LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, MAY 14, 2024

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

MEETING LOCATION:

LACERS Boardroom
977 N. Broadway
Los Angeles, California 90012

Important Message to the Public

An opportunity for the public to address the Committee in person from the Boardroom and provide comment on items of interest that are within the subject matter jurisdiction of the Committee 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 Committee 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 Committee 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.

Chair:	Elizabeth Lee
Committee Members:	Annie Chao Gaylord "Rusty" Roten
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counselor:	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, Communication Access Real-Time Transcription, Assistive Listening Devices, Telecommunication Relay Services (TRS), or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to 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: 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 COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA

II. APPROVAL OF MINUTES FOR THE MEETING OF APRIL 9, 2024 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. REAL ESTATE FISCAL YEAR 2024-25 PLAN AND POSSIBLE COMMITTEE ACTION

V. ADAPTIVE ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION

VI. OTHER BUSINESS

VII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 11, 2024, at 10:30 a.m., or immediately following the Board Meeting in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

VIII. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MAY 14, 2024

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President:	Annie Chao
Vice President:	Sung Won Sohn
Commissioners:	Thuy T. Huynh Elizabeth Lee Gaylord "Rusty" Roten Janna Sidley Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counsel:	City Attorney's Office Public Pensions General Counsel Division

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VIII. ADJOURNMENT

Agenda of:	**May 14, 2024**
Item No:	**II**

MINUTES OF THE REGULAR MEETING
INVESTMENT COMMITTEE
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

April 9, 2024

12:35 p.m.

PRESENT:	Co-Chair:	Annie Chao
	Committee:	Gaylord “Rusty” Roten
	Legal Counselor:	Anya Freedman
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
ABSENT:	Chair:	Elizabeth Lee

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

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE’S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – Co-Chair Chao asked if any persons wished to speak on matters within the Committee’s jurisdiction, to which there were no public comment cards submitted.

II

APPROVAL OF MINUTES FOR THE MEETING OF MARCH 12, 2024 AND POSSIBLE COMMITTEE ACTION – Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Member Roten and Co-Chair Chao-2; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, discussed the following item:

- IC forward calendar
- Due Diligence of semi-finalists of the bank custodian search

IV

INVESTMENT MANAGER CONTRACT WITH BAIN CAPITAL SENIOR LOAN FUND, L.P. REGARDING THE MANAGEMENT OF AN ACTIVE U.S. BANK LOANS PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Jeremiah Paras, Investment Officer I, presented and discussed this item with the Committee for 5 minutes. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Member Roten and Co-Chair Chao-2; Nays, None.

V

OTHER BUSINESS – There was no other business.

VI

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VII

ADJOURNMENT – There being no further business before the Co-Chair Chao, adjourned the meeting at 12:42 p.m.

Annie Chao
Co-Chair

Neil M. Guglielmo
Manager-Secretary

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 14, 2024**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **PRESENTATION BY TOWNSEND HOLDINGS LLC OF THE REAL ESTATE FISCAL YEAR 2024-25 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2024-25 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS' Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2024-25 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

Strategic Plan Impact Statement

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

Prepared By: Ellen Chen, Director of Private Markets, Investment Division

NMG/RJ//WL/EC:rm

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

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MEMORANDUM

TO:	**The Board of Los Angeles City Employees' Retirement System**
DATE:	May 2024
SUBJECT:	Real Estate Strategic & Investment Plan for Fiscal Year 2024-2025 – Executive Summary
FROM:	**The Townsend Group**

Executive Summary

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

Since being re-engaged by the LACERS Board in 2014 to serve as its real estate consultant, Townsend has worked with LACERS Staff to deploy $405 million of investments into Core funds and $800 million into tactical Non-Core funds.

The LACERS Program has a 7.0% allocation target (with an allowable range of ± 2.0%), which was increased from 5% in a 2018 asset allocation study and maintained in a 2021 asset allocation study. As of December 31, 2023, the market value of the portfolio was $1.23 billion on a funded basis (5.4% of Total Plan Assets).

FY 2024-2025 Investment Recommendations

LACERS will need to continue to deploy capital to reach its 7.0% allocation target over the coming years. Townsend recommends the following 2024-2025 Goals to LACERS for consideration:

	LACERS Annual Investment Plan FY 2024-2025
Core Capital	Up to $200 M
Non-Core Capital	Up to $250 M
Total Annual Commitments	**Up to $450 M**

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Core Portfolio Goals

- Consider commitments to 2-3 core/core plus positions. Patiently evaluate the appropriate method of execution through:
    - Secondary market opportunities with existing strong performing managers if available at a discount to current valuation
    - New blind pool core open-end fund launches positioned to buy high quality properties at favorable valuations
    - Specialist managers with exposure to the alternative space or niche sectors to which LACERS does not currently have exposure to
- Consider rebalancing the core portfolio to focus on boosting returns and continue to evaluate current core open-end positions to deliver appropriate core portfolio objectives.

Non-Core Portfolio Goals

- Further explore niche investment opportunities that are expected to generate outsized risk-adjusted returns, and/or provide a level of diversification to the portfolio (downside protection, sector exposure, etc.).
    - Townsend continues to conduct manager research in niche opportunities such as cold storage, data centers, single family residential, industrial outdoor storage and real estate credit.
    - Consider lower commitment amounts for highly concentrated niche strategies.
- Target 5-6 new commitments to attractive opportunities with a focus on i) complementary sector/regional exposures, (ii) thematic investments, (iii) proven specialist managers and iv) alternative specialty sectors with growth potential.
- Consider re-up commitments to high conviction managers already represented in the portfolio.
- Focus on maximizing fee savings to boost net returns when possible.
- Continue to evaluate Emerging Managers that are an appropriate fit for LACERS' portfolio, without compromising returns.

END OF INVESTMENT RECOMMENDATIONS

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Real Estate Portfolio

Fiscal Year 2024-2025 Investment Plan

PROPRIETARY & CONFIDENTIAL
May 2024

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

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A. Real Estate Market Outlook

IC Meeting: 5/14/24
Item IV
Attachment 2

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Economic Conditions

ECONOMIC GROWTH OUTLOOK REMAINS POSITIVE

Real GDP Forecasts (YoY%)

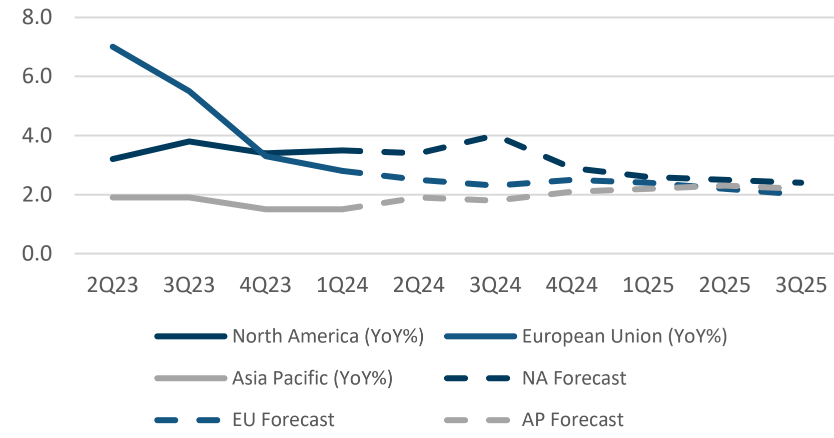
4/25/2024

Major Regions	2023	2024	2025	2026
North America	2.4	2.3	1.8	2.0
European Union	0.5	0.9	1.7	1.7
Asia Pacific	4.5	4.2	4.1	3.9

Selected Markets	2023	2024	2025	2026
United States	2.5	2.4	1.8	2.0
United Kingdom	0.3	0.3	1.2	1.5
Germany	-0.3	0.1	1.1	1.3
China	5.2	4.8	4.5	4.2
Japan	1.9	0.7	1.1	1.0
Australia	2.1	1.4	2.2	2.6

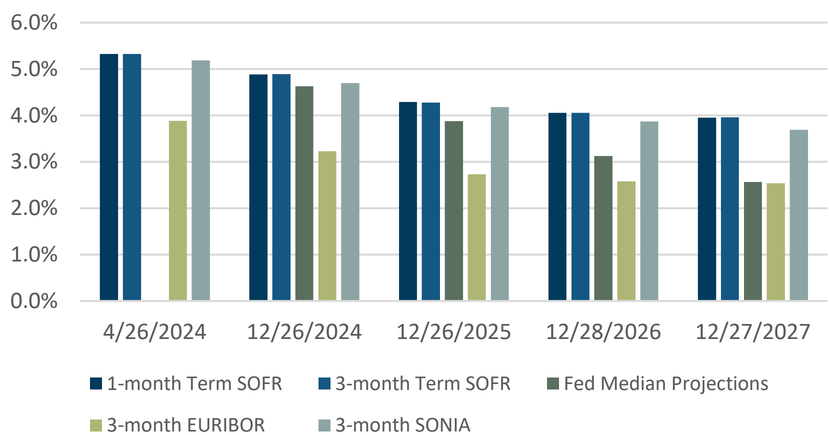
INFLATION IS PROJECTED TO STABILIZE

CPI Quarterly



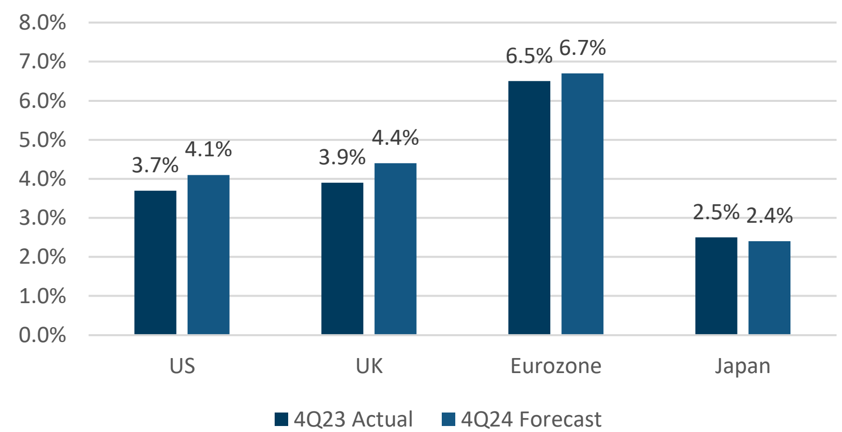
FORWARD CURVES INDICATING DECLINE IN RATES

Forward Curves



UNEMPLOYMENT RATES REMAIN LOW

Unemployment Rate (%)

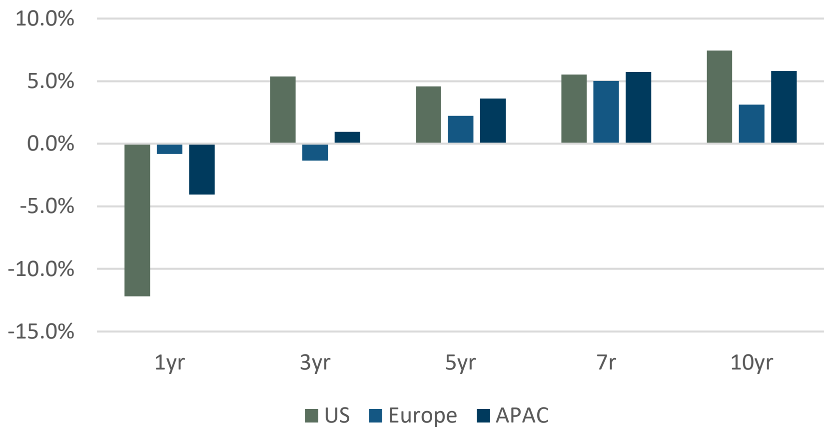


Source: The Townsend Group, Bloomberg, Chatham Financial. (April 2024 unless otherwise noted)

Regional Performance

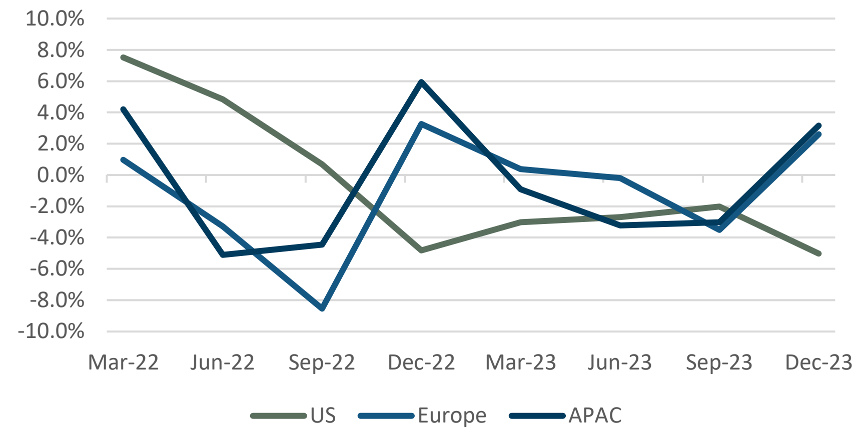
REAL ESTATE RETURNS DECLINED GLOBALLY IN 2023

Regional Returns Annualized (Net of Fees)



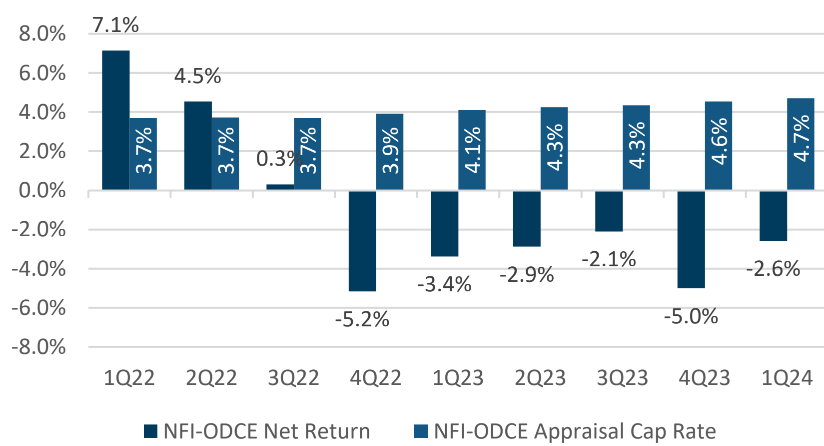
EUROPE & APAC PERFORMANCE UP IN Q4

Regional Returns Quarterly (Net of Fees)



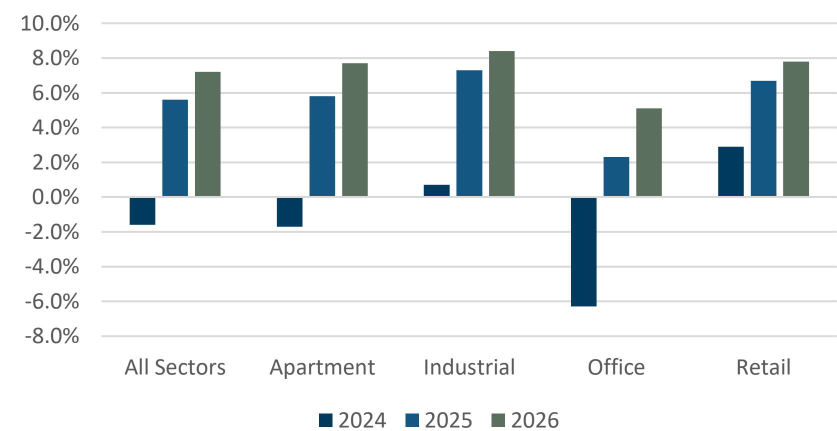
US REAL ESTATE VALUATIONS NEARING BOTTOM

NFI-ODCE Net Returns & Appraisal Cap Rates



US GP CONSENSUS FORECASTS RISING RETURNS

Total Return Forecasts (Unlevered)

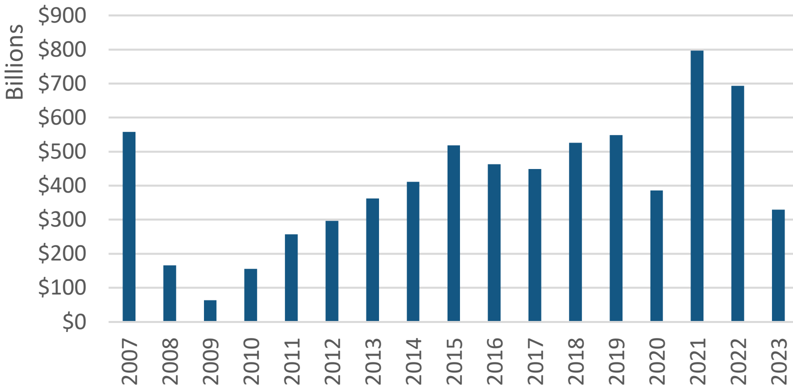


Source: Global Real Estate Fund Index (GREFI), NCREIF (US), INREV (Europe), ANREV (Asia Pacific), PREA Consensus Forecast Survey Q1 2024. (April 2024 unless otherwise noted)

US Real Estate Market Conditions

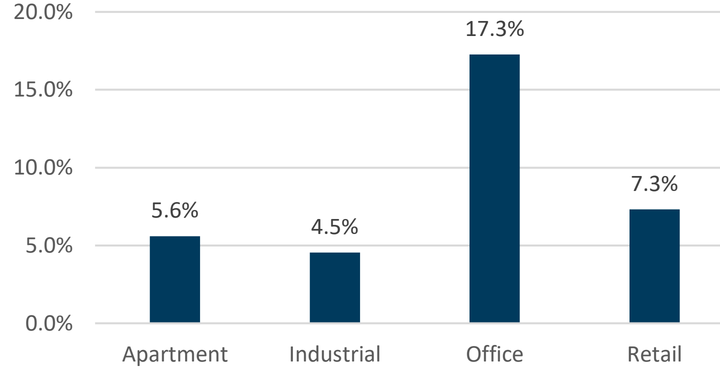
TRANSACTION VOLUME STALLING

U.S. Commercial Real Estate Transaction Volume



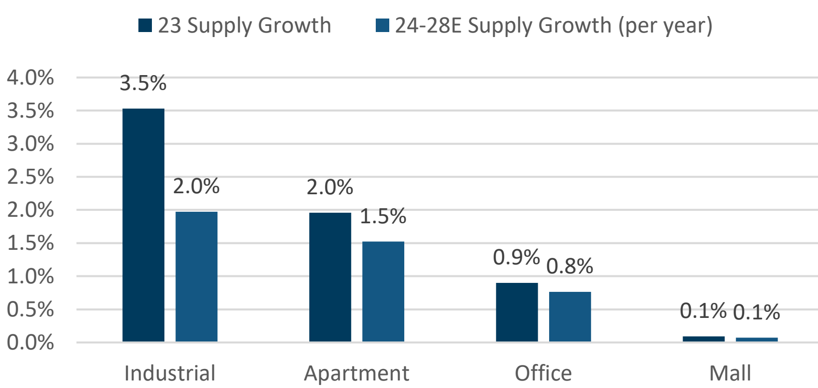
BUT VACANCY RATES REMAIN LOW

Vacancy Rates by Property Sector



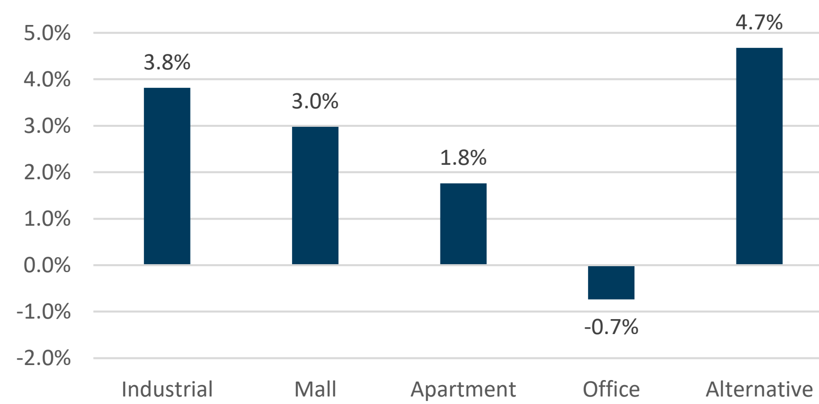
SUPPLY GROWTH CONTRACTING MEANINGFULLY

Annual Completions as % of Existing Stock



GO FORWARD GROWTH OUTLOOK IS QUITE POSITIVE

Green Street's M-RevPAF[1] Forecast 2024-2028E



Source: The Townsend Group, MSCI Real Assets, Green Street (April 2024 unless otherwise noted)

[1]Market Revenue per Available Foot (M-RevPAF) is a Green Street metric combining changes in rents with changes in occupancies.

Commercial Real Estate a Systemic Risk?

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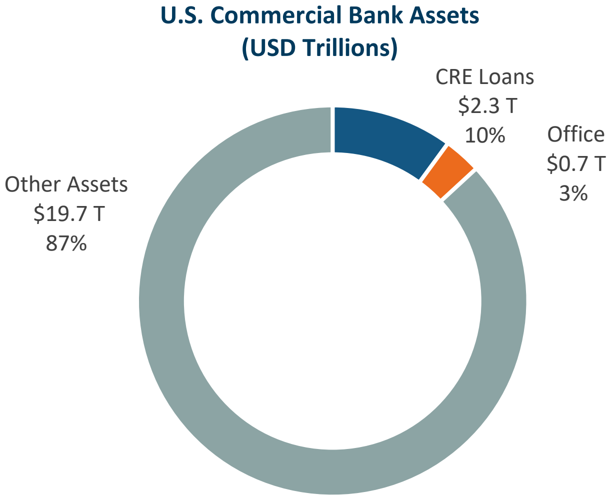
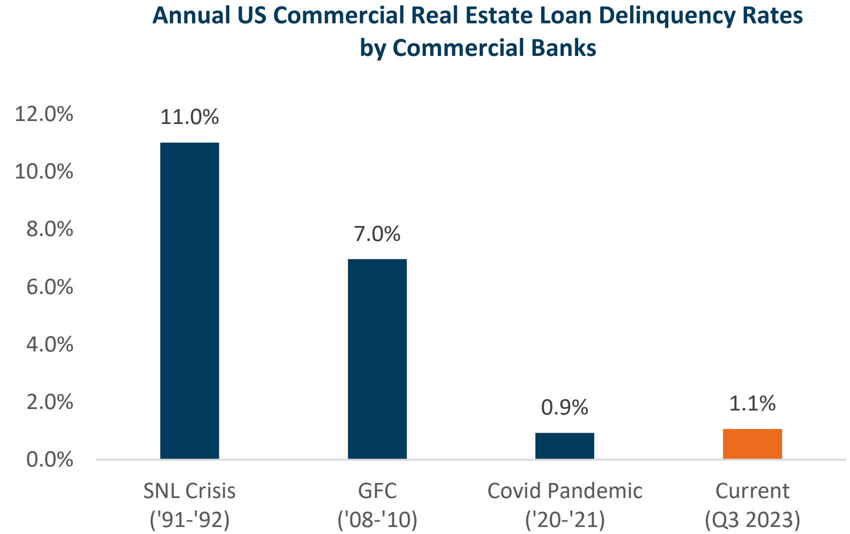
WHILE THE BANKING SECTOR IS UNDER PRESSURE, COMMERCIAL REAL ESTATE RISKS APPEAR MANAGEABLE





- Significant concern has arisen in the broader market over commercial real estate, and the Financial Stability Oversight Council identified the sector as key risk for the U.S. economy in 2024

- In 2023, distressed real estate assets grew by $28.9 billion to a total of $85.8 billion (~1.8% of outstanding loans), and distress has been largely concentrated in the Office (41%), Retail (25%), and Hotel (17%) sectors
  - While potentially distressed real estate assets account for an additional $234 billion, monetary easing and a normalization of lending rates could minimize the actual materialization of distress

- To date, commercial real estate loan delinquency rates are minimal compared to prior crises

Source: Federal Reserve Board of Governors (February 2023), Goldman Sachs Research (October 2023), Green Street, Financial Stability Oversight Council (2023 Annual Report), MSCI Real Capital Analytics, Mortgage Bankers Association, and Federal Register.

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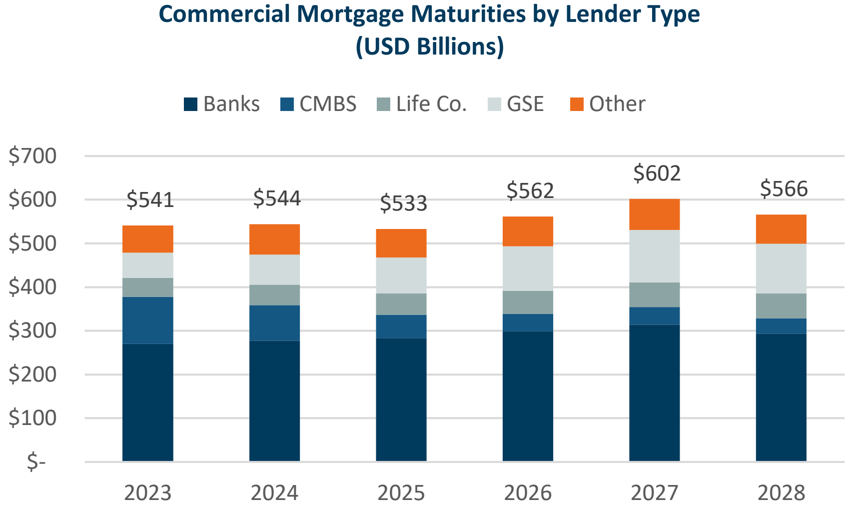
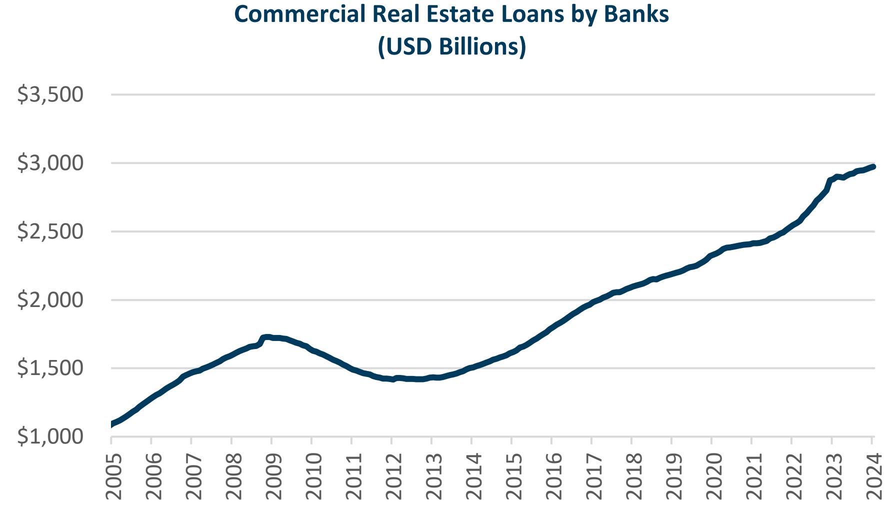
The Imminent Wall of Real Estate Debt Maturities

$2.8 TRILLION OF COMMERCIAL REAL ESTATE DEBT IS MATURING FROM 2024 TO 2028



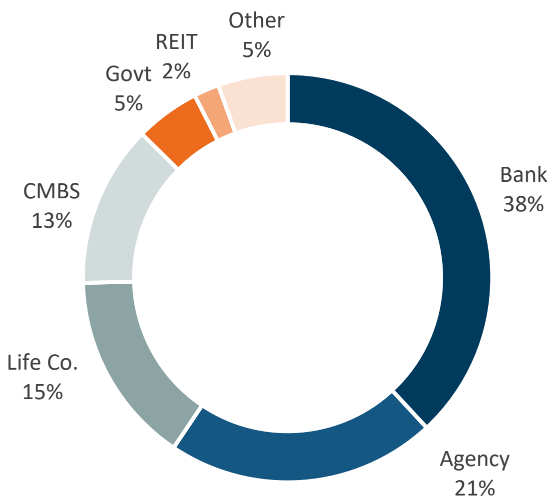


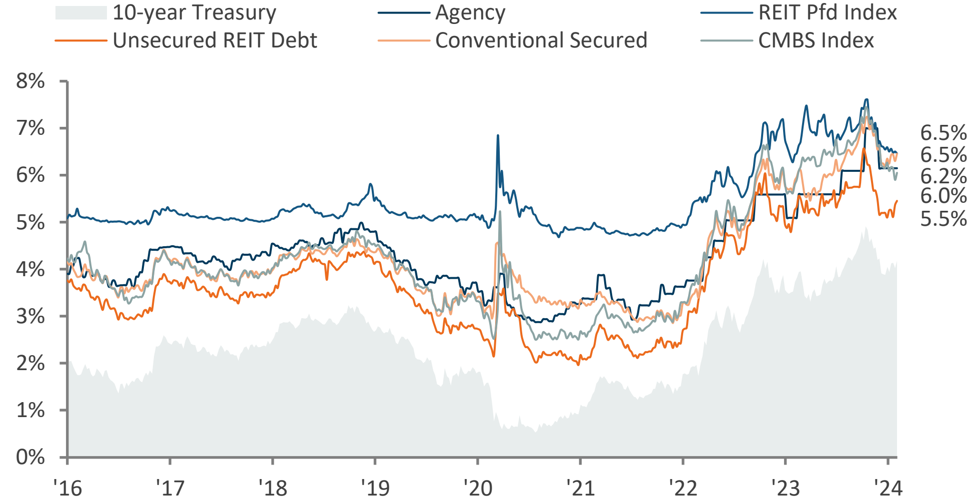
- Over the next five-years, $1.7 trillion of commercial real estate debt held by banks is set to mature, which has created concern among market participants because banks appear to be under regulatory pressure to reduce exposure to real estate
  - Through 2023, the total outstanding commercial real estate loans held by banks has grown which is contrary to the media narrative
  - Federal regulators provided new guidance on extensions and restructuring to minimize losses
- In the current environment, Green Street* estimates 10-30% additional equity will need to be invested to refinance upcoming maturities
- Historically, capital constrained periods have been some of the most attractive vintages to deploy capital
  - Between 2009-2013, non-core close-ended funds tracked by Townsend produced a median net IRR of 14.5%

Source: Trepp, St. Louis Fed, Green Street (*Assumes leverage, property sector and maturities profiles for all CRE debt is consistent with CMBS) and the Office of the Comptroller of Currency.
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

Commercial Real Estate Debt Markets

REAL ESTATE DEBT IS GENERALLY AVAILABLE BUT AT A HIGHER INTEREST RATE





- Debt is generally accessible for cash flowing real estate, albeit at an elevated cost and lower loan-to values than two-years ago
  - The ability to borrow is bifurcated by property sector, and the office sector has seen by far the greatest pull back in debt availability
- First senior mortgages are being originated around 55% loan-to-value , which is a 5-10% decline compared to pre-COVID
  - For assets that experienced cash flow growth and appreciation in the period prior to debt maturing, this is a manageable adjustment
  - For assets that are capital constrained and can not refinance their debt maturity but are otherwise operating fine, additional equity or high-cost mezzanine and/or preferred equity may be a stop gap
- Higher rates, wider spreads, and a pull back in senior lending creates a compelling opportunity for debt strategies

Source: MBA, Federal Reserve Board of Governors, St. Louis Fed, Trepp, FDIC (Q3 2023) CREFCOA, Cushman & Wakefield, and Green Street.

High Interest Rates: Continued Pressure on Real Estate Values

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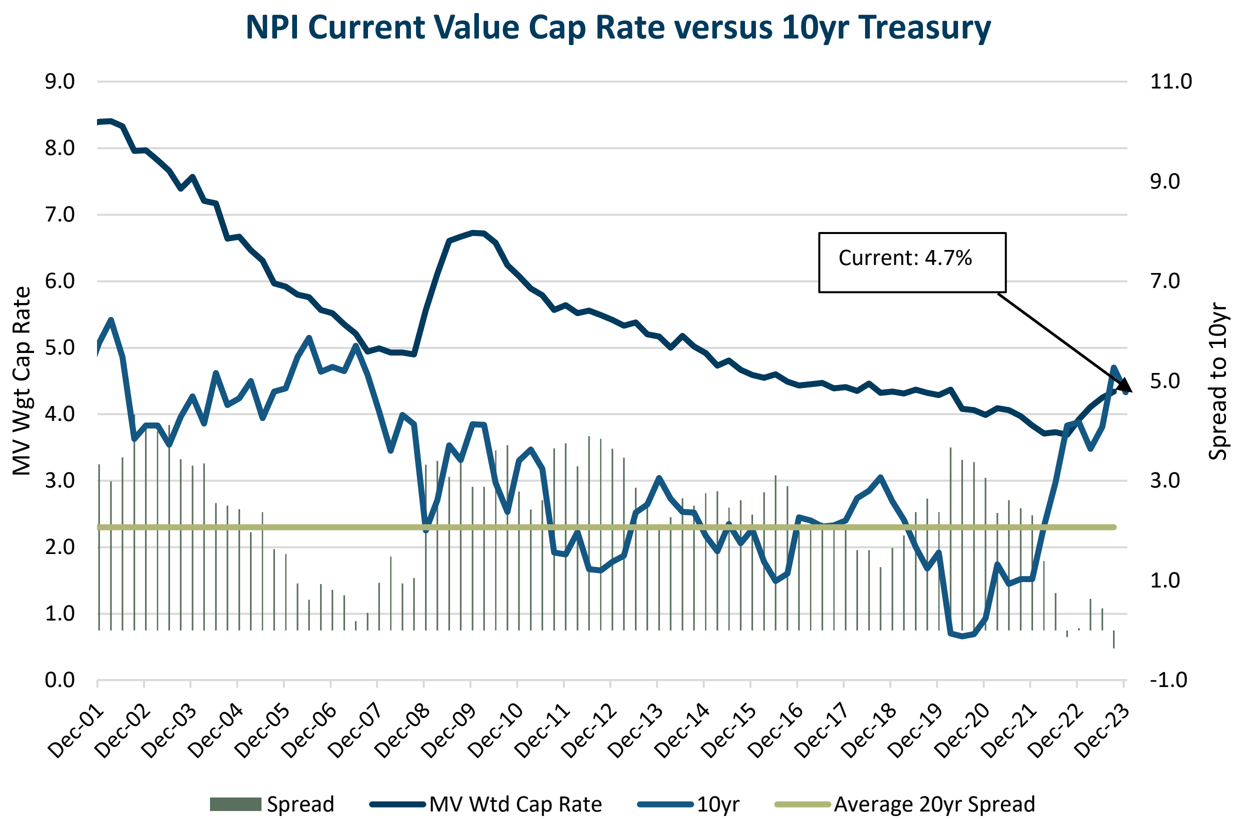

- Lower spreads relative to the 10-year Treasury rates will stress real estate values
- The average spread over the last 20 years is 2.30
- Current 10yr: 4.7% as of 04/26/24
- Cap rates have tracked interest rates higher across all major property types as buyers show little appetite for negative leverage

Source: NCREIF, Federal Reserve Bank of St. Louis. Data as of December 2023. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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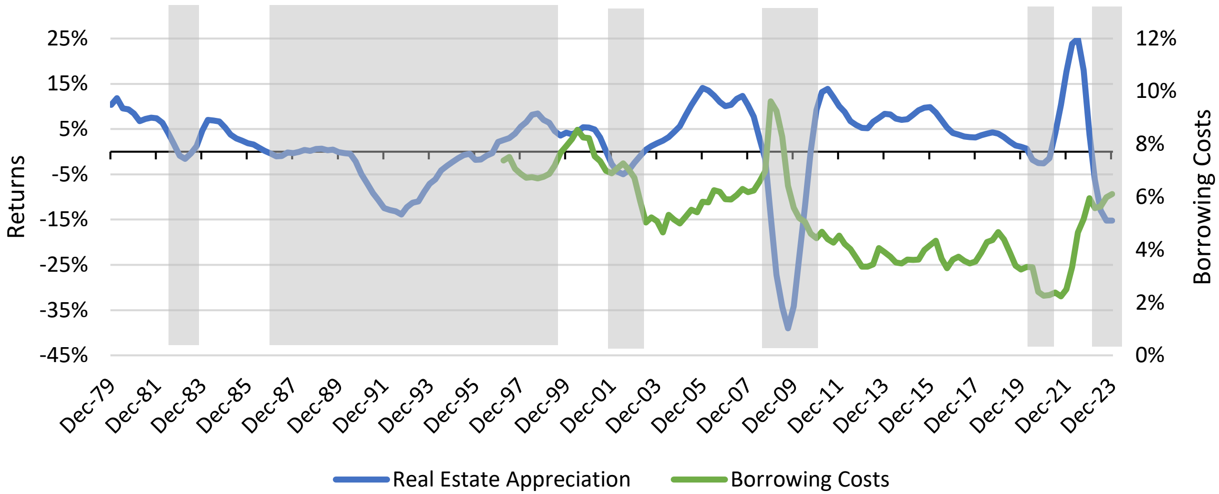
Real Estate Performance in Market Downturns

ODCE Appreciation vs BBB Corporate Yields

Annualized 1 Year Returns before Fees



1982-1983	**Reagan Recession**: 4 quarters of correction followed by 12 quarters of mostly appreciation
1986-1999	**S&L Crisis:** 39 quarters of correction followed by 21 quarters of mostly appreciation
2001-2002	**Dot Com Bubble**: 6 quarters of correction followed by 22 quarters of mostly appreciation
2008-2010	**Global Financial Crisis:** 8 quarters of correction followed by 39 quarters of mostly appreciation
2020	**Covid-19:** 3 quarters of correction followed by 7 quarters of mostly appreciation
2022-3Q2023	**Current Day:** 6 quarters of correction

Source: NCREIF, Federal Reserve Bank of St. Louis. Data as of December 2023. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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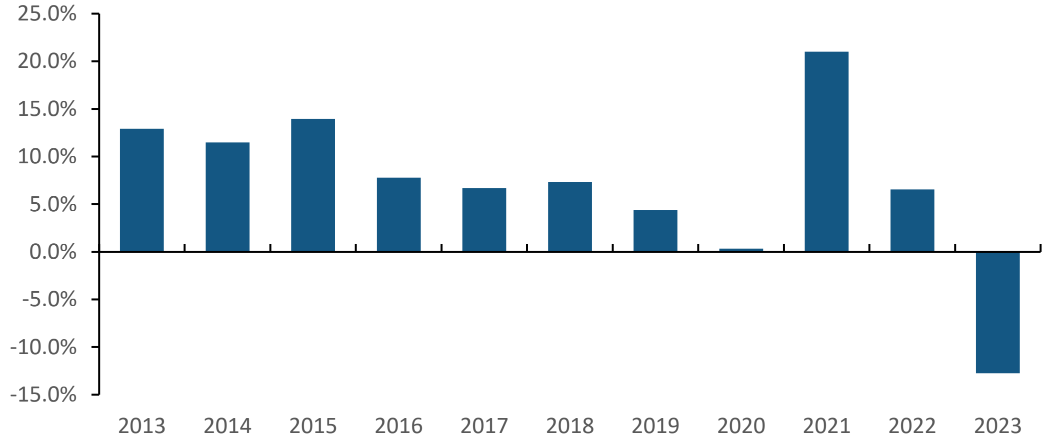
Market Correction Underway

- Real estate market values are correcting in response to the sharp rise in interest rates since mid-2022

- Generally, real estate fundamentals (supply, demand, rents, etc.) remain stable to strong, except for well-publicized challenges in the office sector

Core Calendar Year Returns
Net, as of December 2023



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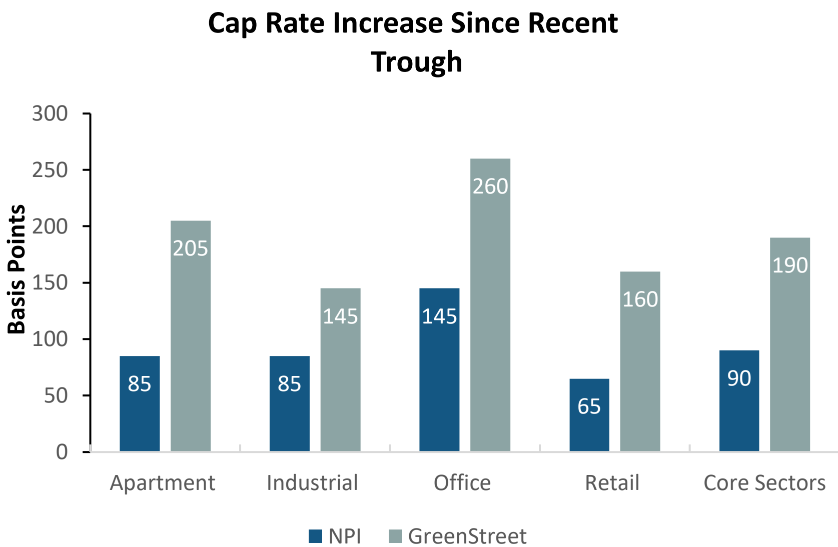
Appraisal Lag Indicating Room for Pricing Adjustments

- Public REITs cap rates adjusted to changes in interest rates well ahead of the private markets
- The lag in appraisal values is causing cap rate spread between public and private real estate values
- Overall, private real estate values have come down by 23% from peak compared to a 31% decline for public REITs
- Appraisal values remain elevated which could lead to further asset value declines

	Cap Rates	
	Public REITs (GreenStreet)*	NPI (NCREIF) **
A	6.1%	4.3%
I	4.5%	4.1%
O	8.5%	5.7%
R	7.0%	5.5%



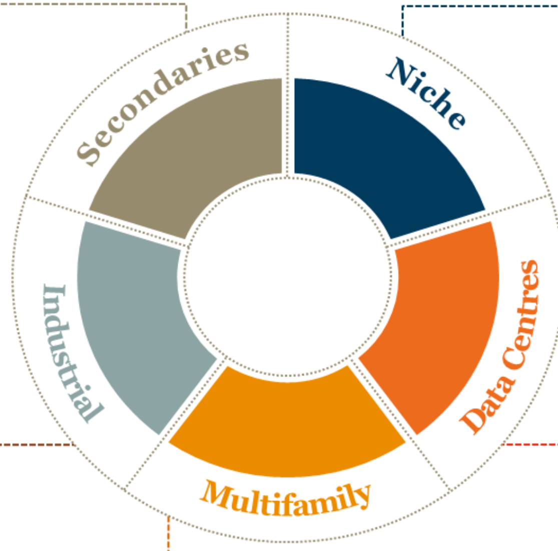
*GreenStreet cap rate refers to implied cap rate, data as of 03/28/2024
**Data as of 12/31/2023
Sources: NCREIF, GreenStreet. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

Forward Looking Initiatives in Private Real Estate

- LACERS has a large, traditional private market program defensively positioned for stable returns with a combination of specialist and diversified positions.
- Although current market sentiment appears to be gloomy, we anticipate that 2024 could signal the bottom of commercial real estate this cycle with the stabilization in interest rates and the gradual thawing of the capital market.
- Although we anticipate facing challenges, we remain optimistic and believe that 2024 has the potential to be a good vintage year for specific property types and investments strategies. Strategies and sectors that we prefer include:

- Townsend anticipates that acute volatility as a result of prolonged valuation adjustments and liquidity requirements will drive additional deal flow in both LP and GP-led secondaries

- Focusing on industrial outdoor storage (IOS), manufactured housing, single family residential, and student housing, senior housing and medical office



- Expansion/modernization of the global supply chain – supporting industrial and logistics property including cold storage

- Investor allocations to grow due to the sector's resilient cash flows, high-quality tenant base and secular growth

- The global housing shortage and suburban migration – supporting professionally managed residential real estate. Consider over the medium to long-term

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

Townsend's Real Estate Investment Themes

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CAPITAL MARKETS DISLOCATION IS CREATING AN ATTRACTIVE VINTAGE TO INVEST IN REAL ESTATE

1 Distress and Dislocation

Provide capital solutions to fix broken capital structures created by the rapid rise in interest rates and pullback in senior debt.

2 Housing Shortage

Housing is undersupplied across developed economies and new construction starts have plummeted, setting up an attractive operating environment for residential strategies.

3 Global Supply Chain

Expansion/modernization of logistics properties are integral to the global supply chain and are critical for e-commerce growth.

4 Niche Property Types

Demand for specialized properties the needs of evolving industries are growing. Characterised by differentiated demand dynamics and operating knowledge.

5 Digital Infrastructure

Data Centers are benefiting from surging demand for power driven by the digitization of the economy, growth of content streaming, and integration of AI models.

6 Aging Population

Growing over 65 age cohort driving demand for healthcare, life sciences, medical office, and senior housing.

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Institutionalization of Niche Sectors

United States

Single Family Build-to-Rent

Rising interest rates creating barrier for first-time homebuyers, resulting in growing population of long-term single-family renters. Higher entry yields and greater income characteristics offer compelling opportunity for institutional capital targeting residential.

Industrial Outdoor Storage

IOS serves a critical role in servicing the logistics, manufacturing, and construction operations of the US economy, but remains highly fragmented from an ownership perspective with limited brokerage coverage, and lower information transparency creating a moat. IOS has the potential to become a more institutional subsector of industrial real estate.

Data Centers

Digital data creation, usage, and storage has been growing exponentially. On-going in-place technology-led digital transformational trends are everywhere, increasing data demand and consumption, requiring more physical data center space and power within data centers.

Global

European Logistics

High-barrier markets such as London seeing uptick in transaction volume and yield compression due to demand fundamentals. Global supply chain shifts may support further growth in Central Europe. Margins for development remain high and may provide opportunity for higher returns.

Asian Data Centers

The country's strong IT infrastructure has led South Korea to be the world's leading 5G market which helped stimulate demand from global technological giants and data center operators driven by the increasing requirements for cloud services, big data and mobile technology.

Australian Credit

Scalable opportunity to invest in Australia CRE credit as sector institutionalizes and generates opportunities for attractive risk-adjusted returns. Resilient macroeconomic fundamentals, regulatory constraints on bank lending, and growing opportunity for non-bank lenders driving demand.

B. Executive Summary

Executive Summary

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LACERS Annual Investment Plan 2024-2025 – Total New Commitments of up to $450 million

Private Real Estate Portfolio

Core Portfolio – Up to $200M

- Commit capital to new and existing core and/or core-plus funds to manage the core exposure and adjust for return and risk purposes.
- Rebalance the core portfolio and evaluate the core open-end positions to focus on boosting returns

Non-Core Portfolio - Up to $250M

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

Source: The Townsend Group. Data as of December 31, 2024. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

C. LACERS Real Estate Program Overview

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LACERS Real Estate Program Overview

(Data as of December 31, 2023)

	Market Value ($ millions)*	% LACERS Plan*
LACERS Total Plan Assets	**$22,726**	
Real Estate Target	**$1,591**	**7.0%**
RE Market Value:		
Core	$762	
Non-Core	$452	
Timber	$21	
Total RE Market Value	**$1,235**	**5.4%**
Unfunded Commitments	$351	1.5%

*Figures may not add due to rounding .

Source: The Townsend Group. Data as of December 31, 2023. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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LACERS Real Estate Program Overview (continued)

	Strategic Targets		*Portfolio Composition (12/31/2023)**	
	Target Allocation	**Tactical Range**	**Market Value**	**Targeted 3-Year**
Core	**60%**	**40% - 80%**	**61.7%**	**58.9%**
Non-Core	**40%**	**20% - 60%**	**36.6%**	**39.9%**
Value Add Portfolio	*N/A*	*N/A*	*22.4%*	
Opportunistic Portfolio	*N/A*	*N/A*	*14.2%*	
Timber	**N/A**	**N/A**	**1.7%**	**1.2%**

- In May 2014, the Board approved the strategic targets displayed above in order to reflect a more conservative risk profile going-forward. At the time, the Portfolio had 30% exposure to Core and 70% exposure to Non-Core.
- As of 12/31/23 LACERS is slightly overweight to its Core and underweight to its Non-Core target allocation but within the respective tactical ranges. Unfunded commitments will bring exposures closer to long-term targets.

*Figures may not add due to rounding
Source: The Townsend Group. Data as of December 31, 2023. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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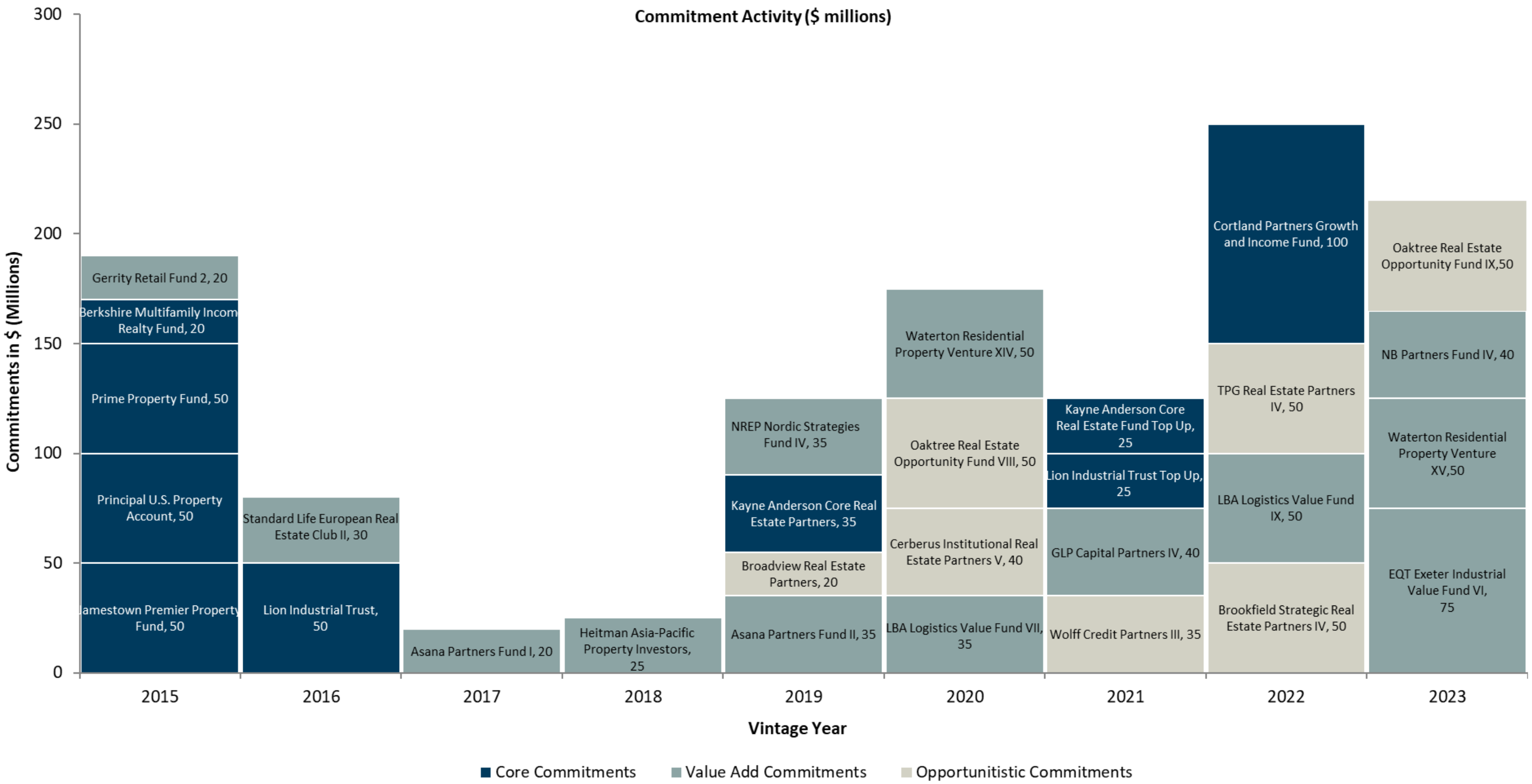
LACERS Commitment History



- LACERS has committed $1.2 billion since 2014 while under advisement of Townsend.
- Four Non-Core commitments since 2015 (Gerrity II, Asana I, Broadview, and NB Partners Fund IV) met LACERS' Emerging Manager guidelines at the time of commitment.
- Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

Source: The Townsend Group. Data as of December 31, 2023. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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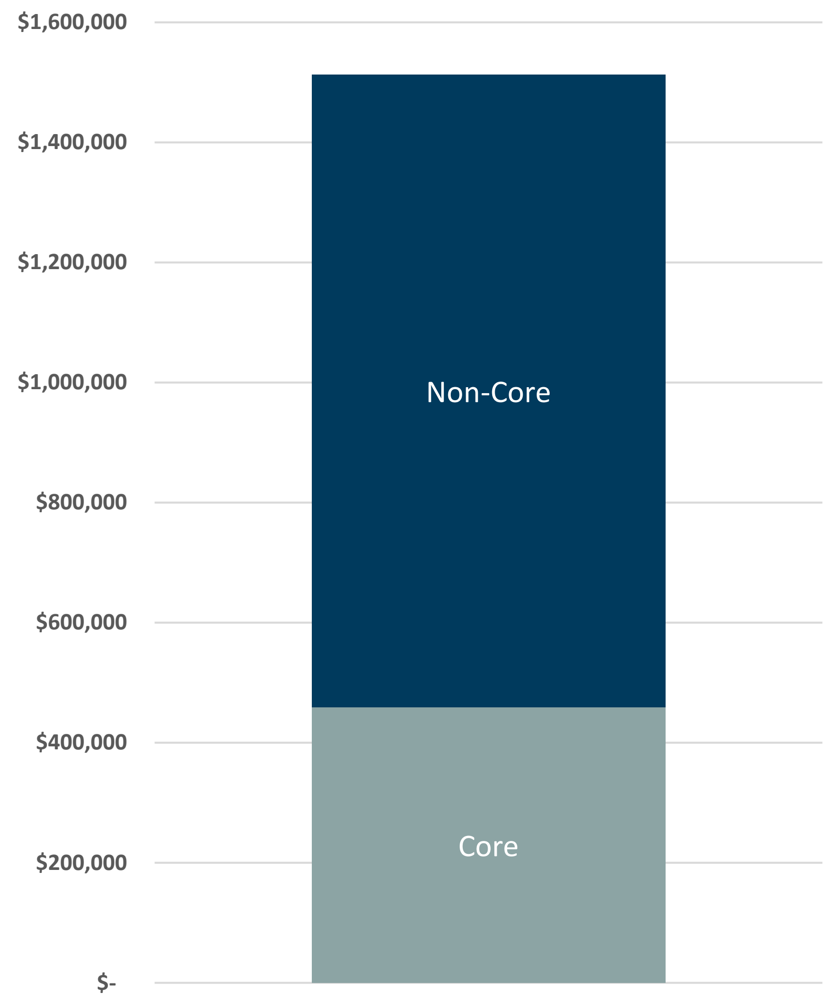
Private Real Estate Investment Management Fee Savings

PRIVATE REAL ESTATE PORTFOLIO FEE SAVINGS

- Through the relationship with Townsend, LACERS is able to achieve significant fee savings with their investment managers.
- Townsend seeks to reduce manager fees without compromising quality of execution as a risk-free way to drive performance.
- Leveraging Townsend's size and influence—in many cases—results in fee breaks achieved through aggregation of capital.
- Fee breaks have also been achieved through close timing and LACERS commitment amounts.
- The LACERS Real Estate Program has and is anticipated to continue to benefit from lower fees at all return levels across the Portfolio.
  - LACERS saves approximately $1.5 million annually in asset management fees within the Private Real Estate Portfolio[1].

Approximate Annual Fee Savings from Townsend Affiliation*
As of 12/31/23

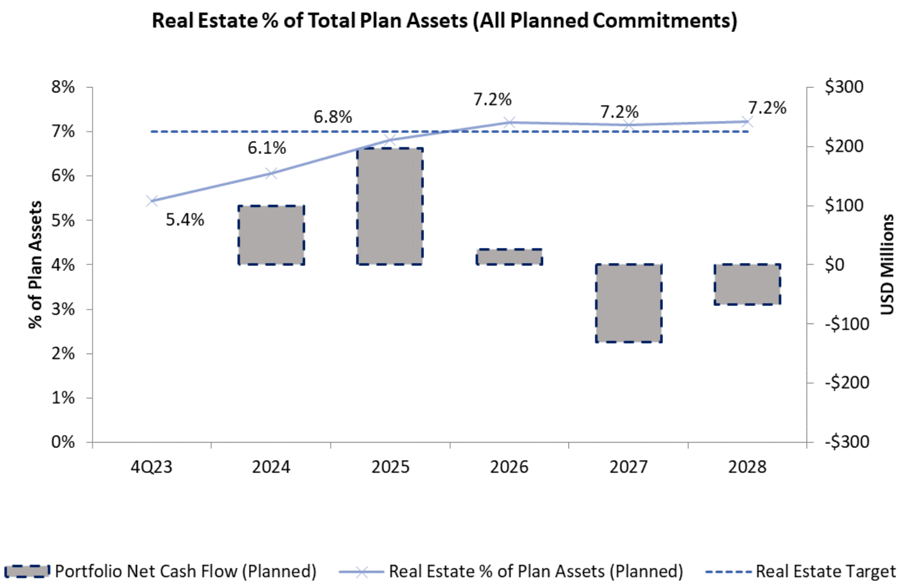


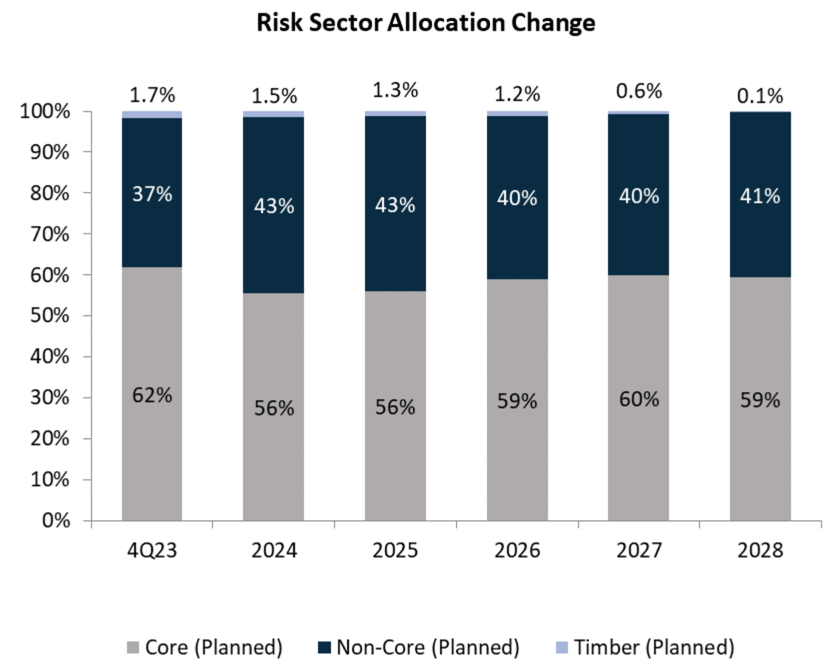
*For open-end funds, fee savings are estimated based on net asset value. For closed-end funds in the investment period, fee savings are estimated based on committed capital. For closed-end funds outside of the investment period, fee savings are estimated based on invested capital. Source: The Townsend Group. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Investing involves risk, including loss of principal. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein. Fee savings are not guaranteed.

D. LACERS 2024-2025 Investment Plan

LACERS Real Estate Portfolio Projections

- To build future private portfolio projections for LACERS, Townsend collected forecasted capital calls and distributions from all managers in LACERS' portfolio.
- The 'Planned' Real Estate Portfolio below includes new commitments needed to reach the target allocation and the 60% Core / 40% Non-Core target.
- The real estate portfolio is at approximately 5.4% of total plan assets below the 7.0% target allocation. Over the next year, the real estate portfolio is anticipated to grow to be closer to the target allocation.





Source: The Townsend Group. Data as of May 2024. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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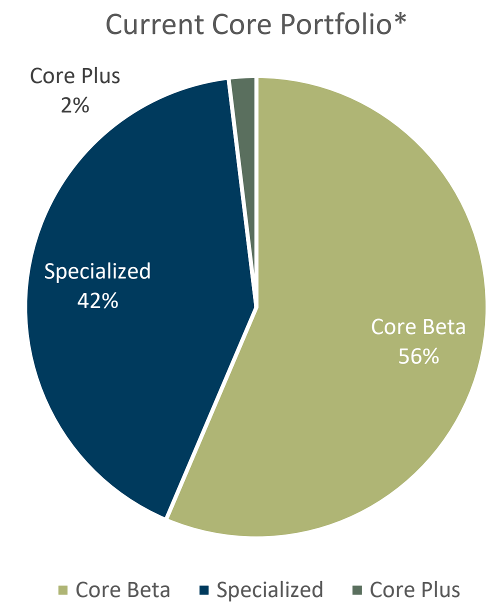
LACERS 2024-2025 Investment Plan – Core Portfolio

- **Commit up to $200 million to Core/Core Plus funds.**
  - Consider up to $200 M in commitments to 2-3 core/core-plus positions. Patiently evaluate the appropriate method of execution through:
    - Secondary market opportunities with existing strong performing managers if available at a discount to current valuation
    - New blind pool core open-end fund launches positioned to buy high-quality properties at favorable valuations
    - Specialist managers with exposure to the alternative space or niche sectors to which LACERS does not currently have exposure to
  - Consider rebalancing the core portfolio to focus on boosting returns and continue to evaluate current core open-end positions to deliver appropriate core portfolio objectives.



*Core Beta refers to funds larger, diversified funds that track closer to NFI-ODCE through access to primary gateway markets and property types.
Core Plus refers to funds with a combination of higher leverage and/or larger non-core pipelines in order to enhance returns.
Core Specialized refers to funds that specialize in one sector or funds that specialize in sectors outside of the primary NFI-ODCE sectors.
Source: The Townsend Group. Data as of May 2024. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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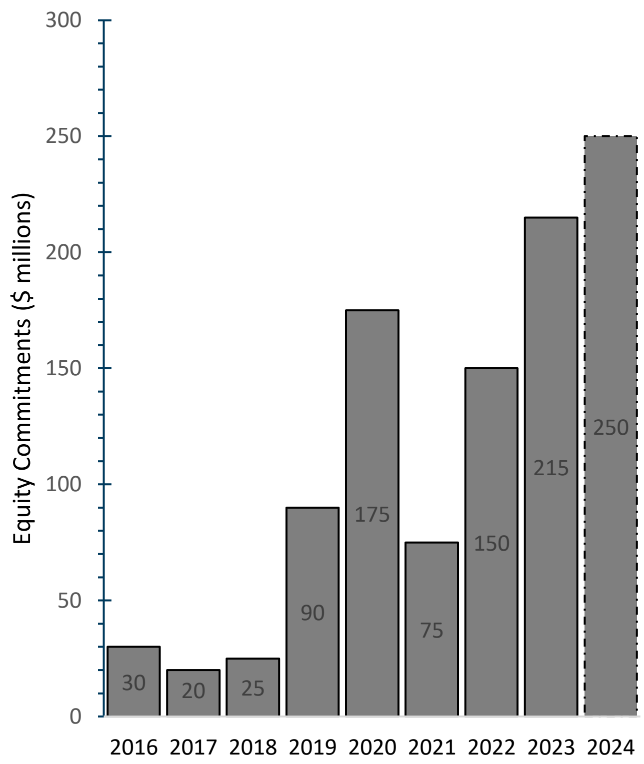
LACERS 2024-2025 Investment Plan – Non-Core Portfolio

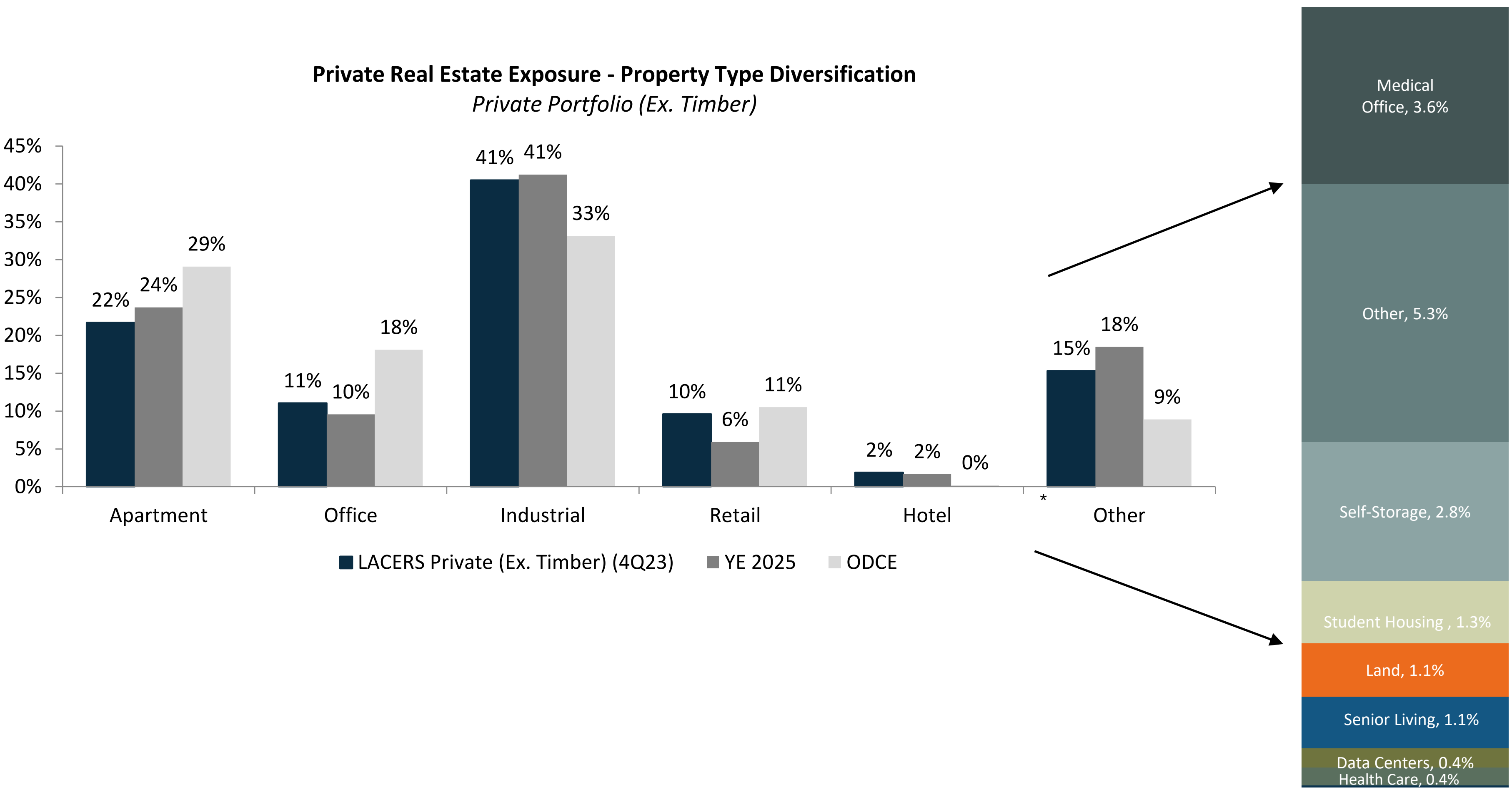
- **Commit up to $250 million to non-core funds.**
  - Further explore niche investment opportunities that are anticipated to generate outsized risk-adjusted returns, and/or provide a level of diversification to the portfolio (downside protection, sector exposure, etc.).
    - Townsend continues to conduct manager research in niche opportunities such as cold storage, data centers, single family residential, industrial outdoor storage and real estate credit.
    - Consider lower commitment amounts for highly concentrated niche strategies.
  - Target 5-6 new commitments to attractive opportunities with a focus on i) complementary sector/regional exposures, (ii) thematic investments, (iii) demonstrated specialist managers and iv) alternative specialty sectors with growth potential.
  - Consider re-up commitments to high conviction managers already represented in the portfolio.
  - Focus on maximizing fee savings to boost net returns when possible.
  - Continue to evaluate Emerging Managers that are an appropriate fit for LACERS' portfolio, without compromising returns.

Non-Core Commitments by Vintage Year



Source: The Townsend Group. Data as of May 2024. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein. Fee savings are not guaranteed.

LACERS Diversification Targets



*'Other' reflects properties that do no fit into the traditional classifications (apartment, industrial, office, retail), such as medical office, senior housing, self-storage, student housing, and other property types.

Source: The Townsend Group. Data as of May 2024. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

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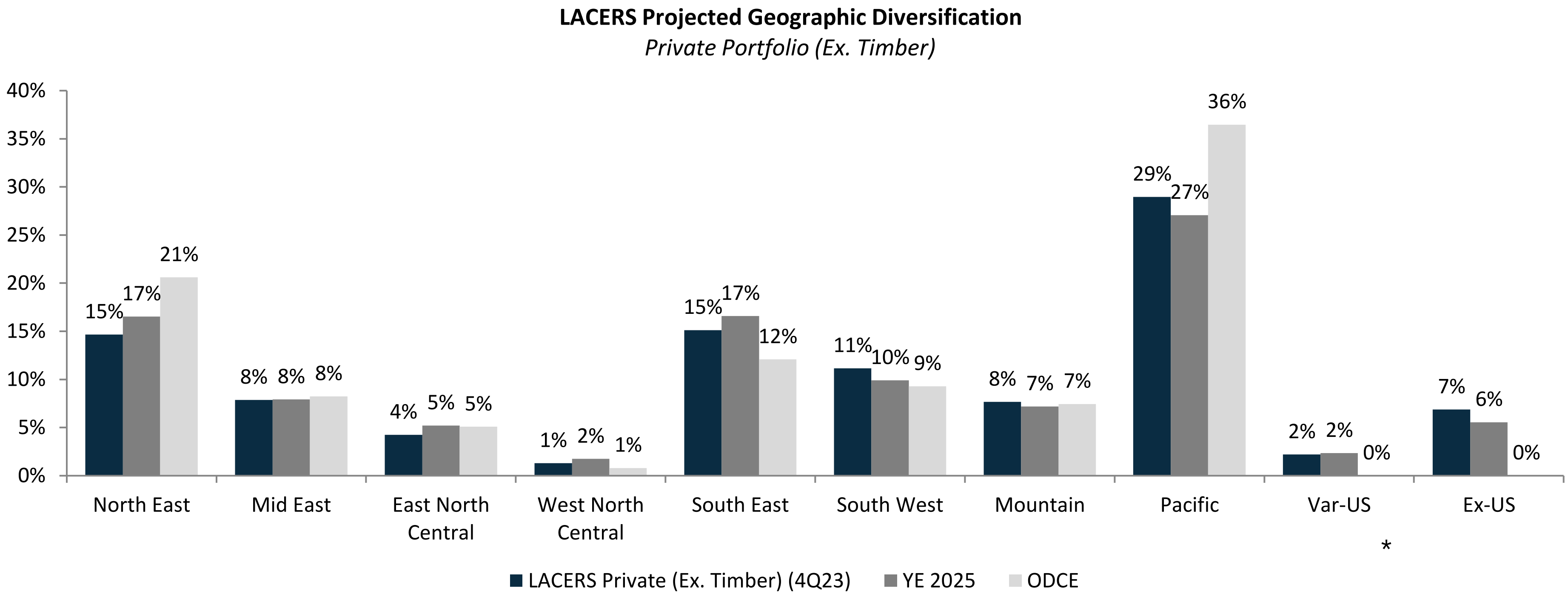
LACERS Diversification Targets



*Var-US includes any investments that are not directly tied to specific regions, such as real estate debt investments through Torchlight or entity-level investments through Almanac.

Source: The Townsend Group. Data as of May 2024. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results. Actual results and developments may differ materially from those expressed or implied herein.

E. Sourcing & Deal Flow

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Manager Sourcing & Due Diligence

Core and Core-Plus Fund Sourcing and Selection

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

Manager Sourcing & Due Diligence

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Non-Core Fund Sourcing and Selection

- In addition to the work completed for open-end commingled funds (evaluation process outlined on the previous page), Townsend is continuously analyzing the universe of Non-Core closed-end funds available for investment.

- Detailed due diligence follows a three-phase due diligence process:
  - Sourcing and evaluation of new fund launches.
  - On-site due diligence meetings.
  - Evaluation of investment characteristics includes, but is not limited to the following:
    - *Executive Summary:* Strategy Overview, Comparative Advantages, Potential Issues and Concerns.
    - *Strategy:* Overview, Leverage, Investment Guidelines, Pipeline.
    - *Sponsor*: Organizational Background/History, Turnover, Compensation, and Retention.
    - *Investment Process:* Overview, Investment Committee, Affiliate Transactions, Limited Partner Advisory Committee, Exclusivity and Allocations, Valuations.
    - *Fund Structure:* Key Terms, Fees and Distributions, Analysis of Fees.
    - *Performance:* Detailed Summary of Prior Vehicles, Vintage Year Comparison, Dispersion of Returns, Investment Highlights.

- Ongoing due diligence includes fund coverage, investment monitoring, reporting, advisory board representation and client advocacy.

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Emerging Manager Sourcing Process

Emerging Manager Sourcing

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

LACERS Emerging Manager Efforts

- Majority of Emerging Manager opportunity set is in the Non-Core segment:
  - 2015: A $20 million commitment to Gerrity Retail Fund 2 was approved by the Board.
  - 2016: A $20 million commitment to Asana Partners I was approved by the Board.
  - 2018: A $35 million commitment to Asana Partners II was approved by the Board.
  - 2019: A $20 million commitment to Broadview Real Estate Partners was approved by the Board.
  - 2023: A $40 million commitment to NB Partners Fund IV was approved by the Board.
  - 2024: Due diligence on two additional emerging managers has been completed and commitments are under consideration for 2024.

Disclosures

Disclosures

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Tax considerations, margin requirements, commissions and other transaction costs may significantly affect the economic consequences of any transaction concepts referenced in this commentary and should be reviewed carefully with one's investment and tax advisors. Certain assumptions may have been made in this commentary as a basis for any indicated returns. No representation is made that any indicated returns will be achieved. Differing facts from the assumptions may have a material impact on any indicated returns. Past performance is not necessarily indicative of future performance. The price or value of investments to which this commentary relates, directly or indirectly, may rise or fall. This commentary does not constitute an offer to sell any security or the solicitation of an offer to purchase any security. Investing involves risk including possible loss of principal

NOTE REGARDING PROJECTIONS AND FORWARD-LOOKING STATEMENTS: The information provided in this report contains estimates, return data and valuations that are based upon assumptions and projections. Such estimates and assumptions involve judgments with respect to, among other things, future economic and competitive conditions; real estate market conditions; occupancy and rental rates; and the like, which may not be realized and are inherently subject to significant uncertainties and changes, all of which are difficult to predict and many of which are beyond the control of the General Partner and Townsend Holdings LLC d/b/a The Townsend Group ("Townsend") and the investment managers of any indirect fund investments. Accordingly, no assurance can be given that such projections will be realized, and actual conditions, operations and results may vary materially from those set forth herein. The Limited Partner is cautioned that the predictions and other forward-looking statements reflected in this report involve risks and uncertainty, including without limitation, risks incident to investment in real estate and to investment in "non-core" real estate funds. In light of the foregoing factors, actual returns and results are likely to differ substantially from the forward-looking statements contained in this report, and the Limited Partner is cautioned not to place undue reliance on such forward-looking statements and projections. The words "estimate," "anticipate," "expect," "predict," "believe" and like expressions are intended to identify forward-looking statements. Investors should make their own investment decisions without relying on this document. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this document.

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Disclosures and Definitions

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GENERAL DISCLOSURES

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

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

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

NON REGULATORY ASSETS UNDER MANAGEMENT

As of September 30, 2023, Townsend had assets under management of approximately $22.1 billion. When calculating assets under management, Townsend aggregates net asset values and unfunded commitments on a quarterly basis. Townsend relies on third parties to provide asset valuations, which typically takes in excess of 90 days after the quarter end. Therefore, assets under management have been calculated using September 30, 2023 figures where available but may also include June 30, 2023 figures. Assets under management are calculated quarterly and includes discretionary assets under management and non-discretionary client assets where the client's contractual arrangement provides the client with the ability to opt out of or into particular transactions, or provides other ancillary control rights over investment decision-making (a/k/a "quasi-discretionary"). Regulatory AUM is calculated annually and can be made available upon request.

ADVISED ASSETS

As of September 30, 2023, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding $123.0 billion. Advised assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals. The recent change in Advised Assets is due to a change in the reporting of certain special projects.

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

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

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

Disclosures and Definitions

The NFI-ODCE Index is a capitalization-weighted, gross of fees, time-weighted return index with an inception date of 1/1/1978. Published reports may also contain equal-weighted and net of fees information. Open-end funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable US operating properties (as defined herein). The NFI-ODCE is a quasi-managed index based on the periodic review by the Index Policy Committee ("IPC") of the index's criteria thresholds.

The S&P 500 Index is an unmanaged market capitalization weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.

The Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Index figures do not reflect deduction of fees, expenses, or taxes. One cannot invest directly in an index.

Value-Added: Funds that generally include a mix of core investments and others that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.

Opportunistic: Funds of preponderantly non-core investments that are expected to derive most of their returns from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of risk factors.

REPORT TO INVESTMENT COMMITTEE **MEETING: MAY 14, 2024**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **ADAPTIVE ASSET ALLOCATION POLICY AND STATUS REPORT AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a renewal of the Adaptive Asset Allocation Plan for Fiscal Year 2024-2025.

Executive Summary

This report provides an annual update on adaptive rebalancing pursuant to the LACERS Rebalancing Policy and Adaptive Asset Allocation Plan (AAAP) under Sections V.G and V.H of the Investment Policy Manual. No adaptive rebalances have been initiated through April of fiscal year 2023-2024. Staff recommends renewal of the AAAP for fiscal year 2024-2025 as well as revisions to the policy to be brought back to the Committee later in the fiscal year.

Discussion

The LACERS Rebalancing Policy and AAAP (Sections V.G and V.H of the Investment Policy Manual) authorize staff to conduct adaptive rebalancing. The AAAP, initially adopted by the Board on May 28, 2019, and revised on October 26, 2021, addresses the goals and objectives of adaptive asset allocation, roles and responsibilities of parties involved, decision-making and implementation framework, and reporting requirements.

Pursuant to Section VII of the AAAP, the CIO must provide an annual report to the Investment Committee of all adaptive rebalances initiated in the current fiscal year and provide recommendations to modify, continue, or cease the AAAP. Through April of fiscal year 2023-2024, staff has not invoked the AAAP and no adaptive rebalances have been initiated. Staff will continue to monitor market conditions and the investment portfolio for opportunities to adaptively rebalance and recommends a renewal of the AAAP in its current form for fiscal year 2024-2025.

Furthermore, staff recognizes that the AAAP may be limited in its usage due to staff's efforts to manage routine operational cash flows and portfolio liquidity. Such efforts generally result in staff rebalancing public market asset classes towards asset allocation targets monthly and maintaining asset classes below the 70% of asset class range trigger point required to implement an adaptive rebalance as defined in Section VI.1 of the AAAP. Staff plans to revisit the AAAP rebalancing guidelines later in the fiscal year for the Committee's consideration.

LACERS' Internal Auditor has reviewed this report pursuant to Section II of the AAAP.

Strategic Plan Impact Statement

Renewing the Adaptive Asset Allocation Plan aligns with the Strategic Plan Goals to optimize long-term risk adjusted investment returns (Goal IV) and to uphold good governance practices which affirm transparency, accountability, and fiduciary duty (Goal V).

Prepared By: James Wang, Investment Officer I, Investment Division

NMG/RJ/WL/JW:rm

Attachment: 1. Rebalancing Policy and Adaptive Asset Allocation Plan

G. Rebalancing

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

Rebalancing is not primarily intended to be used for tactical asset allocation. The Board will not attempt to time the rise or fall of the investment markets by moving away from long-term targets because (1) market timing may result in lower returns than buy-and-hold strategies; (2) there is little or no evidence that one can consistently and accurately predict market timing opportunities; and (3) rebalancing too often may result in excessive transaction costs. However, the Board may authorize staff to rebalance assets within or among asset classes without breaching Board-established asset allocation policy threshold bands. Such rebalancing would be subject to an annually approved Adaptive Asset Allocation Plan (AAAP) in order to enhance incremental performance, protect portfolio value, or improve the risk-return profile of the portfolio. The Board will consider the approval of a new AAAP or renewal of an existing AAAP within three months prior to the start of each fiscal year. The approved AAAP will be effective on July 1 of each year. Should the Board choose not to renew an AAAP, the existing AAAP may continue to be implemented; however, new AAA positions may not be introduced until a continuance of the existing AAAP or new AAAP is approved by the Board.

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

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

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

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

H. Adaptive Asset Allocation Plan

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I. Purpose and Scope

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

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

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

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

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

II. Roles and Responsibilities

The Board of Administration

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

Investment Committee

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

Chief Investment Officer

The Chief Investment Officer (CIO) is responsible for the implementation of an Adaptive Asset Allocation rebalancing pursuant to the AAAP. The CIO will review recommendations from staff and the General Fund Consultant to determine if an Adaptive Rebalance is appropriate. The CIO is also responsible for unwinding any previously-initiated Adaptive Actions as may be necessary. The CIO along with staff is responsible for observing economic and market indicators, assessing internal operational conditions, and working with the General Fund Consultant (and seeking advisement of other Investment Consultants under contract as may be necessary) to seek concurrence with an Adaptive Action Proposal. The CIO will apprise the Board within 30 days of initiating an Adaptive Rebalance.

General Fund Consultant

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

Internal Auditor

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

III. Terminology

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

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

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

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

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

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

IV. Adaptive Asset Allocation Considerations

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

V. Implementation

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

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

5. Implementation of Adaptive Action pursuant to the written Adaptive Rebalance Proposal and AAAP Risk Management Guidelines.
6. Report to the Board within 30 days of initiating a Adaptive Rebalance
7. Quarterly Status Reporting of Adaptive Rebalancing implementation
8. Internal Monthly Rebalancing and Compliance Staff Reviews per the Rebalancing Policy (Section I.V.G of the LACERS Investment Policy)
9. Annual Investment Committee Review of AAAP based on CIO Report as provided in Section VII of this plan
10. Annual Board Renewal, Modification, or Repeal of AAAP based on Investment Committee Report as provided in Section VII of this plan

VI. Risk Management Guidelines

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

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

VII. Annual Review of the AAAP

Annual AAAP Review by the Investment Committee

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

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

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

Annual AAAP Approval or Repeal by the Board of Administration

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

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

VIII. APPENDIX

External Landscape and Internal Operational Considerations

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

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

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

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

b. *Market Stages Consideration*

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

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

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

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

c. *Assessment of Market Conditions*
Staff will evaluate and assess if the market is Early-Cycle, Mid-Cycle, Late-Cycle or in a Recession on a quarterly basis.

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

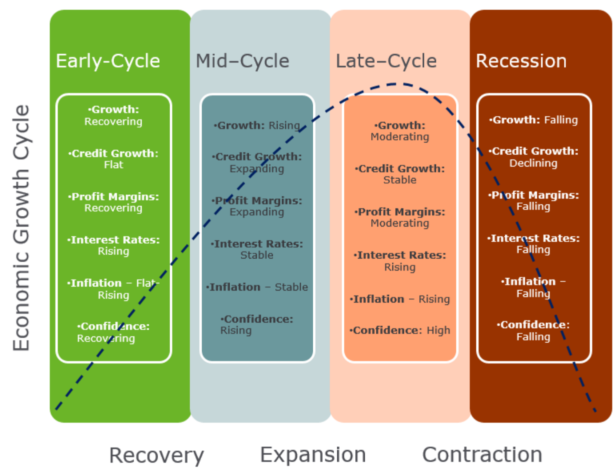

*chart provided by NEPC, LLC

d. *Economic and Market Risk Assessment*
Staff will address one or more of the economic, financial, and market indicators.

- Growth: Year-over-year growth in GDP
- Credit Growth: Year-over-year growth in total credit
- Profit Margins: Corporate profit margins
- Interest Rates: Short, Long, Yield Curve
- Inflation: Consumer Price Index
- Confidence Levels: Consumer Sentiment Index
- Additional factors such as commodity and currency trends, unemployment statistics, building permits, sales, and manufacturing statistics.

e. *Asset Valuations*

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

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

f. *Internal Operational Considerations*

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

- Benefits and Consequences of initiating an Adaptive Action versus strategic rebalancing against asset allocation upper and lower policy target thresholds
- Liquidity Impact

I. **Evaluation of Policy**

The Investment Policy Statement shall be reviewed by the Board at least annually, with the assistance of the Staff and investment consultant(s), and revised as necessary.