



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

MEETING: AUGUST 8, 2023
ITEM: VI

SUBJECT: ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendation

That the Investment Committee receive and file this report.

Executive Summary

LACERS' Emerging Investment Manager Program aims to hire and retain Emerging Investment Managers in order to add value to the LACERS investment portfolio. This report highlights the Emerging Investment Manager firms hired, dollar amounts awarded, and staff and consultant efforts to increase Emerging Investment Manager representation in the LACERS investment portfolio in calendar year 2022. Staff will schedule the Annual Report on LACERS Emerging Investment Manager Program for Board review at a future meeting.

Discussion

Background

LACERS' Emerging Investment Manager Policy (Policy) was adopted on February 14, 2012, and was most recently revised on May 25, 2021. The Policy identifies guidelines and sets goals to hire and retain Emerging Investment Managers that would otherwise not be identified in the standard LACERS investment manager search process in order to add value to the LACERS investment portfolio. Smaller investment management firms may generate superior performance returns due to increased market flexibility associated with smaller asset bases. The Policy sets a goal of funding Emerging Investment Managers at no less than 10% of available capital and provides minimum criteria for firms to qualify as an Emerging Investment Manager.

Pursuant to the Policy, this annual report provides the status of the Emerging Investment Manager Program for the year ending December 31, 2022, including the following information:

1. Names and dollar amounts awarded to Emerging Investment Managers
2. Report of Emerging Investment Manager goal metrics
3. List of all investment manager searches

4. Staff and consultant efforts to increase the visibility of LACERS' investment manager searches and representation of Emerging Investment Managers in the LACERS investment portfolio
5. Performance data for funds managed by Emerging Investment Managers

1. Names and Dollar Amounts Awarded to Emerging Investment Managers in 2022

Manager	Style	Asset Class	Investment/Commitment	Consultant
Lightbay Investment Partners II, LP	Buyout - Small	Private Equity	\$25,000,000	Aksia CA LLC
1315 Capital III, LP	Growth Equity	Private Equity	\$30,000,000	Aksia CA LLC
L2 Point Opportunities I, LP	Mezzanine	Private Equity	\$30,000,000	Aksia CA LLC
Auldbrass Partners Secondary Opportunity Fund III, LP	Secondaries	Private Equity	\$20,000,000	Aksia CA LLC
Sunstone Partners III-Main, LP	Growth Equity	Private Equity	\$20,000,000	Aksia CA LLC

2. Emerging Investment Manager Goal Metrics

The Policy sets a goal for Emerging Investment Manager exposure in public and private market asset classes at no less than 10%.

Public Markets

For each public markets asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total market value of Emerging Investment Managers within a respective asset class divided by the total market value of the respective asset class; and 2) Manager Search Metric: total dollars awarded to Emerging Investment Managers in a particular public asset class manager search divided by the total dollars awarded for the respective manager search.

In calendar year 2022, there were no public markets search initiated. The Passive U.S., Non-U.S., and Global Index Strategies, initiated in 2021, was completed in 2022; no contracts were awarded to Emerging Investment Managers.

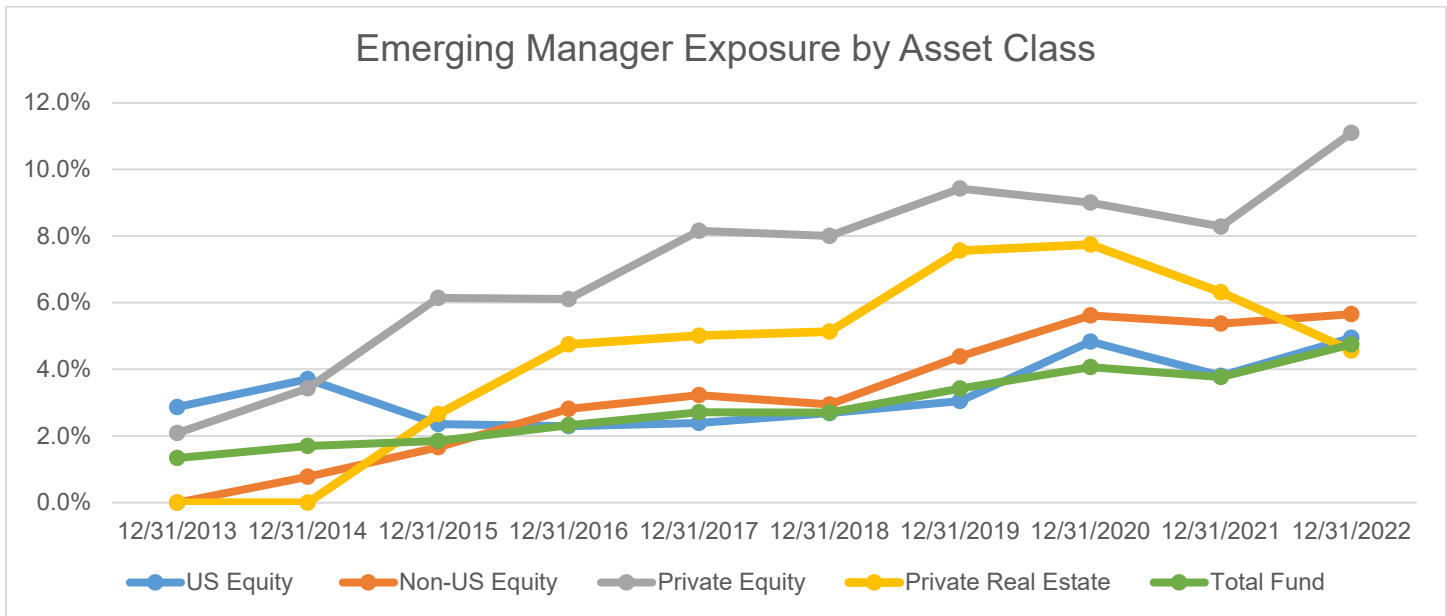
Public Market Asset Classes	Emerging Manager Exposure (Metric 1)	Public Markets Manager Searches (Metric 2)
U.S. Equity	4.9%	0.0%
Non-U.S. Equity	5.7%	0.0%
Core Fixed Income	0.0%	N/A
Credit Opportunities	0.0%	N/A
Public Real Assets	0.0%	N/A

Private Markets

For each private markets asset class, there are two metrics for measuring Emerging Investment Manager exposure: 1) Asset Class Metric: the total committed dollars of Emerging Investment Managers within a respective asset class divided by all the dollars within that respective asset class on a market value basis; and 2) Manager Search Metric: the total of all committed capital awarded to Emerging Investment Managers of completed searches within a respective private market asset class divided by all committed capital awarded within the respective private market asset class over a 36-month rolling period ending December 31, 2022.

Private Market Asset Classes	Asset Class (Metric 1)	Manager Search (Metric 2)
Private Equity	11.1%	9.3%
Private Real Estate	4.6%	0.0%

On a fund-number basis for the 36-month period ending December 31, 2022, LACERS authorized commitments to a total of 12 private equity Emerging Investment Managers out of 69 private equity funds (17%) and zero real estate Emerging Investment Managers out of 11 real estate funds (0%).



Asset Class	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
U.S. Equity	2.9%	3.7%	2.4%	2.3%	2.4%	2.7%	3.0%	4.8%	3.8%	4.9%
Non-U.S. Equity	0.0%	0.8%	1.5%	2.8%	3.2%	2.9%	4.4%	5.6%	5.4%	5.7%
Private Equity	2.1%	3.4%	6.1%	6.1%	8.2%	8.0%	9.4%	9.0%	8.3%	11.1%
Private Real Estate	0.0%	0.0%	2.7%	4.7%	5.0%	5.1%	7.6%	7.7%	6.3%	4.6%
Total Fund	1.3%	1.7%	1.8%	2.3%	2.7%	2.7%	3.4%	4.1%	3.8%	4.7%

3. Searches Conducted in 2022

Searches Initiated:

- N/A

Searches Completed:

- Passive U.S., Non-U.S., and Global Index Strategies Mandate Search – \$8.8 billion

4. Efforts to Increase Visibility and Representation of Emerging Investment Managers

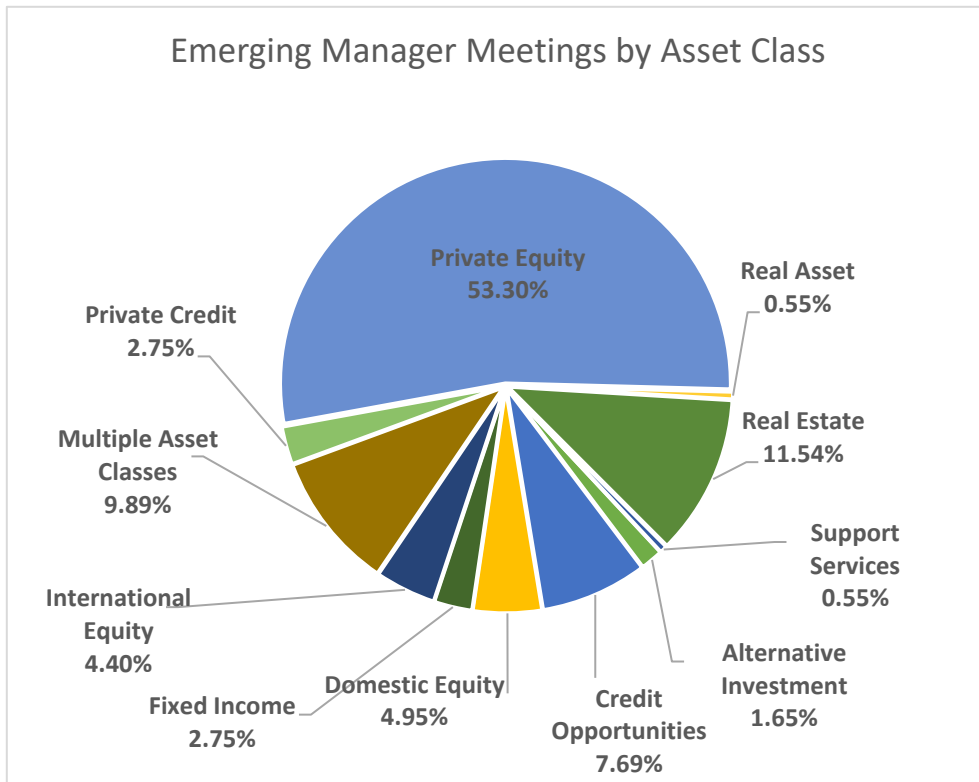
Staff

LACERS actively engages the emerging manager community to help achieve the policy objectives established by the Emerging Investment Manager Policy. During calendar year 2022, staff participated in the following emerging manager networking and meeting events:

2022 Emerging Manager Events	
January	Teacher Retirement System of Texas/Texas Employees Retirement System Emerging Manager Conference
April	LACERS Emerging Manager Symposium
June	GCM Grosvenor Emerging Manager Consortium
July	The Investment Diversity Exchange
August	Girls Who Invest
October	GCM Grosvenor Small and Emerging Managers Conference
November	LACERS Emerging Manager Symposium
November	Toigo Foundation
December	Institutional Allocators for Diversity Equity & Inclusion
December	Transact Global

In 2022, LACERS hosted Spring and Fall Emerging Manager Symposium events. These semi-annual events are designed to educate emerging managers about LACERS' Emerging Manager Program and investment process. Both events were highly successful and well attended. The combined events had over 650 participants. Replays of the Spring and Fall symposiums which have been viewed 532 times as of July 26, 2023, are available on the LACERS YouTube channel: <https://www.youtube.com/lacersyoutube>

Additionally, staff regularly meets with emerging managers. During the calendar year 2022, staff held a total of 182 emerging manager meetings depicted by asset classes in the chart below.



Consultants

LACERS retains three investment consultants. The consultants’ respective emerging manager activities for the one-year period ending December 31, 2022, are summarized below.

Consultant	Meetings or Calls	Emerging Manager Conferences	Awarded to Emerging Managers
NEPC, LLC (General)	206	12	\$4.1 billion / 19 managers
Aksia CA LLC (Private Equity)	172	11	\$90 million / 4 managers
The Townsend Group (Real Estate)	80	12	\$805.7 million / 7 managers

Note: The definition of “Emerging Manager” for this matrix is based on the emerging investment manager criteria unique to each consultant.

5. Performance Data of LACERS Emerging Investment Managers (as of 12/31/2022)

Public Markets Managers Performance (Net-of-Fees)	Inception Date	One Year	Two Years	Three Years	Five Years	Since Inception
Oberweis Asset Management, Inc. ¹ MSCI EAFE Small Cap Index	Jan-2014	-37.28	-19.27	2.36	0.54	4.53
		-21.39	-6.97	-0.93	-0.04	3.76
		<i>Excess Return</i>		-15.89	-12.30	1.43
EAM Investors LLC ² Russell 2000 Growth Index	Sep-2015	-31.11	-15.45	0.99	6.10	8.06
		-26.36	-12.98	0.65	3.51	7.47
		<i>Excess Return</i>		-4.75	-2.47	0.34
Granahan Investment Management, Inc. ³ Russell 2000 Growth Index	Aug-2020	-31.38	-17.33	-	-	-2.77
		-26.36	-12.98	-	-	-0.83
		<i>Excess Return</i>		-5.02	-4.35	-

Public Markets Managers Peer Comparison	Universe	Number of Peers in Universe	5-Year Return % (Peer Rank)	5-Year Peer Median Return %	5-Year Sharpe Ratio (Peer Rank)	5-Year Sharpe Ratio Median
Oberweis Asset Management, Inc.	eV EAFE Small Cap Equity Net Median	72	0.54 (43 rd)	0.16	0.09 (29 th)	0.05
EAM Investors LLC	eV US Small Cap Growth Equity Net Median	157	6.10 (68 th)	7.69	0.31 (68 th)	0.37
Granahan Investment Management, Inc. ⁴	eV US Small Cap Growth Equity Net Median	157	18.56 (1 st)	7.69	0.57 (1 st)	0.37

Private Real Estate Emerging Fund Managers	Vintage Year	Net IRR ⁵	Return Multiple	Sourced By
Gerrity Retail Fund 2, LP	2015	4.1%	1.2x	Townsend Group
Asana Partners Fund I, LP	2017 ⁶	14.3%	1.8x	Townsend Group
Broadview Real Estate Partners Fund, LP	2019	11.4%	1.1x	Townsend Group

¹ Account funded on January 15, 2014. Manager no longer meets the LACERS definition of an emerging manager as firm assets under management exceed \$2 billion.

² Account funded on October 1, 2015. Manager no longer meets the LACERS definition of an emerging manager as firm assets under management exceed \$2 billion.

³ Account funded on October 1, 2020. Manager no longer meets the LACERS definition of an emerging manager as firm assets under management exceed \$2 billion.

⁴ Composite strategy performance was used to determine the 5-year peer rankings due to the limited track record of LACERS' accounts. Five-year data sourced from eVestment Small Cap Focused Growth composite provided by Granahan.

⁵ A private market fund typically yields a low or negative IRR during its early life "J Curve" period.

⁶ LACERS committed to fund in calendar year 2016.

Private Equity Emerging Fund Managers	Vintage Year	Net IRR ⁵	Return Multiple	Sourced By
High Road Capital Partners Fund II, LP	2013	14.8%	1.8x	Hamilton Lane
Blue Sea Capital Fund I, LP	2014	19.9%	2.3x	Portfolio Advisors
Oak HC/FT Partners, LP	2014	31.6%	4.1x	Portfolio Advisors
1315 Capital, LP	2015	17.6%	2.0x	Portfolio Advisors
New Water Capital Partners, LP	2015	13.5%	1.5x	Portfolio Advisors
Angeles Equity Partners I, LP	2015	19.6%	1.6x	Portfolio Advisors
CenterGate Capital Partners I, LP	2015	22.5%	1.7x	Portfolio Advisors
Sunstone Partners I, LP	2016	37.6%	2.8x	Portfolio Advisors
Defy Partners I, LP	2016 ⁷	11.7%	1.4x	Portfolio Advisors
NMS Fund III, LP	2017	27.4%	1.9x	Portfolio Advisors
Oak HC/FT Partners II, LP	2017	39.2%	2.9x	Portfolio Advisors
Astra Partners I, LP	2017	5.9%	1.2x	Portfolio Advisors
Mill Point Capital Partners, LP	2018	27.4%	2.1x	Portfolio Advisors
1315 Capital Fund II, LP	2018	23.2%	1.5x	Portfolio Advisors
DEFY Partners II, LP	2019	22.2%	1.4x	Aksia CA LLC
P4G Capital Partners I, LP	2019	-12.6%	0.9x	Aksia CA LLC
Sunstone Partners II, LP	2019	23.7%	1.2x	Aksia CA LLC
OceanSound Partners Fund, LP	2020	24.1%	1.5x	Aksia CA LLC
Builders VC Fund II, LP	2020	8.7%	1.1x	Aksia CA LLC
ULU Ventures Fund III, LP	2021	-1.7%	1.0x	Aksia CA LLC
Mill Point Capital Partners II, LP	2021	17.3%	1.1x	Aksia CA LLC
Avance Investment Partners, LP	2021	4.7%	1.0x	Aksia CA LLC
Biospring Partners Fund, LP	2021	-19.4%	0.9x	Aksia CA LLC
DEFY Partners III, LP	2021	-	0.8x	Aksia CA LLC
LightBay Investment Partners II, L.P.	2022	-	0.9x	Aksia CA LLC
1315 Capital III, L.P.	2022	-	-	Aksia CA LLC
L2 Point Opportunities I, L.P.	2022	-	1.0x	Aksia CA LLC
Auldbrass Partners Secondary Opportunity Fund III, L.P.	2022	-	0.4x	Aksia CA LLC
Sunstone Partners III-Main, LP	2022	-	-	Aksia CA LLC

⁷ LACERS committed to fund in calendar year 2017.

Strategic Plan Impact Statement

The Emerging Investment Manager Policy aims to add value to the LACERS investment portfolio by hiring Emerging Investment Managers, consistent with Goal IV, which aims to optimize long-term risk adjusted investment returns. The presentation and discussion of the Policy's goals, metrics, manager outreach and manager performance are consistent with Goal V, which aims to uphold good governance practices which affirm transparency, accountability, and fiduciary duty.

Prepared By: Ricky Mulawin, Management Analyst, Investment Division

NMG/RJ/BF/BS/RM