

Section 4.0 RISK MANAGEMENT

4.1 GEOPOLITICAL RISK INVESTMENT POLICY

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I. INTRODUCTION

This policy is intended to provide a framework to address such issues as social unrest, labor standards, human rights violations, and environmental concerns.

II. LACERS LEGAL AND STATUTORY FRAMEWORK FOR INVESTMENT DECISIONS

The legal and statutory framework for LACERS investment decisions are governed by the City Charter, Section 1106 and the California State Constitution, Article XVI, Section 17.

As cited in the LACERS Investment Policy Statement, the Board of Administration of the Los Angeles City Employees' Retirement System establishes this investment policy in accordance with Section 1106, of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund (LACERS). Since the Board created the policy, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

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

III. LACERS BOARD'S FIDUCIARY RESPONSIBILITIES

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, LACERS' Board must follow the standards set for all retirement board members. The Constitution imposes fiduciary responsibility on the members of the Board to invest LACERS' money, requires them to exercise a high degree of care, skill, prudence and diligence, requires them to diversify investments to avoid risk and maximize return, and specifically points out that their duty to LACERS' members comes first, before any other duty.

As an institutional investor, LACERS has a fiduciary duty to act in the best long-term interests of the beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that environmental, social, and corporate governance geopolitical issues may affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Importantly, LACERS' ownership of securities in a corporation does not signify approval of all of a company's policies, products, or actions. Furthermore, it is important to state that investments shall not be selected or rejected based solely on the basis of Geopolitical risk factors. In fact, such risk factors can only be taken into consideration to the extent that such factors bear on the financial advisability of the investment; e.g., not investing in a corporation whose conduct has demonstrated a negative effect on the corporation's financial viability.

As a fiduciary, it is necessary to have a policy that takes into consideration risk factors to the extent they impact investment performance.

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This Policy is intended to address the geopolitical financial and administrative risks to the extent they impact investment performance. A company's possible risky Geopolitical conduct can only be taken into consideration to the extent that the conduct has demonstrated a negative effect on the financial health of the company or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company's conduct will not hurt the Fund or that other similar investments would provide alternative/similar/better options without incurring the geopolitical risks identified or risk of loss to LACERS. This Policy identifies seven broad Geopolitical Risk Factors (see Section VI).

IV. PROCESS FOR IDENTIFYING CORPORATE GOVERNANCE GEOPOLITICAL RISKS TO THE LACERS PORTFOLIO

The LACERS Board and Staff will stay apprised of geopolitical specific problems/issues through educational forums, consultant studies, investment analysis, and input from the investment advisors and consultants, and take into account the actions of other prudent investors. The process of identifying issues may include staff and other interested parties and/or experts advising LACERS' investment advisors and consultants of the Geopolitical Risk Factors adopted by LACERS.

Consistent with their fiduciary responsibility, the Board shall decide whether to address these issues in a particular case, based on 1) the size of the interest that LACERS' holds in the business; and 2) how serious is the business' violation of LACERS' Geopolitical Risk Investment policies. As stated above, a company's possible Geopolitical risky conduct can only be taken into consideration to the extent that the conduct affects the financial health of the company, or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company's conduct will not hurt the fund, or that other similar investments would provide alternative/similar/better options without the Geopolitical risks identified and without loss to the fund.

V. PROCESS FOR TAKING ACTIONS TO MITIGATE GEOPOLITICAL RISKS TO THE LACERS PORTFOLIO

Upon the Board determination that there has been a material threat to the LACERS' investment portfolio, the Board shall promptly direct its investment staff to seek a change in the company's behavior, using the actions described below.

LACERS will actively engage, in a constructive manner, corporate management whose actions are inconsistent with this Policy to seek a change in corporate behavior.

After Geopolitical risk to the investment portfolio has been identified, and after all reasonable efforts have been made to constructively engage management, LACERS may determine whether it is prudent to hold such investments or whether it is imprudent to sell such investments. At such time, working with the Fund consultant and fiduciary counsel, LACERS will determine a prudent course of action.

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VI. GEOPOLITICAL RISK FACTORS

<p>Respect for Human Rights</p> <ul style="list-style-type: none"> • Judicial System • Arbitrary or Unlawful Deprivation of Life • Disappearance • Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment • Arbitrary Arrest, Detention, or Exile • Arbitrary Interference with Privacy, Family, Home, or Correspondence • Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts • Governmental Attitude Regarding International and Non-Governmental Investigation of Alleged Violations of Human Rights
<p>Respect for Civil Liberties</p> <ul style="list-style-type: none"> • Freedom of Speech and Press • Freedom of Peaceful Assembly and Association • Freedom of Religion • Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation
<p>Respect for Political Rights</p> <ul style="list-style-type: none"> • The Right of Citizens to Change Their Government
<p>Discrimination Based on Race, Sex, Sexual Orientation, Disability, Language, or Social Status</p> <ul style="list-style-type: none"> • Women/Gender • Children • Persons With Disabilities • National/Racial/Ethnic Minorities • Indigenous People
<p>Worker Rights</p> <ul style="list-style-type: none"> • The Right of Association • The Right to Organize and Bargain Collectively • Prohibition of Forced or Bonded Labor • Status of Child Labor Practices and Minimum Age for Employment • Acceptable Conditions of Work • Trafficking in Persons
<p>Environmental</p> <ul style="list-style-type: none"> • Air Quality • Water Quality • Climate Change • Land Protection
<p>War/Conflicts/Acts of Terrorism</p> <ul style="list-style-type: none"> • Internal/External Conflict • War • Acts of Terrorism • Party to International Conventions and Protocols

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VI. GEOPOLITICAL RISK FACTORS (cont.)

<p>Worker Rights</p> <ul style="list-style-type: none"> • The Right of Association • The Right to Organize and Bargain Collectively • Prohibition of Forced or Bonded Labor • Status of Child Labor Practices and Minimum Age for Employment • Acceptable Conditions of Work • Trafficking in Persons
<p>Environmental</p> <ul style="list-style-type: none"> • Air Quality • Water Quality • Climate Change • Land Protection
<p>War/Conflicts/Acts of Terrorism</p> <ul style="list-style-type: none"> • Internal/External Conflict • War • Acts of Terrorism • Party to International Conventions and Protocols