LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, SEPTEMBER 12, 2023

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

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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 non-exempt 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.

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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 AUGUST 8, 2023 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. INVESTMENT MANAGER CONTRACT WITH PGIM, INC. REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKET DEBT PORTFOLIO AND POSSIBLE COMMITTEE ACTION

V. PROXY VOTING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023

VI. PROPOSED INVESTMENT POLICY REGARDING PRIVATE CREDIT INVESTMENTS AND POSSIBLE COMMITTEE ACTION

VII. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER A COMMITMENT TO OAKTREE REAL ESTATE OPPORTUNITIES FUND IX, L.P. AND POSSIBLE COMMITTEE ACTION

VIII. OTHER BUSINESS

IX. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, October 10, 2023, at 10:30 a.m., or immediately following the Board Meeting in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

X. ADJOURNMENT

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, SEPTEMBER 12, 2023

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

MEETING LOCATION:

LACERS Boardroom
977 N. Broadway
Los Angeles, California 90012

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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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X. ADJOURNMENT

Agenda of:	Sept. 12, 2023
Item No:	II

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

August 8, 2023

12:30 p.m.

PRESENT:	Chair	Elizabeth Lee
	Committee Member:	Thuy Huynh Janna Sidley
	Commissioner:	Gaylord “Rusty” Roten
	Legal Counselor:	Joshua Geller
	Manager-Secretary:	Todd Bouey
	Executive Assistant:	Ani Ghoukassian

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

Commissioner Roten joined the Investment Committee meeting at 12:30 p.m., and this was a Special Meeting of the Board of Administration. Any votes were taken by Investment Committee members only.

I

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

II

APPROVAL OF MINUTES FOR THE MEETING OF JUNE 13, 2023 AND POSSIBLE COMMITTEE ACTION – Committee Member Huynh moved approval, and adopted by the following vote: Ayes, Committee Members Huynh, Sidley, and Chair Lee -3; Nays, None.

III

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

- Investment Committee Forward Calendar

IV

PRESENTATION BY BAIN CAPITAL SENIOR LOAN FUND, L.P. REGARDING THE MANAGEMENT OF ACTIVE U.S. BANK LOANS PORTFOLIO – Andy Carlino, Partner, and Keith Schweitzer, Director, with Bain Capital Senior Loan Fund, LP, presented and discussed this item with the Committee for 25 minutes.

V

INVESTMENT MANAGER CONTRACT WITH WELLINGTON MANAGEMENT COMPANY LLP REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKET DEBT PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Jeremiah Paras, Investment Officer I, presented this item to the Committee. Committee Member Sidley moved approval, and adopted by the following vote: Committee Members Huynh, Sidley, and Chair Lee -3; Nays, None.

Commissioner Roten left the meeting at 1:33 p.m.

VI

ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM FOR THE PERIOD ENDING DECEMBER 31, 2022 – Rod June, Chief Investment Officer, presented and discussed this item with the Committee for 30 minutes.

VII

OTHER BUSINESS – There was no other business.

VIII

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, September 12, 2023, at 10:30 a.m. or immediately following the Board Meeting, in the LACERS Boardroom at 977 N. Broadway, Los Angeles, CA 90012-1728.

IX

ADJOURNMENT – There being no further business before the Committee, Chair Lee adjourned the meeting at 1:46 p.m.

Elizabeth Lee
Chair

Neil M. Guglielmo
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE	**MEETING: SEPTEMBER 12, 2023**
From: Neil M. Guglielmo, General Manager	**ITEM: IV**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH PGIM, INC. REGARDING THE MANAGEMENT OF AN ACTIVE EMERGING MARKET DEBT PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board a three-year contract renewal with PGIM, Inc. for management of an active emerging markets debt portfolio.

Executive Summary

PGIM, Inc. (PGIM) has managed an active emerging markets blended hard and local currency debt portfolio for LACERS since February 2021. LACERS' portfolio was valued at $469 million as of July 31, 2023. PGIM is in compliance with the LACERS Manager Monitoring Policy. Staff and NEPC, LLC (NEPC), LACERS' General Fund Consultant, recommend a three-year contract renewal.

Discussion

Background
PGIM manages an active emerging markets blended hard and local currency debt portfolio for LACERS benchmarked against a custom benchmark consisting of a 50% weighting to the J.P. Morgan Emerging Market Bond Index (JPM EMBI) Global Diversified Index and a 50% weighting to the J.P. Morgan Government Bond Index-Emerging Markets (JPM GBI-EM) Global Diversified Index. The firm's investment process starts with the top-down approach of assessing the global appetite for risk. The second step of the investment process is a comprehensive fundamental analysis of countries with country allocation deemed as a primary determinant of returns. The next step is security selection that offers best relative value. The investment process concludes with a risk management assessment that is guided by dynamic risk budgeting. The investment approach also seeks to add value through currency active management and yield curve management.

The Emerging Markets Debt (EMD) Team is led by Senior Portfolio Manager Cathy Hepworth (37 years of investment experience). Cathy Hepworth, alongside Mariusz Banasiak (19 years of investment experience) serve as the portfolio managers for the Hard/Local Currency Blend strategy and they co-lead a team of portfolio managers and analysts who are dedicated to specific regions and sectors of the EMD universe. Cathy Hepworth is also a portfolio manager on other strategies more focused on

Hard Currency while Marius Banasiak is also a portfolio manager on other strategies more focused on Local Currency.

The Board hired PGIM through the 2019-2020 Active Emerging Markets Debt search process and authorized a three-year contract on September 8, 2020, and became effective on January 1, 2021; the current contract expires on December 31, 2023. PGIM previously managed an active emerging markets hard currency debt portfolio for LACERS between June 2014 through February 2021; this portfolio transitioned into the current blended portfolio. The shift from a hard currency debt portfolio to a blended hard and local currency debt portfolio was a result of the implementation of the asset allocation framework approved by the Board in 2018. The 2018 asset liability study noted opportunities in emerging markets local rates and a positive outlook for emerging markets local currency debt; thus the introduction of an allocation to emerging markets local currency debt.

Representatives of PGIM most recently presented a portfolio review to the Investment Committee on May 9, 2023.

Organization
With over 1,400 investment professionals located in 46 offices throughout the globe, PGIM serves as the wholly-owned global investment management business of Prudential Financial, Inc., a publicly-traded financial services company (NYSE ticker symbol PRU). PGIM Fixed Income, the active fixed income management arm of PGIM, employs a total of 1,136 employees and is headquartered in Newark, New Jersey. As of June 30, 2023, PGIM managed $1.3 trillion in total assets, with $775.9 billion under PGIM Fixed Income and with $13.57 billion in the emerging markets blended debt strategy. LACERS' portfolio was valued at $469 million (or 3.4% of PGIM's emerging markets blended debt strategy) as of July 31, 2023.

Due Diligence
Staff conducts routine due diligence of the manager that includes quarterly portfolio reviews and ad hoc investment discussions. LACERS staff last conducted an onsite meeting at Wellington's headquarters on May 17, 2023, that included interviews with key personnel across the organization. Staff concluded that PGIM's investment philosophy, strategy, and process have not changed materially over the contract period.

Staff has noted a number of firm-level personnel changes over the course of the contract period, including turnover in the Chief Global Economist and Head of Global Macroeconomic Research, Chief U.S. Economist, President and Chief Executive Officer, and Chief Investment Officer positions. The respective transitions were well planned and adequately communicated to clients. None of these personnel changes were deemed to have created any adverse impact on the management of the strategy.

Performance
As of July 31, 2023, PGIM outperformed its benchmark over the 3-month, 1-year, 2-year, and since inception time periods, as presented in the following table.

Annualized Performance as of 7/31/2023 (Net-of-Fees)				
	3-Month	1-Year	2-Year	Since Inception 2/12/2021
PGIM	4.68	12.08	-3.92	-4.13
50% JPM EMBI Global Diversified Index/50% JPM GBI-EM Global Diversified Index	4.07	10.27	-5.47	-5.11
% of Excess Return	*0.61*	*1.81*	*1.55*	*0.98*

Calendar year returns are presented as supplemental information in the following table.

Calendar Year Performance as of 7/31/2023 (Net-of-Fees)			
	1/1/2023-7/31/2023	2022	2/12/2021-12/31/2021
PGIM	8.82	-12.63	-5.19
50% JPM EMBI Global Diversified Index/50% JPM GBI-EM Global Diversified Index	8.48	-14.75	-4.97
% of Excess Return	*0.34*	*2.12*	*-0.22*

PGIM is in compliance with the LACERS Manager Monitoring Policy.

Fees
LACERS pays PGIM an effective fee of 34 basis points (0.34%), which is approximately $1.6 million annually based on the value of LACERS' assets as of July 31, 2023. This fee ranks in the 8th percentile of fees charged by similar managers in the eVestment database (i.e., 92% of like-managers have higher fees). Since inception of the blended debt portfolio, LACERS has paid PGIM a total of $3.6 million in investment management fees as of August 31, 2023.

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Plan Impact Statement

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

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

NMG/RJ/WL/JP:rm

Attachment: 1. Consultant Recommendation – NEPC, LLC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: September 12, 2023

Subject: PGIM, Inc.

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract that is currently in place with PGIM, Inc. ('PGIM') for a period of three years from the date of contract expiry.

Background

PGIM was funded on February 12, 2021 to provide the Plan with exposure to emerging markets debt exposure within the Plan's Credit Opportunities asset class. As of June 30, 2023, PGIM managed $456.6 million, or 2.1% of Plan assets. The performance objective is to outperform the 50% JPM EMBI Global Diversified Index/ 50% JPM GBI-EM Global Diversified Index, net of fees, annualized over a full market cycle (normally three-to-five years). The account is currently in good standing based on LACERS' Manager Monitoring Policy.

Prudential Financial, Inc. ('PFI') traces its origins to 1875 with the founding of its insurance affiliate. PFI became a publicly-held company in December 2001. PFI of the United States is not affiliated in any manner with Prudential plc, a company incorporated in the United Kingdom. PGIM, Inc. ('PGIM') is the largest investment adviser within PFI. PGIM has been registered as an investment adviser with the U.S. Securities and Exchange Commission ('SEC') since December 1984. PGIM or one of its predecessors has been managing proprietary fixed income portfolios since 1875 and accounts for institutional clients since 1928.

As of June 30, 2023, the firm had $1.3 trillion in assets under management. PGIM Fixed Income had $775.9 billion in assets under management and over 1,100 employees. The team managing the LACERS portfolio is headed by Cathy Hepworth, Managing Director, Head of Emerging Markets Debt and is primarily located in Newark, New Jersey but does utilize teams located in emerging market offices around the globe. Ms. Hepworth is supported by portfolio managers covering major regions across the Latin America, Europe, Middle East, Africa, and Asia in addition to being supported by a global research team.

PGIM Fixed Income's investment approach seeks to add value primarily through research-based country allocation, security selection, foreign exchange, and, to a lesser extent, yield curve management. The Emerging Markets Team's duration management decisions are made on a country-by-country basis based on the outlook for central bank policy, inflation, and output gaps. It is also a function of PGIM's assessment of the global appetite for risk, which is step one of its investment process. Yield curve decisions are made with similar considerations. When PGIM interprets the global appetite for risk as a positive factor (i.e. global investors appear willing to assume more risk), the portfolio will tend to express this through slightly more aggressive yield curve positioning.

PGIM Fixed Income's Emerging Markets Debt investment philosophy is grounded in four beliefs. First, they believe that investors have an ever-changing risk appetite and believe that this is a primary contributor to both market opportunity and market volatility. Second, Country allocation is a primary determinant of emerging markets portfolio returns and therefore their investment process focuses on determining country views. The country decision process incorporates their global risk view along with an analysis of a country's foreign exchange, local bonds, and hard currency bonds from a fundamental, relative value, and technical perspective. The process relies on qualitative factors in their fundamental analysis, as they believe these are often the best predictors of performance. Third, security selection is a primary source of alpha generating opportunities and their process seeks the widest possible universe of security selection opportunities. PGIM analyzes sovereign issuers as well as "quasi-sovereign" issuers within the same country and evaluate opportunities in both hard currency and local currency bonds based on potential changes in policy rates and inflation. Corporate issuers are also evaluated. Fourth, risk budgeting provides a framework for investment decision-making and overall risk management. The firm relies on risk budgeting and risk management to provide a consistent and disciplined framework for all investment decisions. They develop a broad strategic risk budget for the portfolio that reflects long-term objectives and risk parameters, as well as a tactical risk budget that permits the portfolio to incorporate day-to-day views of market risk tolerances and opportunities within the broader strategic risk budget.

Performance

Referring to Exhibit 2, since March 1, 2021 (the first full month of performance after the account inception date of February 12, 2021), the PGIM portfolio has outperformed its index by 1.8%, returning -4.3%, net of fees, ended June 30, 2023. In the one-year period ended June 30, 2023, the portfolio outperformed the index by 1.5% returning 10.9%. Over a longer period of time, referencing the portfolio's composite data in Exhibit 1, since inception (December 1, 2007) of PGIM's emerging market debt blended product, the portfolio has outperformed 0.68% and over the last 10 years, the portfolio outperformed by 0.68%.

Referring to Exhibit 3, on a cumulative basis, the portfolio has added cumulative gains since inception by outperforming in both up markets and in down markets. Meaningful outperformance, since inception has been driven by being defensively positioned. An overweight position in hard currency sovereign bonds primarily added value, though exposures in local currency bonds and foreign exchange positions added to excess returns. The portfolio was focused on relative value positioning and with overweight in corporates as the main strategy for alpha.

Fees

The PGIM portfolio has an asset-based fee of 0.34% annually. The fee ranks in the 8th percentile among its peers in the eVestment Global Emerging Markets Fixed Income Blended Currency Universe. In other words, 92% of the products included in the peer universe have a higher fee than the LACERS account.

Conclusion

PGIM has outperformed its benchmark index since inception ended June 30, 2023. The firm's understandable research-driven approach to emerging market debt investing is supported by a large stable global team. NEPC recommends renewing the contract with PGIM for a period of three years.

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

Exhibit 1: PGIM Fixed Income Net of Fees Composite Performance Summary Ended June 30, 2023

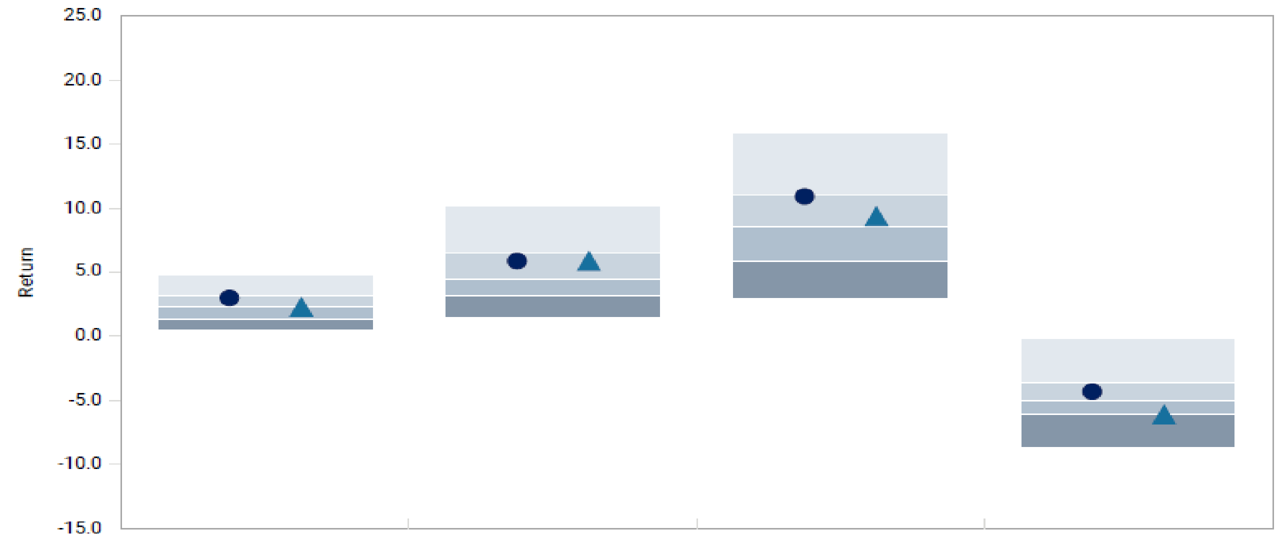
Product	Returns - QTD (06/2023)	Rank	Returns - 1 Year (06/2023)	Rank	Returns - 3 Years (06/2023)	Rank	Returns - 5 Years (06/2023)	Rank	Returns - 10 Years (06/2023)	Rank	Returns - Since Inception 15.58 Years 12/2007 - 06/2023	Rank
PGIM Fixed Income Emerging Markets Debt - Hard/Local Currency Blend	3.32	21	11.38	22	-0.45	37	1.18	45	1.86	62	3.95	54
JPM 50/50 Blend EMBI Glob Div & GBI EM Glob Div	2.35		9.41		-2.24		0.47		1.18		3.28	
Excess	*0.97*		*1.98*		*1.78*		*0.71*		*0.68*		*0.68*	

Source: eVestment

NEPC, LLC

Exhibit 2: Net of Fee Performance Summary Ended June 30, 2023

PGIM Blended vs. eV All Emg Mkts Fixed Inc

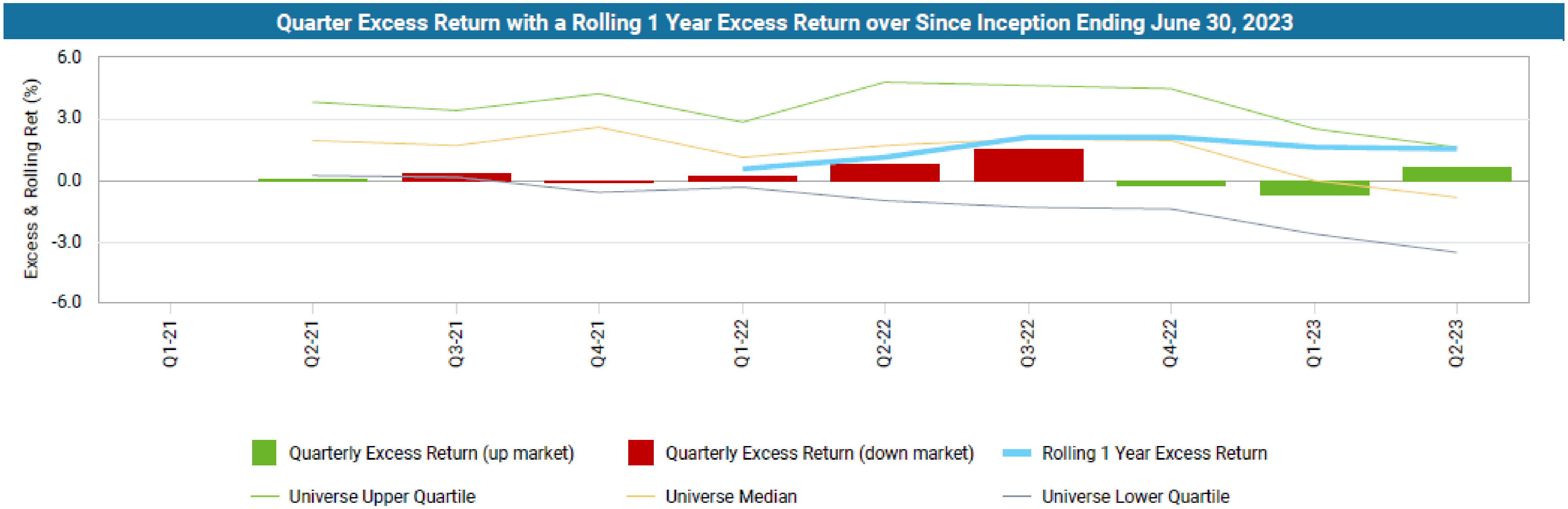


	3 Mo (%)	YTD (%)	1 Yr (%)	Inception (%)
● PGIM Blended	3.0 (30)	6.0 (33)	10.9 (28)	-4.3 (39)
▲ *50% JPM EMBI Global Diversified / 50% JPM GBI-EM Global Diversified*	*2.3 (49)*	*5.9 (33)*	*9.4 (42)*	*-6.1 (74)*
5th Percentile	4.9	10.2	15.8	-0.1
1st Quartile	3.2	6.6	11.1	-3.5
Median	2.3	4.4	8.5	-5.0
3rd Quartile	1.4	3.1	5.9	-6.1
95th Percentile	0.5	1.4	3.0	-8.6
Population	302	298	298	284

NEPC performance record starts from the first full month of performance.

NEPC, LLC

Exhibit 3: PGIM Blended Quarterly Excess Returns Ending June 30, 2023



LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: SEPTEMBER 12, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **PROXY VOTING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2022 TO JUNE 30, 2023**

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

Recommendation

That the Committee receive and file this report.

Executive Summary

This report summarizes LACERS' proxy votes cast for the period of July 1, 2022, to June 30, 2023.

Discussion

Institutional Shareholder Services Inc. (ISS), LACERS' proxy voting agent, voted a total of 11,843 proxy ballots for 10,394 U.S. and non-U.S. company meetings for the period of July 1, 2022, to June 30, 2023. These totals comprise 3,085 ballots for 2,025 U.S. company meetings and 8,758 ballots for 8,369 non-U.S. company meetings.

Staff confirmed that all votes cast were in accordance with the LACERS Proxy Voting Policy. However, 72 proxy ballots (0.60%) were missed for reasons provided in the table below:

Number of Missed Ballots	Explanation
30	No Power of Attorney (POA) on file at local sub-custodian
27	Ballots received after cutoff & meeting changes
2	Do Not Vote instructions
7	Voting requirement not met due to nationality
6	Miscellaneous
72	**Total missed ballots**

Of the 72 total missed ballots, 30 were missed due to POAs not being on file at the local sub-custodians in Sweden, Brazil, Hungary, Malta, Portugal, and Thailand. Staff has implemented a POA tracking system with Northern Trust, LACERS' custodian bank, in order to reduce the number of missed ballots. This process has led to a 75% drop in missed ballots due to no POAs (from 122 in FY 21-22 to 30 in FY 22-23).

Strategic Plan Impact Statement

The review of proxy voting information aligns with the Strategic Plan Goal to optimize long-term risk adjusted investment returns (Goal IV).

Prepared By: Ellen Chen, ESG Risk Officer, Investment Officer II, Investment Division

NMG/RJ/WL/EC:rm

REPORT TO INVESTMENT COMMITTEE **MEETING: SEPTEMBER 12, 2023**
From: Neil M. Guglielmo, General Manager **ITEM: VI**

SUBJECT: **PROPOSED INVESTMENT POLICY REGARDING PRIVATE CREDIT INVESTMENTS AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee consider and provide comments regarding the proposed Private Credit Investment Policy.

Discussion

The Board approved a new asset allocation on May 11, 2021, that expanded LACERS' exposure to private credit over time to a new target of 5.75% from 3.75%. The expansion of the private credit program, based on attractive expected return assumptions, called for increased exposure into higher yielding strategies such as opportunistic or distressed lending to achieve improved portfolio yield and resilience under a variety of market conditions. To assist with the development of this portfolio, the Board authorized a search for a private credit consultant which concluded with the selection of Aksia LLC (Aksia).

While LACERS' current investment policy (Policy) allows for investment in private credit funds, the Policy does not include a general framework for selecting, building, and managing LACERS' private credit investments. Consistent with industry best practices, Aksia recommends that the Policy include: investment objectives; scope; investment guidelines including eligible investments; requirements for diversification and leverage; and, roles and responsibilities of the Board, staff, and the consultant.

The attached proposed Policy includes a non-discretionary manager selection process. In addition, it includes key risk guidelines, including limits on exposure to a single manager and single fund, as well as limits on co-investment and secondary investment. It also addresses appropriate diversification of funds across vintage years, geographies, and industry sectors.

Additionally, Aksia recommends a modification of the Emerging Investment Manager Policy specific to private credit funds in order to ensure that LACERS is able to meet program goals. Based on a recent review of emerging manager funds, Aksia determined appropriate fund sizes under this policy to be $1 billion for Fund I, $1.5 billion for Fund II, and $2 billion for Fund III.

Strategic Plan Impact Statement
The Private Credit Investment Policy assists LACERS in building a diversified private credit portfolio to help the fund optimize long-term risk adjusted returns (Goal IV). Development of a detailed policy with key risk guidelines is also consistent with Goal V (uphold good governance which affirm transparency, accountability, and fiduciary duty.)

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

NMG/RJ/WL/RK:rm

Attachment: 1. Proposed Private Credit Investment Policy Statement (Redlined Version)
2. Proposed Private Credit Investment Policy Statement (Clean Version)

(2) No more than 40%, in aggregate, invested in securities of non-U.S. issuers.
(3) No more than 20% of the portfolio invested in loans or bonds that are not first lien secured debt and no more than 10% invested in non-secured debt.
(4) No more than 30% of the portfolio's holdings in loans or bonds with a Moody's issue rating of Caa1 or lower.
(5) No securities shall be purchased on margin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

~~*Direct Lending*~~

~~(1) Portfolio will consist of low-to-middle market (<$75 million EBITDA) senior secured or unitranche direct loans.~~

~~(2) At least 70% of the portfolio will be invested in senior secured loans.~~

~~(3) No more than 10% of the portfolio will be invested in unitranche loans.~~

Private Credit

This portfolio is expected to provide portfolio diversification and additional return to the System's portfolio. Examples of private credit holdings will include direct lending, specialty finance, distressed debt / special situations, mezzanine, real estate credit, and real assets credit. The Private Credit Investment Policy is within Section X of this document.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, distressed debt, and special situations funds. The Private Equity Investment Policy is within Section ~~X~~XI of this document.

D. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:

1. Real return above inflation of between 3% and 5%;

f) Maximum LACERS' Allocation: At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Real Assets (not including Real Estate), Credit Opportunities*

a) Institutional Fund: First-, second-, or third-time institutional fund for a General Partner.

b) Maximum Fund Size: A first-time institutional fund for private equity or venture capital may have investor commitments of no more than $750 million, $1 billion for a second-time institutional fund, and $1.25 billion for a third-time institutional fund. A first-time institutional fund for private credit may have investor commitments of no more than $1 billion, $1.5 billion for a second-time institutional fund, and $2.0 billion for a third-time institutional fund.

c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's committed capital.*

g) Minimum Fund Size: The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.* For a venture capital fund strategy, the Fund shall have a minimum fund size of $75 million in committed capital inclusive of LACERS' pending commitment.*

h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower.

**Excludes co-investments or sidecar investment vehicles.*

3. Private Market Asset Class – *Private Real Estate*

a) Institutional Fund: First-, second-, or third-time institutional fund for a given General Partner.

b) Maximum Fund Size: The institutional fund may have investor commitments of no more than $2 billion.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

X. PRIVATE CREDIT INVESTMENT POLICY

A. Introduction

This Private Credit Investment Policy ("Private Credit Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private credit, including direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private credit.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private credit portfolio ("Private Credit Portfolio") is 200 bps over the CS Leveraged Loan Total Return Index net of fees, expenses, and carried interest.

Returns are measured over the life of the portfolio and become meaningful for periods past the J-Curve. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private Credit investments are generally illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Credit Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Credit Consultant, with Staff concurrence, shall recommend new investments for approval by the Board, monitor and advise on the sale of existing Private Credit investments, and provide recommendations and program advice in accordance with the Private Credit Policy. The Private Credit Policy establishes the framework for the management of the Private Credit Portfolio. The Private Credit Consultant will be evaluated annually as consultant for the Private Credit Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private Credit asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected Private Credit related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

The Private Credit Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F. With Staff concurrence, recommended investments shall be presented to the Board for approval. Non-U.S. dollar commitments to private credit partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day the Board approves the investment. However, non-U.S. dollar commitments to private credit partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs),special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

a) Private credit partnerships – Investments in direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private credit or private equity fund in which the limited partner has also invested. Therefore, the Private Credit Consultant will monitor co-investments for concentration risk and recommend adjustments in the private credit portfolio as needed in order to adequately manage such risk. The Private Credit Consultant will address concentration risk in the Annual Private Credit Strategic Plan.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel), and break-up fees on potential co-investments. The estimated magnitude of these items shall be reasonable and consistent with industry standards.

c) Secondary market purchases – Purchases of private credit related interests inwhich one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on potential secondary transactions. The estimated magnitude of these items shall be reasonable and consistent with industry standards.

d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).

e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Credit Consultant.

2. **Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 15% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. This limitation shall not apply to specially constructed partnerships (such as a fund of one or two); or separately managed accounts (SMAs) where LACERS is the sole limited partner.

3. **Diversification**

LACERS will seek to appropriately diversify the Private Credit Portfolio in order to manage risk based on the following guidelines:

a) New commitments may not cause exposure to any one manager to be more than 30% of the Private Credit target allocation .

b) New commitments may not cause exposure to any single comingled fund to be more than 15% of the Private Credit target allocation.

c) Up to 25% of the Private Credit Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

d) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio across vintage years.

e) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio with respect to geographic distribution.

f) The Private Credit Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

In addition to the diversification criteria listed above, LACERS' Board will adopt optimal sub-asset allocation targets, which will be updated pursuant to the AnnualPrivate Credit Strategic Plan.

4. **Leverage**

LACERS may consider funds which utilize fund or strategy level leverage. As leverage is a significant risk factor, it must be considered as part of each investment and evaluated on a case-by-case basis.

5. **Illiquidity**

Private credit investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the general partner, subject to the provisions of the partnership agreement, decides to sell fund investments and distribute proceeds to limited partners.

6. **Distributions**

Staff is responsible for managing the final disposition of distributions from partnerships.

E. **Review of Investment Guidelines**

The Private Credit Consultant and Staff periodically will review the above private credit investment guidelines at least once every three years and recommend changes if necessary.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Credit Consultant. • Approve asset class funding level. • Review and approve the Private Credit Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Credit 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 Credit Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Credit Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private credit fund investment(s). • 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 CREDIT INVESTMENT POLICY

Investment Selection	• Review investment analysis reports. • Review and approve investments in new partnerships. • Review and approve direct co-investment opportunities. • Review and approve the sale of existing partnership fund on the secondary market. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Credit 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 Credit Consultant, make recommendations to Board for approval. • 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. • Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market. 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.

XI. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

This Private Equity Investment Policy ("Private Equity Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private equity, including corporate finance/buyout, special situations (including, distressed ~~debt, distressed~~and turnaround ~~and mezzanine~~ strategies), venture capital and growth equity, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private equity.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private equity portfolio ("Private Equity Portfolio") is to outperform the Cambridge Associates Global Private Equity and Venture Capital Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section ~~X~~XI.D.3 below) and due diligence.

C. Scope

The Private Equity Consultant, with Staff concurrence, shall select new investments, monitor and advise on the sale of existing private equity investments, and provide recommendations and program advice in accordance with the Private Equity Policy. The Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff ("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on

(2) No more than 40%, in aggregate, invested in securities of non-U.S. issuers.
(3) No more than 20% of the portfolio invested in loans or bonds that are not first lien secured debt and no more than 10% invested in non-secured debt.
(4) No more than 30% of the portfolio's holdings in loans or bonds with a Moody's issue rating of Caa1 or lower.
(5) No securities shall be purchased on margin or sold short.

Emerging Markets Debt Bonds

(1) The total portfolio's average rating will be BBB/Baa or better by Moody's or Standard & Poor's.

(2) No more than 5% of any single portfolio will be invested in any one issuer, with the exception of U.S. Treasury or Federal Agency issues.

(3) No more than 30%, in aggregate, invested in out of benchmark securities.

(4) No more than 10%, in aggregate, invested in U.S. and non-U.S. developed markets bonds

(5) No securities shall be purchased on margin or sold short.

Private Credit

This portfolio is expected to provide portfolio diversification and additional return to the System's portfolio. Examples of private credit holdings will include direct lending, specialty finance, distressed debt / special situations, mezzanine, real estate credit, and real assets credit. The Private Credit Investment Policy is within Section X of this document.

C. **Private Equity**

This portfolio is expected to provide portfolio diversification and additional return to the System's public markets portfolio. Examples of private equity holdings will include venture capital, leveraged buyouts, distressed debt, and special situations funds. The Private Equity Investment Policy is within Section XI of this document.

D. **Real Assets**

The objective of the asset class is to provide one or more of the following contributions over the long term (i.e., market cycle or longer) to the LACERS total investment program:
1. Real return above inflation of between 3% and 5%;
2. Inflation hedge;
3. Diversification versus LACERS' two main asset classes: equities and bonds; and,
4. Income

f) Maximum LACERS' Allocation: At the time of hire, funding in the investment strategy shall not exceed 20% of the total strategy AUM at the time of actual funding.

2. Private Market Asset Classes – *Private Equity, Real Assets (not including Real Estate), Credit Opportunities*

a) Institutional Fund: First-, second-, or third-time institutional fund for a General Partner.

b) Maximum Fund Size: A first-time institutional fund for private equity or venture capital may have investor commitments of no more than $750 million, $1 billion for a second-time institutional fund, and $1.25 billion for a third-time institutional fund. A first-time institutional fund for private credit may have investor commitments of no more than $1 billion, $1.5 billion for a second-time institutional fund, and $2.0 billion for a third-time institutional fund.

c) Formation Date: The firm, if formed as a result of an organizational spin-out of at least a majority of the key investment team senior-level professionals, must have been in existence for a minimum of six months based on the entity's legal formation documents; otherwise the firm must have been in existence for a minimum of one year based on the entity's legal formation documents.

d) Track Record: The firm must have a minimum track record of five years. Any firm with a track record of less than five years may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the strategy being considered.

e) Firm Ownership: No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.

f) LP Concentration: No Limited Partner can represent more than 30% of the total Fund's committed capital.*

g) Minimum Fund Size: The Fund shall have a minimum fund size of $100 million in committed capital inclusive of LACERS' pending commitment.* For a venture capital fund strategy, the Fund shall have a minimum fund size of $75 million in committed capital inclusive of LACERS' pending commitment.*

h) Maximum LACERS' Commitment: LACERS' commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower.

**Excludes co-investments or sidecar investment vehicles.*

3. Private Market Asset Class – *Private Real Estate*

a) Institutional Fund: First-, second-, or third-time institutional fund for a given General Partner.

b) Maximum Fund Size: The institutional fund may have investor commitments of no more than $2 billion.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

X. PRIVATE CREDIT INVESTMENT POLICY

A. Introduction

This Private Credit Investment Policy ("Private Credit Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private credit, including direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private credit.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private credit portfolio ("Private Credit Portfolio") is 200 bps over the CS Leveraged Loan Total Return Index net of fees, expenses, and carried interest.

Returns are measured over the life of the portfolio and become meaningful for periods past the J-Curve. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private Credit investments are generally illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Credit Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section X.D.3 below) and due diligence.

C. Scope

The Private Credit Consultant, with Staff concurrence, shall recommend new investments for approval by the Board, monitor and advise on the sale of existing Private Credit investments, and provide recommendations and program advice in accordance with the Private Credit Policy. The Private Credit Policy establishes the framework for the management of the Private Credit Portfolio. The Private Credit Consultant will be evaluated annually as consultant for the Private Credit Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private Credit asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on selected Private Credit related topics; identifying and mitigating risks; and proactively informing Staff of new investment opportunities or risks in the marketplace.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

The Private Credit Consultant will evaluate and recommend investment transactions pursuant to the roles and responsibilities defined in Section X.F. With Staff concurrence, recommended investments shall be presented to the Board for approval. Non-U.S. dollar commitments to private credit partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day the Board approves the investment. However, non-U.S. dollar commitments to private credit partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and require no further Board approval.

D. **Investment Guidelines**

1. **Eligible Investments**

LACERS will invest in limited partnership interests of pooled vehicles as well as separate accounts, funds of one (or similar structures together with a limited number of other LPs),special purpose vehicles (SPVs), and other investment structures such as limited liability companies, investment trusts, separate accounts, and other corporate structures (unless otherwise stated in this Policy) covering the broad spectrum of private investments as follows:

a) Private credit partnerships – Investments in direct lending, specialty finance, distressed debt and special situations (including distressed debt and mezzanine strategies), real estate credit, real assets credit, co-investments, secondary market transactions;

b) Direct co-investments – Investments made alongside general partners directly in underlying assets and securities, usually with discounted management fees and carried interest. Co-investments may be structured as securities held directly by LACERS ("direct co-investments") or as an interest in a vehicle managed by a General Partner that invests in such underlying assets and securities.

Direct co-investments shall be made on the same or better terms as provided to the Limited Partnership that is investing in the same transaction.

Co-investing can increase concentration risk because the company in which the limited partner is investing directly may also be a company held in a private credit or private equity fund in which the limited partner has also invested. Therefore, the Private Credit Consultant will monitor co-investments for concentration risk and recommend adjustments in the private credit portfolio as needed in order to adequately manage such risk. The Private Credit Consultant will address concentration risk in the Annual Private Credit Strategic Plan.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel), and break-up fees on potential co-investments. The estimated magnitude of these items shall be reasonable and consistent with industry standards.

c) Secondary market purchases – Purchases of private credit related interests inwhich one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on potential secondary transactions. The estimated magnitude of these items shall be reasonable and consistent with industry standards.

d) LACERS will also consider sales of partnership fund interests on the secondary market or to other limited partner(s) or potential buyer(s).

e) Other privately structured investments deemed appropriate within LACERS' risk profile as determined by the Private Credit Consultant.

2. **Limitation on Percent of Partnership's Total Commitment**

LACERS' commitment to any given partnership shall not exceed 15% of total commitments (by all limited partners and any other investors including the GP, excluding any co-investments) in that partnership. This limitation shall not apply to specially constructed partnerships (such as a fund of one or two); or separately managed accounts (SMAs) where LACERS is the sole limited partner.

3. **Diversification**

LACERS will seek to appropriately diversify the Private Credit Portfolio in order to manage risk based on the following guidelines:

a) New commitments may not cause exposure to any one manager to be more than 30% of the Private Credit target allocation .

b) New commitments may not cause exposure to any single comingled fund to be more than 15% of the Private Credit target allocation.

c) Up to 25% of the Private Credit Portfolio's total exposure (fair market value plus unfunded commitments) may consist of co-investments and secondary opportunities.

d) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio across vintage years.

e) The Private Credit Consultant with oversight from Staff shall appropriately diversify the Portfolio with respect to geographic distribution.

f) The Private Credit Consultant shall monitor Portfolio investments with respect to GICS industry sector exposure with the understanding that industry sector exposure at an investment fund level will be managed at the discretion of the general partner.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

In addition to the diversification criteria listed above, LACERS' Board will adopt optimal sub-asset allocation targets, which will be updated pursuant to the AnnualPrivate Credit Strategic Plan.

4. **Leverage**

LACERS may consider funds which utilize fund or strategy level leverage. As leverage is a significant risk factor, it must be considered as part of each investment and evaluated on a case-by-case basis.

5. **Illiquidity**

Private credit investments are not designed to meet the short-term liquidity needs of LACERS. The investments in this asset class are illiquid until the general partner, subject to the provisions of the partnership agreement, decides to sell fund investments and distribute proceeds to limited partners.

6. **Distributions**

Staff is responsible for managing the final disposition of distributions from partnerships.

E. **Review of Investment Guidelines**

The Private Credit Consultant and Staff periodically will review the above private credit investment guidelines at least once every three years and recommend changes if necessary.

Section 5 PRIVATE CREDIT INVESTMENT POLICY

F. Roles and Responsibilities

	Role of the Board	Role of Staff	Role of the Private Equity Consultant
Strategy/Policy	• Select Private Credit Consultant. • Approve asset class funding level. • Review and approve the Private Credit Annual Strategic Plan which includes allocation targets and ranges.	• In consultation with Private Credit 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 Credit Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Credit Consultant's recommendations on partnership amendments and consents. • Execute partnership amendments and consents. • Manage and approve the wind-down and/or dissolve private credit fund investment(s). • 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 CREDIT INVESTMENT POLICY

Investment Selection	• Review investment analysis reports. • Review and approve investments in new partnerships. • Review and approve direct co-investment opportunities. • Review and approve the sale of existing partnership fund on the secondary market. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure.	• Refer investments and forward to Private Credit 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 Credit Consultant, make recommendations to Board for approval. • 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. • Present to Staff recommendations pertaining to the sale of existing partnership funds on the secondary market. 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.

XI. PRIVATE EQUITY INVESTMENT POLICY

A. Introduction

This Private Equity Investment Policy ("Private Equity Policy") sets forth guidelines that provide a general framework for selecting, building, and managing LACERS' investments in private equity, including corporate finance/buyout, special situations (including, distressed and turnaround strategies), venture capital and growth equity, co-investments, secondary market transactions, and other privately structured investments with the return and risk characteristics of private equity.

B. Investment Objectives

1. Return

On a relative basis, the return objective for the LACERS' private equity portfolio ("Private Equity Portfolio") is to outperform the Cambridge Associates Global Private Equity and Venture Capital Index net of fees, expenses, and carried interest.

Returns are measured over the life of the partnership and become meaningful for periods past the J-Curve. The valuation methodology used by general partners should conform to industry and regulatory standards. Performance will be measured using standard industry metrics such as IRR (internal rate of return), TVPI (total value to paid in capital), and MOIC (multiple on invested capital.) Additionally, the IRR performance in the first few years of a partnership's life may be negative due to the J-curve effect.

2. Risk

Private equity investments are illiquid and have a long-term holding period. When invested alongside publicly traded assets, the asset class increases diversification and reduces risk at the System level. Nonetheless, LACERS expects that the Private Equity Consultant will take all appropriate measures to assume risks that are sufficiently compensated by expected return. Such measures include, but are not limited to, diversification (as detailed in Section XI.D.3 below) and due diligence.

C. Scope

The Private Equity Consultant, with Staff concurrence, shall select new investments, monitor and advise on the sale of existing private equity investments, and provide recommendations and program advice in accordance with the Private Equity Policy. The Private Equity Policy establishes the framework for the management of the Private Equity Portfolio. The Private Equity Consultant will be evaluated annually as consultant and investment manager for the Private Equity Portfolio based upon the following factors: portfolio performance; quality of analytical and technical work; expertise in the private equity asset class; responsiveness to requests from the LACERS Board of Administration ("Board") and LACERS Investment Staff ("Staff"); availability to attend Board meetings and meetings with Staff with reasonable advance notice; consulting and advising on LACERS' portfolio, including information on