



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



## **Board of Administration Agenda**

**REGULAR MEETING**  
**TUESDAY, MAY 23, 2023**  
**TIME: 10:00 A.M.**

**MEETING LOCATION:**

LACERS Boardroom  
977 N. Broadway  
Los Angeles, California 90012

**Important Message to the Public**

An opportunity for the public to address the Board in person from the Boardroom and provide comment on items of interest that are within the subject matter jurisdiction of the Board or on any agenda item will be provided at the beginning of the meeting and before consideration of items on the agenda.

Members of the public who do not wish to attend the meeting in person may listen to the live meeting via one-way audio on Council Phone by calling (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside) or (310) 547-CITY (San Pedro Area).

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Please be advised that all LACERS Board meetings are recorded.

**LACERS Website Address/link:**

[www.LACERS.org](http://www.LACERS.org)

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Board in advance of the meeting may be viewed by clicking on LACERS website at [www.LACERS.org](http://www.LACERS.org), at LACERS' offices, or at the scheduled meeting. In addition, if you would like a copy of a non-exempt record related to an item on the agenda, please call (213) 855-9348 or email at [lacers.board@lacers.org](mailto:lacers.board@lacers.org).

President:	Vacant
Vice President:	Elizabeth Lee
Commissioners:	Annie Chao Thuy Huynh Janna Sidley Sung Won Sohn Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghokassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

**Notice to Paid Representatives**

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

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- I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA
- II. ELECTION TO FILL UNEXPIRED TERM OF THE VACANT OFFICE OF THE BOARD PRESIDENT PURSUANT TO LOS ANGELES CITY CHARTER SECTION 503(A) AND POSSIBLE BOARD ACTION
- III. IF VACANCY CREATED IN OFFICE OF THE VICE PRESIDENT BY BOARD ACTION ON AGENDA ITEM II, ELECTION TO FILL UNEXPIRED TERM OF BOARD VICE PRESIDENT, PURSUANT TO LOS ANGELES CITY CHARTER SECTION 503(A) AND POSSIBLE BOARD ACTION
- IV. BOARD PRESIDENT VERBAL REPORT
- V. GENERAL MANAGER VERBAL REPORT
  - A. REPORT ON DEPARTMENT OPERATIONS
  - B. UPCOMING AGENDA ITEMS
- VI. RECEIVE AND FILE ITEMS
  - A. [MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR APRIL 2023](#)
  - B. [COMMISSIONER THUY HUYNH BOARD EDUCATION EVALUATION REPORT ON THE INSTITUTIONAL INVESTOR PUBLIC FUNDS ROUNDTABLE; LOS ANGELES, CA; APRIL 24-26, 2023](#)
  - C. [COMMISSIONER ELIZABETH LEE BOARD EDUCATION EVALUATION REPORT ON THE INTERNATIONAL FOUNDATION OF EMPLOYEE BENEFIT PLANS \(IFEBP\) PORTFOLIO CONCEPTS AND MANAGEMENT PROGRAM; PHILADELPHIA, PA; MAY 1-4, 2023](#)
  - D. [COMMISSIONER ANNIE CHAO BOARD EDUCATION EVALUATION REPORT ON THE CALIFORNIA ASSOCIATION OF PUBLIC RETIREMENT SYSTEMS \(CALAPRS\) TRUSTEES ROUNDTABLE; VIRTUAL; MAY 5, 2023](#)
  - E. [COMMISSIONER THUY HUYNH BOARD EDUCATION EVALUATION REPORT ON THE CALIFORNIA ASSOCIATION OF PUBLIC RETIREMENT SYSTEMS \(CALAPRS\) TRUSTEES ROUNDTABLE; VIRTUAL; MAY 5, 2023](#)
  - F. [COMMISSIONER MICHAEL R. WILKINSON BOARD EDUCATION EVALUATION REPORT ON THE STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS \(SACRS\) SPRING CONFERENCE; SAN DIEGO, CA; MAY 9-12, 2023](#)
- VII. COMMITTEE REPORT(S)

- A. INVESTMENT COMMITTEE VERBAL REPORT FOR THE MEETING ON MAY 9, 2023

VIII. CONSENT ITEM(S)

- A. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF APRIL 25, 2023 AND POSSIBLE BOARD ACTION

IX. BOARD/DEPARTMENT ADMINISTRATION

- A. PROPOSED BUDGET, PERSONNEL, AND ANNUAL RESOLUTIONS FOR FISCAL YEAR 2023-24 AND POSSIBLE BOARD ACTION

X. INVESTMENTS

- A. CHIEF INVESTMENT OFFICER VERBAL REPORT INCLUDING DISCUSSION ON THE PORTFOLIO EXPOSURE TO GLOBAL EVENTS
- B. PRESENTATION BY NORTHERN TRUST COMPANY REGARDING MASTER CUSTODY SERVICES, INTEGRATED DISBURSEMENTS, COMPLIANCE ANALYST, PRIVATE MONITOR ANALYTICS, RISK ANALYTICS, SECURITIES LENDING SERVICES AND FAIR VALUE REPORTING TOOLS
- C. PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2023-24 STRATEGIC PLAN AND POSSIBLE BOARD ACTION
- D. APPROVAL OF 3-YEAR CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE HIGH YIELD FIXED INCOME PORTFOLIO AND POSSIBLE BOARD ACTION
- E. NOTIFICATION OF COMMITMENT OF UP TO \$40 MILLION IN GGV CAPITAL IX L.P.
- F. NOTIFICATION OF COMMITMENT OF UP TO \$10 MILLION IN GGV CAPITAL IX PLUS L.P.
- G. NOTIFICATION OF COMMITMENT OF UP TO \$25 MILLION IN BARINGS EMERGING GENERATION FUND II, L.P.
- H. NOTIFICATION OF COMMITMENT OF UP TO \$50 MILLION IN HELLMAN & FRIEDMAN CAPITAL PARTNERS XI, L.P.
- I. NOTIFICATION OF COMMITMENT OF UP TO \$60 MILLION IN TA XV-A, L.P.

XI. LEGAL/LITIGATION

- A. APPROVAL OF ONE-YEAR EXTENSIONS TO OUTSIDE FIDUCIARY COUNSEL AND INDEPENDENT CONFLICT COUNSEL CONTRACTS WITH KUTAK ROCK LLP, NOSSAMAN LLP, AND OLSON REMCHO LLP, AND POSSIBLE BOARD ACTION

XII. OTHER BUSINESS

XIII. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, June 13, 2023 at 10:00 a.m., in the LACERS Boardroom, at 977 N. Broadway, Los Angeles, California 90012-1728.

XIV. ADJOURNMENT



Agenda of: MAY 23, 2023

Item No: VI-A

**MONTHLY REPORT ON SEMINARS AND CONFERENCES  
ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS  
(FOR THE MONTH OF APRIL 2023)**

In accordance with Section V.H.2 of the approved Board Education and Travel Policy, Board Members are required to report to the Board, on a monthly basis at the last Board meeting of each month, seminars and conferences they attended 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. This monthly report shall include all seminars and conferences attended during the 4-week period preceding the Board meeting wherein the report is to be presented.

**BOARD MEMBERS:**

Commissioner Thuy Huynh

<b>DATE(S) OF EVENT</b>	<b>SEMINAR / CONFERENCE TITLE</b>	<b>EVENT SPONSOR (ORGANIZATION)</b>	<b>LOCATION (CITY, STATE)</b>
April 25-26, 2023	<b>Institutional Investor Public Funds Roundtable</b>	Institutional Investor	Los Angeles, CA

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

Name of Attendee: <b>Thuy Huynh</b>	
Title of Conference/Seminar: <b>Public Funds Roundtable</b>	
Location: <b>Los Angeles, California</b>	No. of Education Hours: <b>18</b>
Event Sponsor: <b>Institutional Investor</b>	Date(s) Held: <b>April 24-26</b>

Report for:

- Travel  
 Conference/Seminar Attendance Only

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

To attend the Public Funds Roundtable and better understand the current climate of public investment funds with allocators and experts from the region.

II. Significant Information Gained:

The state of public pension funds has remained relatively constant considering macro environment challenges. With long-term, multi-year plans, funds can move with market changes by implementing thoughtful portfolio construction, management selection, recruitment, and governance. But it is important to continue to consider the impact of rising interest rates and inflation on investment returns.

III. Benefits to LACERS:

Provides an opportunity for board member education and further contextualizes concepts and ideas shared by LACERS staff. It creates an opportunity to compare LACERS to similar peer pension systems and to understand what is happening on a macro level.

IV. Additional Comments:

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

Name of Attendee: Elizabeth Lee	
Title of Conference/Seminar: IFEBP Portfolio Concepts and	
Location: Philadephia, Pa	No. of Education Hours: 25.5
Event Sponsor: IFEBP	Date(s) Held: 5/1/23 to 5/4/23

Report for:

- Travel  
 Conference/Seminar Attendance Only

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

Attend IFEBP Wharton Portfolio Concepts and Management Program

II. Significant Information Gained:

The program topics include: overview of financial assets, fundamental of portfolio theory; manager evaluation, risk and volatility measures - Sharpe ratio, information ratio, alpha, beta; valuation and pricing of securities, equities and bonds; macroeconomic issues; asset allocation and impacts of risk on return.

III. Benefits to LACERS:

The above topics are relevant for asset manager performance evaluation and upcoming asset allocation.

IV. Additional Comments:

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

Name of Attendee: <b>Annie Chao</b>	
Title of Conference/Seminar: CALAPRS Trustee Roundtable	
Location: <b>Virtual</b>	No. of Education Hours: 4
Event Sponsor: <b>CALAPRS</b>	Date(s) Held: 5/5/23

Report for:

- Travel  
 Conference/Seminar Attendance Only

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

NA

II. Significant Information Gained:

Asset allocation and the roles trustees have.

III. Benefits to LACERS:

As asset allocation is the driver of returns for public pension plans, trustees should be well-educated on selecting the asset allocation that best meet the objectives of the plan they serve.

IV. Additional Comments:

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

Name of Attendee: <b>Thuy Huynh</b>	
Title of Conference/Seminar: <b>Trustee Roundtable</b>	
Location: <b>Virtual</b>	No. of Education Hours: <b>4</b>
Event Sponsor: <b>CALAPRS</b>	Date(s) Held: <b>5/5/2023</b>

Report for:

- Travel  
 Conference/Seminar Attendance Only

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

To dig deeper into the asset allocation process and better understand the fundamentals of being a trustee.

## II. Significant Information Gained:

The importance of diversification when setting asset allocation of a public fund, the role trustees/board members can play in the asset allocation process, the relationship between the board and consultants, and the growing concerns around liquidity.

## III. Benefits to LACERS:

It was a great opportunity to learn and hear from trustees from the city, county, and state levels within California to share best practices from each public funds' governance process.

## IV. Additional Comments:

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

Name of Attendee: <b>Michael R. Wilkinson</b>	
Title of Conference/Seminar: SACRS Spring Conference	
Location: <b>San Diego</b>	No. of Education Hours: 13
Event Sponsor: <b>SACRS</b>	Date(s) Held: May 9-12, 2023

Report for:

- Travel  
 Conference/Seminar Attendance Only

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

Education on public pensions put on by SACRS, the association of county retirement plans in California.

II. Significant Information Gained:

Good background the challenges facing public pensions with a focus on California plans.

III. Benefits to LACERS:

Excellent speakers and the ability to ask questions about specific concerns.

IV. Additional Comments:

I would recommend this conference to all commissioners for its superior content.

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

April 25, 2023

10:03 a.m.

PRESENT:

President:

Vacant

Vice President:

Elizabeth Lee

Commissioners:

Arrived at 10:29 a.m.

Annie Chao

Thuy Huynh

Janna Sidley

Sung Won Sohn

Michael R. Wilkinson

Legal Counselor:

Anya Freedman

Manager-Secretary:

Neil M. Guglielmo

Executive Assistant:

Ani Ghoukassian

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

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – Vice President Lee asked if any persons wanted to make a general public comment to which there was no public comment cards submitted.

II

ELECTION TO FILL UNEXPIRED TERM OF THE VACANT OFFICE OF THE BOARD PRESIDENT PURSUANT TO LOS ANGELES CITY CHARTER SECTION 503(A) AND POSSIBLE BOARD ACTION – Neil M. Guglielmo, General Manager, advised that the nominations for Board President were being considered. Commissioner Sidley moved to wait on the vote for President until the new Commissioner is confirmed, seconded by Commissioner Huynh. Mr. Guglielmo called for the vote on the motion: Ayes, Commissioners Huynh, Sidley, Sohn, Wilkinson, and Vice President Lee -5, Nays, None. The motion passed.

III

IF VACANCY CREATED IN OFFICE OF THE VICE PRESIDENT BY BOARD ACTION ON AGENDA ITEM II, ELECTION TO FILL UNEXPIRED TERM OF BOARD VICE PRESIDENT, PURSUANT TO

LOS ANGELES CITY CHARTER SECTION 503(A) AND POSSIBLE BOARD ACTION – No action was taken on this item and it will be continued to the next Board meeting.

IV

BOARD PRESIDENT VERBAL REPORT – There was no report.

V

GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS – Neil M. Guglielmo, General Manager, advised the Board of the following items:

- Unofficial results for the Active Member Commissioner Election
- Information being prepared for insurance policy carriers for renewal of policies
- Contract with Experience Institute, Inc. approved by the Board executed
- RFQ for Board Governance Consulting Services launched
- HQ updates
- Retirement Services updates
- Health Benefits Administration updates
- Communications and Stakeholder Relations updates
- Upcoming events

B. UPCOMING AGENDA ITEMS – Neil M. Guglielmo, General Manager, advised the Board of the following items:

- Governance Committee – 05/09/23 – Continuation of the Triennial Board Policy Review
- Presentation of the Actuarial Cost Study on reimbursement of Medicare Part B Premiums and IRMAAs – Date TBD

Commissioner Chao arrived at the meeting at 10:29 a.m.

C. RECOGNITION OF SERVICE FOR PRESIDENT NILZA R. SERRANO – Commissioners and staff recognized Ms. Serrano for her service to LACERS. Ms. Serrano expressed her gratitude and support for LACERS and staff.

IV

RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR MARCH 2023 – This report was received by the Board and filed.

B. COMMISSIONER SUNG WON SOHN EDUCATION EVALUATION ON THE 95<sup>TH</sup> INTERNATIONAL ATLANTIC ECONOMIC CONFERENCE; ROME, ITALY; MARCH 22-25, 2023 – Commissioner Sohn provided the Board with an overview of his experience attending this conference. This report was received by the Board and filed.



- C. ANNUAL CONTRACTOR DISCLOSURE COMPLIANCE REPORT FOR THE YEAR ENDED DECEMBER 31, 2022 – This report was received by the Board and filed.
- D. 2023 OPEN ENROLLMENT CLOSEOUT REPORT - This report was received by the Board and filed.

*Item II was revisited and taken out of order.*

## II

ELECTION TO FILL UNEXPIRED TERM OF THE VACANT OFFICE OF THE BOARD PRESIDENT PURSUANT TO LOS ANGELES CITY CHARTER SECTION 503(A) AND POSSIBLE BOARD ACTION – When Commissioner Chao arrived at the meeting, Commissioner Sidley stated that she understood if the Board wished to reconsider her previous motion to postpone the Board Officer election until a new appointed Commissioner is confirmed. Assistant City Attorney Anya Freedman stated that because a majority of the Board previously voted to approve the earlier motion to postpone the Board Officer election, a motion to reconsider that previous Board action was required. Commissioner Wilkinson moved to reconsider the Board’s previous action on this item, seconded by Commissioner Sohn.: Ayes, Commissioners Chao, Sohn, Wilkinson, and Vice President Lee -4; Nays, Commissioner Sidley and Huynh -2. The motion to reconsider passed. Mr. Guglielmo, advised that the nominations for Board President were being considered. Commissioner Sohn nominated Commissioner Chao and Commissioner Sidley nominated Vice President Lee. Mr. Guglielmo called for the vote on the nomination of Commissioner Chao as President: Ayes, Commissioners Chao, Sohn, and Wilkinson -3; Nays, Commissioner Huynh, Sidley, and Vice President Lee -3. Commissioner Chao did not receive a majority vote. Mr. Guglielmo called for the vote on the nomination for Vice President Lee as President: Ayes, Commissioners Huynh, Sidley, and Vice President Lee -3; Nays, Commissioners Chao, Sohn, and Wilkinson -3. Vice President Lee did not receive a majority vote. The Board Officer election will be continued to the next Board meeting.

## VII

### COMMITTEE REPORT(S)

- A. INVESTMENT COMMITTEE VERBAL REPORT FOR THE MEETING ON APRIL 11, 2023 – Commissioner Sidley reported that the Committee approved a contract with Wasatch Advisors, Inc. and EAM Investors, LLC.

## VIII

Commissioner Wilkinson moved approval of Consent Agenda Item VIII-A, seconded by Commissioner Chao, and adopted by the following vote: Ayes, Commissioners Chao, Huynh, Sidley, Sohn, Wilkinson, Vice President Lee -6; Nays, None.

### CONSENT ITEM(S)

- A. APPROVAL OF MINUTES FOR THE MEETING OF APRIL 11, 2023 AND POSSIBLE BOARD ACTION

## IX

## INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT INCLUDING DISCUSSION ON THE PORTFOLIO EXPOSURE TO GLOBAL EVENTS – Rod June, Chief Investment Officer, reported on the portfolio value of \$21.46 billion as of April 24, 2023. Mr. June discussed the following items:

- Volatility Index at 18.5
- Axiom, LACERS Actively-managed Growth Non-US Emerging Markets manager, placed on watch on April 11, 2023 for performance reasons
- \$39 million in private market exposure to China technology
- CIO invited to speak on a panel at the Government Employees Pension Fund of South Africa (GEPF). Travel expenses will be absorbed by the GEPF
- Introduction of Jessica Chumak, newly hired Investment Officer I
- Future Agenda Items: Investment Manager Contract for Board consideration

Mr. June shared that Russian exposure for LACERS was 1.6 basis points and there were no material changes since March 24, 2023.

B. INVESTMENT MANAGER CONTRACT WITH EAM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE U.S. SMALL CAP GROWTH EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION – Barbara Sandoval, Investment Officer II, presented this item to the Board. Commissioner Sohn moved approval of the following Resolution:

**CONTRACT RENEWAL  
EAM INVESTORS, LLC  
ACTIVE U.S. SMALL CAP GROWTH EQUITIES  
PORTFOLIO MANAGEMENT**

**RESOLUTION 230425-A**

WHEREAS, LACERS' current three-year contract with EAM Investors, LLC (EAM) for active U.S. small cap growth equities portfolio management expires on July 31, 2023; and,

WHEREAS, EAM is in compliance with the LACERS Manager Monitoring Policy; and,

WHEREAS, a contract renewal with EAM will allow the LACERS total portfolio to maintain a diversified exposure to U.S. small cap equities; and,

WHEREAS, on April 25, 2023, the Board approved the Investment Committee's recommendation to approve a three-year contract renewal with EAM.

NOW, THEREFORE, BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following services and terms:

Company Name: EAM Investors, LLC

<u>Service Provided:</u>	Active U.S. Small Cap Growth Equities Portfolio Management
<u>Effective Dates:</u>	August 1, 2023 through July 31, 2026
<u>Duration:</u>	Three years
<u>Benchmark:</u>	Russell 2000 Growth Index
<u>Allocation as of February 28, 2023:</u>	\$86 million

Which motion was seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Chao, Huynh, Sidley, Sohn, Wilkinson, and Vice President Lee -6; Nays, None.

X

#### LEGAL/LITIGATION

- A. BOARD EDUCATION: FIDUCIARY DUTIES AND CORPORATE ENGAGEMENT – Julie Reiser, Suzanne Dugan, and Molly Bowen, counsel with Cohen Milstein, presented and discussed this education with the Commissioners.

Vice President Lee recessed the meeting for a break at 12:12 p.m. and convened the meeting at 12:16 p.m. Vice President Lee recessed the meeting at 12:17 p.m. to convene in Closed Session.

XI

#### DISABILITY RETIREMENT APPLICATION(S)

- A. **CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b) TO CONSIDER THE DISABILITY RETIREMENT APPLICATION OF RUBEN MARQUEZ AND POSSIBLE BOARD ACTION**

Vice President Lee reconvened the meeting at 12:19 p.m. and announced that the Board unanimously approved the Disability Retirement Application of Ruben Marquez.

XII

OTHER BUSINESS – There was no other business.

XIII

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, May 9, 2023, at 10:00 a.m., in the LACERS Boardroom, at 977 N. Broadway, Los Angeles, California 90012-1728.

XIV

ADJOURNMENT – There being no further business before the Board, Vice President Lee adjourned the Meeting at 12:20 p.m.

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Elizabeth Lee  
Vice-President

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Neil M. Guglielmo  
Manager-Secretary



**REPORT TO BOARD OF ADMINISTRATION**

**MEETING: MAY 23, 2023**

**From: Neil M. Guglielmo, General Manager**

**ITEM: IX - A**

*Neil M. Guglielmo*

**SUBJECT: PROPOSED BUDGET, PERSONNEL, AND ANNUAL RESOLUTIONS FOR FISCAL YEAR 2023-24 AND POSSIBLE BOARD ACTION**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

**Recommendation**

- 1) Adopt the Proposed Budget, Personnel, and Annual Resolutions for Fiscal Year 2023-24 (FY24);
- 2) Delegate authority to the General Manager to transfer between budget appropriation accounts in alignment with City thresholds, not to exceed the intra-departmental transfer amount of \$63,888 for Fiscal Year 2022-23, or as updated by the City Administrative Officer; and
- 3) Authorize the General Manager to make technical corrections to the budget including the update of the Final City Contribution based on the Adopted City covered payroll.

**Executive Summary**

The FY24 Administrative Expense Budget presented for approval is \$44.4 million, an increase of \$2.2 million over the March Proposed Preliminary Budget (Preliminary Budget) presented to the Board on March 28, 2023, and an overall increase of \$3.9 million, or 9.6%, over the prior year base budget.

The notable increases from the Preliminary Budget in the Administrative Expense Budget are in the Headquarters (HQ) Operating and Capital budget reflecting a combined total increase of \$1.66 million and Personnel Services reflecting a total increase of \$701,213.

- HQ Operating Budget Total: \$2,594,474 (+70.3% net change)

The updated HQ Operating budget has a \$1.1M increase over the Preliminary Budget placeholder figure of \$1.5 million which represented current partial year operating funding. Significant increases are in the Support Staff, Utilities, Maintenance, and Insurance coverage of fully operating and occupying a new building. A contingency amount of \$128,500, approximately 5% of the total Operating Budget, is included to cover unexpected costs that may arise.

- HQ Capital Projects Budget Total: \$723,831 (+436% net change)

HQ proposed Year 2 Capital Improvements, of a 10-Year Capital Improvement Plan, has increased from \$135,033 to \$723,831 driven by upgrades in the parking garage for electrical vehicle charging

stations, repairs and replacements in heating, ventilation, and air conditioning systems, electrical, plumbing, and implementation of a three-year program for soundproofing various conference rooms and private offices. Some planned Year 1 Capital Improvement expenditures are deferred and re-introduced in Year 2. Updated details of the Capital Improvement Plan are listed in the Performance Budget Report (Attachment 1, page 26).

- Personnel Services Total: \$701,213 (+2.1% net change)

Personnel Services increased by \$701,213 (\$531,513 salaries and \$169,700 related costs) for salary adjustments that inadvertently excluded the 3% increase in base salaries for the Engineers and Architects Association labor union effective for July 2023. These obligatory adjustments were not factored in the Preliminary Budget, which includes associated employee benefits cost increases. To help offset this increase, a proposed change in the salary savings rate from 5% to 6% provides a savings of \$266,114 and factors in partial year funding for new positions. There are no changes to position authorities from the Preliminary Budget.

The FY24 City Contribution is revised to \$823.9 million, an increase of \$60 million over the estimated City Contribution presented in March, due to the increase in City’s covered payroll for FY24, as reflected in the Mayor’s Proposed Budget. Upon adoption of the Final City Budget in June by the Mayor and City Council, the City Contribution will be adjusted accordingly.

	FY24	FY23	\$ change	% change
City Contribution	\$ 823,897,034*	\$ 763,866,451	\$ 60,030,583	7.9
Investment Management Fee & Expense	\$ 129,674,876	\$ 106,923,414	\$ 22,751,462	21.3
Administrative Expense	\$ 44,436,683	\$ 40,538,982	\$ 3,987,701	9.6
Regular Position Authorities	195	187	8	4.3

An Asterisk (\*) denotes estimated amount.

## Discussion

Detailed discussion of the proposed budget is provided in the attached report. The below table summarizes changes between the March Preliminary and the May Proposed Budget.

	FY24 May Proposed Budget	FY24 March Preliminary Budget	\$ change	% change
<b>Personnel Services</b>	\$ 34,014,741	\$ 33,313,528	\$ 701,213	2.1
<b>Professional Services</b>	6,896,252	5,236,820	1,659,432	31.7
<b>Information Technology</b>	1,940,435	1,932,810	7,625	0.4
<b>Education/Training/Travel</b>	376,005	375,005	1,000	0.3

Office Expenses	1,209,250	1,331,383	(122,133)	(9.2)
<b>Total Administrative Expense</b>	<b>\$ 44,436,683</b>	<b>\$ 42,189,546</b>	<b>\$ 2,247,135</b>	<b>5.3</b>

Highlights of changes from the March Preliminary Budget to the May Proposed Budget for adoption include:

### **Administrative Expense Budget**

- Personnel Services – net increase of \$701,213. This includes an obligatory increase in employee salaries and benefits.
  - Salaries increased by \$531,513.
    - 3% anticipated MOU negotiated increase incorporated in the base salary effective July 2023 that was not included in the preliminary budget
  - \$169,700 corresponding increase in employee benefits
- Professional Services – net increase of \$1,659,432
  - Increase operating and capital expense in the new HQ of \$1,659,432
    - \$1,070,634 for HQ Property Management – Operations
    - \$588,798 for HQ Property Management – Capital Projects
- Informational Technology – net increase of \$7,625
  - \$7,125 for the Health Calculator
  - \$500 for additional Power BI software licenses
- Education/Training & Related Travel – net increase of \$1,000
  - \$1,000 for the Employee Recognition Program
- Office Expenses – net decrease of \$122,133
  - \$9,300 for increase to membership and subscription dues
  - \$14,000 increase for Board Member Election Expense
  - \$145,433 decrease for Facility Insurance costs by transferring expenses under the HQ Property Management – Operations Budget for 977 N. Broadway
    - \$85,450 for Earthquake Insurance
    - \$44,748 for Commercial Liability Insurance
    - \$15,235 for General Liability Insurance

### **Strategic Plan Impact Statement**

This budget includes funding for FY24 operations and initiatives to meet LACERS seven strategic goals.

Prepared By: Todd Bouey, Assistant General Manager, Dale Wong-Nguyen, Assistant General Manager, the Administration Division and Budget Team: Edwin Avanessian, Andy Chiu, Isaias Cantú, Vikram Jadhav, Chhintana Kurimoto, Lisa Li, Lin Lin, Marcel Nguyen, JoAnn Peralta. In collaboration, and with special thanks to Department senior managers for the thought and leadership that went into this budget.

NMG/TB/EA/LL/CK

- Attachments:
1. LACERS Performance Budget Report for Fiscal Year 2023-24
  2. Proposed Budget, Personnel, and Annual Resolutions for Fiscal Year 2023-24



[www.lacers.org](http://www.lacers.org)

# LACERS PERFORMANCE BUDGET

BOARD PRESENTATION OF MAY 23, 2023

FISCAL  
YEAR  
2023-24



# TABLE OF CONTENTS

**01** Introduction

**02** Budget Overview

**03** Administrative Expenses

**09** Annual Business Plan

**26** Capital Expense Budget

**27** City Contributions

**29** Investment Management  
Fees and Expenses



# Introduction



On March 6, 2023, LACERS officially transitioned into the new Headquarters office building in Chinatown, and opened the building for Member Services on April 3, 2023. LACERS is excited to welcome the new Fiscal Year with renewed energy and a fresh perspective in serving our Members. The future is bright as we complete Fiscal Year 2022-23 (FY23) projects and introduce new projects for Fiscal Year 2023-24 (FY24).

The LACERS FY24 budget development process is guided by our Strategic Plan and goal areas, which include providing outstanding customer service, delivering accurate and timely Member benefits, improving health and wellness benefits, managing risks for superior investments, upholding good governance practices, increasing organizational efficacy, and maintaining a high-performance workforce.

LACERS FY24 Business Plan incorporates several key initiatives including the development of a new Strategic Plan, the Mayor's Language Access Plan directive, as well as continued efforts on knowledge transfer and succession planning, growth of internal Diversity, Equity, and Inclusion efforts, investment in staff development and internal communication, the continued integration of Environmental, Social and Governance investing principles, and the implementation of the Central Data Repository.

The budget reflects our mission, vision, and values. We look forward to taking on transformative projects that improve the quality of service to our Members, advances staff development, and promote financially sound investments.

	FY24	FY23	CHANGE	% CHANGE
<b>City Contribution</b>	\$ 823,897,034	\$ 763,866,451	\$ 60,030,583	7.9
<b>Investment Management Fees &amp; Expenses</b>	\$ 129,674,876	\$ 106,923,414	\$ 22,751,462	21.3
<b>Administrative Expenses</b>	\$ 44,436,683	\$ 40,538,982	\$ 3,897,701	9.6
<b>Health Care Fund Administrative Expense</b>	\$ 1,035,000	\$ 1,013,000	\$ 22,000	2.2
<b>Regular Position Authorities</b>	195	187	8	4.3

# Budget Overview



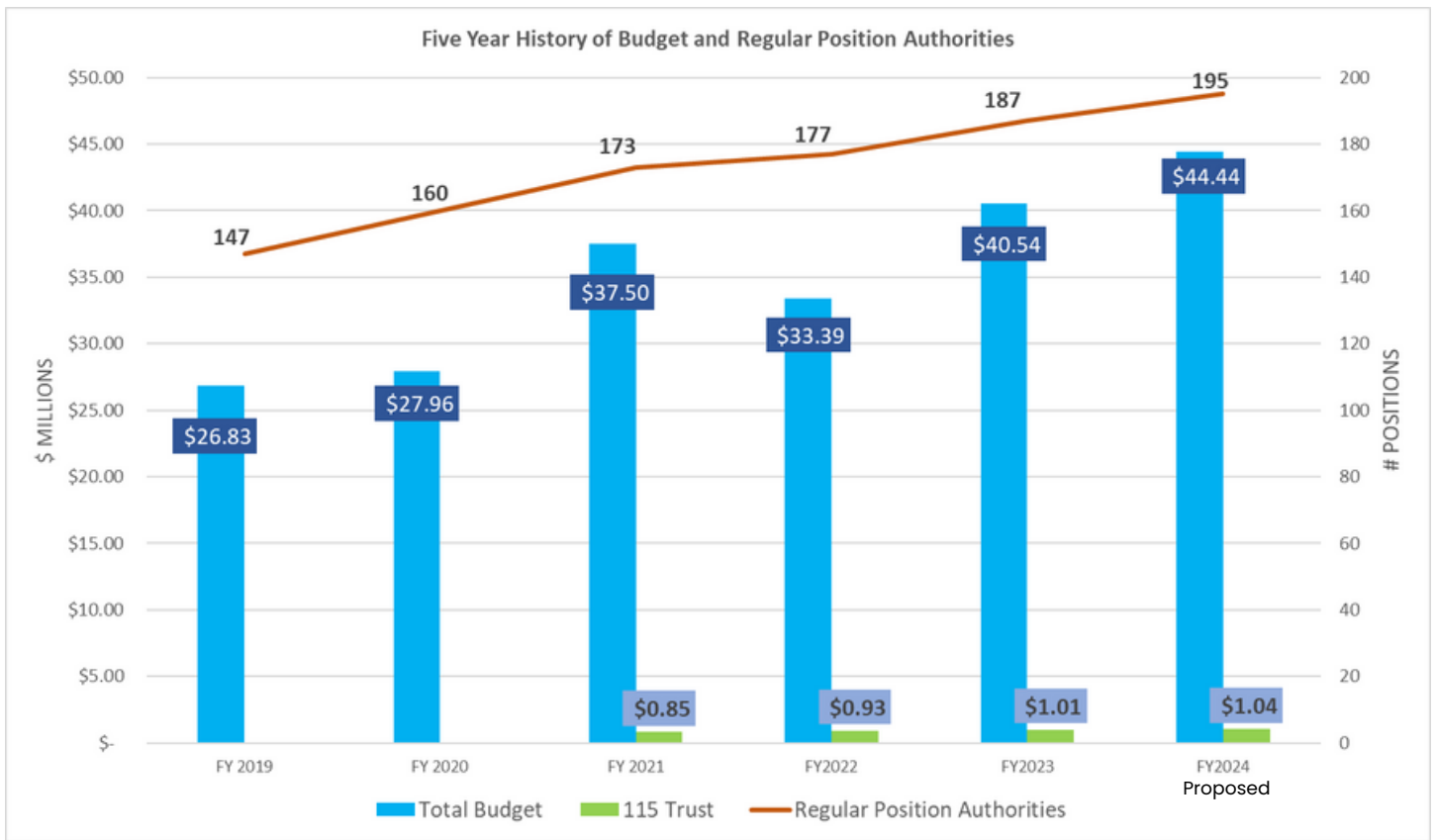
The LACERS Board approves an annual budget which estimates the cost of maintaining the Retirement System. LACERS' budget is transmitted to the Mayor for inclusion in the City's proposed budget, which is due to City Council by April 20, and finalized by June for the fiscal year beginning July 1st. The Board's approval of the Administrative and Investment Expense budget establishes the General Manager's expenditure authority for the fiscal year.

LACERS' budget is comprised of the Administrative Expense Budget, the Health Care Fund Budget ("115 Trust"), the Investment Management Fees and Expenses Budget, and the City's contribution to the LACERS Retirement Trust Fund and 115 Trust Fund. Key decisions made by the Board throughout the year will determine certain aspects of the budget. This includes the adoption of the actuarial valuation in November which sets the annual contribution rate (a percentage of City payroll) that the City will provide to LACERS to fund the retirement benefits for City employees. The Board approves asset allocations and investment contracts which set fee rates used to establish the Investment Management Fee Budget. The Board also considers programs and annual business plan initiatives to fund for the coming fiscal years reflected in the Administrative Expense Budget.

An overview of the major components of the LACERS' budget, with the Board's discretionary decisions is reflected as follows:

CITY CONTRIBUTION	=	CONTRIBUTION RATE Adopted in LACERS Valuation	x	CITY'S COVERED PAYROLL As Adopted by City Council
INVESTMENT MANAGEMENT FEES	=	ASSET MANAGEMENT FEES Established in LACERS-Approved Investment Contracts	x	ASSUMED MARKET VALUE OF ASSETS Based on Capital Market Assumptions
ADMINISTRATIVE EXPENSE	=	OBLIGATORY CHANGES Salary Increases, Cost-of-Living Increases, Retirement & Benefit Costs, Lease Cost, Legal Fees	+	APPROVED DISCRETIONARY CHANGES New Positions, Programs & Initiatives, Service Enhancements, Salary Savings Rate
HEALTH CARE FUND ADMINISTRATIVE EXPENSE	=	OBLIGATORY CHANGES Approved Third-Party Administrator, Audit Contract Fees	+	APPROVED DISCRETIONARY CHANGES Program Enhancements

# Administrative Expense Budget



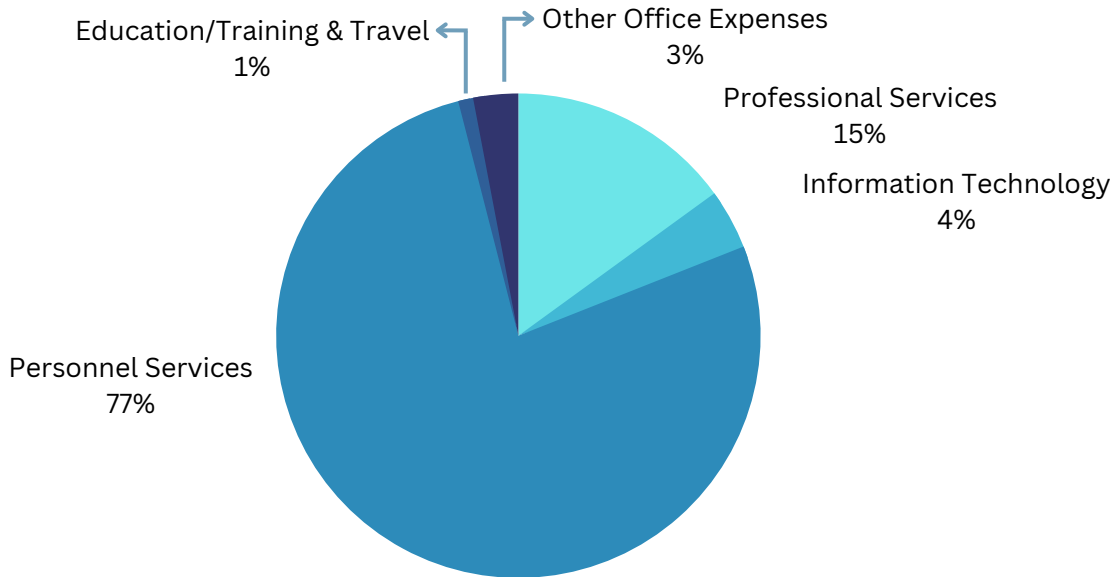
The Administrative Expense Budget of \$44.44 million reflects a net increase of \$3.90 million, or 9.6% over the FY23 base budget. Obligatory changes to the budget account for \$3.27 million in increases over the FY23 adopted budget. This includes \$0.69 million in employee benefit and pension costs, \$0.96 million for cost of living adjustments, and \$1 million for the restoration of salary savings (See Summary of Changes table, [page 4](#)). Obligatory costs are partially offset by the adoption of a 6% salary savings rate equivalent to \$1.43 million, and \$0.6 million in one-time and various expense reductions. The Budget invests \$2.6 million in core services and \$0.33 million to fund six on-going Business Plan Initiatives (BPI): Governance Initiative, Language Access Plan Initiative, Knowledge Transfer Initiative, Workforce Diversity, Equity, and Inclusion Initiative, Diversity in Hiring Initiative, Investment's Environmental, Social and Governance efforts, and the Central Data Repository. (See 2023-24 Annual Business Plan, starting on [page 9](#)).

# Summary of Changes



Category Item	Dollars	Positions	
		Regular	Substitute
<b>2022-23 Adopted Budget</b>	<b>\$ 40,538,982</b>	<b>187</b>	<b>12</b>
<b>Obligatory Changes</b>	<b>3,272,945</b>	-	-
Cost-of-Living Adjustment	957,689	-	-
Restoration of Salary Savings	1,044,697	-	-
Salary Rate Increases, Turnover, Excess Sick Pay	373,031	-	-
Part-Time Salaries	125,567	-	-
LACERS' Employer Share of Retirement Contributions	438,200	-	-
LACERS' Share of Employee Benefits	252,780	-	-
LACERS' Share of City Attorney and Outside Legal Counsel	80,981	-	-
<b>Deletion of One-Time Funding</b>	<b>(327,144)</b>	-	-
Deletion of Funding for Substitute Authorities	(263,394)	-	-
Deletion of Funding for One-Time Services, Expenses, & Equipment	(63,750)	-	-
<b>Efficiencies to Services</b>	<b>(1,966,615)</b>	-	-
Salary Savings Rate Adjustment [6%]	(1,430,428)	-	-
Expense Account Savings	(536,187)	-	-
<b>Continuation of Services</b>	<b>2,587,715</b>	-	-
Investment Program Expenses	29,080	-	-
Benefits Administration Expenses	1,479,730	7	6
General Administration & Support Expenses	1,078,905	1	5
<b>New/Enhanced Services</b>	<b>330,800</b>	-	-
Language Access Plan	40,000	-	-
Knowledge Transfer	68,000	-	-
Workforce DEI	67,800	-	-
Governance	125,000	-	-
Central Data Repository	30,000	-	-
<b>Total Changes</b>	<b>\$ 3,897,701</b>	<b>8</b>	<b>11</b>
<b>2023-24 Proposed Budget</b>	<b>\$ 44,436,683</b>	<b>195</b>	<b>23</b>

# FY24 Allocation of Expenses



This budget year continues to invest in Personnel resources as part of the multi-year staffing plan. In the five major categories of expenses, Personnel Services account for 77% of the FY24 budget (+10.8% total expense year-over-year (YOY)). Professional Services comprise 15% of the budget (+25% total expense YOY) followed by Office Expenses at 3% of the budget (-49% total expense YOY). Information Technology is 4% of the budget (+14.7% total expense YOY) and finally Education/Training and Travel are 1% of the budget (+36.4% total expense YOY).

The Administrative Budget Detail includes the following notable items:

- Salary increases by \$2.7 million (+13.1% YOY) and Employee Benefits increase by \$690,980 (+7.3% YOY). The increase in Employee Benefits coincide with the increase in requested positions and corresponding salaries. A salary savings rate of \$1.43 million (6%) was implemented to account for vacancies and partial funding for new positions.
- Overtime decreases by \$63,179 (-13% YOY) in part due to additional positions added.
- Training and Related Travel increase by \$100,345 (+36.4% YOY), consisting of \$17,920 (+14.5% YOY) for Employee Development and \$82,425 (+54.2% YOY) for Conferences and Travel. These increases intend to return funding back to pre-COVID levels as in-person activities resume. This also includes due-diligence travel by the Investment Division.
- Other Consulting increases by \$1.4 million (+57.2% YOY) due to the inclusion of property insurances and additional services required for a full year occupancy within the operations budget. Subsequently, Insurance Expenses decrease by \$128,500 (-51.5% YOY).
- Other Computing Consulting increases by \$69,482 (+77.6% YOY) and covers various areas in strengthening information security and Business Plan Initiatives including the Workforce DEI Initiative.
- Furniture and Other Equipment increases by \$170,000 (+680% YOY) primarily attributed to the recent Headquarters move and additional outfitting of the building.
- Other Office expenses such as Printing and Binding and Office Equipment services decrease by \$46,000 (-24.1% YOY) and \$25,000 (-29.4% YOY), respectively, due to the digitalization of forms and one-time purchases of Office Equipment.



# FY24 Allocation of Expenses

- Transportation Expenses increase by \$12,000 (+109.1% YOY) due to the anticipated implementation of a Transit Subsidy Reimbursement Program, which will provide staff \$50 per month for 20 staff taking public transit. Staff are currently working out the details of this program.
- Board Member Election is a one-time expense of \$65,000 for preparation and funding of the election in FY24.

Additional items to note include:

- The Office Lease has a reduction of \$1.2 million attributable to the surrender of LA Times Headquarters Building in FY23.
- The budget for the 115 Trust Administrative Expense is shown in the table following the Administrative Expense Budget. The 115 Trust Fund was established in 2018 to better manage future costs and decrease future tax liability for LACERS health and welfare benefits. The 115 Trust Budget pays for administrative expenses including third party fees charged for the administration of Self-Funded Dental and Vision benefit claims, audit fee, legal counsel cost, and the Fund's share in LACERS' overall administrative expenses. The Proposed 115 Trust Budget of \$1,035,000 represents an increase of \$22,000 (+2.2% YOY).
- This budget invests in the continuation of 16 substitute authority positions, regularization of 6 substitute authority positions, and adding 7 new substitute authority positions and 4 new regular positions. The purpose of and justifications for these positions begin on [page 8](#).
- The budget funds programs currently underway including the core programs in Benefit Administration, Investment Administration, and General Administration and Support, as well as continuing five initiatives in the FY24 Business Plan including the Language Access Plan Initiative, the Knowledge Transfer Initiative, the High-Performing Workforce Initiative, Environmental, Social, and Governance Investing, and Governance Initiative centered on strategic planning, plus a new Central Data Repository initiative.



# Detail of Administrative Expenses

	City Account Number	MAY FY2023-24 Proposed Budget	FY2022-23 Adopted Budget	Budget \$ Change	Budget % Change
<b>FUND 800: ADMINISTRATIVE EXPENSE BUDGET</b>					
<b>Personnel Services</b>					
601	Salaries	101	\$ 23,387,186	\$ 20,686,136	\$ 2,701,050 13.1%
602	Overtime	109	423,675	486,854	\$ (63,179) -13.0%
605	Employee Benefits	175	10,203,880	9,512,900	\$ 690,980 7.3%
<b>Personnel Services Total</b>			<b>\$ 34,014,741</b>	<b>\$ 30,685,890</b>	<b>\$ 3,328,851 10.8%</b>
<b>Professional Services</b>					
611	Actuarial Service	304	\$ 360,000	\$ 411,500	\$ (51,500) -12.5%
612	Audit Services	304	186,500	231,500	\$ (45,000) -19.4%
613	Legal Services	304	1,258,997	1,178,616	\$ 80,381 6.8%
614	Disability Services	304	150,000	200,000	\$ (50,000) -25.0%
615	Other Consulting	304	3,965,755	2,522,137	\$ 1,443,618 57.2%
616	Benefit Payroll Processing Servs.	304	275,000	272,000	\$ 3,000 1.1%
617	Retiree Health Adm. Consultant	304	700,000	700,000	\$ - 0.0%
<b>Professional Services Total</b>			<b>\$ 6,896,252</b>	<b>\$ 5,515,753</b>	<b>\$ 1,380,499 25.0%</b>
<b>Information Technology</b>					
622	Pension Adm. System Vendor	304	\$ 547,687	\$ 470,068	\$ 77,619 16.5%
623	Computer Hardware	730	232,100	222,100	\$ 10,000 4.5%
624	Computer Software	601	640,659	565,025	\$ 75,634 13.4%
625	Computer Maint. & Support	601	360,989	344,899	\$ 16,090 4.7%
626	Other Computer Consulting	304	159,000	89,518	\$ 69,482 77.6%
<b>Information Technology Total</b>			<b>\$ 1,940,435</b>	<b>\$ 1,691,610</b>	<b>\$ 248,825 14.7%</b>
<b>Training &amp; Related Travel</b>					
604	Employee Development	601	\$ 141,415	\$ 123,495	\$ 17,920 14.5%
634	Conferences & Travel	213	234,590	152,165	\$ 82,425 54.2%
<b>Training &amp; Related Travel Total</b>			<b>\$ 376,005</b>	<b>\$ 275,660</b>	<b>\$ 100,345 36.4%</b>
<b>Office Expenses</b>					
606	Transportation Expenses	331	\$ 23,000	\$ 11,000	\$ 12,000 109.1%
631	Printing and Binding	212	144,500	190,500	\$ (46,000) -24.1%
632	Postage	601	193,950	185,200	\$ 8,750 4.7%
633	Telephone and Utilities	601	60,600	60,600	\$ - 0.0%
635	Office Lease	304	-	1,215,750	\$ (1,215,750) -100.0%
636	Office Equipment Services	304	60,000	85,000	\$ (25,000) -29.4%
651	Petty Cash	601	6,000	12,000	\$ (6,000) -50.0%
652	Board Member Election Expense	601	65,000	48,600	\$ 16,400 33.7%
653	Furniture and Other Equipment	730	195,000	25,000	\$ 170,000 680.0%
655	Other Office Expense	601	161,425	141,510	\$ 19,915 14.1%
656	Membership Dues & Subscriptions	601	172,775	140,409	\$ 32,366 23.1%
658	Promotional Supplies	601	6,000	5,000	\$ 1,000 20.0%
659	Insurance Expense	304	121,000	249,500	\$ (128,500) -51.5%
<b>Office Expenses Total</b>			<b>\$ 1,209,250</b>	<b>\$ 2,370,069</b>	<b>\$ (1,160,819) -49.0%</b>
<b>TOTAL ADMINISTRATIVE EXPENSE BUDGET</b>			<b>\$ 44,436,683</b>	<b>\$ 40,538,982</b>	<b>\$ 3,897,701 9.6%</b>
<b>FUND 871: 115 TRUST EXPENSE BUDGET</b>					
612	Audit and Consulting CPA	304	10,000	10,000	- 0.0%
613	Legal	304	15,000	30,000	(15,000) -50.0%
660	Self-Funded Insurance Admin Fee	304	1,010,000	973,000	37,000 3.8%
<b>TOTAL 115 TRUST EXPENSE BUDGET</b>			<b>\$ 1,035,000</b>	<b>\$ 1,013,000</b>	<b>\$ 22,000 2.2%</b>

# Summary of Changes in Personnel

This table provides a look at the distribution and movement of personnel in the department among its business units.

DIVISION/SECTION	2022-23 Adopted Budget	Proposed Changes				2023-24 Proposed Budget	2023-24 Proposed Substitute Authorities		
		Regular Authorities	Add/Delete	Transfers	Regularize Substitute Authorities		New	Regular Authorities	Cont.
Executive	7		-1			6		+1	1
Investments	14	-1		+1		14			
Human Resources	6					6			
Internal Audit	3					3			
Retirement Services	45			+1	+1	47	+2		2
Health, Wellness, and Buyback	37			+2		39	+8	+5	13
Member Services	17		-17						
Communications & Stakeholder Relations			+18	+1	+2	21	+2		2
Member Stewardship Section	14					14	+1		1
Administration	15		-1			14	+2		2
Fiscal Management	15	-1		+1		15	+1		1
Systems	11		+1		+1	13		+1	1
Systems Operations Support	3					3			
<b>TOTAL</b>	<b>187*</b>	<b>-2</b>	<b>0</b>	<b>6</b>	<b>4</b>	<b>195</b>	<b>16</b>	<b>7</b>	<b>23</b>

\*FY23 Total positions = 199 (187 regular + 12 substitute authorities)

Note organizational transfers to better align resources:

- Member Services has been re-branded and expanded into the new Communications and Stakeholder Relations Division
  - Additional position reflects one transfer from Executive to better support the division
- One additional position in Systems reflects one transfer from Administration Division to support cybersecurity

# Annual Business Plan for FY 2023-24



## Department Programs

## Annual Work Plan and Business Plan Initiatives for FY24

### INVESTMENT ADMINISTRATION

Positions: 14 Regular

Admin Budget: \$2.5M

- Environmental, Social, and Governance Investment Policy Implementation
- Broadening Emerging Managers program
- Custodian Bank search
- Triennial Asset Allocation Study

### BENEFITS ADMINISTRATION

Positions: 107 Regular | 17 Substitute Authorities

Admin Budget: \$13.5M

- Respond to 62,000 Member inquiries to the Member Service Center
- Deliver more than 52 mass communication pieces
- Hold 96 seminars and events for Members
- Develop a Strategic Communications Plan
- Counsel and retire 1,000 Members
- Counsel and process 1,000 death benefits
- Perform reviews of 3,200 legal documents related to Member caseload
- Public Safety Officer - Benefit Design Change Analysis
- Administer retiree health benefits for 24,000 covered lives
- Respond to over 24,000 retiree health benefits-related claims and contacts
- Develop a LACERS *Well* Strategic Initiative encompassing disease prevention programs
- Process approximately \$148.3M in medical, dental and vision subsidies
- Member Service Agreement Enhancements - Year 2
- Retirement Application Portal Enhancements
- Implement the Language Access Plan - Year 2
- Knowledge Transfer Initiative - Year 2
  - Retirement Services Division
  - Health, Wellness, and Buyback Division

### GENERAL ADMINISTRATION AND SUPPORT

Positions: 74 Regular | 6 Substitute Authorities

Admin Budget: \$18.2M

- Governance Initiative - Year 2
  - Strategic Planning
  - Board Policies Review
- Workforce Diversity, Equity, and Inclusion Initiatives
  - Fellowship Program
  - Learning Management System
  - Investment Officer Bridge Class
- Central Data Repository
- Strengthening Cybersecurity
- Capital Plan

## **BENEFITS ADMINISTRATION OPERATIONS**

The Benefits Administration Operations provides services to over 47,000 Active and Retired Members inclusive of education and outreach relating to their LACERS retirement and retiree health benefits; counseling and calculation of their retiree benefits; and enrollment and administration of their retiree health insurance and subsidies. Administration of the program also involves ensuring statutory, regulatory, and legal compliance with various local, state and Federal statutes; and advising the plan sponsor on benefit plan design considerations. Benefits administration is primarily provided by three divisions totaling 124 full-time employees representing 57% of the employees of the department:

- Health, Wellness, and Buyback (HWABD)
- Retirement Services (RSD)
- Communications and Stakeholder Relations (CSRD)

LACERS proceeds with year four of the multi-year plan to fill the service level gap in benefits administration. The continuation of this effort to incrementally increase staffing is aimed at developing a workforce with the specialized benefits administration experience, skills, and knowledge to sustain a strong program despite knowledge loss through staff retirements and attrition; the plan will also create a workload standard with appropriate metrics for resourcing, that create an environment for employees to feel balanced, not overcome, by their workload, and provides challenging opportunities to be proactive, innovate, and develop professionally within LACERS.

In FY24, seven new positions are requested, along with seventeen substitute positions. It is recognized that this is a significant investment in staffing, particularly when viewed in totality with the 17 regular benefits administration positions added in the past three budget years. Cognizant of the City's fiscal condition and LACERS responsibility to defray administrative expenses, we continue to employ strategies throughout the year such as cross-training, streamlining policies/procedures/processes, maximizing use of technology, increasing communications and collaboration across functions, and considering industry and peer standards before proposing new positions.

The proposed budget for benefits administration program seeks to achieve the following:

### **ENHANCE MEMBER SERVICES, CUSTOMER SATISFACTION, AND STAKEHOLDER ENGAGEMENT**

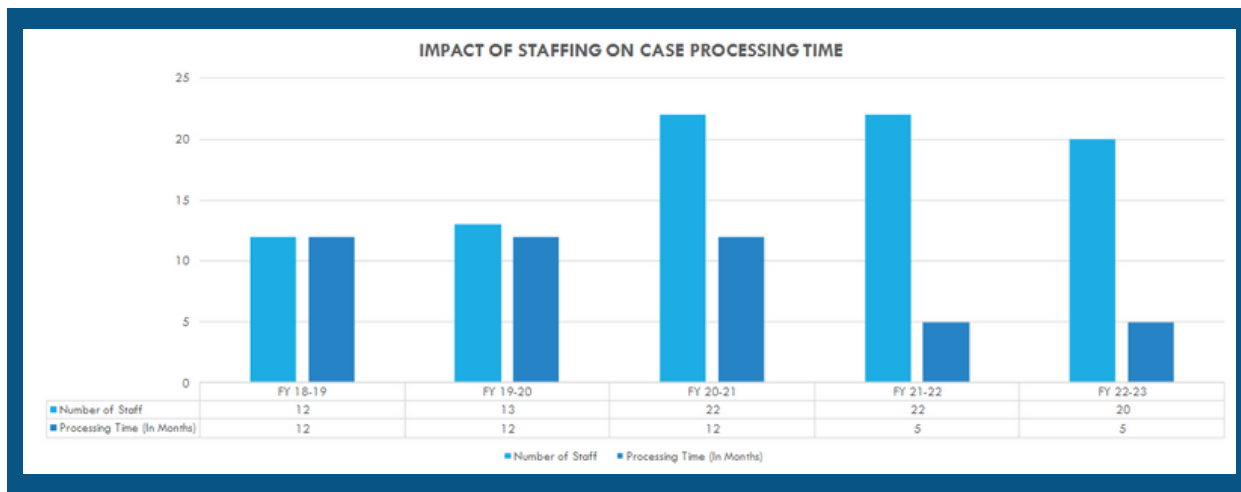
#### *DEEPER ENGAGEMENT WITH MEMBERS AND STAKEHOLDERS*

LACERS seeks not just to increase and broaden communications, but to engage Members and stakeholders, to better understand their expectations of LACERS. The new Communications and Stakeholder Relations Division (CSRD) was formed to develop and implement a strategic communications plan to deepen our relationship with our Member/stakeholders and to build additional partnerships. Other deliverables for the CSRD in the FY24 workplan include launching the department Language Access Program to ensure English Language Learners have equal access to our services; creating a Crisis Communications Plan; conducting a Member Engagement Survey and Report; and developing Member Service metrics to measure our abilities to deliver on our customer service metrics.

# FY24 Business Plan Benefits Administration

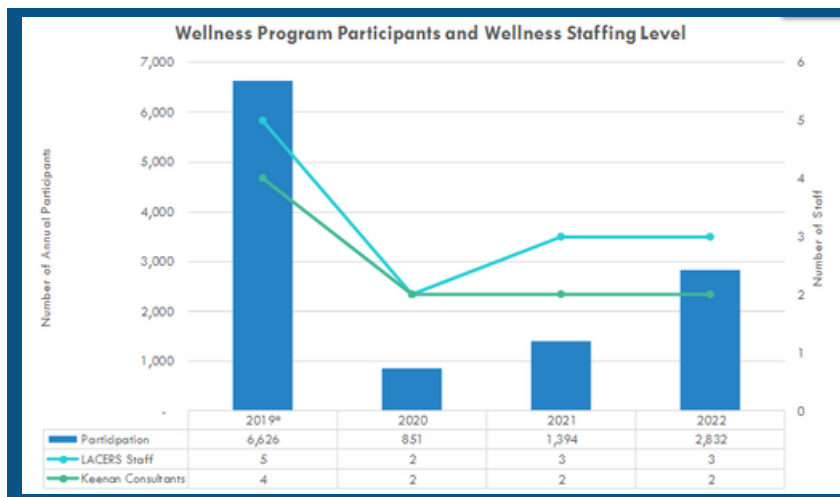
## TIMELY SERVICE PURCHASES FOR ACTIVE MEMBERS

Active Members may purchase other government service or past City service to increase their retirement allowance. The Service Processing Section (SPS) handles these requests. Since the addition of positions to SPS in Fiscal Year 2021-22 (FY22), the average processing time was reduced from 12 months to 5 months, and all outstanding cases greater than six months were eliminated. Renewal of the current substitute authority positions will ensure continued timely service to our Members.



## INCREASED OUTREACH FOR THE RETIREE WELLNESS PROGRAM

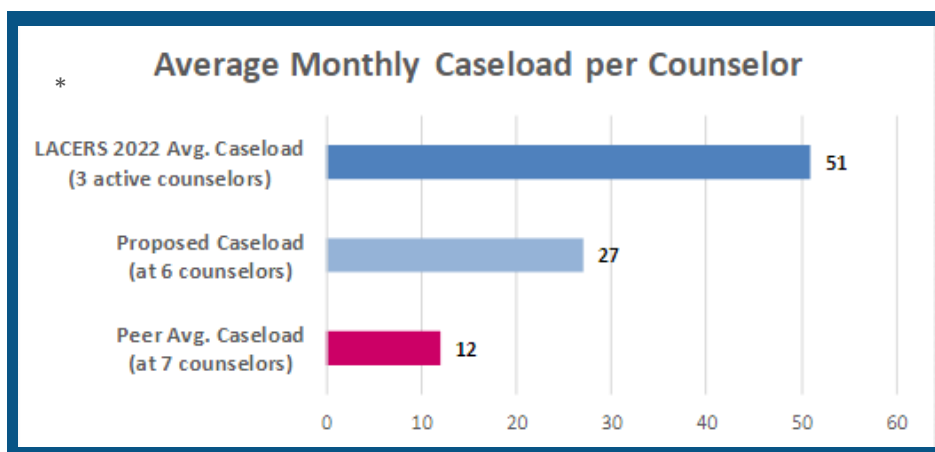
The long-term goal of the Wellness program is to contribute to the reduction in medical plan costs through the promotion of preventative health screenings and wellness measures for disease prevention. The Wellness Team plans programs that enhance retired Members experience through informational seminars, workshops, and activities supporting the five pillars of the program: Purpose, Health, Financial Wellness, Social Engagement, and Community. The continuation of the Senior Project Coordinator substitute authority position and the Administrative Clerk substitute authority position will ensure that Wellness events continue to operate in an organized manner as program participants are expected to increase with the resumption of in-person events. The Wellness Program also seeks to expand into a nationally recognized retirement wellness program by partnering with other retirement systems for knowledge-sharing, and senior community influencers for promotions and business sponsorships. The addition of a new Senior Benefits Analyst substitute authority position will allow the Wellness Team to expand the Wellness Program preventative care offerings through partnerships with nonprofit organizations and outreach to pension peers.



# FY24 Business Plan Benefits Administration

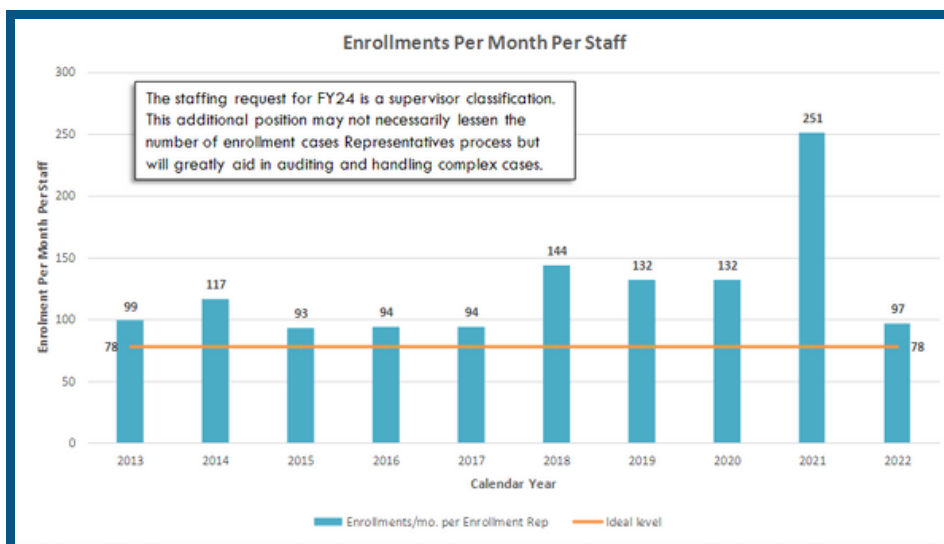
## HEALTH ADVOCACY UNIT

The Health Advocacy Unit (HAU) is the "frontline" Health spokespersons, educators, and carrier claim issue communicators. The unit of five, including one substitute authority position, provide support by responding to health benefit clarifications and investigating claim issues and service offerings through various means of communication (phone, email, and in-person appointments). In addition, HAU also provides various Health presentations such as Annual Open Enrollment and Medicare. Continuation of the Benefit Specialist substitute authority position and the addition of two new Substitute Authority positions, a Benefit Specialist and a Benefits Analyst, are needed to meet the existing workload and the rising number of cases.



## INCREASING ABILITY TO ACCURATELY MEET MONTHLY HEALTH ENROLLMENT DEADLINES

The Health Enrollment Unit (HEU) provides life-long service to Members by handling enrollment applications. Aside from the Annual Open Enrollment, this unit also processes new enrollments, plan change requests, and terminations for Members' and Survivors' qualifying life events. With the constant changes to Medicare, state and federal regulations, and carrier rules, the enrollment process has become increasingly complex. The continuation of the Benefits Specialist substitute authority position and the addition of a Benefits Analyst substitute authority position will address the increase of enrollment paperwork while also mitigating potential errors that accompany an increased workload.





# FY24 Business Plan Benefits Administration



## TIMELY PROCESSING OF RETIREE HEALTH ACCOUNT TRANSACTIONS

The Accounts Reconciliation Unit (ARU) is responsible for analyzing and confirming health carrier billings, calculating health benefit premiums and rates, processing Medicare subsidies, and processing Medical Premium Reimbursement applications and claims. Recently, a major medical carrier has switched to a quarterly reporting schedule and, due to staffing shortage issues on their end, has been sending reports on an irregular schedule, leading to a greater number of discrepancies but a shorter resolution time frame. The continuation of the Benefits Analyst substitute authority positions and the addition of one more Benefits Analyst substitute authority position will address the increasing discrepancies while ensuring that other existing tasks are completed within a timely manner.

## SERVICE LEVEL ENHANCEMENT

FY24 NEW POSITIONS/CONT. SUBAUTHORITIES	PERFORMANCE OBJECTIVES
<ul style="list-style-type: none"> <li>• 1 Chief Benefits Analyst (Regularize Substitute Authority), CSRD</li> <li>• 1 Benefits Analyst (New Regular), CSRD</li> <li>• 1 Development and Marketing Director (Continue Substitute Authority), CSRD</li> <li>• 1 Benefits Analyst (Continue Substitute Authority), CSRD</li> <li>• 1 Senior Administrative Clerk (New Regular), CSRD</li> <li>• 1 Senior Benefits Analyst (Continue Substitute Authority), SPS</li> <li>• 1 Benefits Specialist (Continue Substitute Authority), SPS</li> <li>• 1 Accounting Clerk (Regularize Substitute Authority), SPS</li> <li>• 1 Senior Benefits Analyst (New Substitute Authority), Wellness Program</li> <li>• 1 Senior Project Coordinator (Continue Substitute Authority), Wellness Program</li> <li>• 1 Administrative Clerk (Continue Substitute Authority), Wellness Program</li> <li>• 3 Benefits Analysts, (New Substitute Authority), ARU</li> <li>• 1 Benefits Specialist (New Substitute Authority), ARU</li> <li>• 2 Benefits Specialists, (Continue Substitute Authority), HEU</li> <li>• 1 Benefits Analyst (Continue Substitute Authority), HEU</li> </ul>	<p>These additional staff will:</p> <ul style="list-style-type: none"> <li>• Increase access to translated materials in threshold language(s) by 25% by the end of FY24</li> <li>• Ensure 100% completion of Metrics Dashboard by the end of FY24</li> <li>• Maintain average processing wait time for service purchases to less than 5 months</li> <li>• Maintain outstanding service purchase caseload to ensure that aging cases remain at 0.</li> <li>• Achieve 500 engagements on LACERS Well Facebook group</li> <li>• Achieve 95% of the targeted number of 500 survey responses for 2023 events and activities to solicit feedback of the LACERS Well program.</li> <li>• Provide quality Wellness programming service due to the anticipated increase in program participants</li> <li>• Establish monthly reporting for baseline information and metric determination</li> <li>• Resolve 500+ premium monthly discrepancies between all medical carriers</li> <li>• Process 8,000+ enrollment transactions</li> <li>• Administer medical, dental, and vision benefit subsidies and claims for up to 25,000 covered lives</li> </ul>



## RESTRUCTURE FOR MAXIMUM EFFICIENCY

### HIGHER-LEVEL OVERSIGHT IN HEALTH DIVISION STRUCTURE

This proposal seeks continued support for a staffing structure where a Senior Benefits Analyst I oversees each major unit in the Health Division. This model, successfully employed in Retirement Services Division, provides the units with senior-level oversight, to engage in resolving the more complex Member issues aimed at reducing line staff burnout, and handling higher level management tasks and priorities such as reviewing procedures, writing board reports, developing budgets, and working with contractors. The structure also assists in developing candidates for succession planning purposes. The recommended Senior Benefits Analysts (SBA) positions include regularizing the SBA in Health Administration and continuing the substitute authority SBA in ARU.

### PROCESS IMPROVEMENTS IN RETIREMENT SERVICES

Retirement Services Division's (RSD) central mission is to deliver retirement benefits accurately, efficiently, and timely. The proposed Performance Review Unit (PRU) consisting of three existing substitute authority positions, will review management controls and utilize process improvement strategies for business optimization within the various units of RSD.

### IMPROVED PROCESSING TIME FOR SURVIVOR BENEFITS

A carryover of 1,176 survivor benefits cases occurred from FY22 to FY23. Analysis of work performed by counselors in the Survivor Benefit Unit (SBU) uncovered that 30-40% of their time was spent on clerical tasks. The addition of a regular Senior Administrative Clerk is proposed to permit counselors to resolve cases and improve overall processing times.

## SERVICE LEVEL ENHANCEMENT

### FY24 NEW POSITIONS/CONT. SUBAUTHORITIES

- 1 Senior Benefits Analyst (Regularize Substitute Authority), Health Administration
- 1 Senior Benefits Analyst (Continue Substitute Authority), ARU
- 1 Benefits Analyst (Regularize Substitute Authority), RSD PRU
- 2 Benefits Specialists (Continue Substitute Authority), RSD PRU
- 1 Senior Administrative Clerk (New Regular), SBU

### PERFORMANCE OBJECTIVES

These additional staff will:

- Provide managerial oversight to the Health Administration and the Health Accounts Reconciliation Unit
- Perform quality assurance checks on retirement benefits delivery and coordinate special projects
- Eliminate 35% of clerical duties performed by Survivor Benefits counselors thereby improving processing times





## INVESTMENT OPERATIONS

The Investment Division is responsible for the management of a \$21 billion investment portfolio. LACERS' primary investment objective is to maximize the return of the portfolio at a prudent level of risk to meet the obligations of the System. In FY24, the Investment Team continues efforts in fulfilling LACERS' obligations as a Principles for Responsible Investment (PRI) signatory including continued works in Environmental, Social, and Governance (ESG) investing strategies. Continuing initiatives include promoting the Emerging Investment Manager Program while new initiatives include the Triennial Asset Allocation Study and the search for a new Custodian Bank.

The proposed budget for general administration administration program seeks to achieve the following:

### GREATER SUPPORT FOR LACERS' ASSETS UNDER MANAGEMENT

#### BETTER MANAGEMENT OF ADMINISTRATIVE TASKS

The Investment Division's project-based workload is largely driven by the Asset Allocation Policy that is subject to Board approval. The work is primarily carried about by the CIO and a team of Investment Officers. Administrative tasks have increased significantly as LACERS' Assets under Management (AUM) have grown and the breadth of strategies to achieve policy objectives have increased, which requires greater attention by the Investments team to manage and monitor the performance and quality of a complex and sophisticated institutional investment portfolio. Regularization of the Executive Administrative Assistant II will ensure the following administrative support will be provided to the CIO to enhance business efficiency.

- Coordinate senior staff reporting and correspondence
- Coordinate administrative procedures and all aspects of management of requests for proposals
- Manages highly critical reports, tracking logs, and time-sensitive communications with investment managers and bank custodian
- Assists in other administrative duties for the division as necessary

### SERVICE LEVEL ENHANCEMENT

FY24 NEW POSITIONS/CONT. SUBAUTHORITIES	PERFORMANCE OBJECTIVES
<ul style="list-style-type: none"> <li>• 1 Executive Administrative Assistant II (Regularize Substitute Authority)</li> </ul>	<p>This additional staff will:</p> <ul style="list-style-type: none"> <li>• Provide administrative support to the Chief Investment officer (CIO) thereby allowing more focus on Investment's on-going activities and initiatives.                             <ul style="list-style-type: none"> <li>◦ Environmental, Social, and Governance Program</li> <li>◦ Emerging Investment Manager Program</li> <li>◦ Risk Management Program</li> <li>◦ Custodian Bank Search</li> <li>◦ Triennial Asset Allocation Study</li> </ul> </li> </ul>



### GENERAL ADMINISTRATION OPERATIONS

The General Administration consists of seven (7) divisions/sections working in concert under Executive management to ensure that LACERS' programs and businesses run efficiently and effectively.

- o Administration
- o Fiscal Management
- o Human Resources
- o Internal Audit
- o Member Stewardship
- o Systems
- o Systems Operations Support

The FY24 proposed staffing for the General Administration maintains the existing administration support for LACERS operations with enhancements to business processes and includes (2) new regular authority and regularized substitute authority positions, and (6) substitute authority positions.

The proposed budget for general administration administration program seeks to achieve the following:

#### **INCREASE ORGANIZATIONAL EFFECTIVENESS AND EFFICIENCY AND PROMOTE A HIGH PERFORMING WORKFORCE**

##### *STRATEGIC PLAN*

LACERS' strategic plan sets the course for risk management and strategic vision for the next 3-5 years. The current Strategic Plan was adopted on February 12, 2019, which has been more than four years ago, and most of the initiatives highlighted are largely completed. FY23 began the development of a Request for Qualifications (RFQ) to develop a bench of qualified governance consultants for the creation of the next Strategic Plan. Efforts will continue into FY24 as LACERS staff will start engagement with the consultants on developing the new Strategic Plan.

##### *HUMAN RESOURCES, AND PAYROLL PROJECT*

The Systems Operation Support (SOS) Unit is responsible for all facets of the Pension Administration System, including support in benefits administration, payroll processing, workflow development, design modifications, testing, and the MyLACERS Portal. The SOS team, along with the Data Office, is actively involved with the Phase 2 of the Human, Resources, and Payroll (HRP) project, directed by the City to replace its existing payroll system, for test cases to ensure that all parts of the Member payment process are properly implemented. The SOS team collaborates with other LACERS units and City departments, such as LAFPP and Controller's Office, to resolve any errors or discrepancies to ensure that the payroll system will have a seamless integration once it goes live, which is in alignment with the strategic goal of delivering accurate and timely Member benefits.

# FY24 Business Plan

## General Administration



### *LACERS HEADQUARTERS AND RETURN OF IN-PERSON ACTIVITIES*

As LACERS has transitioned to the new headquarters and the easing of the City's "Safer at Home" directive to end on April 19, 2023, LACERS is preparing for resumption of in-person activities. Additionally, a variety of office equipment, such as high-speed scanners, cellphones and tablets, and mail and storage organization, are slated to be replaced in FY24, ensuring all equipment will be up to date for operations. Staff requests have also increased proportionally to the increase of positions in LACERS, therefore the continuation of the Management Analyst and Management Assistant substitute authority will assist the Administration Division to continue to provide support at its current level to prevent delays to the workflows of other divisions, supporting the strategic goal of increasing organizational effectiveness and efficiency.

### *ACCOUNTING OVERSIGHT*

The Fiscal Management Division primarily provides proper accounting and oversight of LACERS' financial operations including investment transactions, benefit payments and maintenance, employee payroll, cash receipts and disbursements, as well as accurate and timely financial reporting. In FY23, Fiscal Management has undergone staff turnover and a loss of seasoned employees. Regularization of the Payroll Supervisor would allow Fiscal Management to continue to deliver the necessary payroll support without the reallocation of other resources to oversee LACERS' growing financial operations.

### *DATA INFRASTRUCTURE*

The Systems Division maintains the Information Technology (IT) functions of the organization in keeping business operational and running efficiently. FY23 initiated the build out of a data center and a redesign of the computing environment at the new headquarters to secure the availability of business systems during power interruptions. In FY24, Systems will continue these initiatives to ensure that the new headquarters is fully equipped with the proper tools for business operations.

The Data Office is responsible for developing and maintaining systems and applications that facilitate operations, such as budget and accounting processes and works closely with Systems and the Fiscal Division. FY23 began the development of a more robust cloud-based Central Repository capable of developing business intelligent reports and integrating with artificial intelligence tools. The addition of a new Systems Analyst substitute authority will help oversee the implementation of the Central Repository and continue to maintain and evolve the repository as LACERS operations grow.

### *CYBERSECURITY*

In response to the COVID-19 pandemic, Systems Division deployed a variety of mobility solutions to develop a virtual workplace. As the City resumes back to its regular operations, LACERS sees the benefit of continuing a hybrid virtual workplace in improving staff retention and collaboration. The addition of a new regular Senior Cybersecurity Analyst II will assist in technical cybersecurity assessments on applications and systems to ensure LACERS is operating safely in the virtual work environment, which aligns with the strategic goals of organizational effectiveness.



## DIVERSITY, EQUITY, AND INCLUSION

The Human Resources Unit (HRU) oversees essential functions to support individuals throughout their entire employment journey at LACERS. One of the major on-going initiatives for LACERS is Diversity, Equity, and Inclusion (DEI), which focuses on instilling a high development culture that provide equal opportunity growth within the organization by strengthening cross-divisional relationships in the workplace. HRU will continue to solicit feedback from staff on how to improve leadership opportunities while gathering management insights on required soft skills for promotability. This initiative is in agreement with the strategic goal of retain, mentor, empower, and promote a high-performing workforce.

## SERVICE LEVEL ENHANCEMENT

### FY24 NEW POSITIONS/CONT. SUBAUTHORITIES

- 1 Management Analyst (Continue Substitute Authority), Administration
- 1 Management Assistant (Continue Substitute Authority), Administration
- 1 Benefits Analyst (Continue Substitute Authority), Membership Stewardship
- 1 Payroll Supervisor (Regularize Substitute Authority), Fiscal Management
- 1 Systems Analyst I (New Substitute Authority), Data Office
- 1 Senior Cybersecurity Analyst II (New Regular), Systems

### PERFORMANCE OBJECTIVES

These additional staff will:

- Provide project support and guidance by becoming facilitators, engagement initiators, and trainers
- Provide support to benefits administration utilizing the Pension Administration System (PAS)
- Preparation of payroll documentation
- Develop and implement Central Data Repository and Reporting
- Implement and maintain control system software

# FY24 Business Plan Initiatives

## Governance - Year 2

### ADVANCES THE STRATEGIC PLAN GOALS OF CUSTOMER SERVICE, BENEFITS DELIVERY, GOVERNANCE & ORGANIZATION

FY24 BUDGET REQUEST		
	Expense	Positions
<b>Total Request</b>	<b>\$150,000</b>	
Board Governance Consulting Services	\$150,000	



#### PURPOSE

The last strategic planning process was conducted in FY19 prompting a new strategic planning session to be completed. The Governance BPI seeks to affirm and strengthen LACERS' mission, vision, and goals. FY23 initiated a search for Board Governance Consulting Services and continuing in FY24, once a contractor has been secured, LACERS will develop a new strategic plan setting the direction of the organization for the next three to five years.

#### DELIVERABLES

- New LACERS Strategic Plan
- Updated Board Governance Policies

# FY24 Business Plan Initiatives

## Language Access Plan- Year 2

**ADVANCES THE STRATEGIC PLAN GOALS OF CUSTOMER SERVICE, BENEFITS DELIVERY, GOVERNANCE & ORGANIZATION**

FY24 BUDGET REQUEST		
	Expense	Positions
<b>Total Request</b>	<b>\$40,000</b>	
Translation and Interpretation Service	\$40,000	



### PURPOSE

Prompted by Mayor Garcetti's Executive Directive 32 - Strengthening Language Access in the City of Los Angeles, LACERS' "Language Access Plan" (LAP) BPI is a multi-phase initiative seeking to expand accessibility to benefits-related information to LACERS Members, including those who are not fluent in English. Phase One in FY23 launched the initiative with the research and development of the LAP. Phase Two will include implementation of the plan and securing a vendor for translation and interpretation services.

### DELIVERABLES

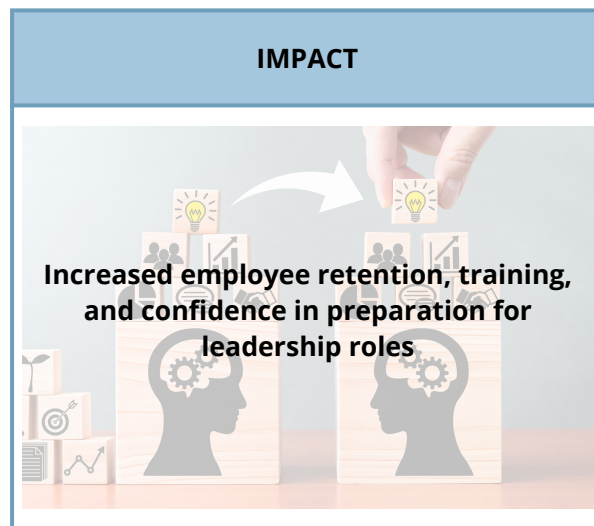
- Implementation of the necessary translation and interpretation tasks developed from the Four-Factor analysis outlined in the Citywide Language Access Plan template
- Procure a vendor for translation and interpretation services for the following:
  - Board Meetings
  - Summary Plan Descriptions
  - Reception Kiosk

# FY24 Business Plan Initiatives

## Knowledge Transfer-Year 2 (RSD and HWABD)

**ADVANCES THE STRATEGIC PLAN GOAL OF CUSTOMER SERVICE, BENEFITS DELIVERY, ORGANIZATION & WORKFORCE**

FY24 BUDGET REQUEST		
	Expense	Positions
<b>Total Request</b>	<b>\$70,500</b>	
Software Training Modules	\$70,500	



### PURPOSE

This initiative seeks to deploy a two-phased approach for institutional knowledge transfer from retiring senior staff to new staff. Phase One in FY24 will result in requirements gathering and the launch of an RFP to secure a vendor to implement an AI-enabled knowledge base for benefits related topics as part of an internal training program. Phase Two will seek to continue and expand the knowledge base to incorporate other areas of information such as administrative and personnel topics thereby strengthening department-wide institutional knowledge transfer. Phase Two also seeks to implement the training schedule and develop metrics for future analysis.

### DELIVERABLES

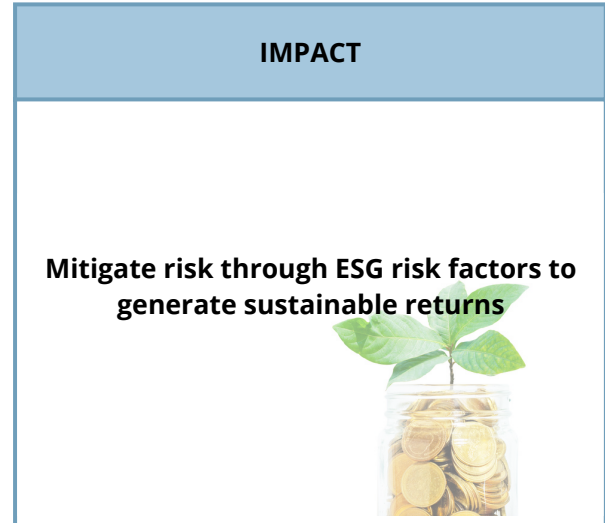
- A robust AI-enabled knowledge base with chat functionality capable of retaining and providing valuable department-wide information
- Implementation of a dynamic training schedule targeted to supervisors and staff for succession planning

# FY24 Business Plan Initiatives

## Environmental, Social & Governance Investing-Year 3

### ADVANCES THE STRATEGIC PLAN GOAL OF GOVERNANCE AND INVESTMENT

FY24 BUDGET REQUEST		
	Expense	Positions
<b>Total Request</b>	<b>\$27,750</b>	
PRI Membership	\$14,000	
MSCI ESG Research Software	\$13,750	



### PURPOSE

This initiative seeks to optimize long-term risk adjusted returns and enhance LACERS ESG directives guided by the Responsible Investment Policy to be consistent with the Board and staff's fiduciary responsibilities to act in the best interest of LACERS Members and beneficiaries. FY24 seeks the continuation of the development of LACERS ESG investment risk exposure reporting through an internal and third-party software as well as to further include ESG risk factors in the investment manager selection process.

### DELIVERABLES

- Evaluation of additional third party ESG analytical tools and resources
- Development of analysis and metrics reporting from MSCI ESG Manager
- Review of PRI and ESG risk framework action plans and delegation of subtasks



# FY24 Business Plan Initiatives

## Workforce Diversity, Equity, & Inclusion-Year 3

### ADVANCES THE STRATEGIC PLAN GOAL OF ORGANIZATION AND WORKFORCE

FY24 BUDGET REQUEST		
	Expense	Positions
<b>Total Request</b>	<b>\$175,000</b>	
DEI Consultant	\$100,000	
Learning Management System	\$75,000	



### PURPOSE

This initiative seeks to align the organization and staff on performance needs and support requirements to enable professional growth, achieve an equitable workplace, and resource the organization to support employee development. An outside vendor has been secured to develop a LACERS Fellowship program that will identify organizational expectations of staff for professional success at LACERS as well as employee expectations for organizational support in professional growth. Upon completion of the Fellowship program, content developed will be embedded into the Learning Management System as advanced training for LACERS staff.

### DELIVERABLES

- Launch of the Fellowship program with staff specific cohort to identify employee growth needs
- Learning materials created to mentor and retain future staff
- Resolve organizational and leadership gaps for employee growth

# FY24 Business Plan Initiatives

## *Diversity in Hiring-Year 2*




### ADVANCES THE STRATEGIC PLAN GOAL OF WORKFORCE

FY24 BUDGET REQUEST		
	Expense	Positions
Total Request	\$0	

IMPACT

An Investment Officer Bridge Job Class that would enable Investment staff to outreach to diverse non-traditional talent



### PURPOSE

This initiative seeks to develop an Investment Officer Job Class for the Bridge to Jobs Program to achieve hiring diversity within the Investment Divisions of the City of Los Angeles. LACERS aims to perform outreach with other Investment Officers within the City to rally support for the job class to be adopted by the City. In FY23, LACERS developed a revolving volunteer group of Investment staff that drove this initiative by creating a framework for the Bridge Job Class specification according to industry recommendations. FY24 continues this initiative by flushing out the roadmap for the adoption of the job class and potentially initiate contact with other Investment Officers within the City to discuss.

### DELIVERABLES

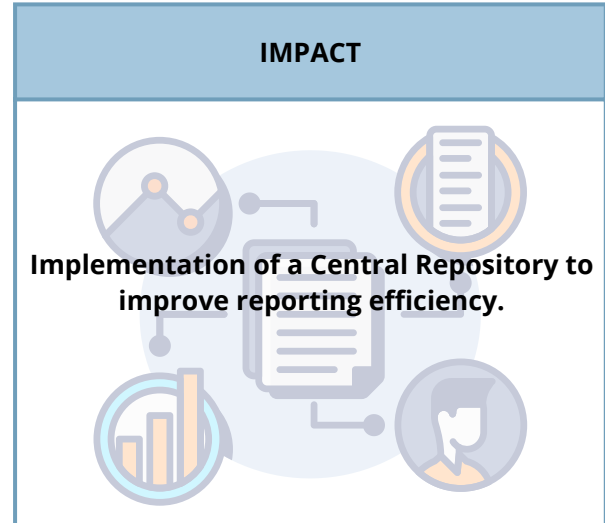
- Development of an Investment Officer Bridge Job Class specification
- Engagement with other City of LA Investment Officers

# FY24 Business Plan Initiatives

## Central Data Repository -Year 1

### ADVANCES THE STRATEGIC PLAN GOAL OF ORGANIZATION

FY24 BUDGET REQUEST		
	Expense	Positions
<b>Total Request</b>	<b>\$30,500</b>	
Microsoft Virtual Agent	\$2,400	
Microsoft Power Apps	\$9,600	
Microsoft Automate	\$18,000	
Power BI Premium	\$500	



### PURPOSE

This initiative seeks to launch a Central Data Repository (CDR) which is a modernized, centralized, and organized platform to house LACERS' data and reporting. The CDR will serve as LACERS' single source of truth and can be managed and accessed by authorized users to enhance business intelligence reporting due to increased data quality, consistency, availability, and accuracy. FY24 aims to complete buildout of the CDR and initiate end user testing for deployment.

### DELIVERABLES

- Development of a robust Central Data Repository
- Integrating data file imports
- Development of dashboards and reports

# Capital Expense Budget



LACERS has established a 10-Year Capital Plan that ensures proactive planning of capital expenditures and establishes spending priorities and overall capital improvement goals.

The plan prioritizes performing routine evaluations of the building’s mechanical and structural resilience. This includes tracking the lifespan of the building’s HVAC system, elevator lift, generators, and electrical components. Modernization of the mentioned systems and implementing eco-friendly technology are also part of the 10-Year Capital Plan. As new technology becomes available, LACERS will evaluate how to incorporate these technologies into the HQ to promote sustainability and reduce our energy costs. This plan will also include routine reviews of how our LACERS HQ serves our Members and staff and promotes human health and wellbeing.

For FY24, LACERS proposes the following work be funded as part of the 10-Year Capital Plan:

## FY24 CAPITAL PLAN BUDGET REQUEST – YEAR 2

Category	Property Component	Expense
<b>Parking Garage</b>	<u>Electric Car Charging Stations</u> : Procurement and installation of Electric Car Charging stations. Inclusion of contingency for additional consultants, permitting, and construction.	\$107,886
<b>Mechanical</b>	<u>Heating, Ventilation, and Air Conditioning Systems</u> : Allowance for Cooling Tower replacements, repairs, and other unforeseen components. Inclusion of contingency for any necessary maintenance identified during evaluation of the Cooling Tower. Also includes allowance for repair of existing HVAC pumps, such as condenser water pump and water source heat pumps.	\$325,838
<b>Electrical</b>	<u>Main Switchboard</u> : Repairs including rebuilding of any electrical system components found to be lacking as a result of the Infrared Testing.	\$72,800
<b>Plumbing</b>	<u>Sump Pumps</u> : Replacement of the storm water sump pumps and controller.	\$70,914
<b>Soundproofing</b>	<u>Sound Traveling</u> : Work to damper sound traveling between offices and conference rooms to reduce distraction and bolster privacy. A three year program was developed for the completion of the work.	\$100,000
<b>Administrative</b>	<u>Fee</u> : Contractual fee for capital project oversight 4% of project cost.	\$46,393
	<b>TOTAL</b>	<b>\$723,831</b>



	FY24	FY23	% CHANGE
<b>Total</b>	\$ 823,897,034	\$ 763,866,451	7.9
<b>Retirement and Health Benefits</b>	903,808,063	837,626,811	7.9
<b>True-up Adjustment</b>	(81,477,029)	(75,194,360)	8.4
<b>Family Death Benefit Plan</b>	51,000	47,000	8.5
<b>Excess Benefit Plan</b>	1,332,000	1,332,000	0.0
<b>Limited Term Retirement Plan</b>	183,000	55,000	232.7

The City contributes funding for four plans administered by LACERS: Retirement and Health Benefits, the Excess Benefit Plan, the Family Death Benefit Plan, and the Limited Term Retirement Plan.

City contribution rates toward retirement and health benefits for LACERS Members are set by the Board upon adoption of the annual actuarial valuations. Stated in the form of a percentage of covered payroll, the amount of the City's contribution is determined on the final covered payroll adopted in the City's budget. The FY24 City Contribution is based on the latest FY24 covered payroll provided by the City and the updated LACERS' FY24 covered payroll. The final covered payroll will be determined in June once the City and proprietary departments budget gets adopted. As of now, the estimate is based on the latest FY24 covered payroll of \$1.8 billion for Tier 1 Members and rate of 34.07%; and a covered payroll of \$917 million and rate of 31.45% for Tier 3 Members. A credit adjustment of \$81,477,029 is applied toward the FY24 contribution to LACERS. This credit amount represents a true-up of the FY23 contribution -- the difference between the contributions paid on July 15, 2022 based on the budgeted covered payroll amount and the actual payroll toward the end of the Fiscal Year. The City is also required by statute to make employer contributions for the Family Death Benefit Plan, the Excess Benefit Plan, and the Limited Term Retirement Plan.

## Family Death Benefit Plan

Approximately 2,067 Active Members are opted into the Family Death Benefit Plan which provides an additional benefit to qualifying surviving minor children, or widow/widower over age 60 if the Member dies while an active City employee. The City's contribution to the Family Death Benefit is equivalent to a match of the Member's contribution of \$1.90 per month for FY24. This monthly amount is established pursuant to a biennial study of the full actuarial costs of the benefit as required by the Los Angeles Administrative Code.



## **Excess Benefit Plan**

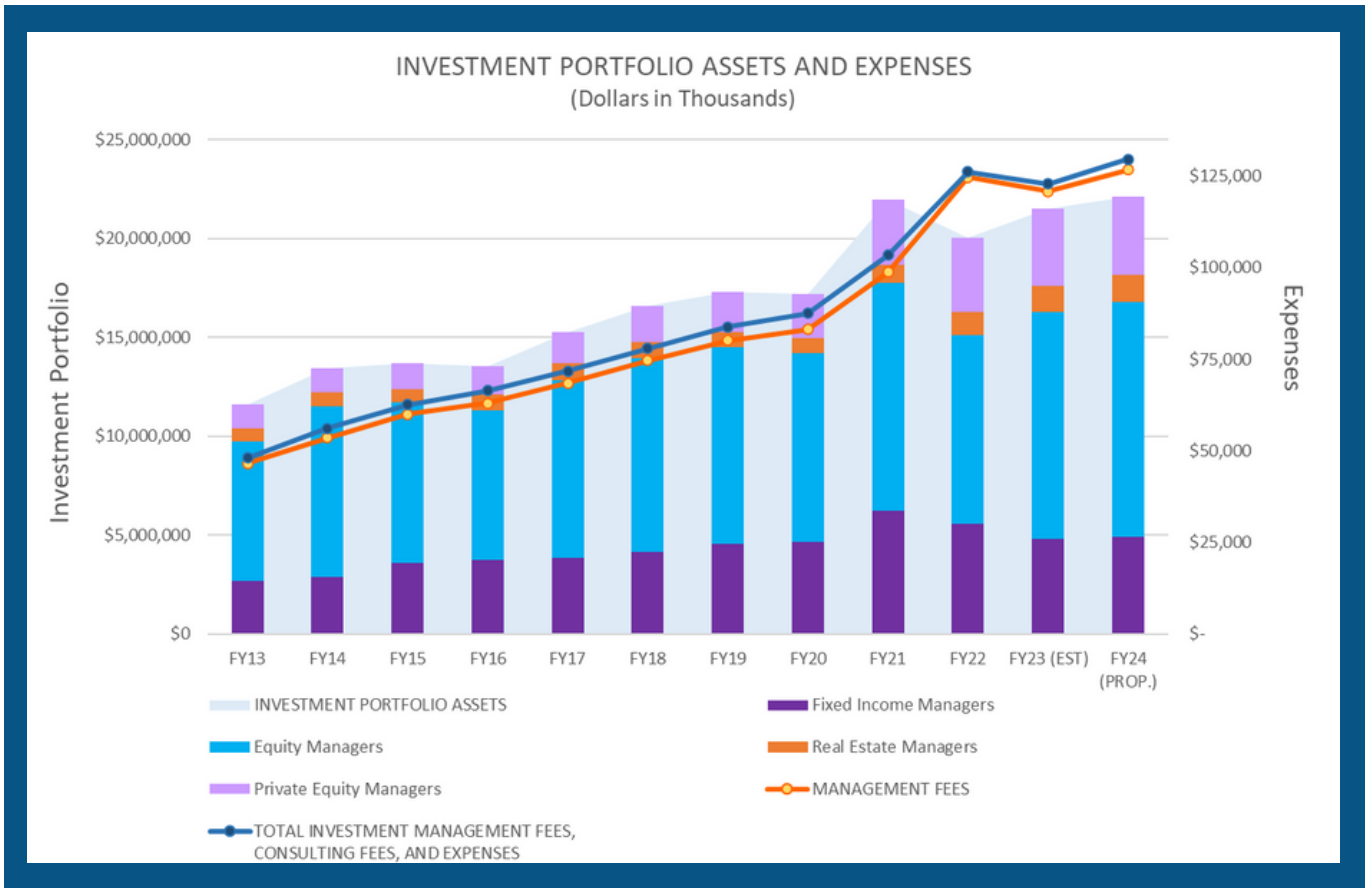
The Excess Benefit Plan was established separate from the LACERS Trust Fund, to pay retirement benefit amounts in excess of the benefit limits established by the Internal Revenue Code (IRC), currently \$265,000<sup>1</sup> for 2023. In 2023, there are 37 LACERS Members who receive their monthly LACERS' retirement benefit up to the limit allowable by the IRC, and the remainder of their benefit is paid separately by City funds. The City's cost of this program is the projected amount of the benefits that will be paid from the City's account for FY24, plus reasonable administrative expenses.

## **Limited Term Retirement Plan (LTRP)**

The LTRP provides elected officials, who serve four-year terms, the option of participating in a defined contribution plan until they have completed the five years of City service needed to vest in the defined benefit plan. The City provides a contribution to LTRP Members at the same rate as the employer contribution to the LACERS defined benefit plan. There are currently two LTRP Members in the plan.

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<sup>1</sup> This represents the unadjusted Excess Benefit limit. The individual limit must be adjusted based on the age of the Member at retirement, years of City service, service purchases, and calculated on a single-life annuity basis.

# Investment Management Fees and Expenses



In the past ten-year period, overall fees have increased along with the increase in portfolio value.

The Investment Management Fees are largely asset-based fees established in the respective contracts with investment managers hired by LACERS. Investment consulting fees are flat fees paid to our General Fund consultant, our Private Equity consultant, and our Real Estate consultant. Other expenses include research and services which support administration of the investment program.

	FY24	FY23	\$ CHANGE	% CHANGE
<b>Total</b>	\$ 129,674,876	\$ 106,923,414	\$ 22,751,462	21.3
<b>Investment Management Fees</b>	126,828,476	104,026,264	22,802,212	21.9
<b>Investment Consulting Fees</b>	2,521,650	2,532,000	(10,350)	(0.4)
<b>Other Investment Expenses</b>	324,750	365,150	(40,400)	(11.1)

# Investment Management Fees and Expenses



## INVESTMENT FEE RATE OVERVIEW

The 2023-24 proposed Investment Management Fees & Expenses Budget is \$129.7 million and is based on several factors:

- Estimated Fair Value (FV) of Investments of \$22.1 billion as of June 30, 2024
- Reported FV of Investments of \$21.6 billion as of January 31, 2023
- An assumed rate of return of 3% for all assets
- Estimated fees based on additional fund commitments anticipated to be made during FY24 to the Private Equity, Private Credit, and Real Estate asset classes.

LACERS estimates the FY23 investment fees and expenses will be approximately \$122.9 million. Investment management fee increases (or decreases) are a function of the following factors:

- Change in the FV of Investments
- Asset Allocation Policy and the respective weights of asset classes
- Investment management fee structures that vary by asset class

The difference between the proposed FY24 and the FY23 adopted budget for investment management fees and expenses is \$22.8 million. This increase is due to a policy decision to increase investment exposures to higher yielding Private Equity and Real Estate investment asset classes that are subject to elevated investment management fee structures.



**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**PROPOSED BUDGET  
AND  
PERSONNEL RESOLUTIONS**

**Fiscal Year 2023 - 24**

**Presented May 23, 2023**

<u>TABLE OF CONTENTS</u>		<u>Page</u>
COMBINED STATEMENT OF RECEIPTS AND EXPENDITURES	EXHIBIT 1	2
DETAILS OF RECEIPTS AND EXPENDITURES - 115 TRUST	EXHIBIT 2	3
SCHEDULE OF CITY CONTRIBUTIONS	EXHIBIT 3	4
SCHEDULE OF ADMINISTRATIVE EXPENSE	EXHIBIT 4	5
INVESTMENT MANAGEMENT FEES AND EXPENSES	EXHIBIT 5	6
PERSONNEL RESOLUTION	EXHIBIT 6	7
POSITIONS AND SALARIES	EXHIBIT 7	8
ORGANIZATION CHART	EXHIBIT 8	9
DELEGATION OF AUTHORITY TO THE GENERAL MANAGER TO APPROVE TRANSFERS BETWEEN APPROPRIATION ACCOUNTS	EXHIBIT 9	22
AUTHORIZATION FOR DEPARTMENTAL EXEMPLARY STAFF RECOGNITION PROGRAM	EXHIBIT 10	23
AUTHORIZATION FOR LACERS DEPARTMENTAL PARKING PROGRAM	EXHIBIT 11	24
AUTHORIZATION FOR LACERS DEPARTMENTAL TRANSIT SUBSIDY PROGRAM	EXHIBIT 12	25

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**COMBINED STATEMENT OF RECEIPTS AND EXPENDITURES<sup>3</sup>**

<b>Actual 2021-22</b>	<b>Adopted Budget 2022-23</b>	<b>Estimated 2022-23<sup>1</sup></b>		<b>Budget Appropriation 2023-24<sup>2</sup></b>
<b>RECEIPTS</b>				
\$ 684,419,074	\$ 763,866,451	\$ 767,688,757	City Contributions (see Schedule 1).....	\$ 823,897,034
245,812,790	262,500,000	253,000,000	Member Contributions.....	265,650,000
65,761	47,000	50,000	Family Death Benefit Plan Member Contributions.....	51,000
13,280,017	12,840,000	12,830,000	Self-Funded Insurance Premium.....	12,900,000
1,180,300	1,296,000	1,307,000	Member Insurance Premium Reserve.....	1,320,000
459,637,713	350,200,000	447,600,000	Earnings on Investments.....	461,028,000
857,745,000	--	147,000,000	Gain on Sale of Investments.....	--
<u>\$ 2,262,140,655</u>	<u>\$ 1,390,749,451</u>	<u>\$ 1,629,475,757</u>	Total Receipts.....	<u>\$ 1,564,846,034</u>
<b>EXPENDITURES</b>				
\$ 1,162,515,638	\$ 1,277,000,000	\$ 1,224,000,000	Retirement Allowances.....	\$ 1,334,000,000
903,753	884,000	870,000	Family Death Benefit Plan Allowance.....	870,000
143,383,403	160,380,000	150,151,000	Retired Medical & Dental Subsidy.....	163,664,590
18,244,474	20,412,000	20,225,000	Retired Medicare Part B Reimbursements.....	21,890,000
10,076,911	10,437,000	10,431,000	Self-Funded Insurance Claims.....	11,996,000
10,046,356	15,400,000	12,066,000	Refund of Member Contributions.....	13,273,000
1,583,744	2,200,000	1,987,000	Refund of Deceased Retired Accum. Contributions.....	2,186,000
32,875,866	40,538,982	38,073,200	Administrative Expense .....	44,436,683
875,137	973,000	958,000	Self-Funded Insurance Administrative Fee.....	1,010,000
127,884,910	\$106,923,414	\$122,947,851	Investment Management Fees and Expenses.....	129,674,876
<u>\$ 1,508,390,192</u>	<u>\$ 1,635,148,396</u>	<u>\$ 1,581,709,051</u>	Total Expenditures.....	<u>\$ 1,723,001,149</u>
753,750,463	(244,398,945)	47,766,706	Increase (Decrease) in Fund Balance.....	(158,155,115)
<u>\$ 2,262,140,655</u>	<u>\$ 1,390,749,451</u>	<u>\$ 1,629,475,757</u>	Total Expenditures and Increase (Decrease) in Fund Balance	<u>\$ 1,564,846,034</u>

1. The City Contributions amount for the FY 2022-23 Estimated Budget was based on the City's final covered payroll of \$2,535,490,679 and included the application of a net credit adjustment for FY 2021-22 of \$75,194,360 deducted from FY 2022-23 contribution payment. The credit adjustment represents a true-up of the FY 2020-21 City contribution.

2. The preliminary City Contributions amount for FY 2023-24 is based on the latest FY 2023-24 covered payroll provided by the City and the updated LACERS' FY 2023-24 covered payroll, with a total amount of \$2,723,342,266 and includes a credit adjustment of \$81,477,029 for the true-up of FY 2022-23 contributions which will be deducted from the FY 2023-24 contribution payment. The City Contribution budget amount will be finalized upon the receipt of adopted City covered payroll information from the City for FY 2023-24.

3. The above Statement contains LACERS combined Receipts and Expenditures including the 115 Trust.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**DETAIL OF RECEIPTS AND EXPENDITURES  
115 TRUST FUND**

<b>Actual 2021-22</b>	<b>Adopted Budget 2022-23</b>	<b>Estimated 2022-23</b>		<b>Appropriation 2023-24</b>
<b>RECEIPTS</b>				
\$ 91,622,720	\$ 89,961,357	\$ 90,510,522	City Contributions (see Schedule 1).....	\$ 98,236,308
13,280,017	12,840,000	12,830,000	Self-Funded Insurance Premium.....	12,900,000
1,180,300	1,296,000	1,307,000	Member Insurance Premium Reserve.....	1,320,000
8,521,224	7,115,000	10,680,000	Earnings on Investments.....	14,019,000
(44,336,825)	--	3,508,000	Gain on Sale of Investments.....	--
<u>\$ 70,267,436</u>	<u>\$ 111,212,357</u>	<u>\$ 118,835,522</u>	Total Receipts.....	<u>\$ 126,475,308</u>
<b>EXPENDITURES</b>				
\$ 10,076,911	\$ 10,437,000	\$ 10,431,000	Self-Funded Insurance Claims.....	\$ 11,996,000
875,137	973,000	958,000	Self-Funded Insurance Administrative Fee.....	1,010,000
-	-	-	Administrative Expense .....	
716,566	961,570	908,000	Contracts.....	25,000
2,504,589	2,431,000	2,934,000	Share of Department Adm. Expenses.....	1,351,275
<u>\$ 14,173,203</u>	<u>\$ 14,802,570</u>	<u>\$ 15,231,000</u>	Investment Management Expense.....	<u>3,943,283</u>
			Total Expenditures.....	<u>\$ 18,325,558</u>
<u>56,094,233</u>	<u>96,409,787</u>	<u>103,604,522</u>	Increase in Fund Balance.....	<u>108,149,750</u>
<u>\$ 70,267,436</u>	<u>\$ 111,212,357</u>	<u>\$ 118,835,522</u>	Total Expenditures and Increase in Fund Balance.....	<u>\$ 126,475,308</u>

Note: All 115 Trust Receipts and Expenditures above are included in the LACERS Combined STATEMENT OF RECEIPTS AND EXPENDITURES on page 2.

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULE 1 -- CITY CONTRIBUTIONS**

**ACTUARIAL REQUIREMENTS**

To fund the liabilities of the System for future service as required in Article XI Section 1158 and 1160 of the City Charter in accordance with the actuarial valuation of those liabilities as of June 30, 2022 as follows:

	Health (115 TR)	Retirement	Total
Tier 1 34.07% of \$1,805,989,404 total actuarial salary of Tier 1 members for fiscal year 2023-24	\$ 68,085,802	\$ 547,214,788	\$ 615,300,590
Tier 3 31.45% of \$917,352,862 total actuarial salary of Tier 3 members for fiscal year 2023-24	39,904,849	248,602,624	288,507,473
Subtotal	<u>\$ 107,990,651</u>	<u>\$ 795,817,412</u>	<u>\$ 903,808,063</u>
Family Death Benefit Plan (FDBP) To match the estimated total amount contributed by Family Death Benefit Plan members in accordance with the provisions of Section 4.1090 of the Administrative Code.		51,000	51,000
Excess Benefit Plan Fund (EBP) To fund retirement benefits in excess of the limits set by Internal Revenue Code Section 415 (b) in accordance with the provisions of Section 4.1800 of the Administrative Code.		1,332,000	1,332,000
Limited Term Retirement Plan Fund (LTRP) To fund the Defined Contribution Plan for elected City officials in accordance with the provisions of Section 4.1850 of the Administrative Code.		<u>183,000</u>	<u>183,000</u>
<b>Total City Contributions</b>	<b>\$ 107,990,651</b>	<b>\$ 797,383,412</b>	<b>\$ 905,374,063</b>
True-up Adjustment: Credit of difference in City contributions for FY 2022-23 based on estimated covered payroll on July 15, 2022 and actual covered payroll up to February 25, 2023.	<u>(9,754,343)</u>	<u>(71,722,686)</u>	<u>(81,477,029)</u>
<b>Total City Contributions After True Up</b>	<b><u>\$ 98,236,308</u></b>	<b><u>\$ 725,660,726</u></b>	<b><u>\$ 823,897,034</u></b>

**City Contributions by Funding Source:**

	Total Covered Payroll	Contributions						Total
		Tier 1 (34.07%)	Tier 3 (31.45%)	Shared Cost for FDBP/EBP/LTP	Tier 1 True-Up	Tier 3 True-Up	FY23 True-Up Adjustments	
General Fund (TRAN)	\$ 2,255,792,321	\$ 496,917,211	\$ 247,437,859	\$ 1,297,145	\$ (56,110,368)	\$ (11,807,542)	\$ (67,917,910)	\$ 677,734,305
Airports	335,145,534	81,660,929	33,533,398	192,718	(3,308,914)	(6,883,879)	(10,192,793)	105,194,252
Harbor	95,894,447	27,623,834	4,507,998	55,142	(3,272,594)	973,951	(2,298,643)	29,888,331
LACERS	21,914,613	5,167,217	2,089,622	12,602	(511,028)	40,697	(470,331)	6,799,110
LAFPP	14,595,351	3,931,399	938,596	8,393	(426,467)	(170,885)	(597,352)	4,281,036
Total	<u>\$ 2,723,342,266</u>	<u>\$ 615,300,590</u>	<u>\$ 288,507,473</u>	<u>\$ 1,566,000</u>	<u>\$ (63,629,371)</u>	<u>\$ (17,847,658)</u>	<u>\$ (81,477,029)</u>	<u>\$ 823,897,034</u>

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULE 2 -- ADMINISTRATIVE EXPENSE**

<b>Expenditures 2021-22</b>	<b>Adopted Budget 2022-23</b>	<b>Estimated Expenditures 2022-23</b>		<b>Budget Appropriation 2023-24</b>
			<b>SALARIES</b>	
\$ 17,268,764	\$ 19,937,304	\$ 18,498,000	General	\$ 22,528,243
511,053	748,832	332,000	As Needed	858,943
399,194	486,854	368,000	Overtime	423,675
<u>\$18,179,011</u>	<u>\$ 21,172,990</u>	<u>\$ 19,198,000</u>	Total Salaries	<u>\$ 23,810,861</u>
			<b>EXPENSE</b>	
\$ 51,052	\$ 190,500	\$ 190,000	Printing and Binding	\$ 144,500
49,970	152,165	136,000	Travel	234,590
7,848,715	9,512,900	9,239,000	Employee Benefits	10,203,880
6,225	11,000	8,200	Transportation Expense	23,000
5,059,105	7,625,589	7,524,000	Contracts	7,783,939
891,273	1,626,738	1,493,000	Office and Administrative	1,808,813
<u>\$ 13,906,340</u>	<u>\$ 19,118,892</u>	<u>\$ 18,590,200</u>	Total Expense	<u>\$ 20,198,722</u>
			<b>EQUIPMENT</b>	
\$ 790,515	\$ 247,100	\$ 285,000	Furniture, Office and Technical Equipment	\$ 427,100
<u>\$ 790,515</u>	<u>\$ 247,100</u>	<u>\$ 285,000</u>	Total Equipment	<u>\$ 427,100</u>
<u>\$32,875,866</u>	<u>\$ 40,538,982</u>	<u>\$ 38,073,200</u>	Total Administrative Expense	<u>\$ 44,436,683</u>

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT MANAGEMENT FEES AND EXPENSES: FY 2023-24**

	<b>ADOPTED BUDGET</b>	<b>ESTIMATED EXPENSE</b>	<b>PROPOSED BUDGET</b>
	<b><u>FY 2022-23</u></b>	<b><u>FY 2022-23</u></b>	<b><u>FY 2023-24</u></b>
1 Baird Advisors	\$677,700	\$624,743	\$629,944
2 Loomis Sayles	830,050	787,389	796,927
3 State Street (Fixed Income Index)	246,029	199,385	165,032
4 Garcia Hamilton & Associates	514,400	493,802	496,693
5 Income Research & Management	548,484	497,544	505,400
6 JP Morgan	576,896	538,725	543,012
7 Bain Capital (formerly Sankaty)	882,955	853,440	874,732
8 Prudential LAC99)	1,550,220	1,465,137	1,540,535
9 DDJ Capital	1,467,150	1,267,924	1,190,287
10 Benefit Street Prts LLC	481,192	811,505	1,362,848
11 Loomis Sayles	1,062,978	807,056	850,483
12 Wellington	2,444,715	2,097,628	2,200,194
13 Crescent	571,157	58,152	457,894
14 Monroe	787,881	623,588	1,173,382
15 Granahan	596,252	667,859	920,496
16 EAM Investors	767,221	617,133	641,858
17 Principal Global	1,125,158	1,031,573	1,111,413
18 Rhumblin (S&P 500)	208,036	174,607	171,982
19 Rhumblin (Russell 2000)	18,500	16,157	16,859
20 Rhumblin (Russell 2000 Value)	8,685	7,254	7,077
21 Copeland Cap Mgmt	1,142,392	1,078,227	1,180,358
22 Segall	594,169	606,648	705,755
23 Axiom International	2,055,500	1,776,432	1,790,801
24 Barrow, Hanley, Mewhinney & Strauss	2,593,608	2,403,669	2,755,132
25 Dimensional Fund Advisor (Emerging Mkt)	1,835,844	1,724,525	1,912,523
26 Lazard Asset Management	2,949,082	2,498,000	2,631,871
27 MFS Institutional Advisors	2,358,107	2,072,038	2,229,513
28 Oberweis Asset Management	2,191,888	2,240,577	2,693,993
29 State Street Global (Non-US Index)	451,642	391,071	389,679
30 State Street EMG Mkt C	141,732	179,998	242,368
31 State Street EAFE SC	122,824	116,881	131,906
32 Wasatch	2,121,214	1,906,946	2,129,594
33 Centersquare (REITS)	1,819,122	1,836,716	2,027,332
34 Dimensional Fund Advisor (TIPS)	647,258	528,421	533,819
35 Real Estate Managers	13,653,663	17,863,914	19,164,706
36 Private Equity Managers	53,982,560	70,007,748	70,652,078
<b>Subtotal - Investment Managers Fee</b>	<b><u>\$104,026,264</u></b>	<b><u>\$120,872,412</u></b>	<b><u>\$126,828,476</u></b>
37 General Fund Consulting	480,000	465,000	480,000
38 Private Equity Consulting	775,000	774,194	787,500
39 Private Credit Consulting	340,000	-	325,000
40 Real Estate Consulting	225,000	215,000	217,150
41 Real Estate & Private Equity Legal Consulting	689,000	325,000	689,000
42 Northern Trust	23,000	23,000	23,000
<b>Subtotal - Investment Consulting Fee</b>	<b><u>\$2,532,000</u></b>	<b><u>\$1,802,194</u></b>	<b><u>\$2,521,650</u></b>
43 Bloomberg Financial Services	\$32,000	\$27,835	\$32,000
44 Tax Accounting Services	110,000	110,000	110,000
45 Institutional Shareholder Services	130,000	71,910	130,000
46 Pitchbook Subscription	23,500	23,500	23,500
47 Pacific Center for Asset Management	10,000	-	10,000
48 Cambridge Associates Private Equity Benchmark License	5,500	-	5,500
49 CEM Benchmark	40,000	40,000	-
50 MSCI ESG Research Software	13,750	-	13,750
51 Bloomberg News	400	-	-
<b>Subtotal - Other Investment Expense</b>	<b><u>\$365,150</u></b>	<b><u>\$273,245</u></b>	<b><u>\$324,750</u></b>
<b>Total Investment Management Fees and Expenses</b>	<b><u>\$106,923,414</u></b>	<b><u>\$122,947,851</u></b>	<b><u>\$129,674,876</u></b>

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

PROPOSED PERSONNEL RESOLUTION

FISCAL YEAR 2023-24

WHEREAS, the Board of Administration of the Los Angeles City Employees' Retirement System has the responsibility and authority to establish the number and types of positions to be utilized by the Los Angeles City Employees' Retirement System;

NOW, THEREFORE, BE IT RESOLVED, that:

1. Effective July 1, 2023, the positions listed in the attached schedule of Positions and Salaries are hereby authorized within the Los Angeles City Employees' Retirement System. The class code numbers, classifications, and salaries as set forth herein are hereby determined to be appropriate in accordance with existing City laws and ordinances, and applicable Memoranda of Understanding, as appropriate. Further, the employment of the designated number of persons in each code and classification as set forth herein is hereby authorized.
2. Memoranda of Understanding approved by the City Council shall be considered to be incorporated into this Resolution where appropriate. Salaries established under approved Memoranda of Understanding shall apply to all classes of employees therein noted. The provisions of each of the Memoranda of Understanding shall take precedence over any conflicting provision contained in this Resolution, but only for those employees in classes to which the Memoranda of Understanding apply.
3. One Assistant General Manager (Class Code 9269), when designated by the General Manager to assume the additional administrative and supervisory duties of Executive Officer, shall be compensated at the fourth premium level rate above the appropriate step rate or premium level rate of the incumbent. Upon approval of the General Manager, one additional Assistant General Manager (Class Code 9269) may receive salary up to the fourth premium level rate above the appropriate step rate of the prescribed salary range. This compensation is pensionable.
4. Upon approval of the General Manager, substitute authority positions may be filled using any class approved and established by the Board of Civil Service Commissioners. This approval shall specify the period during which the position shall be filled.
5. Upon approval of the General Manager, persons may be employed in any class approved and established by the Board of Civil Service Commissioners in-lieu of a vacant position if the in-lieu employment is consistent with City policies and procedures for such employment.
6. The General Manager shall have the authority to correct any clerical or typographical errors in this document.

Tuesday, May 23, 2023

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM  
POSITIONS AND SALARIES: FY 2023-24**

**(a) Regular Positions**

FY23	FY24	Change	MOU	Class Code	Class Title	Salary Range
3	3	0	1	1513	ACCOUNTANT	\$ 63,308 - \$ 92,581
13	14	1	3	1223	ACCOUNTING CLERK	\$ 55,499 - \$ 81,139
1	0	-1	20	1119	ACCOUNTING RECORDS SUPV II	\$ 74,959 - \$ 109,599
11	10	-1	3	1358	ADMINISTRATIVE CLERK	\$ 42,678 - \$ 62,431
2	2	0	36	9414	ASST GM LACERS	\$ 157,957 - \$ 230,932
28	30	2	1	9108	BENEFITS ANALYST	\$ 84,083 - \$ 122,983
35	35	0	20	1203	BENEFITS SPECIALIST	\$ 63,704 - \$ 93,145
2	3	1	36	9151	CH BENEFITS ANALYST	\$ 139,499 - \$ 203,955
1	1	0	36	9147	CH INVESTMENT OFCR	\$ 250,225 - \$ 356,045
1	1	0	36	9182	CH MANAGEMENT ANALYST	\$ 139,499 - \$ 203,955
1	1	0	1	9734	COMMISSION EXEC ASST II	\$ 80,701 - \$ 117,992
1	0	-1	0	1444	CYBERSECURITY ANALYST	\$ 94,962 - \$ 138,852
1	1	0	36	1610	DEPARTMENTAL AUDIT MGR	\$ 139,499 - \$ 203,955
1	1	0	36	1593	DEPT CHIEF ACCT IV	\$ 139,499 - \$ 203,955
1	2	1	37	1117	EXEC ADMIN ASST II	\$ 68,778 - \$ 100,558
1	1	0	37	1117	EXEC ADMIN ASST III	\$ 73,748 - \$ 107,803
1	1	0	20	1555	FISCAL SYSTEMS SPEC II	\$ 118,159 - \$ 172,719
1	1	0	0	9150	GM-LACERS	\$ 188,129 - \$ 333,454
1	1	0	36	1409	INFO SYSTEM MGR II	\$ 139,499 - \$ 203,955
1	1	0	1	1625	INTERNAL AUDITOR III	\$ 95,317 - \$ 139,394
1	1	0	1	1625	INTERNAL AUDITOR IV	\$ 118,159 - \$ 172,719
3	3	0	0	9146	INVESTMENT OFFICER I	\$ 106,613 - \$ 155,848
5	5	0	0	9146	INVESTMENT OFFICER II	\$ 132,817 - \$ 194,184
2	2	0	0	9146	INVESTMENT OFFICER III	\$ 166,977 - \$ 244,128
6	6	0	1	9184	MANAGEMENT ANALYST	\$ 80,701 - \$ 117,992
0	1	1	20	1170	PAYROLL SUPERVISOR	\$ 77,965 - \$ 114,004
1	1	0	20	1129	PERS RECORDS SUPV	\$ 67,901 - \$ 99,242
1	1	0	1	1731	PERSONNEL ANALYST	\$ 80,701 - \$ 117,992
1	1	0	63	1714	PERSONNEL DIR I	\$ 127,764 - \$ 186,813
1	1	0	20	1525	PR ACCOUNTANT I	\$ 91,579 - \$ 133,903
1	1	0	20	1525	PR ACCOUNTANT II	\$ 96,632 - \$ 141,274
1	1	0	20	1201	PRINCIPAL CLERK	\$ 63,704 - \$ 93,145
2	2	0	8	1431	PROGRAMMER/ANALYST III	\$ 85,921 - \$ 125,614
1	1	0	8	1431	PROGRAMMER/ANALYST V	\$ 100,203 - \$ 146,494
1	1	0	36	1800	PUB INFO DIRECTOR I	\$ 98,323 - \$ 143,779
11	12	1	20	9109	SENIOR BENEFITS ANALYST I	\$ 103,314 - \$ 151,087
7	7	0	20	9109	SENIOR BENEFITS ANALYST II	\$ 127,890 - \$ 186,959
2	2	0	20	1523	SR ACCOUNTANT I	\$ 73,497 - \$ 107,490
3	3	0	20	1523	SR ACCOUNTANT II	\$ 79,636 - \$ 116,468
18	20	2	3	1368	SR ADMINISTRATIVE CLERK	\$ 52,575 - \$ 76,880
0	1	1	0	1445	SR CYBER SECURITY ANALYST II	\$ 128,725 - \$ 188,212
2	2	0	20	9171	SR MGMT ANALYST I	\$ 103,481 - \$ 151,275
1	1	0	20	9171	SR MGMT ANALYST II	\$ 127,952 - \$ 187,063
1	1	0	64	9167	SR PERSONNEL ANALYST I	\$ 97,864 - \$ 143,090
1	1	0	64	9167	SR PERSONNEL ANALYST II	\$ 121,124 - \$ 177,083
1	1	0	20	1597	SR SYSTEMS ANALYST I	\$ 95,484 - \$ 139,624
1	1	0	20	1597	SR SYSTEMS ANALYST II	\$ 118,159 - \$ 172,719
2	2	0	1	1596	SYSTEMS ANALYST	\$ 80,701 - \$ 117,992
1	1	0	21	1455	SYSTEMS PROGRAMMER I	\$ 124,486 - \$ 146,494
1	2	1	21	1455	SYSTEMS PROGRAMMER II	\$ 107,782 - \$ 157,581
1	1	0	21	1455	SYSTEMS PROGRAMMER III	\$ 116,802 - \$ 170,735
<u>187</u>	<u>195</u>	<u>8</u>				

**(b) To be Employed As Needed in Such Numbers as Required:**

- 1133 RETIREMENT RELIEF WORKER
- 1358 ADMINISTRATIVE CLERK
- 1501 STUDENT WORKER
- 1502 STUDENT PROFESSIONAL WORKER
- 1535 ADMINISTRATIVE INTERN I
- 1535 ADMINISTRATIVE INTERN II
- 1538 SR PROJECT COORDINATOR
- 1596 SYSTEMS ANALYST
- 9184 MANAGEMENT ANALYST
- 1203 BENEFITS SPECIALIST
- 9269 ASSISTANT GENERAL MANAGER PENSIONS

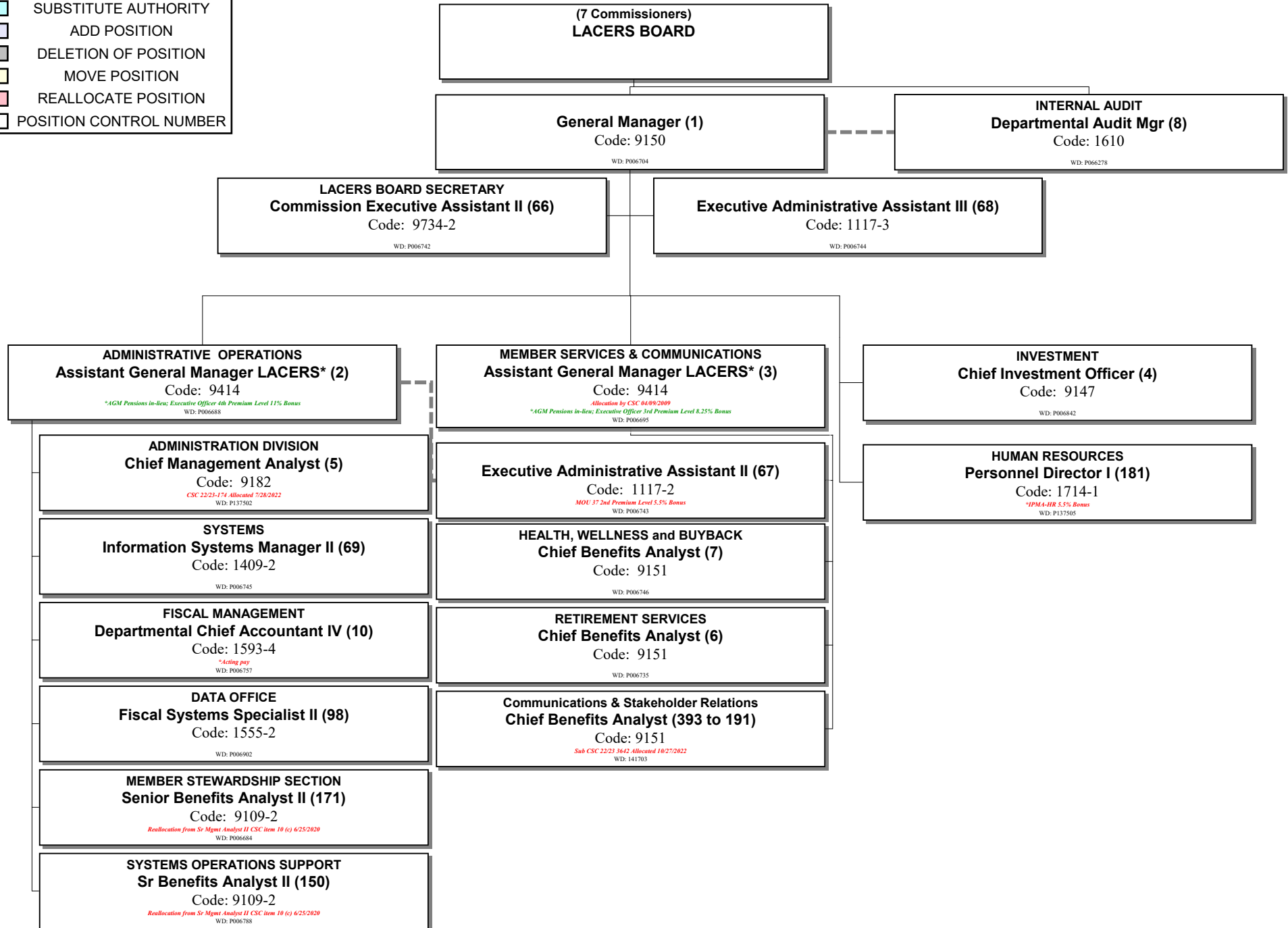
FY21	FY22	Change	MOU	Class Code	Class Title	Salary Range
<u>7</u>	<u>7</u>	<u>0</u>	N/A	0101-2	COMMISSIONER	\$50 PER MEETING
7	7	0				



# LACERS

## CONCEPTUAL ORGANIZATIONAL CHART FY 2023/2024

	SUBSTITUTE AUTHORITY
	ADD POSITION
	DELETION OF POSITION
	MOVE POSITION
	REALLOCATE POSITION
	POSITION CONTROL NUMBER

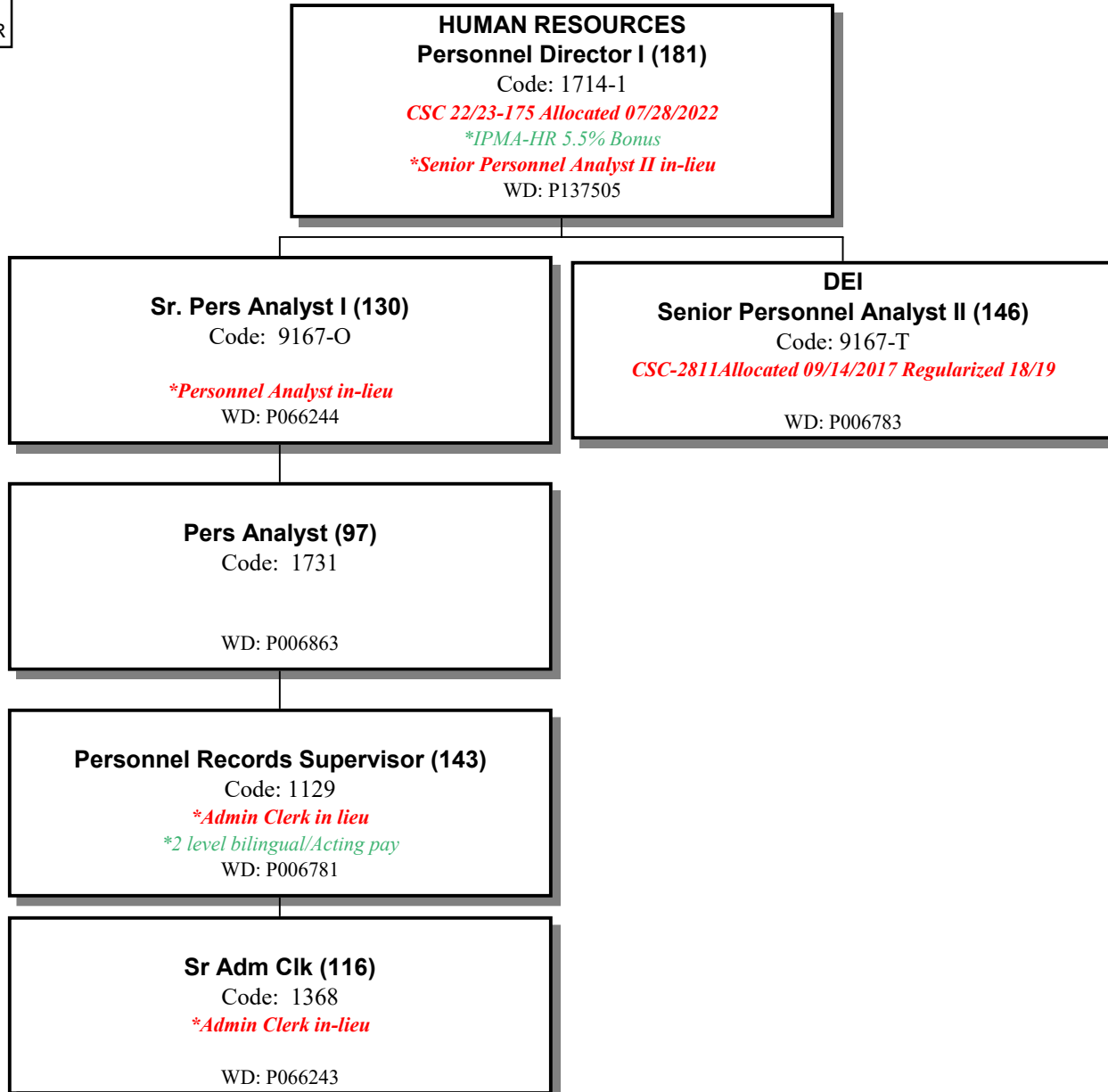


UPDATED 3/1/2023

# LACERS

## CONCEPTUAL ORGANIZATIONAL CHART FY 2023/2024







- SUBSTITUTE AUTHORITY
- ADD POSITION
- DELETION OF POSITION
- MOVE POSITION
- REALLOCATE POSITION
- POSITION CONTROL NUMBER

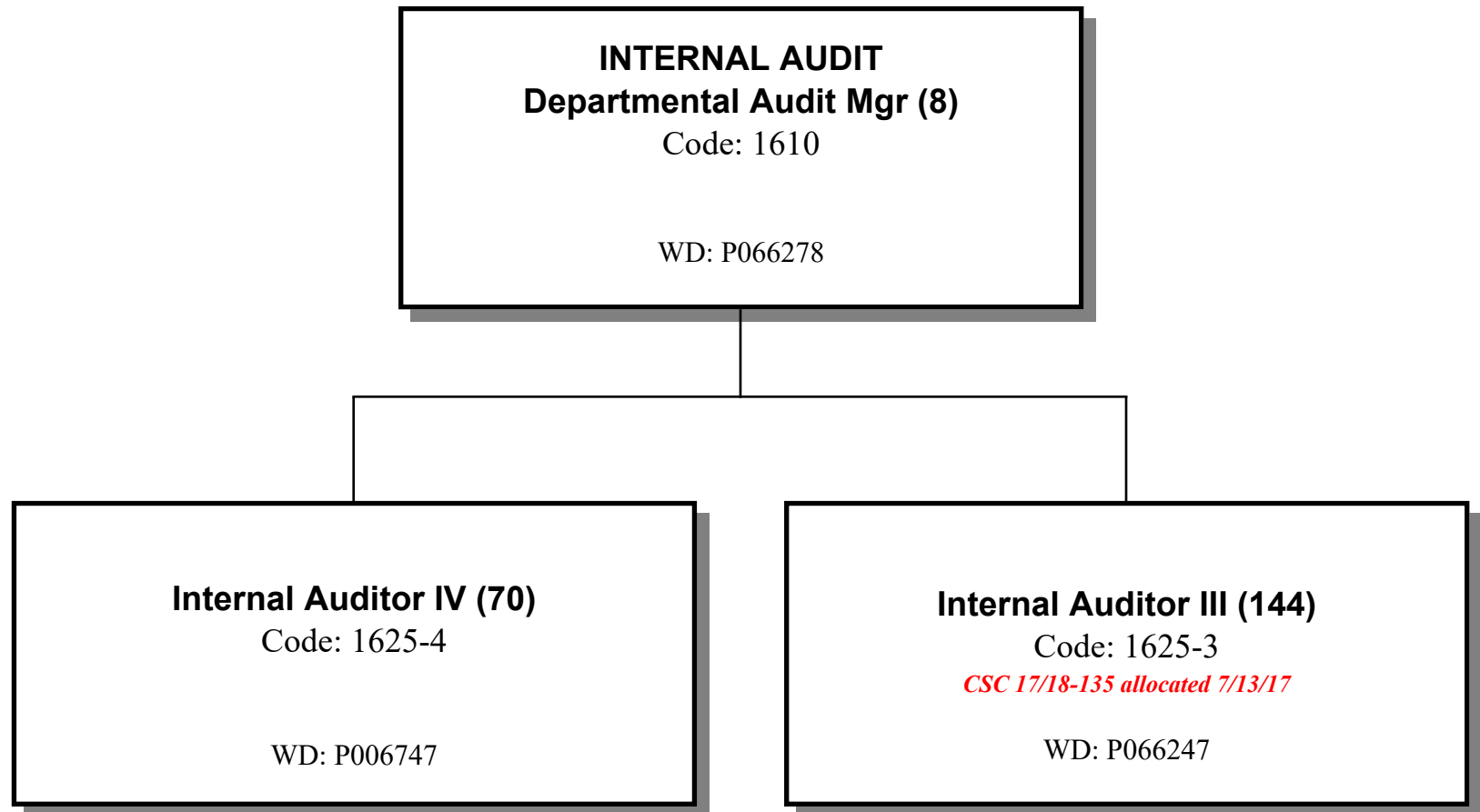


UPDATED 3/13/2023

# LACERS

## CONCEPTUAL ORGANIZATIONAL CHART FY 2023/2024

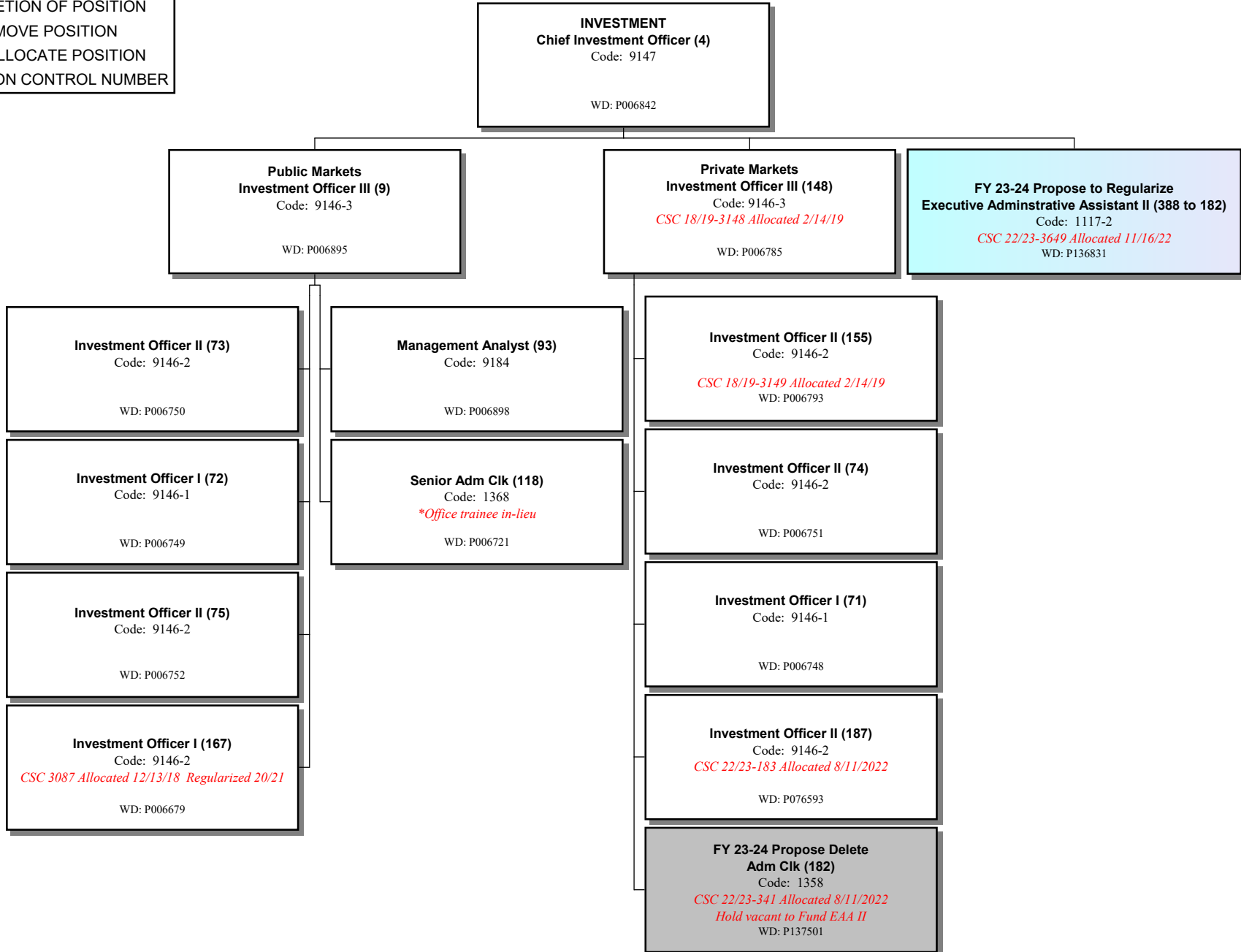
	SUBSTITUTE AUTHORITY
	ADD POSITION
	DELETION OF POSITION
	MOVE POSITION
	REALLOCATE POSITION
	POSITION CONTROL NUMBER



# LACERS

## CONCEPTUAL ORGANIZATIONAL CHART FY 2023/2024

	SUBSTITUTE AUTHORITY
	ADD POSITION
	DELETION OF POSITION
	MOVE POSITION
	REALLOCATE POSITION
	POSITION CONTROL NUMBER

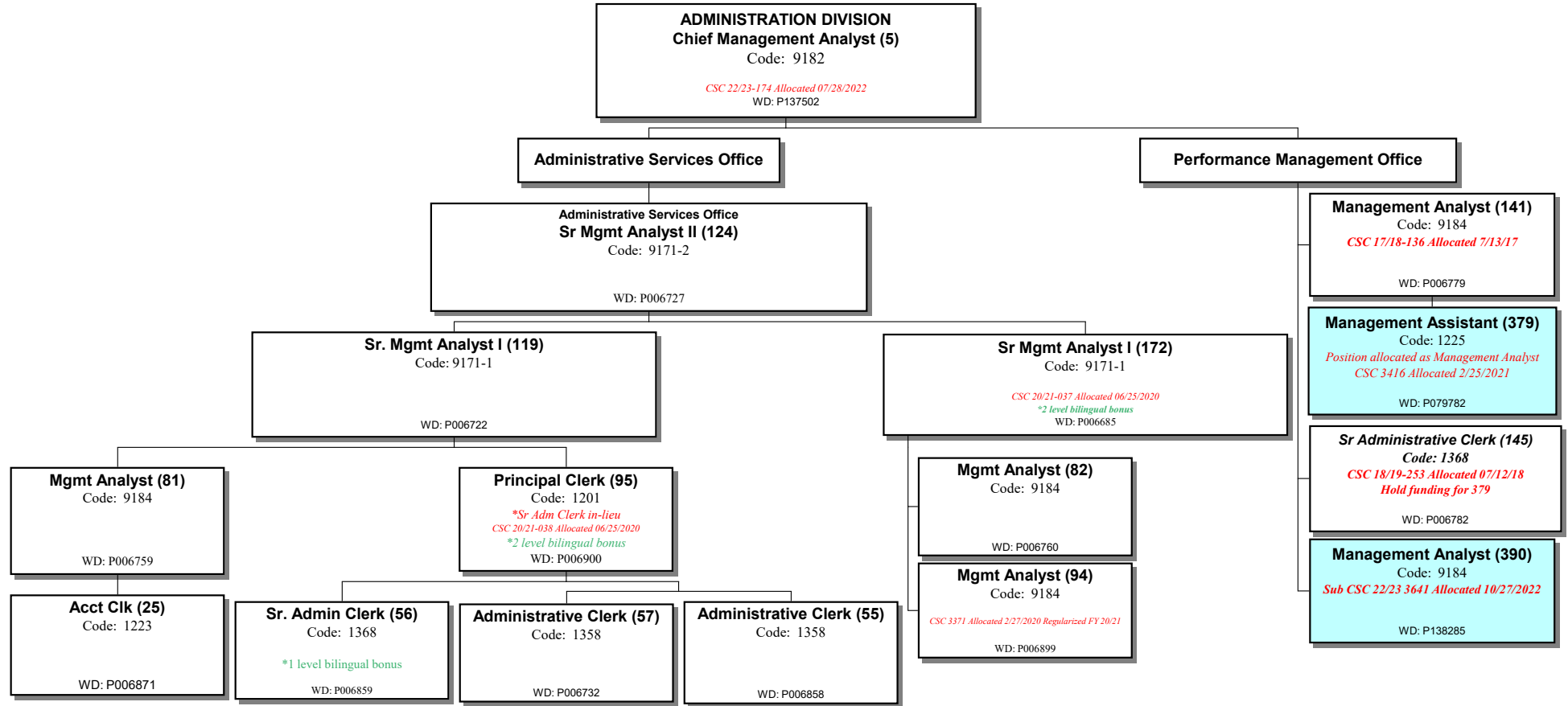


UPDATED 2/8/2023

# LACERS

## CONCEPTUAL ORGANIZATIONAL CHART FY 2023/2024

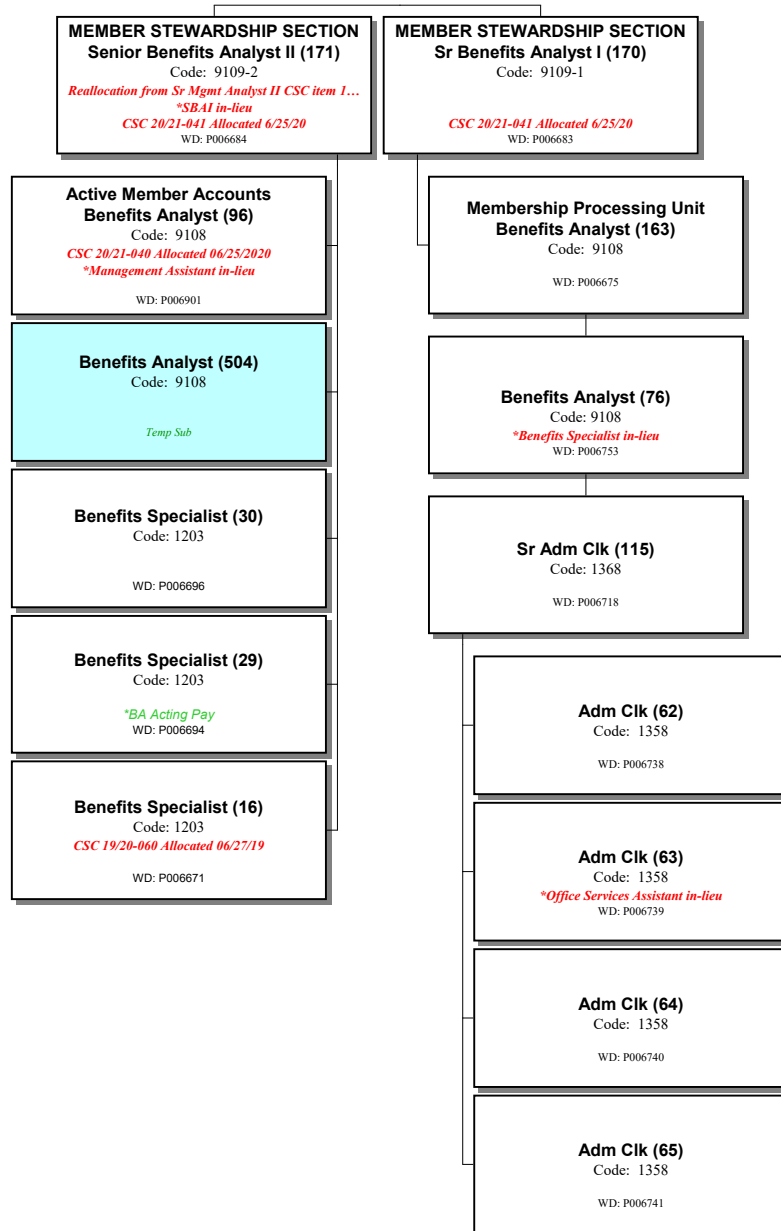
	SUBSTITUTE AUTHORITY
	ADD POSITION
	DELETION OF POSITION
	MOVE POSITION
	REALLOCATE POSITION
	POSITION CONTROL NUMBER



# LACERS

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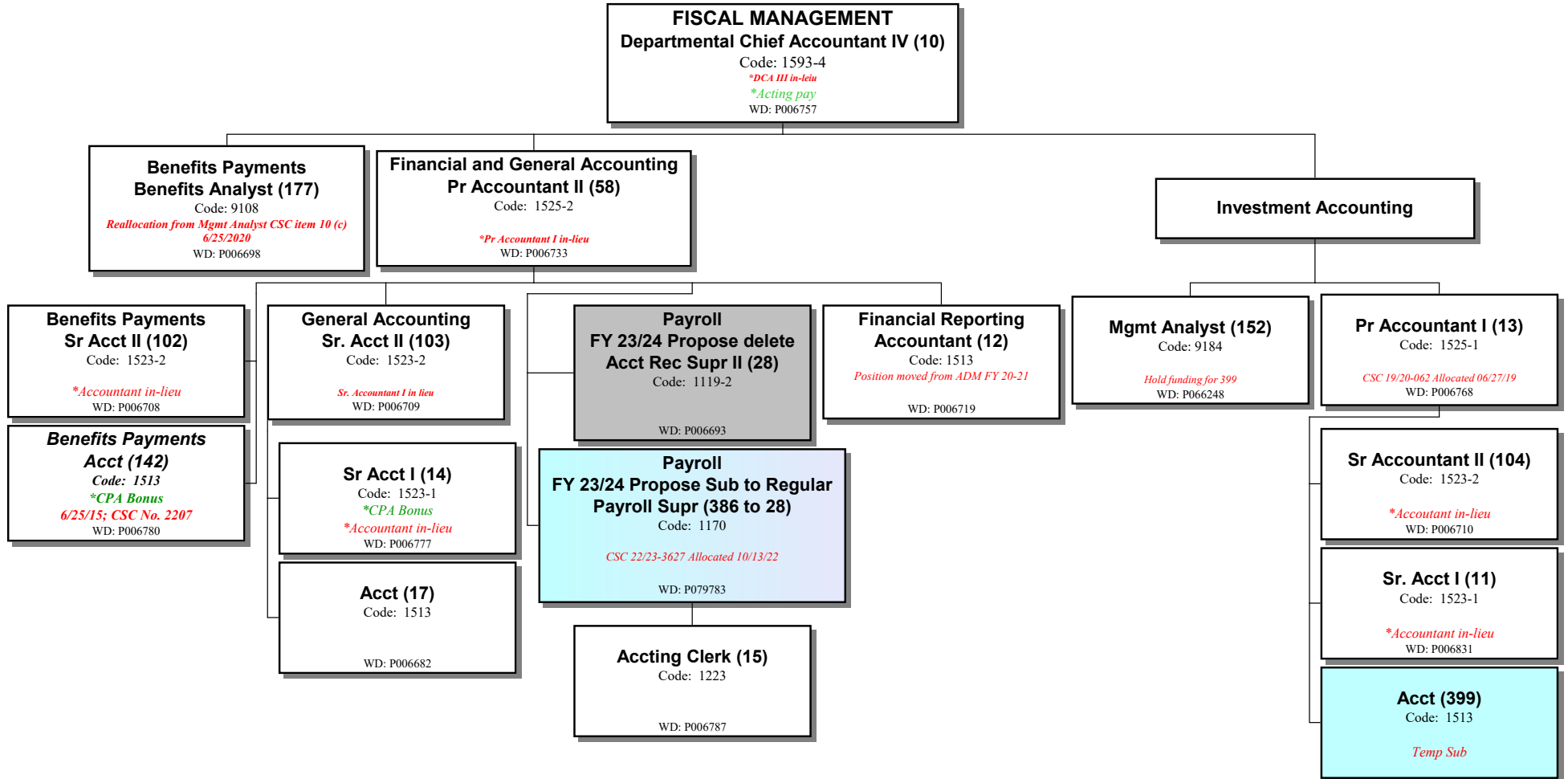
**DATA OFFICE**  
**Fiscal Systems Specialist II (98)**  
Code: 1555-2  
  
WD: P006902

**FY 23-24 Propose New Sub  
Systems Analyst (389)**  
Code: 1596

# LACERS

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**SYSTEMS OPERATIONS SUPPORT**  
**Sr Benefits Analyst II (150)**  
Code: 9109-2  
*Reallocation from Sr Mgmt Analyst II CSC item 10 (c) 6/25/2020*  
WD: P006788

**Sr Benefits Analyst I (166)**  
Code: 9109-1  
*Reallocation from Mgmt Analyst CSC item 10 (c) 6/25/2020*  
WD: P006678

**Benefits Analyst (80)**  
Code: 9108  
*Move from AMA&MSU to SOS FY21-22*  
WD: P006758

# LACERS

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**SYSTEMS**  
**Information Systems Manager II (69)**  
 Code: 1409-2  
 WD: P006745

**CYBER SECURITY**  
 FY 23-24 Propose new Regular  
**Sr. Cybersecurity Analyst II (188)**  
 Code: 1445-2

**Network & Data Support**  
**Sys Programmer III (139)**  
 1455-3  
 WD: P006776

**Application Development Unit**

**Application Support**

**Systems Programmer II (183)**  
 Code: 1455-2  
*CSC 22/23-183 Allocated on 8/11/2022*  
*Unfunded*

**Systems Programmer II (132)**  
 Code: 1455-2  
 WD: P006771

**Systems Programmer I (135)**  
 Code: 1455-1  
*CSC 22/23-181 Allocated 7/28/2022*  
 WD: P076591

**Programmer/Analyst V (100)**  
 Code: 1431-5  
*\*Programmer/Analyst IV In-lieu*  
 WD: P006706

**Sr Sys Analyst II (133)**  
 Code: 1597-2  
 WD: P006772

**FY 23-24 Propose new sub**  
**Cybersecurity Analyst II (505)**  
 Code: 1444-2  
*Unfunded*

**Programmer/Analyst III (134)**  
 Code: 1431-3  
 WD: P066245

**Sr Sys Analyst I (131)**  
 Code: 1597-1  
 WD: P006770

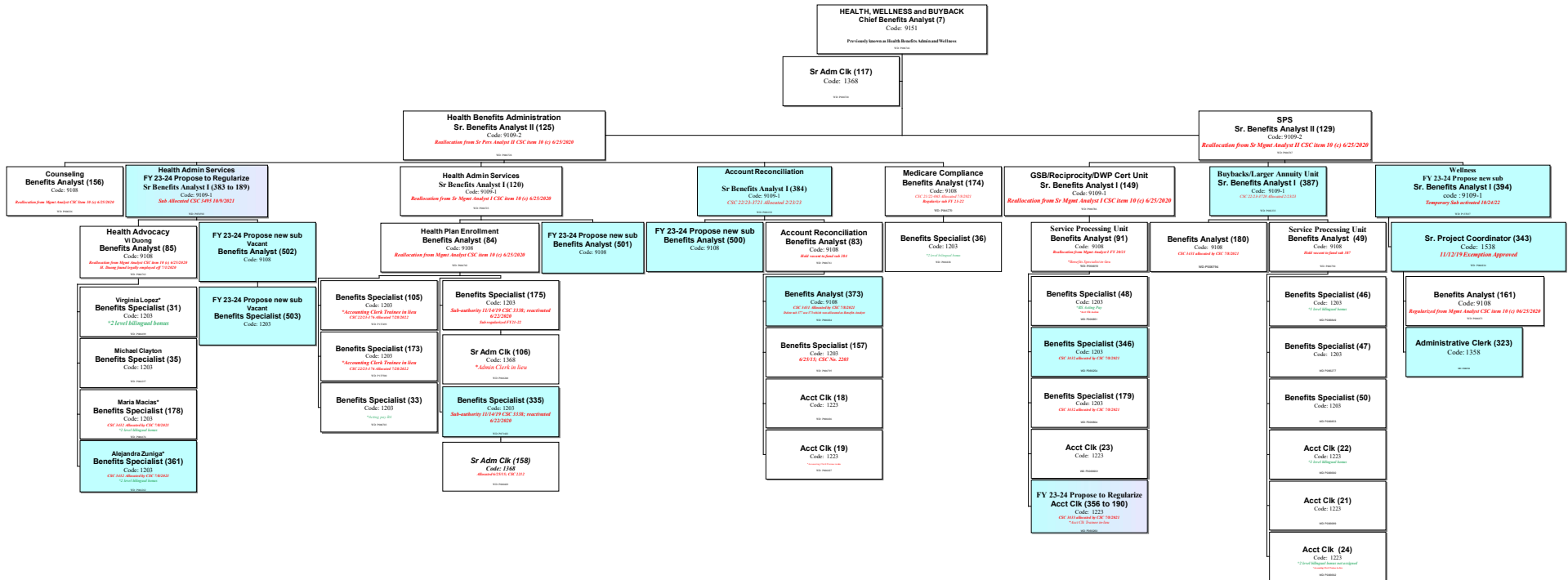
**Programmer/Analyst III (138)**  
 Code: 1431-3  
*CSC 17/18-140 Allocated 7/13/17*  
*Hold vacant to find sub 382*  
 WD: P066246

**Sys Analyst (137)**  
 Code: 1596  
 WD: P006775

**Sys Analyst (136)**  
 Code: 1596  
 WD: P006774

# LACERS CONCEPTUAL ORGANIZATIONAL CHART FY 2023/2024

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# LACERS

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**Communications & Stakeholder Relations**  
**Chief Benefits Analyst (393 to 191)**  
Code: 9151  
*Sub CSC 22/23 3642 Allocated 10/27/2022*  
*\*2 level bilingual bonus*  
WD: 141703

**FY 23-24 move from Member Services to...**  
**MEMBER SERVICES**  
**Sr Benefits Analyst II (126)**  
Code: 9109-2  
*Reallocation from Sr Mgmt Analyst II CSC item 10 (c) 6/25/2020*  
WD: P006729

**Development & Marketing**  
**Development and Marketing Director (392)**  
Code: 1806  
*Temp Sub auth 9/19/2022 by LACERS GM*  
WD: P140148

**Member Engagement**  
**Sr Benefits Analyst I (121)**  
Code: 9109-1  
*Reallocation from Sr Mgmt Analyst I CSC item 10 (c) CSC 6/25/20*  
WD: P006724

**Member Service Center**  
**Sr Benefits Analyst I (176)**  
Code: 9109-1  
New Regular FY21-22  
*\*Acting Pay*  
WD: P076590

**FY 23-24 Move from Executive Liaison to CSRD**  
**Public Information Director (101)**  
Code: 1800-1  
WD: P006707

**Benefits Analyst (99)**  
Code: 9108  
*Reallocation from Mgmt Analyst CSC item 10 (c) CSC 6/25/20*  
WD: P006903

**Benefits Analyst (34)**  
Code: 9108  
*CSC 20/21-43 Allocated 06/25/2020*  
WD: P006833

**Benefits Analyst (86)**  
Code: 9108  
*\*2 level bilingual bonus*  
*Reallocation from Mgmt Analyst CSC item 10 (c) CSC 6/25/20*  
WD: P006764

**Benefits Analyst (77)**  
Code: 9108  
*Reallocation from Mgmt Analyst CSC item 10 (c) CSC 6/25/20*  
WD: P006754

**Sr Adm Clk (107)**  
Code: 1368  
*\*Admin Clk in-lieu*  
*2 level MSC bonus*  
WD: P066286

**Sr Adm Clk (108)**  
Code: 1368  
*\*2 level bilingual bonus*  
*2 level MSC bonus*  
WD: P006711

**Benefits Specialist (154)**  
Code: 1203  
*Allocated 9/13/18; CSC 3034*  
WD: P066249

**Sr Adm Clerk (153)**  
Code: 1368  
*\*Admin Clerk in-lieu*  
*CSC 19/20-063 Allocated 06/27/19*  
WD: P006791

**Benefits Analyst (353)**  
Code: 9108  
*Sub CSC 3431 Allocated 7/8/2021*  
WD: P006792

**Sr Adm Clk (109)**  
Code: 1368  
*\*Admin Clk in-lieu*  
*2 level MSC bonus*  
WD: P066242

**Sr Adm Clk (110)**  
Code: 1368  
*\*Adm Clk in-lieu*  
*\*2 level bilingual bonus*  
*2 level MSC bonus*  
WD: P006714

**FY 23-24 Propose New Regular**  
**Sr Adm Clk (193)**  
Code: 1368

**FY 23-24 Propose New Regular**  
**Benefits Analyst (192)**  
Code: 9108

**Sr Adm Clk (111)**  
Code: 1368  
*2 level MSC bonus*  
*\*2 level bilingual bonus*  
WD: P006713

**Sr Adm Clk (112)**  
Code: 1368  
*\*Adm Clk in-lieu*  
*2 level MSC bonus*  
WD: P006715

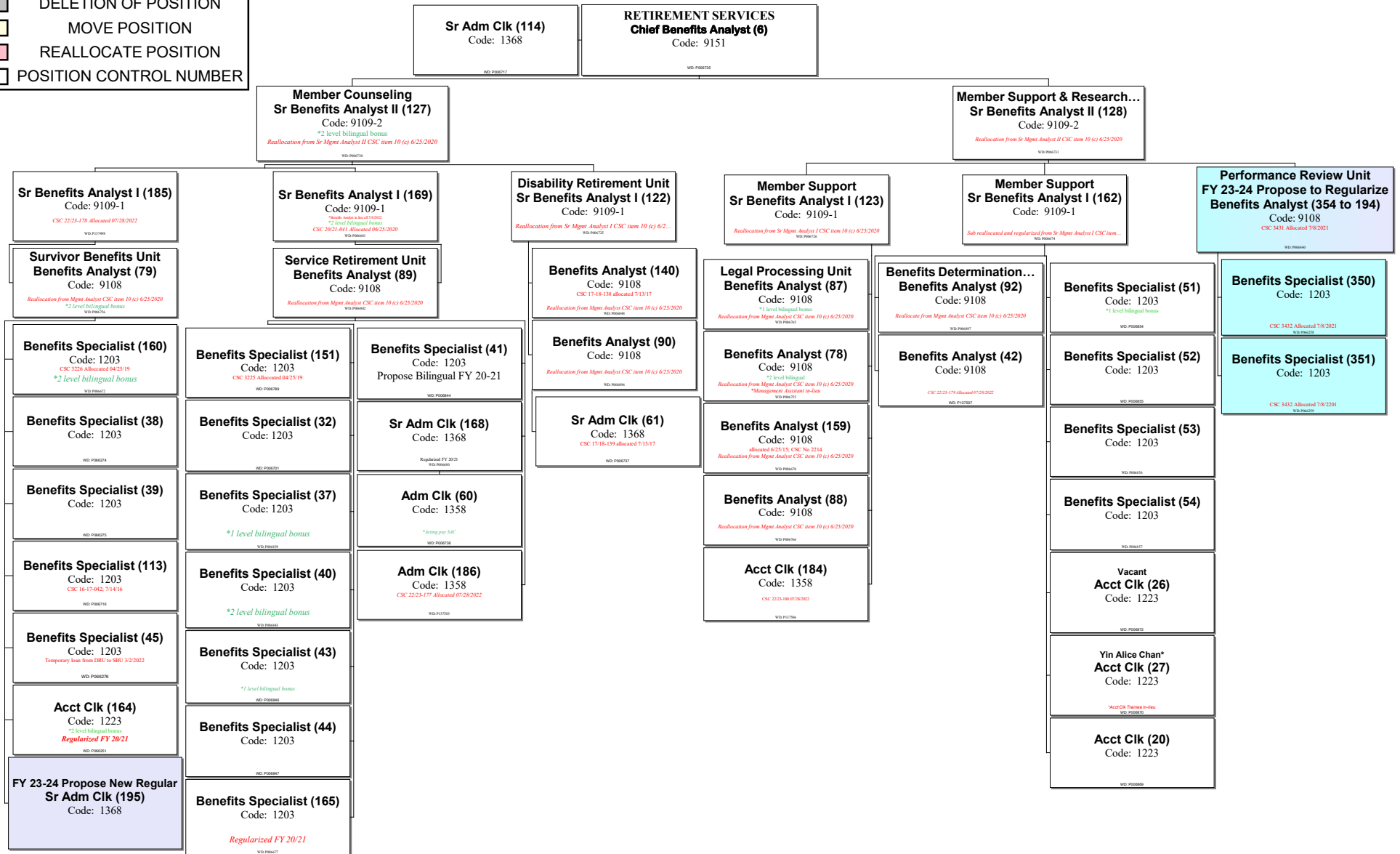
**Adm Clk (59)**  
Code: 1358  
*2 level MSC bonus*  
WD: P006734

**Adm Clk (147)**  
Code: 1358  
*2 level MSC bonus*  
*CSC 18/19-252 Allocated 07/12/18*  
WD: P006784

# LACERS

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LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

PROPOSED RESOLUTION

DELEGATION OF AUTHORITY TO THE GENERAL MANAGER  
TO APPROVE TRANSFERS BETWEEN APPROPRIATION ACCOUNTS  
FOR FISCAL YEAR 2023-24

WHEREAS, the Fiscal Year 2023-24 Budget aims to limit budget overages and appropriations are conservatively budgeted, greater flexibility to move funds between appropriation accounts will help manage expenditures within budgeted funds;

WHEREAS, Charter Section 343(b) and Administrative Code Section 5.36, provides authority to the head of the department, the LACERS Board of Administration, to transfer between budget appropriation accounts, within limits prescribed by the City Administrative Officer, the most current at \$63,888 in 2022-23;

WHEREAS, on May 23, 2023, the Board has approved the 2023-24 Budget and desires that the General Manager have the flexibility to move funds between appropriation accounts in order to meet priorities in the most efficient and timely manner;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby delegates authority to the General Manager to transfer between budget appropriation accounts not to exceed the City thresholds.

May 23, 2023

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

PROPOSED RESOLUTION

AUTHORIZATION FOR  
DEPARTMENTAL EXEMPLARY STAFF RECOGNITION PROGRAM  
FISCAL YEAR 2023-24

WHEREAS, on March 11, 2003, the Board established a departmental Exemplary Staff Recognition Program to provide a framework for team building and recognition throughout the Department;

WHEREAS, the Board continues the program in order to recognize employees for their efforts, and to identify role models who communicate the standards established through our guiding principles, inclusive in promoting teambuilding, employee engagement, and motivational activities;

WHEREAS, funds for program-related expenditures during the 2023-24 Fiscal Year have been included in the FY 2023-24 Departmental budget in order to continue the program; and

WHEREAS, the Controller's Office requires an annual Board Resolution confirming the establishment of the program in order to process future payments of related expenses;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby confirms the permanent establishment of the LACERS Exemplary Staff Recognition Program, and authorizes program-related expenditures for Fiscal Year 2023-24 not to exceed \$5,000.

May 23, 2023

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

PROPOSED RESOLUTION

AUTHORIZATION FOR  
LACERS DEPARTMENTAL PARKING PROGRAM  
FISCAL YEAR 2023-24

WHEREAS, on November 8, 2022, the Board established a Departmental Parking Program for full-time LACERS staff, which provides complimentary parking at LACERS Headquarters Building at 977 N. Broadway, Los Angeles, CA 90012 and adjacent parking;

WHEREAS, in consultation with City Attorney, the LACERS Board has the authority to determine whether or not it is prudent to provide complimentary parking for employees at LACERS Headquarters Building and, if it decides to do so, to set rates for parking at the Headquarters Building;

WHEREAS, the organizational benefits of complimentary parking are applicable to not only LACERS full-time staff, but also part-time staff and Public Pensions General Counsel staff, and thus complimentary parking is proposed to be extended to include all of these aforementioned groups;

WHEREAS, funds for program-related expenditures during the 2023-24 Fiscal Year have been included in the Departmental budget under the Property Management - Operations expense budget in order to continue the program;

WHEREAS, the demand for parking exceeds supply at LACERS Headquarters Building, additional parking can be obtained by entering into a contract with a nearby parking lot in Chinatown at a monthly rate of \$80 per parking spot as well as an allowance for individual daily rate parking validations as needed;

WHEREAS, providing complimentary parking to all LACERS and Public Pensions General Counsel employees at LACERS Headquarters still represents savings of \$128,558 versus the expenses generated from the parking at LA Times;

NOW, THEREFORE, BE IT RESOLVED, that the Board:

1. Hereby confirms the establishment of the LACERS Departmental Parking Program, and authorizes program-related expenditures for Fiscal Year 2023-24 not to exceed \$30,000.
2. Authorize the General Manager to work with the property management firm for the LACERS Headquarters Building to rent up to 30 parking spots annually and/or enter into an agreement for validated parking in the Chinatown area; and,
3. Authorize the General Manager to negotiate and execute any contracts required to implement the parking program.

May 23, 2023



LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

PROPOSED RESOLUTION

AUTHORIZATION FOR  
DEPARTMENTAL TRANSIT SUBSIDY REIMBURSEMENT PROGRAM  
FISCAL YEAR 2023-24

WHEREAS, on May 23, 2023, the Board authorizes implementation of a Departmental Transit Subsidy Reimbursement Program for eligible LACERS staff, which provides a subsidy of up to \$50 a month to LACERS staff who commute from home to work via public transit (bus, train, or rail) or by walking or biking;

WHEREAS, LACERS relocation to 977 N. Broadway may move LACERS outside of the City's Parking Memorandum of Understanding which sets forth the terms and conditions of the City's employee transportation benefits;

WHEREAS, per the Special Parking MOU, employees are only allowed one transportation or parking benefit at a time from the City;

WHEREAS, participation in the LACERS Departmental Transit Subsidy Reimbursement Program precludes an employee from participating in the LACERS Departmental Parking Program;

WHEREAS, funds for program-related expenditures during the 2023-24 Fiscal Year have been included in the 2023-24 Departmental budget in order to establish this program;

WHEREAS, eligible LACERS staff are required to submit documentation and valid proof(s) of purchases or commute method within specified time frames; and,

WHEREAS, LACERS proposes that reimbursement of transit costs would be an incentive that could not only help to retain LACERS staff but could also attract other City employees who work in and around the Civic Center;

NOW, THEREFORE, BE IT RESOLVED, that the Board:

1. Hereby confirms the establishment of the LACERS Transit Subsidy Reimbursement Program, and authorizes program-related expenditures for Fiscal Year 2023-24 not to exceed \$12,000;
2. Authorize the General Manager to establish the program requirements, policies and procedures as necessary within the framework of this authorizing Resolution; and,
3. Authorize the General Manager to negotiate and execute any contracts or agreements required to implement the Transit Subsidy Reimbursement Program.

May 23, 2023



ASSET SERVICING

# A review of Northern Trust services to LACERS

PRESENTED BY:

**Gary Guibert**  
Senior Vice President  
Public Funds, Asset-owners, America

May 23, 2023

NORTHERN TRUST

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# Overview of Northern Trust

## Outstanding Financial Strength and Stability

Well-positioned for continued investment in our business, across all market cycles

### STRONG CAPITAL POSITION

Northern Trust Corporation Capital Ratios	1Q23	Minimum Capital Ratios
<b>Advanced Approach</b>		
Common Equity Tier 1	11.7%	7.0% <sup>1</sup>
Tier 1	12.7%	6.0%
Total	14.7%	8.0%
Tier 1 Leverage	7.3%	4.0%
Supplementary Leverage	8.3%	3.0%
<b>Standardized Approach</b>		
Common Equity Tier 1	11.3%	7.0%
Tier 1	12.3%	6.0%
Total	14.5%	8.0%
Tier 1 Leverage	7.3%	4.0%

### SUPERIOR CREDIT RATINGS

	Standard & Poor's	Moody's	Fitch Ratings	DBRS
<b>Northern Trust Corporation</b>				
Short-Term/Commercial Paper	A-1	No Rating <sup>2</sup>	F1+	R-1 (middle)
Long-Term/Senior Debt	A+	A2	A+	AA (low)
<b>The Northern Trust Company</b>				
Short-Term/Deposits	A-1+	P-1	F1+	R-1 (high)
Long-Term/Deposits	AA-	Aa2	AA	AA

Standard & Poor's assigned the highest credit ratings of any comparable U.S.-based bank to our Corporation and main bank subsidiary, The Northern Trust Company.

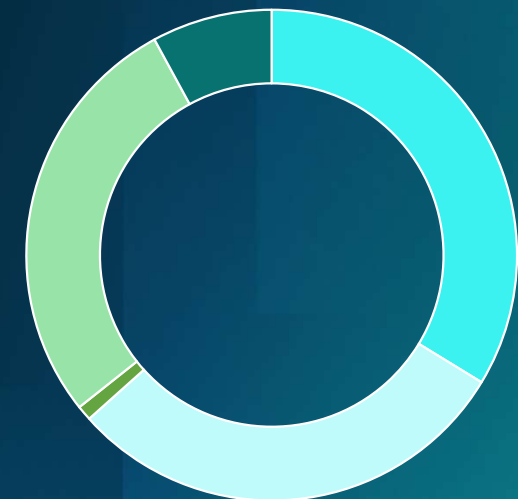
All figures as of March 31, 2023. Capital ratios are preliminary until regulatory reports have been filed.

<sup>1</sup>Stress Capital Buffer requirement of 2.5%; resulting in minimum Common Equity Tier 1 requirement of 7%.

<sup>2</sup>Rating removed as of September 16, 2016, as Northern Trust does not have an active Commercial Paper Program.

## HIGH QUALITY BALANCE SHEET


Balance sheet is highly liquid and low risk



- Securities 33%
- Money Market Assets 30%
- Other Interest-Earning Assets 1%
- Loans & Leases 28%
- Other 8%

## Enhanced Regulatory Oversight

Federal Reserve regulations impose the most stringent requirements on the largest and most complex banks, including Northern Trust.

		Large and/or Internationally Active Banks (Federal Reserve Categories I and II <sup>1</sup> )	Mid-size Banks (Categories III and IV)	Smaller Banks (Generally < \$100B in Total Assets)
Capital	Advanced measurement approach	✓	✗	✗
	No opt-out of AOCI impact	✓	✗	✗
	Annual capital plans	✓	✓	✗
	Annual stress tests	✓	Limited <sup>2</sup>	✗
	Supplementary leverage ratio	✓	Limited <sup>2</sup>	✗
Liquidity	Full daily liquidity coverage ratio	✓	Limited <sup>2</sup>	✗
	Daily reporting	✓	Limited <sup>2</sup>	✗
	Liquidity stress tests	✓	✓	✗
				

Note: This list is focused on key requirements only and is not an exhaustive list of requirements or the differences in requirements across categories.

<sup>1</sup> Categories as defined in the US Federal Reserve tailoring rules, where Northern Trust is currently categorized as a Category II bank and subject to most of the same requirements as Category I (G-SIB) banks; Northern Trust is also subject to enhanced oversight by non-US regulators in other jurisdictions in which we operate due to our business profile in those markets. For example, Northern Trust is considered to be a Category 1 institution by the UK PRA and our London branch is designated as a systemically important firm.

<sup>2</sup> Some requirements apply to only a subset of banks within these categories based on certain characteristics.

## Client-centric, Focused Business Model

Asset servicing, asset management and banking for personal and institutional clients, supported by our integrated operating platform



### INSTITUTIONAL CLIENTS

- Insurance companies
- Pensions
- Sovereign entities
- Fund managers
- Foundations and endowments

### WEALTH MANAGEMENT

- Individuals
- Families
- Family offices
- Foundation
- Endowments
- Privately held businesses

Figures as of March 31, 2023 (in U.S. Dollars, rounded to the nearest dollar). Source: Northern Trust

\$14.2T

UNDER CUSTODY / ADMINISTRATION

\$11.0T

UNDER CUSTODY

\$1.3T

UNDER MANAGEMENT

26

LOCATIONS

## Asset Servicing Sector

2,600+

CLIENTS

53

CLIENT COUNTRIES

\$10.1T

ASSETS UNDER CUSTODY

\$962B

ASSETS UNDER MANAGEMENT

### MARKET-LEADING SOLUTIONS:

#### Global Custody

- Asset servicing
- Alternative assets
- Audited accounting
- Tax reclamation

#### Fund Services

- Cross-border pooling
- Fund administration
- Retirement solutions
- Trustee & depository

#### Data Solutions

- Compliance analytics
- Middle office solutions
- Performance and risk
- Regulatory solutions

#### Capital Markets

- Brokerage and execution
- Foreign exchange
- Securities lending
- Transition management

#### Banking Services

- Credit facilities
- Cash funds
- Cash management
- Treasury management

### DIFFERENTIATED BY OUR:



Service



Expertise



Integrity



Technology



Focus



Solutions

## Global Coverage, Local Expertise

100

MARKETS WITH SERVICES

53

CLIENT COUNTRIES

24K+

FULL-TIME STAFF WORLDWIDE

26

GLOBAL LOCATIONS

25

OFFICES IN U.S. STATES & DC





## Community, Diversity and Sustainability



In 2021, Northern Trust made charitable contributions of \$18 million, bringing our **total giving over the past decade to \$160 million globally.**



Over the past 10 years, our employees have contributed **nearly a million cumulative hours of volunteer service.**



Northern Trust's vision for DE&I is embedded at all levels of the organization-starting at the top, **with women and ethnic minorities representing 58% of our board of directors, and as well as 51% of our U.S. senior vice president and above population.**



Northern Trust has created a DE&I dashboard to assess our outcomes quarterly on hiring, retention and promotion. Our senior leaders use this dashboard to report progress to senior management.



Northern Trust has reduced **its carbon emissions per partner by 69%** since 2015, and reduced energy consumption by more than 46%. Northern Trust has made a commitment to be **net-zero carbon by 2050.**

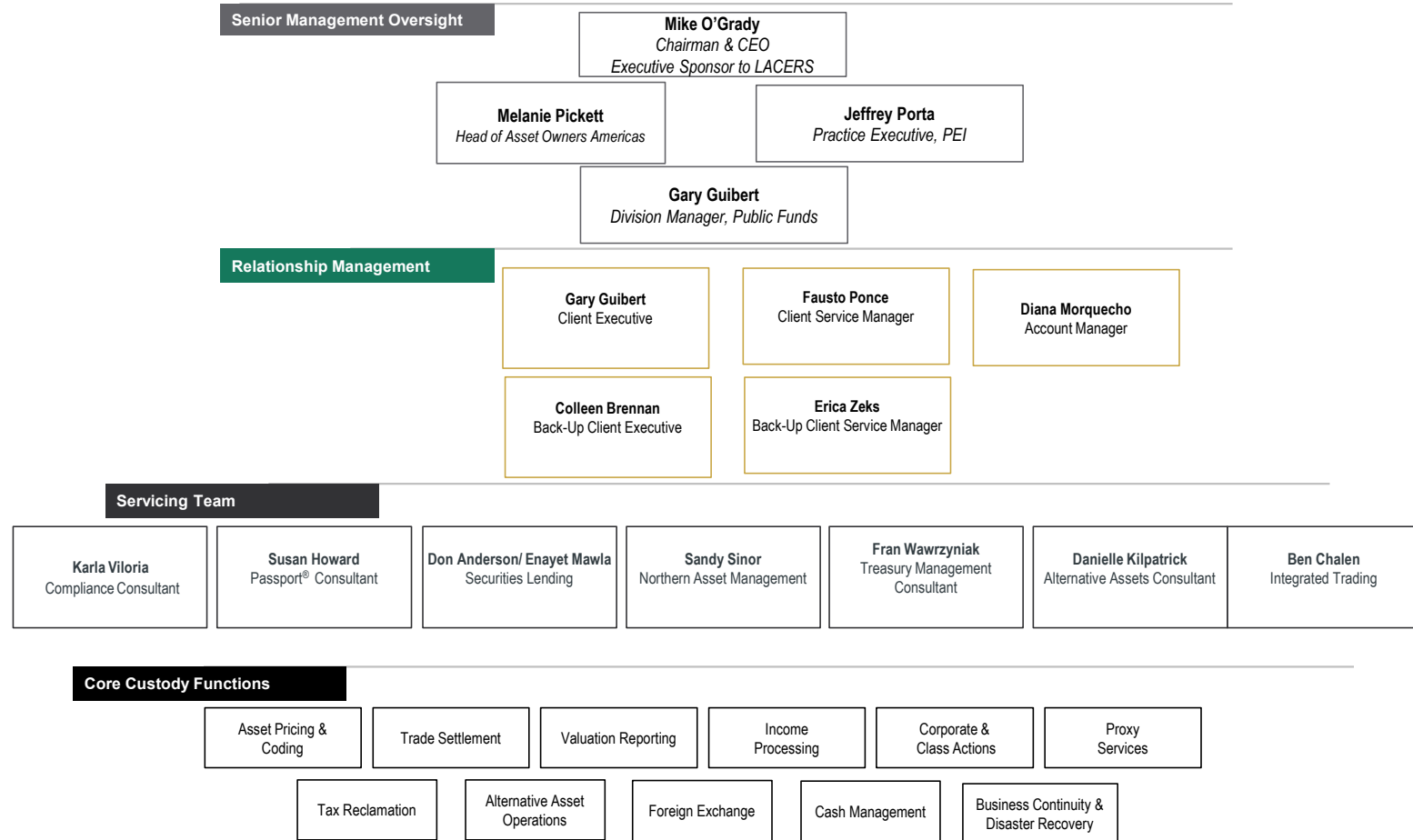
ASSET SERVICES

---

# Service-team model for LACERS

# Client Servicing Team

## LACERS



## Public Funds Focus

1987

YEAR ESTABLISHED

30%

OF TOP 100 U.S. PUBLIC PLANS

201

CLIENTS

\$1.3T

AUC



### Client Servicing

26

CLIENT SERVICING PROFESSIONALS

27%

INCREASE IN SERVICING STAFF OVER LAST 2 YEARS

18 YRS

AVERAGE RELATIONSHIP MANAGEMENT EXPERIENCE

13 YRS

AVERAGE TENURE WITH NORTHERN TRUST



### Client Gains and Losses

CLIENTS GAINED

CLIENTS LOST

2020/21

9

2020/21

1

2015 – 2019

41

2015 – 2019

2



### Asset Servicing Focus

76%

DERIVED 76% OF TOTAL REVENUE FROM FEE-BASED, NON-INTEREST ACTIVITIES RELATED TO ASSET SERVICING



### Technology

\$3.2B

2019-2021: ACTUAL SPEND USD

\$4.3B

2022-2024: ESTIMATED BUDGET USD

ASSET SERVICES

---

# Core services to LACERS

## Core custody services



### Global trade settlements & Network Management

- Interface with all appointed asset managers
- Secure trade settlement



### Income Collection

- Monitoring cash activity
- Continual reconciliation
- Distribution of income proceeds



### Corporate Actions

- Data scrubbing from ex-date
- Timely electronic notification
- Continual updates



### Accounting & Reporting

Monthly accounting audit of net asset values and annual delivery of :

- GASB 28 - Northern Trust suite of Securities Lending reports
- GASB 40 - Northern Trust suite of Risk reports
- GASB 67 – “Money Weighted Rate of Return” analysis (Northern Trust IRAS solution)/Statement of Changes in Net Assets)
- **GASB 72 - Comprehensive Fair Value tool kit**



### Class Actions

Northern Trust handles three primary functions:

Tracking of settled lawsuits and client notification

Filing of claims

Posting of disbursements to client portfolios

## Global Instructions and Settlements

A rigorous, risk-controlled life cycle process that delivers timely settlement of market transactions.

### Expertise

- Dedicated teams within our global operating hubs covers all asset types, including derivatives and more complex asset types
- Global operating model provides 24-hour service coverage
- Specialist teams reviewing market improvements enable adaption of services as markets evolve

### Enablement via Dashboards

- Settlement Monitor, provides timely, insightful data to enhance the monitoring of intraday security settlements - pending, partially settled, partially failed, failed, canceled, and settled
- Custody KPIs, provides enhanced transparency into STP and settlements to enhance monitoring - settlement instructions, settlements, corporate actions, income, and tax reclaims

### Life Cycle Management



## Income Collections

Northern Trust provides a timely process of recording, monitoring and collecting dividends and interest due to client accounts.

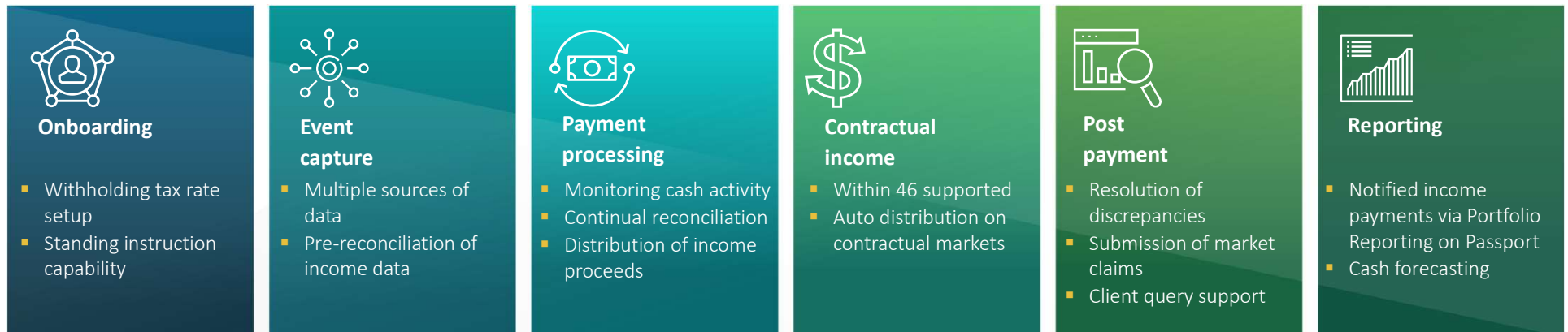
### Expertise

- Specialized income collections teams
- Global operating model with working hours aligned with regions supported
- Market advocacy
- Market update insights e.g., Atlas Market Interactive

### Enablement

- 90% of income paid contractually
- FX conversion of contractual income (Automated Income Sweep)
- Forecasted activity up to 99 Days into the future

### Life Cycle Management





## Corporate Actions

Northern Trust provides a rigorously controlled and risk focused service throughout the life cycle of a Corporate Action event.

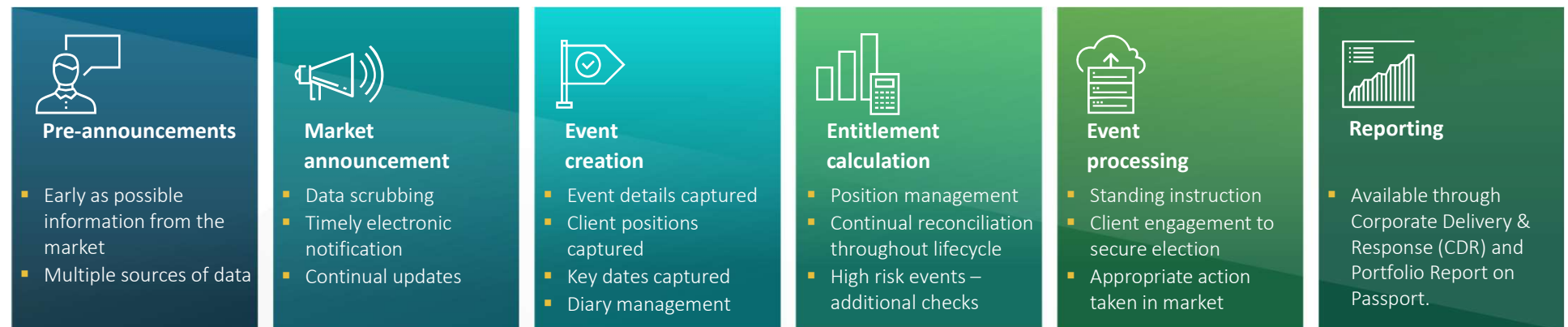
### Expertise

- Global Operating Model with specialist teams in Chicago, London, Bangalore, Manila and Melbourne
- Market advocacy via industry associations (e.g., AFME)
- Market updates insights e.g., Atlas Market Interactive
- 80,000+ events processed annually across 100+ markets

### Enablement

- Extensive information sources to capture global corporate actions data
- Facilitating information via on-line notification & response portal, Corporate Delivery & Response (CDR) and SWIFT
- Notification within 24 Hours of NT receiving information from the market
- Zero Tolerance Policy on investment decisions

### Life Cycle Management



## Tax Services

Northern Trust's tax services provide optimized relief and tax compliance while navigating regulatory complexity and market change.

### Expertise

- Explanation of complex tax requirements
- Dedicated framework for tax transparent funds
- Industry collaboration and proactive market advocacy
- Market and regulatory insights e.g., Atlas Market Interactive, newsletters
- Investor tax profiles to illustrate tax opportunities

### Enablement

- Application of optimal withholding tax rates
- Reduced client burden through tax Power of Attorney
- Tracking and reporting of withholding tax reclaims
- Support with Capital Gains & Financial Transactions Taxes
- Designated tax contacts across multiple time zones

### Optimized Relief

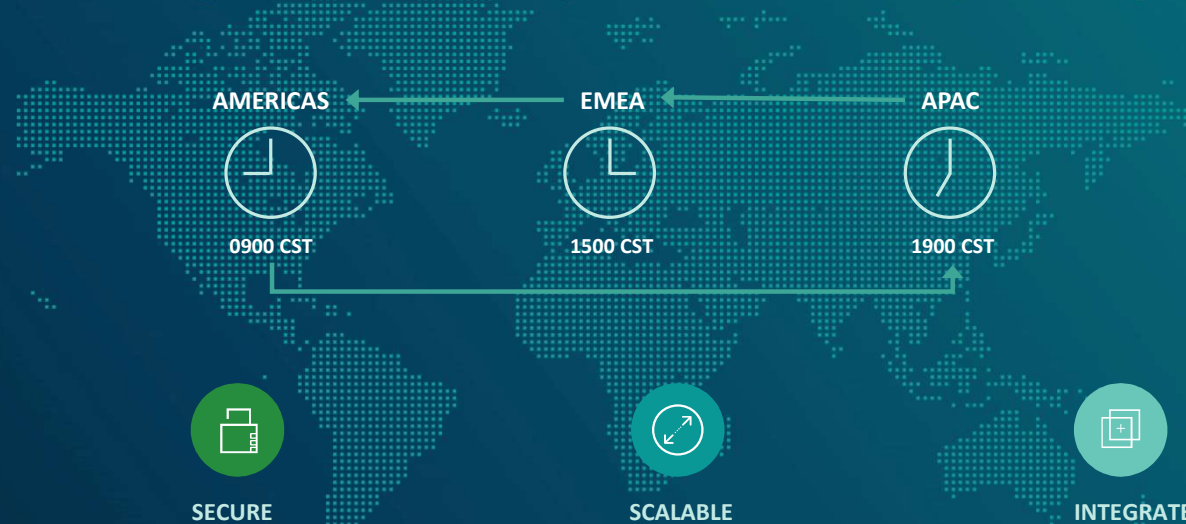
- Monitoring & verification of tax market changes
- Integrated tax operating models and risk framework
- Engagement with tax authorities and industry bodies
- FATCA, CRS, and information exchange compliance & services
- Application of complex rules e.g., US 1441, FATCA

### Life Cycle Management



# Operating Model

Global consistency, shared data and integration of technologies help LACERS access data easily and securely from a core platform.



## GLOBAL

- “Pass the book” operating model for data and asset processing
- Data managed centrally and accessed globally
- Consistent, accurate data across geographies and services



## SECURE

- Data protected with extensive cyber security
- Big data and cloud tools help detect threats
- Extensive business continuity and disaster recovery programs



## SCALABLE

- Technology leveraged more easily across regions / client types
- Distributed processing and cloud technologies offer scale
- Balancing volume and capacity with adaptability

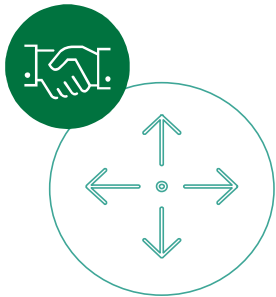


## INTEGRATED

- Northern Trust Passport™ as a single point of access
- Connectivity / integration with client side systems (e.g., data feeds)
- User-friendly and flexible tools for data management and analysis

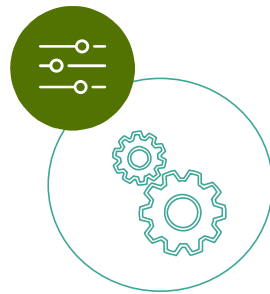
## Accounting & Reporting

**Client Valuation Reporting (CVR)** supports the accounting and reporting needs for Northern Trust business units. Our goal is to provide consistent, accurate, and timely information with a consultative approach.



### CONNECT

CVR works with internal and external partners as the client facing center to deliver complete and accurate information



### PROCESS

CVR's process allows for independent segregation of duties by auditing data supplied from our Operations partner areas



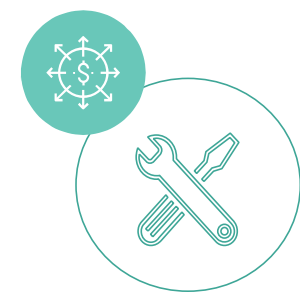
### AUDIT

ORA has horizontal reviews to ensure clean data for clients; and CRA has vertical responsibilities, servicing clients, providing final reviews, approvals, and release of data



### QUALITY

Quality Assurance team provides additional internal audit support to maintain consistent quality standards and metrics

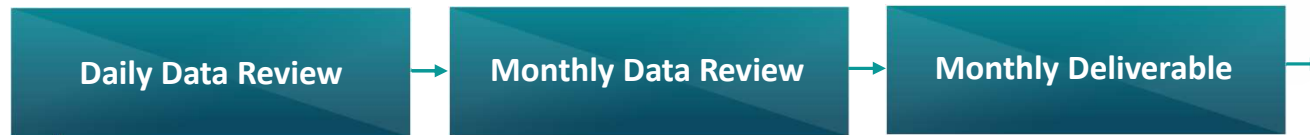


### DESIGN

Using a global service model and a single common operating platform allows teams to share resources and meet tight deadlines

## CVR Data Review Process Flow

### TIGHTLY CONTROLLED PROCESS:



#### BEGINNING OF DAY

- Rate of Return (ROR) review using iTool
- Research ROR anomalies and send inquiry
- Inform Client Service partners
- Red Flag Report. Generates overnight, automatically sent to all levels of CVR organization for maximum oversight

#### MID-DAY

- Review accounting data using automated web exception tools
- Over 150 exceptions programmed including:
  - Pricing, Trade, Income & Corp Actions, Cash & Exchange Rate

#### END OF DAY

- Status updates to operations and client servicing partners
- Store audit work copies/checklists electronically on SharePoint (web)
- Pass the book to other regions to resolve outstanding issues

### MULTIPLE CHECKPOINTS:



## Accounting & Reporting: Year-end reporting and Fair Value Reporting



### Year-end Reporting Process

- Participate in annual audit planning meetings
- Assist clients on audit inquiries
- Assist clients on GASB disclosures and Northern Trust's related tools
- GASB Support Coordination
- Hold Client Roundtables twice a year with a focus on product development and Accounting Guidance – what's new with GASB



### GASB Reporting & Fair Value GASB 72

- GASB 28 - Northern Trust suite of Securities Lending reports
- GASB 40 - Northern Trust suite of Risk reports
- GASB 53 - Northern Trust suite of Derivatives reports
- GASB 67 – “Money Weighted Rate of Return” analysis (Northern Trust IRAS solution)/Statement of Changes in Fiduciary Net Assets
- GASB 72 - Comprehensive Fair Value tool kit

EVOLUTION OF SERVICES

---

# Future state of core services



# Global Custody Journey: Co-existence of both Digital and Electronic Ecosystems

A complex industry that will shift significantly to digital by 2030.

## ELECTRONIC INDUSTRY

- Safekeeping
- Oversight of sub-custody
- Process intensive operations
- Electronic assets
- SWIFT, online, fax
- Email / phone client query management
- Retrospective reporting
- Retrospective audit



## DIGITAL INDUSTRY

- Digital safekeeping
- Direct and expanded market access
- Streamlined operations
- Digital assets
- Self-service and customized service
- Automated client query management
- Real time and predictive reporting
- Real time audit



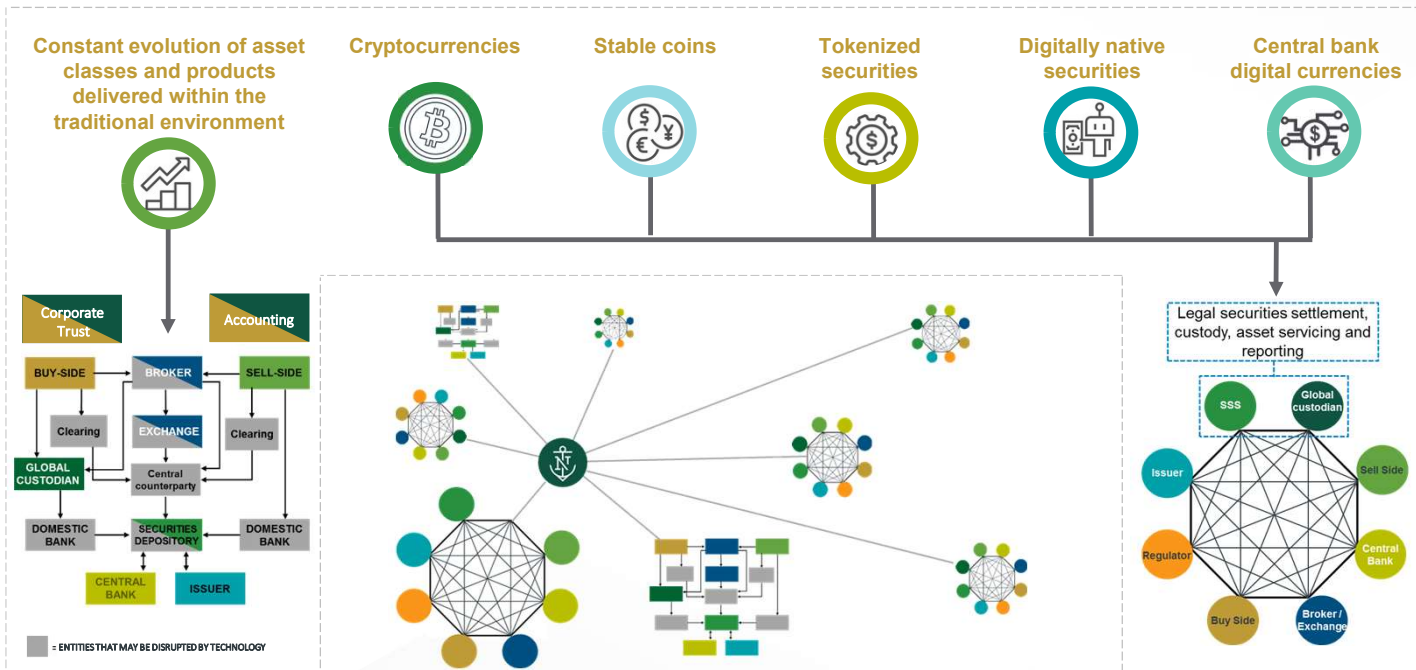
Global Custody Industry

Transformation: People | Process | Platform | Ecosystems = Increased Value

[Custody Re-Imagined: The Outlook for Global Securities Services in 2030](#)



# Evolution of the Securities Services Industry



## INDUSTRY TRANSFORMATION

We are now seeing the emergence of digital marketplaces which will result in an increased number of markets in which we offer our services. Traditional and digital markets will co-exist with new types of solutions, products and technology.

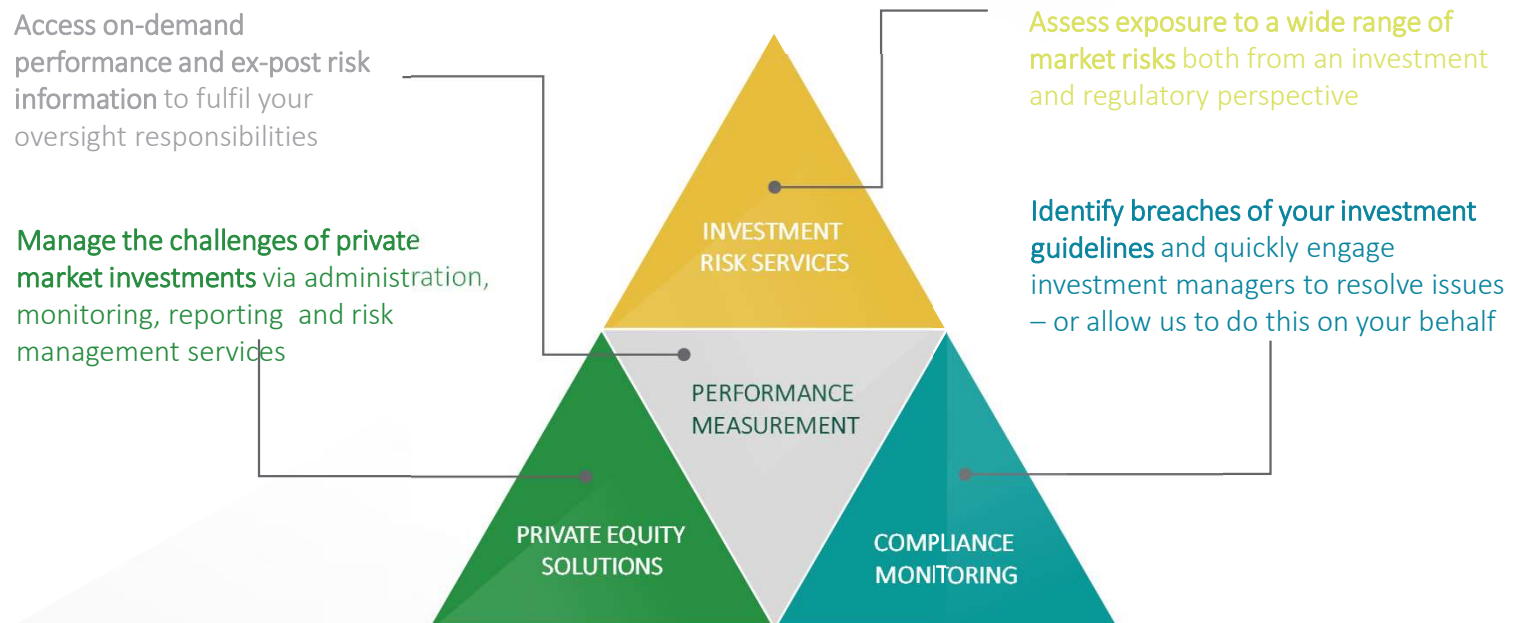


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# Performance Analytics Compliance Monitoring Risk Services

## Investment Risk and Analytical Services (IRAS)

Northern Trust helps you meet demands for greater governance and insight into your investments.



## Performance Measurement

Delivering powerful performance measurement and attribution solutions to enable more informed decision-making.



### LACERS' Requirements

Independent, audited and cost-effective performance analytics



### Performance Measurement Services

Intuitive performance and attribution analysis with dedicated consultative support provides valuable insights into your investments

### Value For You



Powerful calculation engine provides global investment coverage



Proprietary reporting tool provides a flexible, intelligent user experience – all in one place



Independent data underpinned by rigorous control processes



Access information on-demand and produce a suite of reports



Dedicated team of expert consultants located in your region



Direct integration with accounting data

## Investment Compliance Monitoring

Northern Trust uses data to deliver efficiency across your post-trade compliance monitoring program.



### LACERS' Requirements

Monitor, resolve and report on asset managers' adherence to your guidelines



### Compliance Monitoring

Northern Trust helps you exercise control across your post-trade compliance program

### Value For You



Customize your rules and guidelines and outsource breach investigations



Automate your monitoring program and leverage our intuitive workflow tools



Audit and report on your portfolio, including summary board reporting



Resolve your compliance events



Draw on a dedicated global consultant team



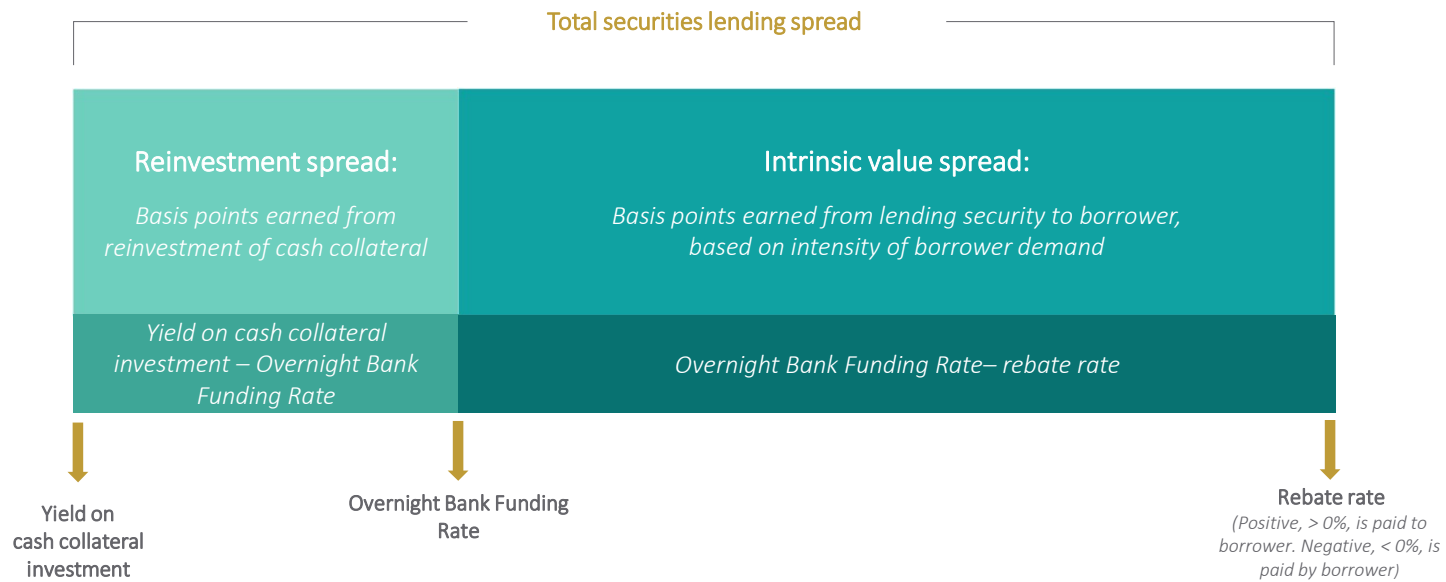
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# Securities Lending

# Securities Lending transaction process



## SECURITIES LENDING INCOME components



$$\begin{aligned} \text{Reinvestment spread} + \text{Intrinsic value spread} &= \text{Total securities lending spread} \\ \text{Total securities lending spread} \times \text{Loan volume} &= \text{Total gross securities lending income} \end{aligned}$$



## How Revenue is Generated

Example: Northern Trust lends \$25 million of US Equity

### Non-Cash Loan

The \$25 million market value loan is for 30 days collateralized by a US Treasury.

1	Receive non-cash collateral valued at \$25,500,000 (102%)	
2	Fee charged to borrower on the value of the loan (20 bps)	\$4,167
3	Gross revenue (gross spread 20 bps) credited to client monthly	\$4,167
4	Monthly lender's fee (@ 30%)	<u>\$(1,250)</u>
5	<b>Net client earnings</b>	<b>\$2,917</b>

### Cash Loan

The \$25 million market value loan is for 30 days collateralized with cash (Overnight Bank Funding Rate at 4.00%)

1	Receive cash collateral valued at \$25,500,000 (102%)	
2	Cash collateral invested in a collateral pool at yield of 4.10%	\$87,125
3	Rebate paid to borrower at rate of 3.80%	\$(80,750)
4	Gross Revenue (gross spread 30 bps)	\$6,375
5	Monthly lender's fee (@ 30%)	<u>\$(1,913)</u>
6	<b>Net client earnings</b>	<b>\$4,462</b>

Gross Spread = Lending Spread + Investment Spread  
Lending Spread = OBFR – Rebate Rate  
Investment Spread = Reinvestment Yield – OBFR

\*Fee split between Lender and Agent referenced in the diagram is for illustrative purposes only. The current agreement entitles Northern Trust to 15% of program revenue, with LACERS earning the residual 85% of program revenue.

# Managing Risk

## Borrower

Borrower defaults and collateral is not sufficient to cover

**Mitigating factors:**

- Credit review of borrowers
- Over-collateralization /Daily marking
- Indemnification
- Risk analysis tools

## Trade Settlement

Fund sells securities and borrower doesn't return in time for trade to settle

**Mitigating Factors:**

- Timely communication
- Automated reallocations
- Trade settlement protection

## Cash Collateral Reinvestment

Cash collateral investment becomes impaired or decreases in value

**Mitigating Factors:**

- Client approved guidelines
- Dedicated team of fixed income research analysis
- Daily automated compliance

## Interest Rate

Loan rebate rate exceeds earnings on cash collateral investments

**Mitigating Factors:**

- Weekly gap analysis
- Shared risk
- Stress testing of portfolio

## Customized to Meet Your Risk and Return Objectives

### *Collateral options tailored to LACERS' risk level*

- Cash: Separately Managed Account
  - Principal preservation, liquidity management, competitive yield
  - Guidelines updated November 2022
  - Managed by Northern Trust Asset Management
- Non-cash: held in a separate account
  - Includes: US Treasuries and Agencies, highly rated OECD debt, major equity indices

### *Reporting*

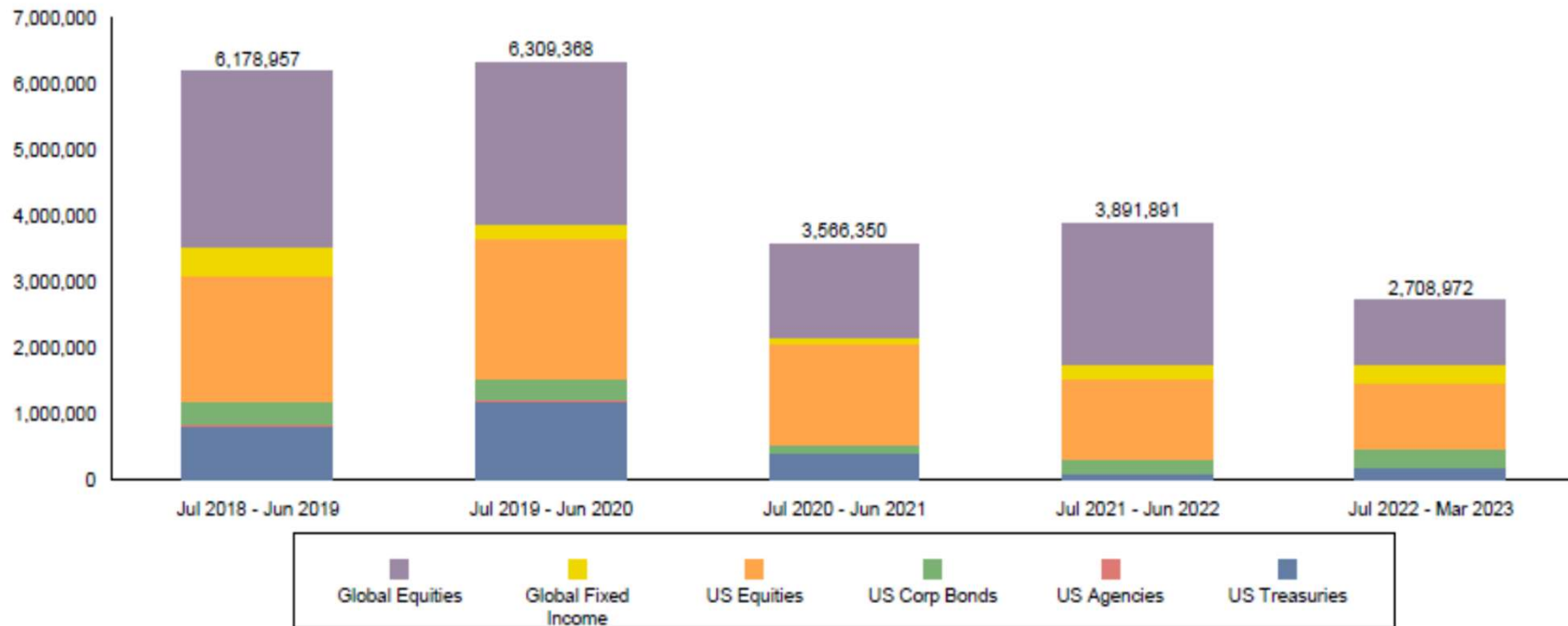
- Quarterly market update calls
- Monthly borrower ratings update
- Annual GASB Reporting

### *Additional Customization Alternatives*

- Asset class, country limits, seasonal restrictions, minimum return parameters
- Borrower-specific caps or restricting certain borrowers from your program entirely

# HISTORICAL EARNINGS SUMMARY

◆ LOS ANGELES CITY EMPLOYEES





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# Integrated Disbursements

## Northern Trust and LACERS

A long-standing partnership and provider of Treasury Management Services

### CURRENT CONFIGURATION:



#### Integrated Disbursement Processing for 2 accounts and payment types:

- Monthly Retiree Benefit Payments
  - ACH payment processing and Advice fulfillment for 22,600 members monthly
  - Check print and fulfillment for 850 members monthly
  - Monthly insert processing
  - Special sort of checks to be sent c/o LACERS
- Extraordinary Payments
  - Check print and fulfillment



#### Tax Payment Account

Electronic debits from tax authorities



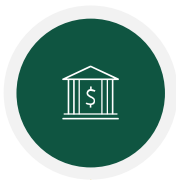
#### Health & Benefit Account

ACH Payment Processing

## Fraud Controls

Account Name	Positive Pay	Payee Verification	Check Block	ACH Debit Block	ACH Debit Authorization	Account Protection
LACERS Benefit Payments	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
LACERS Health & Welfare	N/A	N/A	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>
LACERS Tax Payments	N/A	N/A	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Extraordinary Payments	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>	N/A	<input checked="" type="checkbox"/>

## Where We are Investing



### Controlled disbursements/Treasury Passport

- Multi-year project to provide experience consistent with other Northern Trust Portals
- Increased ease of use with modernized user interface
- New features to increase workflow efficiency
- Phased roll out over 2 years



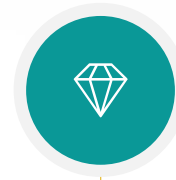
### Receivables Management

- Enhancements to lockbox platform
- Integration of multiple payment channels for seamless reporting and payment posting



### Payments

- Same-day origination and receipt of ACH payments
- ISO20022



### Specialty Services

- Portal for account holders and program sponsors
- Risk management support for unclaimed property needs of program sponsors



### Cyber Security

- Significant investments to enhance online security and harden cyber defense capabilities
- Numerous investments to maintain compliance with FFIEC standards





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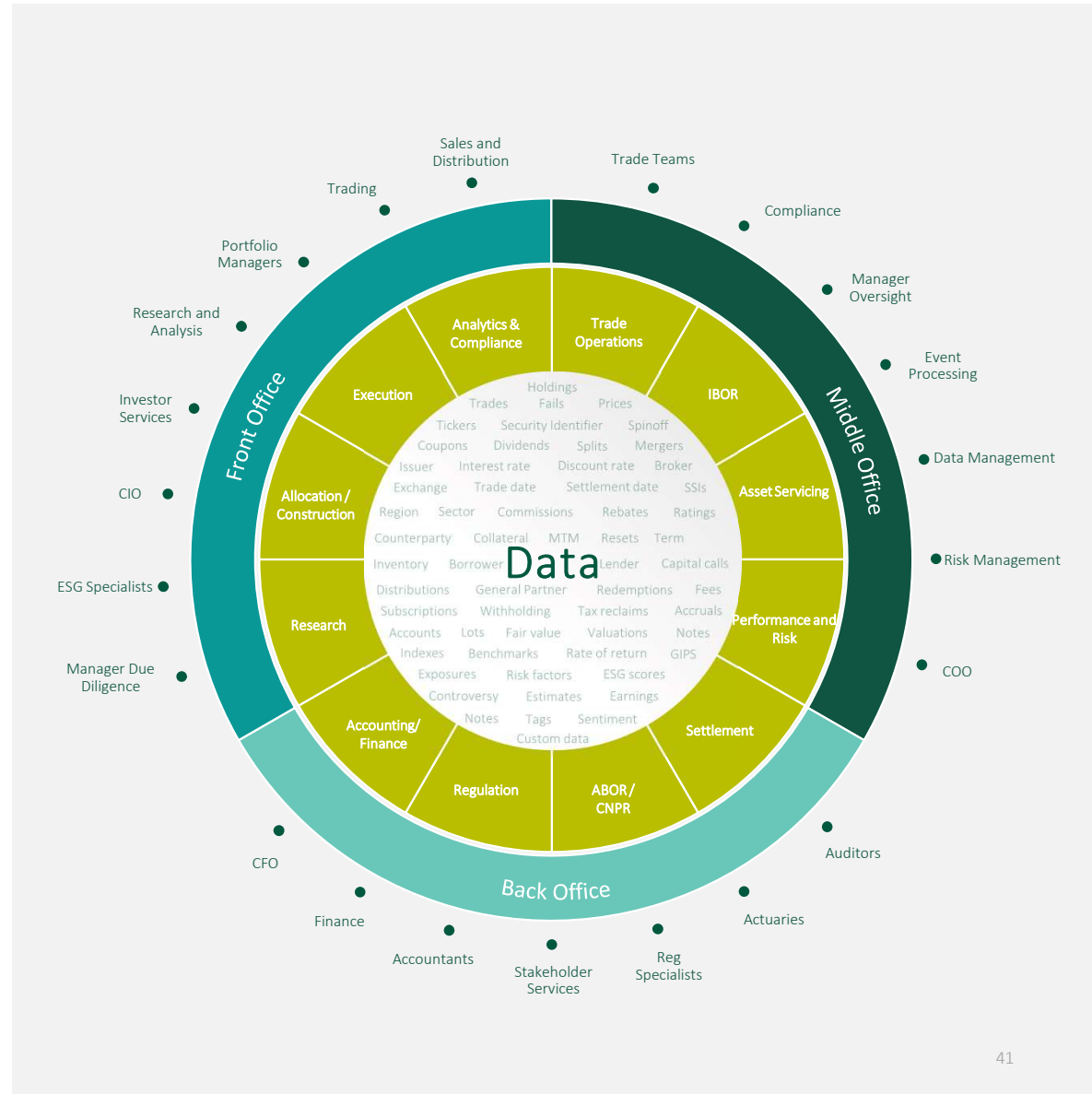
# Technology

# Northern Trust's Technology Vision

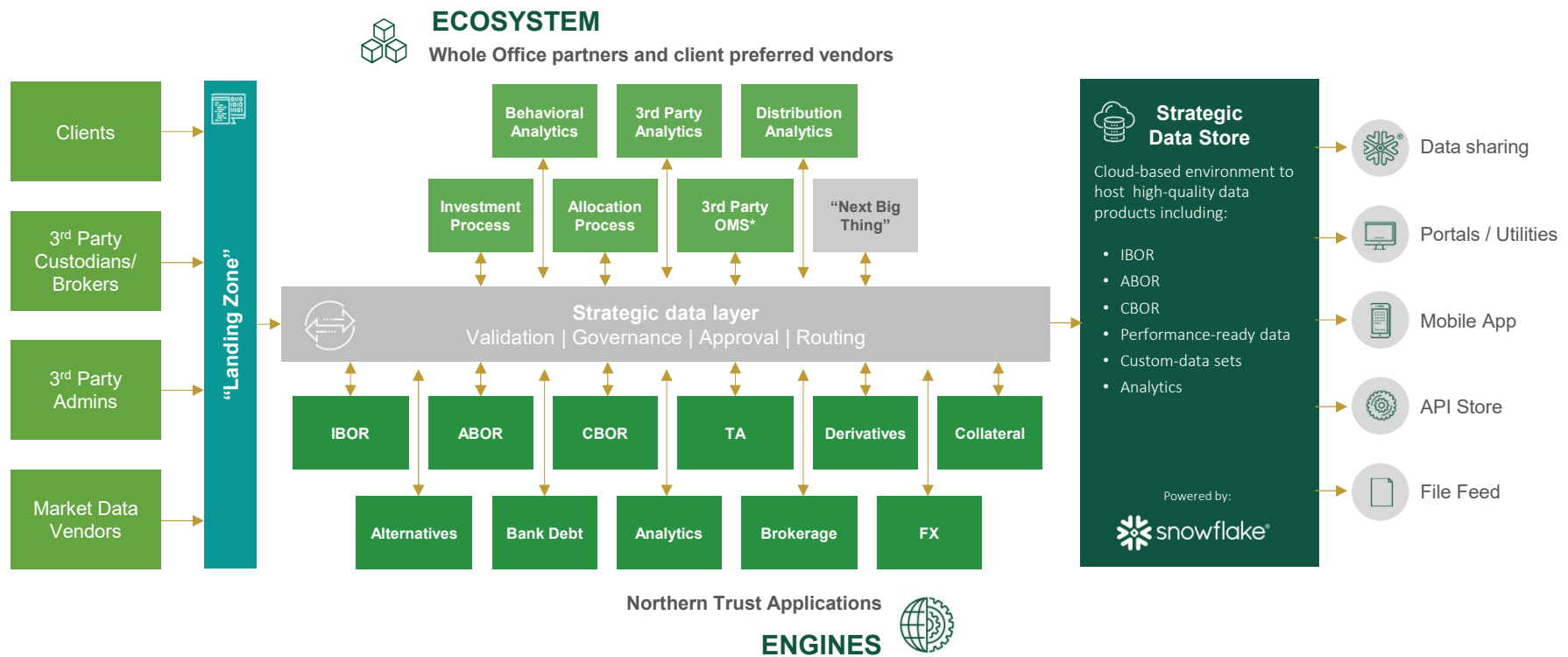
Today's technology can eliminate silos and inefficiencies in how organizations invest.

Whether setting strategy or settling trades, the same data is the lifeblood of any investment organization. But advances in technology have rendered the historical silos between front, middle, and back-office functions obsolete.

Northern Trust's Whole Office strategy focuses on designing solutions with the entire organization in mind. As part of this, we're investing to create an agile, universal technology and data platform that can maintain a single golden data set, while accommodating the nuances of how, where, and when that data is consumed.



# Northern Trust's Technology Vision



## Our Core Differentiators



### UNIQUE IN OUR CULTURE, HISTORY, SHARE OWNERSHIP, AND ORGANIC GROWTH

Northern Trust's history and philosophies have shaped a distinct culture that defines us today. Our 133-year heritage is undiluted by mergers and has been strengthened by strategic acquisitions. Employee stock ownership is more than five times that of our nearest competitor.



### UNIQUE IN OUR FINANCIAL STRENGTH AND STABILITY

Our consistent financial strength and stability is a hallmark of Northern Trust, especially in difficult market environments. Market opinion assigns a premium as measured by P/E up to twice that of our peers.



### UNIQUE IN OUR BUSINESS FOCUS

We are highly focused and client-centric; we are an industry leader in the markets we choose to serve.



### UNIQUE IN OUR PRODUCT LEADERSHIP AND INNOVATION

We are a globally diversified, world class asset servicer with a robust continuum of comprehensive and global product capabilities, with analytical tools like FOS, Venn and Essentia.



### UNIQUE IN OUR SERVICE MODEL

We approach every client as a fiduciary aligned with the best interests of our clients, free of conflict from merging of platforms as a result of mergers and acquisitions.

## Important Information

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## Bio

Gary J. Guibert is Managing Director and a Senior Vice President within the Public Funds & Taft Hartley Group at Northern Trust - Chicago. He has worked in the industry of institutional trust and asset services for over 30 years.

Prior to joining Northern Trust, Gary worked with Chase where he was responsible for the day-to-day servicing of ERISA and GASB pension plans. While at Chase, Gary worked in the European-based center and developed a crisp understanding of the operational components of global custody. Gary also worked with The Bank of New York for 11 years, nine of which were spent as a Relationship Manager to corporate pension clients.

Gary holds a B.S. degree from City University of New York, NY. He also completed credit training at Bank of New York, as well as JPMorgan Chase.





NORTHERN  
TRUST



**REPORT TO BOARD OF ADMINISTRATION**

**From: Investment Committee**

Elizabeth Lee, Chair  
Janna Sidley  
Thuy Huynh

**MEETING: MAY 23, 2023**

**ITEM: X - C**

**SUBJECT: PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2023-24 STRATEGIC PLAN AND POSSIBLE BOARD ACTION**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

**Recommendation**

That the Board adopt the Real Estate Fiscal Year 2023-24 Strategic Plan.

**Discussion**

On May 9, 2023, the Committee considered the attached report regarding the Real Estate Fiscal Year 2023-24 Strategic Plan. The Committee heard a presentation from Chae Hong and Felix Fels of The Townsend Group (Townsend), LACERS' Real Estate Consultant. The plan, developed by Townsend with input from staff, establishes strategic objectives and investment plan recommendations for the Fiscal Year 2023-24. During the presentation, Townsend addressed the Committee's inquiry about the impact of the pandemic, rise in interest rates, and a slowdown of the economy on real estate opportunities. Based on this discussion, the Committee concurred with the staff recommendation to adopt the plan. Townsend will be present at the Board meeting of May 23, 2023, should the Board desire to hear a presentation of the plan.

**Strategic Plan Impact Statement**

The annual real estate strategic plan assists the Board in building a diversified real estate and total fund portfolio and aligns with the Strategic Plan Goals of optimizing long-term risk adjusted investment returns (Goal IV) and promoting good governance practices (Goal V).

Prepared By: Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/BF/WL/EP:rm

Attachment: 1. Investment Committee Recommendation Report dated May 9, 2023





**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



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

**MEETING: MAY 9, 2023**  
**ITEM: V**

---

**SUBJECT: PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2023-24 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

**ACTION:**  **CLOSED:**  **CONSENT:**  **RECEIVE & FILE:**

---

**Recommendation**

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2023-24 Strategic Plan.

**Discussion**

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2023-24 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

**Strategic Plan Impact Statement**

The annual real estate strategic plan assists the Board in building a diversified real estate and total fund portfolio and aligns with the Strategic Plan Goals of optimizing long-term risk adjusted investment returns (Goal IV) and promoting good governance practices (Goal V).

Prepared By: Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/BF/WL/EP:rm

- Attachments:**
1. Executive Summary – The Townsend Group
  2. Proposed Real Estate Strategic Plan – The Townsend Group

## MEMORANDUM

**TO:** The Board of Los Angeles City Employees' Retirement System

**DATE:** May 2023

**SUBJECT:** Real Estate Strategic & Investment Plan for Fiscal Year 2023-2024 – Executive Summary

**FROM:** The Townsend Group

---

### Executive Summary

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

Townsend was re-engaged by LACERS' Board in 2014 to serve as its real estate consultant. Since that time, Townsend has worked with LACERS Staff to successfully transition the Portfolio to reflect a more conservative risk profile. The investment strategy from 2014 to-date has emphasized \$405 million of investments into Core funds and \$700 million into tactical Non-Core funds.

In April 2018, LACERS Board adopted changes to its Asset Allocation targets, as advised by its general consultant. The impact to real estate was to increase the target from 5.0% of Total Plan Assets to 7.0% of Total Plan Assets. In May 2021, the Board elected to maintain a 7.0% real estate allocation with the adoption of the new asset allocation.

### FY 2023-2024 Investment Recommendations

The LACERS Program (the "Program") has a 7.0% allocation target (with an allowable range of  $\pm 2.0\%$ ). As of December 31, 2022, the market value of the Portfolio was \$1.28 billion on a funded basis (6.1% of Total Plan Assets). LACERS will need to continue to deploy capital in order to reach its 7.0% allocation target over the coming years.

Townsend recommends the following 2023-2024 Goals to LACERS for consideration:

LACERS Annual Investment Plan FY 2023-2024	
Core Capital	Up to \$100 M
Non-Core Capital	Up to \$200 M
<b>Total Annual Commitments</b>	<b>Up to \$300 M</b>

### Core Portfolio Goals

- Consider top-up commitments to high conviction managers with optimal portfolio positioning (e.g. overweight apartment, industrial, and alternative sectors).
- Consider new Core/Core Plus funds if tactical opportunities arise (e.g. buying portfolios at a discount or accessing complementary exposures).
- Identify opportunities to rebalance the Core portfolio to optimize fees, increase exposure to outperforming managers and desired property types.
- Explore sale of underperforming positions if liquidity options present themselves (e.g. redemptions or secondary sales).

### Non-Core Portfolio Goals

- Target \$50-\$75 million commitments per fund, but lower commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS' sizing policies.
- Focus on the following investment themes
  - U.S. multifamily: continue increasing exposure to reach overweight compared to benchmark in the long term.
  - Opportunistic strategies taking advantage of market dislocation or distress across a variety of sectors and regions.
  - Complementary niche exposures such as life sciences, industrial outdoor storage, cold storage, data centers, or others.
- Continue to target no less than 10% of commitments to Emerging Managers

- FY2022-2023: To date, 18.6% of real estate commitments made during the fiscal year were to emerging managers.
- Townsend and staff are currently evaluating a shortlist of Emerging Manager candidates for possible 2023/2024 commitments and will continue due diligence.
- Focus on Buy-rated funds with high conviction managers.

**END OF INVESTMENT RECOMMENDATIONS**



Real Estate Portfolio

# Fiscal Year 2023-2024 Investment Plan



PROPRIETARY & CONFIDENTIAL  
April 2023



## Table of Contents

- A. REAL ESTATE MARKET OUTLOOK
- B. EXECUTIVE SUMMARY
- C. LACERS REAL ESTATE PROGRAM OVERVIEW
- D. LACERS 2023-2024 INVESTMENT PLAN
- E. REAL ESTATE STRATEGIC PLAN OVERVIEW
- F. SOURCING AND DEAL FLOW

## A. Real Estate Market Outlook



# Global Economic Outlook

## Major economies face a challenging 2023 with recovery anticipated in 2024

- Developed economies have been slowing through 2023 and interest rates rising in H2 22 and Q1 23.

  - The Russian invasion of Ukraine disrupted economic activity; primarily in Europe but with globally widespread secondary effects.
  - Lagged Covid stimulus related spending in the US, Chinese ‘re-opening’ (following the abandonment of its ‘Zero-Covid’ policy), and Brexit related friction variously stressed supply chains and added to inflationary pressures.
- Economies were showing signs of adjustment to a prolonged Ukrainian war and gradual normalisation of higher interest rates, but recent developments in the banking sector have unsettled markets .

  - Global stock market indices down
  - Global bond rates lower
- While uncertainty remains high, the average financial health of consumers, businesses, and banks is widely considered more sound than 2008.
- Consensus forecasts anticipate weak economic growth for the northern hemisphere regions in 2023 and 2024 while China’s continued strong growth (albeit below its recent average) underpinning growth in the Asia Pacific region.

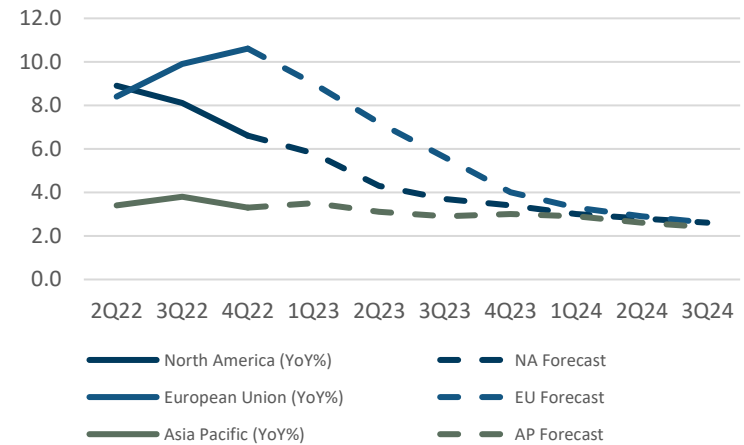
Consensus Forecasts – Real GDP Growth (YoY%)

Major Regions	2022	2023	2024	2025
North America	2.3	1.0	1.1	2.0
European Union	3.6	0.5	1.4	1.9
Asia Pacific	3.5	4.4	4.3	4.2

Selected Markets	2022	2023	2024	2025
United States	2.1	1.0	1.0	2.0
United Kingdom	4.2	-0.4	0.9	1.7
Germany	1.8	0.0	1.1	1.6
China	3.0	5.3	5.0	4.7
Japan	1.0	1.1	1.1	1.0
Australia	3.7	1.7	1.6	2.3

Consensus Forecasts - Quarterly CPI



Source: : Bloomberg (March 2023)

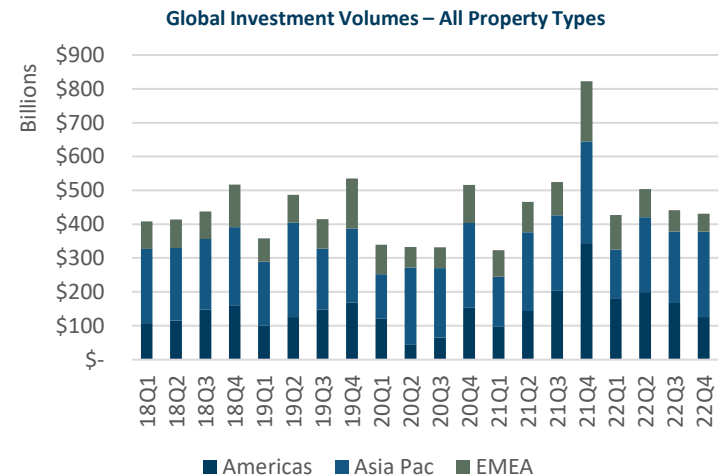
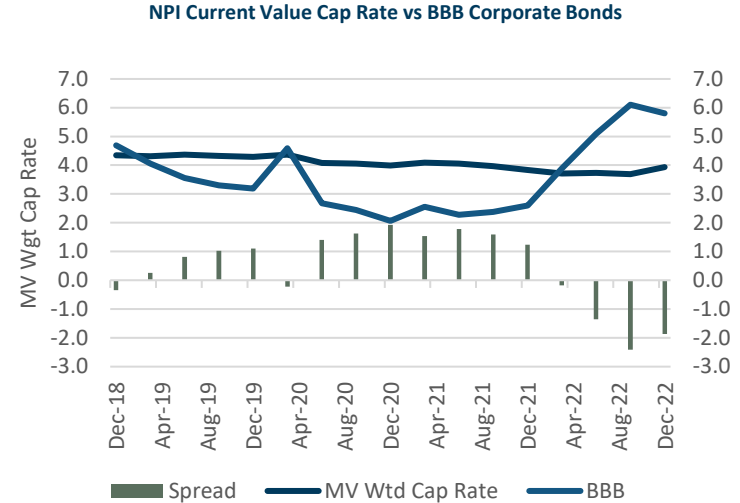
Townsend’s views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.



# Real Estate Market Conditions

## Transaction volumes lower as economic conditions have softened

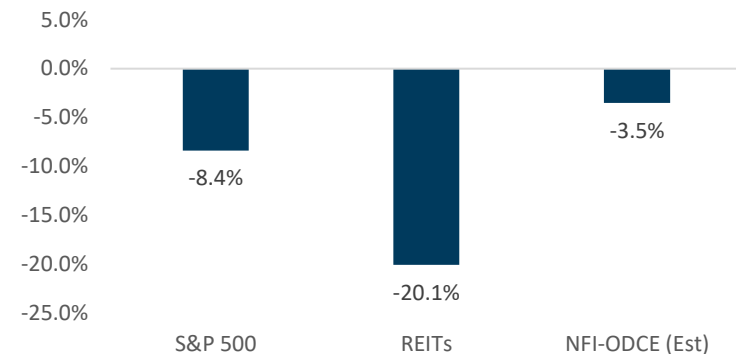
- Global rising interest rates have risen sharply in recent quarters.
- The relative attractiveness of real estate has declined relative to more pure fixed income investments.
- Owners and developers of institutional real estate confront higher finance costs (from higher interest rates) and construction costs (from supply chain difficulties and input price increases).
- For stabilized real estate, the ‘spread’ between borrowing costs and cap rates has diminished or disappeared.
- Expectations of future growth are likely to keep some buyers active, albeit most forecasts of near-term growth are being lowered due to rising expectations of recessions.
- Refinancing is getting increasingly more difficult as many debt providers, mostly banks, have paused lending; further, given the current cost of debt, historical LTVs might not be feasible requiring equity re-ups.
- Transaction volumes were solid in 2022 but Q4 – normally the busiest – was muted as inflation fears and interest rates increased.
- Anecdotally, transaction volumes have declined in 2023, and the sectors that have recently performed most strongly – notably logistics and residential – have seen sharp declines, albeit from high levels.



# Denominator Effect May Limit Capital Flows Potentially Hurting Valuations

- Private real estate has significantly outperformed equities, leading to denominator effect driven selling pressure coming from investors. Redemption queues have increased significantly in private real estate open-end commingled funds as investors seek to get back in line with RE allocation. Per Townsend, redemption queues totaled over \$30 billion in 4Q22 and rising.
- We believe it is likely that investors will slow new commitments, leading to a reduction in equity available towards the private real estate sector over the coming months.
- The large gap in performance between the public and private markets has created a large implied discount between public and private real estate valuations. Data suggests that private real estate is lagging public valuations, which historically is driven by appraisal lag in the private real estate sector.
- US private real estate experienced modest cap rate expansion in 2022. It is widely anticipated that cap rates will continue to expand to reflect the impact of rising interest rates and higher cost of debt.

1-year Gross Performance (April 2023)

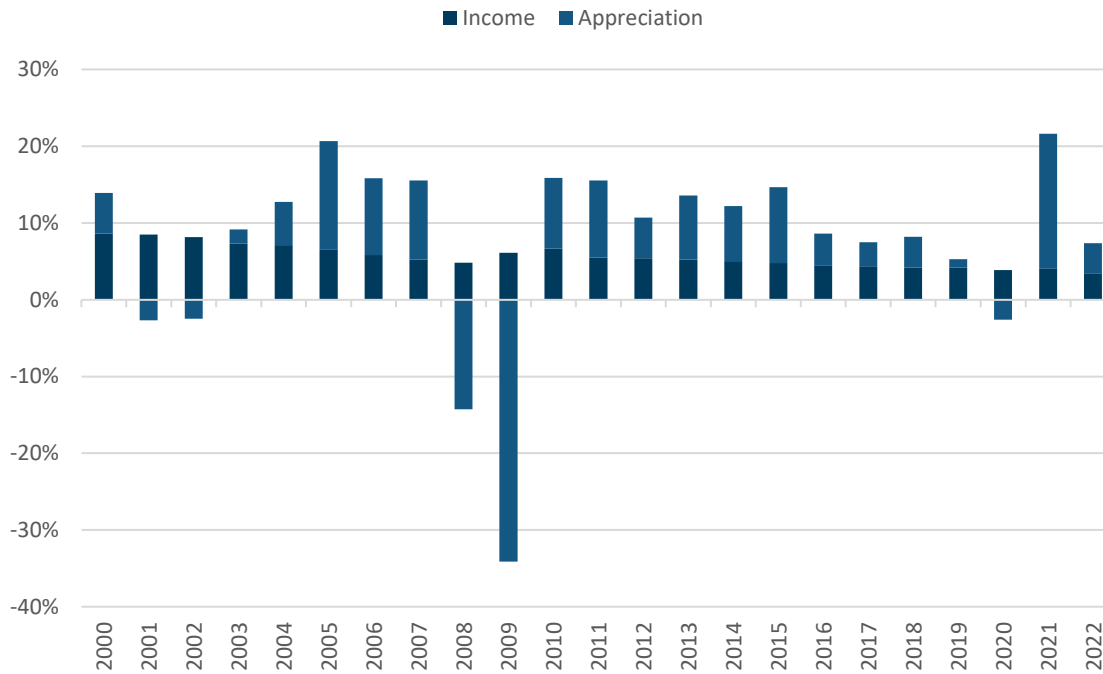


Cap Rate Analysis  
TTG, NCREIF, Implied from GS

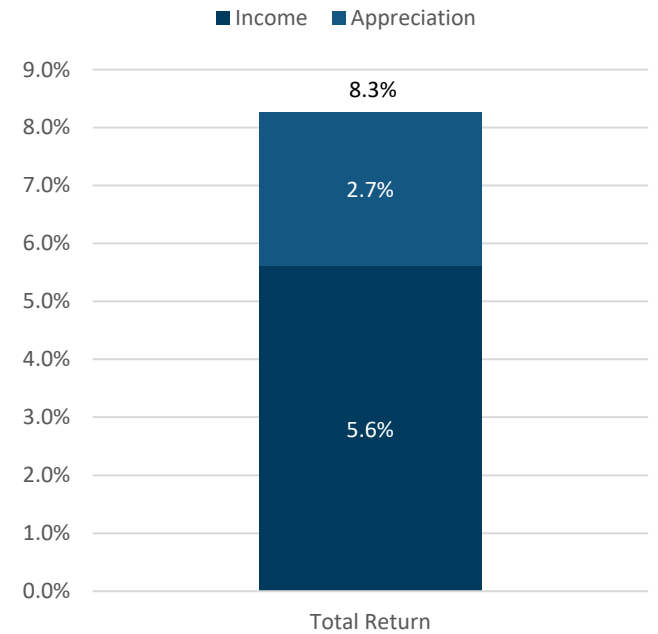
Index <sup>1</sup>	Apartment	Industrial	Office	Retail
ODCE Median	3.70%	3.12%	4.14%	4.95%
Diversified Core+ Median	3.91%	3.27%	4.58%	5.17%
Sector Specific Median	3.79%	3.25%		
NCREIF	3.77%	3.17%	4.44%	5.04%
GS REIT Implied Cap	6.41%	4.45%	9.77%	8.48%
<b>REIT Implied Discount</b>				
Vs Core	-42%	-30%	-58%	-42%
Vs Core+	-39%	-27%	-53%	-39%
Vs NCREIF	-41%	-29%	-55%	-41%

# Core Real Estate Gross Annual Returns Since 2000

### Core Real Estate Gross Annual Return



### Core Real Estate Return Since 2000



# Higher Secular Growth In Industrial & Apartments Anticipated To Lead To Higher Relative Performance, Despite Negative Spreads

- We believe the significant negative spread to the borrowing costs are a short-term valuation risk especially as the near-term rent growth is anticipated to slow due to imminent recession.
- Deals initiated prior to rate hikes were re-traded and many of them abandoned after the interest rate environment changed.

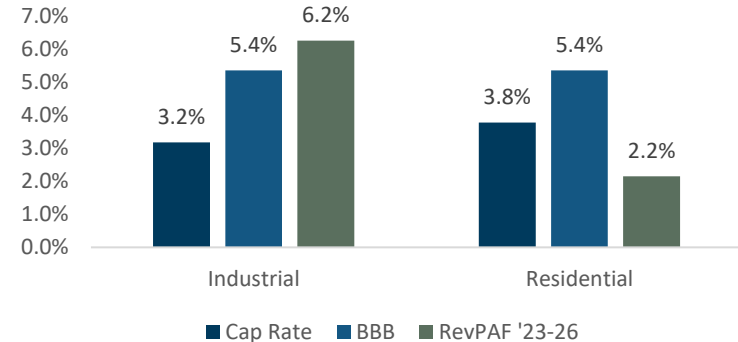
## Industrial Sector

- The persistent growth in the e-commerce sector continues to lead to a strong demand for warehouses.
- Supply remains constrained in the current environment due to lack of availability of construction financing.
- The low occupancy in the key submarkets is likely to get even lower.
- In the short-term, rent pressures could emerge due to imminent recession, but the long-term growth story still looks viable.

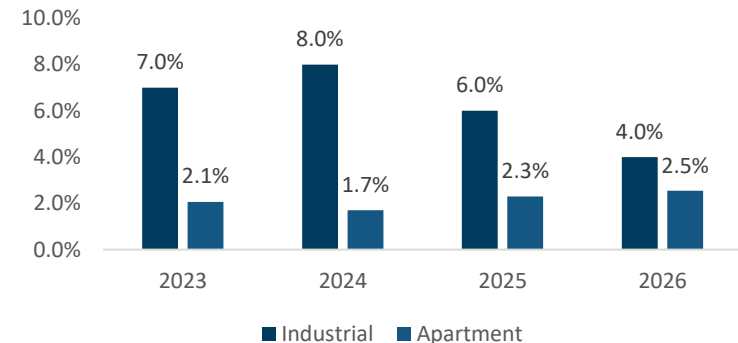
## Apartment Sector

- Apartment supply in the select high-growth markets is further constrained today due to a lack of construction financing. Initial constraints remain due to a lack of material and labor.
- In the near-term, demand can weaken as the labor market softens and people start to double up.
- However, in the medium to long-term, rental demand is likely to remain strong as higher mortgage rates and home values will limit ownership.

Cap Rates, BBB, RevPAF (%) - April 2023



RevPAF '23-26 Weighted Average (%) - April 2023



# Negative Spreads In The Office & Retail Sectors Point To Valuation Risks, Given The Low Anticipated Rental Growth

- The negative spreads to interest rates are a risk for these sectors as the debt is dilutive to earnings & the long-term growth remains low.
- Currently, most potential buyers are out of the market due to the risk in these sectors.
- As legacy debt matures, it will be difficult to refinance in these sectors to the same level of LTV, leading to some stressed buying opportunities.

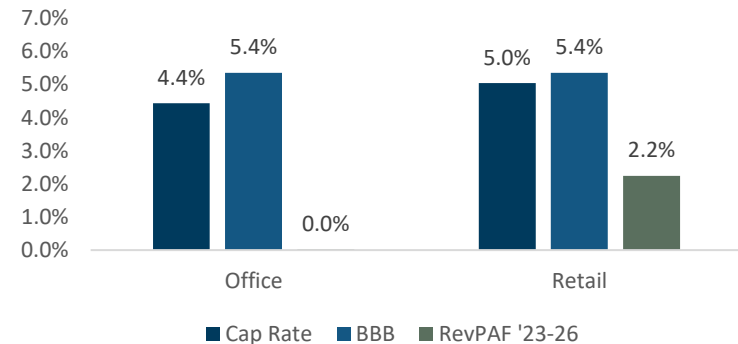
## Office Sector

- Market expectations for rent growth, which are already low, can decrease further if recession leads to widespread layoffs.
- In a slowing economic growth environment, tenants are likely to come under increased cost reduction pressure leading to rationalizing space and reducing rental expense.
- Strong bifurcation in performance anticipated by quality, location and ESG credentials of the buildings .

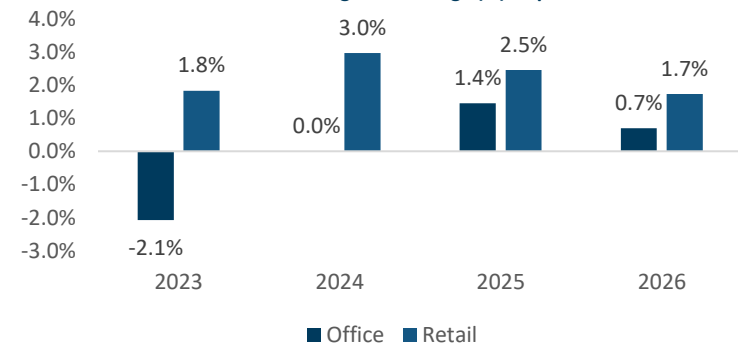
## Retail Sector

- Post pandemic, as people started coming out of their houses, retail assets witnessed a jump in foot traffic, but it is anticipated that most assets will revert back to the pre-pandemic trend.
- While neighborhood retail might still have good fundamentals, the future for most other formats is still a bit uncertain.
- There is a significant appraisal lag in this particular asset class due to a thin transaction market.

Cap Rates, BBB, RevPAF (%) - April 2023



RevPAF '23-26 Weighted Average (%) - April 2023



# Global Real Estate Investment Themes

1

## Evolution of the Global Supply Chain

Expansion/modernization across the supply chain, including bulk distribution, last mile, and specialized distribution real estate

### E-COMMERCE PENETRATION

**US:** While anticipated growth is likely to continue, the near-term faces recession driven headwinds in rental growth; medium-to-long term prospects still strong

Low cap rates face some expansion pressure in the near-term, but the medium-term return profile still attractive

Coastal markets continue to offer more embedded value growth

Innovation in the asset class creating outdoor storage, shared storage space, and cold storage offer attractive opportunities

**Asia:** E-commerce related real estate infrastructure still under-developed; Attractive investment opportunities in key geographies of Australia, Japan, and Korea with secondary focus on Singapore and Hong Kong

**Europe:** Economic slowdown related rent growth weakness likely in the short-run, but the medium-term is attractive

**All regions:** Lack of availability of construction financing and slowing rent growth to limit supply in the short-term, making rent growth prospects beyond a potential recessionary period attractive

2

## Housing Shortage and Suburban Migration

Shortage of affordable housing stock across most global developed markets

Migration to less urban markets due to remote work and anticipated tax savings

### APARTMENT

**US:** High mortgage rates over the next few years can lead to a stronger growth for rental properties

However, in the near-term, economic slowdown and weakness in labor market can reduce demand and increase rent affordability woes

**Asia:** Select opportunities in Japan (Tokyo & Osaka), and key cities of Australia, but the opportunity set remains low

**Europe:** Rent controls across many parts of the continental Europe led to a low returning opportunity dominated by local, lower cost of capital investors

### SINGLE FAMILY RENTAL

Predominantly a US based opportunity

Work-from-home and aging millennials (largest age cohort) offer strong tailwinds

High mortgage rate driven potential housing market correction could offer good entry opportunity

**All regions:** Housing shortage remains a global challenge and higher cost of debt could potentially worsen the situation

3

## Dislocation in Select Property Types

### SOME ASSETS REQUIRE RECAPITALIZATION

Debts markets are not fully functional and risk premiums have significantly expanded

Marginal cost of debt significantly higher than most proforma

Debt service coverage ratios to be hurt in refinancing due to higher cost of debt, limiting LTVs

The above situation further worsened by potential reset in property values

Lastly, denominator effect might limit equity available for investment

### POTENTIAL MITIGANTS

Banks more willing to accommodate loan extensions

In general, property markets are not over-leveraged

Still high-level of dry-powder both in debt and equity funds will limit the downside

### BIFURCATION OF DISTRESS

Sectors and regions with strong medium-term rent growth outlook will offer attractive entry points

However, those with uncertain outlook (e.g., office, retail, etc.) might be value traps (some exceptions apply to this general view)

# Global Real Estate Investment Themes (Cont.)

4

## Emergence of Niche Property Types

Niche strategies may offer stable income, differentiated demand dynamics, and upside potential through operating efficiencies

Office and retail sectors (once the largest two sectors) both face uncertain outlook, driving the need to institutionalize other real estate sectors

### INSTITUTIONALIZATION BEYOND THE 4

**US:** Witnessing many sectors evolve in the private real estate industry including data centers, student housing, medical office, cold storage, production studios, shared storage spaces, etc.

Typically, cap rates exhibit premium to traditional sectors (with good fundamentals)

However, most sectors require strong operating companies and often they are in short supply

**Asia:** Opportunity set is evolving, but still limited

Select opportunities in Korea, Australia, Japan, Singapore, and Hong Kong

**Europe:** Opportunity set is slow in evolving as operating platforms with strong credentials remain in short supply

All regions: Each niche sector has its own unique fundamentals, constraints and operating capability requirements making investment decisions challenging

However, investors need to start building capabilities as these sectors are rapidly growing

5

## Evolving Work-Life Balance and Work-From-Home

Headwinds driven by potential economic slowdown and associated employment market weakness

Bifurcation in performance based on asset quality, location and ESG likely to be the dominant theme

### WORK-FROM-HOME

**US:** Mix of employer guidelines and requirements have evolved; some require five-day work in the office, some are fully remote, but most offer flexibility or have two- or three-day work in the office requirement

Above trend is pointing to rationalization of office space leading to multi-year gentle demand reduction leading to rent growth pressures

Bid-ask spreads high limiting price discovery

**Asia:** Smaller apartments and homes, and cultural factors will keep greater proportion of workforce in office, but some impact anticipated across most regions, but greater impact expected in Australia

Softness in asset values could selectively offer attractive value add opportunities

**Europe:** Given the Ukraine crisis, the economic outlook remains more uncertain limiting opportunities, but investors should opportunistically seek opportunities in well located green buildings with modern amenities

6

## Aging Population and Complemental Strategies

Demographics driving demand for healthcare, life sciences, medical office, and senior housing

### SENIOR HOUSING

Over the next 10 years, growth in global population aged 65-74 and age 75+ are anticipated to increase significantly, leading to more opportunities in markets like the US, Europe, Japan, & Australia

### LIFE SCIENCES ASSETS

Over the medium to long term, Life Sciences R&D continues to see accelerating growth in funding from an array of sources, including VCs, public funding, and corporates

But VCs getting increasingly cautious in the short-term and focused on preserving cash for existing portfolio companies

**US:** The VCs have grown increasingly cautious in the current environment pointing to limited near-term growth in research driven companies

Near-term weakness in rental growth and asset values anticipated, but the demographic driven medium-term outlook remains attractive

**Asia & Europe:** Select opportunities emerging in Europe and Asia, but these markets are less institutionalized



## B. Executive Summary





## LACERS Annual Investment Plan 2023-2024

### Private Real Estate Portfolio

#### Core Portfolio – Up to \$100M

- Top-up commitments to select core and/or core-plus funds in portfolio to increase exposure to highest conviction managers and sectors.

#### Non-Core Portfolio - Up to \$200M

- Commit capital to several new investments at amounts ranging between \$50 million and \$75 million.
  - Consider smaller commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS sizing policies.

## C. LACERS Real Estate Program Overview



# LACERS Real Estate Program Overview

(Data as of December 31, 2022)

	Market Value (\$ millions)*	% LACERS Plan*
<b>LACERS Total Plan Assets</b>	20,979	
<b>Real Estate Target</b>	1,469	7.0%
RE Market Value:		
Core	886	
Non-Core	377	
Timber	21	
<b>Total RE Market Value</b>	1,284	6.1%
Unfunded Commitments	384	1.8%

\*Figures may not add due to rounding. For certain funds, data as of 9/30/22 was used if 12/31/22 data was not yet finalized.

Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

# LACERS Real Estate Program Overview (continued)

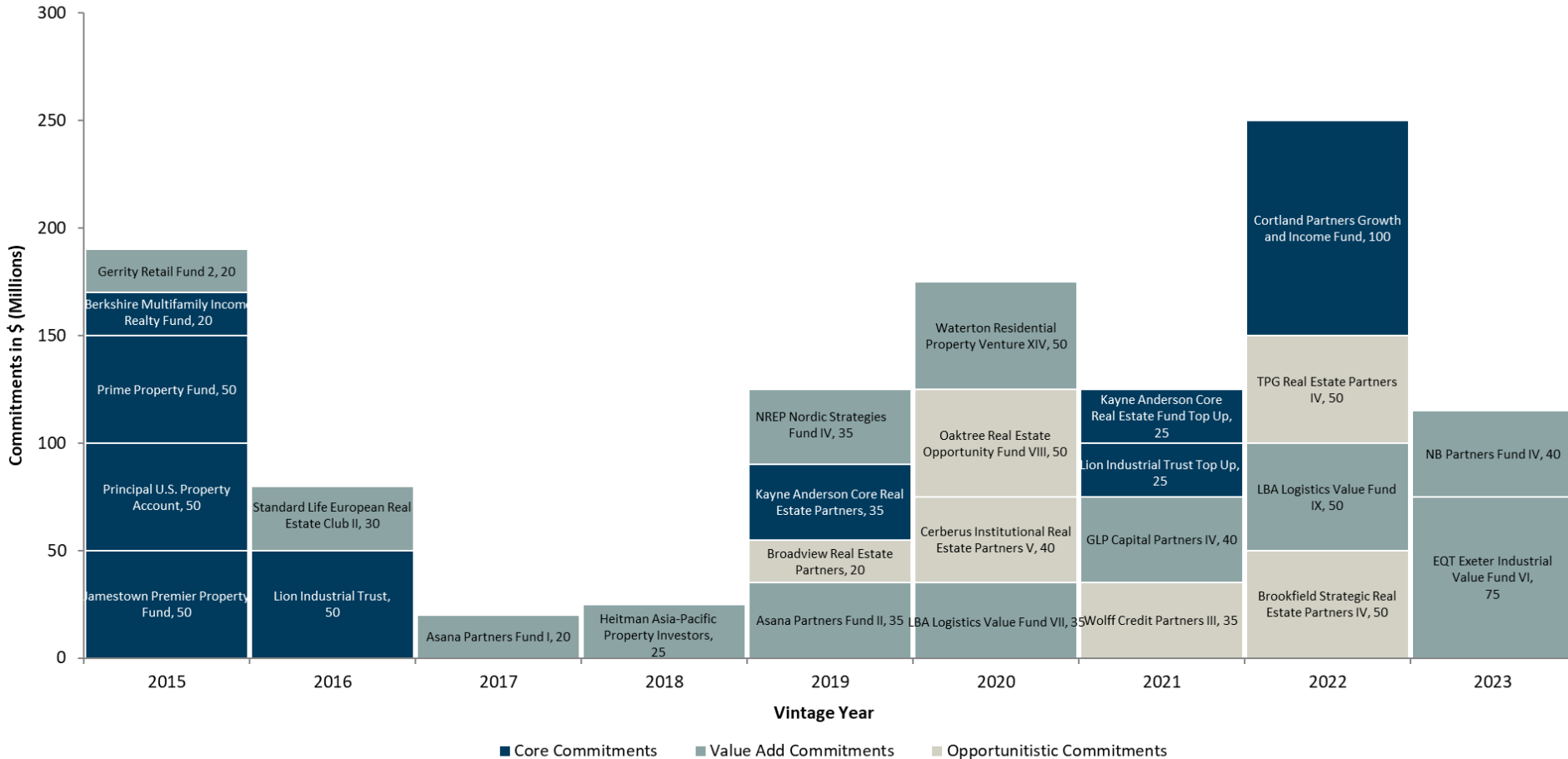
	<i>Strategic Targets</i>		<i>Portfolio Composition (12/31/2022)*</i>	
	Target Allocation	Tactical Range	Market Value	Market Value & Unfunded Commitments
<b>Core</b>	<b>60%</b>	<b>40% - 80%</b>	<b>69.0%</b>	<b>53.1%</b>
<b>Non-Core</b>	<b>40%</b>	<b>20% - 60%</b>	<b>29.4%</b>	<b>45.6%</b>
<i>Value-Add Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>18.4%</i>	<i>25.8%</i>
<i>Opportunistic Portfolio</i>	<i>N/A</i>	<i>N/A</i>	<i>11.0%</i>	<i>19.7%</i>
<b>Timber</b>	<b>N/A</b>	<b>N/A</b>	<b>1.6%</b>	<b>1.3%</b>

- In May 2014, the Board approved the strategic targets displayed above in order to reflect a more conservative risk profile going-forward. At the time, the Portfolio had 30% exposure to Core and 70% exposure to Non-Core.
- As of 12/31/22, LACERS is overweight to its Core and underweight to its Non-Core target allocation but within the respective tactical ranges. Unfunded commitments will bring exposures closer to long-term targets.

\*Figures may not add due to rounding. For certain funds, data as of 9/30/22 was used if 12/31/22 data was not yet finalized.

Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

# LACERS Commitment History



- LACERS is currently in the redemption queue for Berkshire Multifamily Income Realty Fund and Jamestown Premier Property Fund.
- Vintage year classifications are based on the first capital call or anticipated capital call.

Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.



# D. LACERS 2023-2024 Investment Plan

Board Meeting: 5/23/23  
Item X-C  
Attachment 1

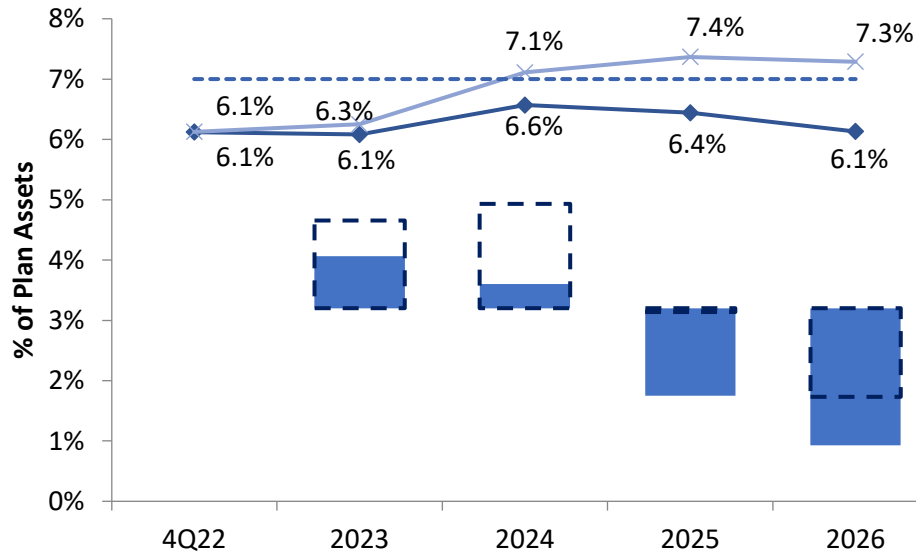
IC Meeting: 5/9/23  
Item V  
Attachment 2



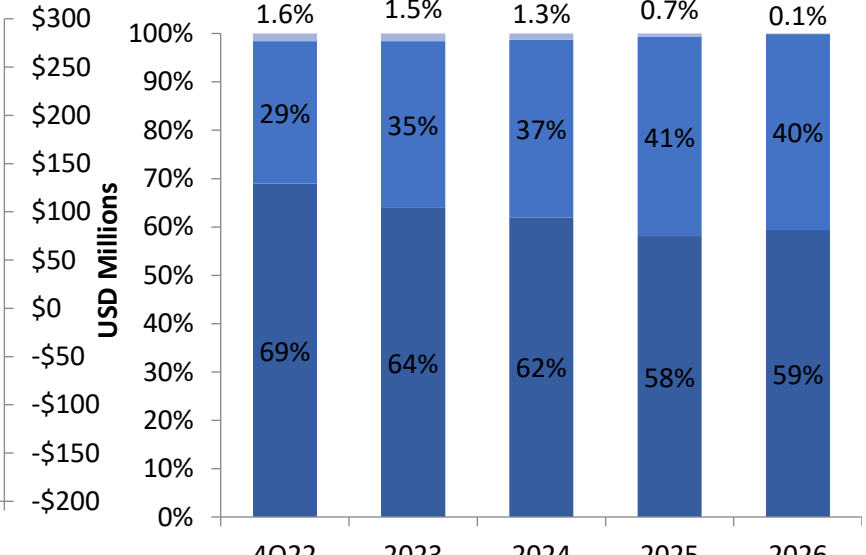
# LACERS Real Estate Portfolio Projections

- To build future private portfolio projections for LACERS, Townsend collected forecasted capital calls and distributions from all managers in LACERS' portfolio.
- The 'Planned' Real Estate Portfolio below includes new commitments needed to reach the target allocation and the 60% Core / 40% Non-Core target.
- The real estate portfolio is currently forecast to be slightly overweight after 2024; however, Townsend will re-adjust annual pacing assumptions and investment planning as needed to maintain and reach targets and respond to changing market environments.

### Real Estate % of Total Plan Assets (All Planned Commitments)



### Risk Sector Allocation Change



■ Portfolio Net Cash Flow (Current)    ■ Portfolio Net Cash Flow (Planned)  
◆ Real Estate % of Plan Assets (Current)    × Real Estate % of Plan Assets (Planned)  
- - - - Real Estate Target

■ Core (Planned)    ■ Non-Core (Planned)  
■ Timber (Planned)

Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

# LACERS 2023-2024 Investment Plan – Core Portfolio

## COMMIT UP TO \$100 MILLION TO CORE IN 2023-2024

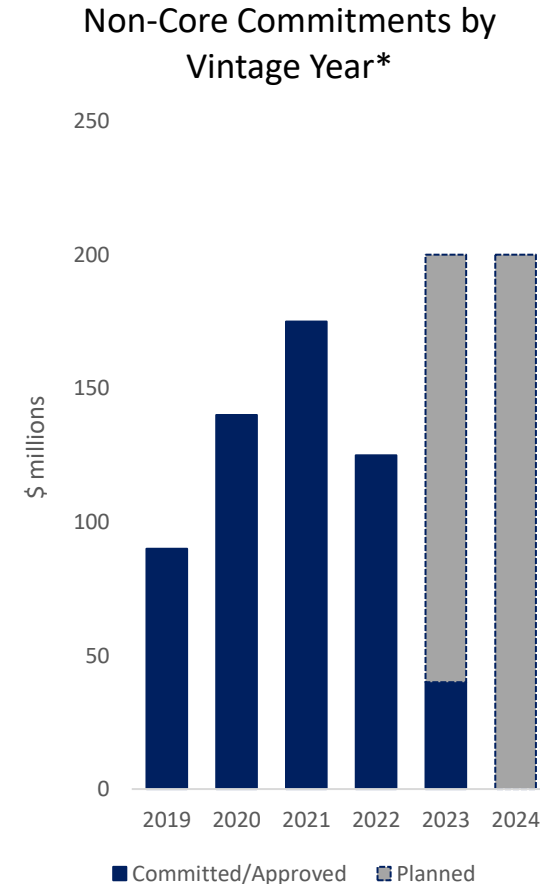
- Core commitment activity was paused in the second half of 2022 due to anticipated valuation adjustments across the open-end core and core plus fund universe. Additional write-downs are anticipated in 2023 and Townsend recommends resuming Core commitments after valuations adjust further.
- Consider top-up commitments to high conviction managers with optimal portfolio positioning (e.g. overweight apartment, industrial, and alternative sectors).
- Consider new Core/Core-Plus funds if tactical opportunities arise (e.g. buying portfolios at a discount or accessing complementary exposures).
- Identify opportunities to rebalance and consolidate the Core portfolio to optimize fees.
- Explore sale of underperforming positions if liquidity options present themselves (e.g. redemptions or secondary sales).

LACERS Core Open-End Portfolio Summary (\$ Millions)	12/31/22 Market Value	Outstanding Redemptions	New Capital
<b>LACERS Core Open-End Portfolio Summary</b>			
Berkshire Multifamily Income Realty Fund	\$19	(\$19)	
Cortland Partners Growth and Income Fund	\$93		
INVESCO Core Real Estate	\$239		
Jamestown Premier Property Fund	\$30	(\$30)	
JP Morgan Strategic Property Fund	\$89		
Kayne Anderson Core Real Estate Fund	\$67		
Lion Industrial Trust	\$176		
Prime Property Fund	\$69		
Principal U.S. Property Account	\$87		
Core/Core Plus Top-Up or New Commitments			<b>\$100</b>



# LACERS 2023-2024 Investment Plan – Non-Core Portfolio

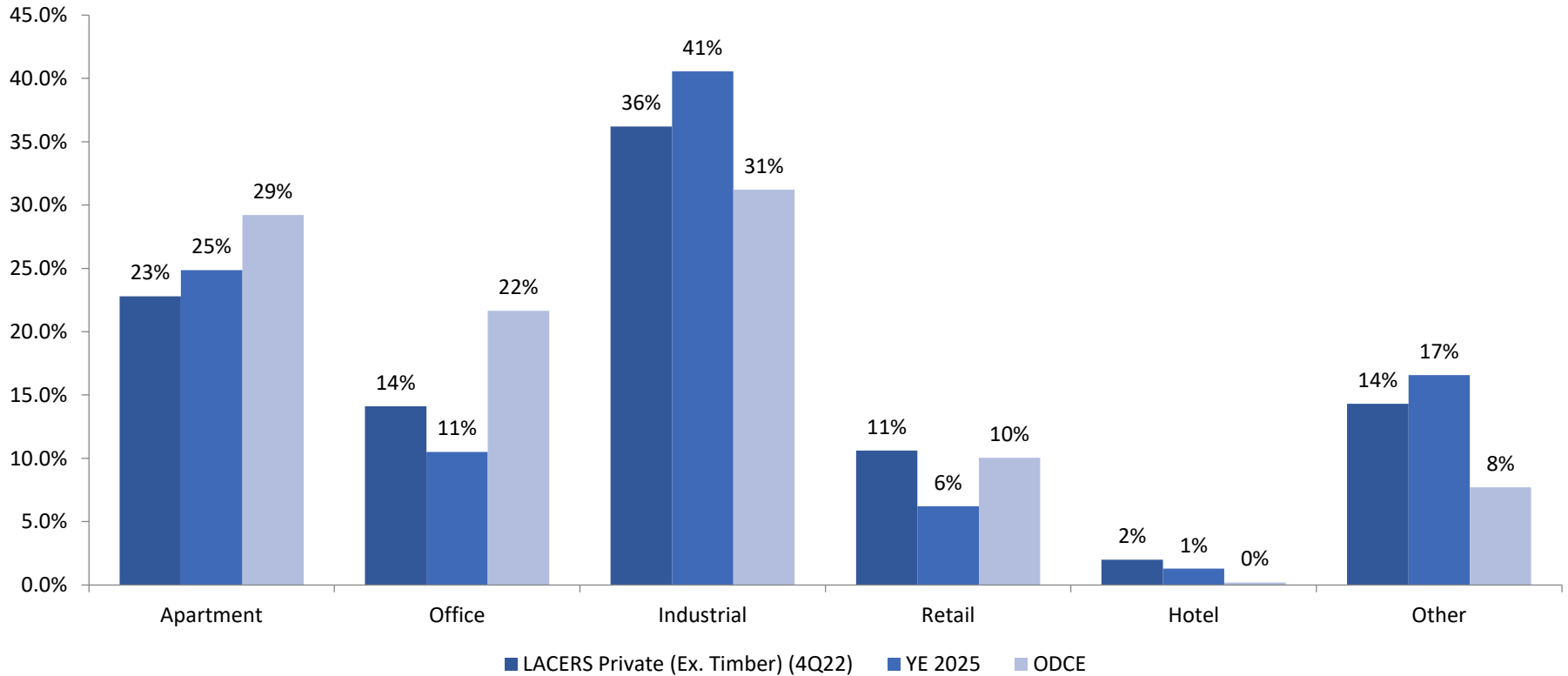
- **COMMIT UP TO \$200 MILLION TO NON-CORE IN 2023-2024.**  
Target \$50-\$75 million commitments per fund, but lower commitment amounts for highly concentrated funds, niche strategies, or small fundraises as per LACERS' sizing policies.
- Focus on the following investment themes
  - U.S. multifamily: continue increasing exposure to reach overweight compared to benchmark in the long term.
  - Opportunistic strategies taking advantage of market dislocation or distress across a variety of sectors and regions
  - Complementary niche exposures such as life sciences, industrial outdoor storage, cold storage, data centers, or others
- Continue to target no less than 10% of commitments to Emerging Managers
  - FY2022-2023: To date, 18.6% of real estate commitments made during the fiscal year were to emerging managers.
  - Townsend and staff are currently evaluating a shortlist of Emerging Manager candidates for possible 2023/2024 commitments and will continue due diligence.
- Focus on Buy-rated funds with high conviction managers.



# LACERS Diversification Projections



**Private Real Estate Exposure - Property Type Diversification**  
*Private Portfolio (Ex. Timber)*

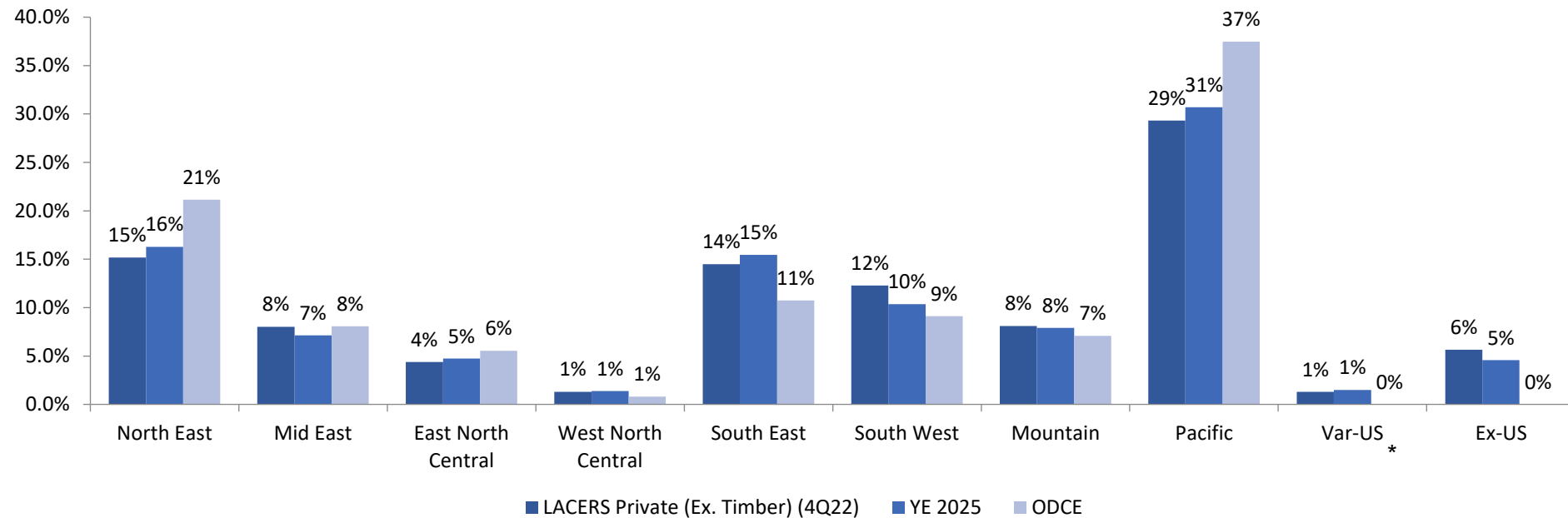


'Other' reflects properties that do not fit into the traditional classifications (apartment, industrial, office, retail), such as medical office, senior housing, self-storage, student housing, and other property types.

Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

# LACERS Diversification Targets

**LACERS Targeted Geographic Diversification**  
*Private Portfolio (Ex. Timber)*



\*Var-US includes any investments that are not directly tied to specific regions, such as real estate debt investments through Torchlight or entity-level investments through Almanac.  
Source: The Townsend Group. Data as of December 2022. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

# E. Real Estate Strategic Plan Overview



# Overview – Strategic Plan (Objectives, Policies and Procedures)

- LACERS’ Real Estate program is governed by a Strategic Plan, which establishes long-term objectives and risk controls.

PROGRAM FRAMEWORK	STRATEGIC GOALS	RISK CONTROLS	MECHANICS
<p><b>ALLOCATION TO REAL ESTATE</b></p> <ul style="list-style-type: none"> <li>7% of total plan assets with allowable range of +/- 2.0%</li> </ul>	<p><b>ROLE OF REAL ESTATE</b></p> <ul style="list-style-type: none"> <li>The LACERS Board has determined that the Role of Real Estate will be to provide:                             <ul style="list-style-type: none"> <li>Income</li> <li>Diversification</li> <li>Risk-adjusted Return</li> <li>Hedge against inflation</li> </ul> </li> </ul>	<p><b>INVESTMENT DIVERSIFICATION</b></p> <ul style="list-style-type: none"> <li>Single Manager:                             <ul style="list-style-type: none"> <li>≤ 30% of total Real Estate portfolio</li> </ul> </li> <li>Single Commitment:                             <ul style="list-style-type: none"> <li>≤ 10% of total targeted Real Estate allocation</li> </ul> </li> </ul>	<p><b>PERMITTED VEHICLES</b></p> <ul style="list-style-type: none"> <li>Wide range of permitted structures and vehicles</li> <li>Primary focus on open-end and closed-end commingled funds</li> </ul>
<p><b>CORE/NON-CORE BLEND</b></p> <ul style="list-style-type: none"> <li>Core:                             <ul style="list-style-type: none"> <li><b>60% Target</b></li> <li><i>40-80% Range</i></li> </ul> </li> <li>Non-Core:                             <ul style="list-style-type: none"> <li><b>40% Target</b></li> <li><i>20-60% Range</i></li> </ul> </li> <li>Timberland and Public Security (or REIT) investments will also be tracked within the Real Estate Portfolio, separate from the targeted Private Portfolio composition above. At no time will these investments represent greater than 10.0% of the targeted Real Estate Portfolio</li> </ul>	<p><b>RETURN OBJECTIVE (BENCHMARK)</b></p> <ul style="list-style-type: none"> <li>The return objective for the LACERS Private Real Estate Portfolio is the NFI-ODCE + 80 basis points (“bps”), measured on a net of fee basis over five-year time periods*</li> <li>While no return objectives are stated by strategy, relative performance comparisons will be made to the NFI-ODCE for Core Real Estate, and the NFI-ODCE + 200 bps for Non-Core Real Estate. The Timber Portfolio will be benchmarked against the NCREIF Timberland Index, gross of fees.</li> </ul>	<p><b>PROPERTY TYPE AND GEOGRAPHIC DIVERSIFICATION</b></p> <ul style="list-style-type: none"> <li>Apartment, Office, Retail, Industrial, and Hotel                             <ul style="list-style-type: none"> <li>+/- 10% of the NFI-ODCE</li> </ul> </li> <li>Other/Alternative Property Types                             <ul style="list-style-type: none"> <li>0-20% of Private Real Estate Portfolio</li> </ul> </li> <li>Maximum of 30% outside the United States</li> </ul>	<p><b>ROLES AND RESPONSIBILITIES</b></p> <ul style="list-style-type: none"> <li>Collaborative approach between Staff and Consultant, with Board oversight and control</li> <li>Consultant prepares and presents Strategic Plan, Investment Plan, investment recommendations, performance measurement reports, market outlooks and other relevant reports and analyses to Staff, Investment Committee and Board</li> </ul>
		<p><b>LEVERAGE LIMIT</b></p> <ul style="list-style-type: none"> <li>Core: LTV ≤ 40%</li> <li>Non-Core: LTV ≤ 75%</li> </ul>	

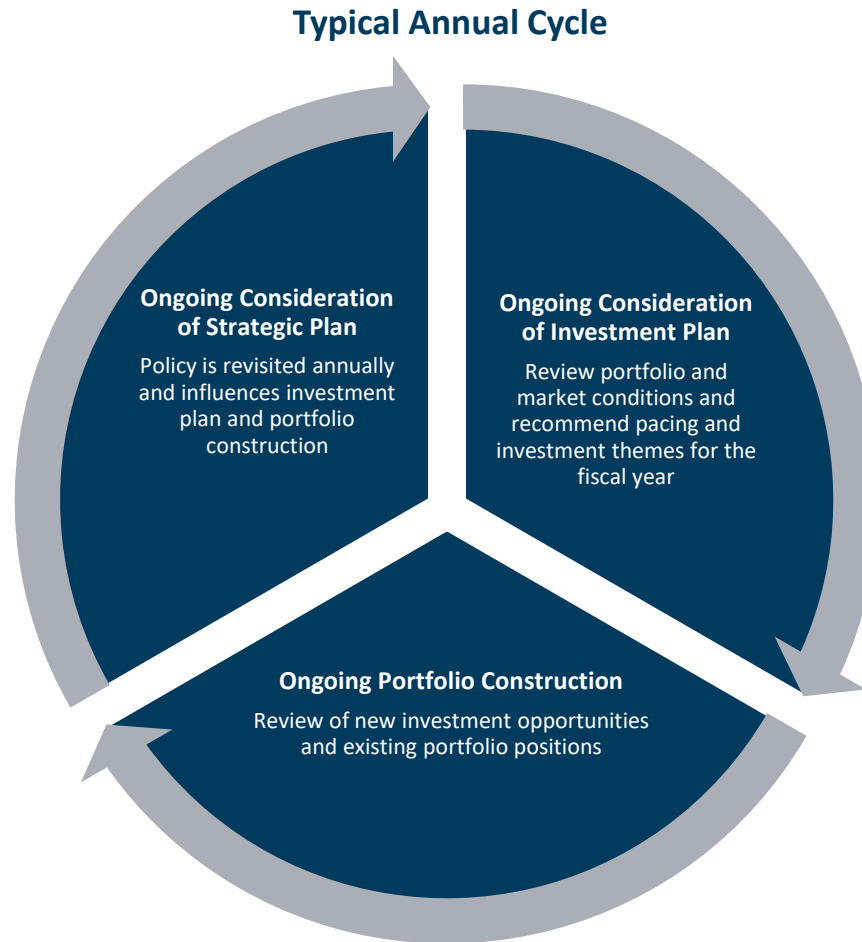
1.“ODCE” is an index of U.S., core-oriented, open-end funds.

2.“LTV” is loan-to-value ratio.

Source: The Townsend Group. Townsend’s views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. One cannot invest directly in an index.

## Overview - Process

- Strategic Planning, Investment Planning, and Portfolio Construction are an ongoing process.



## F. Sourcing & Deal Flow



# Manager Sourcing & Due Diligence

## Core and Core-Plus Fund Sourcing and Selection

- Townsend's dedicated open-end fund team reviews and monitors the open-end universe on a monthly and quarterly basis.
- Townsend also evaluates Core closed-end funds, though fewer exist.
- Comprehensive review, evaluation and selection process:
  - Sourcing and evaluation of new fund launches,
  - Quarterly data collection and analysis,
  - On-site meetings and quarterly reviews,
  - Advisory board participation,
  - Ongoing platform assessment,
  - Continual due diligence.



# Manager Sourcing & Due Diligence

## Non-Core Fund Sourcing and Selection

- In addition to the work completed for open-end commingled funds (evaluation process outlined on the previous page), Townsend is continuously analyzing the universe of Non-Core closed-end funds available for investment.
- Detailed due diligence follows a three-phase due diligence process:
  - Sourcing and evaluation of new fund launches.
  - On-site due diligence meetings.
  - Evaluation of investment characteristics includes, but is not limited to the following:
    - *Executive Summary*: Strategy Overview, Comparative Advantages, Potential Issues and Concerns.
    - *Strategy*: Overview, Leverage, Investment Guidelines, Pipeline.
    - *Sponsor*: Organizational Background/History, Turnover, Compensation, and Retention.
    - *Investment Process*: Overview, Investment Committee, Affiliate Transactions, Limited Partner Advisory Committee, Exclusivity and Allocations, Valuations.
    - *Fund Structure*: Key Terms, Fees and Distributions, Analysis of Fees.
    - *Performance*: Detailed Summary of Prior Vehicles, Vintage Year Comparison, Dispersion of Returns, Investment Highlights.
- Ongoing due diligence includes fund coverage, investment monitoring, reporting, advisory board representation and client advocacy.

# Emerging Manager Sourcing Process

## Emerging Manager Sourcing

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

## LACERS Emerging Manager Efforts

- Majority of Emerging Manager opportunity set is in the Non-Core segment:
  - Since 2015, LACERS has committed \$135 million to real estate emerging managers (19.3% of LACERS' \$700 million commitments to non-core real estate over that time frame).
- In 2021, LACERS updated its Emerging Manager Policy to the following:
  - The fund size may not be larger than \$2 billion.
  - First, second or third institutional fund for a given General Partner.
  - The firm must have been in existence for a minimum of one year (6 months if all senior staff come from an established manager as part of a spin-out).
  - The team must have a minimum track record of five years.
  - 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.
  - No Limited Partner can represent more than 30% of the total Fund's capital.
  - The fund shall have a minimum fund size of \$150 million in committed capital inclusive of LACERS pending commitment.
  - For first-time institutional funds, LACERS commitment shall not exceed 10% of the projected final closing fund size or \$30 million, whichever is lower (20% or \$40 million for second- and third-time institutional funds).

# Disclosures

Board Meeting: 5/23/23  
Item X-C  
Attachment 1

IC Meeting: 5/9/23  
Item V  
Attachment 2



# Disclosures

Board Meeting: 5/23/23  
Item X-C  
Attachment 1

IC Meeting: 5/9/23  
Item V  
Attachment 2

  
**TOWNSEND**  
GROUP  
an Aon company

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There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results.

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# Disclosures and Definitions

## GENERAL DISCLOSURES

There can be no assurance that any account will achieve results comparable to those presented. Past performance is not indicative of future results. Investing involves risk, including possible loss of principal.

Returns reflect the equal-weighted returns calculated during the periods indicated. Note: If including Core, this is value-weighted. In addition, the valuations reflect various assumptions, including assumptions of actual unrealized value existing in such investments at the time of valuation. As a result of portfolio customization/blending and other factors, actual investments made for your account may differ substantially from the investments of portfolios comprising any indices or composites presented.

Due to the customized nature of Townsend's client portfolios, the performance stated may be considered "hypothetical" as it does not reflect the experience of individual client portfolios, but rather aggregate client positions in the stated investment strategy.

## NON REGULATORY ASSETS UNDER MANAGEMENT

As of September 30, 2022, Townsend had assets under management of approximately \$23.9 billion. When calculating assets under management, Townsend aggregates net asset values and unfunded commitments on a quarterly basis. Townsend relies on third parties to provide asset valuations, which typically takes in excess of 90 days after the quarter end. Therefore, assets under management have been calculated using September 30, 2022 figures where available but may also include June 30, 2022 figures. Assets under management are calculated quarterly and includes discretionary assets under management and non-discretionary client assets where the client's contractual arrangement provides the client with the ability to opt out of or into particular transactions, or provides other ancillary control rights over investment decision-making (a/k/a "quasi-discretionary"). Regulatory AUM is calculated annually and can be made available upon request.

## ADVISED ASSETS

As of September 30, 2022, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding \$119.2 billion. Advised assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals. The recent change in Advised Assets is due to a change in the reporting of certain special projects.

**GLOBAL NON-CORE SPECIAL SITUATIONS STRATEGIES** employ a global non-core multi strategy approach with 50% or more of the investments invested in non primary fund investments such as co-investments, joint ventures, secondaries and clubs. Strategies are diversified by geography, sector, property type, manager and vintage year.

**U.S. CORE/CORE-PLUS STRATEGY and U.S. CORE/CORE-PLUS STRATEGY – ERISA** employ a global core/core plus multi strategy approach investing in primary funds, joint ventures, co-investments, secondaries, direct investments, debt strategies and REITs. Strategies are diversified by geography, sector, property type, manager and vintage year.

**SEPARATE ACCOUNTS** includes all Townsend active discretionary accounts which invest in a variety of investment styles and structures.



## GLOBAL NON-CORE SPECIAL SITUATIONS STRATEGIES

Townsend's Global Non-Core Special Situations Strategies employ a global non-core multi strategy approach with 50% or more of the investments invested in non primary fund investments such as co-investments, joint ventures, secondaries and clubs. Strategies are diversified by geography, sector, property type, manager and vintage year.

### **Global Opportunistic Strategy:**

Townsend's 2007 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (U.S. Public Pension Fund-of-One).

### **Global Value-Add Strategy:**

Townsend's 2007 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (U.S. Public Pension Fund-of-One).

Townsend's 2008-10-11 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and two commingled funds (HNW and Small Institution Fund (White Label)).

Townsend's 2012 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and one commingled fund (Global Non-Core Special Situations Strategy).

Townsend's 2015 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and one commingled fund (Global Non-Core Special Situations Strategy).

Townsend's 2018 vintage Global Non-Core Special Situations Strategy Program was comprised of one closed end single limited partner vehicle (Asian Pension Fund-of-One) and one commingled fund (Global Non-Core Special Situations Strategy).

Note: Investment level net IRR's and equity multiples are reported. Net IRR is the net return earned by an investor over a particular time frame, including the performance of both realized and unrealized investments, at fair value. The Net IRR is based upon daily investor level cash flows, current quarter net asset value as hypothetical liquidation mark, and is after the deduction of fees. Investment performance data is reported to Townsend on a quarterly basis by the underlying investment manager. The value of unrealized investments is subject to change.

Net Investment Multiple: Based upon daily investor level cash flows. Calculated as  $(\text{Since Inception Distributions} + \text{Since Inception Withdrawals} + \text{Net Asset Value}) / \text{Paid in Capital}$ .

The Townsend Group's Investment Committee (IC) collaboratively makes all strategic investment decisions affecting Townsend's client portfolios.



**REPORT TO BOARD OF ADMINISTRATION**

**From: Investment Committee**  
Elizabeth Lee, Chair  
Janna Sidley  
Thuy Huynh

**MEETING: MAY 23, 2023**  
**ITEM: X - D**

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**SUBJECT: APPROVAL OF 3-YEAR CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P.  
REGARDING THE MANAGEMENT OF AN ACTIVE HIGH YIELD FIXED INCOME  
PORTFOLIO AND POSSIBLE BOARD ACTION**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

---

**Recommendation**

That the Board:

1. Approve a three-year contract renewal with Loomis, Sayles & Company, L.P. (Loomis) for management of an active high yield fixed income portfolio.
2. Authorize the General Manager to approve and execute the necessary documents, subject to satisfactory business and legal terms.

**Discussion**

On May 9, 2023, the Committee considered the attached staff report (Attachment 1) recommending a three-year contract renewal with Loomis. The firm has managed an active high yield fixed income portfolio for LACERS since October 2020; the current contract expires on August 31, 2023. LACERS' portfolio was valued at approximately \$224 million as of March 31, 2023. Loomis is in compliance with the LACERS Manager Monitoring Policy. Since inception, LACERS has paid Loomis a total of \$2.1 million in investment fees for management of the high yield portfolio.

Staff discussed the organization, investment strategy, performance, and fees. The Committee acknowledged the strategy's underperformance relative to the benchmark in the past two years and that the abbreviated performance track record of the LACERS account is an insufficient period of time to evaluate Loomis' potential value-add. The Committee then pointed to the composite's longer-term underperformance relative to the benchmark across all trailing time periods as of the report date. Staff explained that the strategy's recent underperformance significantly detracted from its cumulative performance across longer time periods. Staff added that at the time of its hiring, Loomis did register outperformance across longer time periods. Staff noted that under regular and consistent due diligence,

with the strategy's recent underperformance in mind, staff's findings support their continued belief in Loomis' capability of managing assets for LACERS under the high yield fixed income strategy.

There was also an inquiry from the Committee about the viability of managing high yield fixed income under a passive approach. Staff responded that the inherent inefficiencies in the high yield fixed income market provide a compelling case for active management in the asset class. Staff also informed the Committee that it has begun discussions with the manager about possibly lowering the contracted investment management fees. Following the discussion, the Committee concurred with the staff recommendation.

### **Strategic Plan Impact Statement**

A contract renewal with Loomis will allow the fund to maintain a diversified exposure to the active high yield fixed income markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's organization, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices that affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/JP:rm

Attachments:   1. Investment Committee Recommendation Report dated May 9, 2023  
                  2. Proposed Resolution





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

**MEETING: MAY 9, 2023**  
**ITEM: VI**

*Neil M. Guglielmo*

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**SUBJECT: INVESTMENT MANAGER CONTRACT WITH LOOMIS, SAYLES & COMPANY, L.P.  
REGARDING THE MANAGEMENT OF AN ACTIVE HIGH YIELD FIXED INCOME  
PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

**ACTION:**  **CLOSED:**  **CONSENT:**  **RECEIVE & FILE:**

---

### **Recommendation**

That the Committee recommend to the Board a three-year contract renewal with Loomis, Sayles & Company, L.P. for management of an active high yield fixed income portfolio.

### **Executive Summary**

Loomis, Sayles & Company, L.P. (Loomis) has managed an active high yield fixed income portfolio for LACERS since October 2020. LACERS' portfolio was valued at \$224 million as of March 31, 2023. Loomis is in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal.

### **Discussion**

#### *Background*

Loomis manages an active high yield fixed income portfolio for LACERS benchmarked against the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index. Loomis' U.S. High Yield strategy is benchmark aware and provides a diversified, actively managed exposure to the U.S. high yield fixed income market. The strategy seeks to outperform through issue and sector selection, highlighting the importance of a disciplined portfolio construction and risk assessment process. The strategy is managed by a team of portfolio managers which include Matt Eagan (32 years of experience), Brian Kennedy (32 years of experience), Elaine Stokes (35 years of experience), and Todd Vandal (28 years of experience), all of whom have worked at Loomis for over two decades. The U.S. High Yield team has dedicated investment strategists and key support professionals and has full access to the firm's wider resources, including teams in credit research, trading, risk management and macro strategies. LACERS' portfolio was valued at \$224 million as of March 31, 2023.

The Board hired Loomis through the 2019-2020 Active High Yield Fixed Income search process and authorized a three-year contract on February 11, 2020; the contract became effective on September 1, 2020. The current contract expires on August 31, 2023. Representatives of Loomis most recently presented a portfolio review to the Investment Committee on March 8, 2022.

Loomis also manages an active core fixed income portfolio for LACERS currently benchmarked against the Bloomberg U.S. Aggregate Bond Index. This core fixed income portfolio has undergone several mandate changes going back to its inception in July 1980. As of March 31, 2023, this core fixed income portfolio Loomis manages for LACERS was valued at \$589 million.

*Organization*

Loomis is headquartered in Boston and has over 800 employees, of whom approximately 429 are investment personnel. Loomis is a wholly-owned subsidiary of Natixis S.A., a publicly traded France-based firm offering corporate and investment banking, asset and wealth management, financial investments, payments, and insurance services. As of March 31, 2023 the firm managed over \$302.1 billion in total assets with over \$2.3 billion in the U.S. High Yield strategy.

*Due Diligence*

Staff conducts routine due diligence of the manager; in addition to meeting virtually for quarterly portfolio reviews and ad hoc investment discussions, LACERS staff conducted an onsite meeting at Loomis' headquarters on April 13, 2023 to interview key personnel across the organization. Based upon these due diligence activities as well as staff's and NEPC's continuous monitoring, it has been noted that Loomis' organization, investment philosophy, strategy, and process have not changed materially over the contract period. Staff and NEPC continue to deem Loomis capable of managing assets for LACERS under the high yield fixed income strategy.

*Performance*

As of March 31, 2023, Loomis has generated a positive since inception net excess return and has underperformed the benchmark over the 3-month, 1-year and 2-year time periods, as presented in the table below.

<b>Annualized Performance as of 3/31/2023 (Net-of-Fees)</b>				
	3-Month	1-Year	2-Year	Since Inception 10/28/2020
Loomis	3.03	-5.16	-2.76	1.50
Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index	3.57	-3.35	-2.02	1.01
<i>% of Excess Return</i>	<i>-0.54</i>	<i>-1.81</i>	<i>-0.74</i>	<i>0.49</i>

The since inception outperformance over the benchmark is attributed to the excess return produced in the partial calendar year 2020, as presented in the table below.

<b>Calendar Year Performance as of 3/31/2023 (Net-of-Fees)</b>				
	1/1/2023- 3/31/2023	2022	2021	10/28/2020- 12/31/2020
Loomis	3.03	-11.24	4.23	8.77
Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index	3.57	-11.18	5.26	5.82
<i>% of Excess Return</i>	<i>-0.54</i>	<i>-0.06</i>	<i>-1.03</i>	<i>2.95</i>

Loomis’ overweight positioning in CCC-rated bonds, which performed remarkably well during the recovery phase of the current credit cycle, contributed to the 2020 outperformance relative to the benchmark. In 2021, spreads continued to tighten as the market entered the expansion phase of the current credit cycle. Credit spreads reflect the difference in yield between a government bond and a corporate bond of the same maturity. Narrower or tighter credit spreads are indicative of perceived lower credit risk and can therefore bolster market valuation of fixed income spread products. The strategy underperformed the benchmark due to its underweight to the high yield sector (subject to a minimum exposure to below investment grade rating; the strategy’s investment management guidelines allow for exposure to sectors other than high yield). In 2022, interest rates rose and fears of an impending recession led spreads to widen. On a gross-of-fees basis, the strategy outperformed the benchmark due to portfolio risk reduction measures undertaken by Loomis beginning early in 2022 in response to the global rate-hiking environment.

As the current credit cycle transitions to the downturn phase and eventually into the credit repair phase, Loomis expects strong positive total returns from high yield fixed income over the coming 12 to 24 months. Loomis aims to outperform on the strength of its security selection, focusing on each name’s long-term enterprise value while minimizing risks. As the foundation for its bottom-up credit work, Loomis intends to continue utilizing credit cycle analysis to evaluate the factors driving the cycle, anticipate broad sector mispricings, and seek to take advantage of changes in risk premiums. Additionally, Loomis will look to exercise its flexibility to invest in sectors other than high yield on an opportunistic basis to help mitigate risk and enhance total return potential.

Loomis is in compliance with the LACERS Manager Monitoring Policy; the short performance track record of the LACERS account is insufficient to cover a conventional market cycle and therefore does not provide adequate time to fully evaluate the effectiveness of the manager under this particular strategy. Staff and NEPC recommend renewing Loomis’ contract for another three-year period and will continue to monitor the manager and strategy pursuant to policy.

**Fees**

For management of the high yield portfolio, LACERS pays Loomis an effective fee of 37 basis points (0.37%), which is approximately \$830,000 annually based on the value of LACERS’ assets as of March 31, 2023. This fee ranks in the 15<sup>th</sup> percentile of fees charged by similar managers in the eVestment database (i.e., 85% of like-managers have higher fees). Since inception, LACERS has paid Loomis, for the high yield portfolio only, a total of \$2.1 million in investment management fees as of March 31, 2023.

**General Fund Consultant Opinion**

NEPC concurs with this recommendation.

## **Strategic Plan Impact Statement**

A contract renewal with Loomis will allow the fund to maintain a diversified exposure to the active high yield fixed income markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's organization, strategy, performance, and management fee structure aligns with the Strategic Plan Goal to uphold good governance practices that affirm transparency, accountability, and fiduciary duty (Goal V).

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

NMG/RJ/BF/JP:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC



**To: Los Angeles City Employees' Retirement System Investment Committee**

**From: NEPC, LLC**

**Date: May 9, 2023**

**Subject: Loomis, Sayles & Company, LP High Yield - Contract Renewal**

---

### **Recommendation**

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract for high yield services that is currently in place with Loomis, Sayles & Company, LP ('Loomis' or 'Loomis Sayles') for a period of three years from the date of contract expiry.

### **Background**

Loomis has been a high yield investment manager for LACERS since October 28, 2020. Loomis also manages a core fixed income portfolio for LACERS. As of February 28, 2023, Loomis managed \$222.5 million, or 1.1% of Plan assets. The portfolio is benchmarked against the Bloomberg U.S. High Yield 2% Issuer Cap Index and has a performance objective of outperforming the benchmark, net of fees, annualized over a full market cycle (normally three-to-five years). The Loomis portfolio is currently compliant with LACERS' manager monitoring policy.

Loomis traces its origins back to January 1926, when Robert H. Loomis and Ralph T. Sayles formed a partnership and established Loomis Sayles as an investment management company in Boston, Massachusetts. Since 2008, the firm is majority owned by Natixis Investment Managers, a subsidiary of a firm formed by two shareholders Caisse Nationale des Caisses d'Epargne ("CNCE") and Banque F'd'rale des Banques Populaires ("BFBP") who together form an entity named Groupe BPCE; a large banking group based in France. Groupe BPCE is the single voice of governance and strategic direction for Natixis. Natixis is a publicly traded company (ticker: NTFY). Loomis manages \$302.1 billion and employs 811 people as of March 31, 2023.

Loomis Sayles is one of over 30 subsidiaries wholly owned by Natixis. Natixis is described by Loomis management as the Bank of America of France. Three people from Natixis sit on the board of Loomis Sayles. Loomis counts on Natixis for a distribution network outside the US. Loomis' client base is currently 25% retail and 75% institutional. Relative to other Natixis affiliates, Loomis is strong in fixed income, and faces tougher competition for shelf space in the Natixis line-up on the equities side. From an incentive alignment standpoint, Loomis' ownership structure is stable and functioning. Natixis does place pressure on their asset managers to grow assets under management ('AUM'). Loomis can make hire/fire decisions and most business strategy decisions (strategy capacity/ asset level to close etc.) independently, but major decisions need Natixis approval (acquisitions or team lift outs for example). To seed a new strategy Loomis needs to work at length with Natixis to get them on board and get their support for the asset gathering phase of the new venture. One of the areas that Loomis is focusing on is the insurance space given secular growth in that area. They will be establishing an OCIO based in Paris. CEO Kevin Charleston is clearly focused on asset growth. The firm's growth target is close to double digits. Natixis receives 50% of Loomis' earnings.

Loomis' U.S. High Yield team's philosophy and approach is based on three considerations:

1. The market is inefficient pricing specific risk: fundamental research paints a clearer picture of intrinsic value. The team uses this foundation to identify mispriced securities when markets are short-term focused, illiquid, or irrational due to factors including fear and greed.
2. A credit cycle view can help identify opportunities and risks: the team follows a disciplined top-down framework to analyze the factors driving the macroeconomic cycle, evaluate how they might affect asset valuations, and seek to harvest credit risk premiums.
3. Risk management is integral, not an add-on: the team believes in a rigorous investment process that seeks to balance risk/reward tradeoffs effectively and integrates risk management at every step.

The team believes security selection can be most effective when paired with a rigorous top-down analysis of the macro environment. Credit cycle analysis is used to evaluate the factors driving the cycle, anticipate broad sector mispricing and seek to take advantage of changes in risk premiums at various stages of the cycle. The process helps the team identify which risk drivers they want to emphasize, or avoid in the portfolio, and it lays the foundation for bottom-up security selection.

The team managing the portfolio includes Matt Eagan, Elaine Stokes, Brian Kennedy and Todd Vandam, all of whom have been with Loomis over 20 years. On the macro level, the investment team works with the Loomis Sayles Macro Strategies team and leverages their analysis of the global economy and the economic prospects of individual countries, as well as quantitative frameworks. They also draw on the firm's sector teams, made up of portfolio managers, strategists, analysts and traders with expertise in investment grade credit, high yield credit, emerging market bonds, convertibles, securitized assets, bank loans, municipals, equities, and commodities. At the security selection decision, the team's partnership with the firm's fundamental research resources, including corporate credit, securitized, and sovereign debt provides the analysis and conviction required to execute the team's deep-value style. From the analyst standpoint, credit research has been the hallmark of Loomis Sayles Boston office and it continues to grow and show investment, including developing globally. While still taking advantage of the vast centralized research resources, the team did add a dedicated group of three analysts that are able to spend more time focusing on deeper credit dives for the team specifically. In past reviews we've noted credit miscues and the potential that the centralized credit research group was getting pulled in too many directions, given the number of teams it supports. The addition of this dedicated group should help to address these concerns.

### **Performance**

Referring to Exhibit 1, as of February 28, 2023, since the portfolio's inception date of November 1, 2020, the portfolio has underperformed its benchmark by 0.2%. Over the past year, the portfolio has underperformed the benchmark by 0.5% and year-to-date the portfolio has underperformed by 0.3%. Referring to Exhibit 1A, over longer periods of time, Loomis clients in the U.S. High Yield product have experienced performance close to the benchmark though the product has underperformed over all trailing periods.

Referring to Exhibit 2, as of December 31, 2022, since inception the portfolio has underperformed its benchmark's return slightly and ranked in the 67<sup>th</sup> percentile in its peer group. In the past year, ended December 31, 2022, the portfolio also underperformed its benchmark return by a small margin and ranked in the 76<sup>th</sup> percentile in its peer group.



Referring to Exhibit 3, the cumulative effect of the relative underperformance in 2021 and 2022 has resulted in underperformance since inception. Underperformance in the portfolio can be attributed to Loomis’ value orientation, sector allocation and credit positioning. More recently in 2022, performance has been more in line with the benchmark with high yield credit, investment grade credit, and emerging market credit sectors being top contributors while convertibles and U.S. Treasuries sectors were the main detractors from performance. Loomis’ U.S. High Yield strategy is designed to be benchmark aware with a tracking error in the one-to-two percent range. Tracking error has been in line with expectations though excess returns have been slightly negative which is disappointing.

**Fees**

The portfolio has an asset-based fee of 0.37% annually. This fee ranks in the 15<sup>th</sup> percentile among its peers in the eVestment U.S. High Yield Fixed Income universe. In other words, 85% of the products included in the peer universe have a higher fee than the LACERS account.

**Conclusion**

Loomis has slightly underperformed its benchmark index since November 1, 2020. The portfolio is designed to be benchmark aware against the Bloomberg U.S. High Yield 2% Issuer Cap Index and has delivered performance in line with its mandate. The firm has exhibited stability in their investment process, investment team, strategy and philosophy. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

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

Exhibit 1: Performance Comparison Net of Fees as of February 28, 2023

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	Inception	Inception Date
Loomis Sayles & Co. High Yield	-1.8	2.2	-6.0				0.4	Nov-20
Blmbg. U.S. High Yield - 2% Issuer Cap	-1.3	2.5	-5.5				0.6	
Over/Under	-0.5	-0.3	-0.5				-0.2	

Exhibit 1A: Performance Comparison Net of Fees Loomis U.S. High Yield Separately Managed Accounts Composite as of February 28, 2023

Product Name	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Returns - Since Inception 13.42 Years 10/2009 - 02/2023
Loomis Sayles & Co. High Yield	2.2	-6.4	0.9	2.0	4.7	3.8	5.9
Blmbg. U.S. High Yield - 2% Issuer Cap	2.5	-5.5	1.3	2.9	5.6	4.1	6.2
Over/Under	-0.3	-1.0	-0.4	-0.9	-0.8	-0.3	-0.3

\*Source: eVestment, Loomis Sayles & Company, LP U.S. High Yield net of fees separately managed accounts





Exhibit 2: Universe Performance Comparison Net of Fees Ending December 31, 2022

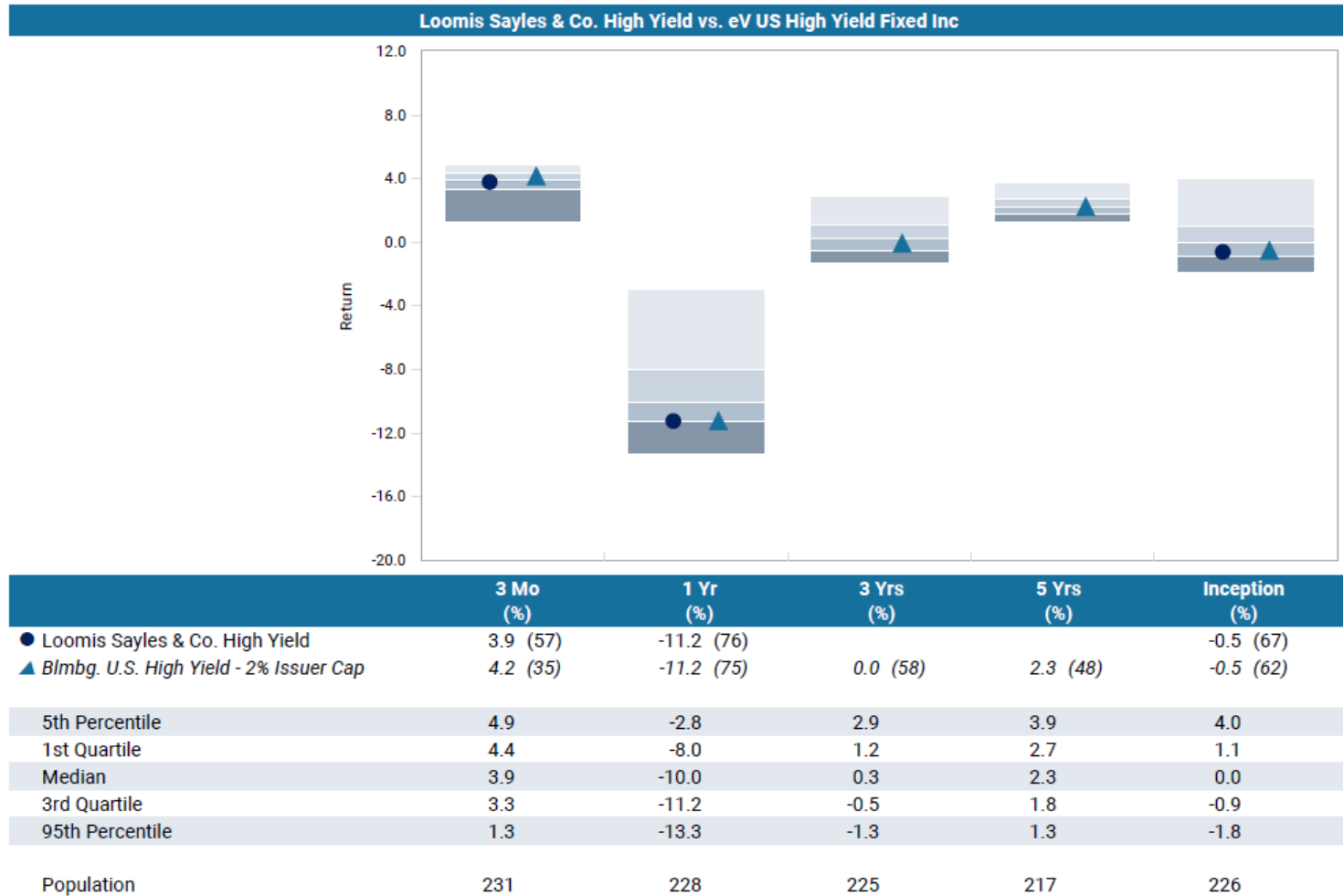
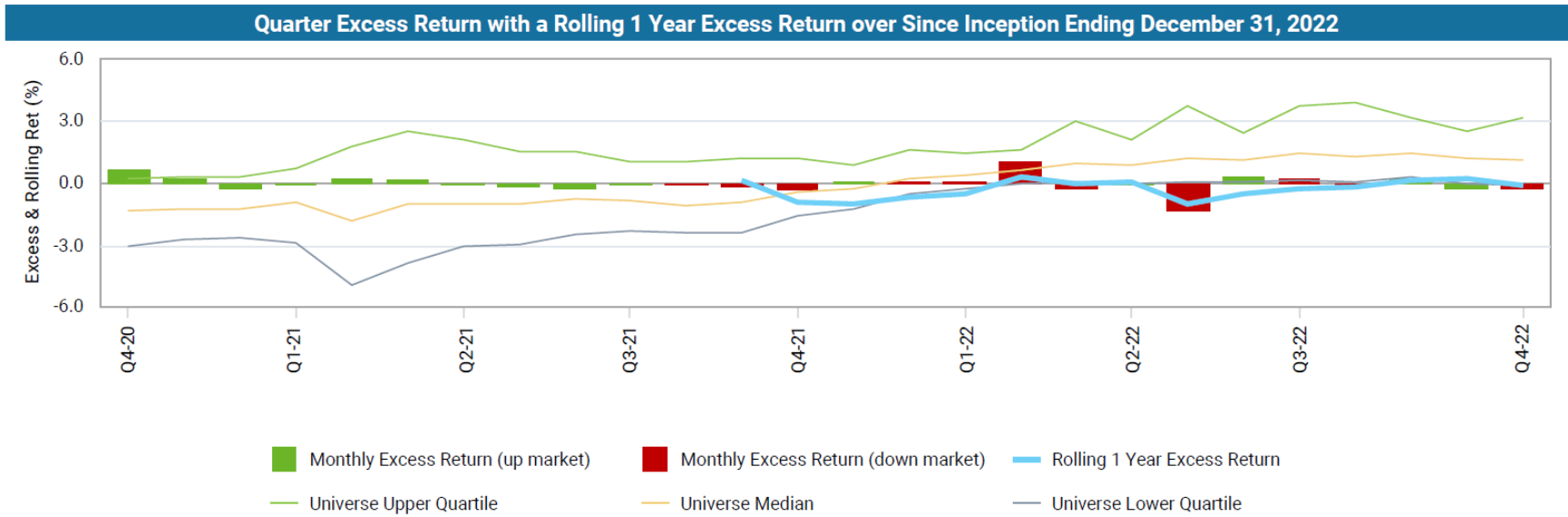




Exhibit 3: Cumulative Excess Performance Net of Fees Ending December 31, 2022



CONTRACT RENEWAL  
LOOMIS, SAYLES & COMPANY, L.P.  
ACTIVE HIGH YIELD FIXED INCOME PORTFOLIO MANAGEMENT

PROPOSED RESOLUTION

WHEREAS, LACERS' current three-year contract with Loomis, Sayles & Company, L.P. (Loomis) for active high yield fixed income portfolio management expires on August 31, 2023; and,

WHEREAS, Loomis is in compliance with the LACERS Manager Monitoring Policy; and,

WHEREAS, a contract renewal with Loomis will allow the LACERS total portfolio to maintain a diversified exposure to high yield fixed income; and,

WHEREAS, on May 23, 2023, the Board approved the Investment Committee's recommendation to approve a three-year contract renewal with Loomis.

NOW, THEREFORE, BE IT RESOLVED, that the General Manager is hereby authorized to approve and execute a contract subject to satisfactory business and legal terms and consistent with the following services and terms:

<u>Company Name:</u>	Loomis, Sayles & Company, L.P.
<u>Service Provided:</u>	Active High Yield Fixed Income Portfolio Management
<u>Effective Dates:</u>	September 1, 2023 through August 31, 2026
<u>Duration:</u>	Three years
<u>Benchmark:</u>	Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index
<u>Allocation as of March 31, 2023:</u>	\$224 million

May 23, 2023



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



**REPORT TO BOARD OF ADMINISTRATION**

**From: Neil M. Guglielmo, General Manager**

*Neil M. Guglielmo*

**MEETING: MAY 23, 2023**

**ITEM: X - E**

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**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$40 MILLION IN GGV CAPITAL IX L.P.**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

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**Recommendation**

That the Board receive and file this notice of the commitment of up to \$40 million in GGV Capital IX L.P.

**Executive Summary**

GGV Capital IX L.P. will focus on multi-stage venture capital investments in the social/internet, enterprise technology, and smart technology market segments located primarily in the United States and China.

**Discussion**

*Consultant Recommendation*

Aksia CA LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to \$40 million in GGV IX L.P. (the Flagship Fund), a venture capital fund managed by GGV Capital (GGV or the GP). Fund management and incentive fees are comparable to similar strategies; the GP will invest alongside limited partners, providing alignment of interest. This recommendation is consistent with the Private Equity Program 2023 Strategic Plan adopted by the Board on November 22, 2022.

*Background*

GGV Capital was founded as Granite Global Ventures in 2000 by Scott Bonham, Joel Kellman, Hany Nada, and Thomas Ng to focus on expansion stage investments in the United States and China. GGV is headquartered in San Francisco, and also operates offices in Singapore, Shanghai, Beijing, Menlo Park, and New York City. The firm has 35 investment team members with \$9.2 billion assets under management.

GGV is an existing general partner relationship for LACERS, with previous LACERS commitments to the following funds:

<b>Fund Name</b>	<b>Vintage Year</b>	<b>Commitment Size</b>	<b>Net IRR<sup>1,2</sup></b>
GGV Capital VIII L.P.	2021	\$16 million	18.1%
GGV Capital VIII Plus L.P.	2021	\$4 million	5.2%

### *Investment Thesis*

The Flagship Fund will focus on multi-stage venture capital investments, predominantly in late Series A rounds and later, focusing on companies generally with initial valuations of over \$100 million across the social/internet, enterprise technology, and smart technology market segments. GGV will focus primarily on investments within the United States and China, although the fund does not have a specific geographical mandate and may consider investments globally. GGV's significant footprint and successful track record in the two largest technology markets provides the firm with a sourcing advantage, and also enables the sharing of best practices with portfolio company entrepreneurs and CEOs. The GP also formed the Plus Fund (GGV Capital IX Plus L.P.), which will focus on follow-on growth stage venture capital investments from existing GGV portfolio companies in the Flagship Fund

### *Placement Agent*

The GP did not use a placement agent in connection with LACERS' investment.

### *Staff Recommendation*

Staff concurred with Aksia's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

### **Strategic Plan Impact Statement**

Investments in GGV Capital IX L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2023 Strategic Plan, and aligns with the Strategic Plan Goal of optimizing long-term risk adjusted investment returns (Goal IV).

Prepared By: Robert King, CPA, Investment Officer II, Investment Division

NMG/RJ/BF/WL/RK:rm

Attachments:        1. Aksia Investment Notification  
                             2. Discretion in a Box

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<sup>1</sup> Performance as of June 30, 2022

<sup>2</sup> Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s).

Aksia LLC

GGV Capital IX L.P.  
Investment Notification



[www.aksia.com](http://www.aksia.com)

## GGV Capital IX L.P.

Firm	• GGV Capital (“GGV” or the “Firm”)
Fund	• GGV Capital IX L.P. (“Fund IX” or the “Fund”)
Firm Founded	• 2000
Strategy	• Venture Capital
Sub-Strategy	• Multi-stage
Geography	• Primarily United States and China
Team	• ~35 investment professionals
Senior Partners	• Jixun Foo, Jenny Lee, Jeff Richards, Glenn Solomon, Hans Tung, and Eric Xu
Office Locations	• Singapore, Shanghai, Beijing, Menlo Park, San Francisco, New York
Industries	• Technology
Target Fund Size	• \$1.6 billion
LACERS Commitment:	• \$ 40.0 million

## Investment Highlights

- The Firm’s six Managing Partners are a cohesive team of professionals that have an average tenure of over 13 years at GGV and have served in both investment and operational roles.
- The Firm and its investment professionals have significant experience making technology investments across a variety of sub-sectors in both the U.S. and China. On a limited basis going forward, the Firm will also target investments in Southeast Asia, India, and Latin America.
- GGV has invested over multiple business cycles and environments and has established an expertise and reputation that differentiates the organization from other private equity firms.

# GGV Capital IX L.P.

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## Firm and Background

- GGV was established in 2000 by Scott Bonham, Joel Kellman, Hany Nada, and Thomas Ng to focus on expansion stage venture investments in the U.S. and China. Kellman, Ng and Bonham transitioned to venture partner roles in 2008 and fully retired in 2014. Today, GGV is led by Managing Partners Jixun Foo, Jenny Lee, Glenn Solomon, Hans Tung, Jeff Richards, and Eric Xu.
- Including the Managing Partners, the investment team currently consists of ~35 individuals. The investment team is further augmented by GGV's in-house portfolio services platform, which was established in 2015 and now comprises ~35 professionals focused on driving value-added returns post-investment.
- GGV established both follow-on (Plus Funds) and early stage (Discovery Funds) strategies in 2015 and 2016, respectively, to further augment the Firm's coverage and capacity to capture value.

## Investment Strategy

- Fund IX will continue the Firm's strategy of leading or co-leading venture capital investments across various stages in companies globally. Historically, the geographical focus of the Firm has been on China and the United States. That said, GGV has become increasingly more global in recent funds.
- The Firm's investment approach is predicated on the proliferation and continued adoption of internet usage in the target regions. Fund IX will predominantly consider opportunities in late Series A rounds and later, focusing on companies with initial valuations of over \$100.0 million across the social/internet, enterprise tech, and smart tech market segments.
- Fund IX will target 10 to 20 opportunities per year in late Series A or later rounds in companies typically seeking to raise \$30.0 million to \$100.0 million. The Firm's initial investments will generally require check sizes of \$10.0 million to \$50.0 million for an approximate ownership stake of 5.0% to 10.0% per company.

**PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.**

**THESE MATERIALS ARE NOT INTENDED AS AN OFFER TO SELL, OR THE SOLICITATION OF AN OFFER TO PURCHASE, ANY SECURITY. THIS PRESENTATION HAS BEEN PREPARED SOLELY FOR INFORMATIONAL AND DISCUSSION PURPOSES ONLY. THE INFORMATION HEREIN IS NOT INTENDED TO BE COMPLETE AND THE DESCRIPTION OF THE FUND IN THESE MATERIALS IS QUALIFIED IN ITS ENTIRETY BY THE TERMS AND INFORMATION CONTAINED IN THE FUND'S OFFERING DOCUMENTS, INCLUDING, WITHOUT LIMITATION, THE FUND'S PRIVATE PLACEMENT MEMORANDUM, PARTNERSHIP AGREEMENT AND SUBSCRIPTION AGREEMENT ("GOVERNING DOCUMENTS"). NOTHING HEREIN CONSTITUTES OR SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE.**

**THE INFORMATION HEREIN IS NOT INTENDED TO PROVIDE, AND SHOULD NOT BE RELIED UPON FOR, ACCOUNTING, TAX OR LEGAL ADVICE. YOU SHOULD CONSULT YOUR TAX, LEGAL AND/OR ACCOUNTING ADVISERS ABOUT ANY MATTERS DISCUSSED HEREIN.**

**INTERESTS IN THE FUND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ANY STATE OR OTHER SECURITIES LAWS OR THE LAWS OF ANY NON-U.S. JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD FOR INVESTMENT ONLY TO QUALIFYING INVESTORS PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS (INCLUDING NON-U.S. JURISDICTIONS) WHERE THE OFFERING WILL BE MADE. THERE WILL BE NO PUBLIC MARKET FOR INTERESTS IN THE FUND, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT. INTERESTS IN THE FUND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND ANY APPLICABLE NON-U.S. SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE TRANSFERABILITY OF THE INTERESTS WILL BE FURTHER RESTRICTED BY THE TERMS OF THE FUND'S GOVERNING DOCUMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.**

**NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.**



ARTICLE III. BOARD INVESTMENT POLICIES

**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>

ARTICLE III. BOARD INVESTMENT POLICIES

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
<b>Investment Selection</b>	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Review and approve investments in partnerships of amounts greater than \$150 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 \$150 million in partnerships 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 \$150 million.</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 \$150 million.</li> <li>With Staff concurrence, approve investments of up to and including \$150 million.</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>



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



**REPORT TO BOARD OF ADMINISTRATION**

**From: Neil M. Guglielmo, General Manager**

*Neil M. Guglielmo*

**MEETING: MAY 23, 2023**

**ITEM: X - F**

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**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$10 MILLION IN GGV CAPITAL IX PLUS L.P.**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

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**Recommendation**

That the Board receive and file this notice of the commitment of up to \$10 million in GGV Capital IX Plus L.P.

**Executive Summary**

GGV Capital IX Plus L.P. will focus on multi-stage venture capital investments in the social/internet, enterprise technology, and smart technology market segments located primarily in the United States and China.

**Discussion**

*Consultant Recommendation*

Aksia CA LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to \$10 million in GGV Capital IX Plus L.P. (the Plus Fund), a venture capital fund managed by GGV Capital (GGV or the GP). Fund management and incentive fees are comparable to similar strategies; the GP will invest alongside limited partners, providing alignment of interest. This recommendation is consistent with the Private Equity Program 2023 Strategic Plan adopted by the Board on November 22, 2022.

*Background*

GGV Capital was founded as Granite Global Ventures in 2000 by Scott Bonham, Joel Kellman, Hany Nada, and Thomas Ng to focus on expansion stage investments in the United States and China. GGV is headquartered in San Francisco, and also operates offices in Singapore, Shanghai, Beijing, Menlo Park, and New York City. The firm has 35 investment team members with \$9.2 billion assets under management.

GGV is an existing general partner relationship for LACERS, with previous LACERS commitments to the following funds:

<b>Fund Name</b>	<b>Vintage Year</b>	<b>Commitment Size</b>	<b>Net IRR<sup>1,2</sup></b>
GGV Capital VIII L.P.	2021	\$16 million	18.1%
GGV Capital VIII Plus L.P.	2021	\$4 million	5.2%

*Investment Thesis*

The Plus Fund will focus on follow-on growth stage venture capital investments from existing GGV portfolio companies in the Flagship Fund (GGV Capital IX L.P.) that show traction in their respective industries and emerge as strong performers in the social/internet, enterprise technology, and smart technology market segments. GGV will focus primarily on investments within the United States and China, although the fund does not have a specific geographical mandate and may consider investments globally. GGV’s significant footprint and successful track record in the two largest technology markets provides the firm with a sourcing advantage, and also enables the sharing of best practices with portfolio company entrepreneurs and CEOs.

*Placement Agent*

The GP did not use a placement agent in connection with LACERS’ investment.

*Staff Recommendation*

Staff concurred with Aksia’s recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

**Strategic Plan Impact Statement**

Investments in GGV Capital IX Plus L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2023 Strategic Plan, and aligns with the Strategic Plan Goal of optimizing long-term risk adjusted investment returns (Goal IV).

Prepared By: Robert King, CPA, Investment Officer II, Investment Division

NMG/RJ/BF/WL/RK:rm

- Attachments:        1. Aksia Investment Notification  
                              2. Discretion in a Box

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<sup>1</sup> Performance as of June 30, 2022

<sup>2</sup> Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS’ interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s).

Aksia LLC

GGV Capital IX Plus L.P.  
Investment Notification



[www.aksia.com](http://www.aksia.com)

## GGV Capital IX Plus L.P.

Firm	• GGV Capital (“GGV” or the “Firm”)
Fund	• GGV Capital IX Plus L.P. (“Fund IX Plus” or the “Fund”)
Firm Founded	• 2000
Strategy	• Venture Capital
Sub-Strategy	• Multi-stage
Geography	• Primarily United States and China
Team	• ~35 investment professionals
Senior Partners	• Jixun Foo, Jenny Lee, Jeff Richards, Glenn Solomon, Hans Tung, and Eric Xu
Office Locations	• Singapore, Shanghai, Beijing, Menlo Park, San Francisco, New York
Industries	• Technology
Target Fund Size	• \$400.0 million
LACERS Commitment:	• \$ 10.0 million

## Investment Highlights

- The Firm’s six Managing Partners are a cohesive team of professionals that have an average tenure of over 13 years at GGV and have served in both investment and operational roles.
- The Firm and its investment professionals have significant experience making technology investments across a variety of sub-sectors in both the U.S. and China. On a limited basis going forward, the Firm will also target investments in Southeast Asia, India, and Latin America.
- GGV has invested over multiple business cycles and environments and has established an expertise and reputation that differentiates the organization from other private equity firms.

# GGV Capital IX Plus L.P.

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## Firm and Background

- GGV was established in 2000 by Scott Bonham, Joel Kellman, Hany Nada, and Thomas Ng to focus on expansion stage venture investments in the U.S. and China. Kellman, Ng and Bonham transitioned to venture partner roles in 2008 and fully retired in 2014. Today, GGV is led by Managing Partners Jixun Foo, Jenny Lee, Glenn Solomon, Hans Tung, Jeff Richards, and Eric Xu.
- Including the Managing Partners, the investment team currently consists of ~35 individuals. The investment team is further augmented by GGV's in-house portfolio services platform, which was established in 2015 and now comprises ~35 professionals focused on driving value-added returns post-investment.
- GGV established both follow-on (Plus Funds) and early stage (Discovery Funds) strategies in 2015 and 2016, respectively, to further augment the Firm's coverage and capacity to capture value.

## Investment Strategy

- GGV Plus Fund IX will serve as an overflow vehicle, acquiring stakes in investments that require capital in excess of the Flagship funds' allocation. GGV IX Plus will typically invest in GGV IX portfolio companies should the deal surpass a total investment amount of \$25.0 million, allowing to Firm to capitalize on and maintain ownership in emerging winners by allocating follow-on capital at later rounds.
- The Firm's investment approach is predicated on the proliferation and continued adoption of internet usage in the target regions. Fund IX and Fund IX Plus will predominantly consider opportunities in late Series A rounds and later, focusing on companies with initial valuations of over \$100.0 million across the social/internet, enterprise tech, and smart tech market segments.

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**NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.**



ARTICLE III. BOARD INVESTMENT POLICIES

**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>

ARTICLE III. BOARD INVESTMENT POLICIES

**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 partnerships of amounts greater than \$150 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 \$150 million in partnerships 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 \$150 million.</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 \$150 million.</li> <li>With Staff concurrence, approve investments of up to and including \$150 million.</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>



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



**REPORT TO BOARD OF ADMINISTRATION**

**From: Neil M. Guglielmo, General Manager**

*Neil M. Guglielmo*

**MEETING: MAY 23, 2023**

**ITEM: X - G**

**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$25 MILLION IN BARINGS EMERGING GENERATION FUND II, LP**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

**Recommendation**

That the Board receive and file this notice of the commitment of up to \$25 million in Barings Emerging Generation Fund II, LP.

**Executive Summary**

Barings Emerging Generation Fund II, LP will focus on executing a private equity fund of funds strategy working with emerging manager funds based in North America and Europe.

**Discussion**

*Consultant Recommendation*

Aksia CA LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to \$25 million in Barings Emerging Generation Fund II, LP (the Fund), a private equity fund of funds strategy managed by Barings Funds & Co-Investments (Barings FCI or the GP). Fund management and incentive fees are comparable to similar strategies; the GP will invest alongside limited partners, providing alignment of interest. This recommendation is consistent with the Private Equity Program 2023 Strategic Plan adopted by the Board on November 22, 2022.

*Background*

Barings LLC is a global investment manager that traces its origins back to 1762, with more than \$362 billion of assets under management across all major asset classes. Barings LLC has a global presence with seven offices in North America, 12 offices in Europe, and 10 offices in the Asia-Pacific region. Barings FCI, which was founded in 1992 and is based primarily out of the firm's Charlotte, North Carolina office, is responsible for investing in primary funds, secondary funds, and co-investments across various private market strategies, including buyouts, growth equity, venture capital, private credit, infrastructure, natural resources, and real estate. Mina Nazemi, co-head of Barings FCI, is responsible for leading Fund strategy and will work closely with managing director Elizabeth Weindruch.

LACERS has an existing general partner relationship with Barings and in 2021, committed \$25 million to Barings Emerging Generation Fund, LP. The performance is currently not meaningful.

### *Investment Thesis*

The Fund seeks to invest in first-, second-, and third-time emerging manager funds as well as equity co-investments and secondary opportunities across the lower middle market and micro-cap portfolio companies. It will focus on buyout funds, but also invest in growth equity and opportunistic investment strategies, with most portfolio companies located in North America and a smaller portion of portfolio companies located in Europe. The strategy will invest in spinout teams and independent sponsors, while also considering allocations to women and diverse managers, veteran and disabled managers, and impact-focused managers who meet appropriate risk and return objectives.

### *Placement Agent*

The GP did not use a placement agent in connection with LACERS' investment.

### *Staff Recommendation*

Staff concurred with Aksia's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

### **Strategic Plan Impact Statement**

Investment in Barings Emerging Generation Fund II, LP will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2023 Strategic Plan and aligns with the Strategic Plan Goal of optimizing long-term risk adjusted investment returns (Goal IV).

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

NMG/RJ/BF/WL/CH:rm

Attachments:       1. Aksia Investment Notification  
                          2. Discretion in a Box

Aksia LLC

# Barings Emerging Generation Fund II, LP Investment Notification



[www.aksia.com](http://www.aksia.com)

## Barings Emerging Generation Fund II, LP

Firm	• Barings LLC (“Barings” or the “Firm”)
Fund	• Barings Emerging Generation Fund II, LP (“Fund II” or the “Fund”)
Firm Founded	• 1991
Strategy	• Private Equity Fund of Funds
Sub-Strategy	• Emerging Managers
Geography	• North America and Western Europe
Team	• ~20 investment professionals
Senior Partners	• Mina Nazemi and Elizabeth Weindruch
Office Locations	• Charlotte, North Carolina
Industries	• Diversified
Target Fund Size	• \$200.0 million
LACERS Commitment:	• \$25.0 million

## Investment Highlights

- Fund II will continue to pursue the mandate of investing with and supporting emerging managers.
- Mina Nazemi joined Barings in late 2017 and brings extensive experience from her time at GCM Grosvenor and Credit Suisse. Nazemi is seen as a leading industry advocate for investment in emerging managers and underserved markets.
- Barings has a proactive sourcing effort supported by its reputation as an advisor and strategic partner for emerging managers, including monitoring and advising potential spin-out teams.
- Since 1993, Barings FCI has invested almost \$3.0 billion across approximately 250 emerging manager funds.

# Barings Emerging Generation Fund II, LP

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## Firm and Background

- Barings is a large, global investment manager focused on public and private fixed income, real estate, and specialist equity markets.
- In 2005, Barings' asset management division was sold to Massachusetts Mutual Life Insurance Company ("MassMutual") and the Firm primarily invested on behalf of Mass Mutual.
- In 2017, the Firm expanded Mass Mutual's Emerging Manager strategy to manage third party capital and hired the five-person private equity team from Aldea Capital Partners ("Aldea"). Mina Nazemi founded Aldea in 2016.
- Fund II will be led by Mina Nazemi and Elizabeth Weindruch (Managing Directors and Co-Portfolio Managers).

## Investment Strategy

- The Fund will target primary fund investments (50.0 - 70.0%), co-investments (20.0 - 40.0%), and secondary investment (0.0 - 20.0%) in emerging managers.
- The majority of the Fund is expected to be invested in North American GPs (70.0 - 90.0%) but will also include European GPs (10.0 - 30.0%).
- First and second time funds are expected to account for the majority of the portfolio (80.0 - 100.0%), while Fund III's may make up a portion of the portfolio (0.0% - 20.0%).
- The Fund is expected to be diversified across 20 - 30 investments and approximately 100 - 150 underlying portfolio companies.

**PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.**

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**THE INFORMATION HEREIN IS NOT INTENDED TO PROVIDE, AND SHOULD NOT BE RELIED UPON FOR, ACCOUNTING, TAX OR LEGAL ADVICE. YOU SHOULD CONSULT YOUR TAX, LEGAL AND/OR ACCOUNTING ADVISERS ABOUT ANY MATTERS DISCUSSED HEREIN.**

**INTERESTS IN THE FUND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ANY STATE OR OTHER SECURITIES LAWS OR THE LAWS OF ANY NON-U.S. JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD FOR INVESTMENT ONLY TO QUALIFYING INVESTORS PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS (INCLUDING NON-U.S. JURISDICTIONS) WHERE THE OFFERING WILL BE MADE. THERE WILL BE NO PUBLIC MARKET FOR INTERESTS IN THE FUND, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT. INTERESTS IN THE FUND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND ANY APPLICABLE NON-U.S. SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE TRANSFERABILITY OF THE INTERESTS WILL BE FURTHER RESTRICTED BY THE TERMS OF THE FUND'S GOVERNING DOCUMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.**

**NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.**



ARTICLE III. BOARD INVESTMENT POLICIES

**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>

ARTICLE III. BOARD INVESTMENT POLICIES

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
<b>Investment Selection</b>	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Review and approve investments in partnerships of amounts greater than \$150 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 \$150 million in partnerships 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 \$150 million.</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 \$150 million.</li> <li>With Staff concurrence, approve investments of up to and including \$150 million.</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>



**LACERS**  
LA CITY EMPLOYEES'  
RETIREMENT SYSTEM



**REPORT TO BOARD OF ADMINISTRATION**  
**From: Neil M. Guglielmo, General Manager**

**MEETING: MAY 23, 2023**  
**ITEM: X - H**

*Neil M. Guglielmo*

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**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$50 MILLION IN HELLMAN & FRIEDMAN CAPITAL PARTNERS XI, L.P.**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

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### **Recommendation**

That the Board receive and file this notice of the commitment of up to \$50 million in Hellman & Friedman Capital Partners XI, L.P.

### **Executive Summary**

Hellman & Friedman Capital Partners XI, L.P. will focus on large capitalization buyouts in North America and Europe.

### **Discussion**

#### *Consultant Recommendation*

Aksia CA LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to \$50 million in Hellman & Friedman Capital Partners XI, L.P. (the Fund), a buyout strategy managed by Hellman & Friedman Investors XI, L.P. (Hellman & Friedman or the GP). Fund management and incentive fees are comparable to similar strategies; the GP will invest alongside limited partners, providing alignment of interests. This recommendation is consistent with the Private Equity Program 2023 Strategic Plan adopted by the Board on November 22, 2022.

#### *Background*

Hellman & Friedman was founded in 1984 and is currently led by Patrick Healy (CEO) and Philip Hammaraskjold (Executive Chairman). The GP has over \$80 billion in assets under management as of September 30, 2022, and has invested in over 100 companies. The firm consists of 50 investment professionals with offices in San Francisco (headquarters), New York, and London.

LACERS has an existing general partner relationship with Hellman & Friedman and previously committed a total of \$140.5 million to the following Hellman & Friedman-sponsored funds:

Fund	Vintage Year	Commitment Amount	Net IRR <sup>1,2</sup>
Hellman & Friedman V, L.P.	2004	\$10.5 million	27.8%
Hellman & Friedman VI, L.P.	2006	\$20.0 million	12.9%
Hellman & Friedman VII, L.P.	2011	\$20.0 million	24.7%
Hellman & Friedman VIII, L.P.	2016	\$20.0 million	18.8%
Hellman & Friedman IX, L.P.	2019	\$30.0 million	14.7%
Hellman & Friedman X, L.P.	2021	\$40.0 million	n.m.

n.m. – not meaningful

### *Investment Thesis*

The Fund invests in select industries such as technology; financial services; consumer services and retail; healthcare; and information, content, and business services. Within these industries, the GP seeks large capitalization companies that typically have attributes such as strong brand names, predictable recurring revenue, pricing power, high levels of free cash flow, attractive returns on capital, and steady growth profiles. Hellman & Friedman adds value to these companies by assisting management with major strategic, operational, and financial initiatives. The GP intends to build a concentrated portfolio of investments that will consist primarily of U.S.-based companies. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

### *Placement Agent*

The GP did not use a placement agent in connection with LACERS' investment.

### *Staff Recommendation*

Staff concurred with Aksia's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

### **Strategic Plan Impact Statement**

Investment in Hellman & Friedman Capital Partners XI, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2023 Strategic Plan, and aligns with the Strategic Plan Goal of optimizing long-term risk adjusted investment returns (Goal IV).

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

NMG/RJ/BF/WL/CH:rm

Attachments:      1. Aksia Investment Notification  
                          2. Discretion in a Box

<sup>1</sup>Performance as of June 30, 2022.

<sup>2</sup>Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds, and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s).

Aksia LLC

Hellman & Friedman Capital Partners XI, L.P.  
Investment Notification



[www.aksia.com](http://www.aksia.com)

## Hellman & Friedman Capital Partners XI, L.P.

Firm	• Hellman & Friedman (“H&F” or the “Firm”)
Fund	• Hellman & Friedman Capital Partners XI, L.P. (“Fund XI” or the “Fund”)
Firm Founded	• 1984
Strategy	• U.S. Buyout
Sub-Strategy	• U.S. Large Cap Buyout
Geography	• North America and Europe
Team	• ~50 Investment Professionals
Senior Partners	• Patrick Healy, Philip Hammarskjold, David Tunnell , Allen Thorpe
Office Locations	• San Francisco, New York, London
Industries	• Technology, Financial Services, Consumer Services & Retail, Healthcare, and Information Content / Business Services
Target Fund Size	• \$23.0 billion
LACERS Commitment:	• \$50.0 million

## Investment Highlights

- The four members of H&F’s investment committee have an average tenure at the Firm of more than 25 years. They are supported by nine additional investment partners who have worked together on average for over 15 years.
- Despite the success of its buyout funds, H&F has never launched other strategies or branched out into new business lines.
- The Firm’s strong realized track record demonstrates its ability to successfully source, execute, and exit investments.

## Hellman & Friedman Capital Partners XI, L.P.

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### Firm and Background

- The Firm was founded in 1984 by Warren Hellman and Tully Friedman to pursue buyout and growth equity investments and raised its first buyout fund in 1987.
- Since inception, the Firm has undergone four leadership transitions, with the most recent occurring in 2019 when Patrick Healy became sole CEO of the Firm and Philip Hammarskjold assumed the role of Executive Chairman.
- Today, H&F is led by Healy and Hammarskjold along with an additional 20 partners, including 11 investment partners and nine partners who are operationally focused or involved in administrative/back-office functions.

### Investment Strategy

- The Firm anticipates building a concentrated portfolio of nine to 15 investments with equity checks ranging between \$400 million and \$4 billion. Portfolio companies will generally have enterprise values of \$1.0 billion or greater and EBITDA of at least \$50 million.
- Portfolio investments will be focused on five core sectors, including Technology, Financial Services, Consumer Services & Retail, Healthcare, and Information, Content & Business Services.
- Transaction types will span traditional buyouts, corporate carve-outs, take-privates, and recapitalizations and include control, shared-control, and minority ownership.
- Geographic exposure is expected to be split approximately two-thirds to North America and one-third to Europe but could vary as H&F takes a bottoms-up approach to deploying capital.

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**NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.**



ARTICLE III. BOARD INVESTMENT POLICIES

**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>

ARTICLE III. BOARD INVESTMENT POLICIES

**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 partnerships of amounts greater than \$150 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 \$150 million in partnerships 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 \$150 million.</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 \$150 million.</li> <li>With Staff concurrence, approve investments of up to and including \$150 million.</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>



**REPORT TO BOARD OF ADMINISTRATION**  
**From: Neil M. Guglielmo, General Manager**

**MEETING: MAY 23, 2023**  
**ITEM: X - I**

*Neil M. Guglielmo*

**SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$60 MILLION IN TA XV-A, L.P.**

ACTION:  CLOSED:  CONSENT:  RECEIVE & FILE:

**Recommendation**

That the Board receive and file this notice of the commitment of up to \$60 million in TA XV-A, L.P.

**Executive Summary**

TA XV-A, L.P. invests in profitable middle-market growth companies in the following sectors: technology, business services, financial services, consumer, and healthcare.

**Discussion**

*Consultant Recommendation*

Aksia CA LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to \$60 million in TA XV-A, L.P. (the Fund), a growth equity fund managed by TA Associates Management (TA or the GP). Fund management and incentive fees are comparable to similar strategies; the GP will invest alongside limited partners, providing alignment of interest. This recommendation is consistent with the Private Equity Program 2023 Strategic Plan adopted by the Board on November 22, 2022.

*Background*

TA was founded in 1968 and is currently led by Brian Conway (Chairman) and Ajit Nedungadi (CEO). The firm currently invests in late-stage venture, expansion, growth equity, debt, and middle-market buyouts. Since the firm's inception, TA has invested more than \$36 billion of capital. The firm has over 100 investment professionals and offices in Boston (headquarters), Menlo Park, Austin, Mumbai, London, and Hong Kong.

LACERS has an existing general partner relationship with TA and previously committed a total of \$146 million to the following TA-sponsored funds:

<b>Fund</b>	<b>Vintage Year</b>	<b>Commitment Amount</b>	<b>Net IRR<sup>1,2</sup></b>
TA X, L.P.	2006	\$6 million	5.2%
TA XI, L.P.	2010	\$20 million	26.9%
TA XII-A, L.P.	2016	\$25 million	39.3%
TA XIII-A, L.P.	2019	\$35 million	44.6%
TA XIV-A, L.P.	2021	\$60 million	n.m.

n.m. – not meaningful

### *Investment Thesis*

The GP seeks to invest in profitable minority-stage investments and middle-market growth companies with solid management teams in the following sectors: technology, business services, financial services, consumer, and healthcare. The GP adds value by helping portfolio companies with mergers and acquisitions, recruiting senior management and board members, developing and executing growth strategies, and optimizing cost and capital structures. Furthermore, the GP relies on portfolio companies' earnings growth as the primary source of returns and works to drive organic growth through geographic and vertical expansion, pricing, and customer analytics. Exit strategies include initial public offerings and sales to financial institutions or strategic partners, such as other private equity firms or large enterprise firms.

### *Placement Agent*

The GP did not use a placement agent in connection with LACERS' investment.

### *Staff Recommendation*

Staff concurred with Aksia's recommendation. The commitment has been consummated pursuant to the Discretion in a Box (Roles and Responsibilities) section of the Private Equity Investment Policy; no Board action is required.

### **Strategic Plan Impact Statement**

Investment in TA XV-A, L.P. will allow LACERS to maintain exposure to private equity, pursuant to the Private Equity Program 2023 Strategic Plan, and aligns with the Strategic Plan Goal of optimizing long-term risk adjusted investment returns (Goal IV).

Prepared By: Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/BF/WL/EP:rm

Attachments:           1. Aksia Investment Notification  
                                  2. Discretion in a Box

<sup>1</sup> Performance as of June 30, 2022

<sup>2</sup> Performance data (1) does not necessarily accurately reflect the current or expected future performance of the Fund(s) or the fair value of LACERS' interest in the Fund(s), (2) should not be used to compare returns among multiple private equity funds, and (3) has not been calculated, reviewed, verified or in any way sanctioned or approved by the general partner(s) or manager(s)

Aksia LLC

TA XV-A, L.P.  
Investment Notification



[www.aksia.com](http://www.aksia.com)

## TA XV-A, L.P.

Firm	• TA Associates (“TA” or the “Firm”)
Fund	• TA XV-A, L.P. (“Fund XV” or the “Fund”)
Firm Founded	• 1968
Strategy	• Growth Equity
Sub-Strategy	• U.S. Growth Equity
Geography	• Primarily North America
Team	• 100+ investment professionals
Senior Partners	• Brian Conway and Ajit Nedungadi
Office Locations	• Boston, Menlo Park, Austin, London, Mumbai, Hong Kong
Industries	• Technology
Target Fund Size	• \$15.0 billion
LACERS Investment	• \$60.0 million

## Investment Highlights

- In addition to Brian Conway (Chairman) and Ajit Nedungadi (CEO), the Firm has 21 Managing Directors that have worked together at TA for an average of 16.8 years.
- Fund XV will pursue a similar strategy to prior funds, investing in high-quality, profitable businesses with high recurring revenues, sustainable earnings growth, sticky customer base, and the potential to complete accretive acquisitions.
- TA developed the Strategic Resource Group to aid investment professionals in new investments, driving revenue growth, and managing performance improvement initiatives.
- Strong consistent track record with realized returns.

## TCV XV-A, L.P.

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### Firm and Background

- TA Associates is a global private equity firm focused on profitable, high-growth companies in the middle market.
- Originally founded as a venture capital firm in 1968, the Firm formalized its current investment strategy and rebranded under the “TA” moniker in 2000.
- TA currently manages several product lines, including a series of subordinated debt vehicles in addition to the Firm’s Select Opportunities platform that was created in 2019. The Select Opportunities platform was created to enable the Firm to extend participation in a select group of companies in a fund structure separate from the Flagship Funds.

### Investment Strategy

- The Fund will target both profitable minority-stage investments and middle-market growth buyouts.
- It is expected that the Fund will write average equity checks of \$200 million and invest in 50-60 portfolio companies.
- The Firm will typically focus on companies with revenues between \$25.0 million and over \$300.0 million and enterprise values between \$150.0 million and over \$1.0 billion but has the flexibility to invest in larger companies.
- The Fund is expected to be well diversified across TA’s five core sectors: business services, consumer, financial services, healthcare, and technology (including financial technology and software).
- The investment team is further organized by three geographies: North America, Europe, and the Asia-Pacific region. Each geography is focused on the five target industries.

**PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.**

**THESE MATERIALS ARE NOT INTENDED AS AN OFFER TO SELL, OR THE SOLICITATION OF AN OFFER TO PURCHASE, ANY SECURITY. THIS PRESENTATION HAS BEEN PREPARED SOLELY FOR INFORMATIONAL AND DISCUSSION PURPOSES ONLY. THE INFORMATION HEREIN IS NOT INTENDED TO BE COMPLETE AND THE DESCRIPTION OF THE FUND IN THESE MATERIALS IS QUALIFIED IN ITS ENTIRETY BY THE TERMS AND INFORMATION CONTAINED IN THE FUND'S OFFERING DOCUMENTS, INCLUDING, WITHOUT LIMITATION, THE FUND'S PRIVATE PLACEMENT MEMORANDUM, PARTNERSHIP AGREEMENT AND SUBSCRIPTION AGREEMENT ("GOVERNING DOCUMENTS"). NOTHING HEREIN CONSTITUTES OR SHOULD NOT BE CONSTRUED AS INVESTMENT ADVICE.**

**THE INFORMATION HEREIN IS NOT INTENDED TO PROVIDE, AND SHOULD NOT BE RELIED UPON FOR, ACCOUNTING, TAX OR LEGAL ADVICE. YOU SHOULD CONSULT YOUR TAX, LEGAL AND/OR ACCOUNTING ADVISERS ABOUT ANY MATTERS DISCUSSED HEREIN.**

**INTERESTS IN THE FUND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER ANY STATE OR OTHER SECURITIES LAWS OR THE LAWS OF ANY NON-U.S. JURISDICTION. THE INTERESTS WILL BE OFFERED AND SOLD FOR INVESTMENT ONLY TO QUALIFYING INVESTORS PURSUANT TO THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS (INCLUDING NON-U.S. JURISDICTIONS) WHERE THE OFFERING WILL BE MADE. THERE WILL BE NO PUBLIC MARKET FOR INTERESTS IN THE FUND, AND THERE IS NO OBLIGATION ON THE PART OF ANY PERSON TO REGISTER THE INTERESTS UNDER THE SECURITIES ACT. INTERESTS IN THE FUND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND ANY APPLICABLE NON-U.S. SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. THE TRANSFERABILITY OF THE INTERESTS WILL BE FURTHER RESTRICTED BY THE TERMS OF THE FUND'S GOVERNING DOCUMENTS. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN THE FUND FOR AN INDEFINITE PERIOD OF TIME.**

**NONE OF THE INFORMATION CONTAINED HEREIN WAS PREPARED BY THE FUND OR ANY UNDERLYING PORTFOLIO FUNDS IDENTIFIED HEREIN, IF ANY, THE GENERAL PARTNERS THEREOF OR ANY OF THEIR RESPECTIVE AFFILIATES. BY ACCEPTING THESE MATERIALS, YOU HEREBY ACKNOWLEDGE AND AGREE TO ALL OF THE TERMS AND CONDITIONS IN THESE DISCLOSURES.**



ARTICLE III. BOARD INVESTMENT POLICIES

**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>

ARTICLE III. BOARD INVESTMENT POLICIES

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
<b>Investment Selection</b>	<ul style="list-style-type: none"> <li>Review investment analysis reports.</li> <li>Review and approve investments in partnerships of amounts greater than \$150 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 \$150 million in partnerships 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 \$150 million.</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 \$150 million.</li> <li>With Staff concurrence, approve investments of up to and including \$150 million.</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>



Office of the Los Angeles City Attorney  
Hydee Feldstein Soto

Board Mtg: 05/23/23  
Item: XI-A

## MEMORANDUM

**DATE:** May 23, 2023

**TO:** Board of Administration, Los Angeles City Employees' Retirement System

**FROM:** Anya Freedman, Assistant City Attorney <sup>AF</sup>  
Public Pensions General Counsel Division

**CC:** Neil Guglielmo, General Manager

**Re:** Approval of One-Year Extensions to Contracts for Outside Fiduciary and Conflict Counsel

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### RECOMMENDATION

**We recommend that the Board:**

- 1. Authorize the City Attorney to negotiate contract amendments extending the term of the Plan's current outside fiduciary and conflict counsel contracts with Kutak Rock LLP, Nossaman LLP, and Olson Remcho LLP by one year, to expire on June 30, 2024; and**
- 2. Authorize the General Manager to execute the amendments on behalf of the Board, subject to City Attorney approval as to form.**

LACERS Staff and our Office have been very satisfied by the current bench of firms, who were engaged in 2020 following a Request for Proposals (RFP) and robust competitive selection process. The public pension fiduciary law services provided under the existing contracts are highly specialized, and the current group of retained law firms continue to be the most qualified firms in the country with this specialized expertise. Finally, one-year extensions are permitted without competitive bidding or City Council approval because their spending limits fall under the annual threshold for contract extensions pursuant to Administrative Code section 10.5(b)(2).

## BACKGROUND

The Public Pensions General Counsel Division (Division) of the City Attorney's Office serves as general counsel to the City's three independent pension plans: the Los Angeles City Employees' Retirement System (LACERS), the Los Angeles Fire and Police Pensions plan (LAFPP), and the Water and Power Employees' Retirement Plan (WPERP) (together, the Plans).

The Plans historically have contracted with at least one outside law firm for outside fiduciary counsel services. Outside fiduciary counsel assists the Division to provide project-specific advice, as needed, including advising on statutory and regulatory requirements of governmental pension plans, strengthening our in house expertise on issues of fiduciary law as applied to discrete investment and benefits matters, and advising Plan employees and commissioners on ethics matters. Outside fiduciary counsel has also been available to provide discrete training and educational resources to the pension boards at their board meetings.

Importantly, outside fiduciary counsel are also qualified and available to serve a Plan as independent conflict counsel in the event that the City Attorney identifies a conflict of interest such that the Office cannot represent a Plan in a specific matter. The current contracts—mirroring LACERS' Board governance policy—set forth that conflict counsel engagement process in their scope of representation.<sup>1</sup>

Although LACERS' use of these law firms has been fairly limited and project-specific, we continue to believe it is vital for the Board to have a bench of firms with this expertise under contract, and remain confident that access to these services is a prudent use of trust funds.

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<sup>1</sup> For example, LACERS' contracts provide:

### B. Conflict Counsel Panel Services.

The City Attorney is an independent, elected officer of the City, empowered by the electorate to provide independent legal advice to, and representation of, the City. In so serving, the City Attorney and all attorneys in the Office of the City Attorney, are subject to the professional and ethics laws that apply to all members of the California State Bar, including the representation of adverse interests, the protection of confidential client information, and the avoidance of personal conflicts. The City Attorney takes these legal and ethical duties extremely seriously and, in collaboration with the Board, has developed a formal process for identifying conflicts of interest and resolving them. That process is set forth in the Board's Conflict Governance Policy, attached hereto as Exhibit C. Pursuant to this policy, if the City Attorney identifies a conflict of interest and determines that it would be prudent for the City Attorney to avoid representation of the Board in a particular matter, Outside Counsel would be eligible to be engaged by the Board to serve as independent conflict counsel in that particular matter. Such engagement would be pursuant to a separate retainer agreement between the Board and Outside Counsel. By entering into this Agreement, Outside Counsel agrees that any conflict counsel services it is requested to provide shall be governed by the policy set forth at Exhibit C of this Agreement and agrees to adhere to the process set forth in that policy.

## **2020 RFP and Engagement of Current Bench**

On January 28, 2020, the Board approved our recommended process for engaging outside counsel to provide these services, including the publication of an RFP. LACERS' General Manager participated in the RFP process, including reviewing written proposals and conducting panel interviews along with representatives from the City Attorney's Office and representatives from LAFPP and WPERP. The General Manager and our Office presented our consensus recommendation to the Board on June 23, 2020, of a bench of three law firms we agreed were the most qualified firms to provide fiduciary law services and to act as conflict counsel in the event that the City Attorney's Office determines a conflict of interest exists such that our Office cannot represent the Plan in a particular matter. The Board approved our consensus recommendation and engaged Kutak Rock LLP, Nossaman LLP, and Olson Remcho LLP, for three-year contracts, which now expire on June 30, 2023.

### **DISCUSSION**

In light of the Plan Staff's and our Division's satisfaction with the current outside fiduciary counsel firms and the limited number of law firms that perform this specialized work, we do not believe it is a prudent use of time and resources to conduct an RFP process for these services this year. Additionally, there are no Charter or Administrative Code requirements for issuing an RFP this year, as the current contracts are capped at a maximum of \$25,000 per year, which is less than the statutory limit for one-year extensions of expiring contracts that result in a cumulative period of longer than three years. *See* L.A. Admin. Code § 10.5(b)(2) (currently \$182,536, based on the Consumer Price Index).

#### **1. The Current Firms Are Qualified to Continue Providing These Specialized Services**

We enclose a summary of the current firms' information and qualifications as Exhibit A. There have been no changes in the lead lawyers for each engagement.

Current outside counsel Kutak Rock LLP, Nossaman LLP, and Olson Remcho LLP, are well qualified to continue representing LACERS on fiduciary law matters. As we discussed with the Board in 2020, during the last RFP process, these firms distinguished themselves by: (i) the experience of their proposed teams in providing compliance advice in the area of fiduciary law to other public agencies, including peer public pension plans; (ii) the experience of their proposed teams in providing public advice, presentations, and trainings to legislative bodies, including public pension boards of trustees; (iii) the experience of the proposed teams, and the firms overall, in representing public agencies in California and federal court; (iv) the teams' experience confidentially advising government employees and officials on legal, professional, and government ethics; (v) the teams' presence in California, including the firm having a Los Angeles office; (vi) the proposed teams' experience working with public officials on sensitive and/or high-profile matters requiring political acumen, public relations skills, and professional discretion; and (vii) the relative value of the firms' proposed rate structures.

The current firms have expertise in local, state, and federal law governing public pension plan boards' fiduciary duties. The firms also bring significant experience interacting with public pension boards, including providing advice and legal training in open meetings. Finally, the firms have both broad and deep litigation experience such that they could provide conflict counsel

representation should our Office determine that a conflict of interest exists, and the Office cannot represent the Board in a particular matter.

Although our Office has not identified any conflict of interest involving LACERS during the current contract term, we believe it is prudent to have a qualified bench under contract, who have been preapproved by the City Attorney and the Board, should the need to timely engage independent conflict counsel arise.

## **2. Staff and Our Division Are Satisfied with the Current Firms' Services**

The current law firms are performing well and meeting the expectations and needs of the Plan and our Division attorneys. We use the firms' services on a project-specific basis. During the current contract term, for example, we worked with Nossaman LLP to strengthen a brief we filed on behalf of LACERS in writ litigation challenging the City's suspension of reciprocity between LACERS and WPERP. In that case, the petitioners allege that LACERS breached its fiduciary duty to members by administering benefits as amended by the City ordinance suspending reciprocity. The court denied the writ against LACERS and the City; the case is now on appeal.

Pension plan staff and our Division attorneys are satisfied with the specialized expertise, quality of work, and dedication to client service provided by these law firms. We recommend revisiting the need to issue an RFP in 2024.

## **3. There Are No Statutory Restrictions Against Postponing a New RFP Because the Annual Spending Limit for Each Contract Is Below the Administrative Code Limit**

While a one-year extension would increase the term of these contracts to extend past three years, it is permissible to extend the contracts without issuing an RFP or going to the City Council under the Administrative Code because the cost of these services under each contract is capped at \$25,000 per year. *See* L.A. Admin. Code § 10.5(b)(2). This is well below the threshold amount specified in the Administrative Code (currently \$182,536, based on the Consumer Price Index) that would require issuing an RFP or going to the City Council for approval of an extension.

## **CONCLUSION**

For the foregoing reasons, we recommend that the Board approve extensions of the Plan's current outside fiduciary and conflict counsel contracts for one year, and postpone a decision whether to issue an RFP until 2024. We believe the law firms under contract are serving the Plan and our Office well, and there are no compelling business or legal reasons why we need to issue an RFP this year. We are happy to answer any questions that Board members may have.

Encl.

AJF:np

## **Exhibit A**

**EXHIBIT A - Current Bench of Outside Fiduciary Counsel**

<b>FIRM</b>	<b>Foley</b>	<b>Nossaman</b>	<b>Kutak Rock</b>
	<b>FIRM INFORMATION</b>		
Firm profile	Multinational firm, large LA office	National firm, large LA office	National firm, LA and Irvine offices
Lead team members	Thomas Hickey (lead), Michael Calabrese (co-lead), Sam Hoffman, various associate attys	Peter Mixon (lead), Ashley Dunning, Yuliya Oryol	John Schembari (lead), Marc Lieberman (co-lead)
Current/prior relationship w / City pensions	Cybersecurity, Privacy & Health law counsel to LACERS & LAFPP; Fiduciary Counsel to LAFPP	Fiduciary and Investment Counsel to all three plans	Fiduciary and Investment counsel to all three plans
Fees	Blended rate: \$540/hr	Partner: \$603/hr Assoc.: \$444/hr plus 3% starting 2022	Schembari: \$410/hr Lieberman: \$450/hr; Other Partners: \$360-\$410/hr; Assoc.: \$290/hr
	<b>FIDUCIARY COUNSEL QUALIFICATIONS</b>		
Experience providing fiduciary counsel services	Yes	Yes	Yes
Experience representing government agencies in California and federal court	Yes	Yes	Yes
Experience advising clients on complex matters concerning issues of statutory interpretation, including the interpretation of city charters, ordinances, and codes	Yes	Yes	Yes
Experience advising clients on matters involving the statutory and regulatory requirements of governmental pension plans	Yes	Yes	Yes
Experience publicly advising, presenting, and training legislative bodies, including public pension boards of trustees	Yes	Yes	Yes
Experience confidentially advising government employees and officials on legal, professional, and government ethics matters	Yes	Yes	Yes
Demonstrated experience and capability to work with public officials on sensitive and/or high profile matters requiring political acumen, public relations skills, and professional discretion	Yes	Yes	Yes
Unique experience or qualifications	Calabrese was previously Chief Counsel to SBCERA and GC to MCERA, Hickey has 44 years of practice.	Mixon was previously GC to CalPERS; Dunning is GC to some NorCal systems, handled California Rule vested rights cases in state Supreme Court.	Schembari is Chair of Employee Benefits practice.
	<b>CONFLICT COUNSEL QUALIFICATIONS</b>		
Special services firm provides to clients	Expertise in Investment/Corporate Law and Cybersecurity Law	Hosts annual conferences on Fiduciary Law, Cybersecurity. Expertise in Investment/Corporate Law.	Free consult for calls <15 min .
Practice areas offered by entire firm beyond fiduciary expertise	60 practice areas across firm, access to over 1,000 attorneys.	Investments, real estate, litigation, corporate, tax, environment and land use, infrastructure, eminent domain, water, litigation, employment.	contracts, land use, employment litigation, product liability, civil rights, claims for dangerous conditions of public property.