LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

REGULAR MEETING

TUESDAY, SEPTEMBER 24, 2024

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).

Disclaimer to Participants

Please be advised that all LACERS Board meetings are recorded.

LACERS Website Address/link:
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, at LACERS' offices, or at the scheduled meeting. In addition, if you would like a copy of a public record related to an item on the agenda, please call (213) 855-9348 or email at lacers.board@lacers.org.

President: Annie Chao
Vice President: Janna Sidley

Commissioners: Thuy Huynh
Elizabeth Lee
Gaylord "Rusty" Roten
Sung Won Sohn
Michael R. Wilkinson

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

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. For assistance, please contact the Ethics Commission at (213) 978-1960 or ethics.commission@lacity.org.

Request for Services

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.

Sign Language Interpreters, Communications Access Real-Time Transcription, Assisted Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, please make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days notice is strongly recommended. For additional information, please contact (800) 779-8328 or RTT (888) 349-3996.

Si requiere servicios de traducción, llámenos tres días (72 horas) antes de la reunión o evento al (800) 779-8328.

For additional information, please contact: Board of Administration Office at ***(213) 855-9348*** and/or email at ***lacers.board@lacers.org.***

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE BOARD'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA

II. GENERAL MANAGER VERBAL REPORT

A. REPORT ON DEPARTMENT OPERATIONS

B. UPCOMING AGENDA ITEMS

III. RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR AUGUST 2024

IV. CONSENT ITEM(S)

A. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF AUGUST 27, 2024 AND POSSIBLE BOARD ACTION

V. COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE VERBAL REPORT FOR THE MEETING ON SEPTEMBER 10, 2024

VI. BOARD/DEPARTMENT ADMINISTRATION

A. ASSUMPTIONS FOR THE JUNE 30, 2024 RETIREE HEALTH ACTUARIAL VALUATION AND POSSIBLE BOARD ACTION

VII. INVESTMENTS

A. CHIEF INVESTMENT OFFICER VERBAL REPORT

B. PRESENTATION BY NEPC, LLC REGARDING CONTINUED DISCUSSION OF ASSET ALLOCATION AND POSSIBLE BOARD ACTION

C. NOTIFICATION OF COMMITMENT OF UP TO $150 MILLION IN HARBOURVEST BROADWAY CO-INVESTMENT L.P.

D. NOTIFICATION OF COMMITMENT OF UP TO $20 MILLION IN KLC FUND II LP

E. NOTIFICATION OF COMMITMENT OF UP TO $60 MILLION IN THOMA BRAVO DISCOVER FUND V, L.P. AND THOMA BRAVO DISCOVER FUND V-P, L.P.

F. NOTIFICATION OF COMMITMENT OF UP TO $65 MILLION IN THOMA BRAVO FUND XVI, L.P. AND THOMA BRAVO FUND XVI-P, L.P.

G. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT IN PRINCIPAL DATA CENTER GROWTH & INCOME FUND, L.P. AND POSSIBLE BOARD ACTION

VIII. LEGAL/LITIGATION

A. CLOSED SESSION PURSUANT TO SUBDIVISIONS (A) AND (D)(1) OF GOVERNMENT CODE SECTION 54956.9 TO CONFER WITH, AND/OR RECEIVE ADVICE FROM LEGAL COUNSEL AND POSSIBLE BOARD ACTION REGARDING PENDING LITIGATION IN THE CASE ENTITLED: INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL 18 v. CITY OF LOS ANGELES ET AL., (LOS ANGELES SUPERIOR COURT CASE NO. 24STCP02171)

IX. OTHER BUSINESS

X. NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, October 8, 2024, at 10:00 a.m., in the LACERS Boardroom, at 977 N. Broadway, Los Angeles, CA 90012.

XI. ADJOURNMENT

Agenda of:	**SEPT. 24, 2024**
Item No:	**III-A**

MONTHLY REPORT ON SEMINARS AND CONFERENCES
ATTENDED BY BOARD MEMBERS ON BEHALF OF LACERS
(FOR THE MONTH OF AUGUST 2024)

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:

President Annie Chao
Vice President Janna Sidley

Commissioner Thuy Huynh
Commissioner Elizabeth Lee
Commissioner Gaylord “Rusty” Roten
Commissioner Sung Won Sohn
Commissioner Michael R. Wilkinson

DATE(S) OF EVENT	SEMINAR / CONFERENCE TITLE	EVENT SPONSOR (ORGANIZATION)	LOCATION (CITY, STATE)
	NOTHING TO REPORT		

Agenda of:	**Sept. 24, 2024**
Item No:	**IV-A**

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

August 27, 2024

10:05 a.m.

PRESENT:	President:	Annie Chao
	Commissioners:	Elizabeth Lee Sung Won Sohn Michael R. Wilkinson
	Legal Counselor:	Joshua Geller
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
ABSENT:	Vice President: Commissioners:	Janna Sidley Thuy Huynh Gaylord “Rusty” Roten

---

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 – President Chao asked if any persons wanted to make a general public comment to which there were no public comment cards received.

II

GENERAL MANAGER VERBAL REPORT

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

- 977 Safety and Security Enhancements
- HRP Status Update
- Personnel Committee Report Back
- RSD Succession Plan

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

- Board Meeting on September 10, 2024: Presentation of required audit communications for fiscal year ended June 30,2024 by external auditor, Moss Adams, and education and travel expenditure report

III

RECEIVE AND FILE ITEMS

A. MONTHLY REPORT ON SEMINARS AND CONFERENCES FOR JULY 2024 – This report was received by the Board and filed.

B. LEGISLATIVE UPDATE FOR AUGUST 2024 – This report was received by the Board and filed.

C. FISCAL YEAR END REPORT OF BUSINESS PLAN INITIATIVES FOR THE PERIOD ENDING JUNE 30, 2024 – This report was received by the Board and filed.

IV

Commissioner Wilkinson moved approval of Consent Agenda Item IV-A, and seconded by Commissioner Sohn, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4. Nays; None.

CONSENT ITEM(S)

A. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF JULY 23, 2024 AND POSSIBLE BOARD ACTION

V

COMMITTEE REPORT(S)

A. INVESTMENT COMMITTEE VERBAL REPORT FOR THE MEETING ON AUGUST 13, 2024 – Commissioner Lee stated the Committee approved the Master Trust/Custodial Services and Securities Lending Search Semi-Finalist and the Investment Manager Contract with Axiom Investors, LLC.

VI

DIVISION SPOTLIGHT

A. SURVIVOR BENEFITS UNIT – Isaias Cantu, Chief Benefits Analyst, and Ursula Ruiz, Benefits Analyst, presented and discussed this item with the Board for 13 minutes.

VII

President Chao recessed the Regular meeting at 10:25 a.m. to convene in closed session.

CLOSED SESSION

A. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957(b)(1): GENERAL MANAGER 2023-24 PERFORMANCE EVALUATION AND POSSIBLE BOARD ACTION

B. CLOSED SESSION PURSUANT TO SUBDIVISIONS (A) AND (D)(1) OF GOVERNMENT CODE SECTION 54956.9 TO CONFER WITH, AND/OR RECEIVE ADVICE FROM LEGAL COUNSEL AND POSSIBLE BOARD ACTION REGARDING PENDING LITIGATION IN THE CASE ENTITLED: INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL 18 v. CITY OF LOS ANGELES ET AL., (LOS ANGELES SUPERIOR COURT CASE NO. 24STCP02171)

C. CLOSED SESSION PURSUANT TO SUBDIVISIONS (A) AND (D)(1) OF GOVERNMENT CODE SECTION 54956.9 TO CONFER WITH, AND/OR RECEIVE ADVICE FROM LEGAL COUNSEL AND POSSIBLE BOARD ACTION REGARDING PENDING LITIGATION IN THE CASE ENTITLED: THOMAS CRAWLEY v. LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM ET AL., (LOS ANGELES SUPERIOR COURT CASE NO. 24STCV14282)

President Chao reconvened the Regular meeting at 12:32 p.m.

VIII

BOARD/DEPARTMENT ADMINISTRATION

A. CONSIDERATION OF 2024 GENERAL MANAGER’S MERIT PAY AND POSSIBLE BOARD ACTION – This item was tabled for a future Board meeting.

B. CONSIDERATION OF GENERAL MANAGER’S COST OF LIVING ADJUSTMENT AND POSSIBLE BOARD ACTION – Commissioner Wilkinson moved approval of the following resolution:

SALARY COMPENSATION FOR
GENERAL MANAGER
NEIL M. GUGLIELMO

<u>RESOLUTION 240827- A</u>

APPROVAL OF COST-OF-LIVING INCREASE FOR LACERS’ GENERAL MANAGER EFFECTIVE JUNE 30, 2024, DECEMBER 29, 2024, JUNE 29, 2025, DECEMBER 28, 2025, JUNE 28, 2026, DECEMBER 27, 2026, JUNE 27, 2027, DECEMBER 26, 2027 AND JULY 1, 2028.

WHEREAS, the Los Angeles City Council adopted City Ordinance 188307 (Council File 24-0777) amending Los Angeles Administrative Code Section 4.61 to update Schedule A classifications and salary adjustments for certain non-represented classes in Fiscal Years 2023-24 through 2028-29, which includes the General Manager Los Angeles City Employees’ Retirement System; and

WHEREAS, these actions provided for the following cost of living adjustments: 4% effective June 30, 2024, 2% effective December 29, 2024, 4% effective June 29, 2025, 2% effective December

28, 2025, 4% effective June 28, 2026, 2% effective December 27, 2026, 2% effective June 27, 2027, 2% effective December 26, 2027, and 0% effective July 1, 2028; and

WHEREAS, Los Angeles City Charter Section 508(f) requires that the amount of compensation for the General Manager be adjusted by the appointing commission within guidelines established by the City Council; and

NOW, THEREFORE, BE IT RESOLVED, that the Board of Administration approves cost-of-living adjustments of 4% effective June 30, 2024, 2% effective December 29, 2024, 4% effective June 29, 2025, 2% effective December 28, 2025, 4% effective June 28, 2026, 2% effective December 27, 2026, 2% effective June 27, 2027, 2% effective December 26, 2027, and 0% effective July 1, 2028, for the General Manager Los Angeles City Employees' Retirement System.

Which motion was seconded by Commissioner Lee, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4; Nays, None.

C. DISCUSSION ON BOARD GOVERNANCE POLICY REGARDING TEMPORARY PRESIDING OFFICERS FOR BOARD MEETINGS AND POSSIBLE BOARD ACTION – Horacio Arroyo, Senior Management Analyst II, presented and discussed this item with the Board for 3 minutes. President Chao moved approval for Option 2 and alphabetized by Committee name, seconded by Commissioner Lee, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4. Nays; None.

D. CONTRACT EXTENSION WITH TRUVIEW BSI, LLC FOR INVESTIGATIVE SERVICES AND POSSIBLE BOARD ACTION – Isaias Cantu, Chief Benefits Analyst, presented and discussed this item with the Board for 4 minutes. Commissioner Lee moved approval of the following resolution:

CONTRACT EXTENSION WITH TRUVIEW BSI,
LLC FOR INVESTIGATIVE SERVICES

RESOLUTION 240827- B

WHEREAS, LACERS has a three-year contract from October 1, 2021, to September 30, 2024, with TruView BSI, LLC. for investigative services to aid in the administration of retirement benefits as part of LACERS proactive risk management strategy;

WHEREAS, LACERS Contract 4241 expires September 30, 2024, and it is LACERS' desire to retain TruView BSI, LLC. to continue to provide investigative services;

WHEREAS, LACERS staff requests an extension to the TruView BSI, LLC. contract to conduct the Alive and Well checks, complete the domestic Alive and Well audit, locate benefit recipients, request fraud investigations, request Sub Rosa surveillance, and social media searches and other related services as part of LACERS' proactive risk management strategy;

WHEREAS, under Los Angeles Administrative Code Section 10.5(b)(2), a contract extension to a firm awarded a contract through a competitive bidding process may be renewed without another competitive process so long as the contract amendment does not exceed the established annual limit, currently $193,901; and,

NOW, THEREFORE BE IT RESOLVED, that the Board hereby approves the proposed Contract Amendment No. 1 with TruView BSI, LLC. and authorizes the General Manager to execute the necessary documents, within the following terms, and subject to City Attorney review:

COMPANY NAME:	TruView BSI, LLC.
SERVICES PROVIDED:	Investigative Services
TERM DATES:	October 1, 2024, to September 30, 2025
TOTAL EXPENDITURE AUTHORITY:	$120,000
	($30,000 per year of the contract)

Which motion was seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4; Nays, None

E. CONTRACT EXTENSION WITH FRASCO, LLC FOR INVESTIGATIVE SERVICES AND POSSIBLE BOARD ACTION – Isaias Cantu, Chief Benefits Analyst, presented and discussed this item with the Board for 4 minutes. Commissioner Lee moved approval of the following resolution:

CONTRACT EXTENSION WITH FRASCO, INC.
TO PROVIDE INVESTIGATIVE SERVICES

<u>RESOLUTION 240827- C</u>

WHEREAS, LACERS has a three-year contract from October 1, 2021, to September 30, 2024, with Frasco, Inc. for investigative services to aid in the administration of retirement benefits as part of LACERS proactive risk management strategy;

WHEREAS, LACERS Contract 4236 expires September 30, 2024, and it is LACERS' desire to retain Frasco, Inc. to continue to provide investigative services;

WHEREAS, LACERS staff requests an extension to the Frasco, Inc. contract to conduct the Alive and Well checks, complete the domestic Alive and Well audit, locate benefit recipients, request fraud investigations, request Sub Rosa surveillance, and social media searches and other related services as part of LACERS' proactive risk management strategy;

WHEREAS, under Los Angeles Administrative Code Section 10.5(b)(2), a contract extension to a firm awarded a contract through a competitive bidding process may be renewed without another competitive process so long as the contract amendment does not exceed the established annual limit, currently $193,901; and, NOW, THEREFORE BE IT RESOLVED, that the Board hereby approved the proposed Contract Amendment No. 1 with Frasco, Inc. and authorizes the General Manager to execute the necessary documents, within the following terms, and subject to City Attorney review:

COMPANY NAME:	Frasco, Inc.
SERVICE PROVIDED:	Investigative Services
TERM:	October 1, 2024, to September 30, 2025
TOTAL EXPENDITURE AUTHORITY:	$120,000
	($30,000 per year of the contract)

Which motion was seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4; Nays, None.

IX

Items IX-A, IX-B, IX-C, IX-D, and IX-E taken out of order

INVESTMENTS

C. FINALIST FIRM OF THE MASTER TRUST/CUSTODIAL SERVICES AND SECURITIES LENDING SERVICES SEARCH, CONTRACT AUTHORIZATION AND POSSIBLE BOARD ACTION – Rod June, Chief Investment Officer, Wilkin Ly, Investment Officer III, Brad Blackwell, Client Executive and Division Manager-Public Funds, and Mike O'Grady, Chairman & Chief Executive Officer, with The Northern Trust Company, presented and discussed this item with the Board for 8 minutes. President Chao moved approval of the following resolution:

CONTRACT AWARD
THE NORTHERN TRUST COMPANY
MASTER TRUST/CUSTODIAL SERVICES AND SECURITIES LENDING

RESOLUTION 240827- D

WHEREAS, on August 22, 2023, the Board authorized the Master Trust/Custodial Services and Securities Lending Request for Proposal (RFP) search to reassess the marketplace for custodial and securities lending services; and,

WHEREAS, on February 13, 2024, the Investment Committee considered staff's evaluation report of the RFP respondents, including the two proposed semi-finalist candidates: The Northern Trust Company (Northern Trust) and State Street Corporation; and,

WHEREAS, staff subsequently conducted further due diligence on the semi-finalist candidates and deemed both firms capable of providing master trust/custodial services and securities lending program management services that meet LACERS requirements; and, WHEREAS, staff, on the basis of the evaluation of its due diligence findings, found that Northern Trust is better matched to fulfill LACERS' custodial service needs, and recommended Northern Trust to advance as the sole finalist in the search; and,

WHEREAS, on August 13, 2024, the Investment Committee interviewed Northern Trust and advanced Northern Trust as the finalist for consideration by the Board for five-year contract awards; and,

WHEREAS, on August 27, 2024, the Board approved the Investment Committee's recommendation to rehire Northern Trust as LACERS' custodian and securities lending program manager.

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:	The Northern Trust Company
Services Provided:	Master Custody Securities Lending Performance Reporting and Risk Analytics Compliance Analytics Private Monitor Analytics Integrated Disbursements Fair Value Reporting
Effective Dates:	February 1, 2025 through January 31, 2030
Duration:	Five years

Which motion was seconded by Commissioner Sohn, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4; Nays, None.

D. APPROVAL OF 1-YEAR CONTRACT WITH AXIOM INVESTORS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES PORTFOLIO AND POSSIBLE BOARD ACTION – James Wang, Investment Officer I, presented and discussed this item with the Board for 2 minutes. Commissioner Lee moved approval of the following resolution:

CONTRACT EXTENSION
AXIOM INVESTORS, LLC
ACTIVE NON-U.S. EMERGING MARKETS GROWTH EQUITIES
PORTFOLIO MANAGEMENT

RESOLUTION 240827- E

WHEREAS, LACERS' current one-year contract extension with Axiom Investors, LLC (Axiom) for active non-U.S. emerging markets growth equities portfolio management expires on December 31, 2024; and,

WHEREAS, a one-year contract extension will provide the necessary time to evaluate Axiom's performance with its stated growth strategy relative to its benchmark; and,

WHEREAS, on August 27, 2024 the Board approved the Investment Committee's recommendation to approve a one-year contract extension.

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:	Axiom Investors, LLC
Service Provided:	Active Non-U.S. Emerging Markets Growth Equities Portfolio Management
Effective Dates:	January 1, 2025 through December 31, 2025
Duration:	One year
Benchmark:	MSCI Emerging Markets Index
Allocation as of June 30, 2024:	$323 million

Which motion was seconded by Commissioner Sohn, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4; Nays, None.

E. PRI ACTION PLAN AND ESG RISK FRAMEWORK STATUS AND UPDATES AND POSSIBLE BOARD ACTION – Daniel Becerra, Investment Officer I, presented and discussed this item with the Board for 3 minutes. Commissioner Lee moved approval, seconded by Commissioner Wilkinson, and adopted by the following vote: Ayes, Commissioners Lee, Sohn, Wilkinson, and President Chao -4. Nays; None.

A. CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, reported on the portfolio value of $24.714 billion as of August 26, 2024; and Volatility Index at 16.6. Rod June discussed the following items:

- No material change in valuations of Russia, Ukraine, China/Tech, and Israel.

FUTURE AGENDA ITEMS:

1. Asset Allocation risk budgeting and implementation
2. Total Fund Portfolio Performance Review for the period ending June 30, 2024
3. Notification of Private Equity Commitments
4. Real Estate Opportunities

Commissioner Sohn left the meeting at 1:02 p.m. and the quorum for this meeting was lost.

B. PRESENTATION BY NEPC, LLC REGARDING CONTINUED DISCUSSION OF ASSET ALLOCATION AND POSSIBLE BOARD ACTION – Carolyn Smith, Partner, Kevin Novak, Principal, and Rose Dean, Partner with NEPC, LLC, presented and discussed this item with the Board for 50 minutes. After discussion, the Board took no action.

X

OTHER BUSINESS – There was no other business.

XI

NEXT MEETING: The next Regular meeting of the Board is scheduled for Tuesday, September 10, 2024, at 10:00 a.m., in the LACERS Boardroom, at 977 N. Broadway, Los Angeles, California 90012-1728.

XII

ADJOURNMENT – There being no further business before the Board, President Chao adjourned the Meeting at 1:43 p.m.

Annie Chao
President

Neil M. Guglielmo
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

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

MEETING: SEPTEMBER 24, 2024
ITEM: VI-A

SUBJECT: **ASSUMPTIONS FOR THE JUNE 30, 2024 RETIREE HEALTH ACTUARIAL VALUATION AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board adopt the attached actuarial assumptions for the June 30, 2024 Retiree Health Actuarial Valuation as recommended by LACERS' consulting actuary, Segal.

Executive Summary

Segal reviews the assumptions used for LACERS' health actuarial valuation annually due to the dynamic nature of healthcare costs, as opposed to economic (such as the investment rate of return) and demographic assumptions (such as the mortality rates) which are generally reviewed and updated every three years based on the results of the Triennial Experience Study. Attached for the Board's consideration are the recommended assumptions for the medical trend, per capita costs, and other health-specific assumptions to be applied in the June 30, 2024 Retiree Health Actuarial Valuation.

Discussion

The recommended per capita costs for plan year 2024-2025 combine the calendar year 2025 medical and dental premium rates approved by the Board with the 2024 calendar year rates. Medical rates (but not dental or Medicare Part B) will then be adjusted by factors specific to age, gender, and spousal status. The medical trend is applied to the per capita costs to project future healthcare costs. Segal's recommended first-year (used to project 2025 calendar year premiums to 2026) trend rate for Medicare plans is reset at 0.50%, followed by 7.00%, then graded down by 0.25% each year until reaching 4.50% after 10 years, while for the non-Medicare plans the rate is reset to 7.50%, then graded down by 0.25% each year until reaching 4.50% after 12 years. Segal recommends maintaining the dental trend assumption at 3.00% while increasing the Medicare Part B assumption to 6.20% for calendar years 2025 through 2033, followed by 5.75%, then grading down by 0.25% for five years until reaching a rate of 4.50%. Also included in Segal's report are increases in future health subsidy maximums which factor in the same trend rates they recommend for the valuation. Other assumptions are consistent with the economic and demographic assumptions adopted by the Board as part of the Triennial Experience Study from July 2019 to June 30, 2022.

Andy Yeung of Segal will present the recommended health assumptions.

Prepared By: Edwin Avanessian, Chief Management Analyst

NMG/TB/ea

Attachment: Segal Recommendation Letter dated September 18, 2024

180 Howard Street
Suite 1100
San Francisco, CA 94105-6147
T 415.263.8200
F 415.376.1167
segalco.com

BOARD Meeting: 09/24/2024
Item: VI-A
Attachment

September 18, 2024

Mr. Neil Guglielmo
General Manager
Los Angeles City Employees' Retirement System
977 North Broadway
Los Angeles, CA 90012

Re: Los Angeles City Employees' Retirement System
Assumptions Recommended for the June 30, 2024 Retiree Health Actuarial Valuation

Dear Neil:

We have provided in this letter the health care related actuarial assumptions that we recommend to the Board for use in the June 30, 2024 retiree health valuations for funding and financial reporting.

The health care trend[1] assumptions used in the health valuation are reviewed annually. Every year Segal publishes a set of health care trend assumptions based on the latest research and information available to our health actuaries. The health care trend assumptions take into account factors such as recent and expected premium increases affecting our clients, changes in utilization of health care, and cost shifting from Medicare.

Other assumptions related to the health plans used in the projection in our valuations such as the proportion of members expected to be covered by each health benefit provider (e.g. Kaiser, etc.) can sometimes be volatile due to the dynamic nature of the health care marketplace. That projection is typically based on the enrollment experience among the current retirees during the most recent annual open enrollment.

Following are our recommended assumptions for the June 30, 2024 health plan valuations:

1. **Health care trend assumptions**[2] — The detailed health care trend assumptions we are recommending are outlined in Item 1 of the Attachment.
   - For non-Medicare plans, we are recommending the first-year trend[3] to be reset to 7.50%, then graded down by 0.25% each year until reaching an ultimate rate of 4.50% after 12 years.

[1] The health care trend assumptions discussed here are primarily provided for use in projecting the level of increase in medical **premiums** required to obtain health services in retiree health valuations for our clients. Those assumptions may not correspond to the level of increase in medical **subsidies** that may be provided by those clients' systems.
[2] Trend assumptions may vary between health plans in the Los Angeles area due to factors such as recent claims experience and plan design.
[3] The first-year trend will be used to project 2025 calendar year premiums to calendar year 2026.

- For Medicare plans, we are recommending the first-year trend rate to be reset to 0.50%, followed by 7.00%, then grading down by 0.25% for ten years until reaching an ultimate rate of 4.50%.
- We recommend the dental trend assumption be maintained at 3.0%.
- For the Medicare Part B trend assumptions, we recommend a 6.20% assumption for calendar years 2025 through 2033, followed by 5.75%, then grading down by 0.25% for five years until reaching an ultimate rate of 4.50%.

Setting the medical trends begins with selecting the first-year increase, and then selecting a step for grading down the trends over several years to an ultimate long-term trend. We select first-year trends to project the first-year premiums and subsidies to the following year. In developing first-year health care trend assumptions, a mix of health industry expectations and plan specific information is used as follows.

a. Segal's National Health Care Practice develops trend standards each year. The methodology utilizes data from our annual Segal Health Plan Cost Trend Survey of insurers, pharmacy benefit managers (PBMs), and managed care organizations. An analysis of historic trend was performed to evaluate the differences in projected trend vs. actual. The methodology looked at variations of actual results and fitted them to the differences between actual and projected trend.
b. Segal's National Health Care Practice then publishes its internal standards for use by its health actuaries and consultants. These internal standards cover a variety of benefits (e.g. medical, dental, vision) and plan design types (e.g. PPO, HMO). Unlike Segal's annual trend survey, which displays averages of the survey results, the trend standards provide ranges of acceptable assumptions.
c. For retiree health valuations, without additional information, we would choose a first–year trend in the middle of the range provided in the Segal trend standards. If any additional information from the client or its health consultant is available, Segal may consider that information when setting the first-year trend.
d. Retiree health care valuations typically project benefit payments far into the future (as far as 80 years). Segal's Office of the Chief Actuary has provided standards on trends in the years following the first year of projection. Trend for each year is to decrease until it reaches an ultimate trend rate.

Based upon a review of updated industry survey and renewal information, along with the Segal trend survey data, we propose an update of the health care cost trend assumption for the non-Medicare plans, Medicare plans and Medicare Part B reimbursement. The primary reasons for recommending updated trend assumptions for the non-Medicare plans are (1) indications from Segal's Trend Survey that medical trend rates are returning to pre-pandemic levels and that prescription drug trends are higher than pre-pandemic levels; (2) concerns about recent inflation impacting health care costs; and (3) the plan's recent premium renewals. The primary reasons for recommending updated trend assumptions for the Medicare plans are (1) adjusting the first-year trend rate to anticipate the interaction of the member premium rates and the underlying carrier rates. On average, the carrier rates for the Medicare plans are roughly 7.30% lower than the member rates. The estimated 0.50% increase to the member rates for the year 2025 is based on an assumed 7.80%

increase to the carrier rates. Because member premium rates are used for valuation purposes, the trend assumption anticipates the change in the member rate; (2) the same factors that influence the update to the non-Medicare trend rates; and (3) concerns about Federal revenues supporting Medicare Advantage and Part D plans. The updated Medicare Part B trend assumptions were based on the intermediate Part B premium estimates in Table V.E2. of the 2024 Medicare Trustees report. The proposed 6.20% initial trend assumption represents the average trend shown for years 2025 through 2033 of the Trustees report.

The above trend assumptions have been developed using a nationwide viewpoint. Specifically, we have continued our prior years' practice of not including any regional variations among the health plans in different parts of the country.

2. **Note on premium renewals and health care trend assumptions** — Health care trend assumptions take into account factors such as recent and expected premium increases, changes in utilization of health care and cost shifting from Medicare. While there is often a high correlation between a trend rate and the actual cost increase assessed by a carrier, trend rates and the actual net annual change in plan costs (and thus premiums) can also differ substantially. A plan sponsor's costs/premiums can be significantly different from projected claims cost trends due to diverse factors ranging from group demographics, plan design, claim volatility and underwriting cycles. Carrier actions to gain market share along with healthcare marketplace events and subsequent impacts on access and cost of care (i.e., provider consolidations, mandated benefits, pent up demand and severity due to prior lack of access) are additional factors that influence short-term premiums though they may not necessarily reflect the cost trend assumptions used in an actuarial valuation. For example, a cycle of favorable experience used in the rate setting basis can reduce the claim portion of the premium but that does not mean that the future costs will follow that pattern.

3. **Per capita health care costs** — These costs are used to project the premiums for current active members when they retire. Based on the percentage of retired members, spouses and beneficiaries electing health coverage, and the proportion of members enrolled in each available medical plan, we have developed the per capita health premium costs to cover a member in the 2024–2025 fiscal year as provided in Items 2(b) and 2(d) of the Attachment. Note, there are three plans (Anthem Medicare Supplement Plan, UHC Medicare Advantage HMO for Arizona, and UHC Medicare Advantage HMO for Nevada) offered by LACERS that are not included in Item 2(d) because of their low enrollment. These three plans combined represent 2.2% of the current Medicare population. For valuation purposes, the Anthem Medicare Supplement Plan retirees are valued as Anthem Blue Cross Medicare Preferred PPO retirees and the UHC Arizona and Nevada retirees are valued as having the UHC California Medicare Advantage Plan. These grouping simplifications have a de-minimis impact on the valuation results.

   Based on the June 30, 2024 membership data, we have provided the observed and assumed election rates among the different medical plans in Items 2(b) and 2(d) of the Attachment.

The per capita costs for members subject to the retiree medical subsidy cap are provided in Item 2(e) of the Attachment.

In accordance with Actuarial Standard of Practice (ASOP) No. 6, Measuring Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions, we will continue to value health care costs by adjusting premiums using age-specific factors. The age-adjusted claims costs will be provided in our June 30, 2024 valuation report once the membership data provided for use in the June 30, 2024 valuation is finalized. It should be noted though that when those age-specific factors are presented in our June 30, 2024 valuation report, we will continue to display them separately from the per capita health premium costs provided in Items 2(b) and 2(d) of the Attachment.

The per capita costs for the dental plan that we will use for the June 30, 2024 valuation are provided in Item 2(f) of the Attachment.

The per capita costs for Medicare Part B that we will use for the June 30, 2024 valuation are provided in Item 2(g) of the Attachment.

Medical Premium Reimbursement Program (MPRP) — Certain eligible participants may elect to receive a medical subsidy towards the premium of a chosen plan.

Due to the low number electing the MPRP subsidy (1.5% of current retirees), we have assumed that no future retirees elect this subsidy. For current retirees, we will value the reimbursement reported in the data, assumed to increase with medical trend.

4. **Increase in future health subsidy maximums** — Consistent with our previous valuation practice, we will continue to assume that the Board’s health subsidy will increase at the same rate as the long-term health trend, for retired members and their qualified survivors, who retired before July 1, 2011. (Although subject to slightly different provisions, members who retired on or after July 1, 2011 will have the same subsidy increase assumption applied to them.)

   It should be noted that in our valuation we do not reflect the other potential limit on health subsidy increase in Sec. 4.1111(b) of the Administrative Code which references the average subsidy increase for the upcoming year under consideration and the actual subsidy increases for the preceding two years because our health trend is intended to reflect overall experience in the long run.

5. **Other assumptions and methods** — The other demographic and economic assumptions and methods will be consistent with those approved by the Board based on our July 1, 2019 to June 30, 2022 triennial experience study. All demographic assumptions under items 3.8, 3.9, and 3.10 will be reviewed (and updated if necessary) as part of the next triennial experience study (rather than annually) so as to provide more stability to the actuarial assumptions used to calculate liabilities and set the contribution rates for the health plans. These assumptions include spouse/domestic partner demographic assumptions, and retiree medical and dental coverage election percentages.

We look forward to discussing this with you. Please let us know if you have any questions.

Sincerely,

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Actuary

Todd Tauzer, FSA, MAAA, FCA, CERA
Senior Vice President & Actuary

Mary Kirby, FSA, MAAA, FCA
Senior Vice President & Chief Health Actuary

Mehdi Riazi, FSA, MAAA, FCA, EA
Vice President & Consulting Actuary

WS/elf
Attachments

1. Health care trend rates

Medical trends used for June 30, 2023 valuation

Trend is to be applied in the following fiscal years to all health plans. Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium.

First Fiscal Year (July 1, 2023 through June 30, 2024)

Plan	Anthem Blue Cross PPO, Under Age 65	Anthem Blue Cross Medicare Supplement/ Anthem Passive PPO Medicare Advantage	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Anthem Blue Cross HMO, Under Age 65	UHC CA Medicare Advantage
Trend to be applied to 2023–2024 Fiscal Year premium	8.01%	−3.35%	9.49%	3.25%	8.01%	−4.51%

The fiscal year trend rates are based on the following calendar year trend rates:

Fiscal Year	Approximate Trend Rate (%) Non-Medicare	Approximate Trend Rate (%) Medicare	Calendar Year	Trend Rate Applied to Calculate Following Year Premium (%) Non-Medicare	Trend Rate Applied to Calculate Following Year Premium (%) Medicare
2024–2025	7.12%	6.37%	2024	7.25*	6.50
2025–2026	6.87%	6.12%	2025	7.00	6.25
2026–2027	6.62%	5.87%	2026	6.75	6.00
2027–2028	6.37%	5.62%	2027	6.50	5.75
2028–2029	6.12%	5.37%	2028	6.25	5.50
2029–2030	5.87%	5.12%	2029	6.00	5.25
2030–2031	5.62%	4.87%	2030	5.75	5.00
2031–2032	5.37%	4.62%	2031	5.50	4.75
2032–2033	5.12%	4.50%	2032	5.25	4.50
2033–2034	4.87%	4.50%	2033	5.00	4.50
2034–2035	4.62%	4.50%	2034	4.75	4.50
2035 and later	4.50%	4.50%	2035	4.50	4.50

Dental Premium Trend: 3.00% for all years.

Medicare Part B Premium Trend: 4.50% for all years. First year trend may be adjusted to reflect actual 2023 calendar year premium if available at time of valuation.

* For example, the 7.25% assumption, when applied to the 2024 non-Medicare medical premiums would provide the projected 2025 non-Medicare medical premiums. This trend would also be applied to the maximum medical subsidy, based on the non-Medicare Kaiser premium.

Medical trends recommended for June 30, 2024 valuation

Trend is to be applied in following fiscal years, to all health plans. Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium.

First Fiscal Year (July 1, 2024 through June 30, 2025)

Plan	Anthem Blue Cross PPO, Under Age 65	Anthem Blue Cross Medicare Supplement/ Anthem Passive PPO Medicare Advantage	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Anthem Blue Cross HMO, Under Age 65	UHC CA Medicare Advantage	SCAN
Trend to be applied to 2024–2025 Fiscal Year premium	7.72%	0.25%	6.88%	0.25%	7.71%	10.20%	0.25%

The fiscal year trend rates are based on the following calendar year trend rates:

Fiscal Year	Approximate Trend Rate (%) Non-Medicare	Approximate Trend Rate (%) Medicare	Calendar Year	Trend Rate Applied to Calculate Following Year Premium (%) Non-Medicare	Trend Rate Applied to Calculate Following Year Premium (%) Medicare	Trend Rate Applied to Calculate Following Year Premium (%) Medicare Part B
2025–2026	7.37%	3.76%	2025	7.50[1]	0.50[2]	6.20[3]
2026–2027	7.12%	6.87%	2026	7.25	7.00	6.20
2027–2028	6.87%	6.62%	2027	7.00	6.75	6.20
2028–2029	6.62%	6.37%	2028	6.75	6.50	6.20
2029–2030	6.37%	6.12%	2029	6.50	6.25	6.20
2030–2031	6.12%	5.87%	2030	6.25	6.00	6.20
2031–2032	5.87%	5.62%	2031	6.00	5.75	6.20
2032–2033	5.62%	5.37%	2032	5.75	5.50	6.20
2033–2034	5.37%	5.12%	2033	5.50	5.25	6.20
2034–2035	5.12%	4.87%	2034	5.25	5.00	5.75
2035–2036	4.87%	4.62%	2035	5.00	4.75	5.50
2036–2037	4.62%	4.50%	2036	4.75	4.50	5.25
2037–2038	4.50%	4.50%	2037	4.50	4.50	5.00
2038–2039	4.50%	4.50%	2038	4.50	4.50	4.75
2039 and later	4.50%	4.50%	2039	4.50	4.50	4.50

Dental Premium Trend: 3.00% for all years.

[1] For example, the 7.50% assumption, when applied to the 2025 non-Medicare medical premiums would provide the projected 2026 non-Medicare medical premiums. This trend would also be applied to the maximum medical subsidy, based on the non-Medicare Kaiser premium.

[2] On average, the carrier rates for the Medicare plans are roughly 7.30% lower than the member rates. The estimated 0.50% increase to the member rates for calendar year 2025 is based on an assumed 7.80% increase to the carrier rates. Because member premium rates are used for valuation purposes, the trend assumption anticipates the change in the member rate.

[3] First year trend may be adjusted to reflect actual 2025 calendar year premium if available at time of valuation.

2. Per capita costs and election rates

a. Per capita costs for the June 30, 2023 valuation — Participant under age 65 or not eligible for Medicare A & B

Year & Carrier	Observed and Assumed Election Rate[1]	Single Party Monthly Premium[2]	Single Party Maximum Subsidy[3]	Single Party Subsidy	Married/with Domestic Partner Monthly Premium[2]	Married/with Domestic Partner Maximum Subsidy[3]	Married/With Domestic Partner Subsidy	Eligible Survivor Monthly Premium[2]	Eligible Survivor Maximum Subsidy[3]	Eligible Survivor Subsidy
2023 Calendar Year:										
Kaiser HMO		$939.09	$1,962.20	$939.09	$1,878.18	$1,962.20	$1,878.18	$939.09	$939.09	$939.09
Anthem Blue Cross PPO		1,464.23	1,962.20	1,464.23	2,923.43	1,962.20	1,962.20	1,464.23	939.09	939.09
Anthem Blue Cross HMO		1,169.74	1,962.20	1,169.74	2,334.45	1,962.20	1,962.20	1,169.74	939.09	939.09
2024 Calendar Year:										
Kaiser HMO		$1,051.78	$2,187.58	$1,051.78	$2,103.56	$2,187.58	$2,103.56	$1,051.78	$1,051.78	$1,051.78
Anthem Blue Cross PPO		1,593.73	2,187.58	1,593.73	3,182.43	2,187.58	2,187.58	1,593.73	1,051.78	1,051.78
Anthem Blue Cross HMO		1,273.03	2,187.58	1,273.03	2,541.03	2,187.58	2,187.58	1,273.03	1,051.78	1,051.78
2023–2024 Fiscal Year:										
Kaiser HMO	61.3%	$995.44	$2,074.89	$995.44	$1,990.87	$2,074.89	$1,990.87	$995.44	$995.44	$995.44
Anthem Blue Cross PPO	21.5%	1,528.98	2,074.89	1,528.98	3,052.93	2,074.89	2,074.89	1,528.98	995.44	995.44
Anthem Blue Cross HMO	17.2%	1,221.39	2,074.89	1,221.39	2,437.74	2,074.89	2,074.89	1,221.39	995.44	995.44

[1] The observed election percentages are based on raw census data as of June 30, 2023.

[2] On average, the non-Medicare premiums increased by about 12.00% for Kaiser and about 8.85% for Anthem Blue Cross from calendar year 2023 to 2024. Please refer to the Keenan report that was presented to the Board during its meeting on August 8, 2023 for a breakdown of rate changes. Note, the monthly premiums provided above include vision premiums and are the plan's member rates; which do not necessarily equal the rates charged by the carriers.

[3] Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011 as shown on page 12, section 2(e).

b. Per capita costs for the June 30, 2024 valuation — Participant under age 65 or not eligible for Medicare A & B

Year & Carrier	Observed and Assumed Election Rate[1]	Single Party Monthly Premium[2]	Single Party Maximum Subsidy[3]	Single Party Subsidy	Married/with Domestic Partner Monthly Premium[2]	Married/with Domestic Partner Maximum Subsidy[3]	Married/With Domestic Partner Subsidy	Eligible Survivor Monthly Premium[2]	Eligible Survivor Maximum Subsidy[3]	Eligible Survivor Subsidy
2024 Calendar Year:										
Kaiser HMO		$1,051.78	$2,187.58	$1,051.78	$2,103.56	$2,187.58	$2,103.56	$1,051.78	$1,051.78	$1,051.78
Anthem Blue Cross PPO		1,593.73	2,187.58	1,593.73	3,182.43	2,187.58	2,187.58	1,593.73	1,051.78	1,051.78
Anthem Blue Cross HMO		1,273.03	2,187.58	1,273.03	2,541.03	2,187.58	2,187.58	1,273.03	1,051.78	1,051.78
2025 Calendar Year:										
Kaiser HMO		$1,117.28	$2,318.58	$1,117.28	$2,234.56	$2,318.58	$2,234.56	$1,117.28	$1,117.28	$1,117.28
Anthem Blue Cross PPO		1,720.50	2,318.58	1,720.50	3,435.96	2,318.58	2,318.58	1,720.50	1,117.28	1,117.28
Anthem Blue Cross HMO		1,374.14	2,318.58	1,374.14	2,743.25	2,318.58	2,318.58	1,374.14	1,117.28	1,117.28
2024–2025 Fiscal Year:										
Kaiser HMO	60.2%	$1,084.53	$2,253.08	$1,084.53	$2,169.06	$2,253.08	$2,169.06	$1,084.53	$1,084.53	$1,084.53
Anthem Blue Cross PPO	22.2%	1,657.12	2,253.08	1,657.12	3,309.20	2,253.08	2,253.08	1,657.12	1,084.53	1,084.53
Anthem Blue Cross HMO	17.6%	1,323.59	2,253.08	1,323.59	2,642.14	2,253.08	2,253.08	1,323.59	1,084.53	1,084.53

1 The observed election percentages are based on raw census data as of June 30, 2024.

2 On average, the non-Medicare member premiums increased by about 6.23% for Kaiser and about 7.95% for Anthem Blue Cross from calendar year 2024 to 2025. Please refer to the Keenan report that was presented to the Board during its meeting on August 13, 2024 for a breakdown of rate changes. Note, the monthly premiums provided above include vision premiums and are the plan's member rates; which do not necessarily equal the rates charged by the carriers.

3 Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, as shown on page 12, section 2(e).

c. Per capita costs for the June 30, 2023 valuation — Participant eligible for Medicare A & B

Year & Carrier	Observed and Assumed Election Rate[1]	Single Party Monthly Premium[2]	Single Party Maximum Subsidy[3]	Single Party Subsidy	Married/with Domestic Partner Monthly Premium[2]	Married/with Domestic Partner Maximum Subsidy[3]	Married/With Domestic Partner Subsidy	Eligible Survivor Monthly Premium[2]	Eligible Survivor Maximum Subsidy[3]	Eligible Survivor Subsidy
2023 Calendar Year:										
Kaiser Senior Advantage HMO		$262.47	$262.47	$262.47	$524.94	$524.94	$524.94	$262.47	$262.47	$262.47
Anthem Blue Cross Medicare Preferred (PPO)		494.67	494.67	494.67	984.31	984.31	984.31	494.67	494.67	494.67
UHC California Medicare Advantage Plan		287.80	287.80	287.80	570.57	570.57	570.57	287.80	287.80	287.80
2024 Calendar Year:										
Kaiser Senior Advantage HMO		$262.47	$262.47	$262.47	$524.94	$524.94	$524.94	$262.47	$262.47	$262.47
Anthem Blue Cross Medicare Preferred (PPO)		435.26	435.26	435.26	865.49	865.49	865.49	435.26	435.26	435.26
UHC California Medicare Advantage Plan		247.56	247.56	247.56	490.08	490.08	490.08	247.56	247.56	247.56
2023–2024 Fiscal Year:										
Kaiser Senior Advantage HMO	56.3%	$262.47	$262.47	$262.47	$524.94	$524.94	$524.94	$262.47	$262.47	$262.47
Anthem Blue Cross Medicare Preferred (PPO)	33.7%	464.97	464.97	464.97	924.90	924.90	924.90	464.97	464.97	464.97
UHC California Medicare Advantage Plan	10.0%	267.68	267.68	267.68	530.33	530.33	530.33	267.68	267.68	267.68

Note there are three plans (SCAN, UHC Medicare Advantage HMO for Arizona and Nevada) offered by LACERS that are not included above because we assume a 0% participation rate for each of those plans. On average, their premiums are close to the UHC California Medicare Advantage plan.

[1] The observed election percentages are based on raw census data as of June 30, 2023.

[2] On average, the Medicare premiums remained unchanged for Kaiser but decreased by about 12.01% for Anthem Preferred and by about 13.98% for UHC from calendar year 2023 to 2024. Please refer to the Keenan report that was presented to the Board during its meeting on August 8, 2023 for a breakdown of rate changes. Note, the monthly premiums provided above include vision premiums and are the plan's member rates; which do not necessarily equal the rates charged by the carriers.

[3] Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, as shown on page 12, section 2(e).

d. Per capita costs for the June 30, 2024 valuation — Participant eligible for Medicare A & B

Year & Carrier	Observed and Assumed Election Rate[1]	Single Party Monthly Premium[2]	Single Party Maximum Subsidy[3]	Single Party Subsidy	Married/with Domestic Partner Monthly Premium[2]	Married/with Domestic Partner Maximum Subsidy[3]	Married/with Domestic Partner Subsidy	Eligible Survivor Monthly Premium[2]	Eligible Survivor Maximum Subsidy[3]	Eligible Survivor Subsidy
2024 Calendar Year:										
Kaiser Senior Advantage HMO		$262.47	$262.47	$262.47	$524.94	$524.94	$524.94	$262.47	$262.47	$262.47
Anthem Blue Cross Medicare Preferred (PPO)		435.26	435.26	435.26	865.49	865.49	865.49	435.26	435.26	435.26
UHC California Medicare Advantage Plan		247.56	247.56	247.56	490.08	490.08	490.08	247.56	247.56	247.56
SCAN Medicare Advantage Plan		226.93	226.93	226.93	448.83	448.83	448.83	226.93	226.93	226.93
2025 Calendar Year:										
Kaiser Senior Advantage HMO		$262.47	$262.47	$262.47	$524.94	$524.94	$524.94	$262.47	$262.47	$262.47
Anthem Blue Cross Medicare Preferred (PPO)		435.26	435.26	435.26	865.49	865.49	865.49	435.26	435.26	435.26
UHC California Medicare Advantage Plan		302.11	302.11	302.11	599.19	599.19	599.19	302.11	302.11	302.11
SCAN Medicare Advantage Plan		226.93	226.93	226.93	448.83	448.83	448.83	226.93	226.93	226.93
2024–2025 Fiscal Year:										
Kaiser Senior Advantage HMO	55.9%	$262.47	$262.47	$262.47	$524.94	$524.94	$524.94	$262.47	$262.47	$262.47
Anthem Blue Cross Medicare Preferred (PPO)	34.4%	435.26	435.26	435.26	865.49	865.49	865.49	435.26	435.26	435.26
UHC California Medicare Advantage Plan	5.5%	274.84	274.84	274.84	544.64	544.64	544.64	274.84	274.84	274.84
SCAN Medicare Advantage Plan	4.2%	226.93	226.93	226.93	448.83	448.83	448.83	226.93	226.93	226.93

For valuation purposes, the retirees with UHC Medicare Advantage HMO for Arizona and Nevada (1.1% of total enrollment) are assumed to have the same costs as the UHC California MAPD plan. Similarly, the retirees electing the Anthem Medicare Supplement Plan (1.1% of total enrollment) are included with the Anthem Blue Cross PPO grouping. These grouping simplifications have a *de minimis* impact on the valuation results.

[1] The observed election percentages are based on raw census data as of June 30, 2024.

[2] On average, the Medicare member premiums remained unchanged for Kaiser, Anthem Preferred, and SCAN but increased by about 22% for UHC from calendar year 2024 to 2025. Please refer to the Keenan report that was presented to the Board during its meeting on August 13, 2024 for a breakdown of rate changes. Note, the monthly premiums provided above include vision premiums and are the plan's member rates; which do not necessarily equal the rates charged by the carriers.

[3] Members who are subject to the retiree medical subsidy cap have monthly health insurance subsidy maximums fixed at the level in effect on July 1, 2011, as shown on page 12, section 2(e).

e. Proposed per capita costs — Subject to retiree medical subsidy cap for the 2024–2025 fiscal year

Tier 1 members who were subject to the retiree medical subsidy cap would have monthly health insurance subsidy maximums capped at the levels in effect at July 1, 2011, as shown in the table below. We understand that no active members are subject to the cap but that some inactive members may be subject to the cap.

Retiree Plan	Single Party	Married/With Domestic Partner	Eligible Survivor
Under 65 — All Plans	$1,190.00	$1,190.00	$593.62
Over 65			
• Kaiser Senior Advantage HMO	$203.27	$308.74	$203.27
• Anthem Blue Cross Medicare Preferred (PPO)	478.43	478.43[1]	478.43
• UHC California Medicare Advantage Plan	219.09	433.93	219.09
• SCAN Medicare Advantage Plan[2]	223.88	447.76	223.88

f. Proposed per capita costs used in June 30, 2024 valuation — Dental plan

Retiree Plan	Actual / Assumed Participation Percent (%)	Monthly 2024 Calendar Year Subsidy	Monthly 2025 Calendar Year Subsidy	Monthly 2024–2025 Fiscal Year Subsidy
Delta Dental PPO	82.1	$42.93	$42.93	$42.93
DeltaCare USA	17.9	15.10	15.70	15.40

1 The reason the subsidy is only at the single-party amount is that there is no excess subsidy to cover a dependent.
2 We have assumed the two-party maximum for SCAN to be twice the single party SCAN maximum.

g. Proposed per capita costs used in June 30, 2024 valuation — Medicare Part B premium reimbursement

The Plan will reimburse (only available to Member, not dependent or survivor) monthly Medicare Part B premiums before means testing:

Monthly Premium	Single
Actual premium for calendar year 2024	$174.70
Projected premium for calendar year 2025*	185.53
Projected average monthly premium for plan year 2024-2025	180.12

For retirees over age 65 on the valuation date, we will value the Medicare Part B premiums for those reported in the data with Medicare Part B premium. For current and future retirees under age 65, we will assume 100% of those electing a medical subsidy will be eligible for the Medicare Part B premium subsidy.

3. Other assumptions and methods

In the June 30, 2024 valuation, we will also apply the following demographic and economic assumptions and methodologies that the Board approved as a result of the triennial experience study covering July 1, 2019 to June 30, 2022.

1. **Economic assumptions:** We will apply the 7.00% investment return and 2.50% inflation assumption that the Board approved as a result of the triennial experience study covering July 1, 2019 to June 30, 2022.
2. **Demographic assumptions:** These include the incidence of service retirement, disability retirement, withdrawal, deferred vested retirement and death. We will apply the assumptions adopted in our July 1, 2019 to June 30, 2022 triennial experience study.
3. **Funding methodologies:** The Entry Age Cost Method will continue to be used in this valuation. As discussed in the triennial experience study covering July 1, 2019 to June 30, 2022, the attribution period for employees with reciprocal service will be consistent with their participation at LACERS.
4. **Expected annual rate of increase in the Board's health subsidy amount:** We have made an assumption that the Board's health subsidy amount will increase at the same rate as the anticipated increase in benefit costs. We recommend leaving this assumption unchanged for the June 30, 2024 valuation. (Please also see discussions under (4) in our cover letter regarding how subsidy increases are to be projected in the valuation.)

* Based on calendar year 2024 premium adjusted to 2025 by assumed trend rate of 6.20%.

5. **Percentage of retirees over age 65 covered by Medicare Parts A and B:** In the prior valuation, we assumed that 100% of retirees will enroll in Medicare Parts A and B upon reaching age 65. We recommend maintaining this assumption for the June 30, 2024 valuation.

6. Market value of assets will be used for the June 30, 2024 GASB 74 and 75 valuations.

   Market value of assets less unrecognized returns will be used for the June 30, 2024 funding valuation.

   Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. In addition, the actuarial value of assets is further adjusted, if necessary, to stay within 40% of the market value of assets.

7. **Implicit Subsidy:** It is our understanding that retiree premium rates are not pooled with the active rates and no implicit subsidy exists, and LACERS has confirmed this understanding.

8. **Spouse/Domestic Partner Age Difference in Years for Retirees with Medical Coverage:** For all non-retired members, male members are assumed to have a female spouse/domestic partners who is 4 years younger than the member and female members are assumed to have a male spouse/domestic partners who is 2 years older than the member. We will evaluate these assumptions during the next triennial experience study.

9. **Spouse/Domestic Partner Coverage:** For all active and inactive members, 60% of male participants and 35% of female participants who receive a retiree health subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage. Of these covered spouses/domestic partners, 100% are assumed to continue coverage if the retiree predeceases the spouse/domestic partner. We will evaluate these assumptions during the next triennial experience study.

10. **Retiree Medical and Dental Coverage Election:** The table below summarizes the participation assumptions for future retirees. We will evaluate these assumptions during the next triennial experience study.

Service Range	Percent (%) Covered*
10–14	60
15–19	80
20–24	90
25 and over	95

11. **Reconciliation of Total OPEB Liability (TOL) for GAS 74 and 75** — When reconciling the TOL for the GAS 74 and 75 valuations, changes in TOL attributable to a health care trend, discount rate, medical election, health care premium and subsidy rates and changes adopted from the triennial experience study will be treated as assumption changes.

* For deferred vested members, we assume an election percent of 50% of these rates.

12. **Amortization Policy:** LACERS has elected to amortize the unfunded actuarial accrued liability using the following rules:
    - Assumption changes resulting from the triennial experience study will be amortized over 20 years. An overall surplus will be amortized over 30 years using an open (non-decreasing) basis.
    - Health trend and premium assumption changes, plan changes, and gains and losses will be amortized over 15 years.
    - An overall surplus will be amortized over 30 years using an open (non-decreasing) basis.

    As of June 30, 2023, the valuation value of assets was in excess of the total actuarial accrued liability. Therefore, all prior amortization bases were deemed to have been fully amortized and the actuarial surplus was amortized over a 30-year period.

    Depending on the actuarial experience, the Health Plan could have a negative UAAL contribution rate (a credit) even though the UAAL is positive. If this situation occurs, as it did during the June 30, 2022 valuation, the amortization period for experience gains and losses will be harmonized with the remaining UAAL amortization bases to avoid a contribution credit.

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION | **MEETING: SEPTEMBER 24, 2024**
From: Neil M. Guglielmo, General Manager | **ITEM: VII - B**

SUBJECT: **PRESENTATION BY NEPC, LLC REGARDING CONTINUED DISCUSSION OF ASSET ALLOCATION AND POSSIBLE BOARD ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Board review the Asset-Liability Study related to various asset allocation mixes as presented by NEPC, LLC, engage in appropriate discussion and deliberation, and approve an Asset Allocation Policy mix.

Discussion

On February 13, 2024, the Board heard a presentation from Carolyn Smith and Kevin Novak of NEPC, LLC (NEPC), LACERS' General Consultant, regarding information contained in an Asset Allocation presentation, which was developed by NEPC with input from staff. This presentation provided an overview of the asset liability framework, key market themes, and the current macroeconomic backdrop.

On March 12, 2024, the Board continued their discussion with staff and NEPC to consider current capital market assumptions, comparison of specific asset allocation mixes in light of plan liabilities, and asset class characteristics and behaviors. Additionally, on April 9, 2024, and May 14, 2024, the Board received presentations from NEPC on infrastructure investments in terms of their risk and return profile, diversification benefits, and implementation considerations. Infrastructure is being considered by the Board for possible inclusion in the Asset Allocation Policy.

On August 27, 2024, NEPC presented funded ratio, cash flows, and contribution projections using deterministic and stochastic models as well as several asset allocation mixes for consideration. Upon reviewing various asset allocation mixes, the Board requested that NEPC return with modifications to include a 50/50 split of public and private infrastructure.

Prepared By: Wilkin Ly, CAIA, Deputy Chief Investment Officer, Investment Division

NMG/RJ/WL/EC:rm

Attachment: 1. Asset-Liability Study Presentation by NEPC

ASSET-LIABILITY STUDY

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

SEPTEMBER 24, 2024

Board Meeting: 9/24/24
Item VII-B
Attachment 1

LACERS ASSET-LIABILITY STUDY

- Background
- Executive Summary
- Current Policy
- Alternative Portfolios
- Next Steps
- Appendix
  - Health Plan
  - Assumptions & Definitions

BACKGROUND

PURPOSE OF ASSET-LIABILITY STUDY

- **Review the current/projected financial status of the plan over long-term horizon**
- **Determine appropriateness of current asset allocation with consideration of:**
  - Expected progress of liabilities and cash flows/liquidity needs
  - Path of funded status
- **Test sensitivity of plan (Assets and Liabilities) to various range of outcomes**
  - Market performance across range of economic environments
  - Contribution volatility
  - Range of liquidity environments
- **Consider appropriate asset mixes and expected return on assets**
  - Assess return target against tradeoff of volatility/range of outcomes
  - Analyze inclusion/exclusion of various asset classes/strategies

BALANCING THE PENSION EQUATION

- **All the complexities of pension plans boil down to the classic equation:**

$$B + E = C + I$$

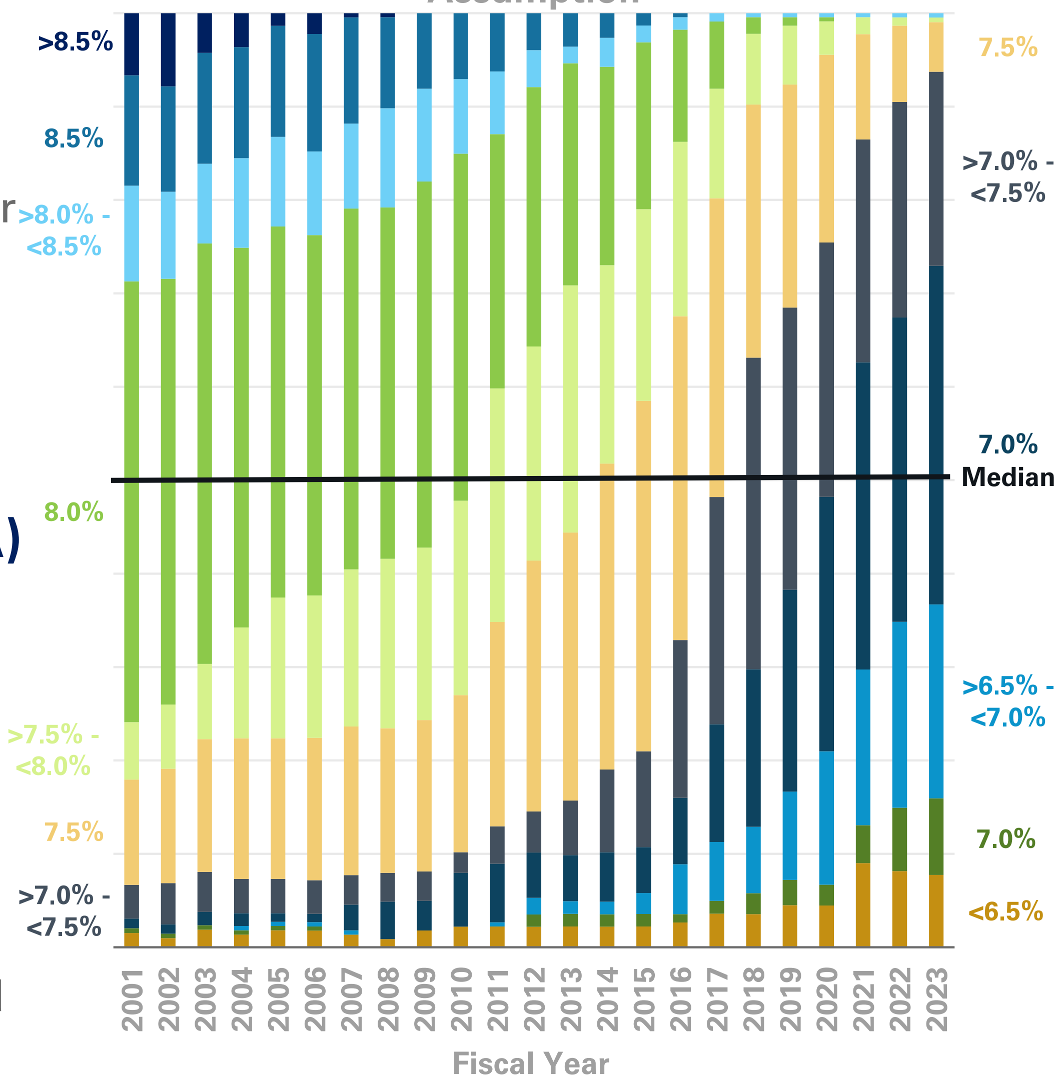
- **Benefits (B), Expenses (E), Contributions (C), and Investment Earnings (I)**

Plan Factor	Flexibility/Constraint
(B + E) Benefits & Expenses	Lower "C" and/or "I" can be offset with an equivalent reduction in outflows: • Vested benefits generally cannot be reduced • Non-vested benefits can be reduced, but challenging on many levels
(C) Contributions	LACERS contribution model offers adequate flexibility to balance equation: • Dynamic contribution rates based on asset and liability performance • Layered amortizations of annual gains/loss designed to fully fund the plan within 15 years • Recommended contribution obligations are assumed to be made each year
(I) Investment Return	Investment pool can be restructured to maintain target return • Increase risk and/or portfolio efficiency • Expected return (and risk level) could be scaled down over time as funded status improves allowing for maintenance of long-term plan stability

EXPECTED RETURN

- **Expected return and liability discount rate are closely linked for public pension plans**
  - Going-concern of government entities has historically provided comfort in public plans taking longer term approach
  - Expected returns are forward-looking
- **Historical market environment has led to downward trend in expected return on assets (EROA) for public pensions**
  - Median 2024 EROA = 7.0%
- **Low expected returns put pressure on assumptions and outcomes but…**
  - Market re-pricing and higher inflation may push return expectations higher looking forward

Distribution of Investment Return Assumption



Source: NASRA Public Plan Database consisting of 229 pension plans covering 95% of public pension membership and assets nationwide; data as of July 2024

LACERS VS. PEER AVERAGE ALLOCATION

	Current Policy	Average Public Fund*
Cash	1.00%	2.90%
Total Cash	**1.00%**	**2.90%**
US Equity	21.00%	27.00%
Non-US Equity	18.00%	16.70%
Emerging Market Equity	8.00%	2.30%
Private Equity	16.00%	12.90%
Total Equity	**63.00%**	**58.90%**
US Fixed Income	18.25%	17.00%
Private Debt	5.75%	5.00%
Total Fixed Income	**24.00%**	**22.00%**
Public Real Assets	5.00%	1.50%
Real Estate	7.00%	7.00%
Private Real Assets	0.00%	2.00%
Total Real Assets	**12.00%**	**10.50%**
Hedge Fund	0%	5.70%
Total Multi Asset	**0%**	**5.70%**
Expected Return 10 yrs	**6.72%**	**6.15%**
Expected Return 30 yrs	**7.86%**	**7.40%**
Standard Dev	**15.32%**	**13.77%**
Sharpe Ratio (10 years)	**0.18**	**0.16**
Sharpe Ratio (30 years)	**0.29**	**0.29**

* Average public fund allocation is estimated using multiple sources, including peer universe allocation, NEPC average client asset allocation, as well as making multiple assumptions about asset/sub-asset classifications. Asset class definitions and categorizations differ across each plan's asset allocation.

- **LACERS portfolio is well diversified and incorporates a higher equity allocation than the average public fund**
- **Due to the higher allocation to equities, both public and private, LACERS' expected return and risk is higher than the average public fund**

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

KEY OBSERVATIONS

- **LACERS' current funded status is 73.1% (Actuarial Basis) and is projected to move towards full funding**
  - Funded status has held fairly steady over the past five years
  - A funded status of 85% is projected in ten years

- **Employer contributions are expected to range between 30-32% of payroll for the next ten years**
  - Reflects the 15-year amortization period adopted by the Board to pay off the actuarial unfunded liability

- **Employer contributions decline significantly in 2037 due to the expectation of reaching full funding for the Pension Plan**

- **The Plan's net cash flow is expected to hover between negative 2-3% for the next 10 years**
  - Net cash flow is projected to increase to -3.8% when the Pension Plan reaches full funding

EXECUTIVE SUMMARY

KEY OBSERVATIONS (CONTINUED)

- **The Current Policy allocation is well-diversified and is expected to produce an average return of 7.9% over the next 30 years, slightly higher than the target of 7.0% expected return on assets**
  - Due to current market conditions, the 10-year return faces more headwinds with an expected return of 6.7%

- **Market environment has shifted significantly**
  - Economic resiliency in the U.S. despite higher interest rates and above target inflation
  - From low rates/low growth/low expected returns…
  - To higher inflation, higher growth, and tightening monetary policy

- **NEPC is recommending incremental changes to the current policy mix**
  - Reduce exposure to Non-US Equity
  - Increase Real Asset exposure

EXECUTIVE SUMMARY

RECOMMENDATION

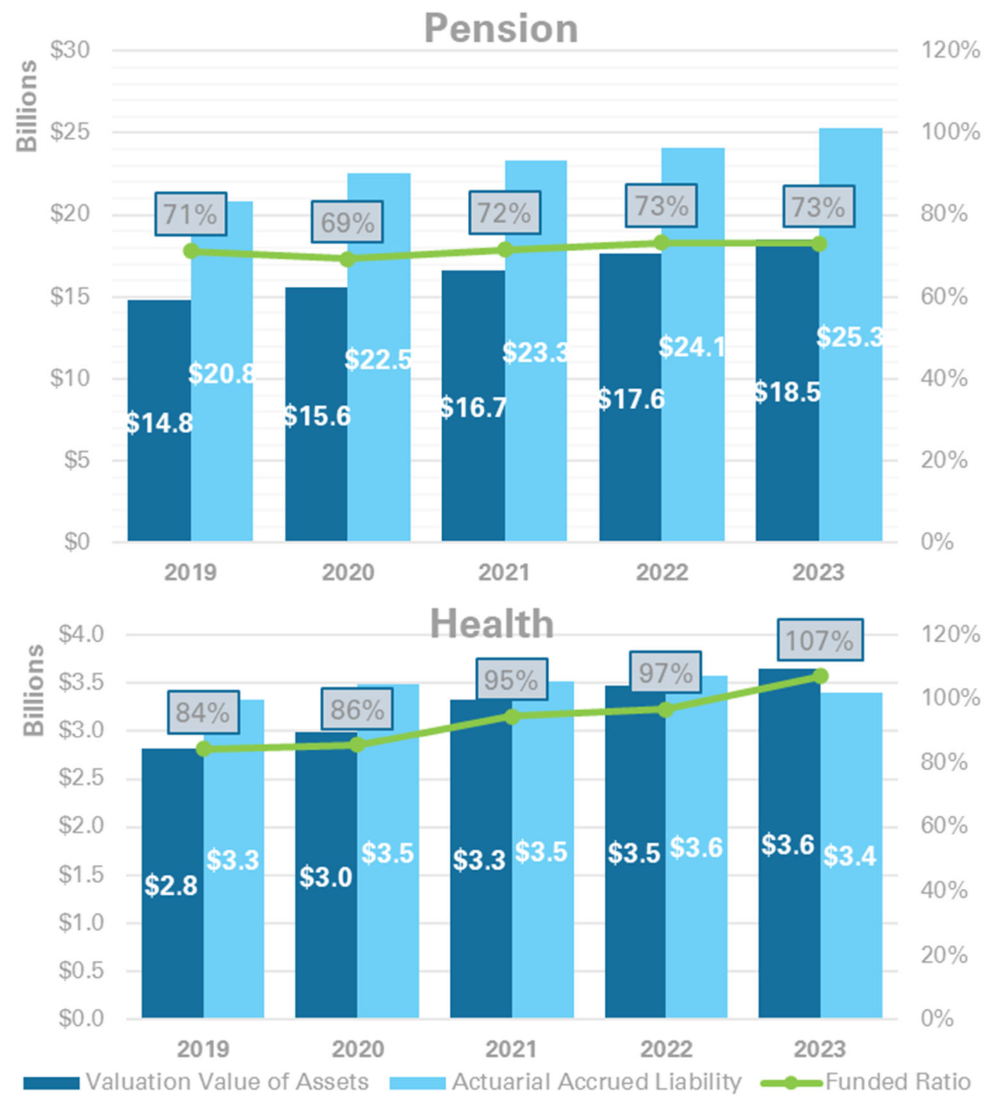
- **Incremental changes to Current Policy should lead to modest reduction in portfolio volatility**
  - Reduce non-US equity exposure to dampen volatility and become more in line with opportunity set and peers
  - Increase real assets portfolio to reflect inflationary market environment
  - Continue to take advantage of the opportunities in private markets to capitalize on relative value opportunities and diversification benefit
- **Based on current projections, these changes are expected to achieve:**
  - A similar return expectation when compared to the Current Portfolio over a 10-year and 30-year horizon
  - Reduced volatility as measured by standard deviation
  - Funded status expectation of 100% by 2036
- **Mix B provides for lower contributions and increased funded status at the expected and worst-case scenarios**
  - Ten-year and 30-year expected return exceeds current portfolio with less risk
  - Only modest portfolio changes are required to implement Mix B

CURRENT POLICY

ASSET-LIABILITY PROFILE

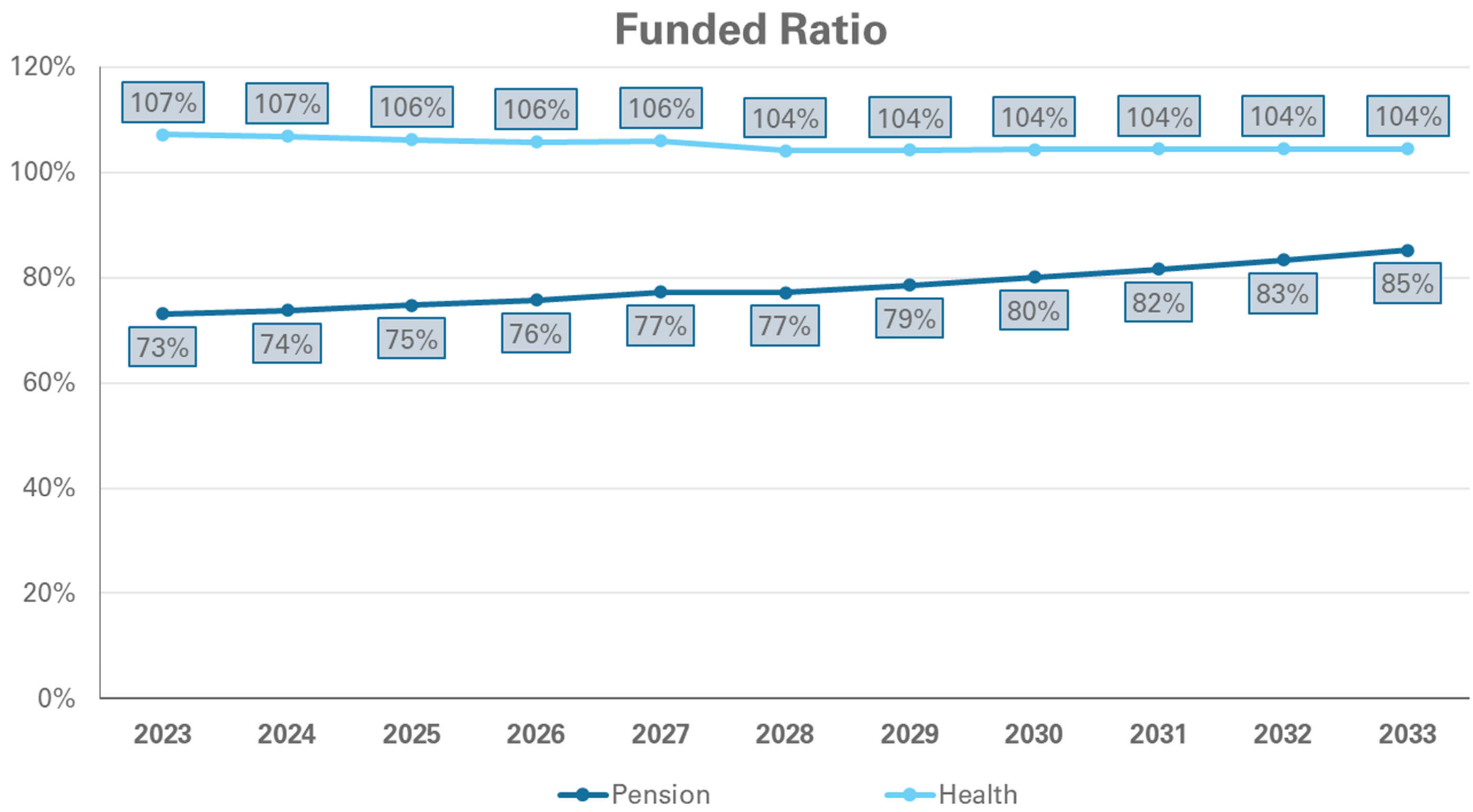
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

- **Pension funded status has been stagnant over the last 5 years while Health has improved to above 100%**
- **Due to the Pension's size and underfunded status, contribution flow into the system is expected to be healthy**
- **With healthy contribution flow expected for the foreseeable future, allocating to private markets may be best use of capital for additive returns**
- **Current Policy allocation is expected to achieve the investment return assumption set by the Board**
  - 7.00% investment return assumption
  - 10-yr expected return of 6.7%
  - 30-yr expected return of 7.9%



10-YEAR FUNDED RATIO PROJECTION

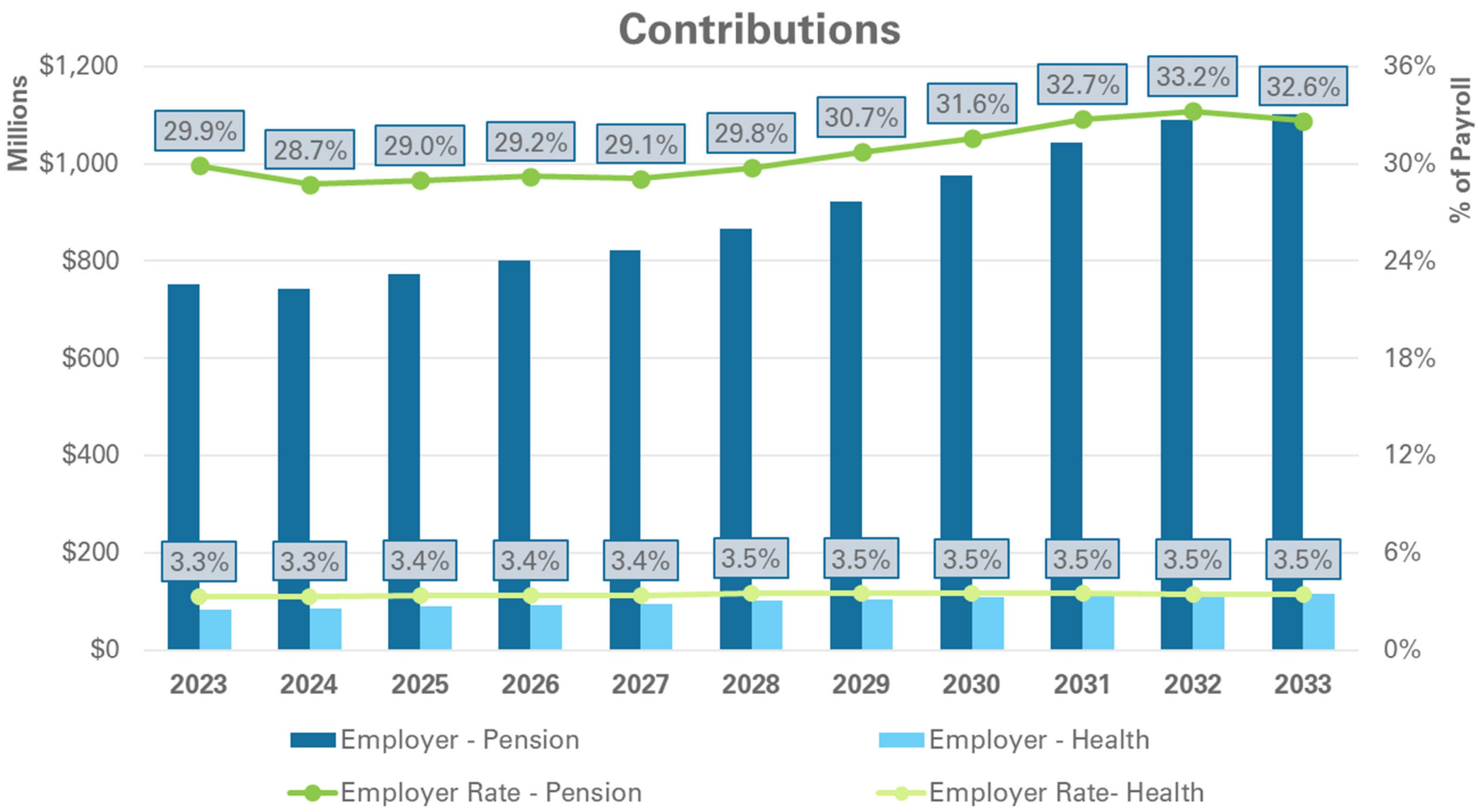
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: As of June 30; reflects Current Policy 10-year expected return of 6.7% per annum

10-YEAR CONTRIBUTION PROJECTION

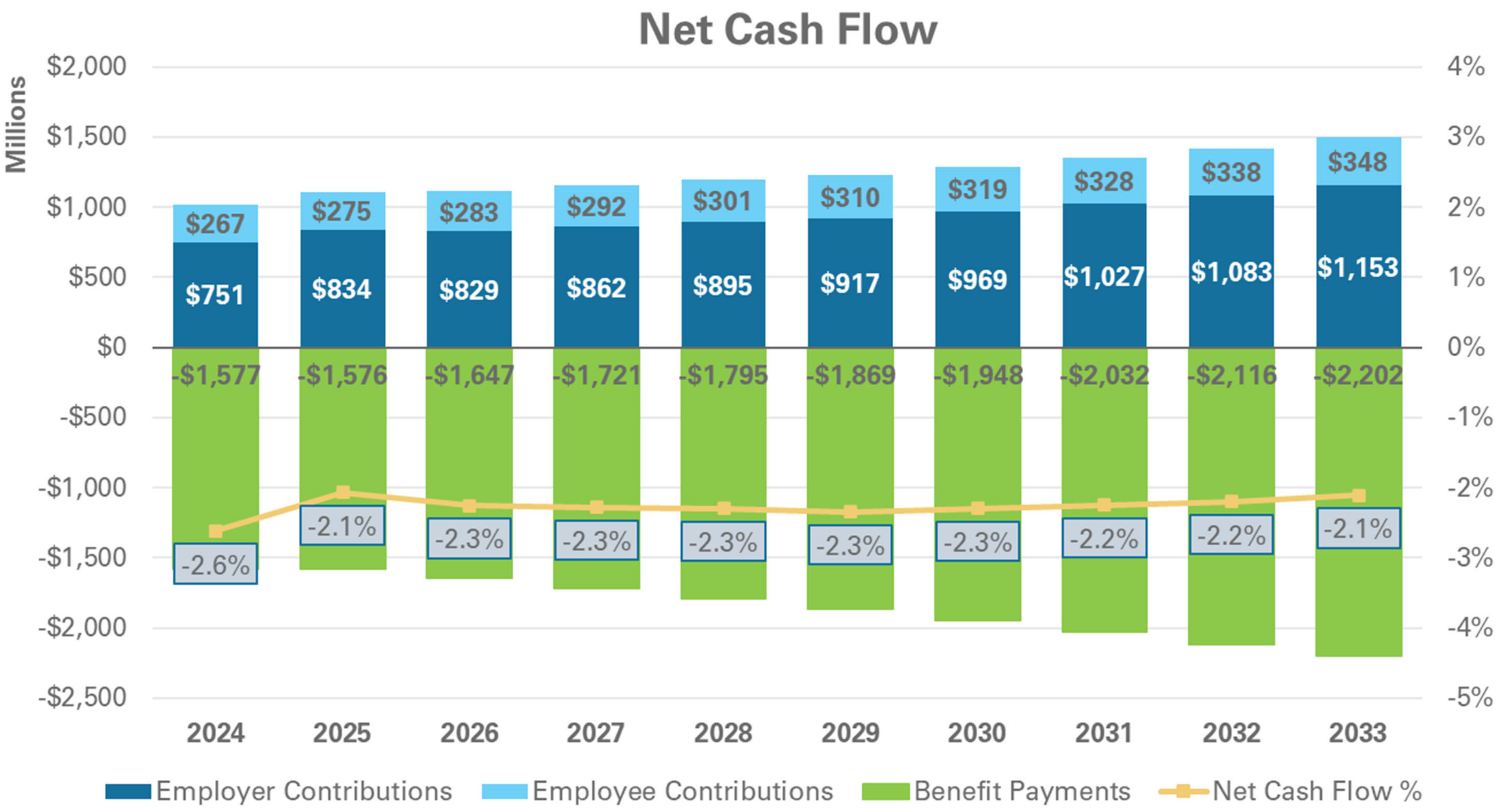
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: Determined as of June 30 and payable in FY+2; reflects Current Policy 10-year expected return of 6.7% per annum; employee contribution rate for pension is assumed to remain level at 10.6% of payroll

10-YEAR NET CASH FLOW PROJECTION

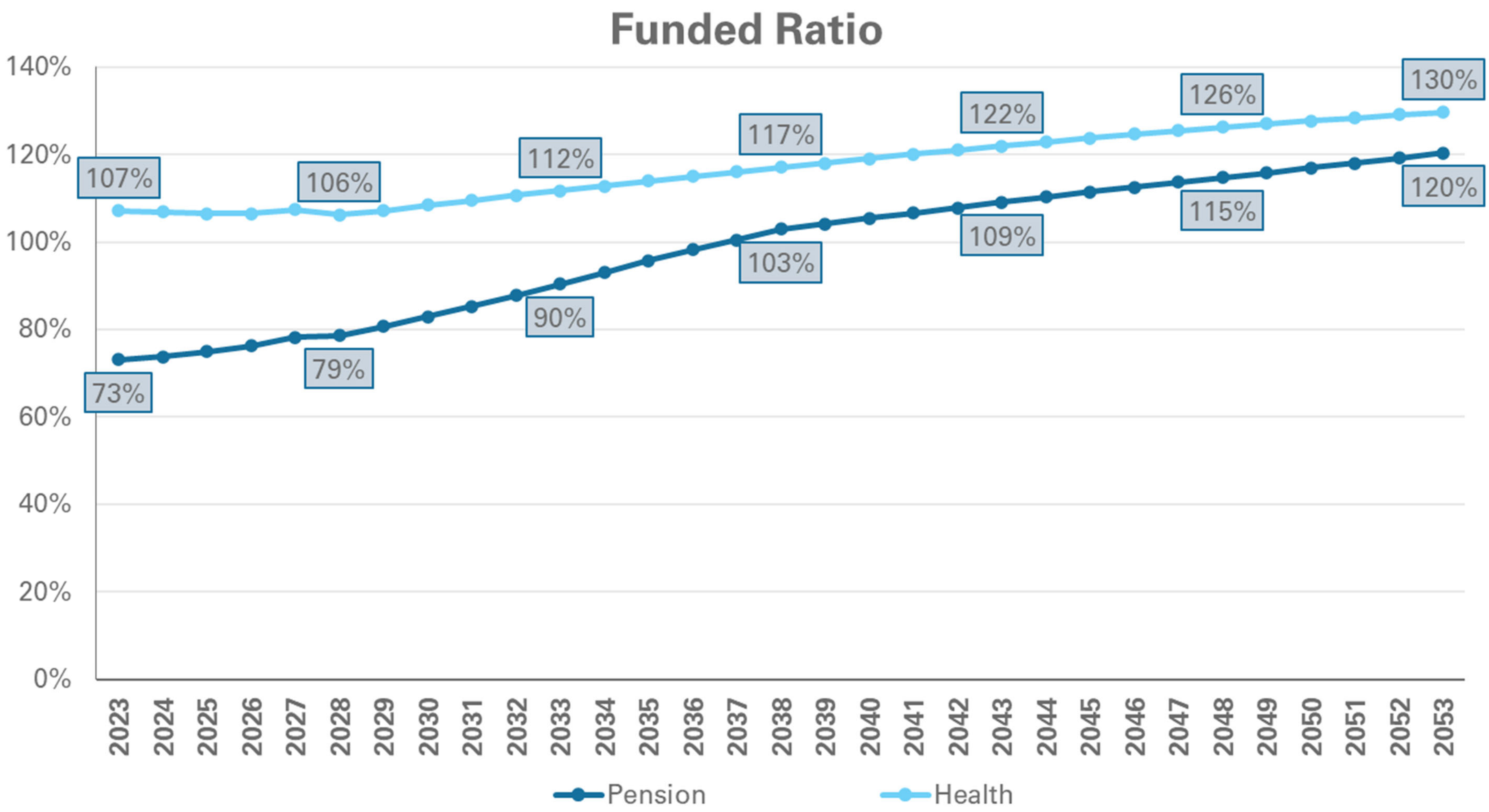
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: For the year ending June 30; reflects Current Policy 10-year expected return of 6.7% per annum; cashflows reflects aggregate pension and health amounts

30-YEAR FUNDED STATUS PROJECTION

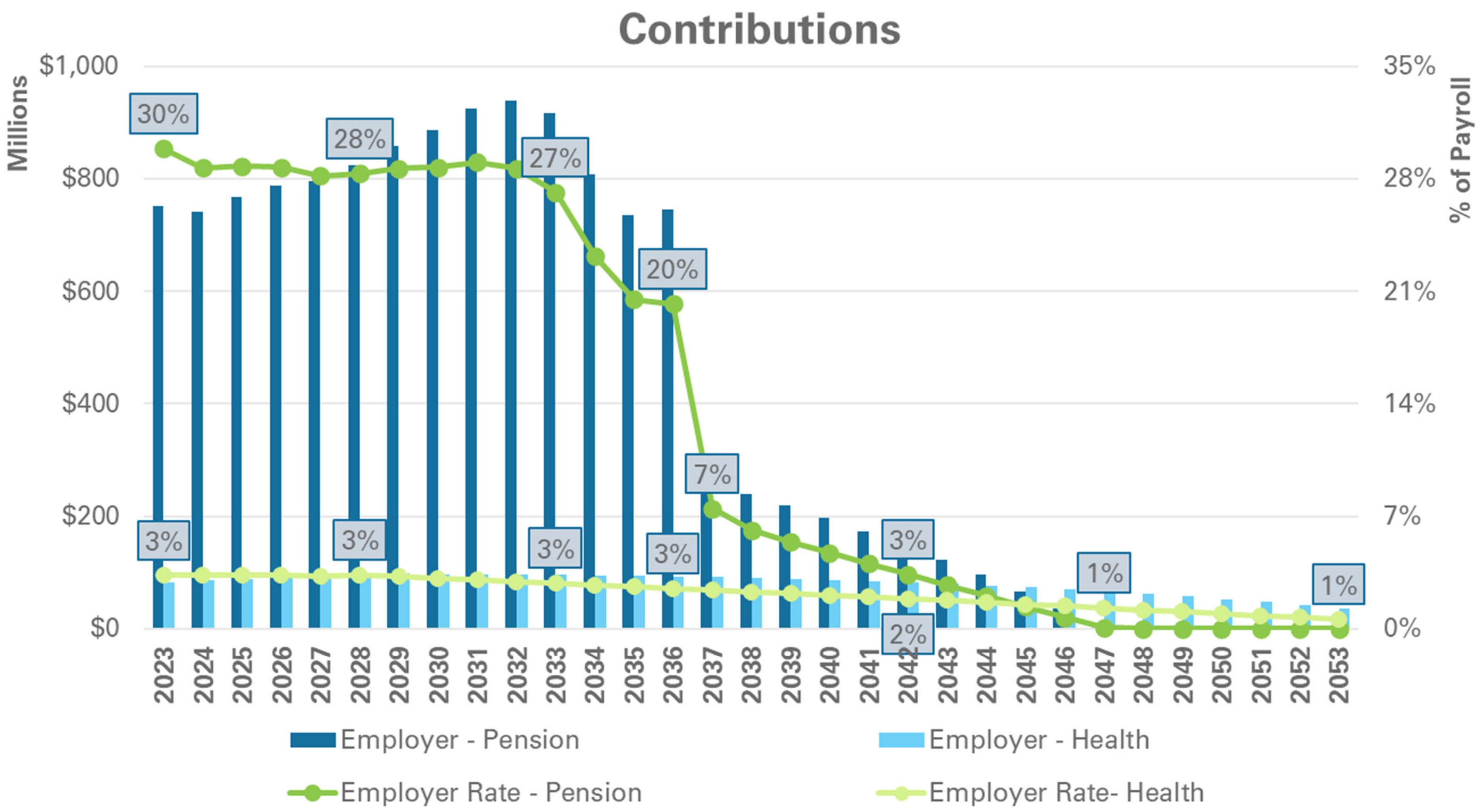
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: As of June 30; reflects Current Policy 30-year expected return of 7.9% per annum

30-YEAR CONTRIBUTION PROJECTION

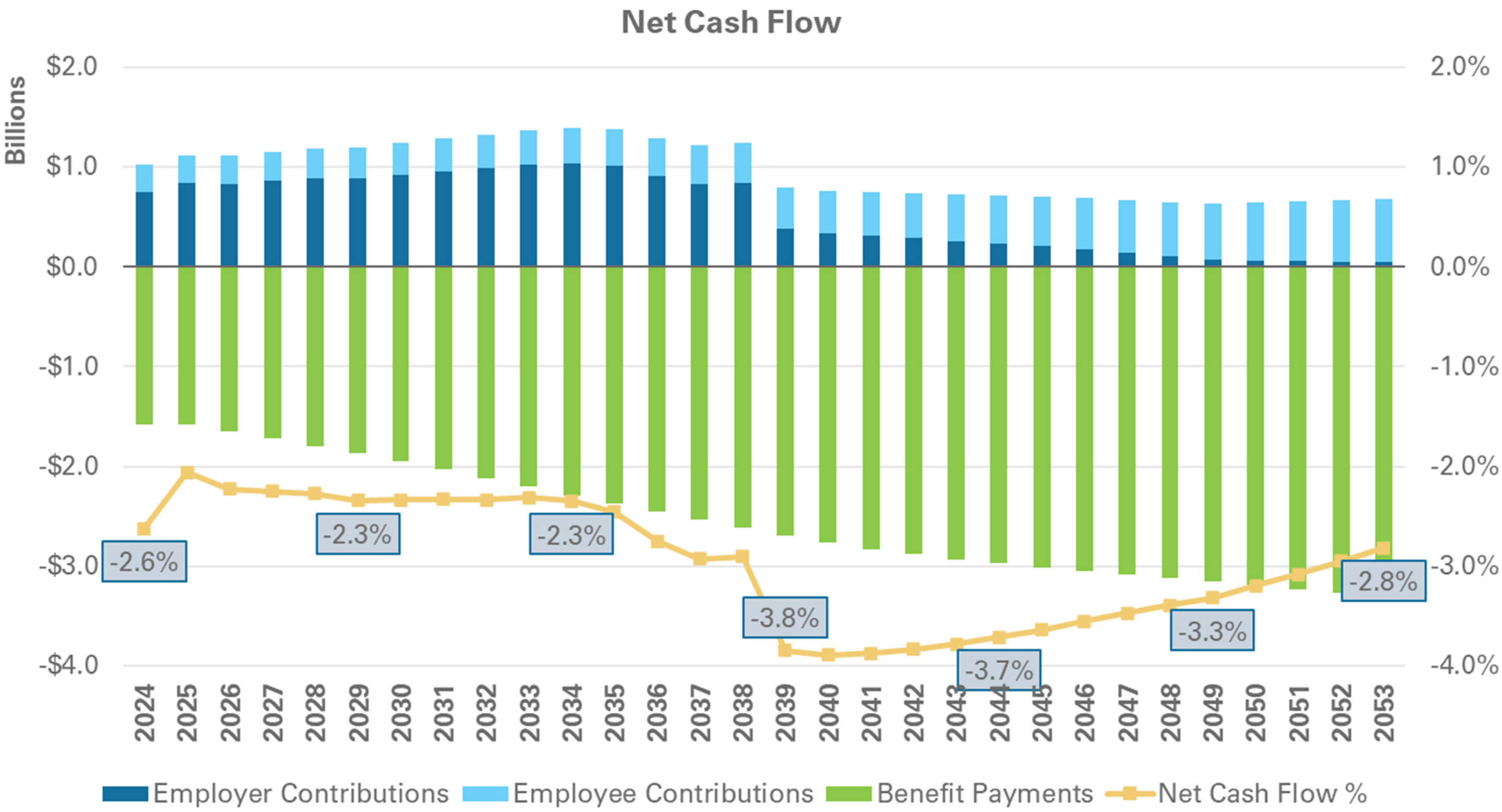
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: Determined as of June 30 and payable in FY+2; reflects Current Policy 30-year expected return of 7.9% per annum; employee contribution rate for pension is assumed to remain level at 10.6% of payroll

30-YEAR NET CASH FLOW PROJECTION

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: For the year ending June 30; reflects Current Policy 30-year expected return of 7.9% per annum; cashflows reflects aggregate pension and health amounts

ALTERNATIVE PORTFOLIOS

CONSIDERATIONS FOR LACERS

- **Reconfigure the equity allocation to be more in line with the global opportunity set**
  - Reduce non-US exposure

- **Increase Real Assets Exposure**
  - Include Public Infrastructure and a basket of Public Real Assets
    - Consideration given to the ease and cost of gaining exposure

- **Modest restructure of public Fixed Income**
  - Increase High Yield exposure, reduce Emerging Market Debt
  - Add a new Long-Term Treasury portfolio for Asset Mix E
    - Allocation provides additional liquidity and offers modest crisis protection to counterbalance increased private markets exposure

ALTERNATIVE ALLOCATIONS

	10-Year Return	30-Year Return	Standard Deviation	Current Policy	Mix A (Reconfigure Equity)	Mix B (Add Infrastructure)	Mix C (Add Diversified Real Assets)	Mix D (Boost Real Assets)	Mix E (Increase Illiquidity)
Cash	3.9%	3.4%	0.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Cash				**1.0%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**
US Large-Cap Equity	4.4%	6.7%	17.2%	15.0%	15.0%	15.0%	15.0%	16.0%	15.0%
US Small/Mid-Cap Equity	6.0%	7.4%	21.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Non-US Developed Equity	4.6%	6.4%	19.7%	15.0%	10.0%	9.0%	8.0%	7.0%	7.0%
Non-US Developed Small-Cap Equity	6.4%	7.5%	24.2%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%
Emerging Market Equity	8.6%	9.2%	28.1%	6.7%	4.7%	4.7%	4.7%	4.0%	4.0%
Emerging Market Small-Cap Equity	7.9%	9.1%	31.4%	1.3%	1.3%	1.3%	1.3%	1.0%	1.0%
Global Equity	5.4%	7.3%	18.2%	0.0%	8.0%	5.0%	5.0%	0.0%	0.0%
Private Equity	9.0%	10.1%	25.9%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Total Equity				**63.0%**	**63.0%**	**59.0%**	**58.0%**	**51.0%**	**50.0%**
US Aggregate Bond	4.6%	4.9%	5.8%	11.3%	11.3%	10.3%	10.3%	9.3%	9.3%
US High Yield Corporate Bond	6.1%	7.1%	11.2%	1.5%	1.5%	1.5%	2.0%	2.5%	2.5%
US Leveraged Loan	7.2%	6.6%	9.1%	1.5%	1.5%	1.5%	2.0%	2.5%	2.5%
Emerging Market External Debt	7.1%	7.3%	12.3%	2.0%	2.0%	2.0%	1.5%	1.5%	1.5%
Emerging Market Local Currency Debt	6.1%	5.5%	12.7%	2.0%	2.0%	2.0%	1.5%	1.5%	1.5%
Private Debt	8.3%	9.0%	11.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
US Long-Term Treasury Bond (10-30 Year)	4.5%	4.8%	12.4%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%
Total Fixed Income				**24.0%**	**24.0%**	**23.0%**	**23.0%**	**23.0%**	**26.0%**
US TIPS	4.6%	4.7%	6.0%	3.6%	3.6%	3.6%	3.6%	5.0%	3.6%
Public Real Assets (Multi-Asset)	6.1%	6.4%	14.2%	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%
REIT	6.0%	7.3%	21.8%	1.4%	1.4%	1.4%	1.4%	2.0%	1.4%
Global Infrastructure Equity	6.6%	7.0%	19.4%	0.0%	0.0%	5.0%	0.0%	5.0%	0.0%
Real Estate - Core	5.4%	6.1%	15.0%	4.2%	4.2%	4.2%	4.8%	4.8%	4.8%
Real Estate - Non-Core	7.1%	7.8%	24.3%	2.8%	2.8%	2.8%	3.2%	3.2%	3.2%
Private Real Assets - Infrastructure	6.8%	7.1%	12.4%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%
Total Real Assets				**12.0%**	**12.0%**	**17.0%**	**18.0%**	**25.0%**	**23.0%**

	Current Policy	Mix A	Mix B	Mix C	Mix D	Mix E
Expected Return 10 yrs	**6.72%**	**6.66%**	**6.77%**	**6.75%**	**6.81%**	**6.80%**
Expected Return 30 yrs	**7.86%**	**7.83%**	**7.88%**	**7.85%**	**7.84%**	**7.81%**
Standard Dev	**15.32%**	**15.17%**	**15.06%**	**14.83%**	**14.26%**	**13.73%**
Sharpe Ratio (10 years)	**0.18**	**0.18**	**0.19**	**0.19**	**0.20**	**0.21**
Sharpe Ratio (30 years)	**0.29**	**0.29**	**0.30**	**0.30**	**0.31**	**0.32**

Notes: Allocations may not appear to sum to 100% due to rounding; Shading in the allocation table indicates change relative to Current Policy: green = increase to asset class and red = decrease to asset class; Shading for expected return, standard deviation and Sharpe ratio indicates whether the alternative allocation is expected to produce a better result than the current policy (i.e., light green is better and light orange is worse); based on NEPC's 12/31/2023 capital market assumptions

MIX B ALTERNATIVE

	Mix B (Add Infrastructure)	Mix B (50/50 Infrastructure)
Cash	1.0%	1.0%
Total Cash	**1.0%**	**1.0%**
US Large-Cap Equity	15.0%	15.0%
US Small/Mid-Cap Equity	5.0%	5.0%
Non-US Developed Equity	9.0%	9.0%
Non-US Developed Small-Cap Equity	3.0%	3.0%
Emerging Market Equity	4.7%	4.7%
Emerging Market Small-Cap Equity	1.3%	1.3%
Global Equity	5.0%	5.0%
Private Equity	16.0%	16.0%
Total Equity	**59.0%**	**59.0%**
US Aggregate Bond	10.3%	10.3%
US High Yield Corporate Bond	1.5%	1.5%
US Leveraged Loan	1.5%	1.5%
Emerging Market External Debt	2.0%	2.0%
Emerging Market Local Currency Debt	2.0%	2.0%
Private Debt	5.8%	5.8%
Total Fixed Income	**23.0%**	**23.0%**
US TIPS	3.6%	3.6%
Public Real Assets (Multi-Asset)	0.0%	0.0%
REIT	1.4%	1.4%
Global Infrastructure Equity	5.0%	2.5%
Real Estate - Core	4.2%	4.2%
Real Estate - Non-Core	2.8%	2.8%
Private Real Assets - Infrastructure	0.0%	2.5%
Total Real Assets	**17.0%**	**17.0%**
Expected Return 10 yrs	**6.77%**	**6.77%**
Expected Return 30 yrs	**7.88%**	**7.88%**
Standard Dev	**15.06%**	**14.93%**
Sharpe Ratio (10 years)	**0.19**	**0.19**
Sharpe Ratio (30 years)	**0.30**	**0.30**

- **Listed Infrastructure –** public market securities with high transparency and liquidity

Benefits	Considerations
▪ Immediate exposure ▪ Easy to access ▪ Lower fees vs. open-end and closed-end funds	▪ Equity market correlations dampen diversification benefits ▪ Overlap with equity portfolio

- **Open-End Fund –** private funds with perpetual lives; functions like core real estate funds

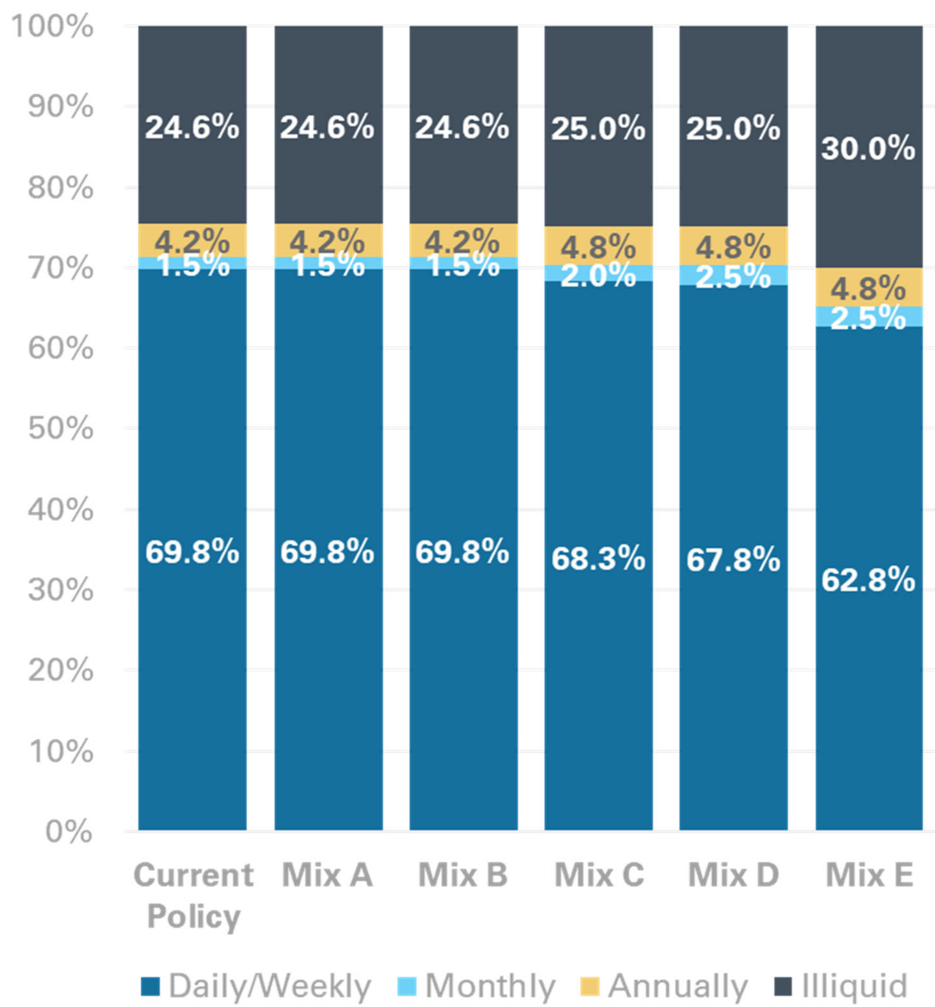
Benefits	Considerations
▪ Lower fees vs. closed-end funds ▪ Broad Diversification ▪ Quicker to build portfolio	▪ Semi-liquid with potential for entrance/exit queues ▪ Limited manager universe ▪ Limited control

- **Primary Closed-End Fund –** private equity style funds that make control investments over a multi-year investment period

Benefits	Considerations
▪ Fund selection can provide for higher return ▪ Focused assets	▪ Illiquid ▪ High fee loads ▪ Limited control

LIQUIDITY PROFILE

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



- **Net cash flow is expected to average negative 2.3% over next 10 years which is typical for a mature retirement system**
  - Public funds typically average net cash flow ranges between negative 2% and negative 4%
- **Funding policy will trigger contribution increases if needed, providing a backstop to plan liquidity**
- **NEPC believes the plan can handle the additional illiquid allocation in Mix E with no material impact to the plan's ability to meet its obligations**

SCENARIO ANALYSIS: REGIME DEFINITIONS

- **NEPC scenario analysis highlights the impact of shifting economic and market regimes on the portfolio and potential asset allocation mixes**
  - Asset returns are informed by changes in real growth, inflation, and credit spreads experienced across market regimes
  - Scenario returns are sensitive to current market pricing

Expansion

A high growth—low inflation regime with declining interest rates and declining inflation. Equity valuations expand, earnings growth above expectations, and tightening credit spreads,

Stagflation

A low growth—high inflation regime with rising interest rates and rising inflation. Equity valuations contract, negative real earnings growth, and widening credit spreads

Depression

A negative growth—deflation regime with negative interest rates and deflation. All-time low equity valuations, negative earnings growth, and all-time high credit spreads

Recession

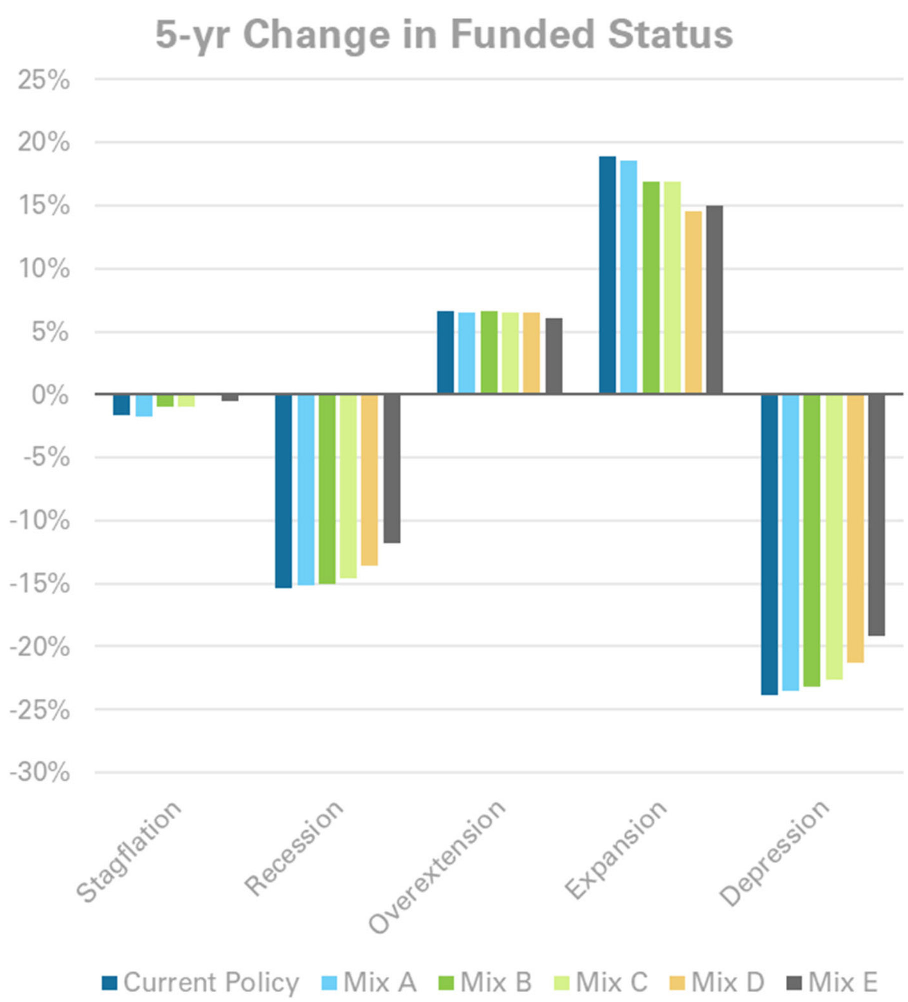
A low growth—low inflation regime with declining interest rates and declining inflation. Equity valuations contract, earnings growth below expectations, and widening credit spreads

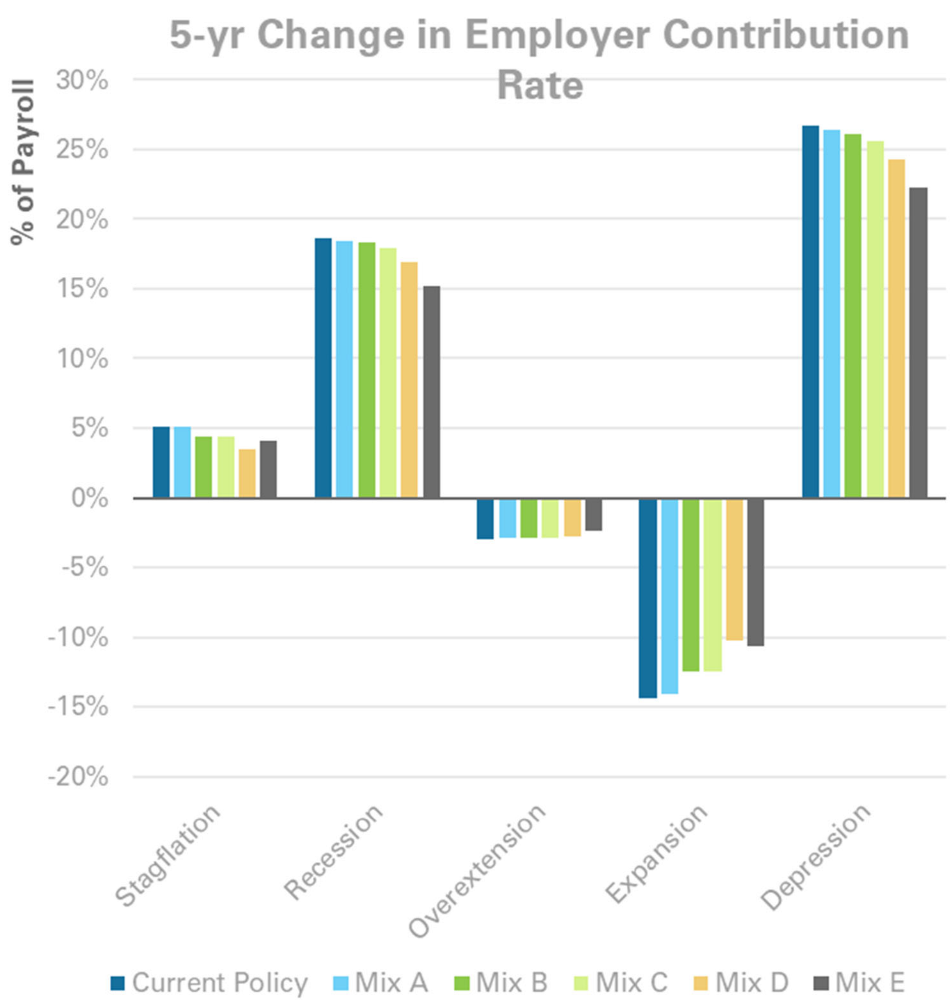
Overextension

A high growth—high inflation regime with rising interest rates and rising inflation. Equity valuations contract, negative real earnings growth, and tightening credit spreads

ECONOMIC SCENARIOS – PENSION

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

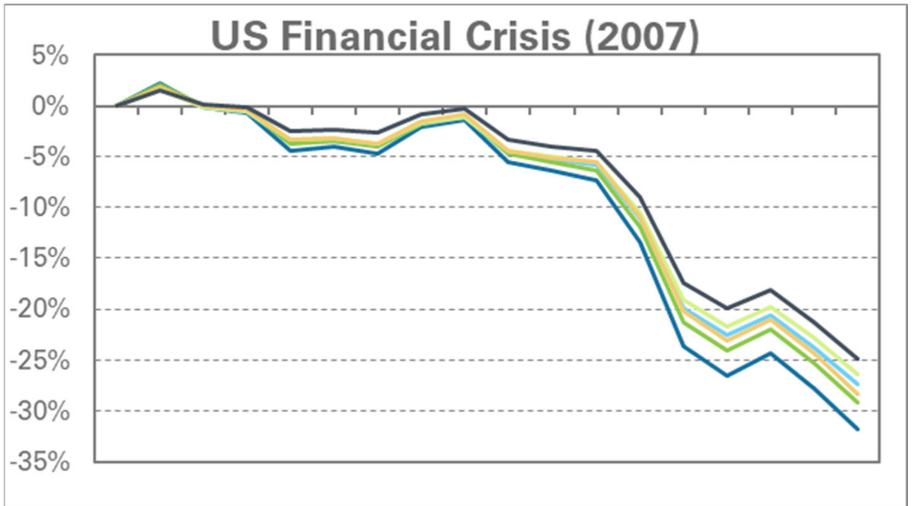


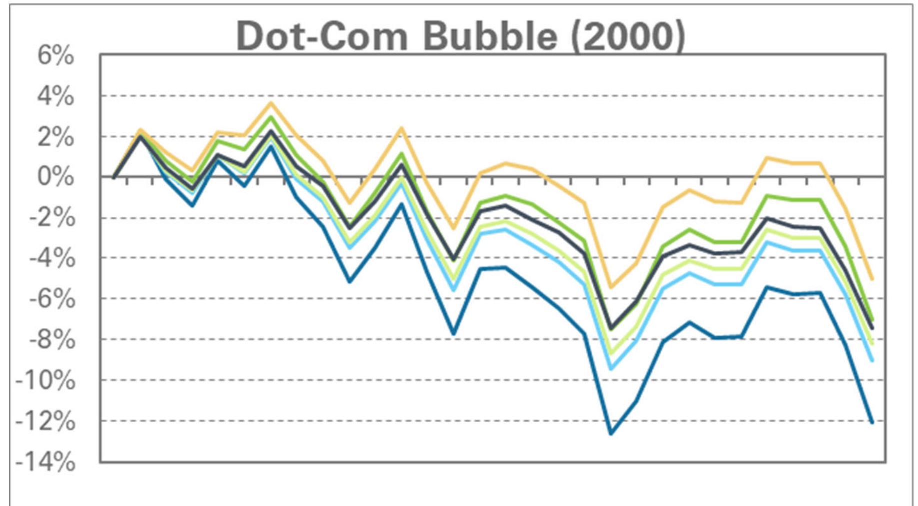


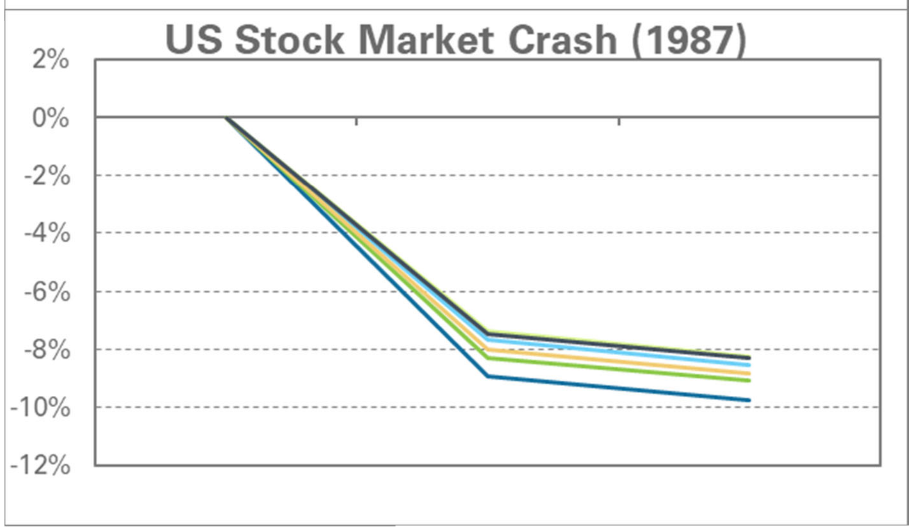
Notes: Change in funded status based on 73.1%; change in contribution rate based on 29.9%

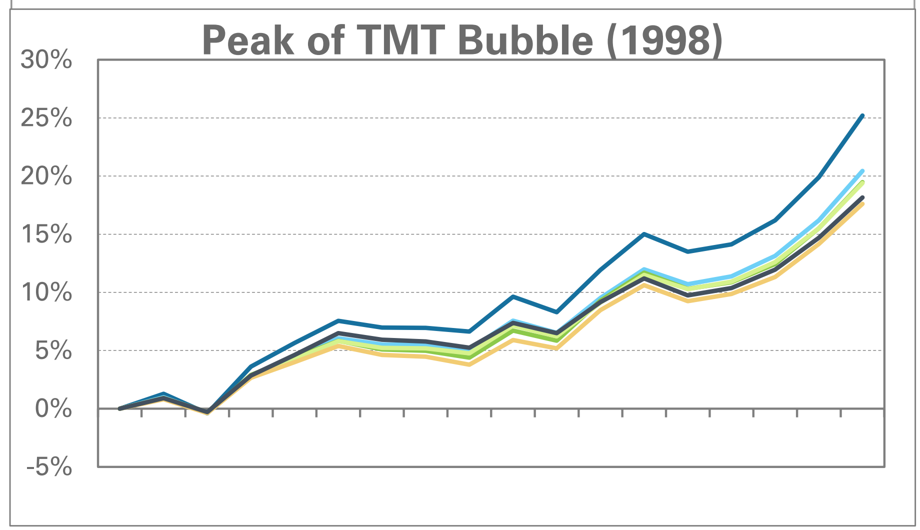
HISTORICAL SCENARIOS

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM





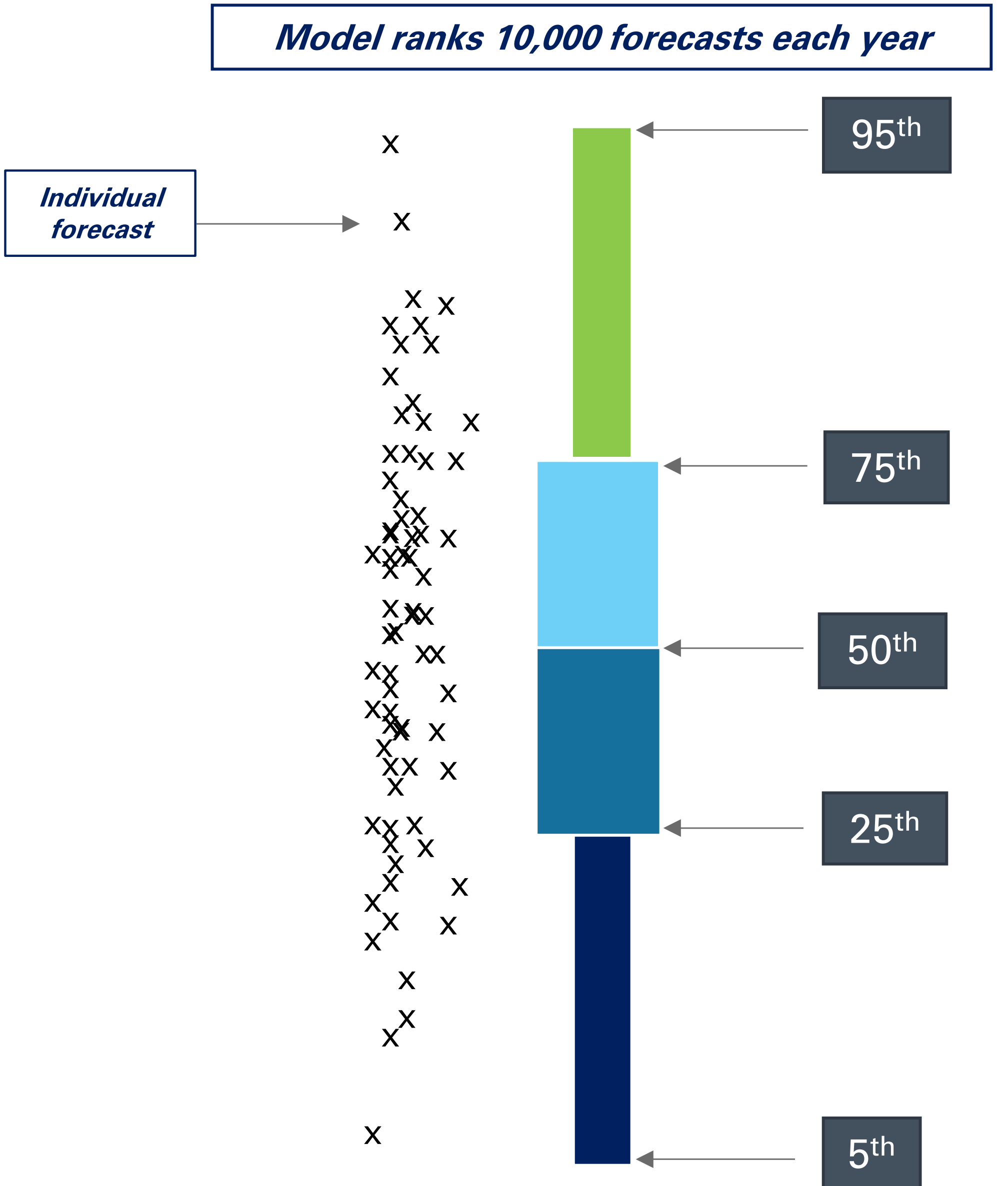




Current Policy | Mix A | Mix B | Mix C | Mix D | Mix E

Notes: Quoted year represents beginning of scenario; based on monthly return intervals

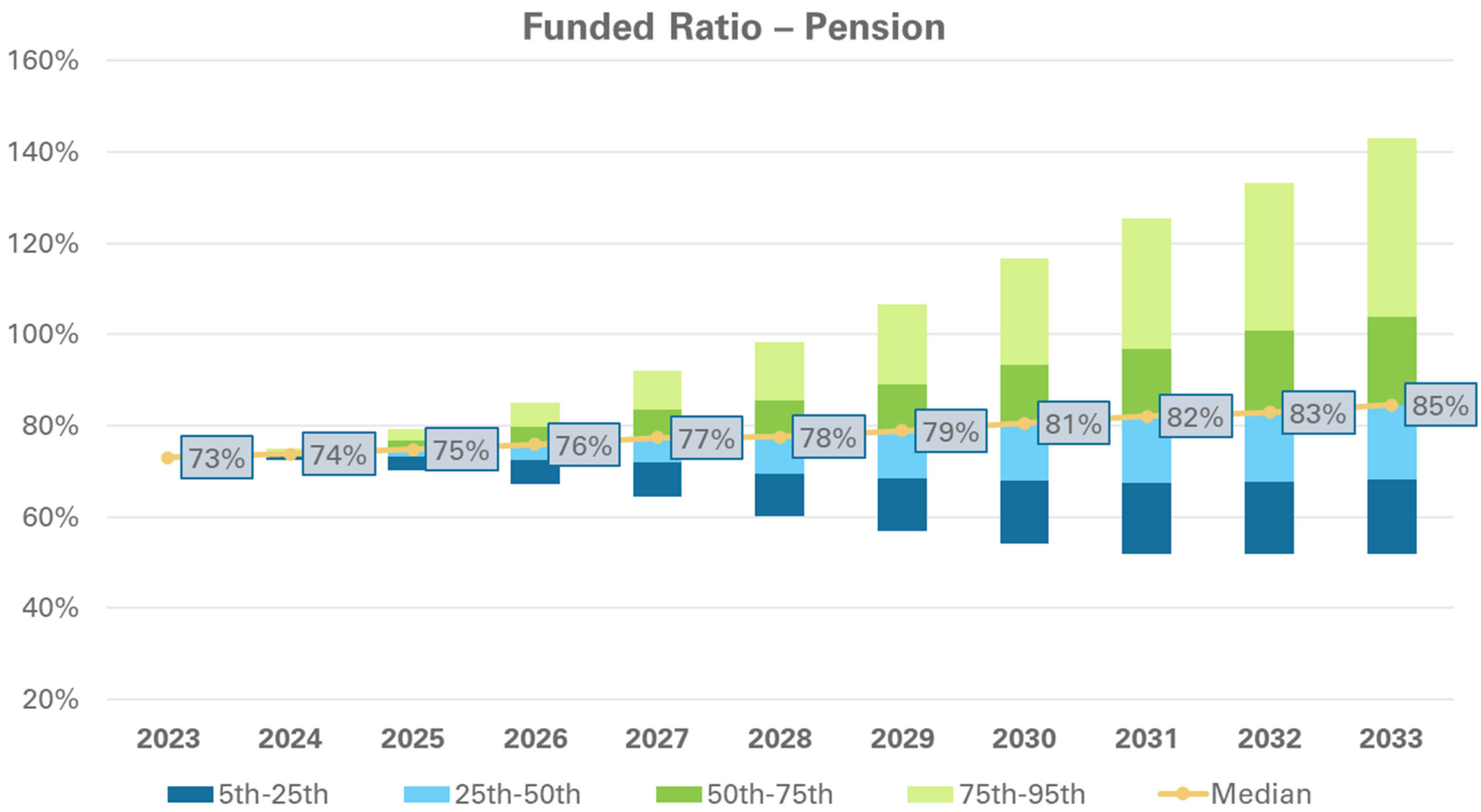
INTERPRETING STOCHASTIC RESULTS



- **95th percentile**
  - Exceeds 95% of all forecasts
  - Overly optimistic outcome
- **75th percentile**
  - Exceeds 75% of all forecasts
  - Optimistic outcome
- **50th percentile**
  - Exceeds 50% of all forecasts
  - Median outcome
- **25th percentile**
  - Exceeds 25% of all forecasts
  - Pessimistic outcome
- **5th percentile**
  - Exceeds 5% of all forecasts
  - Overly pessimistic outcome

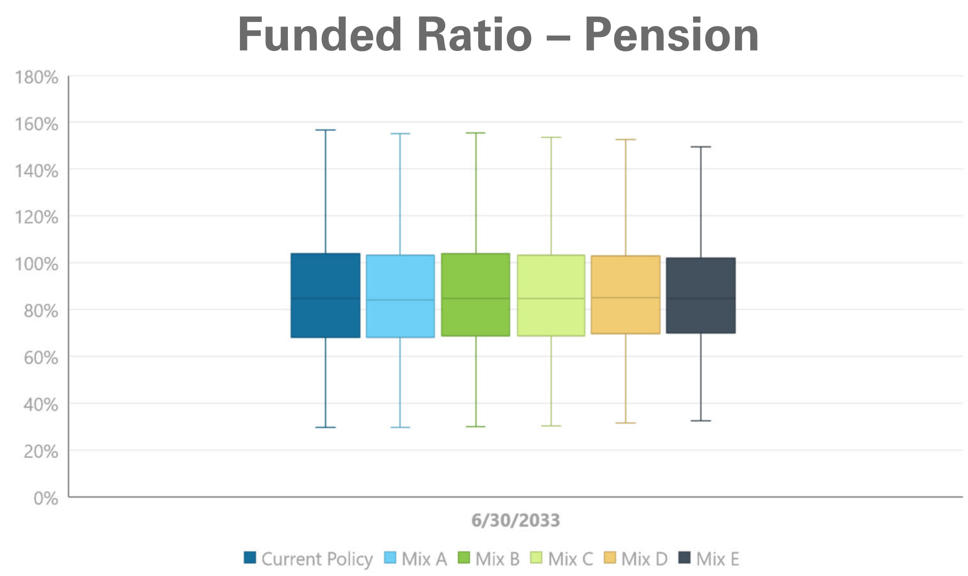
10-YEAR STOCHASTIC FUNDED STATUS PROJECTION

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: As of June 30; reflects 2000 simulated return paths based on Current Policy 10-year mean arithmetic return of 7.7% with 15.3% volatility

10-YEAR STOCHASTIC FUNDED STATUS PROJECTION

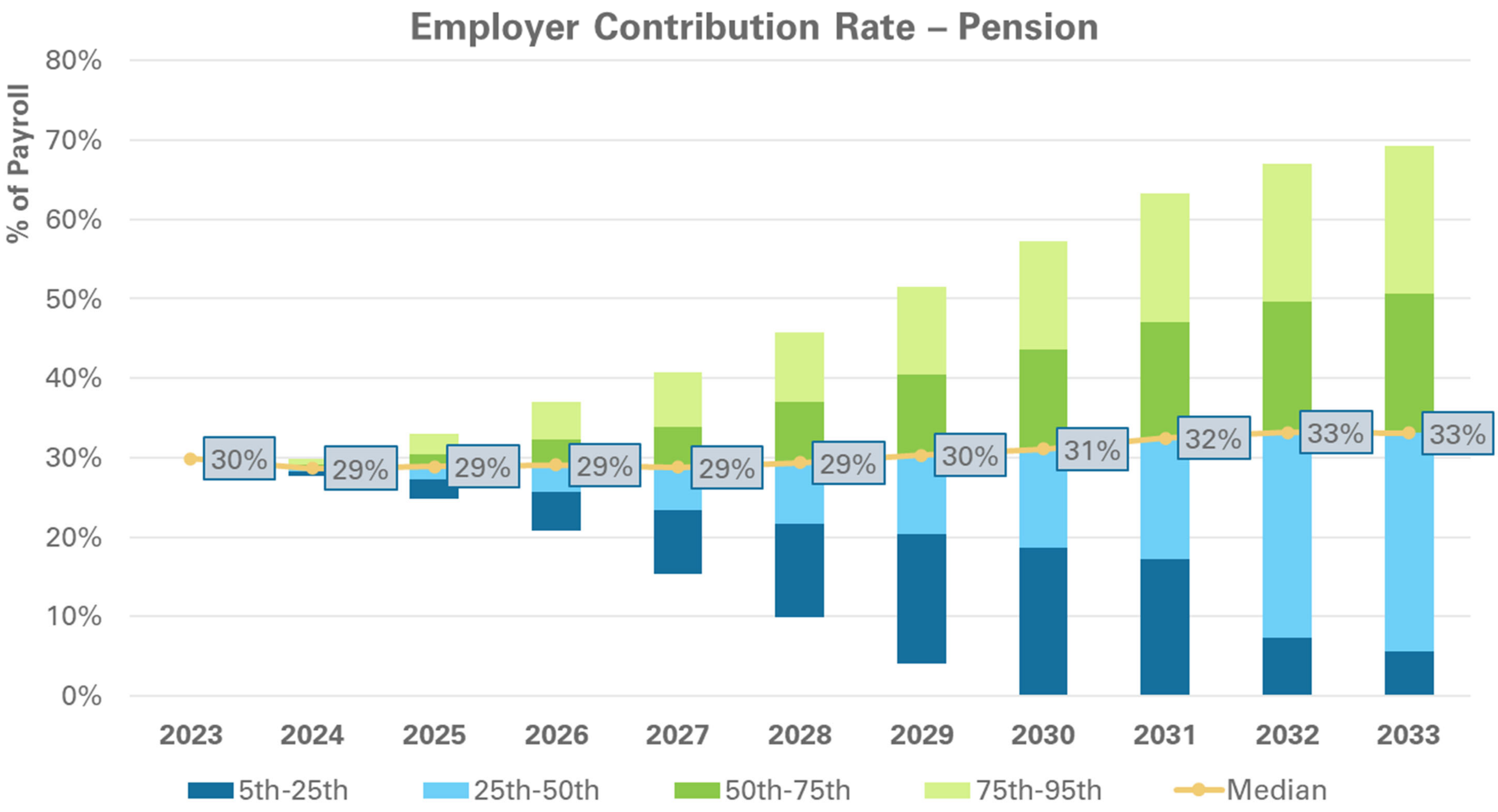


Funded Status	Current Policy	Mix A	Mix B	Mix C	Mix D	Mix E
75th Percentile 2033 Funded Ratio	103.9%	103.2%	103.7%	103.3%	102.8%	102.0%
50th Percentile 2033 Funded Ratio	84.6%	84.2%	84.8%	84.7%	84.9%	84.8%
25th Percentile 2033 Funded Ratio	68.3%	68.1%	68.7%	68.8%	69.6%	70.0%
Funded Ratio Volatility	2.3%	2.3%	2.3%	2.3%	2.2%	2.1%

Notes: Reflects 2000 simulated return paths based on 10-year mean arithmetic return and volatility for each mix

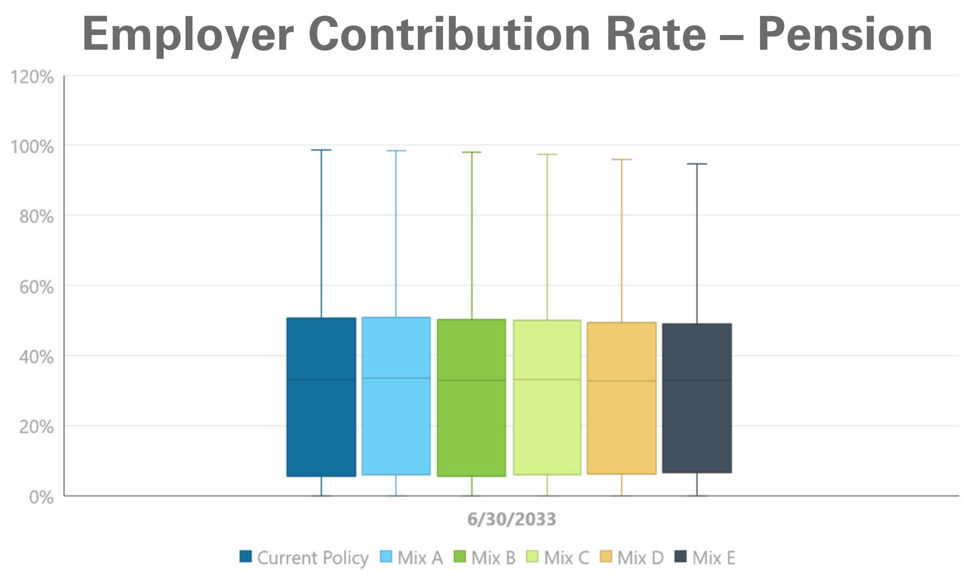
10-YEAR STOCHASTIC CONTRIBUTION PROJECTION

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: Determined as of June 30 and payable in FY+2; reflects 2000 simulated return paths based on Current Policy 10-year mean arithmetic return of 7.7% with 15.3% volatility;

10-YEAR STOCHASTIC CONTRIBUTION PROJECTION



Contributions	Current Policy	Mix A	Mix B	Mix C	Mix D	Mix E
75th Percentile 2033 Employer Contribution Rate	50.6%	50.8%	50.2%	50.1%	49.3%	48.9%
50th Percentile 2033 Employer Contribution Rate	33.1%	33.5%	32.9%	33.0%	32.7%	32.9%
25th Percentile 2033 Employer Contribution Rate	5.5%	5.9%	5.7%	5.9%	6.2%	6.7%
Contribution Rate Volatility	2.4%	2.4%	2.4%	2.3%	2.3%	2.2%

Notes: Payable in FY+2; reflects 2000 simulated return paths based on 10-year mean arithmetic return and volatility for each mix

SUMMARY AND NEXT STEPS

NEXT STEPS

Board Evaluation of Input

- **Capital Market Assumption Review**
- **Asset Mix Discussion**
- **Incorporation of new Asset Classes**

NEPC Runs Projections

- **Deterministic and Stochastic Forecasting**
- **Liquidity Analysis**
- **Scenario Analysis**
- **Evaluation of Output**

Board Evaluation of Output

- **Review current and projected financial status of Plan**
- **Assess appropriateness of current asset allocation vs. alternatives**
- **Determination of strategic asset mix**

NEPC/Staff Develop a Work Plan

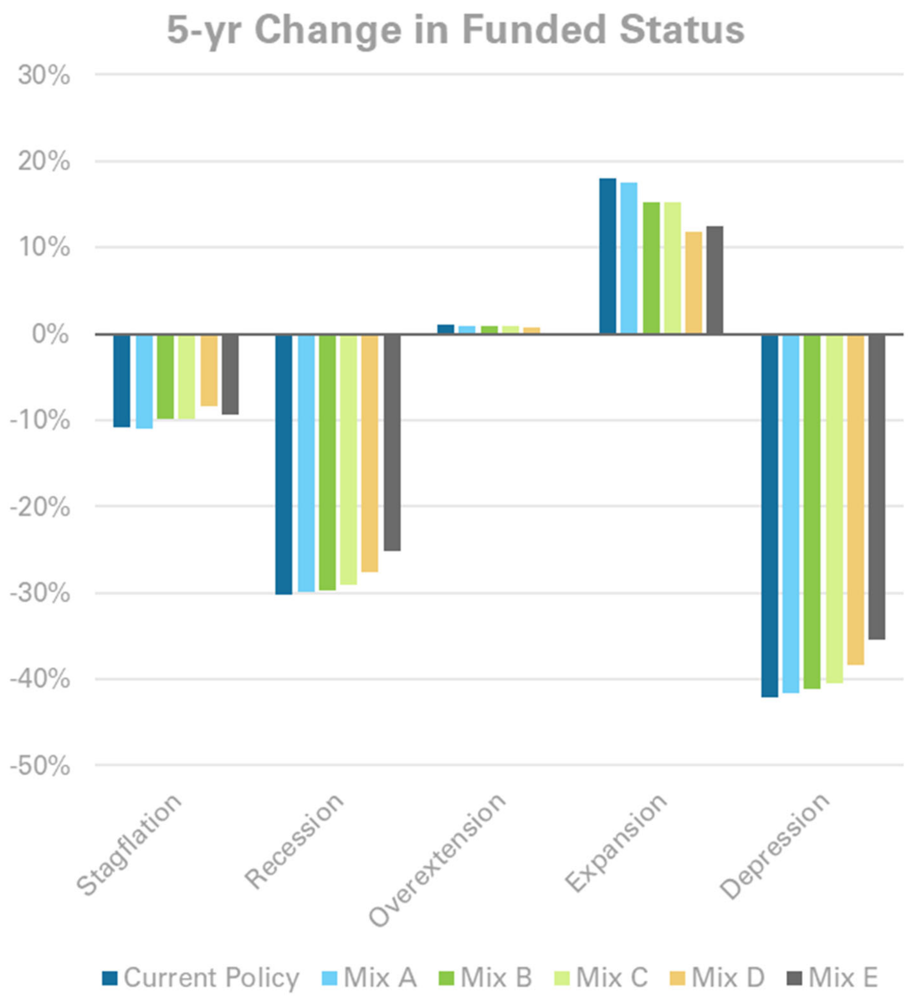
- Risk Budgeting
  - Equity
  - Fixed Income
  - Real Assets
- Update Investment Policy
- Conduct searches (if necessary)

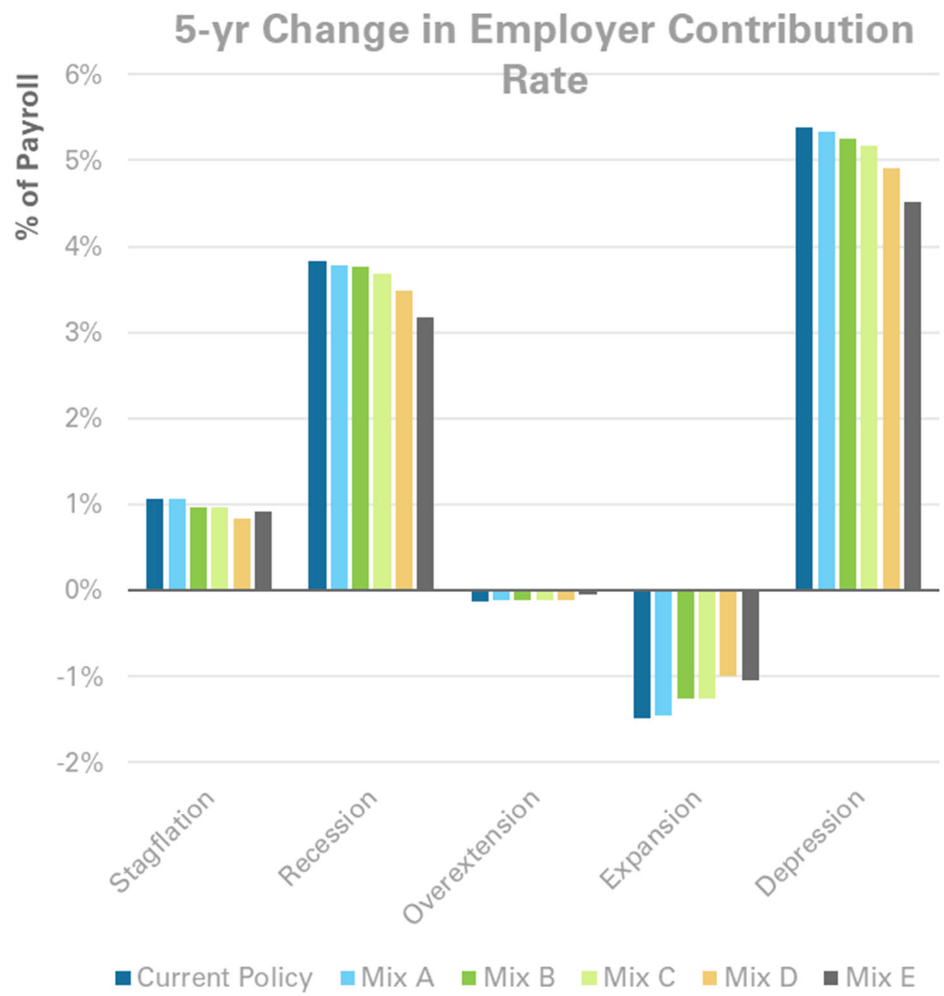
APPENDIX

HEALTH PLAN STOCHASTIC MODELING

ECONOMIC SCENARIOS – HEALTH

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

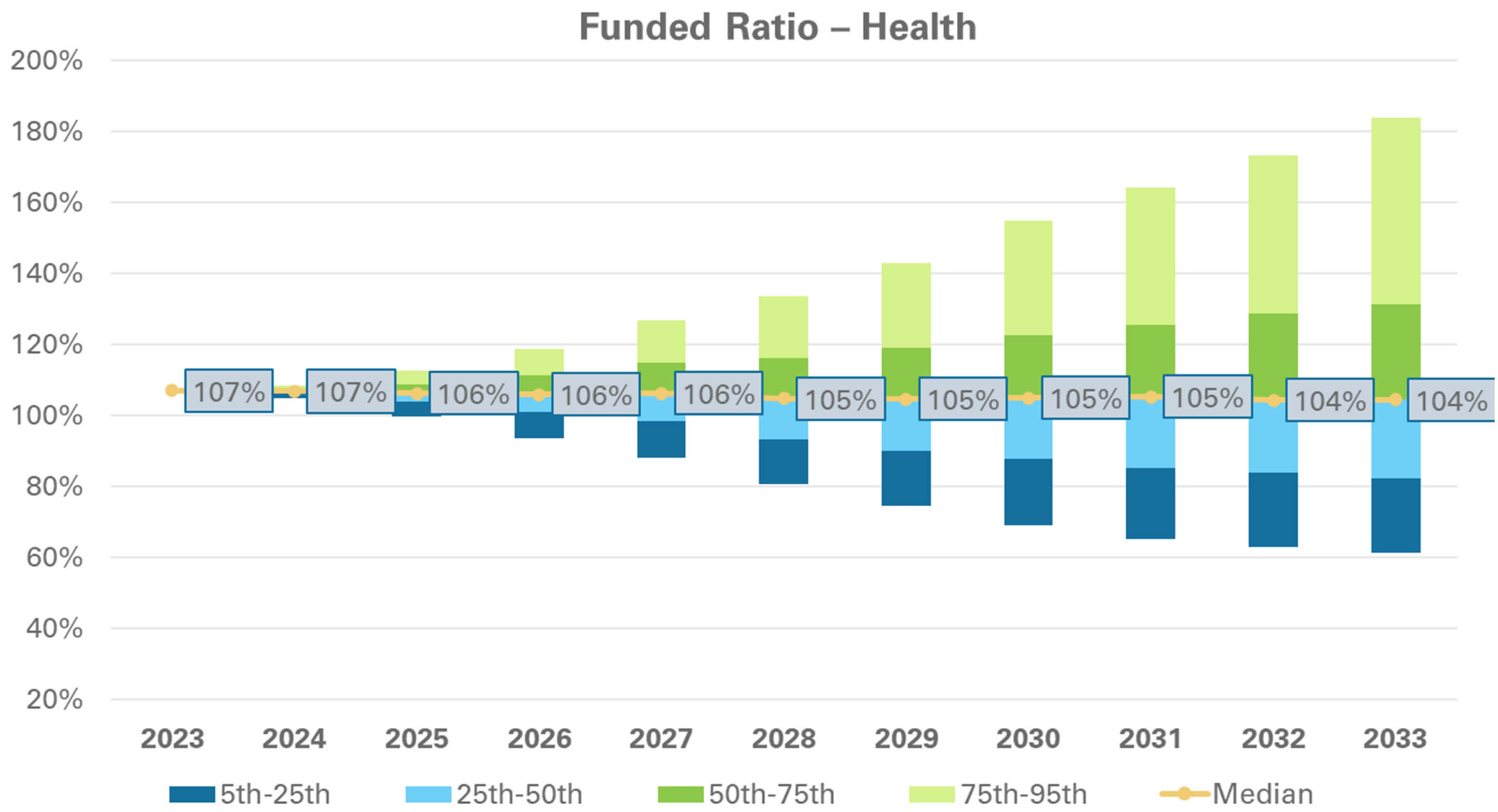




Notes: Change in funded status based on 107.1%; change in contribution rate based on 3.3%

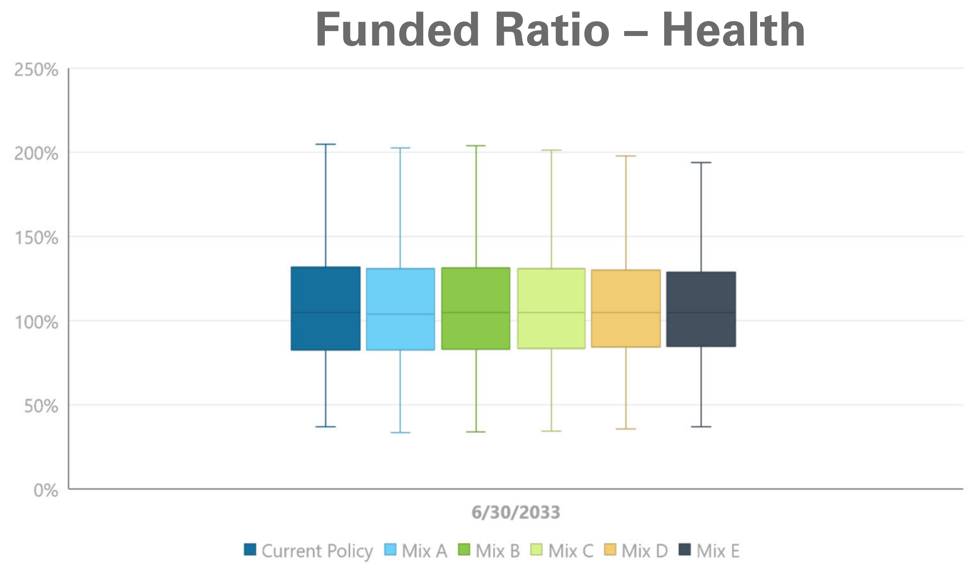
10-YEAR STOCHASTIC FUNDED STATUS PROJECTION

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: As of June 30; reflects 2000 simulated return paths based on Current Policy 10-year mean arithmetic return of 7.7% with 15.3% volatility

10-YEAR STOCHASTIC FUNDED STATUS PROJECTION

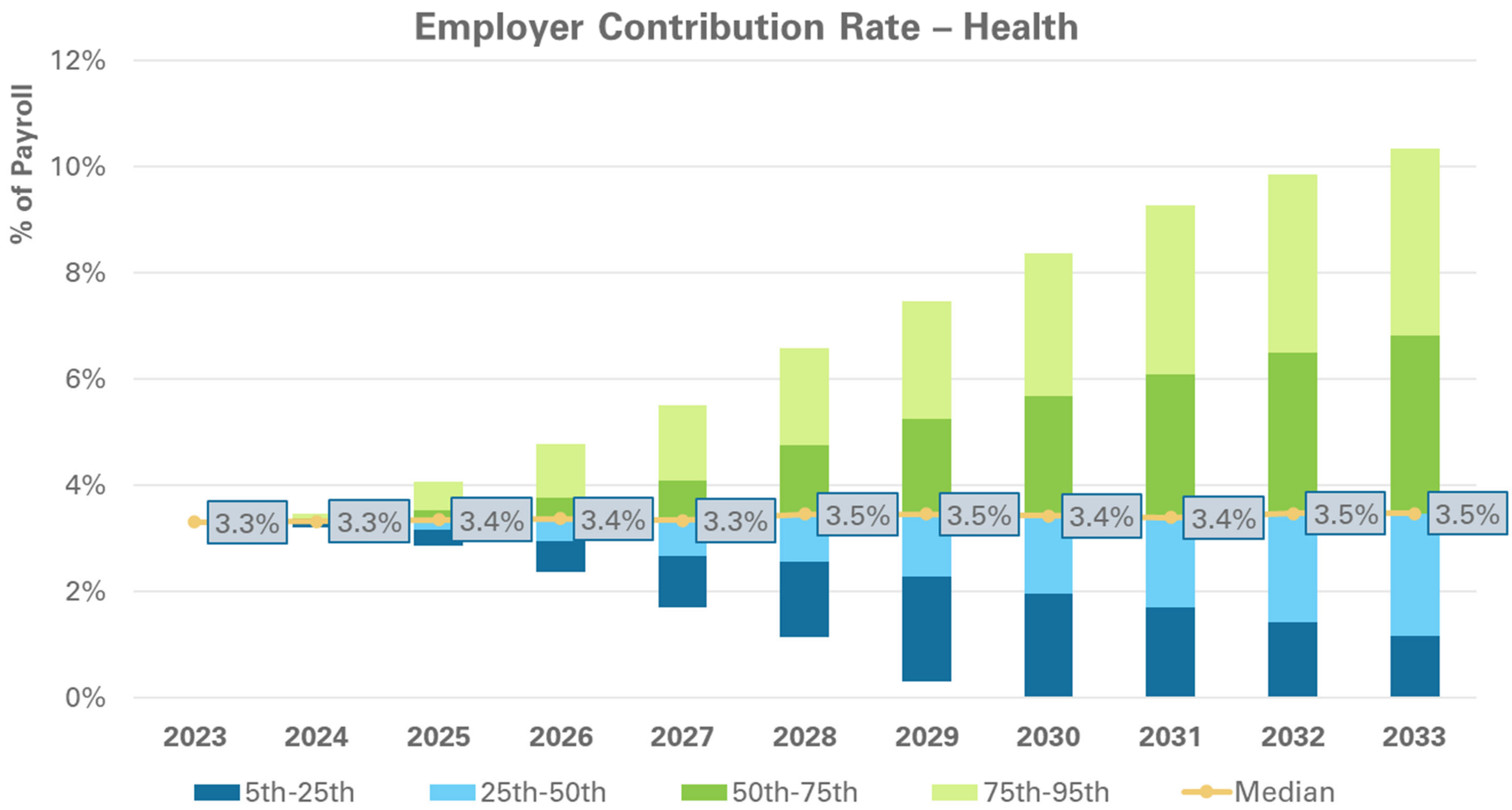


Funded Status	Current Policy	Mix A	Mix B	Mix C	Mix D	Mix E
75th Percentile 2033 Funded Ratio	131.4%	130.6%	131.2%	130.5%	129.7%	128.4%
50th Percentile 2033 Funded Ratio	104.5%	103.9%	104.6%	104.5%	104.8%	104.6%
25th Percentile 2033 Funded Ratio	82.3%	82.2%	82.9%	83.2%	84.1%	84.6%
Funded Ratio Volatility	3.1%	3.0%	3.0%	3.0%	2.9%	2.8%

Notes: Reflects 2000 simulated return paths based on 10-year mean arithmetic return and volatility for each mix

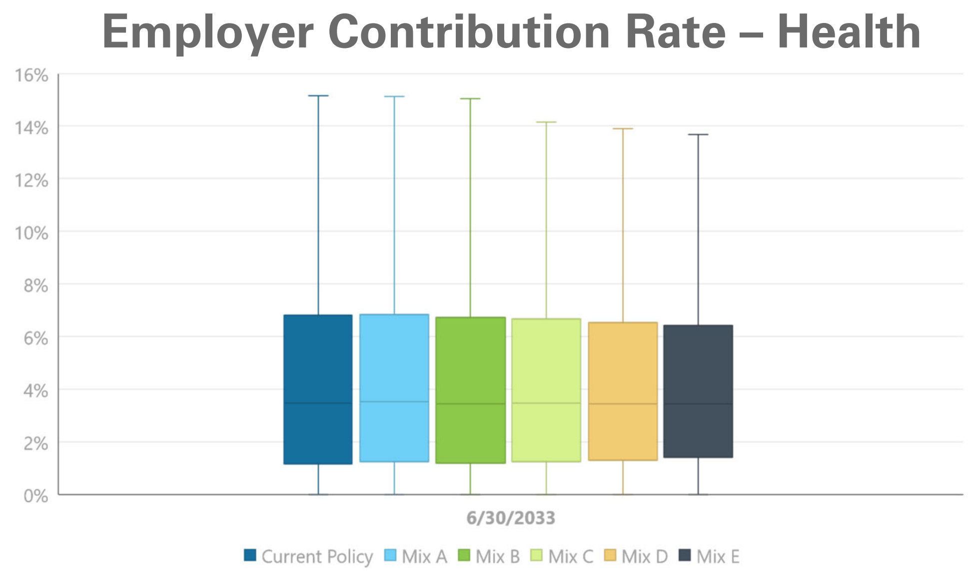
10-YEAR STOCHASTIC CONTRIBUTION PROJECTION

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



Notes: Determined as of June 30 and payable in FY+2; reflects 2000 simulated return paths based on Current Policy 10-year mean arithmetic return of 7.7% with 15.3% volatility;

10-YEAR STOCHASTIC CONTRIBUTION PROJECTION



Contributions	Current Policy	Mix A	Mix B	Mix C	Mix D	Mix E
75th Percentile 2033 Employer Contribution Rate	6.8%	6.8%	6.7%	6.7%	6.5%	6.4%
50th Percentile 2033 Employer Contribution Rate	3.5%	3.5%	3.4%	3.5%	3.4%	3.5%
25th Percentile 2033 Employer Contribution Rate	1.2%	1.2%	1.2%	1.2%	1.3%	1.4%
Contribution Rate Volatility	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%

Notes: Payable in FY+2; reflects 2000 simulated return paths based on 10-year mean arithmetic return and volatility for each mix

ASSUMPTIONS AND DEFINITIONS

ASSUMPTIONS AND METHODS

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

- **Deterministic and stochastic return projections are based on NEPC's 12/31/2023 capital market assumptions**
  - Reflects 4.5% for the period July 1, 2023 thru December 31, 2023
  - NEPC's 10-year & 30-year return assumptions thereafter
- **Asset-liability projections follow a roll-forward methodology based on the June 30, 2023 Actuarial Valuation Reports for Pension and Health provided by Segal**
  - Benefit payment projections provided by Segal
  - Pension and Health liabilities were modeled individually and assets were modelled in aggregate
  - Other than those described herein, all assumptions remain unchanged from the valuation
  - No experience gains or losses are assumed other than those attributed to investment experience
- **Contributions based on stated funded policy**
  - Normal cost plus amortization of unfunded liability
  - Amortization of unfunded liability based on 15-year layered level percent of pay amortizations of annual gains/losses
  - Prior amortizations layers considered fully amortized if surplus exists
  - Surplus amortized over 30 years
  - Employer normal cost contribution allowed to be reduced by surplus amortization

12/31/2023 CAPITAL MARKET ASSUMPTIONS

	Asset Class	10-Year Return	30-Year Return	Standard Deviation
MACRO	Inflation	2.6%	2.6%	—
	Cash	3.9%	3.4%	0.6%
	US Leverage Cost	4.1%	3.6%	0.7%
	Non-US Cash	2.2%	2.5%	0.6%
EQUITY	US Large-Cap Equity	4.4%	6.7%	17.2%
	US Small/Mid-Cap Equity	6.0%	7.4%	21.0%
	Non-US Developed Equity	4.6%	6.4%	19.7%
	Non-US Developed Equity (USD Hedge)	4.8%	6.6%	17.7%
	Non-US Developed Small-Cap Equity	6.4%	7.5%	24.2%
	Emerging Market Equity	8.6%	9.2%	28.1%
	Emerging Market Small-Cap Equity	7.9%	9.1%	31.4%
	*Global Equity**	*5.4%*	*7.3%*	*18.2%*
	Hedge Fund – Equity	5.5%	6.0%	11.0%
	Private Equity – Buyout	7.4%	8.8%	20.0%
	Private Equity – Growth	8.7%	9.7%	31.5%
	Private Equity – Venture	9.8%	10.6%	46.5%
	Private Equity – Secondary	6.9%	8.2%	20.4%
	Non-US Private Equity	10.3%	10.8%	32.0%
	*Private Equity**	*9.0%*	*10.1%*	*25.9%*
	China Equity	9.9%	9.5%	30.6%

*Calculated as a blend of other asset classes

12/31/2023 CAPITAL MARKET ASSUMPTIONS

	Asset Class	10-Year Return	30-Year Return	Standard Deviation
CREDIT	US TIPS	4.6%	4.7%	6.0%
	US Treasury Bond	4.2%	4.3%	5.4%
	US Corporate Bond	5.3%	5.9%	7.7%
	US Mortgage-Backed Securities	4.4%	4.6%	6.5%
	*US Aggregate Bond**	*4.6%*	*4.9%*	*5.8%*
	US High Yield Corporate Bond	6.1%	7.1%	11.2%
	US Leveraged Loan	7.2%	6.6%	9.1%
	Emerging Market External Debt	7.1%	7.3%	12.3%
	Emerging Market Local Currency Debt	6.1%	5.5%	12.7%
	Non-US Government Bond	2.4%	2.9%	9.5%
	Non-US Government Bond (USD Hedge)	2.6%	3.2%	4.1%
	*Global Government Bond**	*3.0%*	*3.4%*	*7.7%*
	*Global Government Bond (USD Hedge)**	*3.1%*	*3.5%*	*4.2%*
	Non-US Inflation-Linked Bond (USD Hedge)	3.2%	3.3%	6.7%
	*Global Multi-Sector Fixed Income**	*5.7%*	*6.1%*	*8.1%*
	*Absolute Return Fixed Income**	*5.6%*	*5.8%*	*5.9%*
	US Municipal Bond	3.5%	3.8%	6.0%
	US Municipal Bond (1-10 Year)	2.9%	3.5%	4.5%
	US High Yield Municipal Bond	4.5%	4.9%	12.0%
	Hedge Fund - Credit	6.6%	7.0%	9.9%
	Private Debt - Credit Opportunities	7.8%	8.4%	14.5%
	Private Debt – Distressed	8.6%	9.3%	14.4%
	Private Debt - Direct Lending	8.1%	8.9%	11.0%
	*Private Debt**	*8.3%*	*9.0%*	*11.8%*

*Calculated as a blend of other asset classes

12/31/2023 CAPITAL MARKET ASSUMPTIONS

	Asset Class	10-Year Return	30-Year Return	Standard Deviation
CREDIT	US Short-Term TIPS (1-3 Year)	4.7%	4.4%	3.3%
	US Short-Term Treasury Bond (1-3 Year)	4.4%	4.2%	2.3%
	US Short-Term Corporate Bond (1-3 Year)	5.4%	5.2%	2.8%
	US Short-Term High Yield Corporate Bond (1-3 Year)	5.5%	5.6%	8.2%
	US Intermediate-Term TIPS (3-10 Year)	4.6%	4.7%	6.0%
	US Intermediate-Term Treasury Bond (3-10 Year)	4.2%	4.4%	5.9%
	US Intermediate-Term Corporate Bond (3-10 Year)	5.6%	6.0%	7.1%
	US Long-Term Treasury Bond (10-30 Year)	4.5%	4.8%	12.4%
	US Long-Term TIPS (10-30 Year)	3.7%	4.3%	11.8%
	US Long-Term Corporate Bond (10-30 Year)	4.7%	6.0%	11.9%
	20+ Year US Treasury STRIPS	3.3%	4.2%	20.7%
	*US Long-Term Government/Credit**	4.3%	5.2%	11.0%
	US Corporate Bond - AAA	4.4%	5.1%	6.8%
	US Corporate Bond – AA	4.6%	5.1%	6.6%
	US Corporate Bond – A	5.1%	5.5%	7.6%
	US Corporate Bond – BBB	5.6%	6.1%	8.4%
	US Corporate Bond – BB	6.8%	7.7%	9.7%
	US Corporate Bond – B	6.3%	7.1%	11.6%
	US Corporate Bond - CCC/Below	1.4%	1.9%	20.3%
	US Securitized Bond	5.2%	5.4%	8.0%
	US Collateralized Loan Obligation	5.5%	4.9%	7.7%
	US High Yield Securitized Bond	8.7%	8.3%	11.2%
	US High Yield Collateralized Loan Obligation	7.8%	7.3%	10.4%
	US Taxable Municipal Bond	5.3%	6.0%	7.5%
	10 Year US Treasury Bond	4.2%	4.8%	7.5%
	10 Year Non-US Government Bond (USD Hedge)	2.1%	2.8%	5.0%

*Calculated as a blend of other asset classes

12/31/2023 CAPITAL MARKET ASSUMPTIONS

	Asset Class	10-Year Return	30-Year Return	Standard Deviation
REAL ASSETS	Commodity Futures	4.6%	3.9%	18.5%
	Midstream Energy	5.5%	6.6%	28.2%
	*Public Real Assets (Multi-Asset)**	*6.1%*	*6.4%*	*14.2%*
	US REIT	6.0%	7.3%	21.8%
	Global Infrastructure Equity	6.6%	7.0%	19.4%
	Global Natural Resources Equity	6.2%	7.1%	23.3%
	Gold	4.9%	4.8%	16.4%
	Core Real Estate	5.4%	6.1%	15.0%
	Non-Core Real Estate	7.1%	7.8%	24.3%
	Private Debt - Real Estate	6.3%	6.6%	11.9%
	Private Real Assets - Natural Resources	8.2%	8.7%	32.3%
	Private Real Assets – Infrastructure	6.8%	7.1%	12.4%
MULTI-ASSET	Hedge Fund – Macro	5.4%	5.8%	9.4%
	*Hedge Fund**	*6.1%*	*6.5%*	*8.6%*
	*60% S&P 500 & 40% US Aggregate Bond**	*4.8%*	*6.3%*	*10.9%*
	*60% MSCI ACWI & 40% US Aggregate Bond**	*5.4%*	*6.6%*	*11.5%*

*Calculated as a blend of other asset classes

PRIVATE MARKETS COMPOSITES

PUBLIC MARKET BETA INPUTS FOR PRIVATE MARKETS

PRIVATE EQUITY

Buyout: 25% U.S. Large Cap, 75% U.S. Small/Mid Cap

Secondary: 25% U.S. Large Cap, 75% U.S. Small/Mid Cap

Growth: 50% U.S. Small/Mid Cap, 50% U.S. Microcap

Early-Stage Venture: 25% U.S. Small/Mid Cap, 75% U.S. Microcap

Non-U.S.: 70% International Small Cap, 30% Emerging Small Cap

Composite: 34% Buyout, 34% Growth, 15 % Non-U.S., 8.5% Secondary, 8.5% Early Venture

PRIVATE CREDIT

Direct Lending: 100% Bank Loans

Distressed: 20% U.S. Small/Mid Cap, 60% U.S. High Yield, 20% Bank Loans

Credit Opportunities: 34% U.S. SMID Cap, 33% U.S. High Yield, 33% Bank Loans

Composite: 50% Direct Lending, 25% Credit Opportunities, 25% Distressed

PRIVATE REAL ASSETS

Energy: 30% Comm., 35% Midstream, 35% Public Resource Equity

Infra/Land: 30% Commodities, 70% Public Infrastructure

Private Real Estate Debt: 50% CMBS, 50% Real Estate – Core

NEPC DISCLOSURES

Past performance is no guarantee of future results.

NEPC, LLC is an investment consulting firm. We provide asset-liability studies for certain clients but we do not provide actuarial services. Any projections of funded ratio or contributions contained in this report should not be used for budgeting purposes. We recommend contacting the plan's actuary to obtain budgeting estimates.

The goal of this report is to provide a basis for substantiating asset allocation recommendations. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

The projection of liabilities in this report uses standard actuarial projection methods and does not rely on actual participant data. Asset and liability information was received from the plan's actuary, and other projection assumptions are stated in the report.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This report is provided as a management aid for the client's internal use only. This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

The goal of this report is to provide a basis for monitoring financial markets. The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This report is provided as a management aid for the client's internal use only. This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

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

MEETING: SEPTEMBER 24, 2024
ITEM: VII - C

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $150 MILLION IN HARBOURVEST BROADWAY CO-INVESTMENT L.P.**

ACTION: ☐ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☒

Recommendation

That the Board receive and file this notice of the commitment of up to $150 million in HarbourVest Broadway Co-Investment L.P.

Executive Summary

HarbourVest Broadway Co-Investment L.P., will focus on making direct co-investments with existing general partners and hard-to-access general partners with whom LACERS has not previously invested with.

Discussion

Consultant Recommendation
Aksia LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to $150 million in HarbourVest Broadway Co-Investment L.P., a separately managed account (SMA) managed by HarbourVest Partners (the GP or HarbourVest). Fund management and incentive fees are comparable to similar strategies. This recommendation is consistent with the Private Equity Program 2024 Strategic Plan adopted by the Board on November 28, 2023.

Background
HarbourVest was originally founded in 1982 by Ed Kane and Brooks Zugs as Hancock Venture Partners and in 1997, the management team formed HarbourVest Partners as an independent management company. HarbourVest has over $127 billion in assets under management, 190 investment professionals, and 12 global offices.

HarbourVest is an existing general partner relationship for LACERS and previously committed $50 million to HarbourVest Partners Co-Investment Fund VI L.P. (2021 vintage), which has earned a net internal rate of return (IRR) of 13.6%[1, 2].

Investment Thesis
Through the SMA structure, HarbourVest will create a portfolio of direct co-investments diversified by investment stage, geography, sector, company size, and lead general partner. Co-investment deals sourced by HarbourVest will be offered at lower fees compared to a commingled fund partnership interest. The transaction allocation is expected to be split 70-90% Buyouts and 10-30% Growth Equity. The geographical composition is expected to be 40-70% North America, 20-40% Europe, and 10-30% in Asia/Emerging Markets. The target businesses will have high recurring revenues, high customer retention, leading market positions, flexible cost structures, and durable supplier power.

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.

<u>Prepared By:</u> Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/WL/EC/EP:rm

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

[1] Performance as of December 31, 2023.
[2] 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

HarbourVest Broadway Co-Investment L.P.
Investment Notification

Aksia
New York • London • Tokyo

www.aksia.com

HarbourVest Broadway Co-Investment L.P.

•	
General Partner	• HarbourVest Partners
Fund	• HarbourVest Broadway Co-Investment L.P.
Firm Founded	• 1982
Strategy	• Private Equity Co-Investment Fund
Sub-Strategy	• Private Equity Co-Investment Fund
Geography	• North America, Developed Europe, Developed Asia
Team	• 10 Managing Directors, 17 Vice Presidents, 41 Senior Associates/Associates
Senior Partners	• Peter Lipson, Alex Rogers, Corentin du Roy, Ian Lane, Craig MacDonald, Kelvin Tap, Goncalo Faria Ferreria, Seth Palmer
Office Locations	• Boston, London, Hong Kong, Tokyo, Bogota, Bejing, Seoul, Tel Aviv, Toronto, Dublin, Singapore, Frankfurt
Industries	• Generalist
Fund Size	• $4.2 billion
LACERS Commitment	• $150.0 million

Investment Highlights

- Established presence in the global primary, secondary, and co-investment market
- Large and experienced co-investment team with over 78 investment professionals including ten Managing Directors who have an average tenure of 20+ years in the industry
- Customized portfolio construction with a favorable fee structure of reduced management fee and carried interest

HarbourVest Broadway Co-Investment L.P.

Firm and Background

- Founded in 1982 by Ed Kane and Brooks Zug as Hancock Venture Partners, a fully owned subsidiary of John Hancock Mutual Life Insurance Company
- In January 1997, the management team formed an independent management company, HarbourVest Partners
- Today, HarbourVest has over 800 employees, including 190+ investment professionals dedicated to specific verticals across its 12 global offices
- The Firm is owned by 31 individuals, with no individual owning more than 7.5% of the Firm

Investment Strategy

- The SMA will be a diversified portfolio of direct co-investments by investment stage, geography, sector, company size, and lead GP
- Transaction allocation is expected to be 70.0-90.0% in Buyout and 10.0-30.0% in Growth Equity
- Geographic composition is anticipated to be 40.0-70.0% in North America, 20.0-40.0% in Europe, and 10.0-30.0% Asia/Emerging Markets
- Targeted businesses will have high recurring revenue, high customer retention, leading market positions, flexible cost structures, and durable supplier power

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 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.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Equity Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • 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. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $150 million. • In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities up to and including $50 million. • 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. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments exceeding $150 million. • With Staff concurrence, approve investments of up to and including $150 million. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • 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. • 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). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION | **MEETING: SEPTEMBER 24, 2024**
From: Neil M. Guglielmo, General Manager | **ITEM: VII - D**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $20 MILLION IN KLC FUND II LP**

ACTION: ☐ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☒

Recommendation

That the Board receive and file this notice of the commitment of up to $20 million in KLC Fund II LP.

Executive Summary

KLC Fund II LP will focus on making control investments in lower middle market consumer and business services companies in North America.

Discussion

Consultant Recommendation
Aksia LLC (Aksia), LACERS' Private Equity Consultant, recommended a commitment of up to $20 million in KLC Fund II LP (the Fund), a buyout strategy managed by Knox Lane (the GP or Firm). 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 2024 Strategic Plan adopted by the Board on November 28, 2023.

Background
Knox Lane was founded in 2019 by John Bailey, who serves as a Managing Partner of the Fund. Prior to forming the Fund, Mr. Bailey was a Partner at TPG Growth. The firm is led by Mr. Bailey and Mr. Shamik Patel, who have worked together for over 11 years. The GP is based in San Francisco and made up of 19 professionals.

Knox Lane is a new general partner relationship for LACERS and meets the criteria as an Emerging Investment Manager pursuant to the LACERS Emerging Investment Manager Policy.

Investment Thesis
Knox Lane will utilize the same growth-oriented investment mandate implemented in their prior fund. The Firm will pursue control-oriented investments in North America focusing on lower middle market consumer and business services companies with EBITDA between $10 to $50 million. The firm focuses

on the following sub sectors: pharma services, residential services, commercial services, IT services, eCommerce, personal care, beauty, consumer healthcare, and contract manufacturing & packaging. The Firm will utilize the experience of the investment team, operating team, and industry advisors to execute value creation initiatives. The GP aims to add value to its portfolio companies by improving processes regarding sourcing, supply chain and logistics, refining and expanding business development & salesforce functions, employing brand management and marketing overhaul, integrating end-to-end digital transformation, and executing add-on acquisitions.

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.

<u>Prepared By:</u> Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/WL/EC/EP:rm

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

Aksia LLC

KLC Fund II LP
Investment Notification

Aksia
New York • London • Tokyo

www.aksia.com

KLC Fund II LP

General Partner	• Knox Lane (“Knox Lane”, “KLC”, or the “Firm”)
Fund	• KLC Fund II (the “Fund” or “Fund II”)
Firm Founded	• 2019
Strategy	• North American Buyouts
Sub-Strategy	• Lower Middle Market Buyouts
Geography	• North America
Team	• 19 Professionals, 13 Investment Professionals
Senior Partners	• John Bailey, Shamik Patel
Office Locations	• San Francisco, CA
Industries	• Consumer Services and Business Services
Target Fund Size	• $850.0 million
LACERS Commitment	• $20.0 million

Investment Highlights

- Experienced and Cohesive Team
- Operational Resources and Approach
- Strong Historical Track Record

KLC Fund II LP

Firm and Background

- Knox Lane is led by John Bailey and Shamik Patel. Bailey brings investment experience from TPG Growth ("TPG") where he led the consumer vertical before joining TPG-backed company e.l.f. beauty as President and CFO. Shamik Patel previously served as Partner at TPG Growth and led the services vertical.
- Bailey and Patel are supported by Jon Fieldman, a full-time, in-house Operating Partner focused on providing management, operational, and other support to portfolio companies. Prior to Knox Lane, Fieldman was Senior Vice President of Operations at three TPG-backed companies.
- Seven of the nine senior professionals previously overlapped at TPG Growth or its portfolio companies

Investment Strategy

- Fund II will pursue control-oriented investments in North American lower middle market consumer and business services companies.
- Subsectors of focus may include pharma services, residential services, commercial services, IT services, eCommerce, personal care, beauty, consumer healthcare, and contract manufacturing & packaging.
- The Firm's investment philosophy is based on leveraging the team's prior investing and operating experience in targeted end markets and employing an operational approach to value creation.

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 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.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Equity Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • 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. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $150 million. • In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities up to and including $50 million. • 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. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments exceeding $150 million. • With Staff concurrence, approve investments of up to and including $150 million. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • 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. • 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). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION | **MEETING: SEPTEMBER 24, 2024**
From: Neil M. Guglielmo, General Manager | **ITEM: VII - E**

Neil M. Guglielmo

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $60 MILLION IN THOMA BRAVO DISCOVER FUND V, L.P. AND THOMA BRAVO DISCOVER FUND V-P, 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 Thoma Bravo Discover Fund V, L.P. and Thoma Bravo Discover Fund V-P, L.P.

Executive Summary

Thoma Bravo Discover Fund V, L.P. and Thoma Bravo Discover Fund V-P, L.P. will make control-oriented investments in North American upper middle market software and tech-enabled businesses operating within the application, infrastructure, and security software industries.

Discussion

Consultant Recommendation
Aksia LLC, LACERS' Private Equity Consultant, recommended a commitment of up to $60 million in Thoma Bravo Discover Fund V, L.P. (Main Fund) and Thoma Bravo Discover Fund V-P, L.P. (Paired Fund) (jointly known as the Fund), a software and technology-focused buyout strategy managed by Thoma Bravo, LLC (Thoma Bravo 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 2024 Strategic Plan adopted by the Board on November 28, 2023.

Background
Thoma Bravo, LLC is a successor to Golder Thoma & Co. (Golder Thoma), which was founded in 1980 by Stanley Golder and Carl Thoma. Golder Thoma subsequently became Golder, Thoma, Cressey, Rauner (GTCR). In 1998, GTCR split into two firms, one of which was Thoma Cressey Equity Partners (TCEP), formed by Carl Thoma, Bryan Cressey, and Lee Mitchell. In 2008, TCEP was renamed Thoma Bravo after the addition of Orlando Bravo and the departure of Mr. Cressey. The GP has over $160 billion in assets under management, approximately 220 professionals, and offices in Chicago (headquarters), San Francisco, Miami, New York, London, and Dubai.

Thoma Bravo has an existing general partner relationship with LACERS, with previous commitments to the following funds:

Fund	Vintage Year	Commitment	Net IRR [1] [2]
Thoma Bravo XI, L.P.	2014	$15 million	26.7%
Thoma Bravo Special Opportunities Fund II, L.P.	2015	$10 million	16.3%
Thoma Bravo Fund XII, L.P.	2016	$25 million	16.8%
Thoma Bravo Discover Fund II, L.P.	2018	$10 million	24.8%
Thoma Bravo Fund XIII, L.P.	2018	$30 million	27.8%
Thoma Bravo Discover Fund III, L.P.	2020	$20 million	8.7%
Thoma Explore Fund, L.P.	2020	$10 million	27.0%
Thoma Bravo Fund XIV, L.P.	2020	$30 million	6.2%
Thoma Bravo Discover Fund IV, L.P.	2022	$45 million	15.2%
Thoma Bravo Fund XV, L.P.	2022	$80 million	10.1%

Investment Thesis

The GP focuses on making investments in highly fragmented industries, with an emphasis on infrastructure software and technology-enabled services. Thoma Bravo Discover Fund V, L.P. and V-P, L.P. focuses on upper middle market corporate buyouts, whereas Thoma Bravo Fund XVI, L.P. and XVI-P, L.P. focuses on large corporate buyouts.

Prior to making an investment, the GP identifies operational improvements, which are implemented upon the closing of the investment. Subsequently, the GP seeks to acquire follow-on investments to increase the company's market share and efficiency. Together, these initiatives are intended to transform a company into a larger, more profitable and valuable business that is attractive to public markets and potential buyers. 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.

<u>Prepared By:</u> Daniel Becerra, Investment Officer I, Investment Division

NMG/RJ/WL/EC/DB:rm

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

1 *Performance as of December 31, 2023*

2 *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

Thoma Bravo Discover Fund V, L.P. and Thoma Bravo Discover Fund V-P, L.P.

Investment Notification

Aksia
New York • London • Tokyo

www.aksia.com

Thoma Bravo Discover Fund V, L.P. and Thoma Bravo Discover Fund V-P, L.P.

General Partner	• Thoma Bravo, L.P. ("Thoma Bravo" or the "Firm"
Fund	• Thoma Bravo Discover Fund V, L.P. and Thoma Bravo Discover Fund V-P, L.P. ("Fund V" or the "Fund"
Firm Founded	• 2007
Strategy	• North American Buyouts
Sub-Strategy	• Upper Middle Market Buyouts
Geography	• North America
Team	• Over 220 total professionals, including 20 Discover investment professionals
Senior Partners	• Orlando Bravo, Lee Mitchell, Carl Thoma, S. Scott Crabill, Seth Boro, Holden Spaht
Office Locations	• Chicago, San Francisco, Miami, New York, London, Dubai
Industries	• Information Technology
Target Fund Size	• $7.0 bn
LACERS Commitment	• $60.0 mn

Investment Highlights

- Thoma Bravo has an experienced and cohesive senior team with limited senior level departures.
- The Firm has developed deep domain expertise and networks in the software sector.
- Thoma Bravo takes a hands-on approach to value creation, and the vast majority of the Firm's returns have been generated by EBITDA growth rather than through multiple expansion and use of financial leverage.
- Given the smaller size of targeted companies, the Discover Funds should have more exit optionality relative to larger software funds who may be more dependent on the IPO market for liquidity.
- The Discover Funds have generated strong realized returns.

Thoma Bravo Discover Fund V, L.P. and Thoma Bravo Discover Fund V-P, L.P.

Firm and Background

- Thoma Bravo was formed in 2007 by Carl Thoma, Orlando Bravo, Lee Mitchell, and Scott Crabill after splitting from Thoma Cressey Bravo to focus on investing in software and other non-healthcare services companies.
- Since then, Thoma Bravo has subsequently raised several additional flagship buyout funds, established multiple new private equity investment platforms, expanded into credit, and sponsored a SPAC.
- In 2015, Thoma Bravo established the Discover Funds to invest in middle market software and tech-enabled services companies, a segment the Flagship Funds graduated from as they shifted upmarket over time.
- Today, Thoma Bravo is one of the largest private equity firms focused on investing in software and technology companies.

Investment Strategy

- Discover V will primarily make control-oriented investments in North American upper middle market software and tech-enabled businesses operating within the application, infrastructure, and security software industries.
- Relative to the Flagship Funds, the Discover Funds have historically invested more in the application software sub-sector and less in infrastructure/security software.
- Targeted companies often operate at rule of 40+ in consolidating and/or fragmented subsectors and typically exhibit recurring revenues, offer critical products or services, and have high switching costs.
- Given the size of companies targeted, Thoma Bravo expects to exit portfolio companies primarily to strategic and financial buyers rather than through public markets.

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 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.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Equity Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • 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. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $150 million. • In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities up to and including $50 million. • 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. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments exceeding $150 million. • With Staff concurrence, approve investments of up to and including $150 million. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • 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. • 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). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO BOARD OF ADMINISTRATION **MEETING: SEPTEMBER 24, 2024**
From: Neil M. Guglielmo, General Manager **ITEM: VII - F**

SUBJECT: **NOTIFICATION OF COMMITMENT OF UP TO $65 MILLION IN THOMA BRAVO FUND XVI, L.P. AND THOMA BRAVO FUND XVI-P, L.P.**

ACTION: ☐ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☒

Recommendation

That the Board receive and file this notice of the commitment of up to $65 million in Thoma Bravo Fund XVI, L.P. and Thoma Bravo Fund XVI-P, L.P.

Executive Summary

Thoma Bravo Fund XVI, L.P. and Thoma Bravo Fund XVI-P, L.P. will make control-oriented investments in North American large and mega cap software and tech-enabled businesses operating within the application, infrastructure, and security software industries.

Discussion

Consultant Recommendation
Aksia LLC, LACERS' Private Equity Consultant, recommended a commitment of up to $65 million in Thoma Bravo Fund XVI, L.P. (Main Fund) and Thoma Bravo Fund XVI-P, L.P. (Paired Fund) (jointly known as the Fund) managed by Thoma Bravo (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 2024 Strategic Plan adopted by the Board on November 28, 2023.

Background
Thoma Bravo, LLC is a successor to Golder Thoma & Co. (Golder Thoma), which was founded in 1980 by Stanley Golder and Carl Thoma. Golder Thoma subsequently became Golder, Thoma, Cressey, Rauner (GTCR). In 1998, GTCR split into two firms, one of which was Thoma Cressey Equity Partners (TCEP), formed by Carl Thoma, Bryan Cressey, and Lee Mitchell. In 2008, TCEP was renamed Thoma Bravo after the addition of Orlando Bravo and the departure of Mr. Cressey. The GP has over $160 billion in assets under management, approximately 220 professionals, and offices in Chicago (headquarters), San Francisco, Miami, New York, London, and Dubai.

Thoma Bravo has an existing general partner relationship with LACERS, with previous commitments to the following funds:

Fund	Vintage Year	Commitment	Net IRR [1] [2]
Thoma Bravo XI, L.P.	2014	$15 million	26.7%
Thoma Bravo Special Opportunities Fund II, L.P.	2015	$10 million	16.3%
Thoma Bravo Fund XII, L.P.	2016	$25 million	16.8%
Thoma Bravo Discover Fund II, L.P.	2018	$10 million	24.8%
Thoma Bravo Fund XIII, L.P.	2018	$30 million	27.8%
Thoma Bravo Discover Fund III, L.P.	2020	$20 million	8.7%
Thoma Explore Fund, L.P.	2020	$10 million	27.0%
Thoma Bravo Fund XIV, L.P.	2020	$30 million	6.2%
Thoma Bravo Discover Fund IV, L.P.	2022	$45 million	15.2%
Thoma Bravo Fund XV, L.P.	2022	$80 million	10.1%

Investment Thesis
The GP focuses on making investments in highly fragmented industries, with an emphasis on infrastructure software and technology-enabled services. Thoma Bravo XVI, L.P. and XVI-P, L.P. focuses on large corporate buyouts, whereas Thoma Bravo Discover Fund V, L.P. and V-P, L.P. focuses on upper middle market buyouts.

Prior to making an investment, the GP identifies operational improvements, which are implemented upon the closing of the investment. Subsequently, the GP seeks to acquire follow-on investments to increase the company's market share and efficiency. Together, these initiatives are intended to transform a company into a larger, more profitable and valuable business that is attractive to public markets and potential buyers. 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.

<u>Prepared By:</u> Daniel Becerra, Investment Officer I, Investment Division

NMG/RJ/WL/EC/DB:rm

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

1 *Performance as of December 31, 2023*
2 *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

Thoma Bravo Fund XVI, L.P. and Thoma Bravo Fund XVI-P, L.P.

Investment Notification

Aksia
New York • London • Tokyo

www.aksia.com

Aksia

Thoma Bravo Fund XVI, L.P. and Thoma Bravo Fund XVI-P, L.P.

General Partner	• Thoma Bravo, L.P. ("Thoma Bravo" or the "Firm"
Fund	• Thoma Bravo Fund XVI, L.P. and Thoma Bravo Fund XVI-P, L.P. ("Fund XVI" or the "Fund"
Firm Founded	• 2007
Strategy	• North American Buyouts
Sub-Strategy	• Mega Cap Buyouts
Geography	• North America
Team	• Over 220 total professionals, including 30 Flagship investment professionals
Senior Partners	• Orlando Bravo, Lee Mitchell, Carl Thoma, S. Scott Crabill, Seth Boro, Holden Spaht
Office Locations	• Chicago, San Francisco, Miami, New York, London, Dubai
Industries	• Information Technology
Target Fund Size	• $20.0 bn
LACERS Commitment	• $65.0 mn

Investment Highlights

- Thoma Bravo has an experienced and cohesive senior team with limited senior level departures.
- The Firm has developed deep domain expertise and networks in the software sector.
- Thoma Bravo takes a hands-on approach to value creation, and the vast majority of the Firm's returns have been generated by EBITDA growth rather than through multiple expansion and use of financial leverage.
- The Firm's more mature funds have delivered strong overall and realized returns.

Thoma Bravo Fund XVI, L.P. and Thoma Bravo Fund XVI-P, L.P.

Firm and Background

- Thoma Bravo was formed in 2007 by Carl Thoma, Orlando Bravo, Lee Mitchell, and Scott Crabill after splitting from Thoma Cressey Bravo to focus on investing in software and other non-healthcare services companies.
- Since then, Thoma Bravo has subsequently raised several additional flagship buyout funds, established multiple new private equity investment platforms, expanded into credit, and sponsored a SPAC.
- Today, Thoma Bravo is one of the largest private equity firms focused on investing in software and technology companies.

Investment Strategy

- Fund XVI will primarily make control-oriented investments in North American large and mega cap software and tech-enabled businesses operating within the application, infrastructure, and security software industries.
- Targeted companies often operate at rule of 40+ in consolidating and/or fragmented industries and typically exhibit recurring revenues, offer critical products or services, and have high switching costs.
- Transaction types have primarily been take-privates in the last three funds, and this is expected to continue going forward.
- Given the larger size of targeted businesses, it is expected that Thoma Bravo will exit portfolio companies primarily to strategic investors and the public markets.

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 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.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Equity Consultant. • Approve asset class funding level. • Review and approve the Private Equity Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Equity Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Equity Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private equity fund investment(s) with private equity consultant's concurrence. • Manage and execute the sale of partnership interest on the secondary market or to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for Board.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

Section 5 PRIVATE EQUITY INVESTMENT POLICY

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in partnerships of amounts greater than $150 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Equity Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners to better ascertain risk and return profile, as determined by the Chief Investment Officer. • 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. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over $150 million. • In conjunction with Private Equity Consultant, review and concur with direct co-investment opportunities up to and including $50 million. • 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. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on investments. • Prepare investment reports for Board consideration on investments exceeding $150 million. • With Staff concurrence, approve investments of up to and including $150 million. • With Staff concurrence, approve direct co-investment opportunities up to and including $50 million. • 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. • 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). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with general partners at the request of Staff. • Advise on and negotiate investment terms.