALS AND INCIDENTAL EXPENSE ALLOWANCE**

<b>A. LODGING</b>	
LAAC Requirement	LACERS Policy
<p>This section is not intended to preclude an employee or elected official from staying in a hotel where the meeting or convention to be attended is held. [§4.242.3.(b)(1)]</p>	<p>25. Acceptable documentation shall include original itemized hotel receipt marked 'Paid in Full' or showing a zero balance; otherwise, proof of payment is also required.</p> <p>26. Reimbursement for lodging in a hotel where the meeting or convention to be attended is deemed the most practical accommodation and permissible.</p> <p>27. A traveler may elect to stay in a hotel sponsored by the conference as it is presumed to be the most practical or convenient. The reimbursement will be limited to the lesser of the actual hotel costs incurred or the conference hotel rate.</p> <p>28. For any official System travel for training, due diligence trips, meetings with investment managers, or training where hotels are not pre-designated, the traveler should select the most economical lodging taking into consideration the proximity of the selected place to conduct the official System business, traveler's safety, time and transportation costs and other relevant factors. Any of the following methods are acceptable for determining "moderately priced establishments of acceptable quality", "the most economical and practical accommodations", and those which would be presumed not to meet the IRS definition of "lavish and extravagant" accommodations:</p> <ul style="list-style-type: none"> <li>(i) Lodging does not exceed the highest Federal domestic lodging per diem rate; cost comparison is not necessary; or</li> <li>(ii) The most economical hotel identified using the City traveler provider website (<a href="http://www.concursolutions.com/">www.concursolutions.com/</a>), with availability, with at least a 3 star rating on a 5 star scale travel, and within walking distance or no less than ½ mile radius of the first business location; or</li> </ul>

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<p>In the selection of restaurants and hotel rooms, it is expected that individuals will seek moderately priced establishments of acceptable quality. [LAAC §4.242.3.(b)]</p> <p>An employee or elected official must consider transportation costs, time, and other relevant factors in selecting the most economical and practical accommodations. [§4.242.3.(b)(1)]</p>	<p>(iii) The most practical hotel on the above list with acceptable written justification; or</p> <p>(iv) Any lodging expenses may be reimbursed provided that the expense does not exceed 300% of the lodging per diem and traveler must clearly demonstrate no other acceptable alternative lodging was available, as in the event of a state of emergency, or other justifiable reason reviewed and certified by the Department Head<sup>1</sup> as reasonable and proper, and incurred in the pursuit of System business.</p> <p>29. Reimbursement is limited to single occupancy room rate, as documented on hotel letterhead or the hotel's room rates listing, plus applicable taxes and charges unless additional occupants are LACERS trustees/staff on official LACERS business.</p>
<p><b>B. MEALS AND INCIDENTAL EXPENSES (M&amp;IE)</b></p>	
<p>LAAC Requirement</p>	<p>LACERS Policy</p>
<p>Expenses incurred by an employee or elected official for food and beverage served at meals, scheduled receptions, or other functions necessary for the conduct of City business are allowable to a maximum of three meals a day. [§4.242.3.(b)(2)]</p>	<p>30. LACERS intends to be compliant with IRS accountable plan rules, therefore M&amp;IE allowance will be provided only when business travel results in a necessity for lodging. LACERS will provide travelers with a standard meal allowance at the Federal per diem rate per locale. The allowance, in lieu of providing receipts, is acceptable under the IRS accountable plan rules. The IRS (Publication 463) defines meals and incidental expenses include: meals, transportation to acquire meals, fees/tips to porters, baggage carriers, bellhops, hotel maids, wait staff, and other service providers.</p> <p>31. No meal allowance will be paid when meals are provided throughout the day by the host or at the conference.</p> <p>32. Prorating the standard meal allowance – The IRS permits LACERS to adopt its own rules for prorating the standard meal</p>

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	<p>allowance on partial days of travel so long as we consistently apply the method in accordance with reasonable business practice.</p> <p>The meal and incidental expense allowance will be prorated from a daily allowance to a per meal period allowance on partial days of travel; and when some meals are prepaid/to be paid by LACERS (complimentary breakfast provided at the hotel, meals at the conference, or pre-paid to comply with the City/LACERS gift restrictions.</p> <p>The M&amp;IE allowance = incidental expense + breakfast allowance (if traveling between 1AM – 9AM) + lunch allowance (if traveling between 9AM – 5PM) + dinner allowance (if traveling between 5PM – 1AM).</p> <p>Utilize the M&amp;IE per travel locale and provide an allowance for each meal period the traveler is away from home (based on the current Federal General Services Agency six tiered M&amp;IE allowance):</p> <table border="1" data-bbox="857 1108 1419 1339"> <thead> <tr> <th>Total</th> <th>Breakfast</th> <th>Lunch</th> <th>Dinner</th> <th>IE</th> </tr> </thead> <tbody> <tr> <td>\$46</td> <td>\$7</td> <td>\$11</td> <td>\$23</td> <td>\$5</td> </tr> <tr> <td>\$51</td> <td>\$8</td> <td>\$12</td> <td>\$26</td> <td>\$5</td> </tr> <tr> <td>\$56</td> <td>\$9</td> <td>\$13</td> <td>\$29</td> <td>\$5</td> </tr> <tr> <td>\$61</td> <td>\$10</td> <td>\$15</td> <td>\$31</td> <td>\$5</td> </tr> <tr> <td>\$66</td> <td>\$11</td> <td>\$16</td> <td>\$34</td> <td>\$5</td> </tr> <tr> <td>\$71</td> <td>\$12</td> <td>\$18</td> <td>\$36</td> <td>\$5</td> </tr> </tbody> </table>	Total	Breakfast	Lunch	Dinner	IE	\$46	\$7	\$11	\$23	\$5	\$51	\$8	\$12	\$26	\$5	\$56	\$9	\$13	\$29	\$5	\$61	\$10	\$15	\$31	\$5	\$66	\$11	\$16	\$34	\$5	\$71	\$12	\$18	\$36	\$5
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\$71	\$12	\$18	\$36	\$5																																
<p><b>Gratuities.</b> Such expenses, not exceeding 15%, are allowable where reasonable and customary. [§4.242.3.(h)]</p>	<p>33. Gratuities are included in the IRS definition of “incidental” expenses and are therefore subject to per diem limits. Reimbursement for restaurant gratuities are calculated as up to 15 percent of the restaurant bill exclusive of taxes, except when the gratuity percentage is required and the amount is added on the bill by the service provider.</p>																																			

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**IV. OTHER EXPENSES**

LAAC Requirement	LACERS Policy
<p>(j) Other Expenses. Expenses not specifically set forth in other subsections of this section that are incurred by an employee or an elected official are allowable where deemed necessary in the conduct of City business; provided that such expenses have been reviewed and certified by the Department Head<sup>1</sup> as reasonable and proper and incurred in pursuit of City business. Wherever the type of expenditure is not specifically listed in this section, the employee or elected official should be prepared to absorb the cost as a personal expenditure in the event that such expense is not certified by the Department Head<sup>1</sup>. [§4.242.3.(j)]</p>	<p>34. Other travel expenses are allowable when deemed necessary in the conduct of System business provided such expenses are reviewed and certified by the Department Head<sup>1</sup> as reasonable, proper, and incurred in pursuit of System business. Otherwise, these expenses become personal expenditures.</p> <p>35. Travel Interruptions – When there is an interruption or deviation from planned travel due to bona fide public emergencies outside of the traveler’s control such as weather or shutdown of air travel, travelers may be reimbursed at full cost for emergency lodging, meals, and incidental expenses.</p> <p>36. Indirect Travel - whether for the traveler’s personal leave or for convenience, expenses allowable will not exceed those that would have been incurred for uninterrupted travel utilizing the direct travel route or travel days. Supporting documentation showing the cost for direct travel and the deviation should be provided by the traveler.</p>

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**IV. NON-REIMBURSABLE TRAVEL EXPENSES**

LAAC Requirement	LACERS Policy
<p>Expenditures which are incurred by an employee or elected official that are of a purely personal nature will not be reimbursed by the City.</p> <ul style="list-style-type: none"> <li>a) Auto repairs, replacement or towage to personal vehicle when such use has been authorized (see established City procedures for repair to City vehicle);</li> <li>b) Flight insurance;</li> <li>c) Personal telephone calls (except those specified in Section 4.242.3 (g) of this article);</li> <li>d) Expenses for persons other than the employee or elected official, except as specified in Section 4.242.3 (b) 2. [§4.242.4]</li> </ul>	<p>37. Expenditures which are not substantive to LACERS business will not be reimbursed by LACERS, such as:</p> <ul style="list-style-type: none"> <li>a) Any expenses related to entertainment and recreational activities;</li> <li>b) Flight upgrade fees for seats other than coach or economy;</li> <li>c) Internet usage fees (unless the internet is used for City business);</li> <li>d) Any expenses related to alcohol and tobacco.</li> <li>e) Traveler’s insurance.</li> </ul> <p>38. The traveler must submit reimbursement for personal expenditures paid by LACERS.</p> <p>If there are portions of the conference or seminar that are entertainment in nature and not business-related (e.g., golf tournaments, musical performances or concerts, etc.), the traveler is required to reimburse LACERS for the cost of these recreational activities.</p>

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## V. OTHER RULES AND RESTRICTIONS

<b>A. DOCUMENTATION OF EXPENSES - PERSONAL EXPENSE STATEMENTS</b>	
LAAC Requirement	LACERS Policy
<p>All expenses claimed shall be listed on separate forms provided and used for required documentation of travel expense.</p> <p>Completed travel expense forms shall be forwarded to the Controller within thirty (30) days of the conclusion of the trip.</p> <p>The Department Head<sup>1</sup> shall certify that all expenditures were incurred in pursuit of City business. Falsification of such certification shall be grounds for appropriate disciplinary action and such other sanctions provided by law.</p> <p>Receipts shall be provided for transportation costs incurred under Section 4.242.3(a), lodging, and for any single item of expenditure in excess of \$25.00. Receipts for expenditures under \$25.00 should be presented when available. [LAAC § 4.242.7]</p>	<p>39. All expenses claimed for reimbursement must be itemized on the Personal Expense Statement (PES - Form Gen. 16).</p> <p>40. The traveler is responsible for verifying all charges on receipts before making payment. Charges made in error will not be reimbursed.</p> <p>41. Original receipts are required for any single expenditure in excess of \$25. Receipts are not required for a meal and incidental expense allowance, regardless of amount, when the Federal per diem rate per locale is provided to the traveler and prorated in accordance with LACERS' policy.</p>
<b>B. TRAVEL ADVANCES</b>	
LAAC Requirement	LACERS Policy
<p>Requests for an advance for funds shall be submitted to the Controller, where feasible, at least ten (10) days in advance of the beginning of the planned expenditure of funds and such request shall include the persons traveling, period covered, and the destination. In addition, the request should state the purpose of the trip, the nature of the City business to be conducted on the trip, and the proposed total estimated expenditure. Documentation of actual expenses incurred shall be submitted to the Controller in conformance with Section 4.242.7.</p>	<p>42. For trips of one night or more, a travel advance may be requested. The amount advanced is limited to the lodging, meal and incidental expenses per diem. Only 90% of the total travel estimate is advanced. A travel advance will not be issued if this amount is less than \$500 in total.</p> <p>43. Written requests for the travel advance are to be submitted by the Traveler to the CEA/travel coordinator for approval at least fifteen (15) business days prior to the date of travel but no earlier than thirty (30) calendar days prior to travel. The request must include a statement certifying that the traveler has no outstanding cash advance.</p> <p>44. A cash advance request will be denied if</p>

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	<p>a traveler has an outstanding cash advance for past travel with does not comply with the procedures.</p> <p>45. Regular travel advances will be released no earlier than one (1) week before travel.</p> <p>46. Outstanding travel advances not accounted for and delinquent over 120 days will be included as part of an employee's wages on the first payroll period of the subsequent calendar quarter following the end of the 120 calendar days; and, for non-City employees, IRS Form 1099-Misc will be issued per IRS Federal, State, Local Government Taxable Fringe Benefit Guide. Nothing herein eliminates the traveler's obligation to return to the Fund any excess monies that were received that were not used for approved travel expenses.</p> <p>47. Future travel advances will not be processed for traveler(s) with delinquent PES over 30 days. Requests for reimbursement may be processed in advance of the travel for expenditures such as registration fees, and/or one-night hotel deposit. To ensure timely processing of the reimbursement, such requests along with supporting documents and proof of payment (credit card statement, etc.) must be submitted to the CEA/travel coordinator, in writing, at least fifteen (15) working days before the date of travel.</p> <p>48. Advanced payment for cancelled travel: Any amount that was paid by department in advance of travel is considered an advance. In the event of the need to cancel the trip, the traveler is responsible for notifying all payees to as soon as possible to avoid/minimize cancellation fees</p> <p>a. If cancellation was due to personal reasons, the traveler must personally reimburse the department for any amount not recovered (net of cancellation fees). If the refund or credit was issued directly to the traveler,</p>
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	<p>traveler must pay LACERS the entire amount of credit received within 14 calendar days from the credit issued date.</p> <ul style="list-style-type: none"><li>b. If travel was cancelled due to the business or public reason, traveler is responsible to submit a justification along with the proper documentation to the General Manager within 14 calendar days from the cancelled date.</li><li>c. Unrecovered amounts are reported as taxable income to the traveler. The traveler may be required to pay for future airfare using their own credit card, and LACERS will reimburse airfare upon completion of the travel.</li></ul>
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### APPENDIX C BOARD TRAVEL REIMBURSEMENT CHECKLIST

Adoption Date: May 26, 2009

Revised Dates: June 22, 2010; December 13, 2011; March 11, 2014; November 24, 2020

#### **I. STEPS FOR TRAVEL APPROVAL AND REIMBURSEMENT:**

Step 1: Provide details of the educational event to the Commission Executive Assistant (CEA)

Step 2: Submit information on estimated expenses to the CEA

#### ***Fees Paid Directly By LACERS:***

Step 3: Register for the Conference

- Conference registration and registration fees can be arranged through the CEA prior to the conference date. Registration fees are paid directly by LACERS with no out-of-pocket expenses for the traveler;
  - Under State and City gift laws, complimentary conferences or conference-related events could be considered gifts. LACERS will evaluate the circumstances with the assistance of the City Ethics Commission and may be required to pay a pro-rata share of conference expenses provided by the hosting organization.
- Or, after the fact, submit a receipt showing a zero balance as proof of payment.

Step 4: Book flight

- Provide desired flight numbers, dates, and times to the CEA. The CEA will book the flight. The City's travel service will also provide a flight credit if the traveler is unable to fly and proper notification is given.
- Or after the fact, submit a receipt for the purchase of the airline ticket and, for cost comparison, the CalTravelStore quote for one-stop coach/economy class ticket from any airline and for the same days of travel generated on the same day the flight was booked or no later than 72 hours after the air travel reservation was made. Reimbursement is limited to the lowest regular fare/economy rate.

#### ***Items Requiring Pre-Approval for Expenditure Reimbursement:***

Step 5: Submit written justification for items requiring pre-approval from the Board President or Vice President. If approval is not secured prior to incurring the expense, reimbursement may not be granted.

- Requests for reimbursement of airfare which is more than 150% of the lowest cost one-stop airfare – justification should demonstrate the official necessity of the selected flight.
- Requests for transportation other than air flight – justification should indicate reasons for use of the alternate mode of transportation.
- Requests for cash advances to cover lodging and per diem for meals must be submitted 15 business days, but no earlier than 30 calendar days, prior to the commencement of travel. See further instructions below.

#### ***After the Travel has been completed, submit report and receipts:***

Step 6: Submit an Event Evaluation Report within thirty (30) days of the conclusion of the trip

- The report is required prior to reimbursement

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- Step 7: Submit a Personal Expense Statement (PES) within thirty (30) days of the conclusion of the trip:
- Itemize all reimbursable daily expenses for lodging, transportation, and miscellaneous expenses; list the per diem for meals and incidentals.
  - Report expenses paid directly by LACERS as a deduction to the total reimbursable amount
  - See further instructions on the following checklist

**II. REIMBURSEMENT CHECKLIST:**

ALLOWABLE TRAVEL COSTS	REQUIRED DOCUMENTS
<b>AIR TRAVEL</b>	
<p><b><u>Air Travel</u></b>                      Air travel expenses are only allowable for the lowest regular fare available. If the flight with the lowest regular fare is not booked, reimbursement will only be for the lowest regular fare.</p> <p>If three fare quotes are not submitted, the lowest regular fare will be determined by a quote from the City’s travel agent for a direct flight, coach class, 14 days prior to the date of business travel. The CEA will determine the reasonable flights to be quoted which best meet the conference dates and times.</p> <p>Exceptions allowing reimbursement for a higher cost fare may be approved by the General Manager for “official necessity.” Official necessity means there is a bona fide benefit to LACERS for taking the selected flight which outweighs the cost of the higher fare.</p>	<p><b><u>Transportation Expenses</u></b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Submit a receipt showing a zero balance as proof of payment for airfare.</li> <li><input type="checkbox"/> If purchasing outside of CalTravelStore, provide the airline ticket receipt and CalTravelStore quote demonstrating that the cost of the booked flight is no more than 50% higher than the quote, for the same days of travel, from CalTravelStore.</li> <li><input type="checkbox"/> Provide written justification of the “official necessity” for any higher cost fare if seeking reimbursement above the lowest fare rate. The General Manager must concur for the expense to be submitted for reimbursement.</li> </ul>
<b>OTHER TRANSPORTATION</b>	
<p><b><u>Bus or Rail Travel</u></b>                      The allowable cost shall be the actual cost for the regular fare for the bus/rail travel.</p> <p><b><u>Automobile Rental</u></b>                      Automobile rental expenses are allowable if traveling by automobile is less expensive or more appropriate than by other modes of transportation.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Submit request for pre-approval from the General Manager for all modes of transportation other than regularly scheduled airlines.</li> <li><input type="checkbox"/> Submit request for pre-approval from the General Manager demonstrating that traveling by rental car is less expensive or more appropriate for the efficient conduct of City business than by taxi or bus.</li> </ul>

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<p><b><u>Private Automobile</u></b>                  The allowable cost shall be the actual total mileage rate allowance as determined by the Internal Revenue Service (IRS).</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Submit request for pre-approval from the General Manager, and include a satisfactory liability insurance policy covering the full use and operation of the vehicle. The limits of liability on any such policy shall not be less than \$25,000 in the case of injury to or death of one person, and \$50,000 in the case of injury to or death of more than one person; and in the case of property damage, not less than \$5,000 in any one accident.</li> <li><input type="checkbox"/> Submit airfare confirmation (provided by CalTravelStore, other travel service, and airline), rail travel confirmation notice or transportation receipt from taxi, shuttle, or private car service.</li> </ul>
<p><b>REGISTRATION FEES</b></p>	
<p><b><u>Registration Fees</u></b>                  Reimbursable if paid by the Trustee</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Submit a receipt showing a zero balance as proof of payment</li> </ul>
<p><b>LODGING</b></p>	
<p>Hotels generally offer specially rated room blocks for conference participants. The Trustee may stay at an “off-site” hotel if the room blocks are exhausted.</p> <p>Transportation costs, time, and other relevant factors must be considered in selecting the most economical and practical accommodations.</p> <p>An extra-night stay is allowable if it sufficiently reduces the airfare, or if the conference commences early in the morning or adjourns late in the evening.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Submit receipt showing a zero balance as proof of payment. Personal credit card information must be redacted from the receipt.</li> <li><input type="checkbox"/> If lodging is for other than single occupancy, secure a rate sheet or other documentation of the single occupancy rate.</li> </ul>
<p><b>MEALS &amp; INCIDENTAL EXPENSES</b></p>	
<ul style="list-style-type: none"> <li>○ The meal and incidental per diem for domestic travel is currently \$71 per day.</li> <li>○ Incidental expenses are fees and gratuities provided to service workers, and for transportation costs in acquiring meals.</li> </ul>	<p>Receipts for meals and incidental expenses are not required.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Submit justification letter if claiming reimbursement for expenses exceeding the per diem allowance.</li> </ul>

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

<ul style="list-style-type: none"> <li>○ The daily allowance is prorated at 75% on days of travel, and if some meals are provided by the hotel or conference.</li> <li>○ No meal allowance is provided when meals are provided throughout the day by the hosting organization.</li> <li>○ The rate for international travel is in accordance with current Federal per diem rate guidelines.</li> </ul>	
<p><b>MISCELLANEOUS EXPENSES</b></p>	
<p><b><u>Checked Baggage Fees</u></b> Such expenses are allowable when the Trustee is charged for the first checked bag.</p> <p><b><u>Laundry Service</u></b> Such expenses are allowable if the duration of the trip, traveling conditions, or some other special circumstances dictate.</p> <p><b><u>City Business Telephone Calls</u></b> Such expenses are allowable if the telephone calls are relevant to appropriate City business.</p> <p><b><u>Personal Telephone Calls</u></b> Such expenses are allowable for one call to the Trustee's immediate family if they are located within the locale of their residence.</p> <p>If travel is in excess of three (3) days, one such call is permitted for each successive three (3) days thereafter.</p> <p>Each call should last a reasonable amount of time, such as 10 minutes per call.</p> <p><b><u>Ground Transportation</u></b> Transportation between the traveler's residence and airport, and transportation between the airport and conference location.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Baggage fees for second and additional items require a justification memo that it meets a business purpose.</li> <li><input type="checkbox"/> Submit receipts for all miscellaneous expenses.</li> </ul>

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

**APPENDIX D  
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS)  
TRAVEL/CONFERENCE EVALUATION REPORT**

Name of Attendee:	
Title of Conference/Seminar:	
Location:	No. of Education Hours:
Event Sponsor:	Date(s) Held:

Report for:

- Travel
- Conference/Seminar Attendance Only

I. Nature/Purpose of Travel (if applicable):

II. Significant Information Gained:

III. Benefits to LACERS:

IV. Additional Comments:

SUBMIT TO THE LACERS COMMISSION EXECUTIVE ASSISTANT, 202 W. FIRST STREET, SUITE 500  
WITHIN 30 DAYS AFTER ATTENDING THE CONFERENCE/SEMINAR

## Section 1.0 GUIDANCE FOR BOARD MEMBERS

### 1.3 BOARD COMMUNICATIONS POLICY

*Adopted: June 14, 2011; Revised: March 24, 2015, September 11, 2018, December 11, 2018*

**Introduction:** In the process of managing and administering the Los Angeles City Employees' Retirement System, the LACERS Board of Administration may encounter various legal, ethical, and logistical issues involving communications with its stakeholders and with outside parties. To provide a framework for addressing these issues, the intent of this policy governing Board communications is to ensure that such communications are well-coordinated, effectively managed, responsive, and timely.

**LACERS' Official Spokesperson(s) for Administrative Matters:** The General Manager and/or his/her designee shall be the official representative for LACERS for any communication or presentation of LACERS administration of programs, services, or investments provided to its stakeholders, including but not limited to the following:

- LACERS Members and their Beneficiaries
- Retiree associations
- Labor unions
- City officials, including elected officials
- Outside parties
- General public
- Media

Note: "Media," for purposes of this policy, is defined as radio, television, newspapers, newsletters, magazines, websites, blogs, social media, and other related outlets and modes of public communication transmitted verbally and/or in writing.

The General Manager may provide factual information verifying that committee or Board actions have taken place, but shall not provide information regarding why he/she believes the committee or Board voted in a certain way. If such questions arise, the General Manager may refer the inquiring party to the committee/Board report, meeting minutes, and/or audio file posted on the website.

**LACERS Official Spokesperson regarding Board Decisions:** The Board President shall serve as the spokesperson for the Board on all issues pertaining to decisions and direction given by the Board other than factual, publicly available information related to decisions made by the Board, which may be answered by Board Members and the General Manager. The Board President also shall serve as the spokesperson for the Board regarding pending or potential Board decision. The Board President may delegate the general duty of spokesperson to another Board Member or to the General Manager as he/she sees fit.

The Board President may delegate the general duty of spokesperson to another Board Member or to the General Manager as he/she sees fit.

Board Members shall refrain from publishing any written material and/or making any statements to the media or outside parties which purports to represent LACERS policies or initiatives on any matter or subject before the Board has formally adopted a policy or position on the matter or subject. However, this policy shall not be interpreted to preclude Board Members, as private citizens, from expressing their personal views.

**Section 1.0 GUIDANCE FOR BOARD MEMBERS**

Board Members who publish articles and/or participate in speaking engagements while identifying themselves as trustees of LACERS may provide factual, publicly-available information without any disclaimer. If the Board Member wants to express views other than adopted Board positions, he/she shall state that the views they are expressing are their personal views and are not LACERS' official position, and/or that they are not acting in an official capacity for LACERS.

Board Members should avoid expressing personal opinions and/or speculation as to the motivations of any Board Member's actions on LACERS' behalf.

**Timely Responses to Media Inquiries:** Board Members may receive inquiries directly from the media regarding pending or potential Board decisions or LACERS actions. To ensure a timely response in such instances, the Board Members immediately shall refer or transmit such inquiries to the Board President or General Manager pursuant to the policy above for appropriate action.

**Press Releases:** The Board President and the Board Vice President shall review and approve press releases developed by LACERS staff prior to any dissemination to any media contact or outlet.

## Section 2.0 CONTRACT ADMINISTRATION

### **2.1 ETHICAL CONTRACT COMPLIANCE POLICY**

*Adopted: April 24, 2007; Revised June 10, 2014; September 28, 2021*

#### **Purpose**

The purpose of this policy is to support a transparent and fair contracting process which provides equal information and opportunity to all parties interested in contracting with LACERS. The policy primarily concerns the conduct of those seeking a new contract or contract extension/renewal. It aims to prevent, and avoid the appearance of, undue influence on the Board, individual Board Members, LACERS Staff, and City Consultants in the award of investment-related and other service contracts, by placing restrictions on communications between parties seeking contracts and those involved in awarding contracts and the contracting process.

This policy is intended to align with the city's Governmental Ethics Ordinance, Section 49.5.11(A) which states "Except at a public meeting, a member of a City board or commission shall not participate in the development, review, evaluation, or negotiation of or the recommendation process for bids, proposals, or any other requests for the award or termination of a contract, amendment, or change order involving that board, commission, or agency. This does not preclude individual [Board] members from reviewing documents and other information provided by agency staff [or consultants] when preparing for a public meeting at which the matter will be considered."

#### **Parties Affected**

Any firm or representative seeking a contract or contract extension/renewal with LACERS is a "Restricted Source" as defined by the City's Governmental Ethics Ordinance, and is subject to this policy.

Any Board Member, Staff member, City Attorney, LACERS consultant, or anyone working on LACERS' behalf which has any privileged information about the potential contract is subject to this policy and to the City's Governmental Ethics Ordinance. The marketing cessation period applies to all aforementioned entities in all communications with potential or current contractors who participate in either traditional Request for Proposals or private market opportunities, except when Staff, City Attorneys, or LACERS consultants are engaged in necessary communications as allowed under *Communication Restrictions: Exceptions – Permitted Communications*.

#### **Notification**

All firms responding to a Request for Proposal are notified of the Department's Ethical Contract Compliance Policy through the Request for Proposal solicitation. All firms whose contracts are approaching expiration are additionally notified of the Ethical Contract Compliance Policy through their contract provisions.

#### **Restricted Period**

Restrictions apply from the time the Request for Proposal is released until a contract is executed. All Restricted Sources will be listed on the Ethical Contract Compliance Policy Report, which is to be updated and presented to the Board on a monthly basis.

## Section 2.0 CONTRACT ADMINISTRATION

### **Restrictions:**

#### **Communication Restrictions**

During the Restricted Period, all firms that are potential candidates for the award of a contract or extension of an existing contract are prohibited from engaging in any direct or indirect marketing of their services except through the process set forth in the Request for Proposal. This prohibition includes all conversations about the contract or the process to award it, unless exception is permitted herein.

Exceptions – Permitted Communications:

- Board of staff conversations with restricted sources about generic topics at group social events, educational seminars, conferences, or charitable events.
- Communications between staff with firms who currently have contracts with LACERS are acceptable when they are related to the performance of the existing contract.
- Communications initiated by staff with firms when related to the due diligence process or research.
- Communications initiated by staff with firms that were not subject to a competitive proposal process where contract negotiations are necessary prior to execution of a final agreement.
- Communications initiated by staff with a firm that is actively negotiating a contract with LACERS for the purpose of collecting documentation necessary for the execution of the final agreement.

#### **Gift Restrictions**

In addition to all other applicable gift restrictions, Board Members, Staff, and LACERS consultants will not accept entertainment or gifts of any kind from any Restricted Source, nor any intermediary or affiliate, during the restricted period. An incumbent firm is also restricted from providing any type of gift or entertainment to Board Members, Staff, or other LACERS consultants during the three months prior to renewal of the existing contract or during the restricted period, whichever is longer. Courtesies offered to staff during due diligence office visits, such as working meals and beverages, may be accepted by staff if consistent with all applicable ethics laws, including but not limited to the City Ethics Ordinance and Political Reform Act.

#### **Proposer Disclosure**

All Proposers shall provide the following disclosures with their RFP response. All recommendations to the Board to award a contract shall include a copy of such disclosures:

1. All respondents are required to submit a statement listing all contacts with Board Members, Staff, and Consultants during the restricted period.
2. All respondents shall provide information regarding any personal or business relationship between their personnel and any Member of the Board, Staff of LACERS, or Consultants who are designated as Form 700 filers in the Department's Conflict of Interest Code.
3. All respondents shall disclose any payments for marketing or placement services to any person, firm, or entity to assist in seeking the LACERS contracting opportunity.

Section 2.0 CONTRACT ADMINISTRATION

**Penalties**

Any failures to disclose, or false disclosures, are a violation of this policy shall result in automatic disqualification of the firm involved.

This policy shall be reviewed by the Board every three years or earlier if necessitated by a change in local, State, or Federal statutes.

## Section 2.0 CONTRACT ADMINISTRATION

### **2.2 THIRD PARTY MARKETER COMPLIANCE POLICY**

*Adopted: June 8, 2010; Revised December 14, 2010; Affirmed: December 11, 2018*

#### **Purpose**

The purpose of this policy is to maximize transparency and avoid actual or perceived conflicts of interest when LACERS considers investment proposals in order to ensure that system investment decisions are made solely on the merits of the investment opportunity by individuals that owe a fiduciary duty to the system. This policy requires firms submitting proposals for consideration by LACERS to disclose the identity of all Placement Agents and/or individuals by whom the firm was referred to LACERS, and further indicate those so identified that stand to receive fees or other considerations in the event that a contract between the firm and LACERS is secured. This policy is intended to apply broadly to all investment partners with whom LACERS does business, including, but not limited to, private equity funds, real estate funds, and infrastructure funds, as well as investment managers retained pursuant to a contract. The Board has determined, in good faith, that the adoption of this policy is consistent with its fiduciary responsibilities as described in Section 17 of Article XVI of the California Constitution.

#### **I. Disclosure of Payments Made to Placement Agents**

Each External Manager shall provide to LACERS the required information listed below within 45 days of the time investment discussions are initiated by the External Manager or LACERS but in any event prior to the completion of due diligence. Any changes to the information provided to LACERS must be disclosed within 14 calendar days of the occurrence of the change in information. In the case of amendments to an existing agreement, this information is required prior to execution of the amendment.

- A. A statement whether the External Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by LACERS.
- B. A resume for each Placement Agent detailing the person's education, professional designations, regulatory licenses, and investment and work experience. If any such person is a former LACERS Board member, employee or Consultant or the member of an immediate family of any such person, this fact shall be specifically noted. When an entity is retained as a Placement Agent, any officer, director or employee actively providing placement agent services with regard to LACERS or receiving more than 15% of the placement agent fees should provide information required by this subsection.
- C. A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent, including the nature, timing and value thereof.
- D. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only a subset of prospective clients.
- E. A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority, or any similar regulatory agency in a country other than the United States, and the details of that registration or an explanation as to why no registration is required.
- F. A statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with the City of Los Angeles, State of California or national government.

#### **II. Disclosure of Campaign Contributions by Placement Agent to the Board**

## Section 2.0 CONTRACT ADMINISTRATION

- A. Any Placement Agent, prior to acting as a Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all campaign contributions made by the Placement Agent to any elected member of the Board during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to an elected member of the Board during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.
- B. Any Placement Agent, prior to acting as Placement Agent in connection with any potential LACERS investment, shall disclose to the Board all gifts, as defined in Government Code Section 82028, given by the Placement Agent to any member of the Board, staff, or consultant during the prior 24-month period. Additionally, any subsequent gift given by the Placement Agent to any member of the Board, staff, or consultant during the time the Placement Agent is receiving compensation in connection with a system investment shall also be disclosed.

### III. Definitions

- A. **Consultant** refers to individuals or firms, and includes key personnel of consultant firms who are contractually retained or have been appointed to a pool by the system to provide investment advice to the system but who do not exercise investment decisions.
- B. **External Manager** means either of the following:
  - 1. A person who is seeking to be, or is retained by LACERS to manage a portfolio of securities or other assets for compensation.
  - 2. A person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to LACERS.
- C. **Person** means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.
- D. **Placement Agent**
  - 1. A person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager, or on behalf of another Placement Agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or services of an External Manager to LACERS or an Investment Vehicle, either directly or indirectly.
  - 2. Notwithstanding paragraph (1), an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.
  - 3. For the purpose of this section, an "Investment Vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either , either domestic or foreign, constituting or managed by an External Manager in which LACERS is the majority investor that is organized in order to invest with, or retain the investment management services of, other External Managers.

### IV. Requirement of Placement Agent to File Reports and Comply with Requirements Imposed on Lobbyist

- A. A person acting as a Placement Agent in connection with any potential system investment made by LACERS, shall file applicable reports and comply with any

**Section 2.0 CONTRACT ADMINISTRATION**

applicable requirements imposed on lobbyist under the Los Angeles Municipal Code Section 48.01 et seq.

- B. This section does not apply to an individual who is an employee, officer, director, equity holder, partner, member or trustee of an External Manager who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested or held by the External Manager.

## Section 3.0 FINANCIAL, ACTUARIAL, AUDIT ADMINISTRATION

### 3.1 ACTUARIAL FUNDING POLICY

*Modified: October 23, 2012; September 9, 2014; August 24, 2021*

#### Goals of Actuarial Funding Policy

1. To achieve long-term full funding of the cost of benefits provided by LACERS;
2. To seek reasonable and equitable allocation of the cost of benefits over time; and,
3. To minimize volatility of the plan sponsor's contribution to the extent reasonably possible, consistent with other policy goals.

#### Funding Requirement

LACERS annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

- I. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement or health benefit to a given period;
- II. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- III. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

#### I. Actuarial Cost Method:

- a. The Entry Age Normal method shall be applied for the existing and any future tiers of retirement or health benefit in determining the Normal Cost and the Actuarial Accrued Liability.

#### II. Asset Smoothing Method:

- a. The gains or losses of each valuation period, as a result of comparing the Market Value of assets at the end of the period with what the Market Value would have been if the assumed rate of return on assets was realized during the period, shall be recognized in level amount over 7 years in calculating the Actuarial Value of Assets;
- b. The Actuarial Value of Assets as determined above shall be limited to be within a corridor of 60% - 140% of the Market Value of assets.
- c. This policy anticipates that future circumstances may warrant adjustments to change the pattern of the recognition of the net gains or losses after a period of significant market change followed by a period of market correction, upon receiving an analysis from LACERS' actuary. Such adjustments would be appropriate when the net gains or losses are relatively small (i.e., the actuarial and market values are very close together) and the following conditions are met:

### Section 3.0 FINANCIAL, ACTUARIAL, AUDIT ADMINISTRATION

- i. The net gains or losses are unchanged as of the date of the adjustment; and
- ii. The period over which the net gains and losses are fully recognized is unchanged as of the date of the adjustment.

#### III. Amortization Policy:

- a. The Unfunded Actuarial Accrued Liability (UAAL), the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets, shall be amortized over various periods of time, depending on how the unfunded liability arose;
- b. For UAAL identified before the June 30, 2010 actuarial valuation:
  - i. The UAAL as of June 30, 2005 shall be amortized over 30 years;
  - ii. Actuarial gains or losses shall be amortized over 15 years;
  - iii. Plan amendments, other than the City's Early Retirement Incentive Program of 2009-2010, shall be amortized over 30 years;
  - iv. The City's Early Retirement Incentive Program of 2009-2010 shall be amortized over 15 years;
  - v. Changes in actuarial assumptions and cost methods shall be amortized over 30 years;
- c. For UAAL identified beginning from the June 30, 2010 actuarial valuation:
  - i. Actuarial gains or losses shall be amortized over 15 years;
  - ii. Plan amendments, other than Early Retirement Incentives, shall be amortized over 15 years;
  - iii. Early Retirement Incentives shall be amortized over 5 years;
  - iv. Changes in actuarial assumption and cost methods, other than those assumptions related with health benefit and reviewed annually by the Board, shall be amortized over 20 years;
  - v. Changes in actuarial assumptions related with health benefit and reviewed annually by the Board shall be amortized over 15 years;
  - vi. Actuarial funding surplus (an excess of Actuarial Value of Assets over Actuarial Accrued Liability) shall be amortized over 30 years;
  - vii. All UAAL layers for the Pension Plan as of June 30, 2012 shall be combined and amortized over 30 years, except the layers created in 2004 and 2005 for GASB

**Section 3.0 FINANCIAL, ACTUARIAL, AUDIT ADMINISTRATION**

compliance and the layers created in 2009 as a result of the Early Retirement Incentive Program, which will maintain their original amortization schedules.

- viii. All UAAL layers for the Retiree Health Plan as of the June 30, 2020 actuarial valuation shall be amortized over 21 years starting with the June 30, 2021 actuarial valuation.
- d. UAAL shall be amortized over "closed" amortization periods;
- e. UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase;
- f. Layers generated by various sources of UAAL shall be combined and/or restarted when:
  - i. It is required to comply with the amortization standards set forth by the Governmental Accounting Standards Board (GASB); or
  - ii. The net result of amortization of each layer is an amortization credit which would offset the Normal Cost; or
  - iii. Other conditions arise so that the Board considers that it is appropriate to do so.

**Section 4.0 BENEFITS AND MEMBER ADMINISTRATION**

**4.1 BOARD RULES**

*Revised: October 8, 2013; September 9, 2014; June 14, 2016; May 8, 2018; January 22, 2019; June 8, 2021*

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## Section 4.0 BENEFITS AND MEMBER ADMINISTRATION

### **GENERAL MANAGER AUTHORIZATIONS (GMA):**

**GMA 1:** Pursuant to its authority under Charter section 1106, unless otherwise provided in these Board Rules, the Board of Administration hereby delegates to the General Manager the responsibility to develop and modify LACERS operating policies, procedures, and guidelines in order to facilitate the provision of retirement and retirement-related benefits and management of member, former member, and nonmember accounts, as provided in Chapters 10, 11, 18, and 18.5 of the Los Angeles Administrative Code.

The General Manager is authorized to make benefits determinations as provided in Chapters 10, 11, 18, and 18.5 of the Los Angeles Administrative Code; to approve of such benefits that may be granted pursuant to the provisions of the plan; and to enter into member, former member, and nonmember agreements that facilitate the provision of benefits under the plan. This shall include, upon a member or former member with five or more years of service who dies after applying for retirement and after their retirement effective date, but prior to making a continuance election, or a retired member or retired former member who has made an election but dies prior to receiving their first benefit payment. The eligible surviving spouse or eligible domestic partner shall be granted a one hundred percent continuance. Benefits approved by the General Manager shall be reported to the Board in a timely manner.

This limited delegation of the authority granted to the Board of Administration by Charter Section 1106 shall not be construed to delegate to the General Manager the authority to make any decision that the law requires the Board to make based upon findings of fact.

Any request by a member, former member, or nonmember, to rescind, revoke, or cancel a prior election made irrevocable by the Charter, Los Angeles Administrative Code, Board Rules, or any other administrative decision adverse to the request shall be presented to the Board for decision making, provided that the General Manager, in consultation with the City Attorney, determines there is a legal basis upon which to grant the member, former member, or nonmember relief. If the General Manager, in consultation with the City Attorney, determines that no such legal basis exists, the General Manager has the authority to make and communicate a final decision in writing, on behalf of LACERS, to deny the request for relief from the irrevocable election or decision. The denial letter issued by the General Manager shall promptly be copied to all Board Members. This final decision making authority for irrevocable elections and decisions shall not be delegated below the level of General Manager. *(Adopted: June 14, 2016)*

**GMA 2:** Pursuant to Internal Revenue Code Section 415, the Board of Administration hereby delegates to the General Manager the authority to determine a different manner and priority of reduction of benefits of a Member, to enter into an agreement with any or all other plans covering such Member, and to create the administrative rules necessary to facilitate different manners for reduction of benefits. Reference Board Rule IRC 1(n) – Reduction of Benefits Priority. *(Adopted: January 22, 2019)*

## Section 4.0 BENEFITS AND MEMBER ADMINISTRATION

### **DISABILITY RETIREMENT (DR):**

- DR 1: All disability retirement applications shall be processed in a manner designed to protect the privacy rights of applicants. All medical information shall be retrieved from Board members after each Board meeting. Board members not present at meetings during which an application for disability retirement is considered shall return all medical information to staff at the next regularly-scheduled meeting or dispose of the information in a manner that will protect the privacy rights of the applicant.  
*(Resolution: 05127; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 2: The Los Angeles Administrative Code allows the Board to grant a disability retirement to an applicant who dies before three medical reports can be obtained. In these cases, a finding that the applicant was physically or mentally incapacitated since the discontinuance of service and incapable of performing the duties of his or her position may be made by the Board if (1) the cause of death, as shown on the death certificate, is attributable to the stated disability on the application for disability retirement or (2) if a different cause of death that would have incapacitated the member continuously from his or her discontinuance of service is shown on the death certificate. These findings can be made by the Board based on existing evidence on record at the time of death, if sufficient, or based on evidence obtained subsequent to the member's death.  
*(Resolution: 05127; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 3: The medical examinations shall be performed as indicated in the Los Angeles Administrative Code. The General Manager and/or his/her designees are delegated full authority to obtain additional medical examinations, tests, and/or reexaminations, beyond those normally required when such additional medical evidence is reasonably required to perform a thorough assessment of the member's disability application.  
*(Resolution: 05127; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 4: All disability retirement applicants who are City employees shall have their applications considered by the Board in closed session unless the applicant requests in writing that his or her application be considered by the Board in open session.  
*(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- DR 5: An applicant for a disability retirement must submit within 120 days of filing an application with all medical documentation (including the names of all physicians and medical providers) he or she believes supports the application. Additionally, he or she must cooperate with staff's processing of the application by, among other things, attending medical examinations. Failure to submit supporting documentation within 120 days, and/or failure to otherwise reasonably cooperate with the processing of the application, may result in a recommendation to the Board to deny the application.  
*(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

### Section 4.0 BENEFITS AND MEMBER ADMINISTRATION

- DR 6: The applicant may request one continuance as a matter of right prior to a first consideration of their disability application. After that, good cause must be shown before other continuances are granted. The General Manager and/or his/her designees are authorized to determine if good cause exists. Good cause shall not include issues related to a workers' compensation claim, including, but not limited to the status of a workers' compensation claim and/or workers' compensation physician reports.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 7: The applicant has the right to be present during any Board consideration of the case, but does not have to be present during the initial consideration.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 8: The applicant has the right to be, but does not have to be, represented by an attorney or other representative during consideration of their disability application by the Board.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 9: When a case is brought before the Board, for initial consideration of a disability application, the Board may take one of three actions:  
(a) Grant the disability retirement;  
(b) Request staff to provide further information and bring the case back for further consideration; or  
(c) Order a hearing, with or without a request to staff for further information.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- DR 10: Unless the Board specifies a shorter period of time, or permanently excludes a disability retiree from medical reexamination, pursuant to the Los Angeles Administrative Code, up to age 60, the first reexamination shall always be conducted five years after the date the disability retirement application was approved by the Board. Subsequent reexaminations, up to age 60, shall also be conducted every five years thereafter unless directed otherwise by the Board.  
*(Resolution: 05032; Adopted: October 26, 2004) (Revised: June 14, 2016)*
- DR 11: For reviews initiated by LACERS under the Los Angeles Administrative Code, the General Manager and/or his/her designees are authorized to make a finding to continue a disability retirement allowance where at least one examining physician opines that the retiree remains disabled. Where upon re-examination, the examining physician finds that the retiree is no longer disabled; the retiree shall then be examined by two additional physicians before the matter is referred to the Board for further determination.  
*(Resolution: 05032; Adopted: October 26, 2004) (Resolution: 130326-B; Adopted: March 26, 2013, Amended Language) (Revised: June 14, 2016)*
- DR 12: If a disability retiree believes that he/she is no longer disabled, he/she may request to have his/her disability retirement reviewed for continued disability.  
*(Resolution: 05032; Adopted: October 26, 2004) (Revised: June 14, 2016)*

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- DR 13: A Disability Retired Member who received a refund of his or her survivor contributions at retirement, who subsequently returns to work and later retires with an eligible spouse or domestic partner, must restore the refunded survivor contributions plus interest in order to leave a continuance.  
(Adopted: January 22, 2019)
- DR 14: Tier 3 Disability Retired Members returning to active service who are eligible to purchase time spent on a disability retirement must purchase service for the entire duration spent on a disability retirement and restore any survivor contributions that were refunded.  
(Adopted: January 22, 2019)
- DR 15: A Member who meets the eligibility requirements to apply for disability retirement may submit a disability retirement application following official placement on Injury-On-Duty (IOD) by their employing department.  
(Adopted: September 14, 2021)

#### **DISABILITY LOAN (DL):**

- DL 1: The following shall apply to all disability loans:
1. A disability loan shall never be allowed to exceed  $\frac{1}{2}$  (one-half) of the amount of a member's contribution account, including interest earnings contained in the account.
  2. The maximum term for a disability loan shall not exceed four (4) years from the effective date unless permitted under a military leave exception allowed by federal law.
  3. A member may repay a disability loan early without any early payment penalties.
  4. The amount of a disability loan shall never exceed \$50,000.  
(Resolution: 03024; Adopted: September 10, 2002, #1, #2, #3, #4) (Revised: June 14, 2016)
- DL 2: For full-time members, the loan amount shall be the value of four pay periods of the member's latest biweekly salary found in the City's payroll records when associated with a member contribution posted to the member's account.
- For part-time members, if they were part-time on the last pay period posted prior to the date of filing of their disability application, staff shall determine a part-time factor to be used to prorate the value of the disability loan.  
(Resolution: 03024; Adopted: September 10, 2002) (Revised: June 14, 2016)
- DL 3: Members will be charged interest on their disability loans equal to the assumed rate of investment returns for LACERS.  
(Resolution: 130326-B; Adopted: March 26, 2013, Amended Language) (Revised: June 14, 2016)
- DL 4: The loan repayment schedule may be monthly or biweekly, depending on the member's payroll status.  
(Resolution: 03024; Adopted: September 10, 2002) (Revised: June 14, 2016)

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- DL 5: The loan is in default if any payment due is not made within six months of its scheduled due date. The entire amount of the principal and interest owed as of the default date shall be reported to the Internal Revenue Service as a “deemed distribution” subject to applicable penalties. If the member pays the defaulted loan amount after a deemed distribution has been reported to the IRS, such payments shall be credited as post-tax contributions.  
*(Resolution: 03024; Adopted: September 10, 2002) (Revised: June 14, 2016)*
- DL 6: LACERS shall retain a security interest in all member LACERS accounts until a disability loan has been repaid. This security interest shall apply to all parties, members and beneficiaries, and shall be contained in writing within the loan agreement. If a member takes out a loan without obtaining proper signature authority from a spouse or domestic partner who maintains a community property interest in the member’s regular contributions, staff shall be required to recover the disability loan as advised by legal counsel.  
*(Resolution: 03024; Adopted: September 10, 2002) (Revised: June 14, 2016)*
- DL 7: An eligible Member who meets the eligibility requirements to apply for disability retirement who applies after being placed on Injury-On-Duty (IOD) status shall not be eligible to apply for a disability retirement loan.  
*(Adopted: September 14, 2021)*

#### **HEARING PROCEDURES (HP):**

- HP 1: All hearings shall be processed in a manner designed to protect the privacy rights of all members or other persons who are subjects of a hearing.  
*(Resolution: 05127; Adopted: June 14, 2005) (Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- HP 2: When the Board orders a hearing, staff shall promptly schedule the matter before the Board. LACERS’ staff shall attempt to schedule the hearing on a mutually agreeable date, not more than 60 days after the Board’s initial consideration of the matter.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 3: Unless otherwise stipulated by all parties, notice of a hearing shall be given at least ten days before such hearing, and shall be given in person or by mail to each subject of a hearing or representative.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 4: The subject of a hearing may specifically request one continuance as a matter of right prior to a first presentation of their issue to the Board. After that, good cause must be shown before other continuances are granted. The General Manager and/or his/her designees are authorized to determine if such good cause exists.

The Board shall grant “continuances” for continued consideration of any hearing when such a request is approved, as moved by a member of the Board, upon a

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majority vote of the Board members present. This shall apply when a specific request is made by the subject of the hearing or by their representative during the course of a hearing.

*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*

- HP 5: The subject of a hearing has a right to be, but does not have to be, represented by an attorney or other representative during the hearing of their matter by the Board.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 6: Subjects of a hearing shall have the right to present written evidence. To minimize delays in processing the information, subjects of hearings are urged to provide written evidence as early as possible. Such written information shall be submitted, when not already within LACERS' possession, but relevant to the hearing, at least 15 business days prior to a scheduled or planned hearing date.  
*(Resolution: 05128; Adopted: June 14, 2000) (Resolution: 130326-B; Adopted: March 26, 2013, Last Sentence Added) (Revised: June 14, 2016)*
- HP 7: The subject of a hearing shall have the right to be present during any Board hearing, but does not have to be personally present if they choose to be represented. However, the subject of a hearing shall be required to attend a hearing if the Board specifically requests their attendance.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 8: The subject of a hearing has a right to present testimony at the hearing and they or their representative may bring other witnesses to present testimony.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 9: The subject of a hearing or their representative shall have the right to question any witnesses who testify at the hearing.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 10: The Board has the right to question the subject of a hearing and/or any witnesses.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 11: The Board may direct any person attending a hearing to testify whether or not the person was subpoenaed to attend or testify.  
*(Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 12: The Board shall, within its authority as provided in Charter Section 217 and Los Angeles Administrative Code 19.21, conduct Board hearings and investigations and obtain the issuance of subpoenas for attendance of witnesses and/or the production of evidence upon any request by a Board member or upon receipt of a written request provided by the subject of a hearing or their representative. Requests submitted by the subject of a hearing or their representative shall state the names and addresses of any proposed witnesses, and/or state the exact nature of any evidence sought, describing the materiality to the issues of the hearing. The written request shall also state how any proposed witness may have any desired evidence in his or her possession or under his or her control.

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The General Manager and/or his/her designees are authorized to request the City Clerk to issue these subpoenas under the provisions of the Charter.

*(Resolution: 05128; Adopted: June 14, 2005) (Resolution: 130326-B; Adopted: March 26, 2013, Last Sentence Added) (Revised: June 14, 2016)*

- HP 13: The Board may grant a re-hearing to reconsider its decision relative to any prior hearing upon demonstration (A) that material evidence now exists which would have tended to affect the Board's decision had it been available or obtainable at the time of said decision, or (B) that the Board's previous decision was contrary to the evidence and clearly in error. Any request for the Board to reconsider a prior decision must be submitted in writing not more than 90 days after the date the Board's Findings of Fact was mailed, when required, such as for a Disability hearing, or the date of a letter mailed notifying the party of the denial decision. The request for reconsideration shall be in writing and shall minimally include:
- (A) copies of any additional written evidence, or a general description of the nature of any additional testimony, which it is proposed for the Board to consider; and/or,
  - (B) a statement setting forth the nature of the Board's error in arriving at its decision.
- (Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 14: Any hearing need not be strictly conducted according to the formal rules relating to evidence and witnesses. The Board President and/or designee shall exercise the Board's authority to keep the testimony and discussion relevant to the subject of the hearing and shall require maintenance of order within the hearing room, may order the exclusion of witnesses, may expel anyone who disturbs the hearing, and may secure the aid of the Chief of Police or security officer for such purposes.
- (Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 15: The Board may continue a hearing at any stage.
- (Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 16: The Board has the power to hear and determine all matters pertaining to the granting or termination of any benefits. The determinations of the Board are final and conclusive.
- (Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*
- HP 17: A hearing reporter shall record all proceedings. The General Manager and/or his/her designees may request a hearing reporter's notes be transcribed and one copy procured at the request of the subject of the hearing or their representative, upon payment of the fee for providing such a transcription. If the notes have already been transcribed, the original transcript shall be placed into the files of the Board hearings and any other interested persons may thereafter purchase additional copies of the transcript by paying the cost of copying the transcript. Staff is authorized and directed to prepare the necessary demands for such payments. Transcriptions shall only be provided as legally permitted pursuant to applicable laws on confidentiality.
- (Resolution: 05128; Adopted: June 14, 2005) (Revised: June 14, 2016)*

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- HP 18: If the subject of a hearing or their representative or any other person requests an official **certified** transcript of a hearing proceeding, the requestor shall be responsible for bearing the entire cost of the official certified copy.  
*(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- HP 19: Board members shall provide staff with all medical or other confidential information at the end of or after each Board hearing. Board members who are not present at hearings during which medical or confidential information, such as for a disability hearing, was considered shall return all medical or confidential information to staff at the next regularly-scheduled meeting or dispose of this information in a manner that will protect the privacy rights of the concerned parties.  
*(Resolution: 05127; Adopted: June 14, 2005) (Revised: June 14, 2016)*

**FAMILY DEATH BENEFIT PLAN (FDBP):**

- FDBP 1: Participation in the FDBP shall automatically continue during all temporary leaves of absence, including leaves pending retirement.  
*(Resolution: 05020; Adopted: July 27, 2004) (Revised: June 14, 2016)*
- FDBP 2: The General Manager and/or his/her designees are authorized to administer an annual earnings test to FDBP beneficiaries and enact reductions where applicable.  
*(Resolution: 05020; Adopted: July 27, 2004) (Revised: March 26, 2013 by Resolution: 130326-B, Format Change) (Revised: June 14, 2016)*
- FDBP 3: Disabled FDBP child benefits shall terminate the third month following the month in which a disability ceases.  
*(Resolution: 05020; Adopted: July 27, 2004) (Revised: March 26, 2013 by Resolution: 130326-B, Format Change) (Revised: June 14, 2016)*
- FDBP 4: Disabled FDBP benefit recipients, whose disabilities are determined not to be permanent, shall be reviewed once every three years to assess whether their disabilities continue to exist.  
*(Resolution: 05020; Adopted: July 27, 2004) (Revised: March 26, 2013 by Resolution: 130326-B, Format Change) (Revised: June 14, 2016)*
- FDBP 5: LACERS shall initiate medical examinations to determine whether an FDBP applicant still has a disability of such a nature as to qualify for continued eligibility under the terms of the Plan. FDBP applicants shall be required to undergo examinations by three physicians specializing in the medical fields of the claimed disabilities. The disability criterion shall be through an assessment of each recipient's inability to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or to be long continued, and indefinite in duration.

Re-examination shall be required for any disabled child at age 18 and shall continue pursuant to FDBP 04 or as otherwise specified by the Board.

Surviving Spouse/Domestic Partners who receive a disabled widow/widower benefit prior to reaching age 60, due to disability, shall only be examined at the time of the

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original benefit eligibility determination and no subsequent re-examinations shall be required.

*(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

FDBP 6: Where the FDBP Dependent Child Applicant's medical records clearly indicate the Applicant is severely impaired or disabled, as determined by the Retirement Services Division Chief, the Applicant shall be required to undergo an examination by only one physician specializing in the medical field of the claimed impairment or disability.

*(Adopted: January 22, 2019)*

#### **LARGER ANNUITY (LA):**

LA 1: Cash payments toward a Larger Annuity shall be referred to the Office of the City Attorney whenever staff determines a member may be establishing an account for purposes other than those stated in the LAAC for the Larger Annuity Program, based on information communicated to the staff by a Member.

*(Resolution: 77147; Adopted: February 22, 1977) (Resolution: 130326-B; Adopted: March 26, 2013, Format Change) (Revised: June 14, 2016)*

LA 2: Rollovers targeted for payment into a Larger Annuity account, pursuant to the LAAC, must be pretested for potential excess benefits pursuant to IRC Section 415(b), the Defined Benefit Limit. If a member's rollover arrives at LACERS and must be rejected due to driving an IRC Section 415(b) excess benefit, such excess funds may be refunded to the member. If the member has "post-tax" funds contained within such a rollover, such a "post-tax" portion alone may be accepted as a post-tax payment, but only when acceptable pursuant to a pretest for IRC Section 415(c) Defined Contribution Limit.

*(Adopted: June 14, 2016)*

LA 3: In the case of proposed annual additions for a Larger Annuity, member contributions (excluding rollover contributions and picked-up employee contributions) shall not be permitted to the extent the post-tax contributions would exceed the member's 415(c) compensation that has been paid through the date of the proposed annual addition. Subsequent to that date, additional member post-tax contributions may be made up to the lower of either the published 415(c) limit or the member's to-date actual 415(c) compensation.

*(Adopted: June 14, 2016)*

LA 4: Only one refund of Larger Annuity additional contributions and accumulated interest is permitted during a term of membership.

*(Resolution: 95193; Adopted: June 13, 1995) (Resolution: 130326-B; Adopted: March 26, 2013, Format Change) (Revised: June 14, 2016)*

LA 5: Participating members and former members with funds on deposit may elect to:

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1. Receive interest in their Larger Annuity account at the same rate of return and in the same manner as is used for their regular member contributions (i.e., floating average for the five-year Treasury Note); or,

Receive a rate of return in their Larger Annuity account based on the LACERS rate of return, net of fees, for the publicly-traded, highly liquid strategies of the LACERS investment portfolio.

2. Change their investment option once a year effective the first day of the month following the change request.

*(Resolution: 95193; Adopted: June 13, 1995) (Resolution: 130326-B; Adopted: March 26, 2013, Format Change) (Revised: June 14, 2016)*

LA 6: Upon a change in a member's investment option, the member or former member's entire Larger Annuity account shall be transferred to the new investment option.  
*(Resolution: 95193; Adopted: June 13, 1995) (Resolution: 130326-B; Adopted: March 26, 2013, Format Change) (Revised: June 14, 2016)*

LA 7: Participating members may, at the time of their retirement, elect to receive either a refund of their Larger Annuity account or may convert the value of their Larger Annuity account into a monthly annuity based on their selection of available monthly annuity options.  
*(Resolution: 070724-B; Adopted: July 24, 2007, modified) (Resolution: 02094; Adopted: May 28, 2002, modified) (Resolution: 130326-B; Adopted: March 26, 2013, Format Change) (Revised: June 14, 2016)*

LA 8: At the time of retirement, members and former members desiring to purchase a Larger Annuity monthly allowance shall submit an application to convert their Larger Annuity account prior to their retirement effective date.  
*(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

LA 9: If a member, or a former member, has funds within a Larger Annuity account and requests to convert the Larger Annuity account balance into a monthly Larger Annuity benefit, such a Larger Annuity allowance shall only be established when the monthly value, based on the annuity effective date, is larger than or equal to \$50 per month. If a Larger Annuity does not meet this criterion, such Larger Annuity account shall be refunded to the member as a lump sum payment or as a refund to be rolled over into another qualified plan.  
*(Adopted: June 14, 2016)*

LA 10: Only members may elect to initiate a trustee-to-trustee rollover of funds from another qualified plan, but a rollover must also be received and posted to the member's account within 90 days of such initiation. The funds must also be received prior to the retirement unless they are being rolled over from the City's Deferred Compensation plan.  
*(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

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- LA 11: Former members who have rights pursuant to State reciprocity are to be treated in the same manner as any other former member who has terminated City employment.  
(Adopted: June 14, 2016)
- LA 12: Former members who leave their mandatory contributions on deposit with LACERS may leave their Larger Annuity funds on deposit with LACERS.  
(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)
- LA 13: Former members who terminate their employment and request a refund of their mandatory contributions shall be required to take a refund of their Larger Annuity account balance via a cash payment, or as a refund to be rolled into another qualified plan.  
(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)
- LA 14: Former members may not initiate a rollover of funds from Deferred Compensation or another qualified retirement plan to augment their Larger Annuity account.  
(Adopted: June 14, 2016)
- LA 15: Members who transfer their accumulated contributions to WPERP upon becoming employed by the Department of Water and Power shall be required to take a refund of their Larger Annuity account balance as a lump sum, via a cash payment, or as a refund to be rolled over into another qualified plan.  
(Adopted: June 14, 2016)
- LA 16: Pre-tax rollovers from other qualified plans for purchase of service under Plan provisions, when exceeding the cost for a service purchase, will be placed into a Larger Annuity account on behalf of the member, assuming the funds were lawfully rolled over after passing all IRC Section 415(b) "Defined Benefit Limit Pretests". The excess funds, plus any earnings thereon, shall not be eligible for a refund to the member unless there is a termination of employment, death, retirement, or other event otherwise permitting a refund under federal tax law. A distribution will be required for these funds whenever a member has no right to roll funds into a Larger Annuity account.  
(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)
- LA 17: Transfers from other City plans, provided for the purposes of purchasing Service under Plan provisions, but where the rolled over funds exceed the cost of the service purchase, shall be placed into a Larger Annuity account. However, these funds and earnings thereon shall not be refunded as an in service payment to the member unless there is a subsequent break in service via a termination of employment, death, retirement, or some other event permitting legal payment under federal tax law.  
(Resolution: 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)
- LA 18: If a Tier 1 member at the time of their retirement is retested for excess benefits under the DB Limit, and excess benefits are identified, but all the Larger Annuity funds were properly received, pretested and accepted by LACERS, then the excess benefits driven by these funds shall be payable from the Excess Benefits Plan.

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If a Tier 3 member at the time of their retirement is retested for excess benefits under the DB Limit, and excess benefits are identified, the Tier 3 member shall be issued a refund for any portion of their Larger Annuity account expected to drive such excess benefits. However, a Tier 3 member shall not be allowed any refund after they have already received a payment of their Larger Annuity allowance. (Adopted: June 14, 2016)

- LA19: New participation and additions of any funds to a Larger Annuity account shall be limited to active City employees who are also members of LACERS pursuant to the Los Angeles Administrative Code.  
(*Resolution 130326-B; Adopted: March 26, 2013; Revised October 8, 2013*)  
(*Revised: June 14, 2016*)
- LA 20: Non-member beneficiaries of a deceased active member or former member shall only be allowed to take a refund of any Larger Annuity account balance.  
(*Resolution: 130326-B; Adopted: March 26, 2013*) (*Revised: June 14, 2016*)
- LA 21: On the July 1<sup>st</sup> following the effective date for payment of a Larger Annuity allowance, members, former members, and beneficiaries entitled to receive a Larger Annuity allowance or continuance, shall receive a prorated increase of three percent (3%) per annum, calculated as 1/12<sup>th</sup> of three percent (3%) for each full month of participation for the fiscal year of the first payments. For each year thereafter, members, former members, or beneficiaries shall receive three percent (3%) flat increases each subsequent July 1<sup>st</sup>.  
(*Resolution 131008-B; Adopted October 8, 2013*) (*Revised: June 14, 2016*)
- LA 22: A Larger Annuity Program account shall be established by an Active Member for at least six (6) months prior to any refund or distribution. In the event that the Member retires prior to this six-month period, their funds may only be used to purchase a larger annuity.  
(*Adopted: September 14, 2021*)

### **DEFERRED SERVICE RETIREMENT (DSR):**

- DSR 1: Applicants who file for a deferred service retirement allowance must, within 60 days, submit their required documentation and complete their service retirement application process. If an applicant fails to meet this requirement, the deferred service retirement application shall be canceled. If they should later re-apply for a deferred service retirement, the later date for their deferred service retirement application shall apply and no retroactivity will be allowed based on filing an earlier application.  
(*Resolution: 130326-B; Adopted: March 26, 2013*) (*Revised: June 14, 2016*)

### **MEMBER CONTRIBUTIONS (MC):**

- MC 1: For purposes of determining missing contributions, the first contribution required is at the end of the bi-weekly payroll period when the member was first employed by the City in a position covered by LACERS.

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- (Supersedes Resolution 18, dated August 21, 1956) (Resolution: 89322; Adopted: May 23, 1989) (Revised: June 14, 2016)*
- MC 2: Upon employment on a regular full-time or part-time basis covered by LACERS, the regular contribution posted shall be based on the member's Tier. The compensation earnable shall be as designated by tier, and for deduction purposes the salary rate used shall be the one applicable on the last day of the bi-weekly payroll period.  
*(Supersedes Resolution 18, dated August 21, 1956) (Resolution: 89322; Adopted: May 23, 1989) (Revised: June 14, 2016)*
- MC 3: If a member was on a Workers' Compensation temporary disability (also known as "State Rate") leave, the compensation earnable for contributions purposes shall be based on the last pay period accrued with working hours prior to a change in status to State rate.  
*(Supersedes Resolution 18, dated August 21, 1956) (Resolution: 89322; Adopted: May 23, 1989) (Revised: June 14, 2016)*
- MC 4: Staff at the time of retirement, shall collect any missing contributions by deduction from a retiree's first monthly allowance payment. Staff may make exceptions, approved by the General Manager and/or his/her designee, when good cause exists.  
*(Resolution: 97161; Adopted: February 11, 1997) (Revised: June 14, 2016)*
- MC 5: In the case of Members who terminate City employment or LACERS membership coverage and elect a deferred service retirement, or who terminate by disability or service retirement or death, the regular contribution for the last payroll period, and service credit shall be granted for said period in which the member received compensation earnable. Members and former members shall pay retroactive regular contributions as required for any pay increases in their compensation earnable, applied retroactively.  
*(Supersedes Resolution 18, dated August 21, 1956) (Resolution: 89322; Adopted: May 23, 1989) (Revised: June 14, 2016)*
- MC 6: Member, former member, and nonmember accounts, constituting the regular account contributions made by members and accumulated interest therein, shall be credited monthly with interest.
- The interest rate to be credited shall be based on the annualized average rate for the 5-year Treasury Notes based on the previous third month as obtained from the Bloomberg indices divided by twelve. This rate shall be applied to the prior month ending balance of the member accounts. No other interest shall be credited thereon to a member's regular account.  
*(Supersedes Resolution 83014, dated July 13, 1982) (Resolution: 97126; Adopted: December 23, 1996) (Revised: June 14, 2016)*
- MC 7: The ex-spouse of a Member granted a Separate Account shall be required to make an irrevocable election to either receive a separate account allowance, a refund, or a rollover of their community property share within six months of notification from LACERS that a Separate Account has been established in their name. If the ex-

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spouse fails to make an election within the prescribed period, their failure to elect shall be deemed an election to receive a refund of contributions.

*(Adopted: January 22, 2019)*

#### **RECIPROCITY (R):**

- R 4: A member's decision to participate in reciprocity shall be revocable. Such revocations shall not allow for a member to engage in a Government Service Buyback (GSB) service purchase whenever the service period would be eligible for reciprocity except for this revocation.  
*(Resolution: 04029; Adopted: September 23, 2003) (Revised: June 14, 2016)*
- R 5: If a member with reciprocity is participating in a Deferred Retirement Option Plan (aka a DROP plan), LACERS will begin to pay the member a retirement allowance based on when the reciprocal system considers the member to be retired.  
*(Resolution: 04029; Adopted: September 23, 2003) (Revised: June 14, 2016)*
- R 6: If a member with reciprocity is participating in a DROP, LACERS will determine his/her Final Compensation for the purposes of calculating his/her retirement allowance based on the specific Tier requirements using the compensation accrued before being considered retired by the other reciprocal system. Subsequent compensation shall not be considered.  
*(Resolution: 04029; Adopted: September 23, 2003) (Revised: June 14, 2016)*
- R 7: If a member is employed by a reciprocal agency for less than one year and wants LACERS to recognize the period for his/her Final Compensation, the period will be blended with the member's other contiguous period of highest compensation to develop a twelve-month Final Compensation amount.  
*(Resolution: 04029; Adopted: September 23, 2003) (Revised: June 14, 2016)*

#### **HEALTH BENEFITS ADMINISTRATION (HBA):**

- HBA 1: An "Eligible Primary Subscriber," as used throughout these rules, shall mean anyone receiving a monthly benefit payment who is eligible to enroll themselves and/or enroll a dependent(s) pursuant to Administrative Code eligibility requirements and health insurance carrier subscriber/dependent eligibility requirements.  
*(Adopted: June 14, 2016)*
- HBA 2: The following rules shall apply to enrolling "Eligible Primary Subscribers" and dependents, as follows:
- (a) An Eligible Primary Subscriber shall be eligible to enroll in a LACERS medical/dental plan if he or she is receiving a monthly retirement allowance from LACERS (LAAC 4.1100) and otherwise meets eligibility requirements as stated in carrier contracts, administrative policy, and all applicable State or federal laws.

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- (b) Upon the death of a Retired Member, a dependent eligible to become an Eligible Primary Subscriber may continue their health plan coverage in the same plan(s).
- (c) When Eligible Primary Subscribers become ineligible for enrollment or coverage, they and their dependents coverage shall be terminated.
- (d) At age 65 (or sooner if eligible for Medicare insurance), Eligible Primary Subscribers and their Medicare eligible dependents must enroll in a LACERS Medicare plan. (LAAC 4.1103.2)
- (e) Retired Members or Eligible Surviving Spouses/Domestic Partners whose medical coverage has been terminated due to a lapse in Medicare Part B enrollment may re-enroll themselves and their dependents in their LACERS medical plan within 30 days of re-establishing Medicare Part B enrollment.
- (f) Medical plan dependents whose medical coverage is terminated due to a lapse in Medicare Part B coverage may be re-enrolled in the primary subscriber's (Retired Member's or Eligible Surviving Spouse's/Domestic Partner's) medical plan within 30 days of re-establishing Medicare Part B enrollment.

The General Manager and/or his/her designees are authorized to waive compliance with these rules when it is determined good cause exists.  
*(Resolution: 120110-B; Adopted: January 10, 2012; added "(h), (i)" above)*  
*(Revised: June 14, 2016)*

HBA 3: Eligible Dependents shall include all of the following:

- a) Spouse
- b) Domestic partner (the partnership must be registered with LACERS or the State)
- c) Dependent child who is:
  - Under age 26, except when an adult child is eligible to enroll in an employee-sponsored plan.
  - Unable to engage in gainful employment because of a mental or physical disability (disability must have occurred before age 26).

Note: A "dependent child" includes:

- One born to an Eligible Primary Subscriber.
- One legally adopted by an Eligible Primary Subscriber.
- A step-child living with an Eligible Primary Subscriber in a parent-child relationship.
- A child of whom an Eligible Primary Subscriber has legal custody or is the legal guardian, and provides the principal financial support.
- An Eligible Primary Subscriber's domestic partner's child.

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d) Grandchildren under age 26, if they are those of an Eligible Primary Subscriber or an Eligible Primary Subscriber's spouse/domestic partner when they are also the legal guardian or have legal custody; or if an Eligible Primary Subscriber's grandchild is the child of an Eligible Primary Subscriber's dependent child as defined in c) above.

Eligibility verifications shall be required to verify any dependent is eligible to enroll in a LACERS health plan, and Eligible Primary Subscribers and their dependents shall be required to provide LACERS with all supporting documents.

*(Revised: June 14, 2016)*

HBA 4: Enrollment Periods shall be permitted as follows:

An Eligible Primary Subscriber may enroll in a LACERS-sponsored medical/dental plan or the Medical Premium Reimbursement Program as follows:

- Within 60 days of the date an Eligible Primary Subscriber's name is placed onto the Retirement Roll
- During the annual LACERS Open Enrollment period.
- Within 60 days of turning age 55.
- Within 60 days of turning age 65.
- Within 30 days of relocating out of or into a LACERS plan authorized zip code service area.
- Within 30 days of involuntary termination of a non-LACERS medical plan (proof required).
- Within 30 days of re-establishing his/her Medicare Part B/Part D after a lapse in Medicare Part B/Part D enrollment.

New dependents must be added to an Eligible Primary Subscriber's medical and/or dental plan within 30 days of becoming eligible for enrollment; if this requirement is not met, the next opportunity to enroll the dependent shall be at the annual Open Enrollment period.

The General Manager and/or his/her designees are authorized to waive compliance with this rule when it is determined good cause exists.

*(Resolution 120110-B; Adopted: January 10, 2012; modified first and last bullet points above) (Revised: June 14, 2016)*

HBA 5: The Medical Premium Reimbursement Program (MPRP) is available to all Eligible Primary Subscribers who are unable to access a LACERS HMO medical plan as contained in LAAC Sections 4.1112 and 4.1127, and as follows:

(a) Dental coverage is exempt from this program.

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- (b) Eligible Primary Subscribers who are eligible may receive reimbursement for their supplemental Medicare Part D basic or standard premium in order to maintain creditable coverage. Reimbursement for the supplemental Medicare Part D basic or standard premium, when added to the reimbursement for the Eligible Primary Subscriber's primary medical plan, will not exceed the maximum subsidy available to that Eligible Primary Subscriber.
- (c) Eligible Primary Subscribers who are enrolled in one of the following types of plan, besides plans defined in LAAC Sections 4.1112(a) and 4.1127(a), and are paying all or a portion of the premium, will be eligible for participation in the MPRP:
- 1) a plan sponsored by an employer.
  - 2) a plan sponsored by a retirement system other than LACERS.
  - 3) a partially subsidized health plan.
- (d) Retired members who qualify for MPRP and are enrolled in Medicare Parts A and B, who receive health coverage premium-free, will be eligible for Medicare Part B premium reimbursement.
- (e) Eligible Primary Subscribers may receive reimbursement for separate vision plan insurance if their existing medical plan does not provide vision coverage, or the vision services provided are not equivalent to LACERS vision benefits. Reimbursement for separate vision plan insurance, when added to the reimbursement for the Eligible Primary Subscriber's primary medical plan and Medicare Part D, will not exceed the maximum subsidy available to that Eligible Primary Subscriber.
- (f) Any Eligible Primary Subscriber who receives a payment as a refund or rebate of any portion of his/her health plan premium for which the Eligible Primary Subscriber has been reimbursed by LACERS under the MPRP shall report the payment to LACERS and provide supporting documentation. LACERS will determine if any portion of the payment is due to LACERS. Should an Eligible Primary Subscriber refuse to reimburse LACERS the payment, the amount due to LACERS shall be included in the Eligible Primary Subscriber's taxable income as reported to the IRS and the State of California.
- (g) Effective September 1, 2013, all Eligible Primary Subscribers participating in the MPRP shall attest the following on each claim form submitted:
- The Eligible Primary Subscriber will inform LACERS if he/she receives a rebate or refund of any portion of his/her health plan premium for which LACERS has reimbursed the Eligible Primary Subscriber under the MPRP and provide supporting documentation for such a payment.
  - The member Eligible Primary Subscriber agrees to reimburse LACERS in an amount of the payment received less any portion the Eligible Primary Subscriber paid for his/her MPRP-eligible medical plan coverage that was not reimbursed by LACERS.

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- The Eligible Primary Subscriber agrees to repay LACERS its portion of any medical plan premium payment through personal check, withholding from future MPRP payments, or deduction from the Eligible Primary Subscriber's Retirement or Continuance Allowance.

*(Resolution 130514-G; Adopted May 14, 2013; added Items g, h, i, j) Revised: June 14, 2016, by Resolution: 99999)*

- (h) A Member enrolled in Medicare Parts A and B, providing medical coverage for an eligible dependent, and participating in the MPRP, will be eligible to receive a total reimbursement that shall not exceed the amount of subsidy available to Members enrolled in the LACERS Kaiser Permanente Senior Advantage plan covering a non-Medicare dependent in the LACERS Kaiser Permanente HMO plan.  
*(Added August 27, 2019)*

HBA 6: The handling of insufficient funds for premium deductions shall be as follows:

- (a) Effective November 1, 2003, an Eligible Primary Subscriber may submit to LACERS the contribution shortage between their monthly deduction and the monthly premium owed for the next Plan Year effective January 1. The total contribution shortage for the 12-month period beginning January 1 of the following year, is due to LACERS no later than November 30. LACERS shall send a notice of the contribution shortage amount to the Eligible Primary Subscriber at his or her last known address prior to October 10 (Dates are subject to change depending on when the Board adopts the next plan year's health plan premium rates).
- (b) If an Eligible Primary Subscriber fails to make full payment by November 30 (regardless of whether a notice of contribution shortage is received by the Eligible Primary Subscriber), the Eligible Primary Subscriber shall not have coverage effective January 1 of the next Plan Year.
- (c) Cancellation of an Eligible Primary Subscriber's coverage pursuant to this rule shall not affect LACERS right to collect any and all contribution shortages for coverage already provided and seek recoveries for premiums required for such coverage from the beneficiary or an estate of a beneficiary.  
*(Revised: June 14, 2016)*

HBA 7: The following are participant requirements for providing timely notices to LACERS and/or for dealing with the recovery of benefits paid when the participant was ineligible:

- If an event occurs which makes a person ineligible for continued enrollment or coverage in the health plan(s) offered or sponsored by LACERS, an Eligible Primary Subscriber or their representative shall notify LACERS of the event as soon as is reasonable.
- All such notices shall be in writing and shall be sent to LACERS.

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- LACERS shall be entitled to seek recovery of any benefits that were provided to any participants after an event that terminated the participant's enrollment or that otherwise made that participant ineligible for continued enrollment in or coverage by the health plans administered by LACERS.
- In seeking to recover benefits under this rule, LACERS staff shall have the right of offset against any other benefits payable, including without limitation, the right to recover amounts from and out of any and all future benefits payable to the participant whose enrollment was terminated.

*(Revised: June 14, 2016)*

HBA 8: Eligible Primary Subscribers shall be responsible for:

- (a) Providing current and accurate personal information required for maintaining coverage and eligibility.
- (b) Paying the premium contributions in the amount or amounts required above the amount of any subsidy paid by LACERS for the applicable health benefit plan.
- (c) Paying the premium contributions at the times and in the manner prescribed by LACERS.
- (d) Complying with these Board Rules, Administrative Policies and Procedures and carrier contract provisions.
- (e) Enrolling in all parts of Medicare for which they are eligible if enrolled in a LACERS health plan.

*(Revised: June 14, 2016)*

HBA 9: A retired Member identified as a dependent who meets the definition of an Eligible Retiree as provided in LAAC Section 4.1113(b) shall be eligible for Medicare Part B premium reimbursement and shall be subject to and responsible for complying with these Board Rules, Administrative Policies and Procedures, and carrier contract provisions. This shall not apply if the retired Member is receiving a Medicare Part B premium reimbursement as a primary subscriber in a LACERS or other plan. *(Revised: June 14, 2016; Resolution: 180508-C; Adopted: May 8, 2018)*

HBA 10: The determinations of the total annual premium costs for discretionary benefit changes shall be as follows:

In order to determine if a benefit change meets the one-half of one percent total annual premium cost threshold described in LAAC Section 4.1106, staff will use the following to measure the cost impacts related to discretionary health plan benefit changes:

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- For a mid-year benefit change, staff shall utilize the enrollment and premium cost data associated with the health plan premium renewal report adopted by the Board for the plan year in which the discretionary benefit change is being recommended;
  - For a new plan year benefit change, staff shall utilize the enrollment and premium cost data associated with the proposed final premiums that will be recommended to the Board for the upcoming new plan year in which the discretionary health plan benefit change is being recommended.
1. The “total annual premium cost” shall refer to the estimated annual premium cost of the Health and Welfare Program administered by the LACERS Board.  
*(Resolution: 110913-C; Adopted: September 13, 2011) (Revised: June 14, 2016)*

#### LIMITED TERM RETIREMENT PLAN (LTRP):

- LTRP 1: Participants in the LTRP plan shall be allowed options to change their investment asset allocation of 1) old money (funds posted into their LTRP account), and/or 2) new money (funds to be posted prospectively to their LTRP account).  
*(Adopted: June 14, 2016)*
- LTRP 2: The Board establishes the interim valuation dates for presentation of values to the participants as the end of each quarter of the calendar year. For purposes of an interim valuation associated with a termination of participation or a request for refund of the LTRP account, the valuation date shall be the same date as completion of the liquidation of the investments for the participant’s assets.  
*(Adopted: June 14, 2016)*

#### REQUIRED MINIMUM DISTRIBUTION (RMD):

- RMD 1: LACERS will pay all benefits in accordance with the requirements of Internal Revenue Code Section 401(a)(9) as applicable to governmental plans, as defined by 414(d) of the Internal Revenue Code (IRC).  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 2: The initial RMD must be paid by the later of April 1st, the calendar year following the attainment of age 70½, or April 1st of the year following termination of City Service. In each subsequent year, the RMD must be made on or before December 31st.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 3: If a former member fails to apply for retirement benefits or requests a refund, as provided in the LAAC, by the later of the articulated above in RMD 02, the Board shall begin distribution as prescribed by the IRC.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

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- RMD 4: The RMD shall be calculated in a manner to allow for even distribution over a time period not extending beyond the life expectancy of the former member and his or her qualified survivor or designated beneficiary.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 5: Pursuant to a court order, a portion of a member's RMD benefit may be paid to a nonmember.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 6: Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, Q&A-2(b), and taking into account the deferred-service rights in LACERS retirement benefits, if a deferred member is also a current employee and member of another retirement system with which LACERS has reciprocity under the California law, then for purposes of determining the Required Beginning Date under the LACERS plan, the former member shall be treated as a current employee covered by LACERS as if he or she had not retired, even if he or she has attained age 70 ½. The RMD shall not be required for any employment periods reciprocal with another State agency whenever the former member has established the State Reciprocity with LACERS for the same active employment. RMDs will be required when such a former member terminates employment with such an agency. However, if the former member later again establishes or reestablishes State Reciprocity with the same or another State agency, the RMD may again not be required during such periods when the former member is actively employed by a reciprocal State agency.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 7: If a former member dies after the RMD has begun, the remaining portion of the member's interest must be distributed at least as rapidly as under the method of distribution before the member's death.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 8: If a member or former member dies before the RMD has commenced, the member or former member's entire interest must be either:  
(i) Distributed (in accordance with federal regulations) over the life or life expectancy of the qualified survivor, with the distributions beginning no later than December 31st or the calendar year following the calendar year of the member's death, or  
(ii) Distributed within five years of the member or former member's death.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 9: The amount of an annuity paid to a member's beneficiary may not exceed the maximum determined under the incidental death benefit requirement of Section 401(a)(9)(G) of the IRC, and the minimum distribution incidental benefit rule under Treasury Regulation Section 1.401(a)(9)-6, Q & A-2.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*
- RMD 10: The death and disability benefits provided by LACERS are limited by the incidental death benefit rule set forth in Section 409(a)(9)(G) of the IRC, and Treasury Regulation Section 1.401(b)(1)(i), or any successor regulation thereto.

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The total death or disability benefits payable may not exceed 25% of the cost for all the member's benefits received from LACERS.

*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

RMD 11: Benefit options may continue so long as the option satisfies Section 401(a)(9) of the IRC based on a reasonable and good faith interpretation of that Section.  
*(Resolution 130326-B; Adopted: March 26, 2013) (Revised: June 14, 2016)*

#### **TRUSTEE-TO-TRUSTEE TRANSFERS (TTT):**

TTT 1: Any member eligible to:

- (A) pay for Back Contributions,
- (B) pay a Redeposit of contributions,
- (C) pay for any buyback service credit,
- (D) pay contributions for periods during when they were on Workers' Compensation statu,
- (E) pay additional contributions towards the purchase of a Larger Annuity,, or
- (F) pay funds to receive an increased benefit,

Shall be allowed to make full or partial payment for these purposes by a direct trustee-to-trustee transfer of funds from any eligible retirement plan (as defined in Section 402(c)(8)(B) of the Internal Revenue Code) as permitted under current federal and state law or under these laws as amended in the future. Should this transfer constitute a partial payment, any additional payment received in a lump sum shall, together with the amount transferred, directly be considered one payment for purposes of the Plan.

*(Adopted: June 14, 2016)*

#### **INTERNAL REVENUE CODE (IRC):**

IRC 1: The following rules shall apply to members and beneficiaries and shall require compliance with Internal Revenue Code Section 415. These tax rules are extensions of the provisions on federal tax laws contained in Sections 4.1029 and 4.1080.26, Tiers 1 and 3, respectively.

(a) Participation in Other Qualified Plans: Aggregation of Limits.

- (1) The 415(b) limit with respect to any member who at any time has been a member in any other defined benefit plan as defined in section 414(j) of the Internal Revenue Code maintained by the member's employer in this plan shall apply as if the total benefits payable under all such defined

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benefit plans in which the member has been a member were payable from one (1) plan.

- (2) The 415(c) limit with respect to any member who at any time has been a member in any other defined contribution plan as defined in section 414(i) of the Internal Revenue Code maintained by the member's employer in this plan shall apply as if the total annual additions under all such defined contribution plans in which the member has been a member were payable from one (1) plan.

(b) Basic 415(b) Limitation.

- (1) Before January 1, 1995, a member could not receive an annual benefit that exceeded the limits specified in section 415(b) of the Internal Revenue Code, subject to the applicable adjustments in that section. On and after January 1, 1995, a member may not receive an annual benefit that exceeds the dollar amount specified in section 415(b)(1)(A) of the Internal Revenue Code, subject to the applicable adjustments in section 415(b) of the Internal Revenue Code and subject to any additional limits that may be specified in the retirement system. In no event shall a member's benefit payable under the plan in any limitation year be greater than the limit applicable at the annuity starting date, as increased in subsequent years pursuant to section 415(d) of the Internal Revenue Code and the regulations thereunder.
- (2) For purposes of section 415(b) of the Internal Revenue Code, the "annual benefit" means a benefit payable annually in the form of a straight life annuity (with no ancillary benefits) without regard to the benefit attributable to after-tax employee contributions (except pursuant to section 415(n) of the Internal Revenue Code) and to rollover contributions (as defined in section 415(b)(2)(A) of the Internal Revenue Code). The "benefit attributable" shall be determined in accordance with Treasury Regulations.

(c) Adjustments to Basic 415(b) Limitation for Form of Benefit.

If the benefit under the plan is other than the form specified in subsection (c)(2), then the benefit shall be adjusted so that it is the equivalent of the annual benefit, using factors prescribed in Treasury Regulations.

- (1) If the form of benefit without regard to the automatic benefit increase feature is not a straight life annuity or a qualified joint and survivor annuity, then the preceding sentence is applied by either reducing the section 415(b) of the Internal Revenue Code limit applicable at the annuity starting date or adjusting the form of benefit to an actuarially equivalent amount [determined using the assumptions specified in Treasury Regulation section 1.415(b)-1(c)(2)(ii)] that takes into account the additional benefits under the form of benefit as follows:

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- (2) For a benefit paid in a form to which section 417(e)(3) of the Internal Revenue Code does not apply [a monthly benefit], the actuarially equivalent straight life annuity benefit that is the greater of (or the reduced Limit applicable at the annuity starting date which is the "lesser of" when adjusted in accordance with the following assumptions):
- (A) The annual amount of the straight life annuity (if any) payable to the member under the plan commencing at the same annuity starting date as the form of benefit to the member, or
  - (B) The annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the form of benefit payable to the member, computed using a 5% interest assumption (or the applicable statutory interest assumption) and (i) for limitation years prior to January 1, 2009, the applicable mortality tables described in Treasury Regulation section 1.417(e)-1(d)(2) (Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Rulings 2001-62), and (ii) for limitation years after December 31, 2008, the applicable mortality tables described in Internal Revenue Code section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing Internal Revenue Code section 417(e)(3)(B)).
- (3) For a benefit paid in a form to which section 417(e)(3) of the Internal Revenue Code applies [a lump sum benefit], the actuarially equivalent straight life annuity benefit that is the greatest of (or the reduced section 415(b) of the Internal Revenue Code limit applicable at the annuity starting date which is the "least of" when adjusted in accordance with the following assumptions):
- (A) The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable, computed using the interest rate and mortality table, or tabular factor, specified in the plan for actuarial experience;
  - (B) The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable, computed using a 5.5 percent interest assumption (or the applicable statutory interest assumption) and (i) for years prior to January 1, 2009, the applicable mortality tables described in Treasury Regulation section 1.417(e)-1(d)(2) (Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Rulings 2001-62), and (ii) for years after December 31, 2008, the applicable mortality tables described in Internal Revenue Code section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service

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guidance implementing Internal Revenue Code section 417(e)(3)(B)); or

- (C) The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable (computed using the applicable interest rate for the distribution under Treasury Regulation section 1.417(e)-1(d)(3) (using the rate in effect for the third month prior to the beginning of the plan year with a one-year stabilization period) and (i) for years prior to January 1, 2009, the applicable mortality tables described in Treasury Regulation section 1.417(e)-1(d)(2) (Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Rulings 2001-62), and (ii) for years after December 31, 2008, the applicable mortality tables described in Internal Revenue Code section 417(e)(3)(B) (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing Internal Revenue Code section 417(e)(3)(B)), divided by 1.05.

- (4) The actuary may adjust the 415(b) limit at the annuity starting date in accordance with the above subsections (2) and (3).

(d) Benefits Not Taken into Account for 415(b) Limitation.

For purposes of this section, the following benefits shall not be taken into account in applying these limits:

- (1) Any ancillary benefit which is not directly related to retirement income benefits;
- (2) That portion of any joint and survivor annuity that constitutes a qualified joint and survivor annuity;
- (3) Any other benefit not required under section 415(b)(2) of the Internal Revenue Code and Treasury Regulations thereunder to be taken into account for purposes of the limitation of section 415(b)(1) of the Internal Revenue Code.

(e) Other Adjustments in 415(b) Limitation.

- (1) In the event the member's retirement benefits become payable before age sixty-two (62), the limit prescribed by this section shall be reduced in accordance with Treasury Regulations pursuant to the provisions of section 415(b) of the Internal Revenue Code, so that such limit (as so reduced) equals an annual straight life benefit (when such retirement income benefit begins) which is equivalent to a one hundred sixty thousand dollar (\$160,000) (as adjusted) annual benefit beginning at age sixty-two (62).

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- (2) In the event the member's benefit is based on at least fifteen (15) years of service as a full-time employee of any police or fire department or on fifteen (15) years of military service, or is based on a fifteen (15) years combination, the adjustments provided for in (1) above shall not apply.
- (3) The reductions provided for in (1) above shall not be applicable to members who receive disability retirement benefits or survivors who receive survivors' benefits prior to the date the member reaches age sixty-two (62).
- (f) Less than Ten (10) Years of Participation or Service Adjustment for 415(b) Limitations.

The maximum retirement benefits payable to any member who has completed less than ten (10) years of participation shall be the amount determined under subsection (c), as adjusted under subsection (c) and/or (e) multiplied by a fraction, the numerator of which is the number of the member's years of participation and the denominator of which is ten (10). The limit under subsection (g) concerning the \$10,000 limit shall be similarly reduced for any member who has accrued less than ten (10) years of service, except the fraction shall be determined with respect to years of service instead of years of participation. The reduction provided by this subsection cannot reduce the maximum benefit below 10% of the limit determined without regard to this subsection. The reduction provided for in this subsection shall not be applicable to pre-retirement disability benefits or pre-retirement death benefits. The reductions provided for in this subsection (f) shall not be applicable to members who receive disability retirement benefits or survivors who receive survivors' benefits prior to the date the member reaches age sixty-two (62).

- (g) Ten Thousand Dollar (\$10,000) Limit.

Notwithstanding the foregoing, the retirement benefit payable with respect to a member shall be deemed not to exceed the 415 limit if the benefits payable, with respect to such member under this plan and under all other qualified defined benefit pension plans to which the member's employer contributes, do not exceed ten thousand dollars (\$10,000) for the applicable limitation year and for any prior limitation year and the employer has not any time maintained a qualified defined contribution plan in which the member participated.

- (h) Effect of COLA without a Lump Sum Component on 415(b) Testing.

Effective on and after January 1, 2009, for purposes of applying the limits under section 415(b) of the Internal Revenue Code (the "Limit") to a member with no lump sum benefit, the following will apply:

- (1) a member's applicable 415(b) Limit will be applied to the member's annual benefit in the member's first limitation year without regard to any cost of living adjustments under the LAAC .;

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- (2) to the extent that the member's annual benefit equals or exceeds the Limit, the member will no longer be eligible for cost of living increases until such time as the benefit plus the accumulated increases are less than the Limit; and
- (3) thereafter, in any subsequent limitation year, a member's annual benefit, including any cost of living increases under LAAC § 4.1040, et seq., shall be tested under the then applicable benefit Limit including any adjustment to the section 415(b)(1)(A) of the Internal Revenue Code dollar limit under section 415(d) of the Internal Revenue Code, and the regulations thereunder.

- (i) Effect of COLA with a Lump Sum Component on 415(b) Testing.

On and after January 1, 2009, with respect to a member who receives a portion of the member's annual benefit in a lump sum, a member's applicable Limit will be applied taking into consideration cost of living increases as required by section 415(b) of the Internal Revenue Code and applicable Treasury Regulations.

- (j) Section 415(c) limitations on contributions and other additions.

After-tax member contributions or other annual additions with respect to a member may not exceed the lesser of \$40,000 (as adjusted pursuant to section 415(d) of the Internal Revenue Code) or 100% of the member's compensation.

- (1) Annual additions are defined to mean the sum (for any year) of employer contributions to a defined contribution plan, member contributions, and forfeitures credited to a member's individual account. Member contributions are determined without regard to rollover contributions and to picked-up employee contributions that are paid to a defined benefit plan.
- (2) In the case of proposed annual additions to purchase permissive service credit, member contributions (excluding rollover contributions and picked-up employee contributions) shall not be permitted in any test year once the modified 415(c) limit has already been reached, notwithstanding whether or not the 415(b) limit has been reached.
- (3) For purposes of applying section 415(c) of the Internal Revenue Code and for no other purpose, the definition of compensation where applicable will be compensation actually paid or made available during a limitation year, except as noted below and as permitted by Treasury Regulation section 1.415(c)-2, or successor regulation; provided, however, that member contributions picked up under

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section 414(h) of the Internal Revenue Code shall not be treated as compensation.

- (3) Compensation will be defined as wages within the meaning of section 3401(a) of the Internal Revenue Code and all other payments of compensation to an employee by an employer for which the employer is required to furnish the employee a written statement under sections 6041(d), 6051(a)(3) and 6052 of the Internal Revenue Code and will be determined without regard to any rules under section 3401(a) of the Internal Revenue Code that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the Internal Revenue Code).
- (A) However, for limitation years beginning after December 31, 1997, compensation will also include amounts that would otherwise be included in compensation but for an election under section 125(a), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b) of the Internal Revenue Code. For limitation years beginning after December 31, 2000, compensation shall also include any elective amounts that are not includible in the gross income of the member by reason of section 132(f)(4) of the Internal Revenue Code.
- (B) For limitation years beginning on and after January 1, 2008, compensation for the limitation year shall also include compensation paid by the later of 2½ months after a member's severance from employment or the end of the limitation year that includes the date of the member's severance from employment if:
- (I) the payment is regular compensation for services during the member's regular working hours, or compensation for services outside the member's regular working hours (such as overtime or shift differential), commissions, bonuses or other similar payments, and, absent a severance from employment, the payments would have been paid to the member while the member continued in employment with the employer; or
  - (II) the payment is for unused accrued bona fide sick, vacation or other leave that the member would have been able to use if employment had continued; or
  - (III) payments pursuant to a nonqualified unfunded deferred compensation plan, but only if the payments would have been paid to the member at the same time if the member had continued employment with the employer and only to

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the extent that the payment is includible in the member's gross income.

Any payments not described in paragraph (B) above are not considered compensation if paid after severance from employment, even if they are paid within 2½ months following severance from employment, except for payments to the individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of section 414(u)(1) of the Internal Revenue Code) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

An employee who is in qualified military service (within the meaning of section 414(u)(1) of the Internal Revenue Code) shall be treated as receiving compensation from the employer during such period of qualified military service equal to (i) the compensation the employee would have received during such period if the employee were not in qualified military service, determined based on the rate of pay the employee would have received from the employer but for the absence during the period of qualified military service, or (ii) if the compensation the employee would have received during such period was not reasonably certain, the employee's average compensation from the employer during the twelve month period immediately preceding the qualified military service (or, if shorter, the period of employment immediately preceding the qualified military service).

- (C) Back pay, within the meaning of Treasury Regulation section 1.415(c)-2(g)(8), shall be treated as compensation for the limitation year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.
- (4) If the annual additions for any member for a plan year exceed the limitation under section 415(c) of the Internal Revenue Code, the excess annual addition will be corrected as permitted under the Employee Plans Compliance Resolution System (or similar IRS correction program).
- (5) For limitation years beginning on or after January 1, 2008, a member's compensation for purposes of subsection (j) shall not exceed the annual limit under section 401(a)(17) of the Internal Revenue Code.
- (k) Service Purchases under Section 415(n).

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Effective for permissive service credit contributions made in limitation years beginning after December 31, 1997, if a member makes one or more contributions to purchase permissive service credit under the plan, then the requirements of section 415(n) of the Internal Revenue Code will be treated as met only if:

- (1) the requirements of section 415(b) of the Internal Revenue Code are met, determined by treating the accrued benefit derived from all such contributions as an annual benefit for purposes of section 415(b) of the Internal Revenue Code, or
- (2) the requirements of section 415(c) of the Internal Revenue Code are met, determined by treating all such contributions as annual additions for purposes of section 415(c) of the Internal Revenue Code.
- (3) For purposes of applying this section, the system will not fail to meet the reduced limit under section 415(b)(2)(C) of the Internal Revenue Code solely by reason of this subparagraph and will not fail to meet the percentage limitation under section 415(c)(1)(B) of the Internal Revenue Code solely by reason of this section.
- (4) For purposes of this section the term "permissive service credit" means service credit—
  - (A) recognized by the system for purposes of calculating a member's benefit under the system,
  - (B) which such member has not received under the system, and
  - (C) which such member may receive only by making a voluntary additional contribution, in an amount determined under the system, which does not exceed the amount necessary to fund the benefit attributable to such service credit.

Effective for permissive service credit contributions made in limitation years beginning after December 31, 1997, such term may include service credit for periods for which there is no performance of service, and, notwithstanding clause (B), may include service credited in order to provide an increased benefit for service credit which a member is receiving under the system.

- (5) The system will fail to meet the requirements of this section if—
  - (A) more than five years of nonqualified service credit are taken into account for purposes of this subparagraph, or
  - (B) any nonqualified service credit is taken into account under this paragraph before the member has at least five years of participation under the system.

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- (6) For purposes of paragraph (5), effective for permissive service credit contributions made in limitation years beginning after December 31, 1997, the term "nonqualified service credit" means permissive service credit other than that allowed with respect to—
- (A) service (including parental, medical, sabbatical, and similar leave) as an employee of the Government of the United States, any State or political subdivision thereof, or any agency or instrumentality of any of the foregoing (other than military service or service for credit which was obtained as a result of a repayment described in section 415(k)(3) of the Internal Revenue Code),
  - (B) service (including parental, medical, sabbatical, and similar leave) as an employee (other than as an employee described in clause (A)) of an education organization described in section 170(b)(1)(A)(ii) of the Internal Revenue Code which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), or a comparable level of education, as determined under the applicable law of the jurisdiction in which the service was performed,
  - (C) service as an employee of an association of employees who are described in clause (A), or
  - (D) military service (other than qualified military service under section 414(u) of the Internal Revenue Code) recognized by the system.

In the case of service described in clause (A), (B), or (C), such service will be nonqualified service if recognition of such service would cause a member to receive a retirement benefit for the same service under more than one plan.

- (7) In the case of a trustee-to-trustee transfer after December 31, 2001, to which section 403(b)(13)(A) of the Internal Revenue Code or section 457(e)(17)(A) of the Internal Revenue Code applies (without regard to whether the transfer is made between plans maintained by the same employer)—
- (A) the limitations of paragraph (5) will not apply in determining whether the transfer is for the purchase of permissive service credit, and
  - (B) the distribution rules applicable under federal law to the system will apply to such amounts and any benefits attributable to such amounts.

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(8) For an eligible member, the limitation of section 415(c)(1) of the Internal Revenue Code shall not be applied to reduce the amount of permissive service credit which may be purchased to an amount less than the amount which was allowed to be purchased under the terms of a Plan as in effect on August 5, 1997. For purposes of this paragraph an eligible member is an individual who first became a member in the system before January 1, 1998.

(l) Modification of Contributions for 415(c) and 415(n) Purposes.

Notwithstanding any other provision of law to the contrary, the system may modify a request by a member to make a contribution to the system if the amount of the contribution would exceed the limits provided in section 415 of the Internal Revenue Code by using the following methods:

(1) If the law requires a lump sum payment for the purchase of service credit, the system may establish a periodic payment plan for the member to avoid a contribution in excess of the limits under section 415(c) or 415(n) of the Internal Revenue Code.

(2) If payment pursuant to subparagraph (1) will not avoid a contribution in excess of the limits imposed by section 415(c) or 415(n) of the Internal Revenue Code, the system may either reduce the member's contribution to an amount within the limits of those sections or refuse the member's contribution.

(m) Repayments of Cashouts.

(1) Any repayment of contributions (including interest thereon) to the plan with respect to an amount previously refunded upon a forfeiture of service credit under the plan or another governmental plan maintained by the retirement system shall not be taken into account for purposes of section 415 of the Internal Revenue Code, in accordance with applicable Treasury Regulations.

(2) In the case of any repayment of contributions and interest to the system with respect to an amount previously refunded upon a forfeiture of service credit under another California State or local governmental plan maintained with the State of California, any such repayment with the system shall not be taken into account for purposes of this section.

(n) Reduction of Benefits Priority.

Reduction of benefits and/or contributions to all plans, where required, shall be accomplished by first reducing the member's benefit under any defined benefit plans in which the member participated, such reduction to be made first with respect to the plan in which the member most recently

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accrued benefits and thereafter in such priority as shall be determined by the plan and the plan administrator of such other plans, and next, by reducing or allocating excess forfeitures for defined contribution plans in which the member participated, such reduction to be made first with respect to the plan in which the member most recently accrued benefits and thereafter in such priority as shall be established by the plan and the plan administrator for such other plans provided, however, that necessary reductions may be made in a different manner and priority pursuant to the agreement of the plan and the plan administrator of all other plans covering such member. The Board of Administration is authorized to create administrative rules necessary to facilitate different manners for reduction of benefits.

*(Revised: June 14, 2016)*

- IRC 2: LACERS IRC Section 401(a)(17) grandfathering rights shall only be based upon a “true” membership entry dates into active membership status with LACERS prior to July 1, 1996. This shall apply ONLY when the member has associated membership funds on account with LACERS. If a member also had a prior “true” membership entry date(s) with any other City-sponsored DB plan, such as the Water and Power Employees Retirement Plan (WPERP), the Los Angeles Fire and Police Pension Plan (LAFPP), a Hiring Hall plan sponsored by the City, or the LIUNA plan, those membership dates shall NOT be used to provide for IRC Section 401(a)(17) grandfathering rights.
- IRC 3: If a member has no grandfathering rights pursuant to LAAC Section 4.1001(b) or 4.1080.1(b) with LACERS, a member’s “Final Compensation” shall be determined as the “average monthly salary” provided by the State reciprocal system (assuming the average provided is greater than any average based solely upon LACERS service), but shall NOT be allowed to exceed the IRC Section 401(a)(17) limit, even if a State reciprocal system sends LACERS a higher average based upon IRC Section 401(a)(17) grandfathering rights with the other State reciprocal system. The State average monthly salary shall first be reduced for any forms of compensation not allowable for such purposes at LACERS based on the member’s tier at the time of retirement. The average monthly salary shall then be limited by the IRC Section 401(a)(17) limit applicable for the date of retirement. Any such base benefit shall thereafter also be limited to comply with the applicable cap requirements for maximum percentage of a member’s “Final Compensation”, based upon the member’s tier at the time of retirement.  
*(Adopted: June 14, 2016)*
- IRC 4: If a member has LACERS grandfathering rights pursuant to LAAC Section 4.1001(b) or 4.1080.1(b) with LACERS, and the average salary provided by a State reciprocal agency was capped based on IRC 401(a)(17) when the member actually had a higher level of Compensation within the reciprocal agency than applicable based on LACERS compensation earnable, LACERS shall obtain the salary information necessary to allow for determination of the final compensation based on rules for compensation applicable at LACERS. This reciprocal treatment will only apply when a member otherwise fulfills all the

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requirements for State Reciprocity (limited or full). Any resulting base benefit will also thereafter be limited to comply with the applicable percentage of compensation cap required for their Tier at the time of their retirement.  
(Adopted: June 14, 2016)

IRC 5: This rule defines the “Normal Retirement Age,” as the term is used in Treasury Regulation Section 1.401(a)-1(b)(2), for Tier 1 and Tier 3 Members. This rule applies for tax purposes, including for purposes of the in-service distribution rule exception set forth in IRC 401(a)(36).

For members of Tier 1, the Normal Retirement Age shall be the earliest age described in subparts (1) and (2) of Section 4.1005(a) of the Los Angeles Administrative Code, meaning the earliest of (1) age fifty-five (55) with thirty (30) or more years of City service or (2) age sixty (60) with ten (10) or more years of continuous City service.

For members of Tier 3, the Normal Retirement Age shall be the age described in Section 4.1080.5(a)(2)(i) of the Los Angeles Administrative Code, namely age sixty (60) with ten (10) or more years of service, including at least five (5) years of continuous City service.

This rule does not modify the age and service eligibility requirement or requirement factors for Tier 1 and Tier 3 Members, and does not create any vested right under California or Federal law including but not limited to the contracts clause of the California Constitution.  
(Adopted: January 22, 2019)

### **VOLUNTARY BENEFIT PAYROLL DEDUCTIONS (PRD)**

PRD 1: LACERS authorizes organizations that perform services to the benefit of LACERS’ retirees and beneficiaries to receive voluntary payroll deductions from Members’ monthly pension benefit. All Rules as stipulated herein are applicable to all organizations participating in LACERS Voluntary Payroll Deductions program, unless specifically stated otherwise.

The following organizations are currently approved to receive payments authorized by LACERS’ annuitants for premiums, fees, dues, assessments or contributions through voluntary payroll deductions from periodic pension benefits.

1. All City Employees Benefits Service Association (ACEBSA)
2. American Federation of State, County and Municipal Employees – Retirees Chapter 36 (AFSCME Chapter 36)

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3. American Federation of State, County and Municipal Employees – People (AFSCME People)
4. Employees Club California (LACEA)
5. Los Angeles Federal Credit Union (LAFCU)
6. Los Angeles Police Federal Credit Union (LAPFCU)
7. Los Angeles Police Relief Association, Inc. (Police Relief)
8. Retired Los Angeles City Employees, Inc. (RLACEI)
9. Service Employees International Union, CTW, CLC (SEIU Local 721)

*(Adopted: June 8, 2021)*

PRD 2: Organizations must satisfy the following requirements to request authorization and receive voluntary payroll deductions from LACERS:

- Letter signed by the organization’s authorized officer requesting authorization to receive payroll deductions.
- Documents containing the organization’s information and details of operations, that are intended to benefit LACERS’ retirees and beneficiaries.
- Certification that 100 or more LACERS’ retirees and beneficiaries are willing to authorize the requested payroll deductions.
- Provision of any other documents, requirements, specifications and information as requested by LACERS as necessary to evaluate the request.

The above documents will be used by the General Manager or designee to evaluate the request for approval.

*(Adopted: June 8, 2021)*

PRD 3: Upon approval by the General Manager, the organization must submit a total of 100 or more requests for payroll deduction in the first payroll processing based on the prior certification submitted. The first payroll deduction will be scheduled on the second payroll month after the month the initial payroll deduction list was received. The organization will be billed for the implementation cost, which may include personnel, overhead and chargeback cost from LACERS’ system vendor.

*(Adopted: June 8, 2021)*

PRD 4: The authorization to receive voluntary payroll deductions may be cancelled by LACERS when the organization has less than 50 active contributing retirees and beneficiaries for three consecutive payroll months. Three months termination notification will be given prior to final termination. Organizations named in section PRD1 above that fall below this threshold will remain eligible to continue receiving voluntary payroll deductions unless otherwise directed by the Board, but may not add new deductions without accumulating a total of at least 50 contributing

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LACERS Members. Any organization who is subject to cancellation whether due to this provision or any other reason is solely responsible to provide proper notification and any alternative payment mechanisms to its participants.

*(Adopted: June 8, 2021)*

- PRD 5: Organizations are responsible for obtaining and safekeeping authorization forms for payroll deduction properly signed by the Member. The form should contain information such as proper identification and amount of authorized payroll deduction, which will be effective until revoked or cancelled by the Member or upon cancellation of the organization's authorization to receive payroll deduction from LACERS.  
*(Adopted: June 8, 2021)*
- PRD 6: Organizations must submit copies of Members' signed authorization forms and organizational financial records upon request of LACERS.  
*(Adopted: June 8, 2021)*
- PRD 7: Authorized organizations are responsible for receiving and processing all requests to change, cancel and revoke annuitants' voluntary payroll deduction. LACERS is not liaison to Members regarding payroll deductions on behalf of authorized organizations.  
*(Adopted: June 8, 2021)*
- PRD 8: Organizations must complete and submit electronically, the Schedule of Authorized Payroll Deduction Changes that will list all the additions, terminations and changes in payroll deductions to LACERS on or before the 8<sup>th</sup> day of each month. The schedule should be properly signed and certified true and correct by the organization's authorized employee.  
*(Adopted: June 8, 2021)*
- PRD 9: Authorized organizations will directly indemnify LACERS and LACERS Members for any errors and omissions in the information provided to LACERS.  
*(Adopted: June 8, 2021)*
- PRD 10: In exchange of information between LACERS and external organizations, secured file transfer services are required such as Hightail, Box Shield, and/or vendor established secured file transfer software (subject to review and approval of LACERS). Transmitting files containing personally identifiable information and financial accounts must include password protection enabled.

Member information sent between LACERS and external organizations shall be limited to collection of data to the minimum amount needed to carry out necessary functions, and in accordance with all applicable current and future LACERS' Information Security Policies. LACERS will

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provide each authorized organization a monthly deceased report and a single monthly validation file in Excel or text format for each month in which a payroll deduction occurs for the respective organization. Requests for additional reports or files by the authorized organization are subject to review and approval of LACERS, and costs for production and administration of such files or reports will be charged back to the authorized organization.

*(Adopted: June 8, 2021)*

PRD 11: Authorized organizations must enter into a Non-Disclosure Agreement with LACERS for purposes of protection of Member information.

*(Adopted: June 8, 2021)*

PRD 12: Any changes to an authorized organization's information such as address, payment information and changes in administration or organizational status should be timely communicated to LACERS via an official letter signed by the organization's authorized officer. Additional documents may be required related to changes in organization that involve assignment and transfer of administration. Organizational changes are subject to review by LACERS and could be cause for termination of participation in LACERS' voluntary payroll deduction. Such documents impacting payroll deduction processes must be submitted before the 8<sup>th</sup> day of the month for the change to be effective in the same payroll month.

*(Adopted: June 8, 2021)*

PRD 13: Requests for payroll deduction changes affecting all or a majority of Members or any changes that will require new and updated system set up including request for additional reports or changes to the existing reports being provided should be submitted via an official letter detailing the required change at least three months before the 1<sup>st</sup> day of the requested implementation month. The organization may be required to submit additional documentation related to the change request, as needed. The request will be evaluated as to the complexity and required resources needed to accomplish the change request and will be subject to General Manager's approval. LACERS will attempt to meet the requested implementation month provided all required documents and information including the identification of requested payroll deduction changes are submitted timely. The organization will be billed for the cost to implement the change request which may include personnel cost and chargeback from LACERS' system vendor as the case may be.

*(Adopted: June 8, 2021)*

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### **4.1 BOARD RULES AND 4.2 BOARD RULES – ENHANCED BENEFITS**

**All other Board Rules apply unless superceded by these rules or the Los Angeles Administrative Code.**

#### **ENHANCED BENEFITS – DISABILITY RETIREMENT (DR)**

- EB-DR1: If the Board approves an increase or decrease in an Enhanced Benefit disability retirement benefit due to the submission of new medical evidence, the benefit change will become effective from the Boards' approval date with no retroactive adjustments. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR2: The disability rating schedule adopted by the Board for the purpose of standardizing disability retirement benefits for Service-connected and non-Service connected disability retirements will be reviewed every five years. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR3: Applicant medical records and related ancillary documentation shall be processed and transmitted to contracted medical providers exclusively by LACERS disability retirement staff. Under no circumstances is an applicant representative or operating department to provide any material or documents to a LACERS' contracted examining physician. An applicant may provide material or documents to a LACERS' contracted examining physician under particular circumstances approved by LACERS' disability staff. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR4: Any Enhanced Benefit eligible Member who meets the eligibility requirements to apply for disability retirement but has a deferred vested status will require City Attorney review of his/her application and medical records to determine if the Applicant has a matured right to apply. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR5: Requisite disability medical evaluations shall be arranged within a 15-mile driving radius of the Enhanced Benefit eligible Member's home address if living in California, or within a 15-mile driving radius of Los Angeles City Hall. Scheduling of appointments outside of the specified radii shall be allowed on an exception basis upon approval from LACERS disability staff. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR6: The beneficiary(ies) of an Enhanced Benefit eligible Member who dies while awaiting the processing of his/her disability retirement application shall be paid death and survivor benefits in accordance with applicable section(s) of the Los Angeles Administrative Code. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR7: In order for a workers' compensation claim to toll the filing period for a disability retirement application, it must be accepted, open and related. If the claim is settled, the application period is extended one year from the settlement date. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR8: Sub Rosa services shall be used in cases where staff, in consultation with the City Attorney, agree additional evidence is needed in regards to the

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- Applicant's medical condition and ability to perform the duties of his/her position. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR9: An Enhanced Benefit eligible Member who applied for and was denied a disability retirement shall have the right to make back contributions for up to six months of the period while such application was pending. Should the Enhanced Benefit eligible Member elect to make installment payments by payroll deduction, the minimum number of biweekly payroll deductions shall be 26, with a maximum of 130. The annual interest rate for installment payments via payroll deduction shall be the published assumed rate of return for LACERS' investments at the time the service purchase was approved. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-DR 10: In the event an Enhanced Benefit Disability Retired Member dies within three years of being granted a service-connected disability and the death is directly attributable to the service-connected disabling condition, the surviving spouse/domestic partner shall receive a retroactive cost of living adjustment (COLA) based on the difference between the service connected disability base continuance and 80% of Member's final compensation. The adjustment will be retroactive to the Board approval date of original disability retirement benefit. *(Resolution: 180508-C; Adopted: May 8, 2018)*
- EB-DR 11: Enhanced Benefit Disability Retired Members requesting reconsideration (i.e., appealing) of the retirement benefit decision of the Board, whether non-service connected or service-connected, where the reconsideration results in an increased disability rating, shall have the COLA applied to the approved increased disability rating retroactive to the original benefit approval date. *(Resolution: 180508-C; Adopted: May 8, 2018)*
- EB-DR 12: Reexaminations that result in an increased disability percentage will not have a retroactive COLA applied back to the original benefit approval date. COLA adjustments will take effect as normally applied from Board approval date of the increased disability percentage. *(Resolution: 180508-C; Adopted: May 8, 2018)*
- EB-DR 13: A Service Purchase made as a result of returning to work from a non-service connected disability retirement (pursuant to Los Angeles Administrative Code Section 4.1008.1(f)(2)) shall be treated as a Back Contribution and interest will apply. *(Resolution: 180508-C; Adopted: May 8, 2018)*
- EB-DR 14: An Enhanced Benefit eligible Member who meets the eligibility requirements to apply for disability retirement may submit a disability retirement application after being placed on Injury-On-Duty (IOD) but not before. *(Adopted: September 14, 2021)*

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### ENHANCED BENEFITS – TERMINATION OF DISABILITY RETIREMENT (TDR)

EB-TDR1: An Enhanced Benefits eligible Member who is restored to active duty from a non-Service connected disability retirement may, after completing one year of Service, make contributions to restore his/her Service Credit for the period he/she received a disability retirement, subject to the current eligibility rules of purchasing back contributions with LACERS. *(Resolution: 171113-B; Adopted: November 13, 2017)*

### ENHANCED BENEFITS – PERIODIC MEDICAL EXAMINATIONS (PME)

EB-PME1: Unless the Board stipulates, at the time of benefit approval, to permanently exclude a Member retired on an Enhanced Benefit disability retirement from periodic medical examinations based on the nature of his/her disability, all Members retired on an Enhanced Benefit disability retirement shall undergo medical examinations at periodic intervals for the first five years and anytime thereafter up to age 60. *(Resolution: 171113-B; Adopted: November 13, 2017)*

EB-PME2: **Financial hardship, for purposes of the Board exercising their authority to defray reasonable costs of travel related to the periodic medical examination of a Member retired on an Enhanced Benefit disability retirement who lives outside of California,** shall be defined as an inability to meet basic living expenses for goods and services necessary for the survival of the retiree and his or her spouse and dependents. A written request from the Member, including supporting documentation such as: proof of income including public assistance; evidence of expenditures such as unreimbursed health insurance premium payment receipts; income tax returns; mortgage/rent receipts; property tax receipts; and/or utility bills, etc., shall be submitted to the Board, through disability staff. *(Resolution: 171113-B; Adopted: November 13, 2017)*

EB-PME3: If a Member retired on an Enhanced Benefit disability retirement fails to comply with the re-examination process, a hearing shall be scheduled after 60 days of non-compliance and staff will request the Board suspend the retiree's benefit for 60 days. After 120 days of non-compliance a second hearing will be scheduled and staff will request the Board suspend the benefit until such time as the re-examination process is completed. The Member may attend either hearing to present evidence of hardship or evidence related to the reason for his/her non-compliance. *(Resolution: 171113-B; Adopted: November 13, 2017)*

EB-PME 4: The reduced allowance of an Enhanced Benefit Disability Retired Member, whose allowance is reduced pursuant to Los Angeles Administrative Code Section 4.1008.1(g), who after five years, is found no longer disabled or who refuses to submit to medical examination shall have his or her

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allowance reduced by the Board to thirty percent (30%) of his or her Final Compensation. The adjusted benefit shall reflect those cost of living adjustments as would have occurred had the Enhanced Benefit Disability Retiree's pension originally been based on the adjusted percentage. The reduced allowance shall be fully taxable. (*Resolution: 180508-C; Adopted: May 8, 2018*)

### **ENHANCED BENEFITS – HEARING PROCESS (EB-HP)**

EB-HP 1: Thirty (30) days prior to the Enhanced Benefits Eligible Member's scheduled hearing date, LACERS' staff will send the proposed rating recommendation to the Member and, if applicable, the Member's representative. The Member must return the recommendation letter with their signature acknowledging either their agreement or disagreement with the proposed recommendation within ten (10) days of the letter date. Failure to submit a response within the prescribed period will be taken as acceptance of the proposed recommendation. Only specified items of disagreement submitted within the prescribed period will be discussed at the LACERS Board Hearing.  
(*Adopted: January 22, 2019*)

EB-HP 2: When an Enhanced Disability Retirement Application is brought before the Board for consideration, the Board may take the following actions:

- (a) Grant a Service-Connected or Nonservice-Connected Disability Retirement as recommended;
  - (b) Grant a Service-Connected or Nonservice-Connected Disability Retirement, notwithstanding the staff recommendation;
  - (c) Request staff provide further information and bring the case back for further consideration; or
  - (d) Deny the Disability Application.
- (*Adopted: January 22, 2019*)

### **ENHANCED BENEFITS – MEMBER CONTRIBUTIONS (MC) (EB-MC)**

EB-MC 1: The mandatory \$5,700 in additional contribution paid by sworn Members in connection with the LACERS' Enhanced Benefits plan provisions under the Administrative Code are not refundable in the event the sworn Member converts to a civilian classification. The additional funds will remain a part of the Member's account as regular contributions.  
(*Adopted: January 22, 2019*)

### **ENHANCED BENEFITS – MISSED MEDICAL APPOINTMENTS (MMA)**

EB-MMA1: An Enhanced Benefit eligible Member applying for a disability retirement, or a Member retired on an Enhanced Benefit disability retirement, undergoing a re-examination who misses any scheduled medical

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appointments not due to factors beyond his/her control will be responsible to pay the current contracted missed appointment rate. Payment for such missed appointment(s) shall be deducted under rule EB-MMA3. *(Resolution: 171113-B; Adopted: November 13, 2017)*

EB-MMA2: Costs incurred for new or updated medical reports stemming from delays caused by an Applicant or a Member retired on an Enhanced Benefit disability retirement undergoing a reexamination shall be paid by the Applicant or Retiree if reasonable justification for the delay cannot be established. Payment for additional medical record(s) under this section shall be deducted under rule EB-MMA3. *(Resolution: 171113-B; Adopted: November 13, 2017)*

EB-MMA3: Costs incurred for missed appointments under EB-MMA1 and/or additional report(s) stemming from delays under EB-MMA2 shall be deducted from the applicant's first disability or current retirement allowance, or deducted from the Applicant's accumulated contributions, when such contributions have been requested as a refund by the applicant. The Member may also pay by check. If the disability retirement applicant is deceased, the cost shall be deducted from any survivor benefit payments prior to distribution to any beneficiary(ies). *(Resolution: 171113-B; Adopted: November 13, 2017)*

#### **ENHANCED BENEFITS – APPLICATION AFTER DENIAL (RAD)**

EB-RAD1: An Active Enhanced Benefit eligible Member who was denied a disability retirement and subsequently files a new application for the same or similar medical reason shall do so with the submission of new, objective, and compelling medical evidence to support the new claim within 90 days of the Board's denial date. *(Resolution: 171113-B; Adopted: November 13, 2017)*

#### **ENHANCED BENEFITS – EMPLOYMENT IN A DIFFERENT POSITION (RDP)**

EB-RDP1: Any Member retired on an Enhanced Benefit disability retirement re-employed in a different classification pursuant to Los Angeles Administrative Code Section 4.1008.1(j), should he or she be eligible for membership in the Retirement System, will become a member of the Tier I plan and not eligible for any enhanced Tier I benefits. *(Resolution: 171113-B; Adopted: November 13, 2017)*

#### **ENHANCED BENEFITS – LOAN PROGRAM (LP)**

EB-LP1: An Enhanced Benefit eligible Member who resigned or was terminated from city employment is not eligible to apply for a disability retirement loan. *(Resolution: 171113-B; Adopted: November 13, 2017)*

EB-LP2: An Enhanced Benefit eligible Member who meets the eligibility requirements to apply for disability retirement who applies after being placed on Injury-On-Duty (IOD) status shall not be eligible to apply for a disability retirement loan. *(Adopted: September 14, 2021)*

## Section 4.0 BENEFITS AND MEMBER ADMINISTRATION

### **ENHANCED BENEFITS – OPTION TO CONVERT A SERVICE RETIREMENT (CSR) TO A DISABILITY RETIREMENT**

- EB-CSR1: Any Airport Peace Officer Former Member, who became such because of termination of his or her employment for any reason including Service retirement, who believes they are eligible to receive disability retirement benefits may file his or her written disability retirement application within one (1) year from the Service retirement effective date; one (1) year from the resignation or termination date; or, one (1) year from his or her last day on active payroll, whichever occurs first. An open, related and accepted workers' compensation claim may extend the filing period. *(Resolution: 171113-B; Adopted: November 13, 2017; Revised: January 22, 2019)*
- EB-CSR2: A Member receiving an Enhanced Service retirement while his/her disability retirement application is being processed will continue to receive the Service retirement benefit until the Board approves and determines the disability rating percentage. In the event the disability retirement benefit is less than the Service retirement benefit being received, the Member shall have the right to withdraw his/her disability retirement application. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-CSR3: Upon Board approval of the Disability Retirement of the Member receiving an Enhanced Service retirement, and acceptance by the Member pursuant to EB-CSR2, the conversion of a Service retirement to a Service-connected disability or non-Service connected disability retirement benefit will be retroactively adjusted to the Service retirement effective date. Any federal or state taxes withheld from the Service retirement benefit will not be reimbursed by LACERS. *(Resolution: 171113-B; Adopted: November 13, 2017)*

### **ENHANCED BENEFITS – FAMILY DEATH BENEFIT PLAN (FDBP)**

- EB-FDBP1: FDBP payments shall only be made on account of the non-Service connected death of an Enhanced Benefit eligible Active Member who has at least three years of Service, but less than five years of Service. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-FDBP2: No FDBP payments shall be made on account of the death of an Enhanced Benefit eligible Active Member in which a survivorship allowance provided by LAAC Section 4.1010.1(b) is paid. *(Resolution: 171113-B; Adopted: November 13, 2017)*

### **ENHANCED BENEFITS – SURVIVOR BENEFITS (SB)**

- EB-SB1: LACERS shall initiate medical examinations to determine whether a Dependent Child of a deceased Enhanced Benefit Eligible Active Member, or deceased Member retired on an Enhanced retirement benefit, qualifies for eligibility under the terms of LAAC Section 4.1010.1. Dependent Child applicants shall be required to undergo examination(s) by physicians specializing in the medical fields of the claimed disability(ies). The applicant's disability shall be determined based on an assessment of each applicant's inability to earn a livelihood. *(Resolution: 171113-B; Adopted: November 13, 2017)*

### Section 4.0 BENEFITS AND MEMBER ADMINISTRATION

- EB-SB2: A Dependent Child of a deceased Enhanced Benefit Eligible Active Member, or a deceased Member retired on an Enhanced retirement benefit, whose disability is determined not to be permanent, shall be reviewed once every three years to assess whether his/her disability continues to exist for purposes of maintaining his or her continued eligibility under the terms of LAAC Section 4.1010.1. *(Resolution: 171113-B; Adopted: November 13, 2017)*
- EB-SB3: The Dependent Parent of a deceased Enhanced Benefit Eligible Active Member, or deceased Member retired on an Enhanced retirement benefit, financial status shall be reviewed annually to ensure their earnings do not exceed the upper exemption limitation specified by the Social Security Administration. During the annual review process, the Dependent Parent shall submit a copy of his or her income tax return for the previous year. If the Dependent Parent did not file an income tax return the previous year, then they shall submit a notarized declaration with their itemized statement of earnings. If the earnings exceed the higher exemption limit, then the benefit for the Dependent Parent shall terminate. Such person shall be a Dependent Parent only until such time as he or she is able to independently pay his or her necessary living expenses. *(Resolution: 171113-B; Adopted: November 13, 2017)*

If a Dependent Parent's benefit is terminated and he or she subsequently becomes unable to pay his or her necessary living expenses, said Dependent Parent may request reinstatement of the survivor benefit, provided he or she is able to show proof of earnings for the prior year did not exceed the higher exemption limit specified by the Social Security Administration. *(Resolution: 171113-B; Adopted: November 13, 2017)*

- EB-SB4: The reconsideration period following an active death, where the service-connected claim has already been denied by the Board, shall be 90 calendar days from the Board's decision. *(Adopted: January 22, 2019)*

#### **ENHANCED BENEFITS – SURVIVOR BENEFITS – ACTIVE DEATH HEARINGS (ADH)**

- EB-ADH1: Hearings to determine whether the death of an Enhanced Benefit eligible Active Member was service-connected shall be conducted in the same manner as a disability retirement hearing. The surviving spouse/domestic partner, dependent parent, or legal guardian of minor or dependent children shall be notified of and invited to be present or be permitted to offer evidence and testimony to support a claim that the death was service-connected. *(Resolution: 171113-B; Adopted: November 13, 2017)*

#### **ENHANCED BENEFITS – SURVIVOR BENEFITS – SURVIVOR BENEFIT PURCHASE PROGRAM (SBP)**

## Section 4.0 BENEFITS AND MEMBER ADMINISTRATION

EB-SBP1: A Member retired on an Enhanced retirement benefit may elect after retirement to provide a survivor benefit to a spouse/domestic partner. In order for the election to vest, the Member must survive one year from the date of the election. The benefit is paid through a reduction of the benefit only. The cost of the purchase will be based on the actuarial assumptions in effect on the date of the election and based on the benefit reductions beginning at the time of election. *(Resolution: 171113-B; Adopted: November 13, 2017; Amended: May 8, 2018)*

### **ENHANCED BENEFITS – RETIREMENT ELECTION CHANGES (SR)**

EB-SR1: An Enhanced Benefit eligible Member retiring under a Service retirement allowance, a Service-connected disability allowance, or a non-Service connected disability allowance may elect for an optional allowance for an Eligible Survivor in the proportional amount designated by the Member, with a minimum amount of 80%, provided the election is made before the first payment of the benefit. *(Resolution: 171113-B; Adopted: November 13, 2017)*

### **ENHANCED BENEFITS – RETIREMENT CONTRIBUTIONS (RC)**

EB-RC1: If an Enhanced Benefit eligible Active or Deferred Vested Member who pays the required \$5,700 lump sum additional contribution payment to qualify for the sworn Enhanced Benefits subsequently changes classification prior to retirement, he or she shall not be entitled to a refund of the additional contributions. The \$5,700 additional contributions will be treated as regular contributions for refund purposes, pursuant to Los Angeles City Charter Section 1162. *(Resolution: 171113-B; Adopted: November 13, 2017)*

### **SURVIVOR BENEFITS (SB)**

SB1: In order for a beneficiary form to be considered valid it must be received by the Plan prior to the Member's death or postmarked prior to the Member's death. Beneficiary forms received after the death of a Member or postmarked after the Member's death will be considered invalid and the beneficiary form on file with the plan will remain in effect and used to pay designated beneficiaries. *(Resolution: 180508-C; Adopted: May 8, 2018)*

### **SERVICE PURCHASES (SP)**

SP 1: Additional interest is charged on service purchase payments that are received after the 5<sup>th</sup> of the month following the due date except when:

1. The recalculated interest amount is less than \$15, which is the approximate cost of staff time to generate the calculation and cost letter. This may be reasonably estimated and approved by the Senior Benefits Analyst I overseeing the unit; or,

**Section 4.0 BENEFITS AND MEMBER ADMINISTRATION**

2. The payment is postmarked five (5) calendar days or earlier, before the end of the month due for personal checks mailed through the United States Postal Service (USPS); or three (3) calendar days or earlier, before the end of the month due for checks issued by the Deferred Compensation plan administrator and sent via a courier service. This rule is in place temporarily until LACERS' relocation to its new headquarters building as it is anticipated that mail services will return to normal operations.

*(Resolution: 180508-C; Adopted: May 8, 2018; Updated: September 14, 2021)*

SP 2: For the purpose of a Government Service Buyback, full-time status is determined by the employment status certified by the employing agency to LACERS and not based on the number of hours worked. *(Resolution: 180508-C; Adopted: May 8, 2018)*

Section 5.0 OTHER

**5.1 CORPORATE GOVERNANCE ACTIONS RESPONSE PROTOCOL**

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*Adopted: January 13, 2009; Affirmed: February 12, 2019*

Upon receipt of a request for a Corporate Governance action, which is not directly addressed by existing Board policy, and for which there is not sufficient time in advance of the deadline to convene a Corporate Governance Committee or Board meeting to consider the matter, the General Manager or General Manager designee shall execute the action if one staff member plus one Board Member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy.

For the purpose of implementing this policy, the Chief Investment Officer (CIO) shall serve as the designated staff member, and the Corporate Governance Committee Chairperson as the designated Board Member. In the absence of the CIO, the General Manager will act as the designated staff member, and in the absence of the Committee Chairperson, the Board President will act as the designated Board Member.

## Section 5.0 OTHER

**5.2 STRATEGIC PLANNING POLICY***Adopted: March 12, 2013*

The Board and executive management of LACERS recognize that the best way to be efficient and orderly in fulfilling the legal responsibilities and Mission of the organization is through strategic planning. By adopting this policy, the Board states its intention to engage with management in a regular, systematic planning process to continually improve benefits administration, assess customer service, enhance investment performance, and evaluate new opportunities to fulfill the Mission of LACERS.

The purpose of this policy is to establish a framework for long range strategic planning that will guide shorter term (annual) business plans of the organization. Establishment of the strategic plan establishes general parameters within which decisions will be made while the business plan focuses resources on high value activities within those parameters.

**The principles that the Board has adopted for strategic planning are:**

- The LACERS strategic plan is developed through the cooperative efforts of the Board and management consisting of a strategic planning process and the resulting written strategic plan document.
- The strategic plan will be a rolling three-year plan which is initially established but allows for updates annually or as needed within the said three year period.
- The Board and management will engage in a *triennial strategic planning session* which includes an environmental scan (SWOT analysis), and establishing/reaffirming the LACERS mission, vision, guiding principles, and three year goals.
- An *annual strategic plan review* will be brought by the General Manager to the Board for review and evaluation and will consist of:
  1. A written progress report under the plan
  2. Discussions of new initiatives
  3. Discussions of significant changes in direction of the System
- Input from staff, stakeholders, and other interested parties will be solicited throughout the year.
- When the strategic plan has been updated it will be communicated to the entire staff of LACERS and to other stakeholders.
- The Board's consensus view of progress under the plan will be one factor among others in the performance assessment of the General Manager.

**The Board is responsible for:**

- Reaching consensus and adopting the *triennial strategic plan* for LACERS, including the vision, mission, guiding principles and goals.
- Assessing the System's strengths and weaknesses as well as the opportunities and threats in the LACERS environment through a strategic planning session facilitated preferably by a consultant/third party.
- Reviewing and reaching consensus on priorities under each goal and Initiative.
- Approving an operational budget that takes into account the upcoming year's initiatives under the strategic plan.
- Monitoring the impact and progress of initiatives toward achieving the strategic plan goals through various methods of reporting or review which satisfy the Board's responsibility to ensure proper management of the System. This could include the Board establishing a

### Section 5.0 OTHER

schedule to receive detailed reports on each individual initiative on a rotating basis; assigning oversight of goals to committees and requesting their regular view of initiatives under their goal; adding a statement at the conclusion of every Board report which indicates how the item relates to a strategic plan goal; and if the item is an initiative, that its progress as an initiative also be reported.

- The Board will review the *Strategic Planning Policy* at least every three years to ensure that it remains relevant and appropriate.

**The General Manager is responsible for:**

- Preparing for or engaging a consultant to facilitate the *triennial strategic planning session* for the Board and management.
- Drafting the initial long-range strategic plan that reflects the consensus view of the Board as to mission, vision, guiding principles, and goals.
- Developing and managing the annual business plan to include strategies/initiatives for the achievement of the strategic plan goals.
- Closely monitoring progress under the plan by assigning responsibility to staff, consultants, and others, to develop detailed action plans that include timelines and budgets for the purpose of determining progress on the initiatives.
- Preparing progress reports for the Board annually and as needed.
- Preparing a timely written report to the Board to keep them apprised of any major issues with progress on a strategic initiative.
- Surveying the Board periodically to ensure they are receiving a satisfactory level of reporting on the strategic plan. Scheduling an *annual strategic planning review* for the purpose of adopting an annual business plan and updating the vision, mission, guiding principles, and goals, if needed.
- Seeking input from staff and stakeholders about key strategic issues prior to the *triennial strategic planning session* and *annual strategic plan review*.
- Identifying critical issues, business risks, opportunities, and needs of LACERS
- Recommending to the Board any modifications that should be made to the plan

The *Strategic Planning Policy* shall be reviewed by the Board at least every three years to ensure that it remains relevant and appropriate.

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# INVESTMENT POLICY MANUAL

Revised October 26, 2021



## Section 1 INVESTMENT POLICY

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## Section 1 INVESTMENT POLICY

### I. INTRODUCTION

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

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

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

"...to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system."

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

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

### II. INVESTMENT GOAL STATEMENT

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

- A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.
- B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

### Section 1 INVESTMENT POLICY

- C. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.
- D. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.
- E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.
- F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.
- G. Investment actions are expected to comply with "prudent person" standards as described:
- "...with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (sometimes referred to as the 'prudent person' rule)." <sup>1</sup>

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

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

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<sup>1</sup>ERISA 404(a)(1) (B).

**Section 1 INVESTMENT POLICY****III. DUTIES OF RESPONSIBLE PARTIES****A. Duties of the Board or its Designate(s)**

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

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

### Section 1 INVESTMENT POLICY

7. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.
8. Voting of proxies in stocks held by the System will be done according to Board policy.
9. The Board may delegate certain duties of the Board to the Investment Committee as specified in the Investment Committee Charter.

#### **B. Duties of the Staff**

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

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

#### **C. Duties of the Investment Managers**

The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.
2. Provide the Board with proof of liability and fiduciary insurance coverage.
3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.

### Section 1 INVESTMENT POLICY

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

#### **D. Duties of the Master Custodian**

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

1. Provide complete global custody and depository services for the designated accounts.
2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
3. Provide in a timely and effective manner a monthly report of the Investment activities implemented by the investment managers. Prepare a quarterly report containing absolute and relative investment performance.
4. Collect all income and realized principal realizable, and properly report it on the periodic statements.
5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.

### Section 1 INVESTMENT POLICY

6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.
7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

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

The General Fund Consultant shall be responsible for the following:

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

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

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

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

## **IV. ASSET ALLOCATION POLICY**

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

**Section 1 INVESTMENT POLICY**

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

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

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

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

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

**V. INVESTMENT POLICY**

The Board will retain external investment managers to manage the System's assets using a specific style and methodology. Public external investment managers have been delegated authority for determining investment strategy, security selection, and timing. Public external investment managers are subject to the Board's policy and individual investment manager guidelines, legal restrictions, and other Board direction. Performance objectives will also be developed for each manager. The performance of each portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles. Private market investment managers shall manage the System's assets pursuant to the respective asset class policy and the partnership fund's limited partnership agreement or other applicable legal documents.

**Section 1 INVESTMENT POLICY**

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

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

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

**A. Manager Selection**

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

**B. Manager Authority**

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

**C. Brokerage Policy**

The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution. Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

**Section 1 INVESTMENT POLICY****D. Proxy Voting**

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

**E. Securities Lending**

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

**F. Derivatives**

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

**G. Rebalancing**

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

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs. However,

## Section 1 INVESTMENT POLICY

the Board may authorize staff to rebalance assets within or among asset classes without breaching Board-established asset allocation policy threshold bands. Such rebalancing would be subject to an annually approved Adaptive Asset Allocation Plan (AAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. The Board will consider the approval of a new AAP or renewal of an existing AAP within three months prior to the start of each fiscal year. The approved AAP will be effective on July 1 of each year. Should the Board choose not to renew an AAP, the existing AAP may continue to be implemented; however, new AAP positions may not be introduced until a continuance of the existing AAP or new AAP is approved by the Board.

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

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

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

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

### **H. Adaptive Asset Allocation Plan**

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II.	Roles and Responsibilities
III.	Terminology
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VIII.	Appendix

## Section 1 INVESTMENT POLICY

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

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

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

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

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

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

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

#### *The Board of Administration*

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

#### *Investment Committee*

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

#### *Chief Investment Officer*

The Chief Investment Officer (CIO) is responsible for the implementation of an Adaptive Asset Allocation rebalancing pursuant to the AAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated Adaptive

## Section 1 INVESTMENT POLICY

Actions as may be necessary. The CIO along with staff is responsible for observing economic and market indicators, assessing internal operational conditions, and working with the General Fund Consultant (and seeking advisement of other Investment Consultants under contract as may be necessary) to seek concurrence with an Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an Adaptive Rebalance.

### *General Fund Consultant*

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

### *Internal Auditor*

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

## **III. Terminology**

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

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

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

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

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

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

## Section 1 INVESTMENT POLICY

### **IV. Adaptive Asset Allocation Considerations**

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

### **V. Implementation**

Implementation of an Adaptive Action will comply with the following procedures, as they may apply:

1. External Landscape Evaluation – Economic market outlook, including economic indicators, monetary and fiscal policies, geo-political events, Federal Reserve Bank actions, interest rates, inflation, etc.
2. Internal Operational Evaluation – Actual asset allocation of the Total Fund compared to policy targets, asset class movements and trends, portfolio valuations, operational cash, future, pending, or existing RFP manager searches and hiring of investment managers, pending investment manager terminations, market and economic landscape commentary or information from investment managers, and compliance with existing Investment Policy
3. General Fund Consultant Discussion and Concurrence (and discussion with other contracted Investment Consultants as warranted)
4. Written Adaptive Rebalance Proposal should include the following decision considerations (as appropriate):
  - a. External Landscape and Internal Operational Evaluations;
  - b. Projected Impact on Asset Allocation and Asset Classes;
  - c. Projected Impact on Total Fund addressing Adaptive Objectives:
    - i. Enhancement to Total Fund Value; and/or
    - ii. Protection of Total Fund Value; and/or
    - iii. Enhanced Risk/Return Profile and Compliance to Risk Budget
  - d. Projected Quantitative Outcomes including measurable Performance and Risk Metric improvements and Capital Preservation amounts;
  - e. Financial Considerations - Funds directly impacted by an Adaptive Rebalance; Proposed Implementation Timing and Transactional Costs; Benchmark to evaluate performance; Monitoring Schedule
  - f. Adaptive Reversal (Partial or Full) as needed
5. Implementation of Adaptive Action pursuant to the written Adaptive Rebalance Proposal and AAAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a Adaptive Rebalance
7. Quarterly Status Reporting of Adaptive Rebalancing implementation

## Section 1 INVESTMENT POLICY

8. Internal Monthly Rebalancing and Compliance Staff Reviews per the Rebalancing Policy (Section I.V.G of the LACERS Investment Policy)
9. Annual Investment Committee Review of AAAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of AAAP based on Investment Committee Report as provided in Section VII of this plan

### **VI. Risk Management Guidelines**

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

1. An Adaptive Rebalance may be initiated when the actual market value weighting of an asset class exceeds 70% of the range from its target weighting to its established bands.
2. An Adaptive Rebalance Proposal shall not exceed 50% of the excess valuation that is over- or under-weight to its policy target at the time the decision to rebalance is made.
3. An Adaptive Rebalance should be completed within 12-24 months of initiation, except in the case of a partial or full reversal of the original Adaptive Rebalance, which may extend the Adaptive Rebalance up to an additional 12 months.
4. An Adaptive Rebalance may be suspended after the first Adaptive Action is completed if such single Adaptive Action or subsequent Adaptive Actions achieves the Adaptive Objective(s) within the Adaptive Rebalance Proposal pursuant to an Adaptive Rebalancing Proposal.
5. An Adaptive Rebalance Proposal may be modified or suspended by the CIO upon the concurrence of the General Fund Consultant if market conditions or other external landscape factors change or strategic asset class rebalances are necessary that disrupt the orderly implementation of the Adaptive Rebalance Proposal, or when internal operations such as liquidity needs would have a material impact on the Adaptive Rebalance Proposal such that the Adaptive Objectives are no longer achievable within the established Adaptive Rebalance Proposal timeframe due to material changes in the original market assumptions, operational factors, or risk levels.
6. A specific Adaptive Rebalance should not be initiated if it will cause another asset class to breach its regular Asset Allocation policy upper or lower rebalance threshold.
7. The General Fund Consultant must concur with the Adaptive Rebalance Proposal prior to initiation.

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

*Annual AAAP Review by the Investment Committee*

The CIO will prepare an annual report of all Adaptive Rebalance Proposals that were initiated in the current fiscal year, the current status of Adaptive Rebalances and Adaptive

## Section 1 INVESTMENT POLICY

Actions, and the projected and actual impact of the Adaptive Rebalance(s) including (but not restricted to) performance, capital preservation, and/or risk factors. Staff may also include recommendations to modify, continue or cease the AAAP. The Annual AAAP Review will be presented to the Investment Committee no later than the month of April of each year.

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

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

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

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

## **VIII. APPENDIX**

### *External Landscape and Internal Operational Considerations*

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

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

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

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

- II. *Market Stages Consideration*

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

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

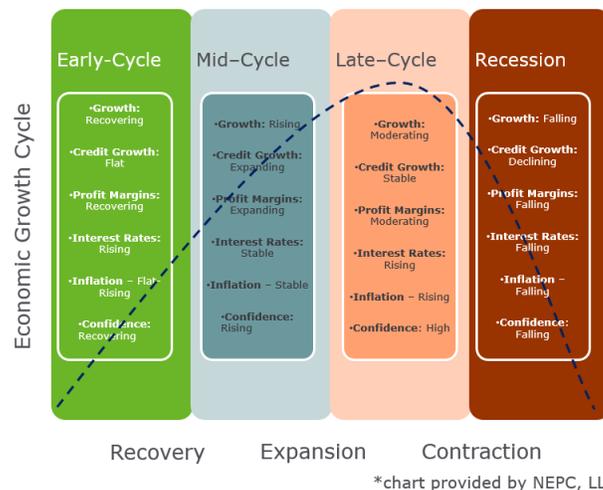
In the late-cycle period of the economic cycle, the economy typically experiences moderation in GDP growth, profit margins, and credit expansion. Consumer confidence is high and both interest rates and inflation are on the rise. Stocks trade at the higher band of long term averages while volatility tends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

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

### III. *Assessment of Market Conditions*

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

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



### IV. *Economic and Market Risk Assessment*

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

- Growth: Year-over-year growth in GDP
- Credit Growth: Year-over-year growth in total credit
- Profit Margins: Corporate profit margins
- Interest Rates: Short, Long, Yield Curve
- Inflation: Consumer Price Index
- Confidence Levels: Consumer Sentiment Index

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- Additional factors such as commodity and currency trends, unemployment statistics, building permits, sales, and manufacturing statistics.

### V. *Asset Valuations*

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

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

### VI. *Internal Operational Considerations*

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

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

### I. **Evaluation of Policy**

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

## VI. **GENERAL INVESTMENT OBJECTIVES AND GUIDELINES**

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

<u>Asset Class</u>	<u>Benchmark</u>
Domestic Equity	Russell 3000
Non-U.S. Equity	MSCI ACWI ex-U.S.
Fixed Income	Bloomberg BC U.S. Aggregate
Credit Opportunities	15% Bloomberg BC U.S. High Yield Capped + 45% Credit Suisse Leveraged Loans Index + 20% J.P. Morgan EMBI- GD + 20% J.P. Morgan GBI EM-GD
Private Equity	Russell 3000 + 300 bps
Private Real Estate	NFI-ODCE + 80 bps
Public Real Assets	U.S. Consumer Price Index + 5%
Cash	90-Day Treasury Bill

## Section 1 INVESTMENT POLICY

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

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

### A. Equities

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

#### 1. Domestic Equities

- a) **Index Funds/Core** – These investments will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.
- b) **Large Cap Growth Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above \$10.0 billion. The Board's large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.
- c) **Large Cap Value Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above \$10.0 billion. As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.
- d) **Mid Cap Core Stocks** – The principal characteristic of the mid-cap core stock component is its emphasis in stocks with market capitalization generally ranging from \$3.0 billion to \$10.0 billion.
- e) **Small Cap Core Stocks** – The principal characteristic of the small cap core stock component is its emphasis in stocks with market capitalization generally ranging from \$250 million to \$3.0 billion.

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- f) **Small Cap Value Stocks** – The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from \$250 million to \$3.0 billion, which are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.
- g) **Small Cap Growth Stocks** – The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from \$250 million to \$2.0 billion, which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than value stocks.

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

Large Cap Core Stocks	S&P 500 Index
	Russell 1000 Index
Large Cap Value Stocks	Russell 1000 Value Index
Large Cap Growth Stocks	Russell 1000 Growth Index
Mid Cap Core Stocks	Russell Midcap Index
Small Cap Core Stocks	Russell 2000 Index
Small Cap Value Stocks	Russell 2000 Value Index
Small Cap Growth Stocks	Russell 2000 Growth Index

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

- (1) No securities shall be purchased on margin or sold short.
- (2) American Depository Receipts (ADRs) are permissible investments.
- (3) Convertible securities can be held in equity portfolios and will be considered equity holdings.
- (4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company.
- (5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

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

## 2. Non-U.S. Equities

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

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- b) **Developed Markets Core** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets.
- c) **Developed Markets Value** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Value Index or the MSCI EAFE Value Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having higher than market dividend yields, lower than market book value, and lower than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.
- d) **Developed Markets Growth** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Growth Index or the MSCI EAFE Growth Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having lower than market dividend yields, higher than market book value, and higher than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.
- e) **Small Cap Core** – This segment is comprised of non-U.S. stocks of the developed markets countries listed within the MSCI EAFE Small Cap Index. These stocks represent small cap companies which may have global products and customers or which may be dominant firms within their local country/regional markets. These stocks will generally have a market capitalization of less than \$2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus large cap developed market stocks.
- f) **Emerging Markets Core** – This component is comprised of equity positions in companies located in emerging, rapidly growing countries around the world. The companies tend to be large cap and may have global products or customers or they may be dominant firms within their local countries/regions. Because these are countries that are typically in the early development stages of economic growth, the returns in these countries are higher and more volatile on a year-to-year basis.
- g) **Emerging Markets Value** – This portfolio contains value-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have lower price-to-book, higher dividend yields and lower earnings growth rates.
- h) **Emerging Markets Growth** – This portfolio contains growth-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have higher price-to-book, lower dividend yields and higher earnings growth rates.

## Section 1 INVESTMENT POLICY

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

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

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

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

- (1) Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts, GDR's, ADRs, and equity securities of companies domiciled outside the U.S. including established and emerging countries.
- (2) Managers will have discretion to hedge currencies of the countries in which their portfolio is invested to protect the value of the portfolio from currency risk. A manager's hedge ratio may not exceed 100% of the portfolio's value, at market, without obtaining prior approval from the Board.
- (3) No securities shall be purchased on margin or sold short.
- (4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company
- (5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

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

### **B. Fixed Income**

The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System's investment assets. The fixed income portfolios will be managed on a total return basis, following specific investment styles and

## Section 1 INVESTMENT POLICY

evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The fixed income holdings are comprised of the following mandates.

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

### 3. **Credit Opportunities**

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

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

The target allocation to Credit Opportunities will include flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within or  $\pm$  4% of this target allocation objective.

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

- a) **U.S and Non-U.S. High Yield Bonds** – Below investment grade (i.e., <BBB/Baa) rated bonds issued by public corporations with a perceived higher risk of default. Investors in these securities hope to benefit from spread tightening relative to investment grade bonds and from their higher overall yields, i.e., income.
- b) **Emerging Markets Debt (Local, Hard, Sovereign and Corporate)** – Debt issued by the governments (“sovereign”) of developing, or emerging, countries. Additionally, debt issued by corporations domiciled within emerging markets countries can be investment grade or below investment grade rated debt. Also can be issued in a foreign external, or “hard”, currency (e.g., U.S. dollars, Euros, etc.) or in the country's local currency. Investors in these securities hope to benefit from spread tightening relative to investment grade and/or domestic bonds and from their higher overall yields.
- c) **Leveraged Loans** – Loans extended to high yield (i.e., below investment grade) or levered borrowers, generally by banks or other financial institutions. The loans are

## Section 1 INVESTMENT POLICY

*not* levered – the borrowers are. Hence, there is a perceived higher risk of default. Leveraged loans tend to have short maturities and are higher in the capital structure than regular debt of the company. Investors in these securities hope to achieve higher than investment grade bond returns due to their higher yields.

- d) **Distressed Debt** – Debt of issuers that 1) are sufficiently financially impaired where there is a high risk of default or bankruptcy, 2) have already defaulted on financial obligations, or 3) have entered into bankruptcy proceedings. Investors in these securities hope to achieve high returns through financial or other restructuring at the issuing company.
- e) **Opportunistic or Special Debt Situations** – Debt which may not fit within the preceding categories that may offer a unique investment opportunity due to broader economic or financial conditions.
- f) **Direct Lending** – Includes loans that are primarily floating rate debt obligations made to non-investment grade borrowers. Private direct lending involves a limited number of investors that structure terms of a transaction directly with a middle market or small corporate borrower. There is generally a limited public market with a middle market or small corporate borrower. Additionally, there is generally a limited public market for these loans and they are usually refinanced prior to maturity or held to maturity by one or a relatively small number of investors. Investors expect to earn a yield which is higher than publicly traded corporate debt to compensate for a higher degree of risk.

The primary return objective for the LACERS' Credit Opportunities program is to outperform a custom weighted benchmark of 15% Bloomberg Barclays Capital U.S. High Yield Capped Index plus 45% Credit Suisse Leveraged Loans Index + 20% J.P. Morgan EMBI Global Diversified Index + 20% J.P. Morgan GBI EM Global Diversified Index over a market cycle. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Credit Opportunities on the LACERS Total Fund. Returns will be calculated after management fees.

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

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

General fixed income guidelines include the following:

- a) **Core Fixed Income**

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- (1) The total portfolio's average rating will be A or better by Moody's or Standard & Poor's.
- (2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.
- (3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.
- (4) No securities shall be purchased on margin or sold short.

### b) **Credit Opportunities**

#### *High Yield Bonds*

- (1) The total portfolio's average rating will be B or better by Moody's or Standard & Poor's.
- (2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.
- (3) No more than 20%, in aggregate, invested in non-dollar denominated bonds and investment grade bonds are permitted.
- (4) No securities shall be purchased on margin or sold short.

#### *Bank Loans*

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

#### *Emerging Markets Debt Bonds*

- (1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.
- (2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.
- (3) No more than 30%, in aggregate, invested in out of benchmark securities.
- (4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds
- (5) No securities shall be purchased on margin or sold short.

#### *Direct Lending*

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- (1) Portfolio will consist of low-to-middle market (<\$75 million EBITDA) senior secured or unitranche direct loans.
- (2) At least 70% of the portfolio will be invested in senior secured loans.
- (3) No more than 10% of the portfolio will be invested in unitranche loans.

### C. Private Equity

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

### D. Real Assets

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

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

The target allocation to Real Assets will include flexible rebalancing given the public/private composition of this asset class. Generally, the public actual allocation will be kept within  $\pm 2\%$  of this target allocation objective.

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

1. **Private Real Estate** – This portfolio is expected to provide portfolio diversification and increase returns due to real estate's low correlation with the returns from equities and fixed income. The Private Real Estate Investment Policy is included in Section XI of this document.
2. **Public Real Estate "REITS"** – Publicly traded companies that trade on major stock exchanges and invest directly in real estate either through properties or mortgages. A distinguishing characteristic of this investment strategy versus private real estate is the improved liquidity and yield orientation.
3. **Treasury Inflation Protection Securities ("TIPS") or Global Inflation-Linked Bonds** – Securities where the principal value adjusts to reflect changes in the U.S. CPI or other sovereign-linked inflation measures upward or downward, but never below the original face amount at maturity. Semi-annual coupon payments are based upon the bond's adjusted principal which provides a direct inflation link.
4. **Commodities/Natural Resources** – Financial instruments, such as individual stocks, stock baskets or futures which represent companies or markets where the prices are directly linked to the ownership or trading of physical commodities/natural resources or

### Section 1 INVESTMENT POLICY

companies whose primary source of revenues are tied directly or indirectly to the management, ownership or trading of physical commodities/natural resources. Commodities/natural resources are raw materials which are inputs to the production of goods and services. Thus, changes in commodities/natural resources prices typically lead inflation. Higher commodities/natural resources prices lead to increased prices goods and services, hence, a directly link to inflation.

5. **Timber/Farmland** – These are a hybrid investment strategy in that similar to commodities, they provide final and raw material in the production of goods and services and will tend to lead inflation. However, as private investments, they are similar to private real estate in that a potential increase in property value exists due to changes in supply and demand factors that influence inflation.
6. **Master Limited Partnerships (“MLPs”)** – An MLP is a publicly traded partnership that combines individual limited partnerships into one entity to make the ownership interests more marketable with a general partner operating the business. MLPs are high income assets that should provide a consistent yield in between REITS and High Yield Bonds. As equities, they are also expected to earn returns commensurate with traditional public equities. An MLP is a pass-through entity that is taxed at the unit holder (i.e., share holder) level and not subject to tax at the partnership level. However, tax exempt investors may produce Unrelated Business Taxable Income (“UBTI”), which means tax-exempt investors engaged in a ‘business’ outside of the purpose for their exemption may be subject to UBTI. The businesses of MLPs are related to the extraction, production, and distribution of natural resources or energy infrastructure.
7. **Infrastructure** – Private markets investments in essential physical infrastructure such as toll roads, bridges, airports and utilities accessed by most citizens and designed to provide a steady income stream via tolls, leases, etc. Income stream is periodically adjusted by owners and inflation escalation provisions are often “built in” to provide a direct link to inflation. Capital appreciation also directly linked to primary economic drivers such as inflation.
8. **Oil and Gas Limited Partnerships** – Private markets investments in limited partnerships which have the objective of exploring/develop/market oil/gas sources. Returns are primarily driven by an income stream as well as from profits earned at the end of the partnership. However, returns are influenced by rate at which oil and gas flow from source. Thus, this is considered a highly risky, speculative investment strategy.
9. **Multi-Asset Real Asset/Return Strategies** – Bundled public markets or combination private/public markets real assets and/or real return strategies where the investment objective is to provide a real return above inflation over a market cycle. The investment manager has the discretion to select the combination of real asset strategies and to establish the exposure to each respective real asset strategy.

The primary return objective for the LACERS’ Real Assets program is to outperform the U.S. Consumer Price Index (“CPI”) plus 5% over multiple market cycles and to outperform a secondary custom benchmark comprised of the weighted average of the underlying strategy benchmarks over a full market cycle, with appropriate consideration of risk.

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Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Real Assets on the LACERS Total Fund. Returns will be calculated after management fees. The benchmarks for the various real assets portfolios may include the following indices:

Private Real Estate	NFI-ODCE Index + 80 basis points
Public Real Estate "REITS"	FTSE NAREIT All Equity Index
U.S. TIPS	BC U.S. TIPS Index
Commodities	Bloomberg Commodity Index

General real assets guidelines include the following:

- a) **Private Real Estate** (see Private Real Estate Policy within Section XI of this document)
- b) **Public Real Estate**
  - (1) At least 90% of the portfolio investments must be invested in REITS.
  - (2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.
  - (3) For prudent diversification of the portfolio, the maximum amount that can be invested in any one issue shall be the greater of 7.5% of the portfolio or 125% of the index weight.
  - (4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 3%. In total, out of benchmark securities shall not exceed 10% of the portfolio market value at time of purchase.
  - (5) At no time shall the Account own more than 5% of the outstanding voting securities of any one issuer. No issue shall be purchased in the portfolio if more than 15% of the outstanding voting shares of the company are held by LaSalle in the total of all its accounts. All debt and all preferred stock of an issuer are each considered a single class for this purpose.
  - (6) No more than 50% in any one property type, including Regional Malls, Strip Shopping Centers, Apartments, Offices, Industrial, Healthcare, Manufactured Homes, Factory Outlets, and Other.
  - (7) No more than 40% in any one geographic region, including Northeast, Mideast, Southeast, Southwest, East North Central, West North Central, Pacific, and Mountain.
- c) **Treasury Inflation-Protected Securities ("TIPS")**
  - (1) The total portfolio's average rating will be AAA by Moody's or Standard & Poor's.
  - (2) At least 80% of the portfolio investments must be invested in TIPS.
  - (3) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

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- (4) The maximum effective duration shall be no more than 120% of the benchmark duration.
- (5) The maximum asset allocation to a single security shall not exceed 200% of the benchmark weighting.
- (6) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.
- (7) Securities of emerging market country (countries as defined by the J.P. Morgan EMBI Global Diversified Index) issuers are limited to a maximum of 5% of the portfolio market value.

**d) Commodities**

- (1) At least 80% of the portfolio investments must be invested in publicly traded commodities.
- (2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.
- (3) The maximum asset allocation to a single security shall not exceed 5%.
- (4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

## VII. MANAGER SEARCH AND SELECTION POLICY

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

### A. Roles and Responsibilities

Role of Board	Role of Staff	Role of General Fund Consultant
<ul style="list-style-type: none"> <li>• The Board is responsible for the authorization of the search for the investment manager(s).</li> <li>• The Board reviews and adopts the active and passive investment manager minimum qualifications based upon the written recommendation provided by the Staff and General Fund Consultant.</li> <li>• The Board reviews the semifinalist candidates as presented in the investment manager candidate evaluation report prepared by the Staff and General Fund Consultant.</li> <li>• Upon the completion of Staff's due diligence, the Board interviews investment manager finalist candidates.</li> <li>• The Board authorizes the selection and hiring of investment manager(s).</li> <li>• The Board may delegate certain Board duties to the Investment Committee as described in the Investment Committee Charter.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff, with input from the General Fund Consultant, recommends mandates for Board approval.</li> <li>• Staff is responsible for the implementation of the manager search and selection process.</li> <li>• Staff develops a written set of minimum qualifications. Unique criteria not specified in the pre-approved minimum qualifications list will require Board approval.</li> <li>• Upon Staff concurrence of the semifinalists, Staff and the General Fund Consultant provides the Board a written investment manager candidate evaluation and comparison report which will summarize the methodology for developing the list of semi-finalist candidates from the Qualified Respondents.</li> <li>• Staff conducts due diligence on the semi-finalist firms as reviewed by the Board.</li> <li>• Based on the findings of the due diligence, Staff will present a list of suitable semi-finalist candidates as finalist candidate(s) for the Board to interview.</li> </ul>	<ul style="list-style-type: none"> <li>• The General Fund Consultant works with Staff to develop a manager search initiation recommendation.</li> <li>• The General Fund Consultant works with Staff on additional written minimum qualifications for Board approval as necessary.</li> <li>• The General Fund Consultant applies the System's minimum qualifications and any additional Board-approved criteria in order to arrive at list of "Qualified Respondents" who pass the minimum qualifications.</li> <li>• The General Fund Consultant employs the investment manager candidate evaluation process to arrive at a list of semi-finalist candidates for Staff to then review and conduct due diligence upon. The investment manager candidate evaluation process will utilize the Evaluation Criteria as summarized in Section VII.B and may be adjusted as necessary.</li> </ul>

## Section 2 MANAGER SEARCH AND SELECTION POLICY

### B. Sequential Search and Selection Process

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

### C. Evaluation Criteria

<u>Evaluation Criteria - Active</u>	<u>Weighting</u>
Qualitative Assessment	70%
<i>Organization/People</i>	30%
<i>Investment Process</i>	40%
<i>Risk Management</i>	30%
Quantitative Assessment <sup>2</sup>	20%
Expected Fees	10%

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

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

Minimum qualifications will focus on the key characteristics required by the LACERS Board and Staff for a candidate firm to receive consideration for hire. The following minimum

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<sup>2</sup>The quantitative assessment includes, but is not limited to, a skill test, information ratio, consistency means test and batting average.

## Section 2 MANAGER SEARCH AND SELECTION POLICY

qualifications will be applied for all active, liquid market strategy investment manager searches.

- a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.
- b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.
- c) At least 60% of rolling four (4) quarter information ratios (i.e., excess return divided by excess risk) must be positive versus a mandate-appropriate benchmark, gross of fees, for the last five (5) years (12 of 20 quarters).
- d) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 25% of the proposed product assets.

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

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

The following minimum qualifications will be used for all passive investment manager searches

- a) Firm is a registered investment advisor under the Investment Advisors Act of 1940 or possesses bank exemption.
- b) Must have a proven and verifiable track record, which conforms to the CFA Institute's Global Investment Performance Standards ("GIPS"), of at least five (5) years as of the most recent quarter end.
- c) Strategy AUM must be of sufficient size that LACERS' expected mandate size would not comprise more than 50% of the proposed product assets.

### **F. Emerging Managers**

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

### Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

#### VIII. MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

##### A. Purpose

The purpose of this policy is to:

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

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

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

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

##### B. Monitoring and Evaluation

Investment managers will be monitored in the following areas:

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

### Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

#### 6. Compliance with Investment Manager Guidelines and Investment Policy.

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

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

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

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

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

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

#### C. Managers "On Watch"

LACERS shall notify investment managers in writing of their status should they be placed "On Watch". Typically, "On Watch" status applies for one year from the initial placement

### Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

date. However, the review period can be extended beyond the one year period based on the progress the investment manager is making such that the quantitative or qualitative factors listed in Section VIII.E and VIII.F are resolved.

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

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

#### D. Newly-Hired Managers

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

#### E. Quantitative Factors

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

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

**Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)**

**F. Qualitative Factors**

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

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

**G. Courses of Action**

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

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

### Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)

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

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

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

#### H. Halting of Trading Activity

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

#### I. Termination

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

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

**Section 3 MANAGER MONITORING POLICY (LIQUID MARKETS STRATEGIES)**

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

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

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

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

## Section 4 EMERGING INVESTMENT MANAGER POLICY

### IX. EMERGING INVESTMENT MANAGER POLICY

#### A. Policy Objectives

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

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

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

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

#### B. Emerging Investment Manager Goals

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

## Section 4 EMERGING INVESTMENT MANAGER POLICY

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

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

### C. Emerging Investment Manager Criteria

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

1. Public Market Asset Classes – U.S. Equities, Non-US Equities, Core Fixed Income, Credit Opportunities, and Real Assets
  - a) Firm Assets Under Management: The firm will have no more than \$2 billion in total firm assets under management at the time of hire.
  - b) Strategy Assets Under Management: The firm must have a minimum of \$50 million assets under management in the strategy being considered.
  - c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.
  - d) Track Record: The portfolio manager must have a minimum of five years of verifiable experience managing the strategy being considered. The experience must include a GIPS-compliant performance track history attributable to the portfolio manager for the most recent 36-month period of the five-year verifiable experience requirement.
  - e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

#### Section 4 EMERGING INVESTMENT MANAGER POLICY

- f) Maximum LACERS' Allocation: At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.
2. Private Market Asset Classes – Private Equity, Real Assets (not including Real Estate), Credit Opportunities
- a) Institutional Fund: First-, second-, or third-time institutional fund for a General Partner.
- b) Maximum Fund Size: A first-time institutional fund may have investor commitments of no more than \$750 million, \$1 billion for a second-time institutional fund, and \$1.25 billion for a third-time institutional fund.
- c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.
- d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.
- e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.
- f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's committed capital.\*
- g) Minimum Fund Size: The Fund shall have a minimum fund size of \$100 million in committed capital inclusive of LACERS' pending commitment.\* For a venture capital fund strategy, the Fund shall have a minimum fund size of \$75 million in committed capital inclusive of LACERS' pending commitment.\*
- h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or \$30 million, whichever is lower.
- \*Excludes co-investments or sidecar investment vehicles.
3. Private Market Asset Class – Private Real Estate
- a) Institutional Fund: First-, second-, or third-time institutional fund for a given General Partner.
- b) Maximum Fund Size: The institutional fund may have investor commitments of no more than \$2 billion.
- c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation

## Section 4 EMERGING INVESTMENT MANAGER POLICY

documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

- d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.
- e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.
- f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's capital.\*
- g) Minimum Fund Size: The Fund shall have a minimum fund size of \$150 million in committed capital inclusive of LACERS pending commitment.\*
- h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or \$30 million, whichever is lower. LACERS' commitment in the strategy for second- and third-time institutional funds shall not exceed 20% of the projected final fund closing size or \$40 million, whichever is lower.

*\*Excludes co-investments or sidecar investments.*

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

#### 1. Public Markets

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

#### 2. Private Markets

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

### **E. Research, Education and Outreach**

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

#### Section 4 EMERGING INVESTMENT MANAGER POLICY

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

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

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

#### **F. Reporting**

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

1. Names of Emerging Investment Manager firms hired during the calendar year.
2. Dollar amounts awarded to Emerging Managers.

**Section 4 EMERGING INVESTMENT MANAGER POLICY**

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

**Section 4 EMERGING INVESTMENT MANAGER POLICY – EXHIBIT 1**

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

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

**Organization Information**

Firm Name: \_\_\_\_\_  
 Address: \_\_\_\_\_  
 Base of Operations (City/State/Country): \_\_\_\_\_  
 This completed ODS is connected with the following RFP search (if applicable): \_\_\_\_\_  
 Firm AUM in \$000,000: \_\_\_\_\_

As of Date: \_\_\_\_\_

**Organization Workforce Composition**

Total Number of Firm Employees: \_\_\_\_\_  
 Number of U.S.-Based Employees: \_\_\_\_\_

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

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

**Section 4 EMERGING INVESTMENT MANAGER POLICY – EXHIBIT 1**

**Board of Directors Composition**

Number of Directors on the Firm's Board of Directors: \_\_\_\_\_

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

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

**American Indian or Native Alaskan** A person having origins in any of the original peoples of North and South America (including Central America), and who maintain tribal affiliation or community attachment.

**Asian** A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian Subcontinent, including, but not limited to, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand and Vietnam.

**Black or African American** A person having origins in any of the black racial groups of Africa.

**Hispanic or Latino** A person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin regardless of race.

**Native Hawaiian or Other Pacific Islander** A person having origins in any of the peoples of Hawaii, Guam, Samoa or other Pacific Islands.

**White** A person having origins in any of the original peoples of Europe, the Middle East or North Africa.

**Firm Ownership**

Percentage of Firm Owned by Employees: \_\_\_\_\_

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

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

**Section 4 EMERGING INVESTMENT MANAGER POLICY – EXHIBIT 1**

**Questionnaire**

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

Response:

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

Response:

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

Response:

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

Response:

**Contact Information**

Completed by: \_\_\_\_\_

Position/Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

E-mail Address: \_\_\_\_\_

Date Completed: \_\_\_\_\_

**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, with Staff concurrence, 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

## Section 5 PRIVATE EQUITY INVESTMENT POLICY

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

## Section 5 PRIVATE EQUITY INVESTMENT POLICY

to adequately manage such risk. The Private Equity Consultant will address concentration risk in the Annual Private Equity Strategic Plan.

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

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

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

- d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).
- e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Equity Consultant.

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

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

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

### **3. Diversification**

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

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

### Section 5 PRIVATE EQUITY INVESTMENT POLICY

- 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**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Strategy/Policy</b>	<ul style="list-style-type: none"> <li>• Select Private Equity Consultant.</li> <li>• Approve asset class funding level.</li> <li>• Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.</li> </ul>	<ul style="list-style-type: none"> <li>• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.</li> </ul>
<b>Investment Management and Monitoring</b>	<ul style="list-style-type: none"> <li>• Review quarterly, annual, and other periodic monitoring reports and plans.</li> <li>• Review Commitment Notification Reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant.</li> <li>• Conduct meetings with existing managers periodically.</li> <li>• Attend annual partnership meetings when appropriate.</li> <li>• Fund capital calls and manage distributions.</li> <li>• Review Private Equity Consultant's recommendations on partnership amendments and consents.</li> <li>• Execute partnership amendments and consents.</li> <li>• Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence.</li> <li>• Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s).</li> <li>• Prepare Commitment Notification Reports for Board.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio.</li> <li>• Recommend amendments and consents to Staff for approval.</li> <li>• Provide quarterly, annual, and other periodic monitoring reports and plans.</li> </ul>

**Section 5 PRIVATE EQUITY INVESTMENT POLICY**

	<b>Role of the Board</b>	<b>Role of Staff</b>	<b>Role of the Private Equity Consultant</b>
<b>Investment Selection</b>	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Review and approve investments in new partnerships of amounts greater than \$50 million prior to investment.</li> <li>Review and approve investments in follow-on partnerships of amounts greater than \$100 million prior to investment.</li> <li>Review and approve direct co-investment opportunities that exceed \$50 million.</li> <li>Review and approve the sale of any one existing partnership fund on the secondary market exceeding \$50 million in Fair Market Value.</li> <li>Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.</li> </ul>	<ul style="list-style-type: none"> <li>Refer investments and forward to Private Equity Consultant for preliminary screening.</li> <li>Conduct meetings with prospective or existing general partners representing new investment opportunities.</li> <li>Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer.</li> <li>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.</li> <li>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.</li> <li>In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities up to and including \$50 million.</li> <li>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.</li> <li>General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing.</li> <li>Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct appropriate analysis and due diligence on investments.</li> <li>Prepare investment reports for Board consideration on investments exceeding \$50 million for new managers, or exceeding \$100 million in follow-on funds.</li> <li>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.</li> <li>With Staff concurrence, approve direct co-investment opportunities up to and including \$50 million.</li> <li>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.</li> <li>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).</li> <li>Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence.</li> <li>Coordinate meetings with general partners at the request of Staff.</li> <li>Advise on and negotiate investment terms.</li> </ul>

**Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY****XI. PRIVATE REAL ESTATE INVESTMENT POLICY**

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

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

**A. Real Estate**

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

**B. Fiduciary Standards**

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

**C. Scope**

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

## Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

roles and responsibilities describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

LACERS has engaged the Real Estate Consultant on a non-discretionary basis to assist the Board and Staff to implement and revise this policy when necessary. The Real Estate Consultant's duties and responsibilities, which are further defined in Section XI.H include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to Staff and the Board with respect to the Portfolio. The Real Estate Consultant shall conduct a review of this policy, in conjunction with the Board and Staff, at a minimum of once per year, and set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

### **D. Investment Objectives**

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

#### **1. Attractive Risk-Adjusted Returns**

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

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

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

#### **3. International Investments**

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

#### **4. Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily

## Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value add and core investments.

### **5. Inflation-Hedge**

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

### **6. Preservation of Principal**

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

## **E. Investment Guidelines**

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

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

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

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

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies are referred to as core and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and high risk associated with institutional real estate investments.

**Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY****a) Core and Core Plus***Core*

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Core investments may also include high-quality, non-traditional property types (i.e. student housing, medical office, and self-storage) that produce stable income with low risk. Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 9% range (net of fees) with annual standard deviation near 8.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied.

*Core Plus*

Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

**b) Non-Core***Value Add*

Value add investments are functional, high quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 10% to 14% range (net of fees). Value add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies ("REOCs"). Value add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases,

## Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

ultimately decreasing the capitalization rate upon disposition. Value add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

### *Opportunistic*

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 15% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Opportunistic investments typically have even greater appreciation potential than value add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

## **2. Risk Mitigation**

### **a) Leverage**

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

### **b) Diversification**

Diversification is an important tool in reducing real estate portfolio risk and

**Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY**

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

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

*Property Type*

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

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

*Geographic Region*

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas.

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

**Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY****3. Investment Life Cycle**

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

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

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

**5. Investment Vehicles**

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

**a) Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over \$50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

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### **b) Closed-End Commingled Funds**

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

### **c) Separate Account Vehicles**

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

#### *Direct Investments*

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

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve

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another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

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

**6. Manager/Investment Concentration**

LACERS shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

**a) Maximum Manager Allocation**

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

**b) Maximum Investment Commitment**

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

**c) Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than \$150 million in committed capital inclusive of LACERS pending commitment.

**d) Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate

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Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

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

**7. Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

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

**8. Specialized Investments**

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

**a) Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether

## Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

### **b) Unique Managers**

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

## **G. Investment Processes And Procedures**

### **1. Real Estate Manager Selection Process**

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

#### **a) Universe of Potential Manager Candidates**

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will initiate a Manager search by creating a global list of potential candidates for selection based on the Staff and Real Estate Consultant's initial search criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered. The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.

#### **b) Minimum Manager Qualifications**

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

#### **c) Manager Candidate Summaries**

The Real Estate Consultant shall complete a brief summary of the Manager candidates, including descriptions of their meeting Manager criteria established by the Real Estate Consultant and the Staff relating to the Managers' organization, track record, personnel, alignment of interests, terms and fees. The Real Estate

**Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY**

Consultant will screen these summaries and recommend the finalists for further due diligence to the Staff.

**d) Due Diligence**

After the Staff and the Real Estate Consultant select the finalists, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related factors. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

**e) Selection and Approval**

After completing the due diligence report, the Staff and Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.

**f) Term Negotiation**

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

**2. Monitoring Process and Performance Measurement**

The Real Estate Consultant and the Staff, when available, will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings or in face-to-face or telephone meetings either at the Manager's or the Real Estate Consultant's offices.

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

**G. Benchmark Returns**

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

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

*Portfolio Benchmark*

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

**H. Roles and Responsibilities**

The following duties have been established to manage the risks involved with investing in real estate. Set forth below is the delegation of the major roles and responsibilities of each participant:

**1. Duties of the Board**

- a) Establish the role of the real estate investment program in light of the total System objectives.
- b) Consider and act upon the allocation to real estate and approve any adjustments to the allocation which may from time to time be necessary.
- c) Review, consider, and act upon the Annual Real Estate Policy (objectives, policies and procedures) and the Annual Real Estate Strategic Plan for the real estate program.
- d) Interview, consider, and act upon the Staff recommendations for selection, retention and removal of the Managers and/or the Real Estate Consultant and the selection of Manager investments.
- e) Review the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan.

**2. Duties of the Staff**

- a) Update and communicate with the Board and Investment Managers on issues and matters of the Policy.

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- b) Provide the Board with education and analysis that is independent from the Real Estate Consultant to the extent time and resources allow.
  - c) Be familiar with the asset class and stay informed of developments in industry as they occur.
  - d) Oversee the Real Estate Consultant's preparation of the Annual Real Estate Strategic Plan for the real estate program. Present and recommend, along with the Real Estate Consultant, the Real Estate Policy and Annual Real Estate Strategic Plan to the Board.
  - e) Oversee and review the performance of the Real Estate Consultant and the Managers on a periodic basis and discuss findings with the Board.
  - f) Bring any non-conforming items or significant issues to the attention of the Board.
  - g) Document and monitor funding procedures.
  - h) Complete any other activity as directed by the Board.
  - i) Conduct or assist in conducting due diligence on prospective investment opportunities as LACERS' resources permit.
  - j) Prepare investment documentation with the Real Estate Consultant.
- 3. Duties of the Manager**
- a) Adhere to reporting and performance measurement standards and comply with generally accepted accounting principles ("GAAP") applied on a fair market value basis.
  - b) Execute and perform its duties under the terms of the investment vehicle documents.
  - c) Provide timely requests for capital contributions.
  - d) Provide quarterly financial statements, annual reports and other investment information requested by the Staff and/or the Real Estate Consultant.
  - e) Conduct annual meetings to discuss important developments regarding investment and management issues.

**4. Duties of the Real Estate Consultant**

LACERS engaged the Real Estate Consultant on a non-discretionary basis to select new investments, to monitor existing investments, and to provide advice in accordance with the investment objectives for the real estate portfolio. The Real Estate Consultant's services to LACERS may include but are not limited to the following:

- a) Report directly to the Board and Staff on matters of policy.
- b) Bring any non-conforming items or significant issues to the attention of the Staff and the Board.

### Section 6 PRIVATE REAL ESTATE INVESTMENT POLICY

- c) Complete due diligence on potential investments and preparation of the due diligence report.
- d) Monitor the performance of the real estate portfolio and compliance with approved policy.
- e) Prepare the Annual Real Estate Strategic Plan for the real estate program, in consultation with the Staff, and present the Annual Real Estate Strategic Plan to the Board for review.
- f) Review proposed real estate investments and recommend prudent investments, structure and controls. Monitor investments and ventures through completion and disposition, including satisfaction of conditions to funding, partnership and financial issues.
- g) Assist Staff with the review and preparation of documents related to new investments approved by the Board consistent with the Real Estate Consultant's recommendation.
- h) Prepare reports on a periodic basis for the Board to evaluate investment performance and to ensure compliance with policy guidelines and approved Annual Real Estate Strategic Plan. The evaluation system shall provide such information as may be required by LACERS to understand and administer its investments.
- i) Assist the Staff in the Annual Real Estate Strategic Plan portfolio review.
- j) Provide Board and Staff with topical research and education on investment subjects that are relevant to LACERS.
- k) Review the Real Estate Policy annually and notify LACERS if any revisions are needed thereto.
- l) Monitor and report on risk.
- m) Provide ongoing real estate education information and seminars to the Board.

#### **5. Duties of Legal Counsel**

The legal counsel selected by LACERS along with the Office of the Los Angeles City Attorney will represent LACERS and will review all real estate related documents and provide advice for special investment situations as needed.

## Section 7 RISK MANAGEMENT POLICY

### XII. RISK MANAGEMENT POLICY

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

#### A. Purpose

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

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

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

#### B. Roles and Responsibilities

##### 1. Duties of the Board

- a) The Board adopts and implements the long-term investment strategy through the System's asset allocation policy. This decision drives the long term performance, exposures, and risk of the System. The asset allocation decision provides the basis for monitoring strategic ("beta") investment risk.
- b) The Board is also responsible for the asset class structure decisions. This decision drives the long term excess performance and excess risk for each of the asset classes in which the System invests. The target asset class structure provides the basis for monitoring active ("alpha") investment risk.

##### 2. Duties of the Staff:

- a) Staff monitors risks associated with the investment managers in accordance with the Manager Monitoring Policy described in Section VIII. Staff evaluates both qualitative and quantitative risk factors on a regular basis and conducts the due diligence in to the context of the total plan assets.
- b) Staff reviews the asset allocation as determined by the Board, on a daily basis and rebalances the portfolio according to the Rebalancing Policy in Section V.G.

## Section 7 RISK MANAGEMENT POLICY

- c) Staff also reviews any variance from the manager's investment guidelines and notifies the manager to become compliant.
- d) Staff reviews on a quarterly basis industry standard risk and return metrics of the System.

### 3. Duties of the Consultant:

- a) The consultant provides quarterly performance and risk metrics for Staff's review.
- b) The consultant, as described in the Asset Allocation Policy in Section IV., conducts an asset allocation study every three years, or as needed, with updated risk and return capital market expectations
- c) The consultant is responsible for developing the data necessary for the risk budgets to aid in the decision making process for the Board.

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

### C. Risk Guidelines

#### *System Level*

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

#### *Asset Class Risk Budgets*

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

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

#### *LACERS' Risk Budgeting Process*

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

**Section 7 RISK MANAGEMENT POLICY**

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

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

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

Expected Excess Return

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

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

Expected Excess Risk

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

Expected Excess Correlations

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

**Section 7 RISK MANAGEMENT POLICY**Framework for Policy Implementation

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

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

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

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

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

## Section 8 GEOPOLITICAL RISK INVESTMENT POLICY

### **XIII. GEOPOLITICAL RISK INVESTMENT POLICY**

#### **A. Introduction**

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

#### **B. LACERS Board's Fiduciary Responsibilities**

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

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

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

The System is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Importantly, the System's ownership of securities in a corporation does not signify approval of all of a company's policies, products, or actions.

Investments shall not be selected or rejected based solely on geopolitical risk factors. Accordingly, a company's possible risky geopolitical conduct can only be taken into consideration if the conduct is deemed to demonstrate a negative effect on the investment performance of the company, and ultimately the System.

#### **C. Process for Identifying and Mitigating Corporate Governance Geopolitical Risks to the LACERS Portfolio**

1. The LACERS Staff will keep the Board apprised of geopolitical problems and issues, and take into account actions of other like prudent investors.
2. Once identified, the Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's Geopolitical Risk Factors on investment returns.
3. The Board will direct the Staff to solicit feedback from the investment managers holding the security exposed to geopolitical risk as well as conduct independent study to research the impact of the risk.

**Section 8 GEOPOLITICAL RISK INVESTMENT POLICY**

4. Upon the Board determination of a company’s behavior presenting a potential investment loss to the System, the Board shall promptly direct the Staff to seek a change in the company’s behavior.
5. Staff will engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.
6. After all reasonable efforts have been made to engage management constructively, the Board may determine whether it is prudent to hold such investments or whether it is prudent to sell such investments.
7. At such time, the System will work with the investment manager whose portfolio holds the investment, consultant(s) and fiduciary counsel to determine a prudent course of action.
8. Should the Board decide to take action to divest, Staff will communicate the decision to all of the System’s investment managers to adhere to the Board’s actions going forward.

**D. Geopolitical Risk Factors**

<p><b>Respect for Human Rights</b></p> <ul style="list-style-type: none"> <li>• Judicial System</li> <li>• Arbitrary or Unlawful Deprivation of Life</li> <li>• Disappearance</li> <li>• Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment</li> <li>• Arbitrary Arrest, Detention, or Exile</li> <li>• Arbitrary Interference with Privacy, Family, Home, or Correspondence</li> <li>• Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts</li> <li>• Governmental Attitude Regarding International and Non-Governmental Investigation of Alleged Violations of Human Rights</li> </ul>
<p><b>Respect for Civil Liberties</b></p> <ul style="list-style-type: none"> <li>• Freedom of Speech and Press</li> <li>• Freedom of Peaceful Assembly and Association</li> <li>• Freedom of Religion</li> <li>• Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation</li> <li>• Civil Unions/Same Sex Marriage</li> </ul>
<p><b>Respect for Political Rights</b></p> <ul style="list-style-type: none"> <li>• The Right of Citizens to Change Their Government</li> </ul>
<p><b>Discrimination Based on Race, Sex, Sexual Orientation, Disability, Language, or Social Status</b></p> <ul style="list-style-type: none"> <li>• Women/Gender</li> <li>• Children</li> <li>• Persons With Disabilities</li> <li>• National/Racial/Ethnic Minorities</li> <li>• Indigenous People</li> </ul>

<b>Section 8 GEOPOLITICAL RISK INVESTMENT POLICY</b>
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<ul style="list-style-type: none"> <li>• Gender Identity</li> <li>• Age Discrimination</li> </ul>
<p><b>Worker Rights</b></p> <ul style="list-style-type: none"> <li>• The Right of Association</li> <li>• The Right to Organize and Bargain Collectively</li> <li>• Prohibition of Forced or Bonded Labor</li> <li>• Status of Child Labor Practices and Minimum Age for Employment</li> <li>• Acceptable Conditions of Work</li> <li>• Trafficking in Persons</li> </ul>
<p><b>Environmental</b></p> <ul style="list-style-type: none"> <li>• Air Quality</li> <li>• Water Quality</li> <li>• Climate Change</li> <li>• Land Protection</li> </ul>
<p><b>War/Conflicts/Acts of Terrorism</b></p> <ul style="list-style-type: none"> <li>• Internal/External Conflict</li> <li>• War</li> <li>• Acts of Terrorism</li> <li>• Party to International Conventions and Protocols</li> </ul>

**Section 9 PROXY VOTING POLICY****XIV. PROXY VOTING POLICY****A. Introduction**

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

As such the core objectives of LACERS Proxy Policy are:

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

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

**B. Statement of Purpose**

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

All applications of this policy are executed by an outside proxy voting agent. The policy will be reviewed on a bi-annual basis. The proxy voting agent provides quarterly voting reports summarizing all votes cast during that time period. These reports are reviewed for compliance with the proxy voting policy.

## Section 9 PROXY VOTING POLICY

**1. BOARD OF DIRECTORS**

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

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
1.11	SHAREHOLDER ADVISORY COMMITTEES	LACERS supports this issue in principle  VOTING AGENT'S DISCRETION	It is often difficult for directors to communicate to and hear from shareholders, because shareholders tend to be numerous, unidentified, dispersed, and silent. This proposal establishes committees of shareholders to make communication easier and more effective. However, establishment of such committees can be time consuming and expensive. The Board prefers the establishment of such committees where there is no other available mechanism to communicate with the company boards.
1.12	PROXY CONTESTS	CASE-BY-CASE  VOTING AGENT'S DISCRETION	A proxy contest is a strategy that involves using shareholders' proxy votes to replace the existing members of a company's board of directors. By removing existing board members, the person or company launching the proxy contest can establish a new board of directors that is better aligned with their objectives. Proxy contests should be examined on a case-by-case basis considering factors such as the company's performance relative to peers, strategy of incumbents vs. dissidents, experience of director candidates, current management's track record, etc.
1.13	REIMBURSEMENT OF PROXY SOLICITATION EXPENSES	CASE-BY-CASE  VOTING AGENT'S DISCRETION	Most expenditures incurred by incumbents in a proxy contest are paid by the company. In contrast, dissidents are generally reimbursed only for proxy solicitation expenses, if they gain control of the company. Dissidents who have only gained partial representation may also be reimbursed in cases where the board and a majority of shareholders approve. In successful proxy contests, new management will often seek shareholder approval for the use of company funds to reimburse themselves for the costs of proxy solicitation.
1.14	LACK OF WOMEN REPRESENTATION ON CORPORATE BOARDS	CASE-BY-CASE  VOTING AGENT'S DISCRETION	LACERS supports the election of women directors to corporate boards. For companies in the Russell 3000 or S&P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board unless the company has provided a firm commitment, with measurable goals, to achieve gender diversity by the following year.
1.15	DIRECTOR ATTENDANCE AT BOARD AND COMMITTEE MEETINGS	CASE-BY-CASE  VOTING AGENT'S DISCRETION	Absent compelling, publicly disclosed reasons, directors who attend fewer than 75 percent of board and board-committee meetings for two consecutive years should not be renominated. Companies should disclose individual director attendance figures for board and committee meetings.

## Section 9 PROXY VOTING POLICY

**2. AUDIT-RELATED**

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

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

## Section 9 PROXY VOTING POLICY

**3. COMPENSATION**

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

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

**4. SHAREHOLDER RIGHTS & TAKEOVER DEFENSES**

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

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

**5. CAPITAL STRUCTURE**

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

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

**6. CORPORATE RESTRUCTURINGS**

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

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

## Section 9 PROXY VOTING POLICY

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

## Section 9 PROXY VOTING POLICY

**8. SOCIAL & ENVIRONMENTAL**

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

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

## Section 9 PROXY VOTING POLICY

No.	Issue	LACERS Position	Rationale
8.5	CORPORATE AFFIRMATION OF ITS NON-COERCIVE POLITICAL PRACTICES	AGAINST	This affirmation is intended to ensure that the corporation avoids a number of coercive political practices such as distribution of contribution cards in favor of one political party. Since these practices are illegal, the issue is moot.
8.6	LIMITING CORPORATE PHILANTHROPY	AGAINST	These proposals place restrictions and additional reporting obligations upon management's right to make corporate contributions to charitable, educational, community or related organizations. Most companies give money to charity. Because most companies must compete, those that do not contribute to charity risk damaging their good names.
8.7	STAKEHOLDERS' INTEREST BEFORE OR EQUAL WITH SHAREHOLDERS' INTEREST	ABSTAIN	Stakeholders include customers, suppliers, employees, communities, creditors and shareholders. Stakeholders are important to the success of the corporation and therefore the interests of each must be considered by directors and management. However, boards should not put the non-shareholder/stakeholder interests ahead of or on an equal footing with shareholders in terms of the corporation's ultimate purpose.
8.8	GENDER, RACE, OR ETHNICITY PAY GAP	FOR	Companies should provide reports on its pay data categorized by gender, race, or ethnicity and reports on a company's policies and goals to reduce any gender, race, or ethnicity pay gaps.
8.9	REPORTS ON EMPLOYEE DIVERSITY	FOR	Companies should provide diversity reports identifying employees according to their gender and race in each of the nine Equal Employment Opportunity Commission (EEOC) defined job categories.
8.10	ALL OTHER ESG ISSUES	VOTING AGENT'S DISCRETION	Investment staff relies on the research expertise and voting recommendations of ISS for other ESG issues not addressed by this policy.

## Section 9 PROXY VOTING POLICY

### 9. ISSUES NOT ADDRESSED BY POLICY

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

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

- 1) ISS shall alert investment staff of substantive proxy issue not covered by policy as soon as practicable;
- 2) Investment staff and/or the General Manager shall determine whether the item requires Governance Committee ("Committee") and/or Board of Administration ("Board") consideration;
- 3) If the issue does not require Committee and Board consideration, then staff will vote the issue based on available research;
- 4) If the issue requires Committee and Board consideration, then the item will be prepared and presented to the Committee and Board for consideration. Following Committee and Board action, staff will then have the issue voted accordingly.
- 5) If time constraints prevent a formal gathering of the Committee and Board, then LACERS Board approved Corporate Governance Actions Protocol, as reprinted below, shall apply and staff will then have the issue voted accordingly.

### CORPORATE GOVERNANCE ACTIONS POLICY Board Adopted December 2008

From time to time LACERS receives requests from other pension funds or from affiliated organizations for support of various corporate governance actions. Many of the actions requested, such as requests to sign action letters, would otherwise appear to be consistent with existing Board policy. However, occasionally there is not adequate time to convene a Committee or Board meeting in advance to consider the matter.

The proposed Corporate Governance Actions Policy requires that one staff member plus one Board member both agree that the subject to be voted/acted on falls within the letter or spirit of adopted Board policy. If both agree, the measure will be executed by the General Manager or authorized designee.

The designated staff person will be the Chief Investment Officer (CIO). The designated Board member will be the Chair of the Governance Committee. In the absence of the CIO, the General Manager will become the designated staff member. In the absence of the Chair of the Governance Committee, the Board Chair will become the designated Board member.

**Section 10 SECURITIES LENDING POLICY****XV. SECURITIES LENDING POLICY****A. Objectives**

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

**B. Scope**

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

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

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

**C. Roles and Responsibilities****1. The Board:**

- a) Reviews and approves the Securities Lending Policy.
- b) Modifies or terminates the Program.
- c) Selects and terminates the Securities Lending Agent.
- d) Reviews the Program's overall performance.

**2. Staff:**

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

### Section 10 SECURITIES LENDING POLICY

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

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

#### 3. The Agent:

- a) Ensures that counterparties that borrow LACERS' securities are qualified pursuant to LACERS' approved credit standards.
- b) Indemnifies LACERS against borrower default.
- c) Accepts and invests collateral according to collateral investment guidelines agreed upon with LACERS.
- d) Provides the following reports to LACERS:

Reporting Requirements of the Agent		
Ad hoc Reports	Monthly Reports	Quarterly Reports
<ul style="list-style-type: none"> <li>• Any borrower defaults within a practicable time frame.</li> <li>• Any violations of LACERS' guidelines with a plan for correction within a practicable time frame.</li> </ul>	<ul style="list-style-type: none"> <li>• Volume and lending spreads for the Program.</li> <li>• Total income received by LACERS and by the Agent for borrowing activity.</li> <li>• Investment management activities and risk characteristics of the collateral investment portfolio including sector allocation, quality exposures, maturity exposures, borrower exposures, average days' liquidity, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• LACERS lending activity, earnings, risk characteristics and general trends in the security lending marketplace.</li> </ul>

#### D. Potential Risks

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

##### 1. Counterparty Risk

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

##### 2. Cash Reinvestment Risk

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

**Section 10 SECURITIES LENDING POLICY**

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

**3. Interest Rate Risk**

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

**4. Other Risks**

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

**Section 11 SECURITIES LITIGATION POLICY****XVI. SECURITIES LITIGATION POLICY****A. Purpose**

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

**B. Objective**

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

**C. Guidelines****1. Use of Outside Experts As Needed**

LACERS may engage the services of its custodian bank, third-party vendors, and with the concurrence of the City Attorney's Office, outside counsel, to assist LACERS to monitor securities litigation cases in which LACERS may have an interest, evaluate LACERS' potential losses, provide recommendations concerning whether to take an active role in the litigation, and/or represent LACERS in cases in which the Board has agreed to seek an active role.

**2. Threshold for Determinations by the Board to Actively Participate****a) Domestic Securities Actions**

The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to take an active role in a particular domestic securities class action, including whether to seek lead plaintiff status or pursue an independent action, where: (1) the estimated recoverable damages to LACERS exceed two million dollars (\$2,000,000.00); or (2) the estimated recoverable damages to LACERS exceed one million dollars (\$1,000,000.00) and LACERS joins with one or more City of Los Angeles retirement plans in pursuing an independent action. In making its determination, the Board shall weigh the potential damages incurred by the Plan, the potential recovery that may be obtained if such claim is pursued, and the likelihood of the plaintiffs' success in the action based upon the merits of the action.

## Section 11 SECURITIES LITIGATION POLICY

### b) Foreign Securities Actions

The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to participate (Opt-In) in a particular foreign securities action—a lawsuit brought or pending outside of the United States involving securities purchased by LACERS or on LACERS' behalf on a foreign securities exchange—where the estimated recoverable damages to LACERS exceed one million U.S. dollars (US\$ 1,000,000.00). In foreign securities actions, in addition to the core considerations concerning damages, administrative burdens, and liability, the Board also shall weigh carefully the quality and financial stability of the foreign legal counsel and the defense cost funding guarantor.

### 3. Diligent Asset Recovery in All Cases

In cases in which LACERS has not assumed an active role but has suffered losses, LACERS shall ensure that it obtains its fair share of any recovery in which it has filed a valid claim.

## D. Operational Roles And Responsibilities To Implement The Securities Litigation Policy

### 1. The Board

- a) Pursuant to the Guidelines set forth in Section C.2 of the Securities Litigation Policy, and upon considering the recommendations of Staff, the City Attorney's Office, and/or any outside counsel engaged to assist the City Attorney's Office, the Board shall make the final determination whether to actively participate in a particular action.
- b) Consistent with Charter Section 275 and Section D.4 of the Securities Litigation Policy, the Board shall make recommendations of one or more outside law firms to assist the City Attorney's Office in discharging the duties required by the Securities Litigation Policy.
- c) As set forth in Charter Section 273(a), the Board shall have the authority to approve or reject any settlement of litigation.

### 2. Custodian Bank and/or Third-Party Vendor

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

- a) Reviewing all securities actions brought or pending within the United States or a foreign jurisdiction in which LACERS has suffered losses.
- b) Timely filing complete and accurate proof of claims forms on LACERS' behalf, including the necessary supporting documents and information, necessary to recover damages in every securities class action brought or pending within the United States in which LACERS has suffered losses.
- c) Providing timely notice to LACERS of each settlement recovery, with sufficient time to allow LACERS to opt-out of domestic actions, and/or opt-in to foreign actions. LACERS Staff shall have the authority to determine, and to communicate to the

## Section 11 SECURITIES LITIGATION POLICY

Custodian Bank and/or Third-Party Vendor, the deadline for such notice in each particular case.

- d) Providing quarterly reports to LACERS Staff and the City Attorney's Office regarding these functions, including any securities litigation proceeds recovered.
- e) Providing outside securities litigation monitoring counsel which has been engaged by LACERS pursuant to Section D.4 of the Securities Litigation Policy with access to LACERS' securities holdings and transaction information in order to enable such counsel to identify losses associated with existing and potential lawsuits.

### 3. LACERS Staff

LACERS Staff shall be responsible for:

- a) Monitoring the functions performed by the Custodian Bank and/or Third-Party Vendor as described above and shall keep the Board apprised of any unusual or extraordinary events.
- b) Working with the City Attorney's Office to provide support and information regarding securities holdings and activity for litigation purposes.
- c) Preparing for the Board an annual report summarizing securities class action activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.
- d) Assisting the City Attorney's Office to evaluate and recommend to the Board outside counsel law firms to assist the City Attorney's Office in discharging its duties under the Securities Litigation Policy.
- e) Assisting the City Attorney's Office to provide recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

### 4. The City Attorney's Office

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

- a) Identifying and recommending to the Board qualified outside law firms to assist the City Attorney's Office with monitoring, evaluating, and recommending cases in which LACERS should consider taking an active role under the Securities Litigation Policy. The Board shall recommend one or more such firms to be engaged as outside securities litigation monitoring counsel to assist the City Attorney, subject to the written consent of the City Attorney's Office. Once engaged, outside securities monitoring counsel shall be authorized to receive access to LACERS' securities holdings and transaction information from the Custodian Bank and/or Third Party Vendor, as provided by Section D.2 of the Securities Litigation Policy.
- b) Identifying and recommending to the Board qualified outside law firms that would be competent to serve as lead counsel, supervised by the City Attorney's Office, in a particular securities case in which LACERS has sought to serve as lead plaintiff or as plaintiff in an opt-out case. The Board shall recommend one or more

**Section 11 SECURITIES LITIGATION POLICY**

such firms, subject to the written consent of the City Attorney's Office, to be placed upon a list of approved lead counsel candidates that would be eligible to submit proposals to represent LACERS in a particular case.

- c) Providing recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.
- d) Once the Board has made a determination to seek an active role in a particular case, preparing Requests for Proposal for distribution to the firms that have been placed upon the list of approved lead counsel candidates, evaluating proposals, and recommending one or more finalist firms to the Board.
- e) Assisting Staff to provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which LACERS is a party and/or lead plaintiff.
- f) Assisting LACERS in its role as lead plaintiff in a class action or as a plaintiff in an opt-out case, including supervising the law firm appointed to serve as lead counsel. Such supervision may include participation in significant motions and settlement discussions when permitted by parties or the court, and filing objections concerning attorney fee requests.

## Section 12 GLOSSARY

## XVII. APPENDIX: GLOSSARY

**ASSET CATEGORIES**

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

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

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

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

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

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

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

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

**Section 12 GLOSSARY**

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

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

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

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

**EQUITY TERMS**

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

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

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

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

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

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

**Section 12 GLOSSARY**

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

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

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

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

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

**FIXED INCOME TERMS**

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

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

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

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

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

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

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

## Section 12 GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

**Section 12 GLOSSARY**

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

**DERIVATIVE TERMS**

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

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

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

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

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

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

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

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

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

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

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

**Section 12 GLOSSARY****PRIVATE EQUITY TERMS**

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

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

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

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

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

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

**Cost Basis:** Capital contributions less return of principal.

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

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

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

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

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

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

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

## Section 12 GLOSSARY

**Mezzanine:** An investment strategy involving the purchase of subordinated debt. These securities exist between the senior debt and equity of a holding's capital structure. Subordinated debt carries a lower level of risk than pure equity structures because they generate current income and have a more senior position in the company's capital structure.

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

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

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

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

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

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

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

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

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

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

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

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

## Section 12 GLOSSARY

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

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

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

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

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

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

### **PRIVATE REAL ESTATE TERMS**

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

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

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

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

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

## Section 12 GLOSSARY

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

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

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

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

**Diversification Attributes:**

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

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

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

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

*Life Cycle:*

*Pre-development:* Raw land.

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

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

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

## Section 12 GLOSSARY

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

*Property Size:* Property size categories refer to gross asset value of each property. The dollar amount entered in each category should reflect net asset value within each category.

*Property Type:*

*Office:* Low-rise, mid-rise and high-rise office buildings and office parks.

*Industrial:* Warehouse, manufacturing, office showroom, flex space and research and development.

*Retail:* Neighborhood center, community center, regional center, super regional center, fashion/specialty center, power center, theme/festival center and outlet center.

*Residential:* High-rise elevator projects, low-rise projects and garden type projects.

*Hotel/Motel:* Hotels, resorts and motels.

*Timberland:* Timber, timberland and mineral rights.

*Agriculture:* Row crops, permanent crops, pasture/ranch and agribusinesses.

*Vacant Land:* Undeveloped land.

*Other:* Mobile home parks, self storage facilities, etc.

**Gross Asset Value:** The fee simple or leased fee market value of an investment, without regard to the debt balance or ownership percentages.

**Gross Income:** The income or loss of a portfolio or entity, resulting after deducting all expenses, (except for portfolio and asset management fees), but before realized and unrealized gains and losses on investments.

**Income Return:** Expressed as a percentage, the component of return derived from property operations during the period of analysis.

**Lease Expiration Exposure Schedule:** A tabulation listing the total leasable square footage of all current leases that expire in each of the next five years, without regard to renewal options.

**Net Assets:** Total Assets on a market value basis less total liabilities on a market value basis.

**Section 12 GLOSSARY**

**Net Investment Income (Net Income):** The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

**Net Operating Income:** Rental and other income of property, less operating expenses other than Capital Expenditures and mortgage debt service.

**Net Sales Proceeds:** Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs, and marketing expenses.

**Partial Sales:** The sale of an interest in real estate which is less than the whole property. This may include, for example, a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment. (See Net Sales Proceeds)

**Principal Payments:** The return of invested capital to the lender, as compared to interest payments, which represents a return on invested capital.

**Separate Accounts:** A term applied to an investment vehicle for investors with the ability to commit substantial funds to real estate assets who may prefer to invest through individual portfolios specifically tailored to their unique investment requirements. Separate accounts provide clients with a greater degree of control and enable them to capitalize on specific investment opportunities.

**Time Weighted Annual Rate of Return:** The yield for a year calculated by geometrically compounding the previous four quarters' returns.

**Total Assets:** The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the Statement of Assets and Liabilities.

**Total Return:** The sum of the quarterly income and appreciation returns.

**Weighted Average Equity:** The denominator of the fraction used to calculate investment level Income, Appreciation, and Total returns on a quarterly basis, consisting of the Net Assets at the beginning of the period adjusted for Weighted Contributions and Distributions.

**STATISTICAL TERMS**

**Active Risk:** Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with tracking error.

**Active Share:** A measure of dispersion between a manager's portfolio and the portfolio benchmark based upon the individual portfolio holdings versus volatility, which is used to

## Section 12 GLOSSARY

calculate tracking error, another measure of dispersion. A Yale study<sup>3</sup> found high active share portfolios tended to outperform low active share portfolios.

**Alpha:** A measure of risk adjusted return that represents that part of a return above or below a benchmark and is typically attributed to investment skill.

**Attribution:** The result of investment performance analysis whereby the key sources of value-added or detracted versus the benchmark are identified and quantified in terms of the contribution to value-added or detracted from that source.

**Basis Point:** One one-hundredth of one percent, i.e., 100 basis points = 1%.

**Beta:** A measure of the extent to which the returns on a given stock or portfolio move with the stock market.

**Correlation:** A statistic describing the goodness of fit about a linear relationship between two variables (returns). It measures the degree to which two variables (assets) move in tandem, with -1 corresponding to perfect negative correlation (vary inversely) and +1 corresponding to perfect positive correlation (move together). A value of zero would indicate no relationship between the two variables.

**Information Coefficient (“IC”):** a measure of investment manager skill which, together with a measure of breadth provides the manager information ratio according to the Fundamental Law of Active Management<sup>4</sup>. Similar to the correlation coefficient, the IC ranges between 0 and +1.

**Information Ratio:** A measure of the level of reward per unit of risk. The information ratio is calculated by dividing the alpha (difference between the portfolio return and the benchmark return) by the standard deviation of the alpha.

**Mean:** The traditional average; it is calculated by adding up all the numbers and dividing the total by the number of observations.

**Mean Absolute Deviation:** The average value of differences from the mean, where the differences are evaluated without regard to sign. It is a measure of dispersion.

**Median:** The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

**Negative Semi-variance:** This measure considers only downside dispersion. Since measures of dispersion are frequently used to measure risk in securities and portfolios,

<sup>3</sup> Cremers, K.J. Martijn, and Antii Petajisto, 2009. “How Active is your Fund Manager? A New Measure That Predicts Performance”, *Review of Financial Studies* 22 (9): 3329-65

<sup>4</sup> Grinold, Richard C. and Ronald N.Kahn, *Active Portfolio Management*, 2<sup>nd</sup> ed., New York: McGraw-Hill (2000)

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the amount of uncertainty as to future value is one definition of risk. Some investors find this definition difficult to accept because they feel that only below-average expectations represent risk.

**Range:** The difference between the minimum and maximum in a series.

**R-Squared (R<sup>2</sup>):** The proportion of a portfolio's variability that is explained by the relation between the portfolio and the market.

**Standard Deviation:** This measure is the square root of the variance. The standard deviation is a useful and widely used measure because, for a normal, or bell-shaped, distribution, 68 percent of the observations fall within one standard deviation and 95 percent fall within two standard deviations. Since it is usually reasonable to suggest that distributions in finance are normal, a good estimate of the dispersion of a distribution around its average is provided by the standard deviation measure. In a portfolio context, the higher the standard deviation, the higher the risk associated with a given level of return on that portfolio.

**Tracking Error:** Annualized standard deviation of the difference between the portfolio return and its benchmark return. Used interchangeably with active risk.

**Variance:** The variance is a true measure of the width of the distribution. Variance relates each observation to the average by squaring each number (multiplying a negative number by itself produces a positive number).

### **DESCRIPTION OF MANAGER STYLES**

#### **Equity Styles**

**Bottom Up:** A method of analysis that begins with fundamental factors at the company or micro economic level.

**Currency Overlay:** Strategy to use currency futures, forwards, and options as an overlay on existing international portfolios to protect against losses in currency movements.

**Enhanced Index:** In general, a manager utilizing this style attempts to outperform an index by analyzing quantifiable characteristics of a given stock or sector. The strategy is characterized by low to moderate levels of active risk.

**Growth:** Seeks investments whose future potential for growth is above the growth expectation for securities in general. From an analytical perspective, growth portfolios will generally exhibit the following characteristics:

- Projected Earnings Growth – greater than the index
- Price to Earnings Ratio – generally greater than the index
- Price to Book Ratio – generally greater than the index

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Five Year Earnings Growth Rate – greater than the index

**Index/Passive:** An index strategy would strive to match the return of the appropriate index by holding a portfolio of securities that closely tracks the index.

**International Equity Active Country and Sector/Passive Security Selection:** Through an overall review of economic, social, and political issues worldwide, decisions are made with respect to the allocation of investments among countries and sectors. The investment decisions are implemented through passive security selection.

**Large Capitalization Domestic Equity:** Investments in a portfolio of securities that approximate the average market capitalization of the Russell 1000 Index.

**Mid Capitalization Domestic Equity:** Investments in a portfolio of securities that approximate the average market capitalization of the Russell Mid Cap Index.

**Quantitative:** Stock selection and portfolio construction are implemented through computerized models which consistently employ fixed criteria and/or decision rules which may or may not involve manual intervention.

**Small Capitalization Domestic Equity:** Investments in a portfolio of securities that approximate the average market capitalization of the Russell 2000 Index.

**Top Down:** A method of analysis that begins with broad macroeconomic topics associated with an economy and industry.

**Value:** Investments in equities whose potential is temporarily unrecognized by other investors. Value stocks typically are companies whose assets, future cash flows, products or services are overly discounted relative to the broader market. Typically, value portfolios will exhibit the following characteristics:

Price to Book Ratio – less than the index

Price to Earnings Ratio – less than the index

Dividend Yield – greater than the index

**Fixed Income Styles**

**Bank Loans:** Managers that invest in short and intermediate term senior subordinated debentures of below investment grade issuers. This debt is adjustable rate and may provide modest inflation protection in a rising rate environment. Also, these debentures are higher in the capital structure than high yield bonds, which affords greater creditor protection in stressed environments in addition to a shorter duration.

**Core:** Seeks investments in the large, more liquid sectors such as governments, mortgage-backs and investment grade corporates that do not represent significant deviation from a given index in terms of sector, quality, coupon and maturity exposures.

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While some over/under weighting may occur in the portfolio, these will result from the manager's security selection process and not represent a deliberate attempt to bias the portfolio.

**Core Plus:** A core plus manager has the latitude to invest the portfolio in core sectors as well as high yield (below investment grade) non-dollar denominated and/or the debt of emerging markets.

**Emerging Market Debt:** Seeks investment in either investment grade or below investment grade debt of sovereign or corporate issuers domiciled in emerging market countries. This debt can be "hard currency" (i.e., dollar) denominated or denominated in the local currency of the issuing entity.

**High Yield:** Seeks investments in below investment grade corporate securities.

**Intermediate:** Managers that invest in shorter than market duration securities with an average portfolio duration range of between three and four years. Securities invested in will range across sectors and could be either investment grade and/or non-investment grade rated. Portfolios can also include non-U.S. issued securities in addition to securities issued in the U.S.

**Medium-Grade:** Seeks investments from the complete range of global fixed income sectors. The medium-grade manager has broad latitude to invest the portfolio's assets in opportunistic sectors such as high-yield (below investment grade) non-dollar, emerging markets and convertible debt investments. The manager may use investment grade sectors as a defensive alternative to opportunistic sectors.

**Inflation Protected:** Invests in fixed instruments that have a real and inflation-linked return component. The securities are typically issued by government entities. An example would be the Treasury Inflation Protected Securities (TIPS) issued by the United States Government.

**Structured credit:** A traditional bond that has had its repayment structure altered to produce non-traditional payoffs derived from one or more of the underlying assets rather than from the borrower's (i.e., issuer's) cash flow. Structured credits are a blend of bonds and derivatives (usually swaps). Often, downside risk is protected beyond a certain level.

### **RATES OF RETURN**

**Capital Appreciation (Depreciation):** Both realized and unrealized gains or losses in the market value of a portfolio from beginning to end of the time period being measured.

**Dollar-Weighted Return:** This rate is also called the internal rate of return (IRR). It is sensitive to the timing and size of cash flows. The rate of return for each sub-period such as a month or a quarter is weighted by the dollars invested in that period. Thus, the cash flows in the fund, as well as investment performance, will have an impact on calculated

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returns. The dollar-weighted return is important in measuring the actual growth of a fund over time.

**Income Return:** The rate of return attributable to interest and/or dividends.

**Market Value:** The market value of an asset is the realizable value at any point in time. In practice, publicly traded stocks are valued at the day's closing price and bonds are generally valued at the day's final bid price. Different pricing services can result in different market prices especially in the bond market.

**Real Rate of Return:** The rate of return earned from an investment's income/loss and appreciation/depreciation after being adjusted for inflation. The most common measure of inflation is the U.S. Bureau of Labor Statistics' All Urban Consumer Price Index (CPIU).

**Time-Weighted Rate of Return:** The amount and timing of cash flows do not impact time-weighted rates of returns since the returns for each sub-period are equally weighted. Since investment managers have little control over cash flow, time-weighted returns are an appropriate method of analyzing the manager's performance.

**Total Fund Total Rate of Return:** The "overall" rate which reflects the combination of income as well as realized and unrealized appreciation or depreciation for all segments or portfolios in the total plan.

### **TIME PERIODS**

**Annualized:** A rate of return for a time frame that is less than or greater than one year expressed as an average annual return.

**Compound Annual:** A compound average annual rate of return for a period greater than 1 year expressed in annual terms.

**Rolling Time Period:** A series of investment returns each covering a specified period of time with each new return in the series encompassing the most recent return of the period and dropping the oldest return of the period. For example, a rolling one-year return, calculated monthly would consist of the previous 12 monthly returns. The next return in the series would be calculated at the end of the following month. It would consist of the current monthly return and the previous 11 months (dropping the oldest return in the series).

**Trailing Period:** A time period that immediately precedes a specified date. For example, as of December 31, 20X1, the trailing 9 months would include the period April 1, 20X1 to December 31, 20X1.

**Unannualized:** A rate of return for a period of less than one year or greater than one year. An unannualized return that represents cumulative results that is for a month, quarter, five quarters or any other non-twelve month period.

**RELATIVE PERFORMANCE RANKING**

**Policy Index (Policy Portfolio):** A weighted combination of two or more indices. The Policy Index is constructed to match a fund by weighting the indices in the same ratio as the fund's target commitment to the different asset classes such as equities, bonds, real estate and cash.

**Median:** The median is the 50th percentile. The median of the sample would be the rate of return that is greater than 50% of all the returns in the sample. Half the sample has a higher return and the other half a lower return.

**Percentile Rank:** Time-weighted rates of return are percentile ranked against the Universe. For example, a fund's rate of return may rank in the 20th percentile of the sample. This value indicates that 80% of the funds in the sample had worse performance. The highest percentile rank is 1 while the lowest is 100. Bar graphs may be divided by percentiles with the top of each bar denoting the tenth percentile followed by lines for the 25th, 50th, 75th and 90th percentiles.

**Quartiles:** Percentile rankings are divided by the first, second and third quartiles. The first quartile is the 25th percentile, the second is the 50th percentile (or median) and the third is the 75th percentile.

**Reasonable (as it pertains to a portfolio risk level relative to the Index):** A reasonable risk level relative to the Index means that, if portfolio risk is substantially above the risk of the Index, portfolio return should also be substantially above the return of the Index. Conversely, if portfolio return were substantially less than the Index, then portfolio risk would also be expected to be less than that of the Index. Under normal market conditions, reasonable means a combination of risk and return that yields a return to risk ratio for the portfolio that is equal to or greater than that of the Index which serves as the portfolio's performance benchmark.

**Typical Market Cycle:** A typical market cycle is the recurrence of periods of significant appreciation and depreciation of asset values. One cycle extends from a price or market value baseline through one substantial rise and one decline and back to the base line. The length of a typical or fair market cycle varies across asset classes, depending on the frequency and duration of changes in those economic factors that drive the market value of the assets. For those assets that trade on auction markets and are sensitive to short-term business cycle activity, such as equity and fixed income securities, the typical market cycle has historically been approximately three years. For those assets whose market values are not based on quoted prices and which are sensitive to longer-term demographic changes, such as private real estate or private equity, the typical market cycle has historically been approximately seven to ten years.

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**INDICES****Fixed Income**

**Bloomberg Barclays Capital Aggregate:** An aggregate of the Government/Corporate Bond Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The index contains fixed rate debt issues with at least one-year maturity, \$100 million par value outstanding, and investment grade ratings by Moodys, S&P or Fitch (in that order). Returns are market-value weighted inclusive of accrued interest.

**Bloomberg Barclays Capital Universal:** This index contains the Barclays Capital Aggregate index bonds plus approximately 10% of the remaining index includes U.S. High Yield, Eurodollar, Emerging Markets, 144A Private Placements, and CMBS bonds.

**Bloomberg Barclays Capital U.S. Govt/Credit Intermediate:** This index is a sub-component of the Barclays Capital Aggregate index. Bonds consist of the U.S. Treasury, U.S. Agency (non-MBS), and U.S. Investment-grade credit holdings with a maturity range of 1 to 10 years.

**Bond Rating Methodology:** Bond ratings are intended to characterize the risk associated with holding a particular bond or categories of bonds. These ratings are the risk assessed by the market and that the bond issuer must pay to attract purchasers to the bond. These ratings are expressed as a series of letters and sequences.

**Rating Categories in Descending Order:**

- AAA:** The best quality rating, stable cash flows, very protective bond covenant, very low probability of default.
- Aa:** The second best rating. Stable cash flows, less protective bond covenants, very low probability of default.
- A:** Stable cash flows, less protective bond covenant, long-term probability of default is higher than AAA or Aa.
- Baa:** Medium quality rating, reliable cash flows short term, less-reliable cash flows long term, bond covenants offer limited protection. Moderate probability of default. Downgrade to a lower rating is also possible. Baa bonds are the lowest rating still considered 'investment grade.'
- Ba thru B:** Highly speculative. Long-term assurance of cash flows and protective elements are low. Purchasers of these bonds generally specialize in assessing credit risk of specific bond issues. Much higher spreads versus investment grade bonds provide the incentive for purchasers. High default or downgrade risk.
- Caa thru C:** Poor standing. Either close to default or in default. Highly probable loss of principal.

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**D:** Coupon payments were not paid on the due date which puts the bond in default. Unless both protective covenants and issuer assets are adequate (not likely), holder loses all likelihood of recovering principal.

**Equity**

**Dow Jones Industrial Average:** This index is the price-weighted average of 30 actively traded blue chip stocks.

**NASDAQ:** A market value weighted index that measures all domestic and non-U.S. based securities, more than 4700 companies listed on the NASDAQ stock market.

**Russell Midcap Value:** Contains Russell Midcap stocks having less than average value orientation and are included in the Russell 1000 Growth Index.

**Russell Midcap Value:** Contains Russell Midcap stocks having less than average growth orientation and are included in the Russell 1000 Value Index.

**Russell 1000:** Consists of the 1000 largest securities in the Russell 3000 Index. The Russell 1000 is capitalization-weighted.

**Russell 1000 Growth:** Contains Russell 1000 stocks having greater than average growth orientation. Stocks tend to exhibit lower dividend yields and higher price-to-book ratios, price-earnings ratios and forecast growth values than the Value universe. The index is capitalization-weighted (as opposed to equal-weighted).

**Russell 1000 Value:** Contains those Russell 1000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe. Russell 1000 Value is capitalization-weighted.

**Russell 2000:** Contains the smallest 2,000 stocks in the Russell 3000 Index, representing approximately 11% of the Russell 3000 total market capitalization. The index is capitalization-weighted (as opposed to equal-weighted).

**Russell 2000 Growth:** Contains those Russell 2000 securities with a greater-than-average growth orientation. Securities in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.

**Russell 2000 Value:** Contains those Russell 2000 securities with a less-than-average growth orientation. Securities in this index tend to exhibit lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.

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**Russell 3000:** Measures performance of the 3000 largest U.S. companies based on total market capitalization. This index represents approximately 98% of the investable U.S. equity market. The Russell 3000 is capitalization-weighted.

**Standard and Poors 500:** The S&P, which represents approximately 75% of NYSE market capitalization and 30% of NYSE issues, contains 500 industrial, utility, transportation and financial companies in the U.S. markets (mostly NYSE issues). The S&P is capitalization-weighted (as opposed to equal-weighted), calculated on a total return basis with dividends reinvested.

**FTSE All Share:** An arithmetic, market value-weighted average of approx. 680 securities representing 98-99% of the UK market capitalization, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

**MSCI All Country World except USA:** An arithmetic, market value-weighted average of approx. 1800 securities from outside the United States. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes.

**MSCI Emerging Market Free:** Contains securities of the following countries which are available to all investors regardless of local status: Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Portugal, South Africa, Sri Lanka, Thailand, Turkey and Venezuela.

**MSCI EAFE:** An arithmetic, market value-weighted average of over 900 securities from Europe, Australia, and the Far East. The index is calculated on a total return basis, including reinvestment of gross dividends before deduction of withholding taxes. The following countries are represented: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

### **Real Assets**

**Bloomberg Barclays Treasury Inflation Protected Securities Index:** The TIPS Index contains approximately 30 U.S. Treasury-issued inflation protected securities of varying maturities up to 20 years.

**Bloomberg Commodity Index Total Return** (formerly Dow Jones UBS Commodities Index): comprised of 24 commodity futures index constituents including: Natural Gas, WTI Crude Oil, Brent Crude Oil, Unleaded Gasoline, Heating Oil, Live Cattle, Lean Hogs, Wheat, Corn, Soybeans, Soybean Oil, Sugar, Cotton, Coffee, Cocoa, Aluminum, Copper, Zinc, Nickel, Gold, Silver, Lead, Tin and Platinum.

**NCREIF Property Index:** The NPI contains investment-grade, non-agricultural, income-producing properties which may be financed in excess of 5% gross market value; were acquired on behalf of tax exempt institutions; and are held in a fiduciary environment. Data

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is collected quarterly from a membership of investment managers and plan sponsors. Returns are gross of fees; include income, realized gains/losses, and appreciation/depreciation; and are market-value weighted. Property values are determined by consistent appraisal methodology and sold properties are removed in the quarter of the sale (the historical data remains). Current quarter performance is preliminary.

**Financial Times Securities Exchange (“FTSE”) NAREIT U.S. Real Estate Index:** Includes all REITS listed on the NYSE and NASDAQ indices. The index excludes LLPs and LLCs. The sectors are as follow: Healthcare, Self-Storage, Office/Industrial, Residential, Retail and Lodging/Resorts.

**Cash**

**90-Day Treasury Bills:** An average of the last three 90-day treasury bill issues’ monthly return equivalents of yield averages, which are not marked to market. Month-end discount yields are converted to bond-equivalent yields, then a simple average is taken, and that number is decomposed to a monthly return using the actual number of days in the month and a 365-day year.

**Policy Benchmarks****Current:**

Domestic Equity	19% Russell 3000
Non U.S. Equity	27% MSCI ACWI ex-U.S.
Fixed Income	13.75% BBG BC U.S. Aggregate
Credit Opportunities	12.25% [15% BBG BC U.S. HY Capped + 45% Credit Suisse Leveraged Loans Index + 20% J.P. Morgan EMBI-GD + 20% J.P. Morgan GBI EM-GD]
Private Equity	14% Russell 3000 + 300 bps
Private Real Estate	7% NFI-ODCE + 80 bps
Public Real Assets	6% U.S. Consumer Price Index + 5%
Cash	1% 90-Day Treasury Bill

**TOTAL: 19% U.S. Equity; 27% Non-U.S. Equity; 13.75% Fixed Income; 12.25% Credit Opportunities; 14% Private Equity; 7% Private Real Estate; 6% Public Real Assets; 1% Cash**

**1/10/2012 through April 10, 2018**

Domestic Equity	24% Russell 3000
Non U.S. Equity	29% MSCI ACWI ex-U.S.
Fixed Income	19% BC U.S. Aggregate
Credit Opportunities	5% 65% BC U.S. HY Capped+ 35% J.P.EMBI-GD
Private Equity	12% Russell 3000 + 300 bps
Private Real Estate	5% NFI-ODCE + 80 bps
Public Real Assets	5% U.S. Consumer Price Index + 5%

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Cash 1% 90-Day Treasury Bill  
**TOTAL: 24% U.S. Equity; 29% Non-U.S. Equity; 19% Fixed Income; 5% Credit Opportunities; 12% Private Equity; 5% Private Real Estate; 5% Public Real Assets; 1% Cash**

**7/1/2007 through 12/31/2011:**

U.S. Equity 43% Russell 3000  
 Non U.S. Equity 20% MS ACWI ex U.S. Net Div  
 Core Fixed Income 24% BC Universal  
 Real Estate 5% NCREIF  
 Alternative 7% Russell 3000 plus 400 bps annually. Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.  
 Cash 1% 90 day Treasury Bill  
**TOTAL: 43% U.S. Equity; 20% Non U.S. Equity; 24% Core Fixed; 5% Real Estate; 7% Alternative; 1% Cash**

**1/01/2007 through 6/30/2007:**

U.S. Equity 44% Russell 3000  
 Non-U.S. Equity 20% MS ACWI ex U.S. GD  
 Core Fixed Income 25% BC Universal  
 Real Estate 4% NCREIF  
 Alternative 6% Russell 3000 plus 400 bps annually  
 (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)  
 Cash 1% 90-day Treasury Bill  
**TOTAL: 44% U.S. Equity; 20% Non-U.S. Equity; 25% Core Fixed; 4% Real Estate; 6% Alternative; 1% Cash**

**3/31/2006 through 9/30/2006:**

U.S. Equity 45% Russell 3000  
 Non-U.S. Equity 21% MS ACWI ex U.S. GD  
 Core Fixed Income 25% BC Universal  
 Real Estate 3% NCREIF  
 Alternative 5% Russell 3000 plus 400 bps annually  
 (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)  
 Cash 1% 90-day Treasury Bill  
**TOTAL: 45% U.S. Equity; 21% Non-U.S. Equity; 25% Core Fixed; 3% Real Estate; 5% Alternative; 1% Cash**

**6/30/2001 through 3/31/2006:**

U.S. Equity 40% Russell 3000  
 Non-U.S. Equity 18% MS ACWI ex U.S. GD  
 Core Fixed Income 27% BC Universal

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Real Estate	7% NCREIF
Alternative	7% Russell 3000 plus 400 bps annually (Calculated on a dollar-weighted basis, and holding cash flows at 0% return for the first 36 months.)
Cash	1% 90-day Treasury Bill
<b>TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 27% Core Fixed; 7% Real Estate; 7% Alternative; 1% Cash</b>	

**01/01/2001 through 6/30/2001:**

U.S. Equity	40% Russell 3000
Non-U.S. Equity	18% MS ACWI ex U.S. GD
U.S. Fixed	25% BC Universal
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	5% NCREIF
Alternative	5% "15%"
Cash	1% 90-day Treasury Bill
<b>TOTAL: 40% U.S. Equity; 18% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 5% Real Estate; 5% Alternative; 1% Cash</b>	

**01/01/2000 through 12/31/2000:**

U.S. Equity	43% Russell 3000
Non-U.S. Equity	21% MSCI EAFE
U.S. Fixed	25% BC Aggregate thru 6/30/00, BC Universal as of 7/1/00
Non-U.S. Fixed	6% JP Morgan World Government Hedged
Real Estate	2% NCREIF
Alternative	2% "15%"
Cash	1% 90-day Treasury Bill
<b>TOTAL: 43% U.S. Equity; 21% Non-U.S. Equity; 25% U.S. Fixed; 6% Non-U.S. Fixed; 2% Real Estate; 2% Alternative; 1% Cash</b>	

**Through 12/31/99:**

U.S. Equity	40% consisting of 33.75% S&P 500; 35.0% Russell 1000 Value; 12.5% Russell 1000 Growth; 12.5% Russell 2000 Value; 6.25% Russell 2000 Growth
Non-U.S. Equity	20% consisting of 25% MSCI EAFE; 22.5% MSCI Pacific; 15% TOPIX; 12.5% MSCI Europe; 25% MSCI Emerging Markets Free x Malaysia
U.S. Fixed	25.5% consisting of 17.65% BC Intermediate Government Corporate; 11.76% Intermediate Government; 7.84% BC Long Government Corporate; 3.92% BC Long Government; 58.8% BC Aggregate
Non-U.S. Fixed	7% JPM World
Real Estate	3% NCREIF
Alternative	3% "15%"
Cash	1.5% 90-day Treasury Bills

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**TOTAL: 40% U.S. Equity; 25.5% Fixed Income; 20% International Equity; 7% JPM Global Hedged; 3% NCRIF; 3% Alternative 15%; 1.5% Treasury Bills**

**1 Yr:** One-year rate of return. The linked quarterly returns of the previous four quarters.

**X Yr Ann:** X year annualized rate of return. The one-year equivalent return of the X year cumulative return.

**X Yr Cum:** X year cumulative rate of return. The linked quarterly returns of the previous X years.

### **ASSET ALLOCATION**

**Market \$:** Net assets at market value including receivables, payables and accrued interest.

**Market %:** Market value as a percent of the total fund's market value.

**Target %:** Investment policy.

**Invest %:** Market value excluding cash and equivalents as a percent of total market value.

### **INVESTMENT PERFORMANCE**

**Time:** The internal rate of return (accounting for daily cash flows) monthly based on trade-date, full accrual accounting, and using market values. For periods of greater than one month, a time series of linked monthly returns is maintained, introducing a time weighted effect. The private investment returns are lagged one quarter. The LACERS total fund return is dollar weighted to include private investments.

**Market at Target:** The weighted return made up of market returns weighted by LACERS' target allocation.

**Market at Actual:** The weighted return made up of market returns weighted by LACERS' actual allocation.

### **UNIVERSE COMPARISON**

Universe comparisons will be specified in the quarterly Portfolio Performance Reports and LACERS will use broadly used universe comparisons as determined by the General Fund Consultant.

### **INVESTMENT IMPACT**

**Allocation:** Market returns weighted by LACERS' actual asset allocation less market returns weighted by LACERS' target allocation.

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**Management:** The difference between a) market returns weighted by LACERS' sector allocation and b) market returns weighted by LACERS' actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS' sector allocation.

**Overall:** Actual returns less market returns weighted by LACERS' target allocation.

**RISK**

**Mean Rate of Return:** The geometric average of twenty quarterly returns, annualized.

**Standard Deviation:** The standard deviation (one sigma) of twenty quarterly returns, annualized.

**CHARACTERISTICS**

**Historic Beta:** The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

**Return on Equity:** The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE's of all stocks in the portfolio.