LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, DECEMBER 10, 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:	Thuy Huynh 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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Si requiere servicios de traducción, llámenos tres días (72 horas) antes de la reunión o evento al (800) 779-8328.

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

CLICK HERE TO ACCESS BOARD REPORTS

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

II. APPROVAL OF MINUTES FOR THE MEETING OF OCTOBER 8, 2024 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

IV. PRESENTATION BY AKSIA LLC OF THE PRIVATE EQUITY PROGRAM 2025 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

V. INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION

VI. BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2023 TO JUNE 30, 2024

VII. OTHER BUSINESS

VIII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, January 14, 2025, 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

Board of Administration Agenda

SPECIAL MEETING

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President: Annie Chao
Vice President: Janna Sidley

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

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

Legal Counsel: City Attorney's Office
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IX. ADJOURNMENT

Agenda of:	**<u>Dec. 10, 2024</u>**
Item No:	**<u>II</u>**

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

October 8, 2024

11:35 a.m.

PRESENT:	Chair:	Elizabeth Lee
	Committee:	Thuy T. Huynh 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.

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 were no public comment cards submitted.

II

APPROVAL OF MINUTES FOR THE MEETING OF SEPTEMBER 10, 2024 AND POSSIBLE COMMITTEE ACTION – Committee Member Huynh moved approval, and adopted by the following vote: Ayes, Committee Members Huynh, Roten, and Chair Lee-3; Nays, None.

III

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

- Distribution of the IC Forward Calendar

IV

PRESENTATION BY NORTHERN TRUST REGARDING SECURITIES LENDING ACTIVITY REPORT FOR THE PERIOD JULY 1, 2023 TO JUNE 30, 2024 – Enayet Mawla, Senior Relationship Manager, and Brad Pedersen, Vice President, with The Northern Trust Company, presented and discussed this item with the Committee for 37 minutes.

Chair Lee recessed the Regular meeting at 12:03 p.m. to convene in Closed Session.

V

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 REGARDING CONTINUED DISCUSSION TO CONSIDER A COMMITMENT IN ARC CAPITAL PARTNERS FUND I LP AND POSSIBLE COMMITTEE ACTION

Chair Lee reconvened the Regular meeting at 12:35 p.m.

VI

OTHER BUSINESS – There was no other business.

VII

NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, November 12, 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 – There being no further business before the Chair Lee, adjourned the meeting at 12:36 p.m.

Elizabeth Lee
Chair

Todd Bouey
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE | **MEETING: DECEMBER 10, 2024**
From: Neil M. Guglielmo, General Manager | **ITEM: IV**

SUBJECT: **PRESENTATION BY AKSIA LLC OF THE PRIVATE EQUITY PROGRAM 2025 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee recommend to the Board the adoption of the Private Equity Program 2025 Strategic Plan.

Discussion

Aksia LLC (Aksia), LACERS' Private Equity Consultant, with input from staff, has developed the proposed Private Equity Program 2025 Strategic Plan, which considers strategic objectives and investment plan recommendations for calendar year 2025. Staff has reviewed the plan and recommends its adoption. Aksia will present the proposed plan.

Prepared by: Eduardo Park, Investment Officer II, Investment Division

NMG/RJ/WL/EC/EP:rm

Attachment: 1. LACERS Private Equity Program 2025 Strategic Plan – Aksia LLC

Aksia LLC

LACERS Private Equity Program
2025 Strategic Plan
December 2024

New York • London • Tokyo

www.aksia.com

Aksia

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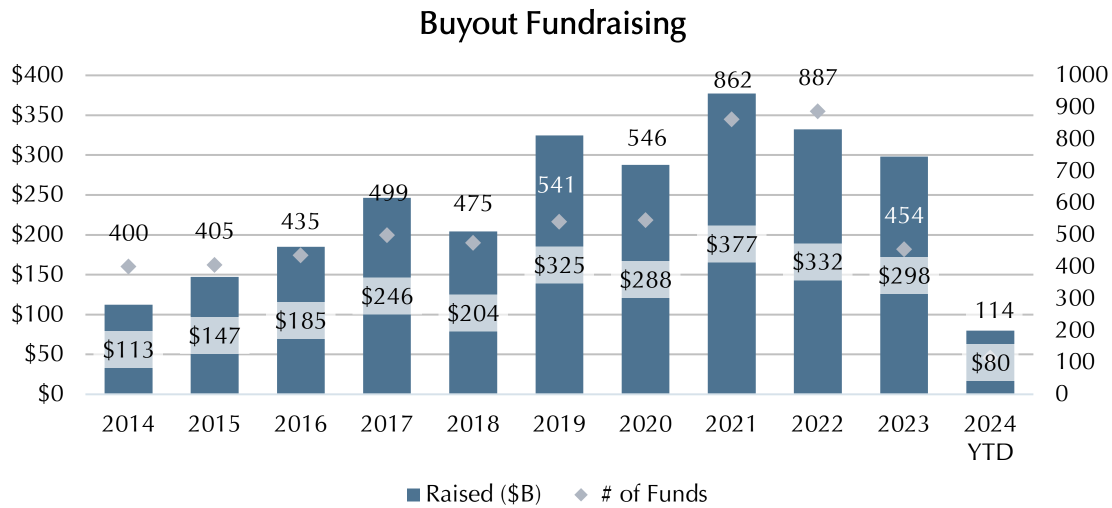
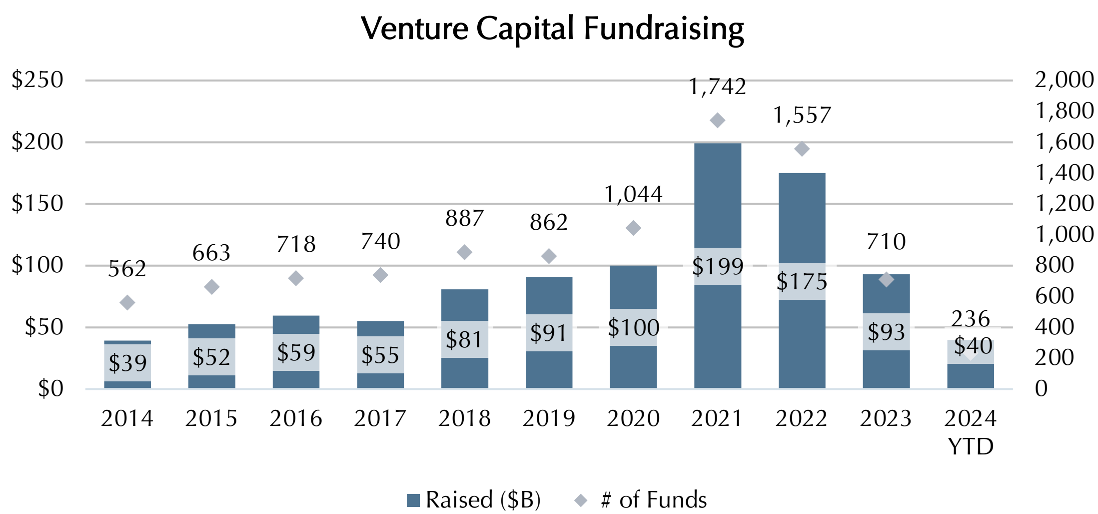
LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

Fundraising Activity – North America

- While 2024 continues to be a tough fundraising environment, we have witnessed seeded portfolios with early mark-ups and co-investment staples help GPs with fundraising momentum.
- In contrast to middle or lower tier managers, top performing managers continue to move through the market quickly, generally hitting their target / hard caps in one or two closes.



- VC fundraising remained slow during the first half of 2024 and is on pace for another year-over-year decline.



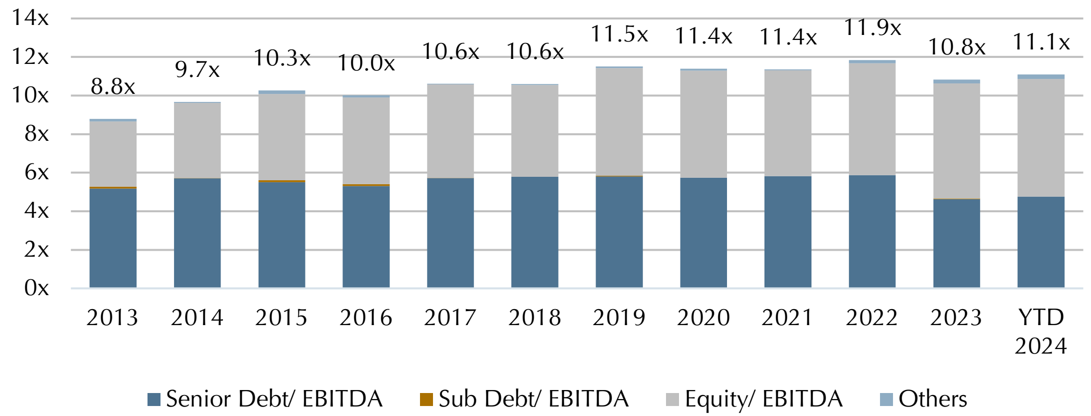
Source: Pitchbook, as of June 30, 2024. Data has not been reviewed by Pitchbook analysts. The above represents Aksia's market observations. Observations are subject to change.

LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

Investment Activity – North America

- The decline in private market valuation multiples appears to have bottomed out in 2023 as we have witnessed a slight increase in YTD 2024.
- Anecdotally, managers have indicated the bid-ask spread for assets is narrowing; however, high quality companies continue to trade at a premium.

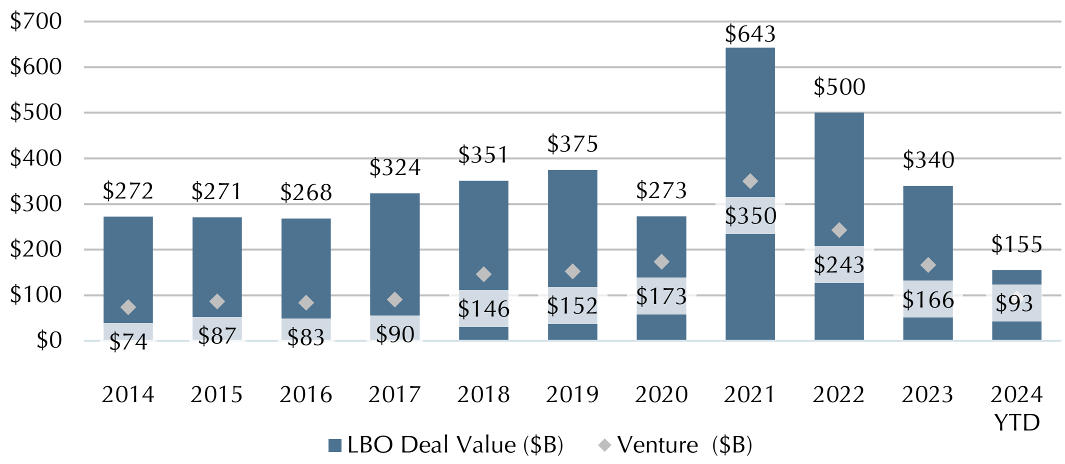
LBO Sources of Proceeds/EBITDA & Equity Contribution: All Loans



Source: Leveraged Commentary & Data (LCD), Pitchbook as of June 30, 2024

- While still muted compared to the past three years, VC investment activity has picked up in the second quarter. Managers remain optimistic that investment activity will continue to accelerate in 2024 and into 2025.

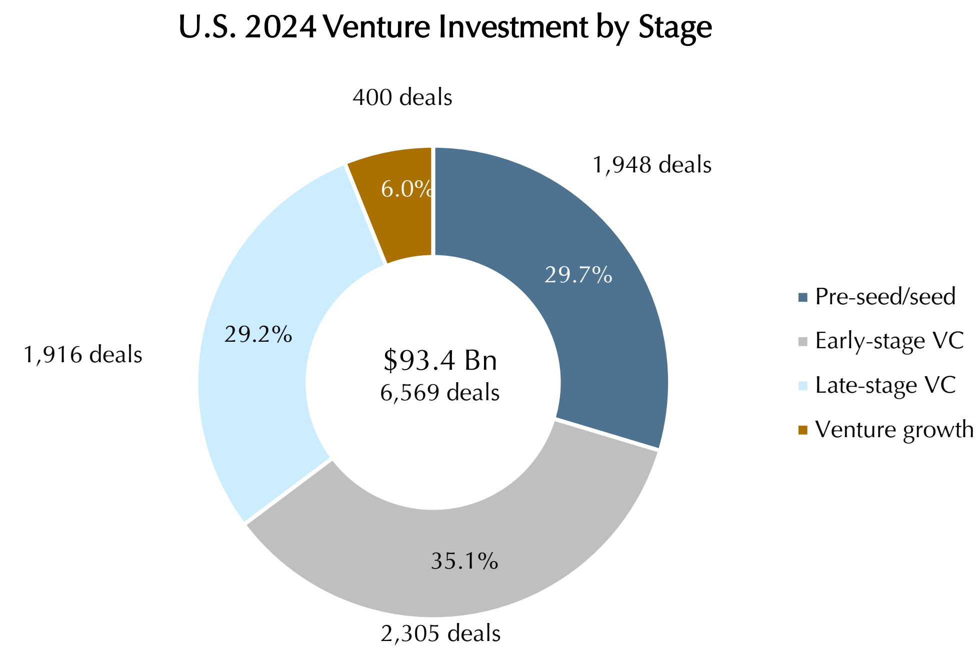
U.S. LBO & VC Investment Activity



Source: Pitchbook & National Venture Capital Association, as of June 30, 2024. Data has not been reviewed by Pitchbook analysts. The above represents Aksia's market observations. Observations are subject to change.

LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

Investment Activity – U.S.

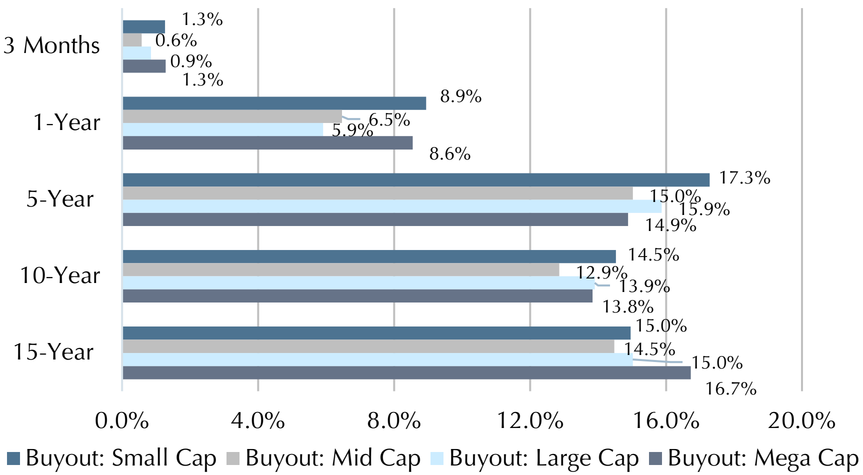


- VC deal activity during the first half of 2024 increased relative to the same time period in 2023 ($85.6 bn invested into 6,514 deals). This indicates a partial rebound in the VC market despite the slower fundraising momentum.

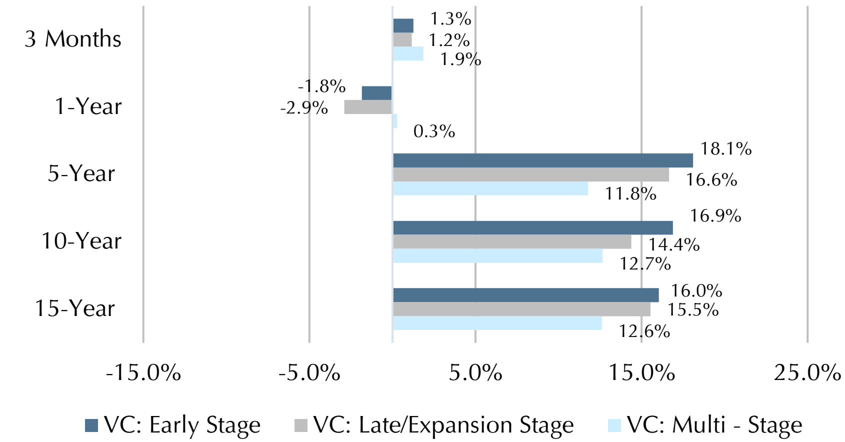
Source: Pitchbook & National Venture Capital Association, as of June 30, 2024. Data has not been reviewed by Pitchbook analysts. The above represents Aksia's market observations. Observations are subject to change.

Global Market Performance

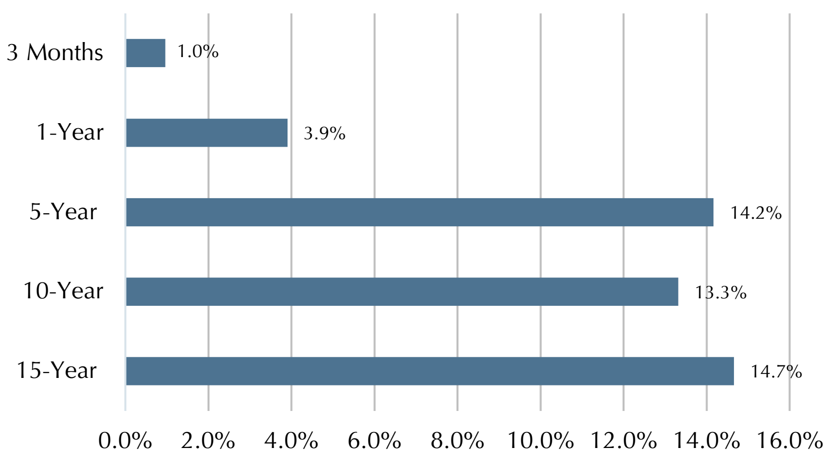
Buyout Returns



Venture Capital Returns



Growth Equity Returns

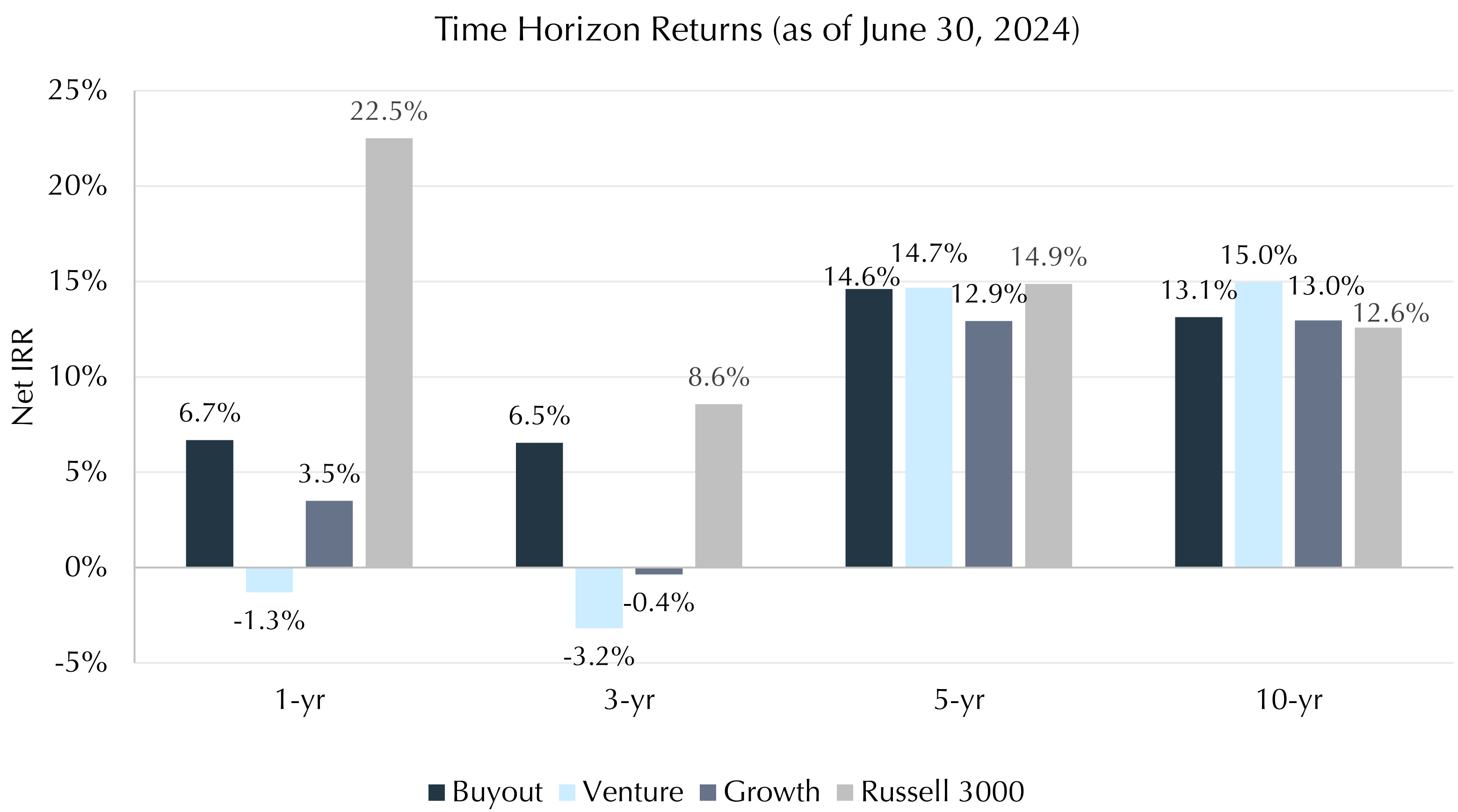


- Buyout returns continue to deliver positive performance across all time horizons and sizes, with small cap buyouts generating the strongest performance in most time periods.
- Despite broader macro headwinds and a "higher-for-longer" environment, buyouts have outperformed VC and growth equity returns over the last 12 months.
- VC performance was positive over the last quarter, with multi-stage funds outperforming both early- and late-stage VC managers on a relative basis.
- Recent growth equity returns have been positive and outperformed VC returns over the last 12 months.

Source: Cambridge Associates via Refinitiv, as of March 31, 2024. Past performance is not indicative of future results. The above represents Aksia's market observations. Observations are subject to change.

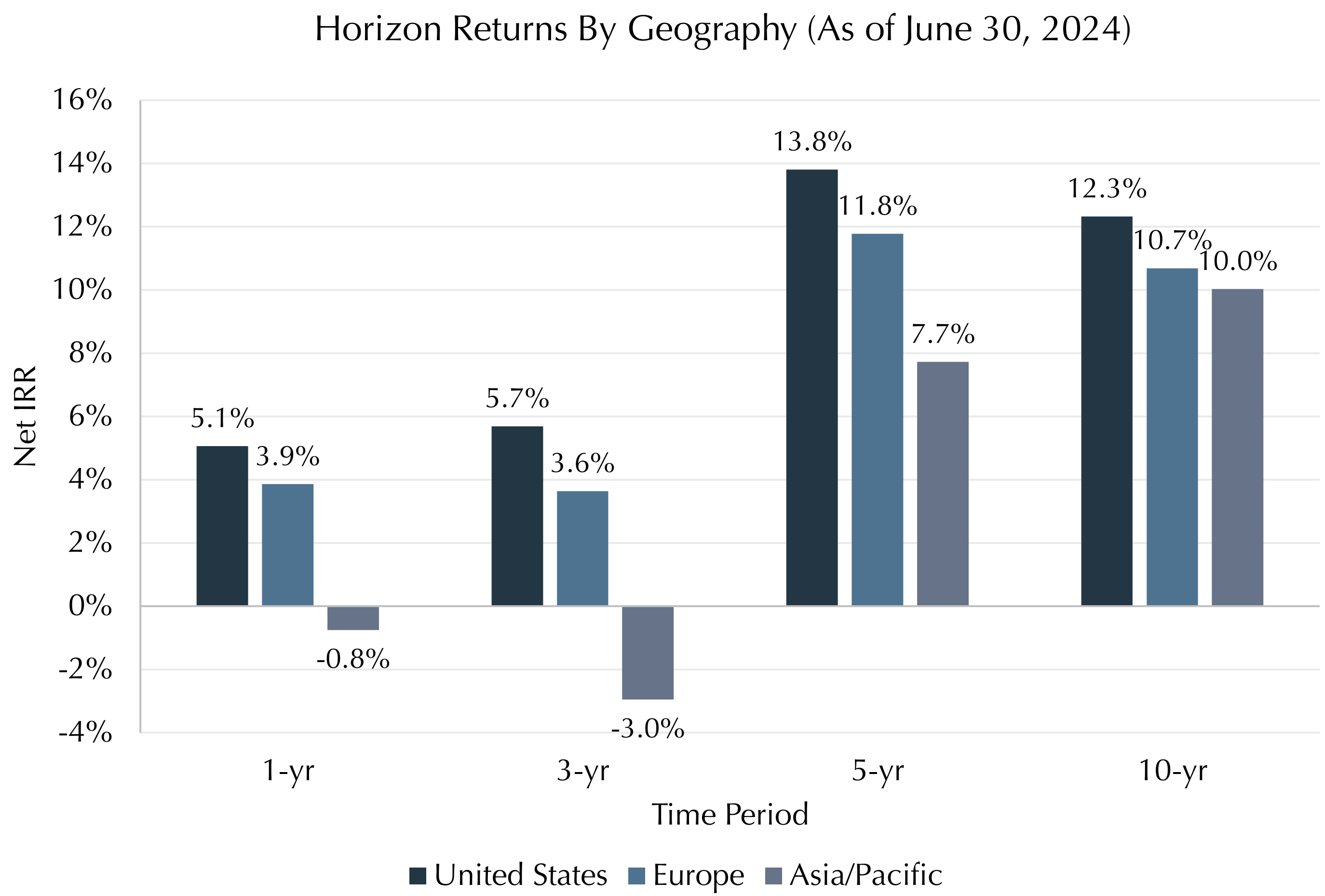
Private Equity Industry Returns Relative to Public Markets

- Venture has outperformed buyouts and public equity in 5Y and 10Y periods
- All private equity strategies underperformed vs. the Russell 3000 over shorter time horizons



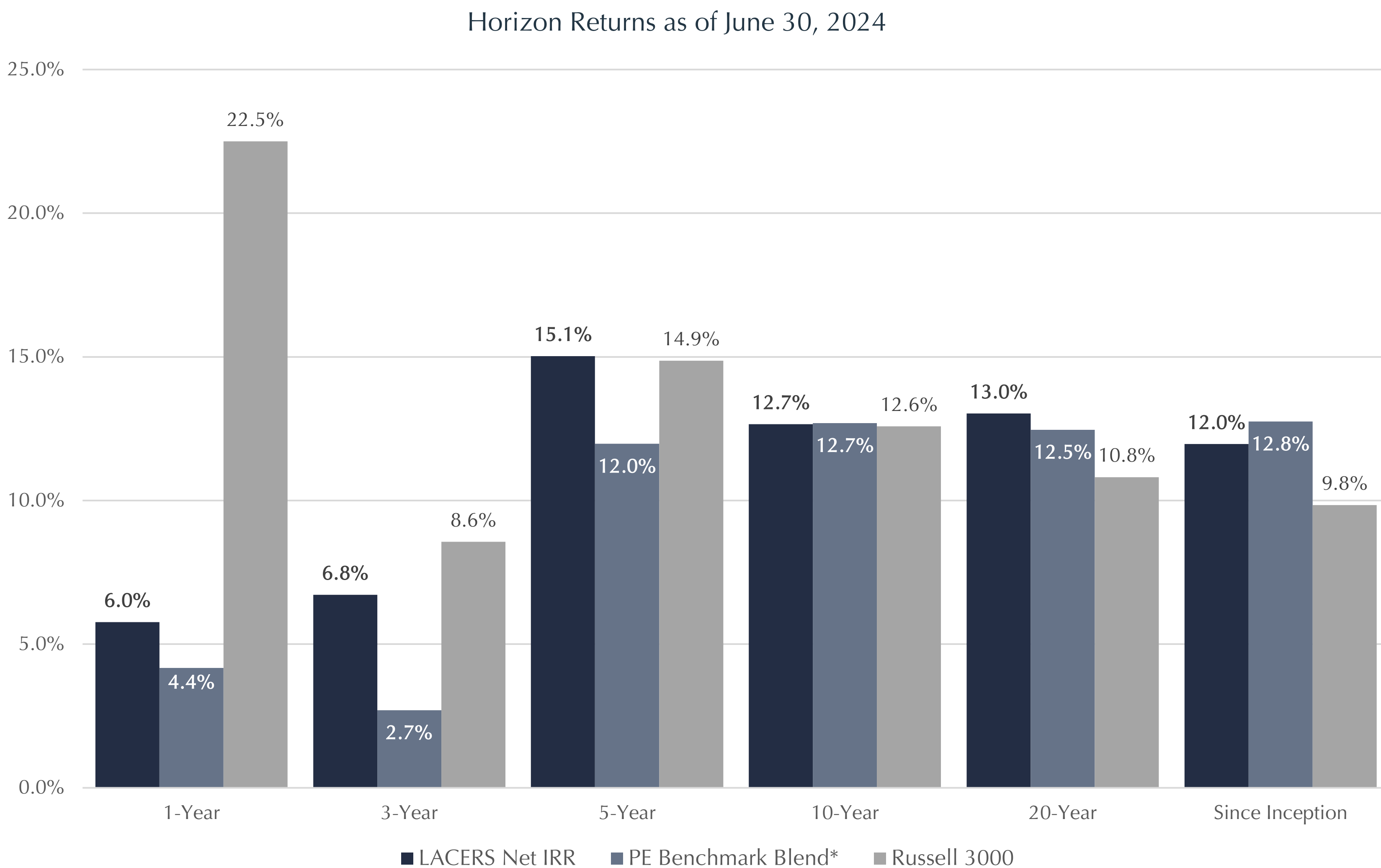
Source: Cambridge Associates preliminary data as of June 2024.

- U.S. Private Equity outperformed both Europe and Asia/Pacific private equity across all time periods as of June 30, 2024
- While risk varies by specific geography, broadly speaking, Europe and Asia/Pacific appear to offer commensurate returns with the U.S. when looking at longer-term returns (i.e. 10-year)
- International exposure can improve diversity in LACERS' PE portfolio without sacrificing risk adjusted returns



Source: Cambridge Associates preliminary data as of June 2024.

LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN



* PE Benchmark Blend includes the Russell 3000 Index + 400bps (inception – January 31, 2012), the Russell 3000 Index + 300bps (February 1, 2012 – December 31, 2021), and the Cambridge Associates Global PE and VC Index beginning January 1, 2022.

2024 Strategic Plan - Refresher

- **Initial Pacing Recommendations**
  - Commitment plan of up to $750 - $850 million proposed for 2024
  - Commitments in 10-15 firms with a target size of $40-$75 million per commitment / relationship
    - Includes 3-5 investments to various Emerging Managers, achieving no less than 10% of the total commitments, subject to the LACERS Emerging Investment Manager Policy.

- **Long-Term Investment Recommendations**
  - Implementation of a co-investment program – both from an investment and policy perspective
  - Develop a framework for a potential secondary sale – both from an investment and policy perspective

- **Tactical Investment Recommendations**
  - Selectively add exposure internationally – primarily to Europe and Developed Asia
  - Increase exposure to Buyouts relative to other sub-asset classes
  - Consolidate commitments with top performing managers
  - Continue to manage underlying sector exposures
  - Add exposure to strategies designed to outperform in down markets – i.e. Value-Oriented Managers, Turnaround Managers, Distressed Managers

Commitment Statistics

- **2024 Summary Statistics**

- $662.2 million in total commitments through September 30, 2024
- Annual target is $750 million - $850 million per 2024 Strategic Plan

- Geographic Breakdown of ITD Commitments
  - 74.9% to North American-focused funds
  - 12.0% to European-focused funds
  - 10.1% to Globally-focused funds
  - 3.0% to Asia Pacific-focused funds

Data as of June 2024

- Sector Breakdown of ITD Commitments
  - 58.2% to Buyout funds
  - 24.2% to Venture and Growth Equity funds
  - 17.6% to Credit/Distressed funds, Real Asset funds, Secondaries, and Fund of Funds

Data as of June 2024

Aggregate Portfolio Summary As Of June 30, 2024

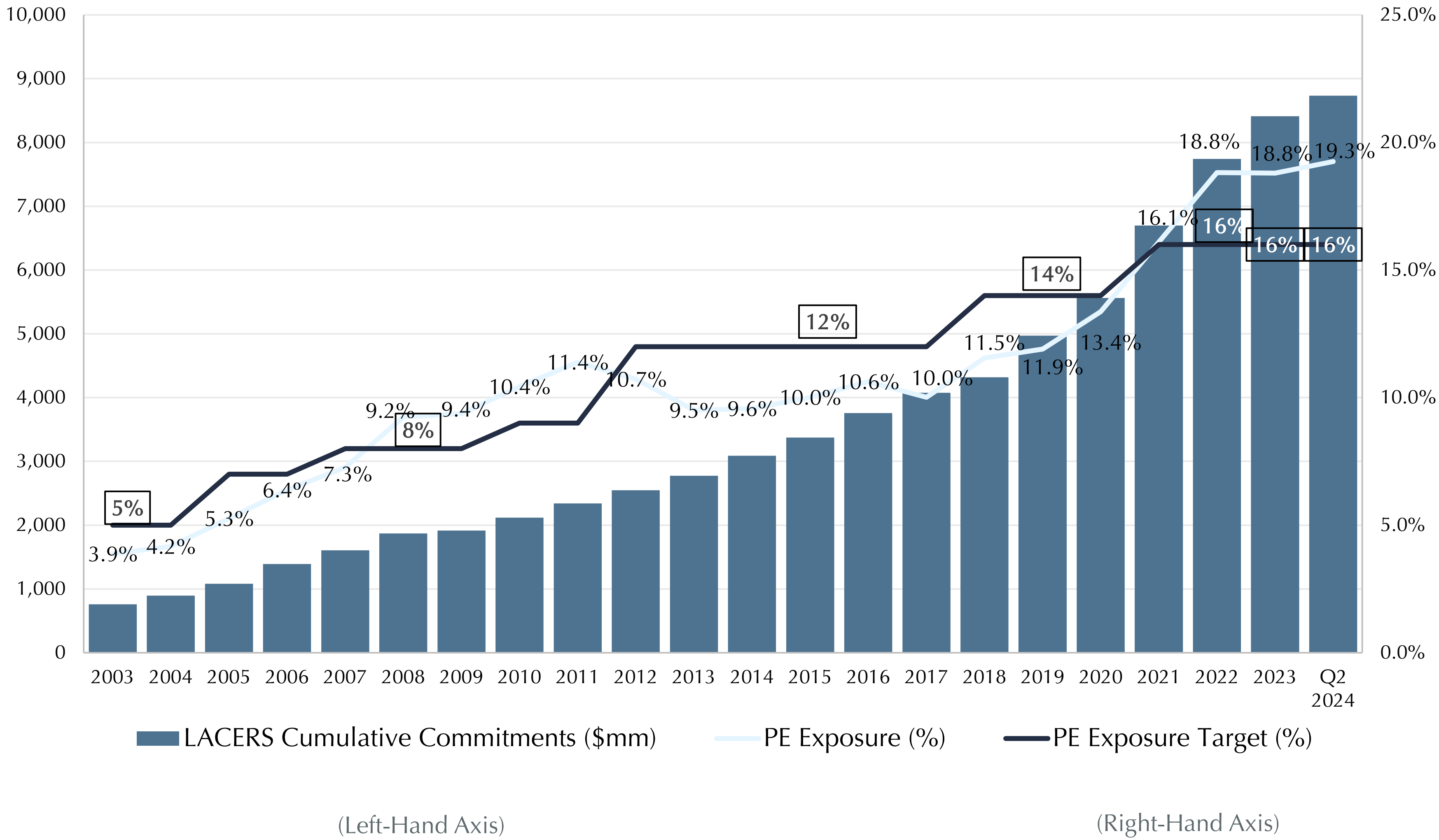
- As of June 30, 2024 the aggregate portfolio's fair market value of $4.5 billion represents 19.3% of Total Plan Assets

Aggregate Portfolio Private Equity Exposure Summary	
Total Plan Market Value	$23.1bn
Private Equity Exposure Target (%)	16.0%
Private Equity Exposure Target ($)	$3.7bn
Private Equity Exposure (%)	19.3%
Fair Market Value ("FMV")	$4.5bn

- As of June 30, 2024, total plan assets increased year-over-year by ~6.9% to ~$23.1 billion. This translates to private equity exposure of ~19.3% (based on private equity fair market value as of 06/30/24)
- Public equity markets and total plan assets continued to rise in 2024. However, there have been slower exits and capital distributions in private markets, leading to private equity exposure being above the target allocation. 2025 commitment pacing is targeting between $600mm and $700mm.

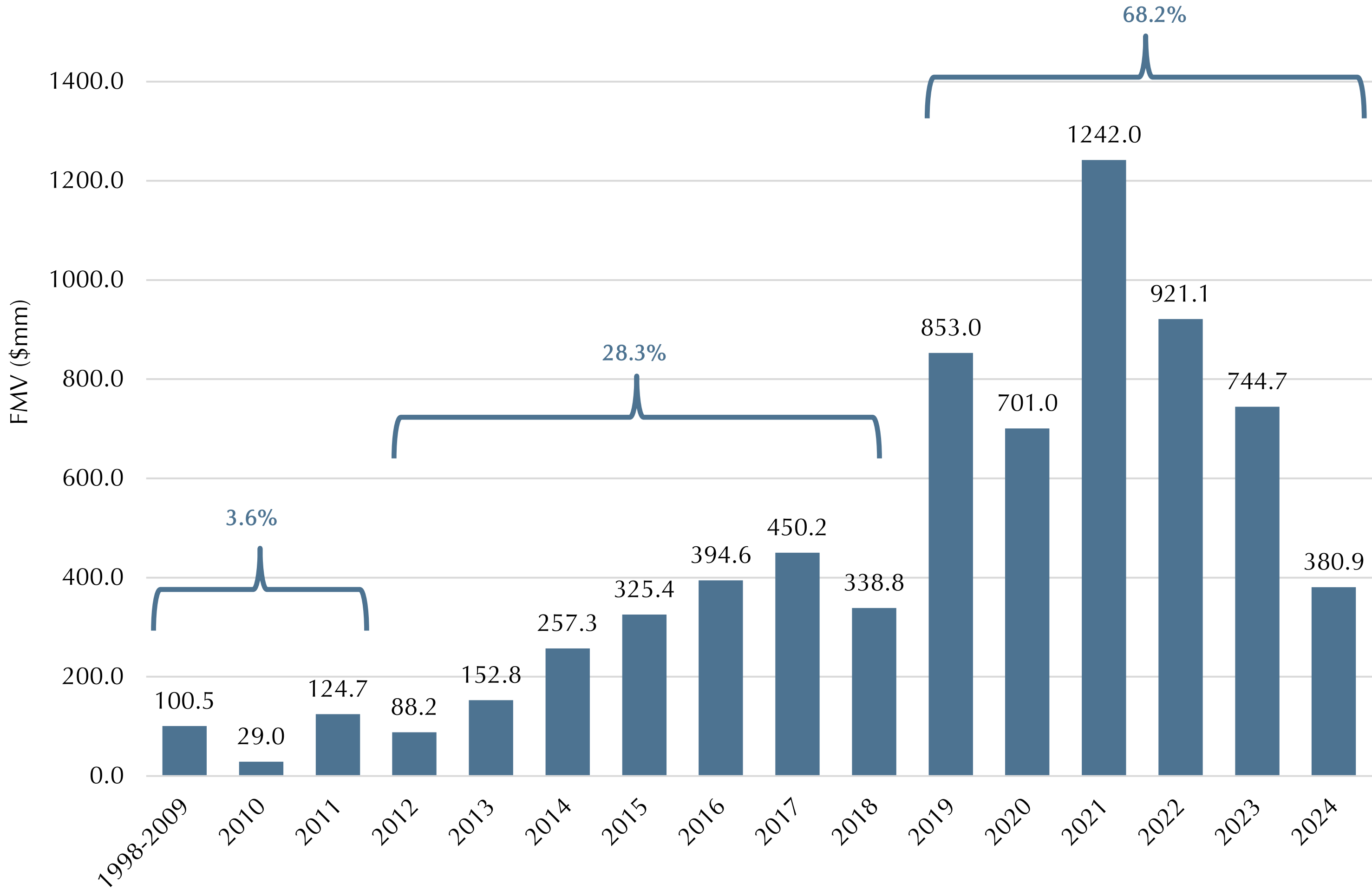
LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

- Since inception (1995), LACERS has committed approximately $8.7 billion to private equity
- Target exposure to private equity is 16.0%



LACERS Private Equity Program - Fair Market Value By Vintage Year

- Legacy exposure (1998 – 2011) accounts for ~3.6% of LACERS total private equity exposure
- The bulk of LACERS current private equity exposure (68.2%) is from funds with vintage years from 2019 – 2024

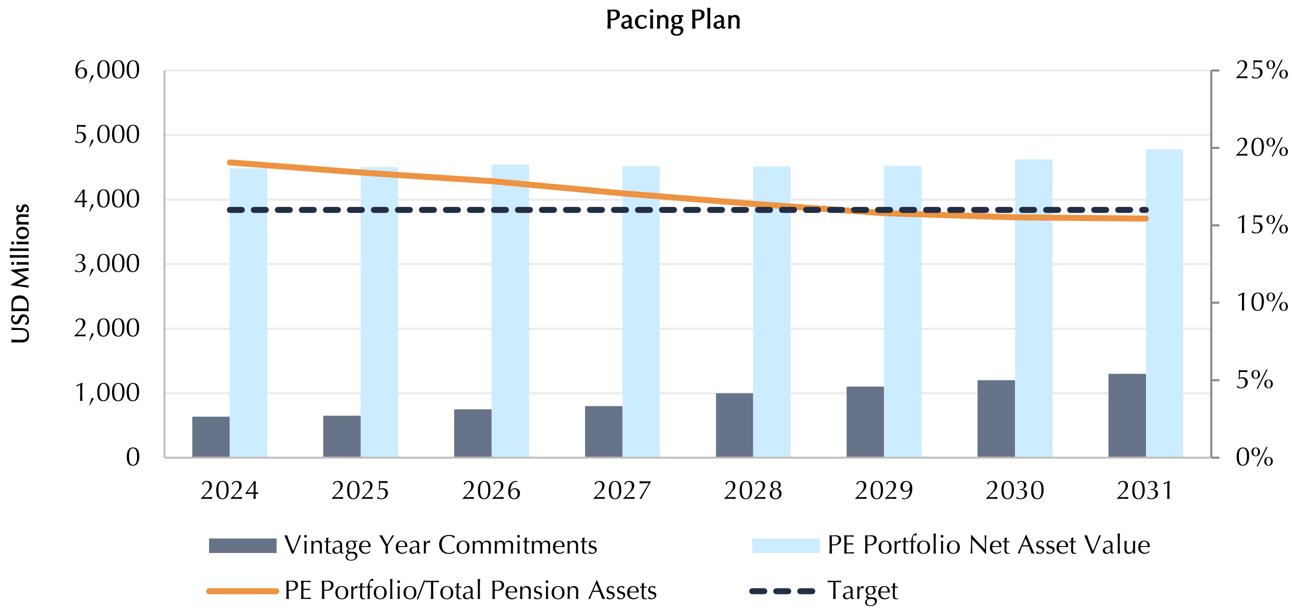


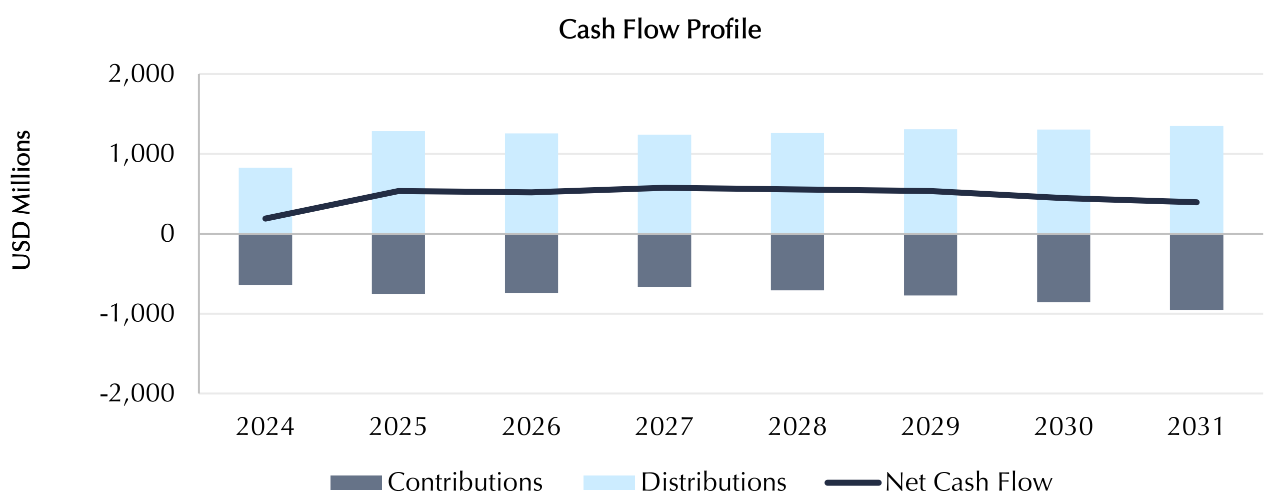
LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

Aksia

Updated Pacing Model (Base Case) – As of June 30, 2024

- Assumes 4% long-term pension growth
- Includes a $150mm commitment to a co-investment SMA in April 2024
- Slowdown in exits and distribution activity has contributed to LACERS being overweight in PE
- Maintaining vintage year diversification is a key component of a successful long-term program



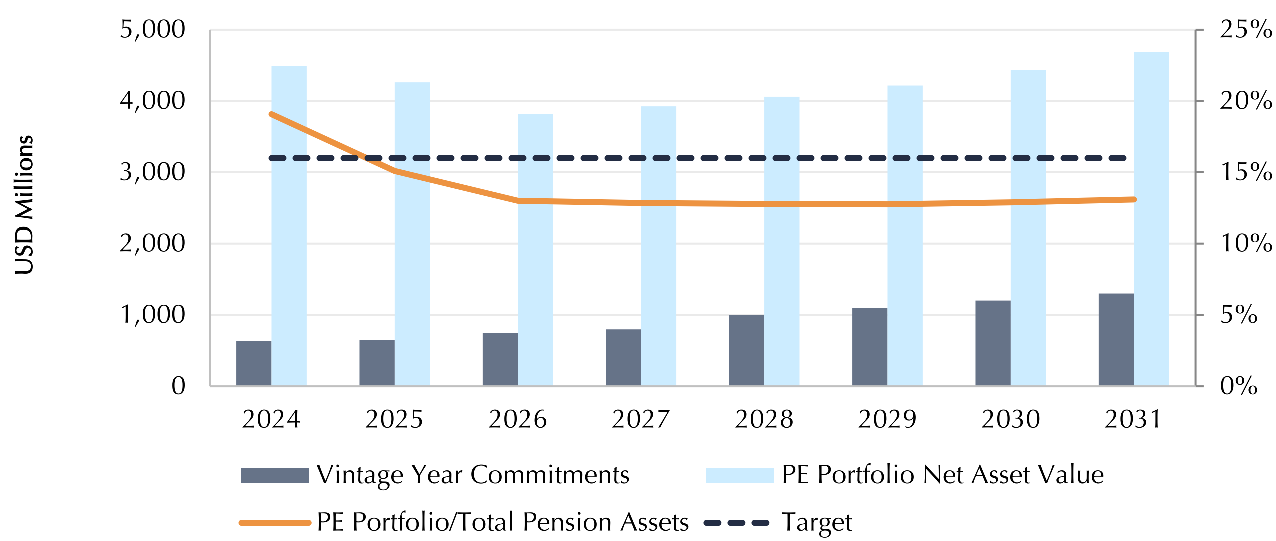


LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

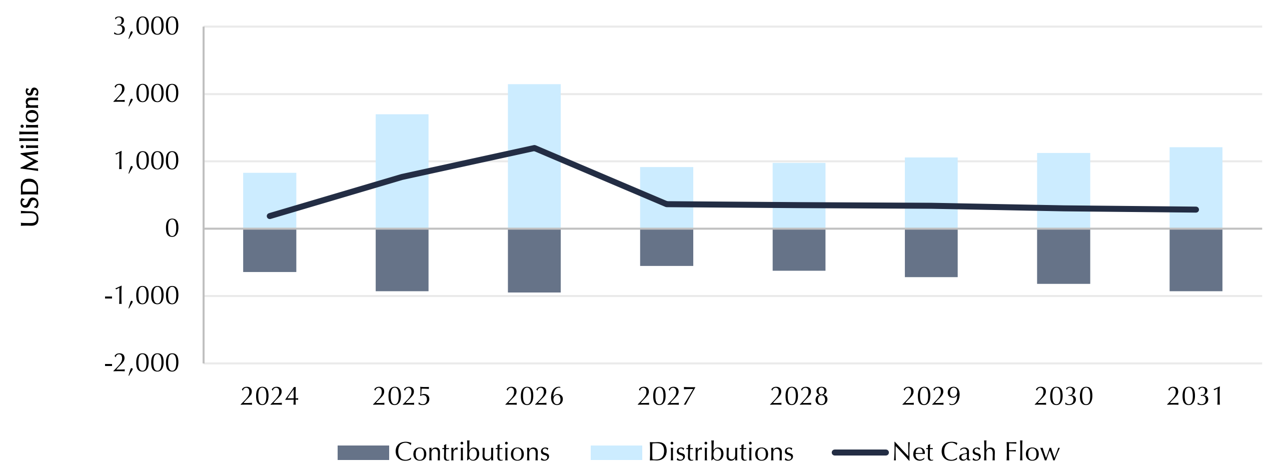
Updated Pacing Model (Upside Scenario) – As of June 30, 2024

- Assumes 4% long-term pension growth
- Assumes an increase in distribution activity in 2025/2026 and recovery in pension value in 2025

Pacing Plan



Cash Flow Profile

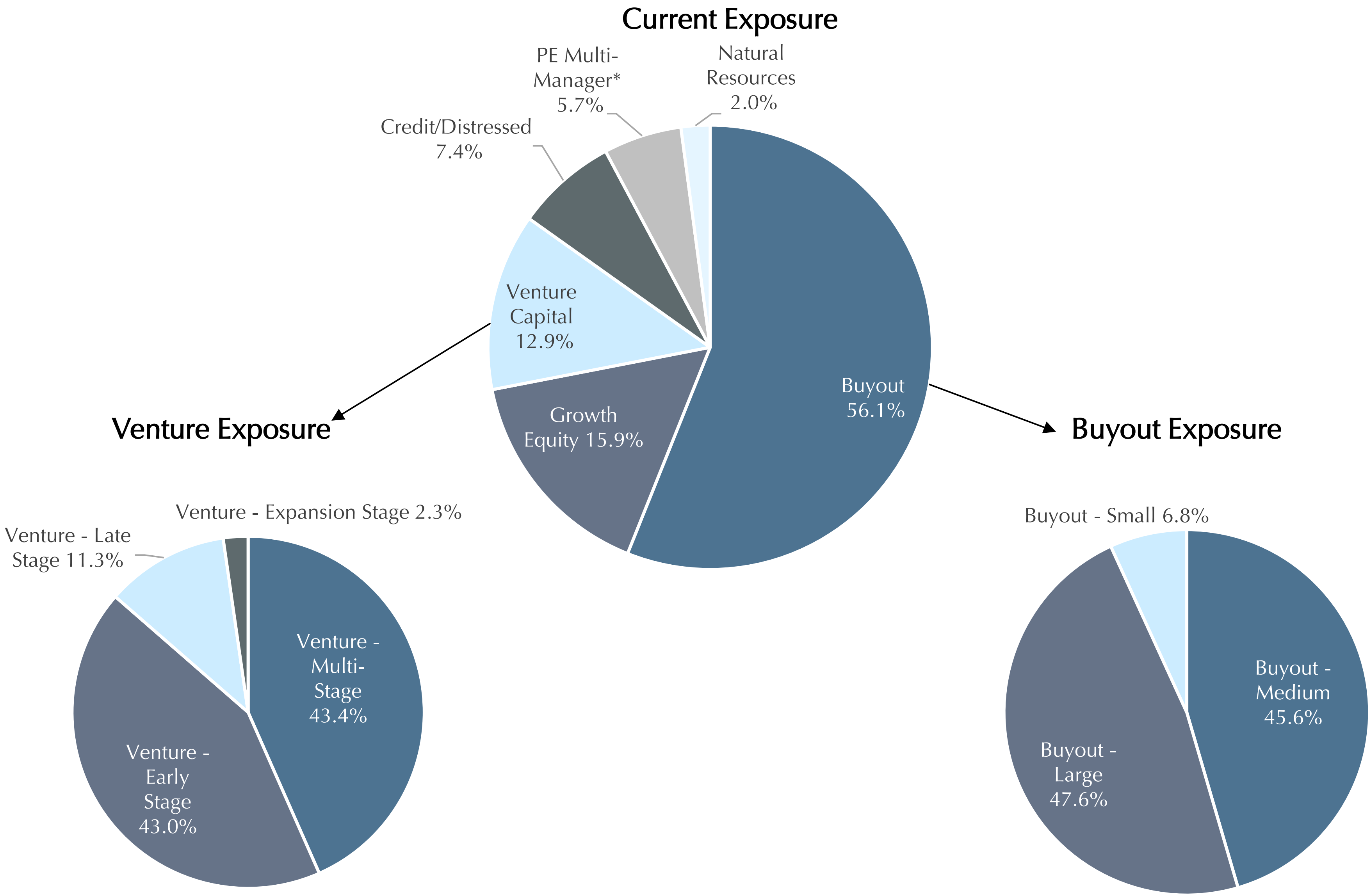


LACERS Private Equity Long-Term Targets

Private Equity Asset and Sub-Asset Classes	LACERS Exposure[1] (%)	Aksia's Suggested Long-Term Target
Buyouts	**56.1%**	**60% – 80%**
Large Buyouts	26.7%	
Medium Buyouts	25.6%	
Small Buyouts	3.8%	
Venture Capital / Growth Equity	**28.7%**	**20% – 40%**
Venture Capital	12.9%	
Growth Equity	15.9%	
Credit / Distressed	**7.4%**	**0% - 10%**
Natural Resources / PE Multi-Manager*	**7.8%**	**0% – 10%**
	100%	
Emerging Managers	***9.4%***	***0% – 10%***

*PE Multi-Manager includes Secondary funds and Fund of Funds
[1]Exposure = Fair Market Value + Unfunded

LACERS Exposure by Asset Class



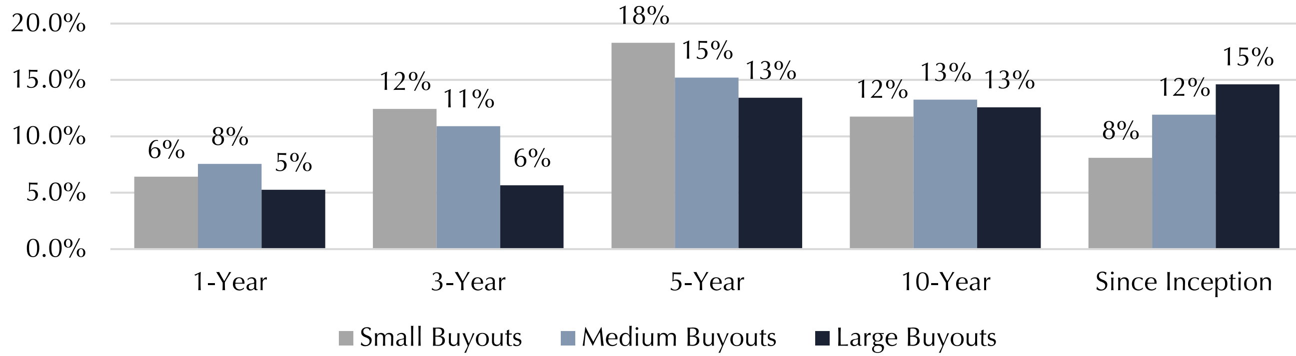
All percentages rounded to first decimal. *PE Multi-Manager includes Secondary funds and Fund of Funds.

LACERS PRIVATE EQUITY PROGRAM - 2025 STRATEGIC PLAN

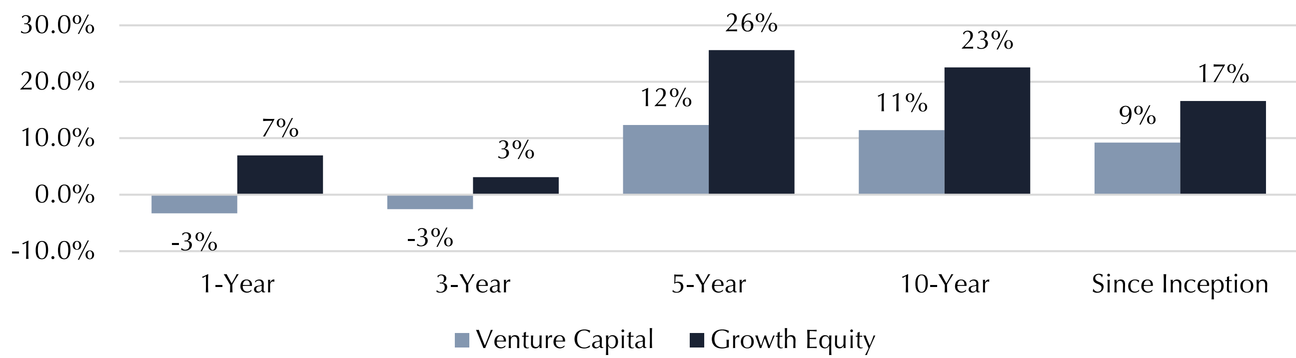
Aksia

LACERS Horizon Returns by Sub-Strategy

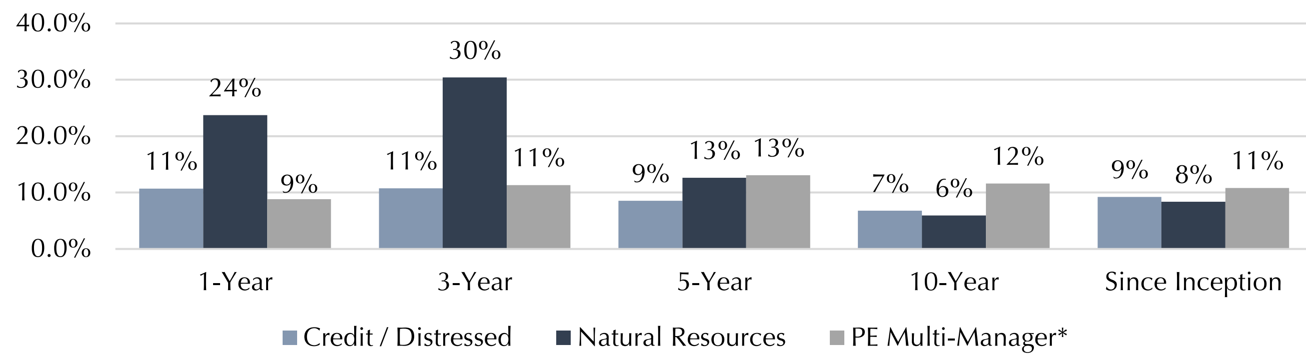
- LACERS' Large Buyout funds underperformed Small and Medium Buyout funds in the short term (1-Year, 3-Year, and 5-Year)



- LACERS' Growth Equity investments have continued to outperform Venture Capital over various time horizons

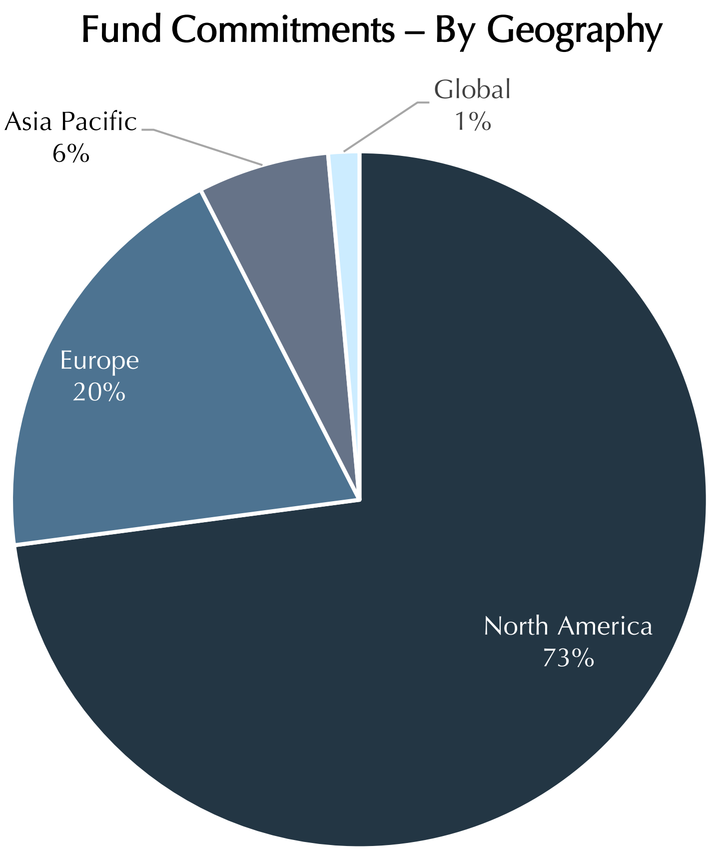


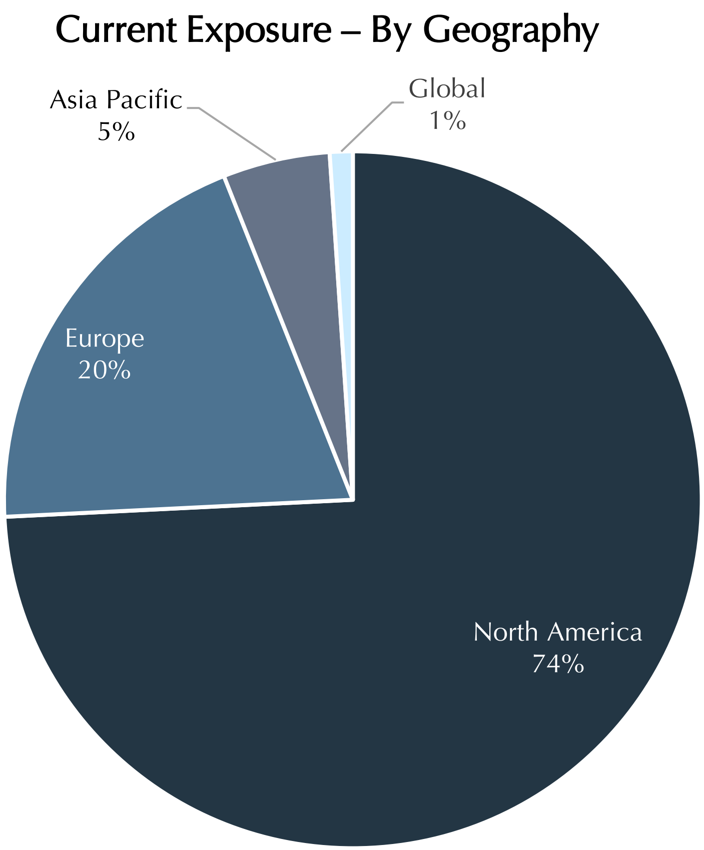
- LACERS' Credit and Natural Resources have delivered strong performance in the near term (1-Year and 3-Year)



Reporting Period: As of June 2024

LACERS Commitments and Exposure by Geography

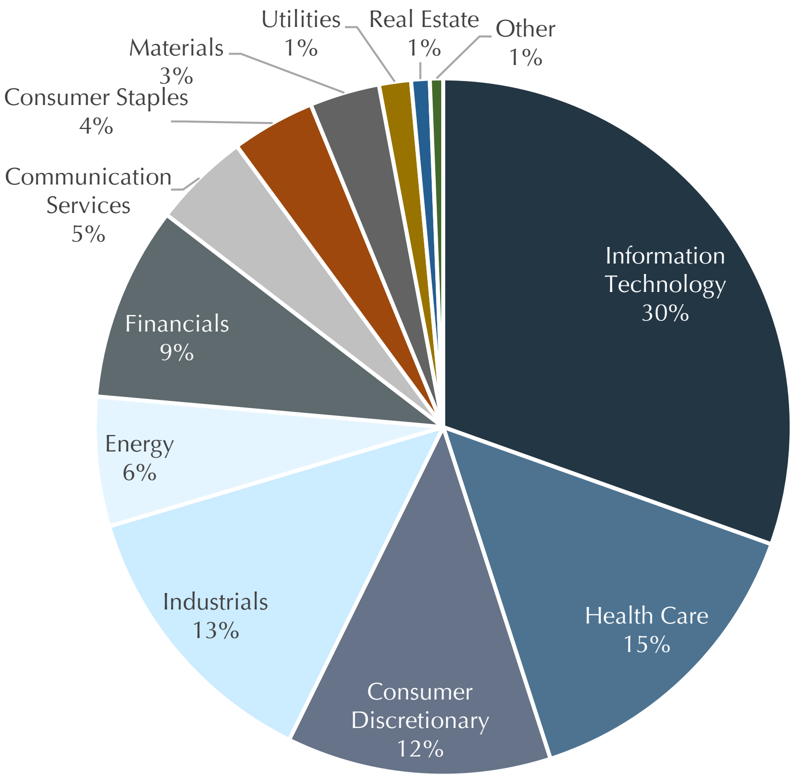




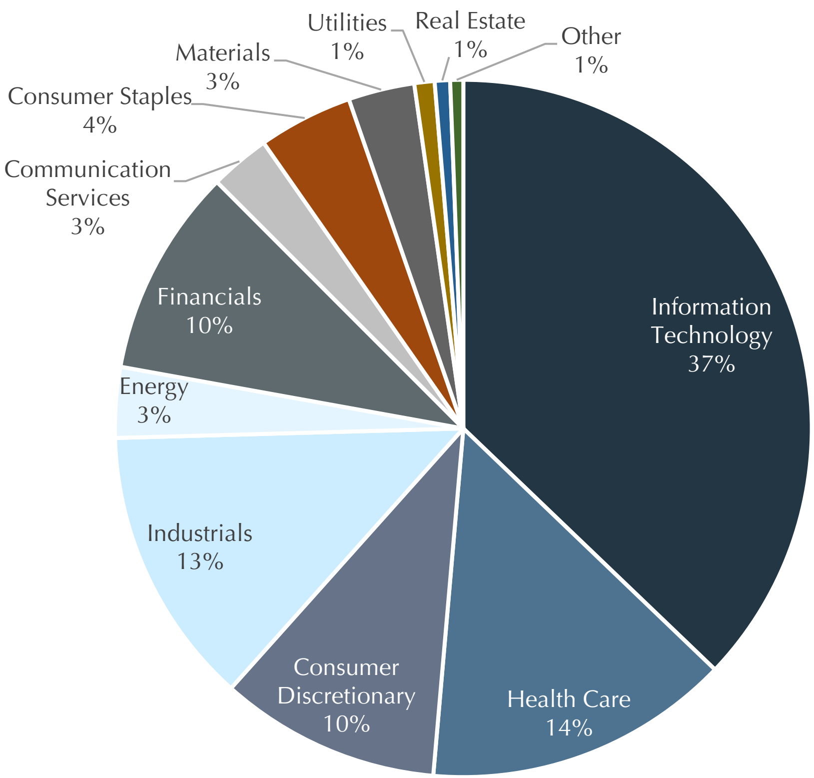
All percentages rounded.
Portfolio company level data as of June 2024

LACERS Commitments and Exposure by Sector

Fund Commitments – By Sector



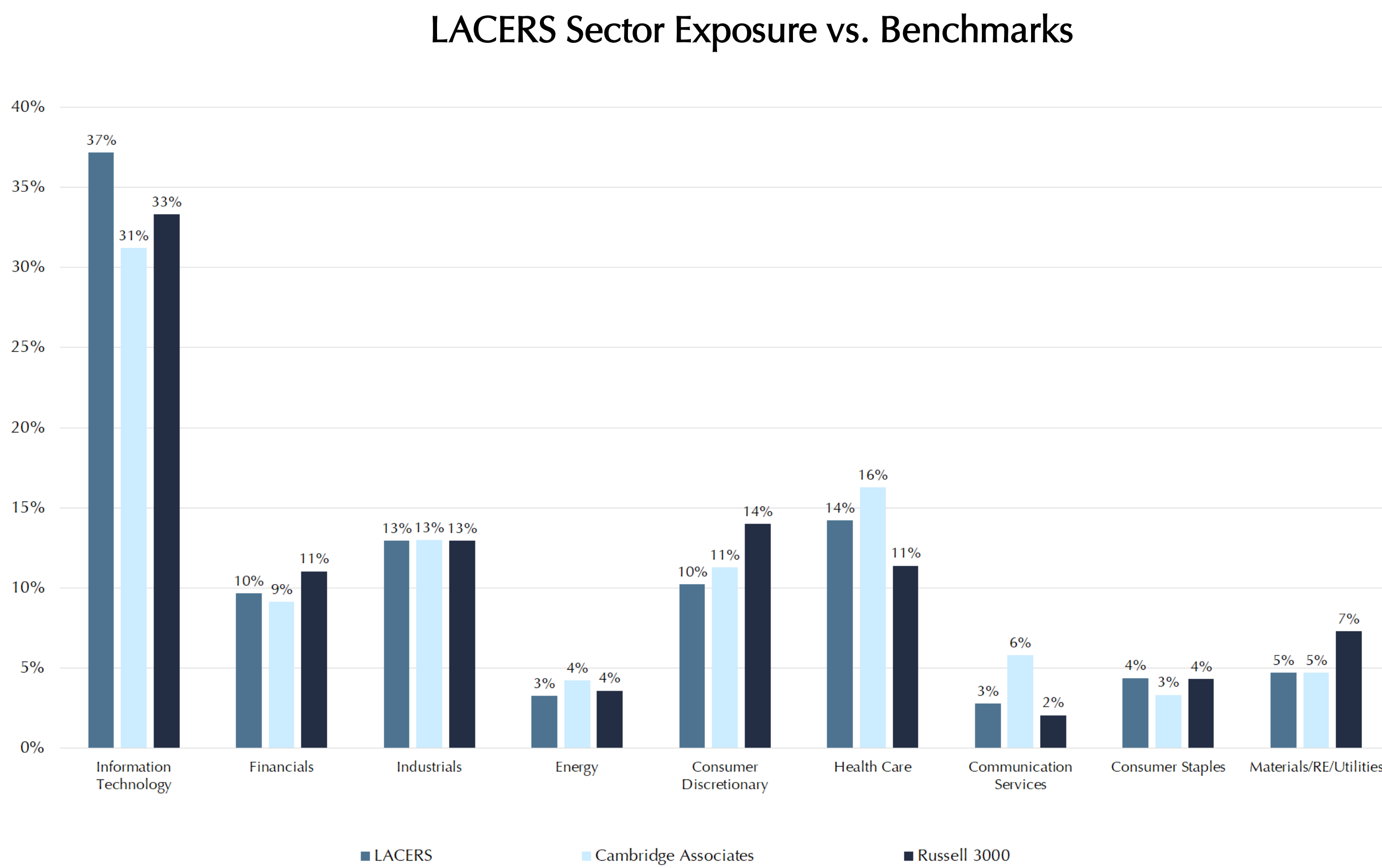
Current Exposure – By Sector



All percentages rounded.
Portfolio company level data as of June 2024

LACERS Exposure by Sector vs. Benchmarks

- When compared to public and private benchmarks, LACERS is over-weight in the Information Technology sector and under-weight in the Consumer Discretionary sector
- The Information Technology over-weight has also been driving good performance
- LACERS biggest mismatch with the public benchmark is in the Information Technology sector



Source: Cambridge / Aksia research.

SWOT Analysis – Strengths & Weaknesses

- **Strengths**
  - GP Relationships: Given its reputation as a long-term sophisticated investor, LACERS currently fosters relationships with several high-quality GPs both established and emerging in key sectors with longer term secular growth
  - Disciplined Investment Process: LACERS investment process allows for disciplined decision making and consistent deployment regardless of market dislocations
  - Flexible Mandate: LACERS has the capacity to strategically invest across a variety of sub-sectors within private equity. This includes value-oriented buyout strategies (e.g. Industrials) and emerging technologies (e.g. AI) represented through venture and growth allocations
  - Liquidity: LACERS has considerable plan liquidity to sustain the current pace of private equity commitments
  - Co-Investment Program: LACERS committed to HabourVest co-investment program in 2024 aimed to reduce the overall PE fee structure while investing in private companies

- **Weaknesses**
  - Extensive Manager Line-up: LACERS has a substantial network of relationships that could lead to a reversion to the mean due to the level of diversification
  - Legacy Performance: The legacy portfolio will continue to be a drag on performance, including the Specialized Portfolio, this becomes less with each subsequent year
  - Size of Plan: While having sizable assets can be beneficial for scaling a program, it can also constrain the Plan's ability to invest in firms with smaller and emerging asset base

Aksia

SWOT Analysis – Opportunities & Threats

- **Opportunities**
  - Portfolio Consolidation: While LACERS has existing relationships with high-quality GP's, there is an opportunity to further upgrade the portfolio with high conviction and traditionally hard to access GPs given slow/stalled fundraises and LACERS increased portfolio size
  - Co-Investments: LACERS recent implementation of a co-investment program should enhance exposure to core GPs and mitigate costs. Many of LACERS' GPs provide co-investment opportunities
  - Secondary Transactions: The secondary market has evolved as both an investment option and a portfolio management tool. It enables investors to enhance diversification and optimize portfolios in response to changing market conditions
  - Emerging Managers: Today's emerging managers may be the next wave of top-tier performers. However, emerging managers are facing significant fundraising challenges in the current market
  - Market Volatility: Maintaining steady private equity commitment pacing during times of market volatility has historically led to some of the strongest vintage year performance for private equity portfolios.

- **Threats**
  - Market Volatility: Extreme market increases and decreases have affected consistent annual commitments needed to meet longer-term target allocations
  - Geopolitical Landscape: Changes in regulation, compliance requirements, and supply chain disruptions, especially given the incoming US administration, could put pressure on particular companies and targeted sectors
  - Disclosures / Regulations: AB2833 and other reporting requirements may be disagreeable to certain top-quartile GPs; a bigger issue in Venture Capital versus other Private Equity strategies
  - Political Concern on US IP in certain markets: Given domestic concern on the use of US intellectual property, including AI, by China and others, there will need to be significant review of managers involved in these type of investments in these regions

2025 Long-Term Strategic Plan Recommendations

- **Pacing**
  - Maintain relatively consistent longer-term pacing despite market volatility
  - Commitment plan of up to $600 - $700 million proposed for 2025
  - Commitments to 10-15 firms with a target size of $40-$75 million per commitment, excluding co-investment program
  - 3-5 investments to Emerging Managers representing at least 10% of total annual commitments

- **Broad Portfolio Considerations**
  - Continue consolidating commitments with top performing managers
  - Continue to selectively add exposure internationally – primarily to Europe and Developed Asia
  - Continue to increase exposure to lower middle market buyout funds
  - Continue to manage underlying sector exposures
    - Monitor IT exposure across buyout, growth, and venture
    - Continue to diversify sector exposure, including healthcare and other select cyclical and value-oriented sectors
  - Continue to add exposure to strategies designed to outperform in down, sideways, late cycle markets – i.e. value-oriented managers, turnaround managers, distressed managers

2025 Short-Term Tactical Recommendations

- **Lean Into the Strengths**
  - Existing GP Relationships: maintain exposure to existing, high conviction managers that are back in market in 2025 where possible; this would include the re-evaluation of the strategic and performance value of these relationships to the overall portfolio
  - Brand / Reputation: Leverage LACERS reputation to initiate new relationships of scale with high quality GPs that are in market in 2025 and where the relationship can be scaled over time; Given portfolio value and market volatility, it will be challenging to allocate capital to all key existing relationships while also adding new ones.
  - Flexible Mandate: Leverage LACERS ability to invest across sub-asset classes and take advantage of the full spectrum of private equity activities
    - Continue developing a framework as it offers benefit in the short-term
    - Leverage relationships with commingled secondary funds and potential secondary transaction vendors
  - Sector Exposures: Continue the implementation of a secondary program and/or secondary fund sales as needed given sector exposures; specifically, monitor IT sector portfolio weights while maintaining appropriate diversification across other sectors (i.e. healthcare, industrials, consumer)

2025 Short-Term Tactical Recommendations

- **Capitalize on Opportunities**
  - Market Volatility and Geopolitical Landscape: Continue to review and potentially invest with value-oriented, turnaround, and distressed investment managers with a global perspective
  - Co-investment Program: Monitor and oversee co-investment program, capitalizing on LACERS deal flow, while evaluating and investing in proposed opportunities from HarbourVest
  - Emerging Managers: Continue targeting high-quality first-time managers / spin-outs / diverse managers; leverage preferred economics if available
  - Aggregation Benefits: For managers where overlap exists or could exist between the PE portfolio and PC portfolio, consider ways in which LACERS' scale could be leveraged for broader negotiating benefits where applicable

- **Minimize Weaknesses / Counter Threats**
  - Over-Diversification: Continue to trim relationships and consolidate capital with managers in whom there is greater conviction
  - Legacy Performance: Continue to consider and explore a portfolio secondary sale when the opportunity arises

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: DECEMBER 10, 2024**
From: Neil M. Guglielmo, General Manager **ITEM: V**

SUBJECT: **INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION**

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

Recommendation

That the Committee review and approve the edits made to the Investment Policy Manual.

Executive Summary

The LACERS Investment Policy Manual[1] is reviewed at least annually by staff to ensure that such policies are relevant to providing an appropriate performance, risk, and compliance framework for the Investment Program. The recommendations contained in this report provide modification to the Securities Litigation Policy, Stewardship Policy, as well as the several pending audit recommendations of the most recent Management Audit report submitted to the Board of Administration on August 9, 2022. Investment staff, working with the LACERS Internal Audit staff, several of LACERS investment consultants, and the City Attorney, present proposed changes to the Investment Policy Manual.

Discussion

Background

The Los Angeles City Employees' Retirement System (LACERS) periodically reviews and updates its Investment Policy Manual to ensure that it remains aligned with best practices, regulatory standards, and the organization's strategic goals. The proposed revisions address three distinct areas of the Investment Policy Manual: 1. Securities Litigation Policy; 2. Responsible Investment Policy; and 3. Management Audit.

I. Securities Litigation Policy

The Securities Litigation Policy provides proposed revisions to Section XVIII that introduces comprehensive updates to delineate the responsibilities of the LACERS Board, staff, and City Attorney while providing operational guidance to optimize securities-related litigation recoveries. The policy establishes clear thresholds for participation, such as passive involvement for losses under $5 million and Board-level decisions for active participation in cases exceeding $10 million. For foreign cases, active consideration begins at $1 million in potential damages, with specific procedures for opt-in actions and collaboration with litigation funders. To improve efficiency, delegated authority is granted

[1] Investment Policy Manual is also referred to as the Investment Policy Statement (IPS) by the City's management auditor.

to the General Manager, staff, and City Attorney for determining class member participation in foreign cases, ensuring timely actions and reducing the risk of missed recovery opportunities.

The revisions expand the role of external experts, including custodian banks and outside counsel, in tasks such as loss evaluation, antitrust action registration, and corporate investigations. These changes support the expansion of recoverable actions and align with LACERS' commitment to the Responsible Investment Policy by enabling engagement with companies on ESG issues through direct or collaborative initiatives. Guidelines for derivative actions include a two-step process: delegated authority to initiate confidential books and records inspections and Board authorization for publicly filed lawsuits, ensuring LACERS retains strategic advantages in litigation while maintaining oversight.

Additionally, decision-making factors now include potential monetary recovery, governance impact, administrative burden, and success likelihood. Updates to the language throughout the policy ensure clarity and alignment with current legal and administrative standards. Collectively, these revisions enhance LACERS' ability to manage securities litigation effectively, expand asset recovery opportunities, and safeguard the organization's assets while reinforcing its fiduciary responsibilities.

<u>II. Responsible Investment Policy</u>

1. *Stewardship* - LACERS is approached on occasion by various stakeholders, fellow investors, and other interested parties to engage with LACERS Board and staff in order to request certain actions or directional changes within the LACERS Investment Program to include, but not limited to, Board and staff actions, and requests related to one or more of its investment managers and/or vendors under contract. Proposed language under Section 10.I provides guidance with respect to engagement activities to ensure that the Board fulfills its fiduciary obligations to LACERS' members.
2. *PRI Signatory Voting and Administrative Responsibilities* – Signatories of PRI are requested to participate in the organization's selection of leadership and administrative processes. Thus, each year signatories are requested to cast their ballots for PRI Board directors and approve the auditors. In addition, PRI also requests its signatories to receive and file various financial and program reports, and meeting minutes. In order to provide the LACERS Board with greater efficiency in managing these responsibilities, staff recommends an amendment to Section 10, Roles and Responsibilities, that delegates to the General Manager (GM) or its designee the authority to cast votes for board directors, approve auditors and governance measures, and submit the completed annual PRI Reporting Framework and periodic surveys. LACERS staff will provide a verbal and/or written status report to the Board of Administration when such delegated authority was exercised by the GM on behalf of the Board at their earliest meeting after such activities or matters have been fully tabulated and announced by PRI.

<u>III. Management Audit</u>

The Management Audit provided for a multitude of recommendations for the Board to consider for further improvements to the management and operations of the LACERS Investment Program. While several of the audit recommendations have already been reviewed by the Board and resolved over the past several years, there are still four pending audit findings. Those outstanding audit findings are presented below along with each finding's respective status and/or staff recommendation.

1. *All federal, state, and local legal requirements be explicitly stated together with the IPS*

   Status and Staff Recommendation: Staff and the City Attorney believe that the existing Investment Policy Manual contains sufficient references to applicable laws related to governance and fiduciary oversight of the Investment Program. No policy amendment is proposed at this time.

2. *Add language to the IPS that states all modifications to the document are to be reviewed by the applicable consultant as well as fiduciary counsel prior to being presented to the Board.*

   Status and Staff Recommendation: This finding provides for greater transparency and additional review levels of proposed policy amendments. Section III.A.2, contains proposed language to direct staff to seek the opinion of the appropriate investment consultant and review of the City Attorney pertaining to amendments proposed to the Investment Policy Manual.

3. *Consider including a memo from the applicable consultant and fiduciary counsel for all amendments of the IPS. The memo would articulate and document their agreement/disagreement with the proposed changes.*

   Status and Staff Recommendation: Staff supports a review by the appropriate investment consultant and the City Attorney, as presented in the immediate finding in this report. To further support both findings, staff recommends that a written statement be provided in its report to the IC and/or Board that said entities will have considered proposed amendment(s) from both investment (consultant) and legal (City Attorney) perspectives coupled with their respective conclusions (e.g., concurrence, recommendation, disagreement). This aforementioned review process is codified in the proposed policy language in Section III.A.2.

4. *Consider the creation of a compliance calendar to facilitate the oversight of compliance with the governance items articulated in the IPS.*

   Status and Staff Recommendation: This finding, which has already been accepted by the Controller's Office, provides greater ease of monitoring governance reporting items with each item's respective completion dates. Staff presents the proposed calendar format as an amendment to the Investment Policy Manual, Section 15, under "Glossary."

5. *Consider including policy targets and ranges within the IPS*

   Status and Staff Recommendation: This finding and implementation of the staff recommendation will provide greater transparency of the LACERS current asset allocation policy. Section VI, "General Investment Objectives and Guidelines" contains a proposed Asset Allocation Matrix that presents the current asset allocation policy classes, target weightings, and threshold bands. This matrix will be continually updated as the Board approves changes to the asset allocation policy.

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

NMG/RJ/WL/EC/JW:rm

Attachments:
1. Investment Policy Statement (Clean)
2. Investment Policy Statement (Redlined pages)

Section 1 INVESTMENT POLICY

I. INTRODUCTION

This document provides a framework for the investment management of the assets of the Los Angeles City Employees' Retirement System ("LACERS" and hereafter known as the "System"). Its purpose is to assist the Board of Administration (the "Board") in effectively supervising and monitoring the investments of the System, with the support of the LACERS staff (the "Staff"). Specifically, it will address:

A. The general goals of the Investment Policy, Section 1.II.a-g;
B. The policies and procedures for the management of the investments;
C. Specific asset allocations, rebalancing procedures, and investment guidelines;
D. Performance objectives; and
E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

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

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

II. INVESTMENT GOAL STATEMENT

The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

D. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

F. The System has a long-term investment horizon and uses an asset allocation, which 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.

G. Investment actions are expected to comply with "prudent person" standards as described:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims (sometimes referred to as the 'prudent person' rule)." [1]

The "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;

[1] ERISA 404(a)(1) (B).

4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

III. DUTIES OF RESPONSIBLE PARTIES

A. Duties of the Board or its Designate(s)

The Board has the responsibility for the administration of the System for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

1. The Board develops and approves policies and guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.
2. A formal review of the Board's Investment Policy and investment structure, asset allocation, and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions, or the System's financial condition. Proposed policy amendments will include in the staff reports to the Investment Committee and/or the Board the results of the review and any additional opinions of the investment consultant(s) and the City Attorney.
3. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.
4. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.
5. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:
   a) Manager compliance to the Policy guidelines.
   b) Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
   c) Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.

6. The Board shall expect Staff to administer the System's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.
7. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.
8. Voting of proxies in stocks held by the System will be done according to Board policy.
9. The Board may delegate certain duties of the Board to the Investment Committee as specified in the Investment Committee Charter.

B. **Duties of the Staff**

The Board's Investment Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, the Investment Staff oversees and directs the implementation of Board policies and manages the System on a day-to-day basis. Furthermore, staff responsibilities include the following details:

1. Invests the System's cash without requiring Board's permission as set forth elsewhere in the Board's Investment Guidelines.
2. Monitors investment managers for adherence to appropriate policies and guidelines.
3. Evaluates and manages the relationships with brokers, managers, consultants, and custodian(s) to the System to ensure that they are providing all of the necessary assistance to Board and to Staff.
4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.
5. The Staff will manage Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and managers, as needed.
6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.
7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.
8. The Staff shall advise and keep the Board apprised of any other events of investment significance.

C. **Duties of the Investment Managers**

The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.

2. Provide the Board with proof of liability and fiduciary insurance coverage.
3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate soft dollar credits and the recapture of commissions for the System's benefit.
6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Investment Staff.
7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:
   a) Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;
   b) Significant changes in ownership, organizational structure, financial condition, or senior personnel;
   c) Any changes in the Portfolio Manager or other personnel assigned to the System;
   d) Each significant client that terminates its relationship with the Investment Manager, within 30 days of such termination;
   e) All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and
   f) Meet with the Board and/or Staff on an as-needed basis.

D. **Duties of the Master Custodian**

The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.
2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.
3. Provide in a timely and effective manner a monthly report of the Investment activities implemented by the investment managers. Prepare a quarterly report containing absolute and relative investment performance.

4. Collect all income and realized principal realizable, and properly report it on the periodic statements.
5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.
7. Assist the System to complete such activities as the annual audit, transaction verification, or unique issues as required by the Board.
8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

E. **Duties of the General Fund Consultant**

The General Fund Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.
2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.
3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.
4. Assist the Board in the selection of a qualified custodian if necessary.
5. Provide topical research and education on investment subjects as requested by the Board or Investment Staff.

F. **Duties of Parties Involved in LACERS' Matters**

The Board is committed to maintaining a workplace that is free of sexual harassment and illegal discrimination. Investment managers, consultants, and other contractors assisting with the implementation of the Board's investment program shall adopt written policies prohibiting sexual harassment and illegal discrimination of any kind to ensure a safe working environment and to protect the System's assets from business risks arising from such misconduct.

Pursuant to this commitment, prior to finalizing its contract with the Board, every public markets contractor shall disclose to the Board all current, pending, and anticipated litigation concerning sexual harassment or related discrimination claims that may have a material impact on the Board's investment(s) managed by said contractor. This disclosure requirement is mandatory for such contracts or amendments dated March 1, 2019 or later.

IV. ASSET ALLOCATION POLICY

The policies and procedures of the Board's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as the System's conditions change and as investment conditions warrant. The Board reviews the Asset Allocation Policy strategically approximately every three years and on a tactical basis more frequently.

The Board adopts and implements the Asset Allocation Policy that is predicated on a number of factors, including:

A. A projection of actuarial assets, liabilities, benefit payments, and required contributions;
B. Historical and expected long-term capital market risk and return behavior;
C. An assessment of future economic conditions, including inflation and interest rate levels; and
D. The current and projected funding status of the System.

This policy provides for diversification of assets in an effort to maximize the investment return of the System consistent with market conditions. Asset allocation modeling identifies the asset classes the System will utilize and the percentage that each class represents of the total plan assets. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the Asset Allocation Policy and that periodic revisions will occur. The Board will monitor and assess the actual asset allocation versus policy and will rebalance as appropriate.

The Board will implement the Asset Allocation Policy using investment managers to invest the assets of the System's portfolio components subject to investment guidelines. Equity managers may not hold more than 10% of the market value of their portfolios in cash without Board approval, unless otherwise specified in their manager guidelines. The long-term asset allocation targets and ranges for the investments of the System's assets are presented in the latest Board-approved Asset Liability Study and Asset Allocation Policy.

The Board will allocate segments of the System's assets to each investment manager and specify guidelines, objectives and standards of performance, which are to apply to each manager's portfolio. These decisions will encompass allocating segments of the System assets, and segments of individual asset classes, between active and passive investment management, the active risk of the portfolio and to provide broad market exposure.

V. INVESTMENT POLICY

The Board will retain external investment managers to manage the System's assets using a specific style and methodology. Public external investment managers have been delegated authority for determining investment strategy, security selection, and timing. Public external investment managers are subject to the Board's policy and individual investment manager guidelines, legal restrictions, and other Board direction. Performance objectives will also be developed for each manager. The performance of each portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles. Private market investment managers shall manage the System's assets pursuant to the respective asset class policy and the partnership fund's limited partnership agreement or other applicable legal documents.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to know the rules of the Board and comply with those rules. It is each manager's responsibility to identify policies that have an adverse impact on performance and to initiate discussion toward possible improvement of the rules of the Board.

The Board will also review each investment manager's adherence to its investment policy and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board of such material changes within a reasonable timeframe as articulated within their respective investment guidelines.

Investment managers under contract to the Board shall have discretion to establish and execute transactions with securities broker/dealer(s). The investment managers will attempt to obtain best execution with respect to every portfolio transaction. The following transactions will be prohibited: net short sales; selling on margin; writing options other than covered options; "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA); and, transactions that involve a broker acting as a "principal," where such broker is also the investment manager making the transaction. The investments of the Board's assets will be subject to the following general policies.

A. **Manager Selection**

The selection of investment managers is accomplished in accordance with all applicable local, state, and federal laws and regulations. Each investment manager, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations. Section VII describes LACERS' Manager Search and Selection Policy which articulates the process that will be employed for each public markets manager search.

B. **Manager Authority**

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; Board rules or direction, applicable local, state, and federal statutes and regulations and individual management investment plans and executed contracts.

C**. Brokerage Policy**

The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution.

Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

D. Proxy Voting

Proxy voting rights will be managed with the same care, skill, diligence, and prudence as is exercised in managing other assets. Proxy voting rights will be exercised in the sole interest of the System's members and beneficiaries in accordance with all applicable statutes consistent with the Board Proxy Voting Policy, which is found in Section XIV of this policy statement.

E. Securities Lending

The Board has authorized the execution of a "Securities Lending Program," which may be managed by the Board's custodian or delegated to a third-party provider. The Board will monitor and review the program. This program is described in the Securities Lending Policy (Section XV of this document) and in the Securities Lending Agreement of the securities lending provider. The initial collateral levels will not be less than 102% of the market value of the borrowed securities, or not less than 105% if the borrowed securities and collateral are denominated in different currencies. Marking to market is performed every business day, and the borrower is required to deliver additional collateral when necessary. Stringent cash and non-cash collateral guidelines specify eligible investments, credit quality standards, and diversification, maturity and liquidity requirements.

F. Derivatives

The Board's investment managers may be permitted, under the terms of individual investment guidelines, to use derivative instruments as set forth in each manager's investment guidelines to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the movement of the pricing of other securities. The returns are to be consistent with the manager's mandate from the returns of other securities, indices, or allowable derivative instruments that include, but are not limited to, futures and forwards. Examples of appropriate applications of derivative strategies include hedging interest rates and currency risks, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration for fixed income. In no circumstances can managers borrow funds to purchase derivatives. Managers must ascertain and carefully monitor the creditworthiness of any counterparties involved in derivative transactions.

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

Section 1 INVESTMENT POLICY

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

I. *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.

II. *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.

III. *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.

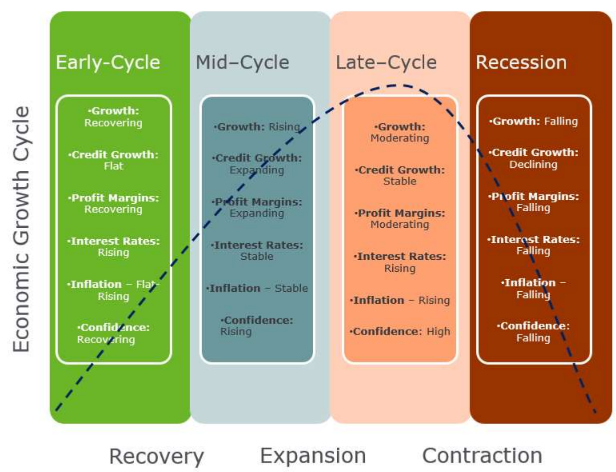

*chart provided by NEPC, LLC

IV. *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.

V. *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

VI. *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.

VI. GENERAL INVESTMENT OBJECTIVES AND GUIDELINES

The general investment objective is to outperform the overall policy portfolio benchmark. The overall policy portfolio benchmark consists of weighted asset class benchmarks for each asset class as determined by the Board. The long term policy benchmarks are listed below:

Asset Class	Benchmark	Policy Target %	Threshold Lower	Threshold Upper
Domestic Equity	Russell 3000	21.00%	16.00%	26.00%
Non-U.S. Equity	MSCI ACWI ex-U.S.	26.00%	20.00%	32.00%
Fixed Income	Bloomberg (BBG) U.S. Aggregate	11.25%	8.50%	14.00%
Credit Opportunities	11.8% BBG US HY 2% Capped / 11.8% Credit Suisse Leveraged Loan Index / 31.4% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 45% Credit Suisse Leveraged Loan Index One Quarter Lagged	12.75%	9.50%	16.00%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index	16.00%		
Real Assets	30% BBG US TIPS / 11.7% FTSE NAREIT US Equity Index / 58.3% NFI-ODCE + 80bps	12.00%		
Private Real Estate	*NFI-ODCE + 80bps*	*7.00%*		
Public Real Assets	*72% BBG TIPS Index / 28% FTSE NAREIT US Equity Index*	*5.00%*	*2.50%*	*7.50%*
Cash	90-Day Treasury Bill	1.00%	0.00%	2.00%

The portfolio is formally monitored by the Board quarterly versus its policy benchmark and also compared to the System's actuarial return target.

The Board will utilize the following portfolio investment components to fulfill the asset allocation targets and LACERS total fund performance goals established in this document.

A. **Equities**

The Board expects that over the long run, total returns of equities will be higher than the returns of fixed income securities, but they may be subject to substantial volatility during shorter periods. Equity investment managers retained by the Board will follow specific investment styles and will be evaluated against specific market indices that represent their investment styles. Additionally, in the case of active managers, investment results may also be compared to returns of a peer group of managers with similar styles. The components of the System's equity holdings, the benchmarks for the various equity portfolios, and the general guidelines are listed below:

Section 1 INVESTMENT POLICY

1. **Domestic Equities**

   a) **Index Funds/Core** – These investments will provide broadly diversified, core exposure through index funds to the U.S. equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation.

   b) **Large Cap Growth Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. The Board's large growth stock allocation provides exposure to stocks of large capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth. Growth stock volatility tends to be higher than value stocks, although such stocks generally outperform during rising markets while trailing the market in flat or declining periods.

   c) **Large Cap Value Stocks** – The principal characteristic of the large cap stock component is its emphasis in stocks with market capitalization generally ranging above $10.0 billion. As a more defensive portion of the equity portfolio, value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods of flat or declining trends while underperforming during rising markets. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   d) **Mid Cap Core Stocks** – The principal characteristic of the mid-cap core stock component is its emphasis in stocks with market capitalization generally ranging from $3.0 billion to $10.0 billion.

   e) **Small Cap Core Stocks** – The principal characteristic of the small cap core stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion.

   f) **Small Cap Value Stocks** – The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $250 million to $3.0 billion, which are generally characterized by faster growth and higher long-term returns during periods of flat or declining trends. Value stocks typically exhibit higher dividend yield, lower P/E ratios, and lower Price/Book ratios.

   g) **Small Cap Growth Stocks** – The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $250 million to $2.0 billion, which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stock volatility tends to be higher than value stocks.

   The benchmarks for the domestic equity portfolios may include the following indices:

Large Cap Core Stocks	S&P 500 Index
	Russell 1000 Index
Large Cap Value Stocks	Russell 1000 Value Index
Large Cap Growth Stocks	Russell 1000 Growth Index

Mid Cap Core Stocks	Russell Midcap Index
Small Cap Core Stocks	Russell 2000 Index
Small Cap Value Stocks	Russell 2000 Value Index
Small Cap Growth Stocks	Russell 2000 Growth Index

General U.S. equity guidelines for active managers include the following:

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

(2) American Depository Receipts (ADRs) are permissible investments.

(3) Convertible securities can be held in equity portfolios and will be considered equity holdings.

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company.

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

2. **Non-U.S. Equities**

a) **Index Funds/Core Non-U.S. Stocks** – This portfolio provides broadly diversified equity markets outside the U.S. and, consequently, plays a significant role in diversifying the Board's portfolio. This segment will concentrate on larger companies in established equity markets around the world utilizing a macro approach.

b) **Developed Markets Core** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets.

c) **Developed Markets Value** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Value Index or the MSCI EAFE Value Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having higher than market dividend yields, lower than market book value, and lower than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

d) **Developed Markets Growth** – This segment is comprised of non-U.S. stocks of countries listed within the MSCI World ex-U.S. Growth Index or the MSCI EAFE Growth Index. These stocks represent large cap, mature companies generally with global products and customers or which are dominant firms within their local country/regional markets. Versus the non-U.S. equity developed markets opportunity set, these stocks are further characterized by having lower than market dividend yields, higher than market book value, and higher than market earnings growth. As a result, these stocks provide incremental diversification versus developed markets core stocks.

e) **Small Cap Core** – This segment is comprised of non-U.S. stocks of the developed markets countries listed within the MSCI EAFE Small Cap Index. These stocks represent small cap companies which may have global products and customers or which may be dominant firms within their local country/regional markets. These stocks will generally have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus large cap developed market stocks.

f) **Emerging Markets Core** – This component is comprised of equity positions in companies located in emerging, rapidly growing countries around the world. The companies tend to be large cap and may have global products or customers or they may be dominant firms within their local countries/regions. Because these are countries that are typically in the early development stages of economic growth, the returns in these countries are higher and more volatile on a year-to-year basis.

g) **Emerging Markets Value** – This portfolio contains value-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have lower price-to-book, higher dividend yields and lower earnings growth rates.

h) **Emerging Markets Growth** – This portfolio contains growth-oriented stocks of companies domiciled in non-U.S. emerging markets countries. These companies are large cap companies which, versus the broader emerging markets indexes, have higher price-to-book, lower dividend yields and higher earnings growth rates.

i) **Emerging Markets Small Cap** – This portfolio contains equity positions in smaller capitalization companies located in emerging, rapidly growing countries around the world. The stocks represent small cap companies and in general will have a market capitalization of less than $2 billion and exhibit high earnings growth and low dividend yields. These stocks provide incremental diversification versus larger capitalization emerging market stocks.

The benchmarks for the international equity portfolios may include the following indices:

Developed Markets Core (Passive)	MSCI World ex-U.S. Index
Developed Markets Core (Active)	MSCI EAFE Index
Developed Markets Value	MSCI EAFE Value Index
Developed Markets Growth	MSCI World ex-U.S. Growth Index
Non-U.S. Small Cap	MSCI EAFE Small Cap Index
Emerging Markets Core	MSCI Emerging Markets Free Index
Emerging Markets Value	MSCI Emerging Markets Value Index

Emerging Markets Growth	MSCI Emerging Markets Growth Index
Emerging Markets Small Cap	MSCI Emerging Small Cap Index

General Non-U.S. equity guidelines for active managers include the following:

(1) Portfolios shall be comprised of cash equivalents, debt instruments convertible into equity securities, forward foreign exchange contracts, GDR's, ADRs, and equity securities of companies domiciled outside the U.S. including established and emerging countries.

(2) Managers will have discretion to hedge currencies of the countries in which their portfolio is invested to protect the value of the portfolio from currency risk. A manager's hedge ratio may not exceed 100% of the portfolio's value, at market, without obtaining prior approval from the Board.

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

(4) Managers shall not purchase the stock (or securities convertible into stock) of any single corporation if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock of a company

(5) Exchange listed futures and options on equity instruments may be used only if employed in a risk-reducing fashion.

Any exemption from the general equity guidelines requires prior written approval from the Board.

B. **Fixed Income**

The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the System's investment assets. The fixed income portfolios will be managed on a total return basis, following specific investment styles and evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The fixed income holdings are comprised of the following mandates.

1. **Core Fixed Income** – This segment will provide core exposure to the U.S. fixed income market including Treasury and government agency bonds, corporate debt, mortgages, and asset-backed securities. The portfolio will be primarily comprised of issues with duration within 30% of the benchmark. Overall portfolio quality will be at least investment grade rated.

2. **Index Bonds** – This passive fixed income portfolio is intended to track the characteristics of the benchmark.

3. **Credit Opportunities**

Section 1 INVESTMENT POLICY

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:

a) Real return above inflation of between 3% and 5%;
b) Diversification versus LACERS' two main asset classes: equities and bonds; and,
c) Income

The target allocation to Credit Opportunities will include flexible rebalancing given the public/private composition of the asset class. Generally, the actual allocation will be kept within or ± 3.25% of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The credit opportunities investment program can be comprised of both public and private credit opportunities strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' credit opportunities investment program:

a) **U.S and Non-U.S. High Yield Bonds** – Below investment grade (i.e., <BBB/Baa) rated bonds issued by public corporations with a perceived higher risk of default. Investors in these securities hope to benefit from spread tightening relative to investment grade bonds and from their higher overall yields, i.e., income.

b) **Emerging Markets Debt (Local, Hard, Sovereign and Corporate)** – Debt issued by the governments ("sovereign") of developing, or emerging, countries. Additionally, debt issued by corporations domiciled within emerging markets countries can be investment grade or below investment grade rated debt. Also can be issued in a foreign external, or "hard", currency (e.g., U.S. dollars, Euros, etc.) or in the country's local currency. Investors in these securities hope to benefit from spread tightening relative to investment grade and/or domestic bonds and from their higher overall yields.

c) **Leveraged Loans** – Loans extended to high yield (i.e., below investment grade) or levered borrowers, generally by banks or other financial institutions. The loans are *not* levered – the borrowers are. Hence, there is a perceived higher risk of default. Leveraged loans tend to have short maturities and are higher in the capital structure than regular debt of the company. Investors in these securities hope to achieve higher than investment grade bond returns due to their higher yields.

d) **Distressed Debt** – Debt of issuers that 1) are sufficiently financially impaired where there is a high risk of default or bankruptcy, 2) have already defaulted on financial obligations, or 3) have entered into bankruptcy proceedings. Investors in these securities hope to achieve high returns through financial or other restructuring at the issuing company.

e) **Opportunistic or Special Debt Situations** – Debt which may not fit within the preceding categories that may offer a unique investment opportunity due to broader economic or financial conditions.

f) **Direct Lending** – Includes loans that are primarily floating rate debt obligations made to non-investment grade borrowers. Private direct lending involves a limited number of investors that structure terms of a transaction directly with a middle market or small corporate borrower. There is generally a limited public market with a middle market or small corporate borrower. Additionally, there is generally a limited public market for these loans and they are usually refinanced prior to maturity or held to maturity by one or a relatively small number of investors. Investors expect to earn a yield which is higher than publicly traded corporate debt to compensate for a higher degree of risk.

The primary return objective for the LACERS' Credit Opportunities program is to outperform a custom weighted benchmark of 11.8% Bloomberg US HY 2% Capped / 11.8% Credit Suisse Leveraged Loan Index / 31.4% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 45% Credit Suisse Leveraged Loan Index QTR Lagged over a market cycle. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Credit Opportunities on the LACERS Total Fund. Returns will be calculated after management fees.

The benchmarks for the various fixed income portfolios may include the following indices:

Core Fixed Income	Bloomberg (BBG) BC Aggregate Bond Index
Intermediate Fixed Income	BBG BC U.S. Govt/Credit Intermediate Bond Index
High Yield Bonds	BBG BC U.S. High Yield 2% Capped Index
Emerging Market Debt	50% J.P. Morgan EMBI Global Diversified Index + 50% J.P. Morgan GBI EM Global Diversified Index
Bank Loans	Credit Suisse (CS) Leveraged Loans Index
Direct Lending	CS Leveraged Loans Index (one quarter lagged)

General fixed income guidelines include the following:

a) **Core Fixed Income**

(1) The total portfolio's average rating will be A 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 20%, in aggregate, invested in non-dollar denominated bonds and non-investment grade bonds are permitted.

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

b) **Credit Opportunities**

High Yield Bonds

(1) The total portfolio's average rating will be B 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 20%, in aggregate, invested in non-dollar denominated bonds and investment grade bonds are permitted.

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

Bank Loans

(1) No more than 5% of any single portfolio holding will be invested in any one issuer.
(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

(1) This portfolio is expected to provide portfolio diversification and additional return to the System's portfolio. Examples of private credit holdings include but are not limited to 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, and special situations funds. The Private Equity Investment Policy is within Section XI of this document.

D. **Real Assets**

Section 1 INVESTMENT POLICY

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

The target allocation to Real Assets will include flexible rebalancing given the public/private composition of this asset class. Generally, the public actual allocation will be kept within ± 2.5% of this target allocation objective.

Investments will primarily be characterized by their underlying holdings of asset types. The real assets investment program will be comprised of both public and private real asset strategies. The following strategies will be considered as appropriate for consideration and implementation within LACERS' real assets investment program:

1. **Private Real Estate** – This portfolio is expected to provide portfolio diversification and increase returns due to real estate's low correlation with the returns from equities and fixed income. The Private Real Estate Investment Policy is included in Section XI of this document.
2. **Public Real Estate "REITS"** – Publicly traded companies that trade on major stock exchanges and invest directly in real estate either through properties or mortgages. A distinguishing characteristic of this investment strategy versus private real estate is the improved liquidity and yield orientation.
3. **Treasury Inflation Protection Securities ("TIPS") or Global Inflation-Linked Bonds** – Securities where the principal value adjusts to reflect changes in the U.S. CPI or other sovereign-linked inflation measures upward or downward, but never below the original face amount at maturity. Semi-annual coupon payments are based upon the bond's adjusted principal which provides a direct inflation link.
4. **Commodities/Natural Resources** – Financial instruments, such as individual stocks, stock baskets or futures which represent companies or markets where the prices are directly linked to the ownership or trading of physical commodities/natural resources or companies whose primary source of revenues are tied directly or indirectly to the management, ownership or trading of physical commodities/natural resources. Commodities/natural resources are raw materials which are inputs to the production of goods and services. Thus, changes in commodities/natural resources prices typically lead inflation. Higher commodities/natural resources prices lead to increased prices goods and services, hence, a directly link to inflation.
5. **Timber/Farmland** – These are a hybrid investment strategy in that similar to commodities, they provide final and raw material in the production of goods and services and will tend to lead inflation. However, as private investments, they are similar to private real estate in that a potential increase in property value exists due to changes in supply and demand factors that influence inflation.

6. **Master Limited Partnerships ("MLPs")** – An MLP is a publicly traded partnership that combines individual limited partnerships into one entity to make the ownership interests more marketable with a general partner operating the business. MLPs are high income assets that should provide a consistent yield in between REITS and High Yield Bonds. As equities, they are also expected to earn returns commensurate with traditional public equities. An MLP is a pass-through entity that is taxed at the unit holder (i.e., share holder) level and not subject to tax at the partnership level. However, tax exempt investors may produce Unrelated Business Taxable Income ("UBTI"), which means tax-exempt investors engaged in a 'business' outside of the purpose for their exemption may be subject to UBTI. The businesses of MLPs are related to the extraction, production, and distribution of natural resources or energy infrastructure.
7. **Infrastructure** – Private markets investments in essential physical infrastructure such as toll roads, bridges, airports and utilities accessed by most citizens and designed to provide a steady income stream via tolls, leases, etc. Income stream is periodically adjusted by owners and inflation escalation provisions are often "built in" to provide a direct link to inflation. Capital appreciation also directly linked to primary economic drivers such as inflation.
8. **Oil and Gas Limited Partnerships** – Private markets investments in limited partnerships which have the objective of exploring/develop/market oil/gas sources. Returns are primarily driven by an income stream as well as from profits earned at the end of the partnership. However, returns are influenced by rate at which oil and gas flow from source. Thus, this is considered a highly risky, speculative investment strategy.
9. **Multi-Asset Real Asset/Return Strategies** – Bundled public markets or combination private/public markets real assets and/or real return strategies where the investment objective is to provide a real return above inflation over a market cycle. The investment manager has the discretion to select the combination of real asset strategies and to establish the exposure to each respective real asset strategy.

The primary return objective for the LACERS' Real Assets program is to outperform a blend of 30% BBG US TIPS Index / 11.7% FTSE NAREIT US Equity Index / 58.3% Real Estate Blend (NFI-ODCE + 80 bps) over multiple market cycles and to outperform a secondary benchmark comprised of the Consumer Price Index (CPI) + 5% over a full market cycle, with appropriate consideration of risk. Performance evaluation on a risk-adjusted basis shall consider the diversification impact of Real Assets on the LACERS Total Fund. Returns will be calculated after management fees. The benchmarks for the various real assets portfolios may include the following indices:

Private Real Estate	NFI-ODCE + 80bps
Public Real Estate "REITS"	FTSE NAREIT US Equity Index
U.S. TIPS	Bloomberg U.S. TIPS Index
Commodities	Bloomberg Commodity Index

General real assets guidelines include the following:

Section 1 INVESTMENT POLICY

a) **Private Real Estate** (see Private Real Estate Policy within Section XI of this document)

b) **Public Real Estate**

(1) At least 90% of the portfolio investments must be invested in REITS.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) For prudent diversification of the portfolio, the maximum amount that can be invested in any one issue shall be the greater of 7.5% of the portfolio or 125% of the index weight.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 3%. In total, out of benchmark securities shall not exceed 10% of the portfolio market value at time of purchase.

(5) At no time shall the Account own more than 5% of the outstanding voting securities of any one issuer. No issue shall be purchased in the portfolio if more than 15% of the outstanding voting shares of the company are held by LACERS in the total of all its accounts. All debt and all preferred stock of an issuer are each considered a single class for this purpose.

(6) No more than 50% in any one property type, including Regional Malls, Strip Shopping Centers, Apartments, Offices, Industrial, Healthcare, Manufactured Homes, Factory Outlets, and Other.

(7) No more than 40% in any one geographic region, including Northeast, Mideast, Southeast, Southwest, East North Central, West North Central, Pacific, and Mountain.

c) **Treasury Inflation-Protected Securities (“TIPS”)**

(1) The total portfolio’s average rating will be AAA by Moody’s or Standard & Poor’s.

(2) At least 80% of the portfolio investments must be invested in TIPS.

(3) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(4) The maximum effective duration shall be no more than 120% of the benchmark duration.

(5) The maximum asset allocation to a single security shall not exceed 200% of the benchmark weighting.

(6) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

(7) Securities of emerging market country (countries as defined by the J.P. Morgan EMBI Global Diversified Index) issuers are limited to a maximum of 5% of the portfolio market value.

d) **Commodities**

(1) At least 80% of the portfolio investments must be invested in publicly traded commodities.

(2) Up to 5% of the net asset value of the Portfolio (excluding Futures) may be held in cash at any one time.

(3) The maximum asset allocation to a single security shall not exceed 5%.

(4) For out of benchmark securities, the maximum asset allocation to a single issuer shall not exceed 5%. In total, out of benchmark securities shall not exceed 20% of the portfolio market value at time of purchase.

XV. RESPONSIBLE INVESTMENT (RI) POLICY

The Responsible Investment (RI) Policy is LACERS' master policy framework that addresses Environmental, Social, and Governance (ESG) issues that are consistent with the Board's fiduciary standards and the overarching Investment Policy. The primary purpose of this policy is to outline various forms of ESG risk and to identify strategic paths and actions that can add long-term value to LACERS investments. Given the broad nature of ESG issues, the RI Policy also makes references to other existing LACERS policies and documents that specifically address environmental risk factors such as climate transition and renewable energy; social risk factors such as human rights and employment conditions; and governance risk factors such as proxy voting and influencing the behavior of corporate leadership. Conscientious development and thoughtful implementation of the RI Policy will ensure that LACERS capital will be invested and managed in a responsible manner that meets the Board's fiduciary obligations.

A. Definitions

Environmental, Social, and Governance (ESG) – refers to three broad categories of risk factors that measure the sustainability and societal impact of an investment. Please refer to Section H Scope for examples.

Responsible Investment (RI) – is the strategy and practice to incorporate material risk and return ESG factors in investment decisions and active ownership.

Principles for Responsible Investment (PRI) - a signatory membership organization comprised of global investors who have committed to understanding the investment implications of ESG factors and incorporating these factors into their investment decisions.

Sustainability – is the balance between the environment, equity, and economy. The United Nations World Commission on Environment and Development defines sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

ESG Integration – is the process of assessing the effect of ESG factors on investment risks and returns throughout the investment life-cycle and across all asset classes.

B. LACERS and Board's Commitment to Responsible Investing

LACERS and the Board are committed to integrating ESG risk factors into its management of the System in a manner that is consistent with the Board and Staff's fiduciary responsibilities to act in the best interest of the members, retirees, and beneficiaries of the System. This is consistent with LACERS' role as a prudent, long-term, responsible investor.

LACERS has long recognized the importance of addressing ESG risks in order to protect and enhance investment returns of the portfolio. Since the mid-1980s, LACERS has adopted several policies to address ESG risks[3]; engaged with both listed and privately-held companies, its own investment managers, regulatory bodies, and membership organizations to improve ESG-related practices; and collaborated with like-minded institutional investors to better understand and mitigate ESG risks.

LACERS ushered in a new era in its understanding and importance of ESG when it applied to the PRI for signatory status on June 25, 2019, and was later granted signatory status on September 3, 2019. Signatories to PRI make this commitment:

> "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

Consistent with the PRI framework, LACERS bases its own ESG practices and process in order to become a more responsible investor that, in meeting its fiduciary responsibilities to its members and beneficiaries, is cognizant of how the broader societal impact of its investment decisions can likewise affect investment returns.

C. Goals

The Goals of the RI Program are:

1) That the Board of Administration fulfills its fiduciary obligations as provided by California State Constitution, Section 1106 of the City Charter, and LACERS Policies;
2) Consider material ESG risk and return factors in order to achieve superior risk-adjusted returns;
3) Explore and consider sustainable investment initiatives that align with LACERS' fiduciary duties and the RI Policy;
4) Collaborate with like-minded organizations and entities that are progressing towards responsible investing through multiple investment approaches;
5) Provide periodic progress reports to the Board.

D. Responsible Investment Framework

The RI Program serves to fulfill the goals and objectives set forth in the RI Policy and is governed by Board-approved program documents, to include:

1) Responsible Investment Policy

The RI Policy formalizes LACERS' ESG policies and procedures to ensure that LACERS follows the direction set forth by the Board through the ESG Risk Framework, Proxy Voting Policy, Emerging Investment Manager Policy, and other subsequent Board policies and directives that may be incorporated into the RI Policy. This Policy will provide program guidance on integrating material ESG factor considerations within LACERS' Investment Program.

[3] Policies include the former Geopolitical Risk Policy (superseded by this Responsible Investment Policy), Proxy Voting Policy, and Emerging Investment Manager Policy.

2) Proxy Voting Policy

LACERS' Proxy Voting Policy supports sound corporate governance practices by aligning the interests of shareholders and corporations to build long-term sustainable growth in shareholder value. This policy provides LACERS' position and rationale for shareholder votes regarding corporate topics and issues to include (but not limited to) environmental and social issues, board of directors, election of the audit committee and appointment of external auditors, compensation of executives, shareholder rights and takeover defenses, capital structure, and corporate restructuring.

Proxy votes are cast by a proxy voting agent with the voting results monitored by staff and reported to the Board annually. Investment staff relies on research expertise and voting recommendations of its proxy voting agent when LACERS' Proxy Voting Policy is either silent or not directly applicable to the issue as stated on the proxy ballot.

3) Emerging Investment Manager Policy

The objective of LACERS Emerging Manager Policy is to identify investment firms with the potential to add value to the LACERS' investment portfolio that otherwise would not be identified by LACERS standard investment manager search and selection process. The Board believes that smaller investment organizations may generate superior returns because of the increased market flexibility associated with smaller asset bases.

4) PRI Action Plan

To ensure that LACERS continues to advance, progress, and continually develop its RI Program, an operational PRI Action Plan ("Plan") developed by staff was approved by the Board on November 12, 2019, with subsequent amendments. The Plan outlines initiatives and recurring activities that LACERS may pursue over a near-term horizon of approximately four years. The Plan is divided among broad functional categories: 1) policy; 2) operational; 3) research; and 4) collaboration and promotion. The Plan does not contain an exhaustive list of ESG initiatives that LACERS could pursue, but a feasible set of initiatives and actions that will allow LACERS to maintain a commitment to PRI and ultimately its ardent support of ESG. The Plan is updated and reviewed by the Board on an annual basis.

5) ESG Risk Framework

The Framework is a dynamic document, subject to changes based on economic outlook, market assumptions, and the Board's sensitivity and prioritization of material ESG issues. As LACERS continues to integrate and assess material and relevant ESG factors through this critical risk lens, staff will continue to adopt best practices and recommend to the Board appropriate Framework adjustments to keep its Investment Program and ESG initiatives focused squarely on the best interests of LACERS members and beneficiaries.

E. Responsible Parties and Roles

The roles and responsibilities surrounding the RI Policy are defined by the Board; several of those responsibilities are delegated to staff (including staff of the City Attorney's Office), consultants and advisers, and investment managers to ensure a cost-efficient and effective implementation, as outlined in the matrix below.

Responsible Parties and Roles			
Board	**Staff**	**Consultants / Advisers**	**Investment Managers**
- Governance - Policy Setting - Oversight	- Due Diligence - Engagement - Implementation and Compliance - Policy Recommendations - Legal Guidance and Opinions via City Attorney's Office - Vote on PRI matters to include PRI election of board, auditor, governance measures; fulfilling other routine administrative and compliance requirements and requests	- Provide ESG education to the Board and Staff - Furnish research reports, customized reports, and other tools to understand current trends in ESG - Advise on Policy Matters	- Implement ESG directives and actions - Interpret and assess ESG risks and its impact on LACERS portfolio - Inform LACERS staff of any material ESG issues - Report ESG activities to LACERS to meet PRI Reporting requirements

F. Legal Framework

1. Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members and beneficiaries takes precedence over any other duty.

The System is sensitive to concerns that ESG and other risk factors may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Investments shall not be selected or rejected based solely on ESG or other risk factors. However, consideration of material ESG risk factors alongside traditional financial factors should provide a better understanding of the risk and return characteristics of sustainable investments.

Section 10 RESPONSIBLE INVESTMENT POLICY

Sustainable returns over long periods of time are in the economic interest of the System. Importantly, the System's ownership of securities in a corporation does not signify approval of any or all of a company's policies, products, or actions.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles and Article XVI, Section 17 of the California Constitution for the systematic administration of the City Employees' Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the required purpose of the System, as mandated by the City Charter:

"(1) to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; (2) to minimize City contributions; and (3) to defray the reasonable expenses of administering the system."[4]

The Board's "duty to system participants and their beneficiaries shall take precedence over any other duty."[5] In furtherance of this purpose, the Board shall have "sole and exclusive fiduciary responsibility over the assets of its system which are held in trust for the exclusive purposes of: (1) providing benefits to system participants and their beneficiaries; and (2) defraying the reasonable expenses of administering the system."[6]

The System is a department of the City government and is governed by a seven member Board of Administration and assisted by a general manager. In the formation of this investment policy and goal statement, the primary consideration of the Board has been its implementation of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

2. Performance Priority

LACERS has a fiduciary duty to act in the best long-term interests of the System's beneficiaries. In this fiduciary role, LACERS is sensitive to concerns that ESG issues may affect the performance of the investment portfolio. Through the years, the Board has adopted various policies to address ESG risks, with an emphasis on social and governance issues.

The System's general investment goals are broad in nature. The following goals are adopted to be consistent with the above described purpose, the City Charter, the State Constitution, and applicable federal law:

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[4] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[5] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[6] L.A. Charter § 1106(b); Cal. Const. Art. XVI, §17(a).

Section 10 RESPONSIBLE INVESTMENT POLICY

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.[7]

D. The System's assets will be managed on a total return basis. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's investment policy has been designed to produce a total portfolio, long-term real (above inflation) positive return above the Policy benchmark on a net-of-fee basis as referenced in the quarterly Portfolio Performance Review ("PPR"). Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 of the City Charter with consideration of the Board's responsibility and authority as established by Article XVI, Section 17 of the California State Constitution.

E. The System's investment program shall, at all times, comply with existing applicable local, state, and federal regulations.

F. The System has a long-term investment horizon and uses an asset allocation, which 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.

G. Investment actions are expected to comply with "prudent person" standard, with all duties discharged:

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." [8]

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[7] L.A. Charter § 1106(a); Cal. Const. Art. XVI, §17(b).
[8] L.A. Charter § 1106(c); Cal. Const. Art. XVI, §17(c); ERISA § 404(a)(1)(B).

This "standard of care" will encompass investment and management decisions evaluated not in isolation but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably assigned. The circumstances that the System may consider in investing and managing the investment assets include any of the following:

1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The role that each investment or course of actions plays within the overall portfolio;
4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

H. The System is required to "[d]iversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.[9]

3. Impact Priorities
In conjunction with LACERS' fiduciary responsibilities, Staff will also take into consideration the materiality of the ESG risk in LACERS' investment. The Board shall decide whether to address these issues in a particular case based on the size of the interest that the System holds in the business and the effect of the business' violation of the System's ESG risk factors on investment returns.

G. Responsible Investment Mobilization Framework

Consistent with its fiduciary responsibilities, LACERS supports ESG within an implementation framework based on the Six Principles of PRI outlined below with examples of how LACERS supports these Principles:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- Staff will seek to incorporate relevant and material ESG considerations into LACERS' investment due diligence, decision-making, and monitoring processes for all of its external managers. Investment recommendations consider the manager's ESG policies and practices, focusing on the risks, opportunities, and standards relevant to the investment under consideration. LACERS' Investment Consultants will be directed to include relevant ESG commentaries in their independent diligence documentation.

[9] L.A. Charter § 1106(d); Cal. Const. Art. XVI, §17(d).

- LACERS will support development of ESG-related tools, metrics, and analyses; investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) are encouraged to integrate ESG factors into evolving research and analysis.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

- LACERS' RI Policy is updated annually or more frequently as needed to consider new ESG issues and evolving risk factors.

- LACERS' PRI Action Plan, which is a living document, outlines proposed multi-year actions for each of the Six Principles, and is updated annually.

- LACERS' Emerging Investment Manager Policy supports emerging investment managers with successful histories of generating positive alpha at an appropriate level of active risk.

- LACERS' Proxy Voting Policy provides proxy voting guidance on ESG risks and is updated annually.

- Staff will participate in the development of ESG and ESG-related policies, standard setting (such as promoting and protecting shareholder rights), file shareholder resolutions consistent with long-term ESG considerations, engage with companies on ESG issues, either through intervention with investment managers or directly to the company, and participate in collaborative engagement initiatives such as securities litigation.

- LACERS will advocate ESG training for the Board and staff as well as attend ESG-related conferences.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Staff and/or Consultants will consider standardized questionnaires to Investment Managers for ESG disclosures.

- LACERS will support shareholder initiatives and resolutions promoting ESG disclosure.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

- Individually and in collaboration with other investors and thought-leadership organizations, LACERS will promote acceptance and implementation of ESG best practices within the investment industry.

- LACERS' division letterhead and website will highlight LACERS PRI Signatory Status. LACERS may provide press releases, include principles-related requirements in requests for proposals (RFPs), and sit on ESG conference panels to reflect LACERS' promotion and acceptance of ESG.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Staff will keep abreast of PRI Reporting changes and provide (at a minimum) an annual staff report to the Board and submit recommendations for Board consideration to improve its implementation of ESG actions.

- LACERS will support and participate in networks and information platforms to share tools, pool resources, make use of investor reporting as a source of learning, and develop or support appropriate collaborative initiatives.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

- As part of its commitment to the PRI, LACERS shall report its progress in implementing the PRI's Six Principles through both the PRI Annual Report and LACERS annual PRI Action Plan Report to the Board.

- LACERS shall continue to foster open communication with LACERS members by responding to the Freedom of Information Act (FOIA) and California Public Records Act (CPRA) Requests.

H. Scope

The scope of the RI Policy encompasses the entire investment portfolio to the extent it is prudent and practicable. The broad and specific ESG Risk Factors provided in the table below are examples and additional risk factors may not have been specifically listed below. The risk factors may have varying degrees of risk impact and unique risk mitigation measures depending on the asset class or investment strategy type. In addition, specific ESG risk factors are dynamic and may be impactful to more than one broad ESG risk factor.

Broad and Specific ESG Risk Factors

Environmental • Climate Change • Resource Depletion

• Waste • Pollution • Deforestation
Social • Human Rights • Modern Slavery • Child Labor • Working Conditions • Employee Relations • Diversity, Equity, and Inclusion • Gender and Sexual Orientation Pay Equality • Discrimination based on Race, Gender including Women, Age including Senior Citizens and Children, Sex, Sexual Orientation, LGBTQIA+, Disability, Veterans Status, Language, or Social Status • Freedom of Speech and Press • Right to Civil Liberties including Speech and Press, Peaceful Assembly and Association, Freedom of Religion, National Origin /Racial/Ethnic Minorities, Freedom of Movement within a Country, Foreign Travel, Emigration, and Repatriation • Freedom of Civil Unions/Same Sex Marriage
Governance • Bribery and Corruption • Executive Pay • Board Diversity and Structure • Political Lobbying and Donations • Tax Strategy • Right of Citizens to Change their Government

I. Stewardship

LACERS will focus its engagement efforts on Board directed stewardship initiatives, that are core to LACERS belief that consideration of ESG risk factors can add long-term value to LACERS investments. In addition, LACERS receives requests from stakeholders, fellow investors, and other interested parties to engage on particular issues. These ad-hoc requests are analyzed in consultation with the City Attorney in order to take best course of action to meet LACERS needs.

J. Identifying and Mitigating Material ESG Risks within the Portfolio

LACERS staff will research and keep the Board apprised of material and relevant ESG issues, initiatives, and collaboration opportunities, and take into account actions of other like prudent investors using the process outlined below:

1. Once ESG risks factors of material significance within the portfolio have been identified and discussed with the ESG Consultant, staff will bring such risks to the attention of the Board.

Section 10 RESPONSIBLE INVESTMENT POLICY

2. LACERS Board may decide at any point after considering research and staff findings that further action of various degrees of magnitude and impact may be appropriate and necessary to mitigate risk factors. This Policy identifies four distinct action levels that may be implemented, subject to Board direction:

Action Level	Possible Action(s) to include but not limited to:	Responsible Parties	Estimated Risk to Plan Assets
1	*Relationship Initiatives:* Collaboration with other Agencies Engagement/Advocacy Letters Joint-Agency Endorsements Company Presentations to LACERS Board Disassociation with Misaligned Organizations Outreach/Association with Emerging Managers Discussion at Advisory Board Meetings or Annual Meetings of Private Market Funds	Staff Consultants Industry Organizations Agencies	**None** Level 1 actions do not include any portfolio restructurings resulting in virtually no discernable adverse risks to portfolio valuations.
2	*Policy Implications/Contractual:* Proxy Voting Amendments Investment Manager Guidelines Investment Policy Amendments Contract Side Letter Provisions	Staff Consultant(s) Investment Managers Proxy Voting Agent City Attorney	**None to Medium** Level 2 actions do not include significant portfolio restructurings but may have an indirect impact on portfolio management, investment valuations, or investment manager relationships.
3	*Strategic Investment Approaches:* ESG-Sensitive Strategies Climate-related Investment Strategies Socially Responsible Investment Strategies Corporate Governance Investment Strategies	Staff Consultant(s) Investment Mangers	**Low to Medium** Level 3 actions may have a direct impact on individual portfolios due to removal, substitution, or addition of mandates. Such actions may impact performance; implementation risk and costs; fee structures; tracking error; create opportunity costs.
4	*Restructure:* Security/Securities Divestment Sale of Partnership Interests Portfolio Restructure Termination of Investment Managers	Staff Consultant(s) Investment Managers Transition Managers Bank Custodian	**Medium to High** Level 4 actions may lead to immediate and significant realized losses due to market illiquidity; tracking error; transition management risk; timing

			and implementation risks; create opportunity costs; sub-optimal asset allocation structure misaligned with approved Asset Allocation Policy.

3. The Board will consider such investment actions only to the extent they are consistent with the Board's fiduciary duties.
4. Staff will implement Board investment actions in an orderly, cost- efficient, and risk-mitigating manner.
5. Staff will provide the Board with periodic verbal updates or formal written reports on investment action status.
6. Staff will communicate Board decisions to the System's active public investment managers to adhere to the Board's actions going forward and work with its bank custodian to assist with further monitoring of ESG risk factors. If consistent with existing contractual agreements and appropriate to the investment mandate, such Board decisions will be communicated to appropriate private market investment managers.
7. The Board may wish to pursue other options to mitigate ESG risk factors and/or enhance the Investment Program through long-term ESG investment approaches.

K. Engagement Campaigns

Engagement with other like-minded organizations helps LACERS leverage its beliefs and promotion of ESG principles for the benefit of its beneficiaries. As LACERS becomes aware of engagement opportunities via letter campaigns (Campaigns), staff will bring the most impactful Campaign requests to the Board for review and consideration. Campaigns may request several actions including LACERS placing its name on the Campaign sponsor's master letter or request that LACERS send an independent letter to the targeted organization. If a Campaign deadline does not permit adequate time to bring the letter request to the Board for consideration, the Board delegates specific authority to the General Manager (GM), the Chief Investment Officer (CIO), and the LACERS Board President to support and endorse a Campaign. If the GM, CIO, and Board President reach consensus to support a Campaign, the CIO shall report the action to the Board at its next meeting. If the GM, CIO, and Board President do not reach a consensus on a Campaign, LACERS will take no action.

L. ESG Education

To stay apprised of ESG-related matters, LACERS will leverage research and education provided by industry organizations, investment managers, investment consultants, membership organizations, and peer plans. LACERS will actively participate at ESG conferences to understand better the evolving ESG landscape. Additionally, LACERS will participate in industry working groups to explore and research ESG issues to include (but not limited to) diversity, equity, and inclusion within the investment industry and the impact of regulatory reform on corporate governance and shareholders.

Staff, in conjunction with LACERS' ESG Consultant and investment managers, will invite leaders in ESG to provide further education to the Board including latest trends, regulations, issues, and best practices.

M. Scope of Reporting

To monitor the implementation of LACERS RI Program and ensure that it continues to develop and evolve, this policy will be provided to the Board or the appropriate Committee for review on an annual basis or more frequently as needed.

The following reports will be reported accordingly:

1) PRI Progress Board Report – LACERS is required to complete the annual PRI Questionnaire about LACERS portfolio and ESG efforts. Once results of the Questionnaire are provided to LACERS, the Board will be provided a summary of the findings.

2) PRI Action Plan – The Plan will be reviewed with the Board once a year to ensure that LACERS is meeting its ESG goals.

3) ESG Risk Framework – Staff will monitor the status of initiatives and on-going actions against time-bound objectives. These initiatives and actions will be incorporated into the PRI Action Plan. The Framework will be reviewed in conjunction with the PRI Action Plan review.

4) Proxy Voting Report – The Annual Proxy Voting Report contains an account of LACERS voting history and is provided annually to the Investment Committee.

5) Emerging Investment Manager Report – The Annual Emerging Investment Manager Report contains program information specific to LACERS Emerging Managers, and includes capital exposure statistics, investment manager performance, and staff and consultant meetings and other encounters with Emerging Managers. In addition to the aforementioned, an Organizational Diversity Survey (ODS) is completed by prospective and contracted investment managers of LACERS that captures workforce, board, and ownership diversity. The Emerging Investment Manager Report is provided annually to the Investment Committee; the ODS is managed pursuant to the Emerging Investment Manager Policy.

Section 13 SECURITIES LITIGATION POLICY

XVIII. SECURITIES LITIGATION POLICY

A. Purpose

The Board adopts this Securities Litigation Policy to establish procedures and guidelines for monitoring, evaluating, and participating in both securities class actions and other securities-related litigation as appropriate, to protect and maximize the recovery value of LACERS' assets.

B. Objective

The objective of the Securities Litigation Policy is to carry out the Board's fiduciary obligation to monitor securities class actions and other securities-related litigation in which LACERS has an interest, and to participate in such actions and recover damages when appropriate to protect and maximize the recovery value of LACERS' assets.

C. Guidelines

1. Use of Outside Experts As Needed

LACERS may engage the services of its custodian bank, third-party vendors, and with the concurrence of the City Attorney's Office, outside counsel, to assist LACERS with monitoring securities litigation cases in which LACERS may have an interest, evaluating LACERS' potential losses, providing recommendations about whether to take an active role in litigation, representing LACERS in cases in which the Board has agreed to seek an active role, assisting LACERS with participation in foreign securities actions, representing LACERS in corporate investigations and resulting derivative actions, and/or assisting LACERS with recovering assets in antitrust actions.

2. Board Determinations and Delegated Authority to City Attorney and Staff

a) Domestic Securities Actions

i. As a general matter, absent compelling circumstances, unless the Plan incurs a potential loss net of gain (loss) in excess of Five Million U.S. Dollars ($5,000,000.00) calculated on a last in, first out (LIFO) basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, the Plan shall proceed as a passive member of a domestic securities class action and file a claim to receive its pro rata share of any resulting settlement or judgment as set forth in Section XVIII.C.3. If no class action has been filed, the General Manager, or their designee (Staff), the City Attorney's Office, and outside counsel may make a consensus recommendation to the Board to initiate an independent action or a class action in closed session.

ii. If the potential loss exceeds Five Million U.S. Dollars ($5,000,000.00) but is less than Ten Million U.S. Dollars ($10,000,000.00) calculated on a LIFO basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, Staff and the City Attorney's Office, in consultation with outside counsel, may reach a consensus determination to recommend that the Board seek lead plaintiff status or pursue an independent action after applying the considerations listed in Section XVIII.C.2.a.iv. If the General Manager, Staff, or the City Attorney's Office determine that the most prudent approach in a case is to remain a passive class member, then no Board consideration or action shall be required.

iii. If the potential loss exceeds Ten Million U.S. Dollars ($10,000,000.00) calculated on a LIFO basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, the matter shall be considered by the Board in closed session in order for the Board to determine whether to seek lead plaintiff status, pursue an independent action, or remain a passive member of the class.

iv. When determining whether to seek a leadership role in a particular securities lawsuit, Staff and the City Attorney's Office, in consultation with outside counsel, shall support the Board's fiduciary decision-making process by evaluating the following relevant factors:

1. whether the Plan's estimated LIFO loss is likely to be the largest suffered by any individual class member;
2. whether another responsible institutional investor with a larger LIFO loss and comparable experience leading securities class actions is likely to pursue leadership in the case;
3. whether Staff, the City Attorney's Office, and outside counsel recommend seeking lead plaintiff appointment;
4. how large the potential recovery may be for the Plan if such a claim is pursued;
5. whether the Plan's active participation is expected to increase the monetary value of a settlement;
6. how the Plan's involvement could impact the investment portfolio's value or the Board's other fiduciary obligations;
7. whether the Plan's active participation will add non-monetary value to the potential recovery, such as governance reforms;
8. whether the plaintiff is likely to succeed on the merits of the action;
9. what is the nature and severity of the conduct alleged; and
10. what is the potential administrative burden for Staff.

b) Foreign Securities Actions

i. A foreign securities action is a lawsuit pending or proposed to be filed outside the United States, involving securities purchased on a foreign securities exchange or other non-domestic transactions by LACERS or on its behalf. In contrast to domestic securities class actions, in which LACERS may remain a passive class member and receive its pro rata share of any recovery, participation as a class member in a foreign securities action generally requires LACERS to "opt-in" through registration or other affirmative action by the Plan. Additionally, unlike domestic actions in which law firms provide representation on a contingency fee basis, foreign actions are typically financed by litigation funding groups. Law firms and/or litigation funding groups assist investors with complex participation agreements and/or claim forms that have strict deadlines. Litigation costs and fees are typically paid as a percentage of the resulting recovery.

ii. The General Manager, City Attorney's Office, and Staff, after evaluating advice from outside counsel, have delegated authority to decide whether LACERS will participate and/or file a claim to recover Plan assets in a foreign action. Before advising Staff to participate and/or file a claim in the foreign action, the City Attorney and outside counsel shall review the structure of litigation funding, review retention agreements with foreign counsel, analyze insurance contracts, and review powers of attorney. To inform their consensus decision, the General Manager, the City Attorney's Office, and Staff shall consider the relevant factors listed in Section XVIII.C.2.a.iv, as well as the following additional factors:

1. whether outside counsel recommends participation;
2. whether there is a strong legal basis for recovery in that foreign jurisdiction, which is supported by case precedent;
3. whether there are risks to participation for the Plan, including potential out-of-pocket costs; and
4. whether the funding group and outside legal counsel are qualified and have sufficient financial support to handle the action.

iii. Upon reaching a consensus determination to participate and/or file a claim, the City Attorney and Staff are authorized to engage outside counsel and/or a third-party funding group to pursue a claim on behalf of LACERS and/or take the actions necessary to participate as a class member in a foreign case. When submitting a form or taking similar administrative action is the only required step to obtain part of a settlement, a consensus decision is not required, and the City Attorney may file a claim on behalf of the Plan or, if necessary, direct outside counsel, the custodian bank, or a third-party to do so. Fees for assistance with the process shall only be paid if and when LACERS recoups money in the case and must be reasonable in light of the complexity of the claim and the cost for similar claims in comparable cases.

iv. The Board provides a standing delegation of authority to the General Manager or their designee to execute all necessary documents on behalf of LACERS with respect to foreign actions, including powers of attorney, participation agreements, follow-up documents to cure claim deficiencies, and documents to direct payment of settlement proceeds.

c) Derivative Actions and Engagement on Corporate Governance

i. The Board authorizes the General Manager, City Attorney, and Staff, consistent with this Securities Litigation Policy, the Responsible Investment Policy, and other relevant Board policies, to initiate an inspection of books and records under Delaware Corporate Law Section 220 (or the equivalent provisions of other state law, as applicable) to determine if there are meritorious claims that can be asserted derivatively on behalf of the company, a confidential process that typically proceeds a derivative action.

ii. If the City Attorney 's Office and Staff have determined that an inspection of books and records is appropriate, they will seek targeted proposals from LACERS' current bench of securities monitoring firms under contract and make a selection to assist LACERS in the matter. In determining whether to pursue a books and records inspection, the General Manager, City Attorney, and Staff shall make a consensus determination based on the following factors:

1. what is the potential harm to the company and its shareholders;
2. whether the Plan has the capacity to facilitate governance improvements; and
3. whether there is potential to promote LACERS' Principles for Responsible Investment that are relevant to LACERS' interests as a long-term fiduciary investor.

iii. Following the inspection of books and records and any other confidential investigation relating to this matter, the Board shall determine whether LACERS will pursue a potential derivative action by deciding whether to authorize the City Attorney and outside counsel to publicly file a derivative complaint against the company's Board of Directors and/or Corporate Officers. Outside counsel will support the City Attorney and Staff with legal advice to the Board, regarding the merits of pursuing a potential derivative action.

iv. In addition to monitoring for potential derivative actions, LACERS' bench of securities monitoring firms shall also, upon request, review and provide advice to the Board, Staff, and the City Attorney regarding non-litigation tactics to strengthen engagement with publicly traded companies in which LACERS is a shareholder, including the development of engagement policies, the creation of proxy voting guidelines, and the formulation of written communications to promote the Responsible Investment Policy.

d) Antitrust Actions

Antitrust actions in which the Plan may have a financial interest are typically filed as class action lawsuits that involve financial products, such as derivatives. Given that filing a claim for recovery in an antitrust settlement is an onerous administrative burden for Staff, the City Attorney 's Office is authorized to engage outside counsel and/or a claim filing service to assist with the claim filing process for antitrust settlements. Fees for assistance with the process shall only be paid if and when LACERS recoups money in the case and must be reasonable in light of the complexity of the claim and the cost for similar claims in comparable cases.

3. Diligent Asset Recovery in All Cases

In cases in which LACERS has not assumed an active role but has suffered losses, Staff and the City Attorney, working in conjunction with the custodian bank and outside counsel, shall take prudent steps to obtain the Plan's fair share of any securities litigation recovery in which the Plan has a valid claim.

D. Operational Roles and Responsibilities

1. The Board

a) Pursuant to the Guidelines set forth in Section XVIII.C.2.a, and upon considering the recommendations of Staff, the City Attorney's Office, and/or any outside counsel engaged to assist the City Attorney's Office, the Board shall make the final determination whether to actively participate in a particular domestic action. The

Board shall also make the final determination whether to file a public derivative litigation action on behalf of a company, as outlined in Section XVIII.C.2.c.

b) Consistent with Charter Section 275 and Section XVIII.D.4, the Board shall make recommendations of one or more outside law firms to serve as monitoring and litigation counsel to assist the City Attorney's Office in discharging the duties required by the Securities Litigation Policy.

c) As set forth in Charter Sections 273(a) and 272(c), the Board shall have the authority to approve or reject any settlement of litigation in which LACERS is an active participant, and to initiate and provide strategic client direction in actions in which LACERS serves as the lead party.

2. Custodian Bank, Outside Counsel, and/or Third-Party Vendor

LACERS' Custodian Bank and/or Third-Party Vendor shall be responsible for:

a) Reviewing all securities actions brought or pending within the United States or a foreign jurisdiction in which LACERS has suffered losses.

b) Timely filing complete and accurate proof of claims forms on LACERS' behalf, including the necessary supporting documents and information, necessary to recover damages in every securities class action brought or pending within the United States in which LACERS has suffered losses.

c) Providing timely notice to LACERS of each settlement recovery, with sufficient time to allow LACERS to opt-out of domestic actions, and/or opt-in to foreign actions. Staff shall have the authority to determine, and to communicate to the Custodian Bank and/or Third-Party Vendor, the deadline for such notice in each particular case.

d) Providing quarterly reports to Staff and the City Attorney's Office regarding these functions, including any securities litigation proceeds recovered.

e) Providing outside securities litigation monitoring counsel which has been engaged by LACERS pursuant to Section XVIII.D.4 with access to LACERS' securities holdings and transaction information in order to enable such counsel to identify losses associated with existing and potential lawsuits.

3. LACERS Staff

Staff shall be responsible for:

a) Monitoring the functions performed by the Custodian Bank and/or Third-Party Vendor as described above and shall keep the Board apprised of any unusual or extraordinary events.

b) Working with the City Attorney's Office to provide support and information regarding securities holdings and activity for litigation purposes.

c) Preparing for the Board an annual report summarizing securities class action activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

d) Assisting the City Attorney's Office to evaluate and recommend outside counsel law firms to the Board, which can assist the City Attorney's Office in discharging its duties under the Securities Litigation Policy.

e) Assisting the City Attorney's Office to provide recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

4. The City Attorney's Office

The City Attorney's Office, assisted by Staff and outside counsel as needed, shall be responsible for:

a) Identifying and recommending to the Board qualified outside law firms to assist the City Attorney's Office with advising and representing LACERS under this Securities Litigation Policy. Once engaged, outside securities monitoring counsel shall be authorized to receive access to LACERS' securities holdings and transaction information from the Custodian Bank and/or Third Party Vendor, as provided by Section XVIII.D.2. Such outside counsel firms shall also be eligible to be engaged to represent LACERS in a particular litigation matter.

b) Identifying and recommending to the Board qualified outside counsel that would be competent to serve as lead counsel, supervised by the City Attorney's Office, in a particular securities case in which LACERS has determined to seek appointment as lead plaintiff or as plaintiff in an opt-out securities fraud case. The Board shall select such firms to represent the Plan, subject to the written consent of the City Attorney's Office.

c) Providing recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

d) Once the Board has made a determination to seek an active role in a particular case, preparing targeted solicitations for distribution to the firms that have been engaged to provide securities monitoring services, evaluating proposals, and recommending one or more finalist firms to the Board.

e) Working with Staff to identify and select outside counsel from the Board's bench of engaged securities monitoring firms to serve as outside counsel for a demand for inspection of books and records, and if warranted and authorized by the Board, in derivative litigation, consistent with Section XVIII.C.2.c.

f) Assisting Staff to provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which LACERS is a party and/or lead plaintiff.

g) Assisting LACERS in its role as lead plaintiff in a class action or as a plaintiff in an opt-out case, including supervising the law firm appointed to serve as lead counsel. Such supervision may include participation in significant motions and settlement discussions when permitted by parties or the court and filing objections concerning attorney fee requests.

Section 15 GLOSSARY

INVESTMENT IMPACT

Allocation: Market returns weighted by LACERS' actual asset allocation less market returns weighted by LACERS' target allocation.

Management: The difference between a) market returns weighted by LACERS' sector allocation and b) market returns weighted by LACERS' actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS' sector allocation.

Overall: Actual returns less market returns weighted by LACERS' target allocation.

RISK

Mean Rate of Return: The geometric average of twenty quarterly returns, annualized.

Standard Deviation: The standard deviation (one sigma) of twenty quarterly returns, annualized.

CHARACTERISTICS

Historic Beta: The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

Return on Equity: The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE's of all stocks in the portfolio.

COMPLIANCE CALENDAR

Who	What	When	Page	Section No.	Policy Name
Board	Review of Investment Policy, investment structure, asset allocation, and financial performance	Annual or more frequently as needed	4	III.A.2	General
Board	Review Investments for consistency with policy guidelines	Quarterly or as needed	4	III.A.3	General
Board	Review Asset Allocation Policy	Every 3 years or sooner if warranted	8	IV	General

Section 15 GLOSSARY

Board	Review Annual Brokerage Commissions and Recapture Report	Within four months of fiscal year end	10	V.C	General
Staff	Report on rebalancing activity	Ad hoc	11	V.G	Rebalancing
Board	Approve new Adaptive Asset Allocation Plan or renew an existing AAAP	three months prior to the start of each fiscal year, annual	11	V.G	Rebalancing
Board/IC	Review Annual AAAP Review Report	Annual	16	V.H.VII	AAAP
Board	Review Investment Policy Statement	At least annually	18	V.I	General
Staff	Quantitative review of manager compared to benchmark and peer group	Quarterly	35	VIII.B	Manager Monitoring
Staff	Review manager portfolio characteristics, performance trends, style, risk expectations	Quarterly	35	VIII.B	Manager Monitoring
Staff	Due diligence meeting with manager at LACERS' office	Annual	35	VIII.B	Manager Monitoring
Staff	On-site due diligence meeting at manager's office	At least once per contract period	35	VIII.B	Manager Monitoring
Staff	Update Board on all managers' performance, status, and "On Watch".	Quarterly	36	VIII.C	Manager Monitoring
Staff	Report ODS Data (Calendar Year)	Annual with EM Report	44		Emerging Manager
Staff	Report on Emerging Investment Manager (Calendar Year)	Annual as of Calendar Year End	44		Emerging Manager
Staff/Consultant	Review Investment Guidelines of Private Equity Policy	Periodically	52	X.E	Private Equity
Board	Review and approve Private Equity Strategic Plan	Annual	53	X.F	Private Equity
Board	Review periodic Private Equity Portfolio Performance reports	Quarterly and annual	53	X.F	Private Equity
Board	Review Private Equity Commitment Notifcation reports	Ad hoc	53	X.F	Private Equity
Board	Review and approve commitments to or sales of PE investments exceeding established thresholds	Ad hoc	54	X.F	Private Equity

Section 15 GLOSSARY

Staff	Review periodic performance reports prepared by consultant	Quarterly and annual	53	X.F	Private Equity
Staff	Meet with existing managers	Periodically	53	X.F	Private Equity
Staff	Attend private equity fund annual meetings	As appropriate	53	X.F	Private Equity
Consultant	Provide periodic reports	Quarterly and annual	53	X.F	Private Equity
Board	Review and approve Annual Real Estate Strategic Plan	Annual	55	XI	Real Estate
Board/IC	Review and approve Real Estate investments	Ad hoc	66	XI.G.1	Real Estate
Staff/Consultant	Meet with existing Real Estate managers via annual fund meetings, face-to-face/telephonic meetings, or at Managers' or RE consultant's offices	Periodically	66	XI.G.2	Real Estate
Consultant	Prepare Real Estate Portfolio Performance Review	Semi-Annual	66	XI.G.2	Real Estate
Board	Review and approve Risk Budgets	Every 3 years or sooner if warranted	73	XII.C	Risk Management
Board	Review strategic risk and asset class risk vs. approved targets risk budgets	Periodically	73	XII.C	Risk Management
Staff	Update Responsible Investment Policy	Annual or more frequently as needed	81	XIII.G	Responsible Investment
Staff	Provide Board a report on PRI reporting changes and recommendations to improve ESG efforts	Annual	82	XIII.G	Responsible Investment
Staff	Complete PRI Questionnaire (PRI Annual Report) and provide Board report summarizing findings	Annual	86	XIII.L	Responsible Investment
Board	Review PRI Action Plan and ESG Risk Framework	Annual	86	XIII.L	Responsible Investment
Staff	Provide to Investment Committee the Annual Proxy Voting Report	Annual	86	XIII.L	Responsible Investment

Section 15 GLOSSARY

Board	Review Proxy Voting Policy	Biennial or more frequently as needed	87	XIV.B	Proxy Voting Policy
Consultant	Provide proxy voting report to staff summarizing votes cast	Quarterly	87	XIV.B	Proxy Voting Policy
Staff	Provide securities lending activity report to Board (Fiscal Year)	Annual within four monts of fiscal year end	108	XV.C	Securities Lending Policy
Board	Approve seeking lead plaintiff status in a class action or pursuing an independent legal action	Ad hoc	110	XVI.C.2	Securities Litigation
Board	Approve participation (opt-in) in foreign securities legal actions	Ad hoc	111	XVI.C.2	Securities Litigation
Outside Counsel	Provide quarterly reports to LACERS Staff and City Attorney's Office regarding securities litigation	Quarterly	112	XVI.D.2	Securities Litigation
Staff	Prepare Board report on annual Securities Class Action Activity	Annual within four monts of fiscal year end	112	XVI.C.3	Securities Litigation

4. The expected total return from income and the appreciation of capital;
5. Needs for liquidity, regularity of income, and preservation or appreciation of capital;
6. A reasonable effort to verify facts relevant to the investment and management of assets.

III. DUTIES OF RESPONSIBLE PARTIES

A. Duties of the Board or its Designate(s)

The Board has the responsibility for the administration of the System for the benefit of plan participants, although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

1. The Board develops and approves policies and guidelines for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.
2. A formal review of the Board's Investment Policy and investment structure, asset allocation, and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions, or the System's financial condition. Proposed policy amendments will include in the staff reports to the Investment Committee and/or the Board the results of the review and any additional opinions of the investment consultant(s) and the City Attorney.
3. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.
4. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.
5. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:
   a) Manager compliance to the Policy guidelines.
   b) Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
   c) Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.

VI. GENERAL INVESTMENT OBJECTIVES AND GUIDELINES

The general investment objective is to outperform the overall policy portfolio benchmark. The overall policy portfolio benchmark consists of weighted asset class benchmarks for each asset class as determined by the Board. The long term policy benchmarks are listed below:

~~Asset Class~~	~~Benchmark~~
~~Domestic Equity~~	~~Russell 3000~~
~~Non-U.S. Equity~~	~~MSCI ACWI ex-U.S.~~
~~Fixed Income~~	~~Bloomberg (BBG) U.S. Aggregate~~
~~Credit Opportunities~~	~~11.8% BBG US HY 2% Capped / 11.8% Credit Suisse Leveraged Loan Index / 31.4% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 45% Credit Suisse Leveraged Loan Index One Quarter Lagged~~
~~Private Equity~~	~~Cambridge Associates Global Private Equity and Venture Capital Index~~
~~Real Assets~~	~~30% BBG US TIPS / 11.7% FTSE NAREIT US Equity Index / 58.3% NFI-ODCE + 80bps~~
~~*Private Real Estate*~~	~~*NFI-ODCE + 80bps*~~
~~*Public Real Assets*~~	~~*72% BBG TIPS Index / 28% FTSE NAREIT US Equity Index*~~
~~Cash~~	~~90-Day Treasury Bill~~

Asset Class	Benchmark	Policy Target %	Threshold Lower	Threshold Upper
Domestic Equity	Russell 3000	21.00%	16.00%	26.00%
Non-U.S. Equity	MSCI ACWI ex-U.S.	26.00%	20.00%	32.00%
Fixed Income	Bloomberg (BBG) U.S. Aggregate	11.25%	8.50%	14.00%
Credit Opportunities	11.8% BBG US HY 2% Capped / 11.8% Credit Suisse Leveraged Loan Index / 31.4% of a blended 50% JPM EMB GD and 50% JPM GBI-EM GD / 45% Credit Suisse Leveraged Loan Index One Quarter Lagged	12.75%	9.50%	16.00%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index	16.00%		
Real Assets	30% BBG US TIPS / 11.7% FTSE NAREIT US Equity Index / 58.3% NFI-ODCE + 80bps	12.00%		
Private Real Estate	*NFI-ODCE + 80bps*	*7.00%*		
Public Real Assets	*72% BBG TIPS Index / 28% FTSE NAREIT US Equity Index*	*5.00%*	*2.50%*	*7.50%*
Cash	90-Day Treasury Bill	1.00%	0.00%	2.00%

and advisers, and investment managers to ensure a cost-efficient and effective implementation, as outlined in the matrix below.

Responsible Parties and Roles			
Board	**Staff**	**Consultants / Advisers**	**Investment Managers**
- Governance - Policy Setting - Oversight	- Due Diligence - Engagement - Implementation and Compliance - Policy Recommendations - Legal Guidance and Opinions via City Attorney's Office - Vote on PRI matters to include PRI election of board, auditor, governance measures; fulfilling other routine administrative and compliance requirements and requests	- Provide ESG education to the Board and Staff - Furnish research reports, customized reports, and other tools to understand current trends in ESG - Advise on Policy Matters	- Implement ESG directives and actions - Interpret and assess ESG risks and its impact on LACERS portfolio - Inform LACERS staff of any material ESG issues - Report ESG activities to LACERS to meet PRI Reporting requirements

F. Legal Framework

1. Fiduciary Responsibilities

Consistent with the California Constitution, the City Charter, and City Administrative Codes, and as set forth in the LACERS Investment Policy Statement, the Board must follow the standards set for all retirement board commissioners.

The Constitution imposes fiduciary responsibility on the commissioners of the Board to:

1. Administer the System's assets;
2. Exercise a high degree of care, skill, prudence and diligence;
3. Diversify investments to minimize risk and maximize return; and,
4. Specifically emphasizes that their duty to the System's members and beneficiaries takes precedence over any other duty.

The System is sensitive to concerns that ESG and other risk factors may affect the performance of investment portfolios (through time and to varying degrees across companies, sectors, regions, and asset classes). Investments shall not be selected or rejected based solely on ESG or other risk factors. However, consideration of material ESG risk factors alongside traditional financial factors should provide a better understanding of the risk and return characteristics of sustainable investments.

XVIII. SECURITIES LITIGATION POLICY

A. Purpose

The Board adopts this Securities Litigation Policy to establish procedures and guidelines for monitoring, evaluating, and participating in both securities class actions and other securities-related litigation as appropriate, to protect and maximize the recovery value of LACERS' assets.

B. Objective

The objective of the Securities Litigation Policy is to carry out the Board's fiduciary obligation to monitor securities class actions and other securities-related litigation in which LACERS has an interest, and to participate in such actions and recover damages when appropriate to protect and maximize the recovery value of LACERS' assets.

C. Guidelines

1. Use of Outside Experts As Needed

LACERS may engage the services of its custodian bank, third-party vendors, and with the concurrence of the City Attorney's Office, outside counsel, to assist LACERS ~~to monitor~~with monitoring securities litigation cases in which LACERS may have an interest, ~~evaluate~~evaluating LACERS' potential losses, ~~provide~~providing recommendations ~~concerning~~about whether to take an active role in ~~the~~ litigation, ~~and/or represent~~representing LACERS in cases in which the Board has agreed to seek an active role, assisting LACERS with participation in foreign securities actions, representing LACERS in corporate investigations and resulting derivative actions, and/or assisting LACERS with recovering assets in antitrust actions.

2. ~~Threshold for~~ Board Determinations ~~by the Board~~ and Delegated Authority to ~~Actively Participate~~City Attorney and Staff

a) Domestic Securities Actions

i. ~~The Board~~ As a general matter, absent compelling circumstances, unless the Plan incurs a potential loss net of gain (loss) in excess of Five Million U.S. Dollars ($5,000,000.00) calculated on a last in, first out (LIFO) basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, the Plan shall ~~make a determination, based upon the analysis and recommendation provided by Staff~~proceed as a passive member of a domestic securities class action and file a claim to receive its pro rata share of any resulting settlement or judgment as set forth in Section XVIII.C.3. If no class action has been filed, the General Manager, or their designee (Staff), the City Attorney's Office, ~~whether~~and outside counsel may make a consensus recommendation to ~~take~~the Board to initiate an ~~active role~~independent action or a class action in ~~a particular domestic~~closed session.

ii. If the potential loss exceeds Five Million U.S. Dollars ($5,000,000.00) but is less than Ten Million U.S. Dollars ($10,000,000.00) calculated on a LIFO basis in connection with any investment that has given rise to securities ~~class action, including whether to~~ litigation and assessed according to the class period alleged in the original complaint, Staff and the City Attorney's Office, in consultation with outside counsel, may reach a consensus determination to recommend that the Board seek lead plaintiff status or pursue an independent action~~, where: (1) the~~ after applying the considerations listed in Section XVIII.C.2.a.iv. If the General Manager, Staff, or the City Attorney's Office determine that the most prudent approach in a case is to remain a passive class member, then no Board consideration or action shall be required.

iii. If the potential loss exceeds Ten Million U.S. Dollars ($10,000,000.00) calculated on a LIFO basis in connection with any investment that has given rise to securities litigation and assessed according to the class period alleged in the original complaint, the matter shall be considered by the Board in closed session in order for the Board to determine whether to seek lead plaintiff status, pursue an independent action, or remain a passive member of the class.

iv. When determining whether to seek a leadership role in a particular securities lawsuit, Staff and the City Attorney's Office, in consultation with outside counsel, shall support the Board's fiduciary decision-making process by evaluating the following relevant factors:

1. whether the Plan's estimated ~~recoverable damages to LACERS exceed two million dollars ($2,000,000.00); or (2) the estimated recoverable damages to LACERS exceed one million dollars ($1,000,000.00) and LACERS joins with one or more City of Los Angeles retirement plans in pursuing an independent action. In making its determination, the Board shall weigh the potential damages incurred by the Plan,~~LIFO loss is likely to be the largest suffered by any individual class member;

2. whether another responsible institutional investor with a larger LIFO loss and comparable experience leading securities class actions is likely to pursue leadership in the case;

3. whether Staff, the City Attorney's Office, and outside counsel recommend seeking lead plaintiff appointment;

4. how large the potential recovery ~~that~~ may be ~~obtained~~for the Plan if such a claim is pursued~~, and the likelihood of the plaintiffs' success in the action based upon~~;

5. whether the Plan's active participation is expected to increase the monetary value of a settlement;

6. how the Plan's involvement could impact the investment portfolio's value or the Board's other fiduciary obligations;

7. whether the Plan's active participation will add non-monetary value to the potential recovery, such as governance reforms;

8. whether the plaintiff is likely to succeed on the merits of the action~~.~~;

9. what is the nature and severity of the conduct alleged; and

10. what is the potential administrative burden for Staff.

b) Foreign Securities Actions

i. ~~The Board shall make a determination, based upon the analysis and recommendation provided by Staff and the City Attorney's Office, whether to participate (Opt-In) in a particular~~A foreign securities action~~—~~ is a lawsuit ~~brought or~~ pending or proposed to be filed outside ~~of~~ the United States, involving securities purchased ~~by LACERS or on LACERS' behalf~~ on a foreign securities exchange~~—where the estimated recoverable damages~~ or other non-domestic transactions by LACERS or on its behalf. In contrast to ~~LACERS exceed one million U.S. dollars (US$ 1,000,000.00). In~~ domestic securities class actions, in which LACERS may remain a passive class member and receive its pro rata share of any recovery, participation as a class member in a foreign securities ~~actions, in addition to the core considerations concerning damages,~~action generally requires LACERS to "opt-in" through registration or other affirmative action by the Plan. Additionally, unlike domestic actions in which law firms provide representation on a contingency fee basis, foreign actions are typically financed by litigation funding groups. Law firms and/or litigation funding groups assist investors with complex participation agreements and/or claim forms that have strict deadlines. Litigation costs and fees are typically paid as a percentage of the resulting recovery.

ii. The General Manager, City Attorney's Office, and Staff, after evaluating advice from outside counsel, have delegated authority to decide whether LACERS will participate and/or file a claim to recover Plan assets in a foreign action. Before advising Staff to participate and/or file a claim in the foreign action, the City Attorney and outside counsel shall review the structure of litigation funding, review retention agreements with foreign counsel, analyze insurance contracts, and review powers of attorney. To inform their consensus decision, the General Manager, the City Attorney's Office, and Staff shall consider the relevant factors listed in Section XVIII.C.2.a.iv, as well as the following additional factors:

1. whether outside counsel recommends participation;

2. whether there is a strong legal basis for recovery in that foreign jurisdiction, which is supported by case precedent;

3. whether there are risks to participation for the Plan, including potential out-of-pocket costs; and

4. whether the funding group and outside legal counsel are qualified and have sufficient financial support to handle the action.

iii. Upon reaching a consensus determination to participate and/or file a claim, the City Attorney and Staff are authorized to engage outside counsel and/or a third-party funding group to pursue a claim on behalf of LACERS and/or take the actions necessary to participate as a class member in a foreign case. When submitting a form or taking similar administrative ~~burdens, and liability, the~~ action is the only required step to obtain part of a settlement, a consensus decision is not required, and the City Attorney may file a claim on behalf of the

Plan or, if necessary, direct outside counsel, the custodian bank, or a third-party to do so. Fees for assistance with the process shall only be paid if and when LACERS recoups money in the case and must be reasonable in light of the complexity of the claim and the cost for similar claims in comparable cases.

iv. The Board provides a standing delegation of authority to the General Manager or their designee to execute all necessary documents on behalf of LACERS with respect to foreign actions, including powers of attorney, participation agreements, follow-up documents to cure claim deficiencies, and documents to direct payment of settlement proceeds.

c) Derivative Actions and Engagement on Corporate Governance

i. The Board authorizes the General Manager, City Attorney, and Staff, consistent with this Securities Litigation Policy, the Responsible Investment Policy, and other relevant Board policies, to initiate an inspection of books and records under Delaware Corporate Law Section 220 (or the equivalent provisions of other state law, as applicable) to determine if there are meritorious claims that can be asserted derivatively on behalf of the company, a confidential process that typically proceeds a derivative action.

ii. If the City Attorney 's Office and Staff have determined that an inspection of books and records is appropriate, they will seek targeted proposals from LACERS' current bench of securities monitoring firms under contract and make a selection to assist LACERS in the matter. In determining whether to pursue a books and records inspection, the General Manager, City Attorney, and Staff shall make a consensus determination based on the following factors:

1. what is the potential harm to the company and its shareholders;

2. whether the Plan has the capacity to facilitate governance improvements; and

3. whether there is potential to promote LACERS' Principles for Responsible Investment that are relevant to LACERS' interests as a long-term fiduciary investor.

iii. Following the inspection of books and records and any other confidential investigation relating to this matter, the Board shall determine whether LACERS will pursue a potential derivative action by deciding whether to authorize the City Attorney and outside counsel to publicly file a derivative complaint against the company's Board of Directors and/or Corporate Officers. Outside counsel will support the City Attorney and Staff with legal advice to the Board, regarding the merits of pursuing a potential derivative action.

iv. In addition to monitoring for potential derivative actions, LACERS' bench of securities monitoring firms shall also ~~shall weigh carefully the quality and financial stability of the foreign legal counsel and the defense cost funding guarantor~~, upon request, review and provide advice to the Board, Staff, and the City Attorney regarding non-litigation tactics to strengthen engagement with publicly traded companies in which LACERS is a shareholder, including the development of engagement policies, the creation of proxy voting guidelines, and the formulation of written communications to promote the Responsible Investment Policy.

d) Antitrust Actions

Antitrust actions in which the Plan may have a financial interest are typically filed as class action lawsuits that involve financial products, such as derivatives. Given that filing a claim for recovery in an antitrust settlement is an onerous administrative burden for Staff, the City Attorney 's Office is authorized to engage outside counsel and/or a claim filing service to assist with the claim filing process for antitrust settlements. Fees for assistance with the process shall only be paid if and when LACERS recoups money in the case and must be reasonable in light of the complexity of the claim and the cost for similar claims in comparable cases.

3. Diligent Asset Recovery in All Cases

In cases in which LACERS has not assumed an active role but has suffered losses, ~~LACERS~~Staff and the City Attorney, working in conjunction with the custodian bank and outside counsel, shall ~~ensure that it obtains its~~take prudent steps to obtain the Plan's fair share of any securities litigation recovery in which ~~it~~the Plan has ~~filed~~ a valid claim.

D. Operational Roles ~~And~~and Responsibilities ~~To Implement The Securities Litigation Policy~~

1. The Board

a) Pursuant to the Guidelines set forth in Section XVIII.C.2 ~~of the Securities Litigation Policy~~.a, and upon considering the recommendations of Staff, the City Attorney's Office, and/or any outside counsel engaged to assist the City Attorney's Office, the Board shall make the final determination whether to actively participate in a particular ~~action~~domestic action. The Board shall also make the final determination whether to file a public derivative litigation action on behalf of a company, as outlined in Section XVIII.C.2.c.

b) Consistent with Charter Section 275 and Section XVIII.D.4 ~~of the Securities Litigation Policy~~, the Board shall make recommendations of one or more outside law firms to serve as monitoring and litigation counsel to assist the City Attorney's Office in discharging the duties required by the Securities Litigation Policy.

c) As set forth in Charter ~~Section~~Sections 273(a) and 272(c), the Board shall have the authority to approve or reject any settlement of litigation in which LACERS is an active participant, and to initiate and provide strategic client direction in actions in which LACERS serves as the lead party.

2. Custodian Bank, Outside Counsel, and/or Third-Party Vendor

LACERS' Custodian Bank and/or Third-Party Vendor shall be responsible for:

a) Reviewing all securities actions brought or pending within the United States or a foreign jurisdiction in which LACERS has suffered losses.

b) Timely filing complete and accurate proof of claims forms on LACERS' behalf, including the necessary supporting documents and information, necessary to recover damages in every securities class action brought or pending within the United States in which LACERS has suffered losses.

~~c)~~ Providing timely notice to LACERS of each settlement recovery, with sufficient time to allow LACERS to opt-out of domestic actions, and/or opt-in to foreign actions. ~~LACERS~~ Staff shall have the authority to determine, and to communicate to the

c) Custodian Bank and/or Third-Party Vendor, the deadline for such notice in each particular case.

d) Providing quarterly reports to ~~LACERS~~ Staff and the City Attorney's Office regarding these functions, including any securities litigation proceeds recovered.

e) Providing outside securities litigation monitoring counsel which has been engaged by LACERS pursuant to Section ~~D.4 of the Securities Litigation Policy~~XVIII.D.4 with access to LACERS' securities holdings and transaction information in order to enable such counsel to identify losses associated with existing and potential lawsuits.

3. LACERS Staff

~~LACERS~~ Staff shall be responsible for:

a) Monitoring the functions performed by the Custodian Bank and/or Third-Party Vendor as described above and shall keep the Board apprised of any unusual or extraordinary events.

b) Working with the City Attorney's Office to provide support and information regarding securities holdings and activity for litigation purposes.

c) Preparing for the Board an annual report summarizing securities class action activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

d) Assisting the City Attorney's Office to evaluate and recommend ~~to the Board~~ outside counsel law firms to the Board, which can assist the City Attorney's Office in discharging its duties under the Securities Litigation Policy.

e) Assisting the City Attorney's Office to provide recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

4. The City Attorney's Office

The City Attorney's Office, assisted by Staff and outside counsel as needed, shall be responsible for:

a) Identifying and recommending to the Board qualified outside law firms to assist the City Attorney's Office with ~~monitoring, evaluating, and recommending cases in which LACERS should consider taking an active role under the Securities Litigation Policy. The Board shall recommend one or more such firms to be engaged as outside securities litigation monitoring counsel to assist the City Attorney, subject to the written consent of the City Attorney's Office.~~advising and representing LACERS under this Securities Litigation Policy. Once engaged, outside securities monitoring counsel shall be authorized to receive access to LACERS' securities holdings and transaction information from the Custodian Bank and/or Third Party Vendor, as provided by Section ~~D.2 of the Securities Litigation Policy~~XVIII.D.2. Such outside counsel firms shall also be eligible to be engaged to represent LACERS in a particular litigation matter.

~~Section 13 SECURITIES LITIGATION POLICY~~

b) Identifying and recommending to the Board qualified outside ~~law firms~~counsel that would be competent to serve as lead counsel, supervised by the City Attorney's Office, in a particular securities case in which LACERS has ~~sought~~determined to ~~serve~~seek appointment as lead plaintiff or as plaintiff in an opt-out securities fraud case. The Board shall ~~recommend one ormore~~select such firms to represent the Plan, subject to the written consent of the City Attorney's Office.

~~such firms, subject to the written consent of the City Attorney's Office, to be placed upon a list of approved lead counsel candidates that would be eligible to submit proposals to represent LACERS in a particular case.~~

c) Providing recommendations to the Board concerning whether to take an active role in a particular action pursuant to the Guidelines set forth in the Securities Litigation Policy.

d) Once the Board has made a determination to seek an active role in a particular case, preparing ~~Requests for Proposal~~targeted solicitations for distribution to the firms that have been ~~placed upon the list of approved lead counsel candidates~~engaged to provide securities monitoring services, evaluating proposals, and recommending one or more finalist firms to the Board.

e) Working with Staff to identify and select outside counsel from the Board's bench of engaged securities monitoring firms to serve as outside counsel for a demand for inspection of books and records, and if warranted and authorized by the Board, in derivative litigation, consistent with Section XVIII.C.2.c.

~~e)~~f) Assisting Staff to provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which LACERS is a party and/or lead plaintiff.

~~f)~~g) Assisting LACERS in its role as lead plaintiff in a class action or as a plaintiff in an opt-out case, including supervising the law firm appointed to serve as lead counsel. Such supervision may include participation in significant motions and settlement discussions when permitted by parties or the court~~,~~ and filing objections concerning attorney fee requests.

- Child Labor
- Working Conditions
- Employee Relations
- Diversity, Equity, and Inclusion
- Gender and Sexual Orientation Pay Equality
- Discrimination based on Race, Gender including Women, Age including Senior Citizens and Children, Sex, Sexual Orientation, LGBTQIA+, Disability, Veterans Status, Language, or Social Status
- Freedom of Speech and Press
- Right to Civil Liberties including Speech and Press, Peaceful Assembly and Association, Freedom of Religion, National Origin /Racial/Ethnic Minorities, Freedom of Movement within a Country, Foreign Travel, Emigration, and Repatriation
- Freedom of Civil Unions/Same Sex Marriage

Governance

- Bribery and Corruption
- Executive Pay
- Board Diversity and Structure
- Political Lobbying and Donations
- Tax Strategy
- Right of Citizens to Change their Government

I. Stewardship

LACERS will focus its engagement efforts on Board directed stewardship initiatives, that are core to LACERS belief that consideration of ESG risk factors can add long-term value to LACERS investments. In addition, LACERS receives requests from stakeholders, fellow investors, and other interested parties to engage on particular issues. These ad-hoc requests are analyzed in consultation with the City Attorney in order to take best course of action to meet LACERS needs.

J~~I~~. Identifying and Mitigating Material ESG Risks within the Portfolio

LACERS staff will research and keep the Board apprised of material and relevant ESG issues, initiatives, and collaboration opportunities, and take into account actions of other like prudent investors using the process outlined below:

1. Once ESG risks factors of material significance within the portfolio have been identified and discussed with the ESG Consultant, staff will bring such risks to the attention of the Board.

2. LACERS Board may decide at any point after considering research and staff findings that further action of various degrees of magnitude and impact may be appropriate and necessary to mitigate risk factors. This Policy identifies four distinct action levels that may be implemented, subject to Board direction:

INVESTMENT IMPACT

Allocation: Market returns weighted by LACERS' actual asset allocation less market returns weighted by LACERS' target allocation.

Management: The difference between a) market returns weighted by LACERS' sector allocation and b) market returns weighted by LACERS' actual asset allocation; added to the difference between c) fund returns and d) market returns weighted by LACERS' sector allocation.

Overall: Actual returns less market returns weighted by LACERS' target allocation.

RISK

Mean Rate of Return: The geometric average of twenty quarterly returns, annualized.

Standard Deviation: The standard deviation (one sigma) of twenty quarterly returns, annualized.

CHARACTERISTICS

Historic Beta: The beta of stocks currently owned in the portfolio compared to the S&P 500. The security-level beta is vendor supplied and the index is predetermined. In the U.S., The S&P 500 is traditionally used in beta calculations; other indexes cannot be substituted in the beta calculation. When the index is other than the S&P 500, the index beta is also in comparison to the S&P 500.

Return on Equity: The Return on Equity calculation is After-Tax Net Income divided by Owners Equity. The return on equity relates a company's profitability to its shareholder's equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage. The portfolio ROE is based on the combined ROE's of all stocks in the portfolio.

COMPLIANCE CALENDAR

Who	What	When	Page	Section No.	Policy Name
Board	Review of Investment Policy, investment structure, asset allocation, and financial performance	Annual or more frequently as needed	4	III.A.2	General
Board	Review Investments for consistency with policy guidelines	Quarterly or as needed	4	III.A.3	General
Board	Review Asset Allocation Policy	Every 3 years or sooner if warranted	8	IV	General

Section 15 GLOSSARY

Board	Review Annual Brokerage Commissions and Recapture Report	Within four months of fiscal year end	10	V.C	General
Staff	Report on rebalancing activity	Ad hoc	11	V.G	Rebalancing
Board	Approve new Adaptive Asset Allocation Plan or renew an existing AAAP	three months prior to the start of each fiscal year, annual	11	V.G	Rebalancing
Board/IC	Review Annual AAAP Review Report	Annual	16	V.H.VII	AAAP
Board	Review Investment Policy Statement	At least annually	18	V.I	General
Staff	Quantitative review of manager compared to benchmark and peer group	Quarterly	35	VIII.B	Manager Monitoring
Staff	Review manager portfolio characteristics, performance trends, style, risk expectations	Quarterly	35	VIII.B	Manager Monitoring
Staff	Due diligence meeting with manager at LACERS' office	Annual	35	VIII.B	Manager Monitoring
Staff	On-site due diligence meeting at manager's office	At least once per contract period	35	VIII.B	Manager Monitoring
Staff	Update Board on all managers' performance, status, and "On Watch".	Quarterly	36	VIII.C	Manager Monitoring
Staff	Report ODS Data (Calendar Year)	Annual with EM Report	44		Emerging Manager
Staff	Report on Emerging Investment Manager (Calendar Year)	Annual as of Calendar Year End	44		Emerging Manager
Staff/Consultant	Review Investment Guidelines of Private Equity Policy	Periodically	52	X.E	Private Equity
Board	Review and approve Private Equity Strategic Plan	Annual	53	X.F	Private Equity
Board	Review periodic Private Equity Portfolio Performance reports	Quarterly and annual	53	X.F	Private Equity
Board	Review Private Equity Commitment Notifcation reports	Ad hoc	53	X.F	Private Equity
Board	Review and approve commitments to or sales of PE investments exceeding established thresholds	Ad hoc	54	X.F	Private Equity

Section 15 GLOSSARY

Staff	Review periodic performance reports prepared by consultant	Quarterly and annual	53	X.F	Private Equity
Staff	Meet with existing managers	Periodically	53	X.F	Private Equity
Staff	Attend private equity fund annual meetings	As appropriate	53	X.F	Private Equity
Consultant	Provide periodic reports	Quarterly and annual	53	X.F	Private Equity
Board	Review and approve Annual Real Estate Strategic Plan	Annual	55	XI	Real Estate
Board/IC	Review and approve Real Estate investments	Ad hoc	66	XI.G.1	Real Estate
Staff/Consultant	Meet with existing Real Estate managers via annual fund meetings, face-to-face/telephonic meetings, or at Managers' or RE consultant's offices	Periodically	66	XI.G.2	Real Estate
Consultant	Prepare Real Estate Portfolio Performance Review	Semi-Annual	66	XI.G.2	Real Estate
Board	Review and approve Risk Budgets	Every 3 years or sooner if warranted	73	XII.C	Risk Management
Board	Review strategic risk and asset class risk vs. approved targets risk budgets	Periodically	73	XII.C	Risk Management
Staff	Update Responsible Investment Policy	Annual or more frequently as needed	81	XIII.G	Responsible Investment
Staff	Provide Board a report on PRI reporting changes and recommendations to improve ESG efforts	Annual	82	XIII.G	Responsible Investment
Staff	Complete PRI Questionnaire (PRI Annual Report) and provide Board report summarizing findings	Annual	86	XIII.L	Responsible Investment
Board	Review PRI Action Plan and ESG Risk Framework	Annual	86	XIII.L	Responsible Investment
Staff	Provide to Investment Committee the Annual Proxy Voting Report	Annual	86	XIII.L	Responsible Investment

Section 15 GLOSSARY

Board	Review Proxy Voting Policy	Biennial or more frequently as needed	87	XIV.B	Proxy Voting Policy
Consultant	Provide proxy voting report to staff summarizing votes cast	Quarterly	87	XIV.B	Proxy Voting Policy
Staff	Provide securities lending activity report to Board (Fiscal Year)	Annual within four monts of fiscal year end	108	XV.C	Securities Lending Policy
Board	Approve seeking lead plaintiff status in a class action or pursuing an independent legal action	Ad hoc	110	XVI.C.2	Securities Litigation
Board	Approve participation (opt-in) in foreign securities legal actions	Ad hoc	111	XVI.C.2	Securities Litigation
Outside Counsel	Provide quarterly reports to LACERS Staff and City Attorney's Office regarding securities litigation	Quarterly	112	XVI.D.2	Securities Litigation
Staff	Prepare Board report on annual Securities Class Action Activity	Annual within four monts of fiscal year end	112	XVI.C.3	Securities Litigation

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

MEETING: DECEMBER 10, 2024
ITEM: VI

SUBJECT: **BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2023 TO JUNE 30, 2024**

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

Recommendation

That the Committee receive and file this report.

Discussion

The LACERS Investment Policy, Section 1.V.C, states:

> Brokerage Policy
> The Board directs all investment managers trading public securities to utilize brokers who shall fulfill brokerage transactions for System assets in accordance with best execution. Subsequently, all LACERS public equity managers are to utilize commission recapture brokers on a best-efforts basis. Commission recapture is a program designed to reduce fund expenses and increase cash flow by returning a portion of the commissions that external investment managers pay to brokers. Staff will provide to the Board an annual report summarizing commission and recapture activity for the fiscal year. The report will be presented within four months following the end of the fiscal year.

LACERS' investment managers are directed by policy and contract to use brokerage services that reduce trading costs and paid commissions that impact net performance. Commission recapture brokers are utilized to the extent that such brokers' costs are equal or less than the net cost of non-recapture broker. Pursuant to policy, LACERS' brokerage commissions paid and amounts recaptured for the period July 1, 2023 to June 30, 2024, are presented in Attachment 1 to this report.

Prepared By: Wendy E. Norman, Investment Officer I, Investment Division.

NMG/RJ/WL/WN:rm

Attachment: 1. LACERS' Commissions Paid and Recaptured, July 1, 2023 to June 30, 2024

LACERS' COMMISSIONS PAID AND RECAPTURED
July 1, 2023 to June 30, 2024

Asset Class/Manager	Strategy	Total Commissions Paid ($)	Recaptured Commissions ($)
Domestic Equities			
Copeland Capital Management, LLC	Small Cap Growth	105,237.56	
EAM Investors, LLC	Small Cap Growth	264,210.50	
Granahan Investment Management, Inc.	Small Cap Growth	151,034.49	
Principal Global Investors, LLC	Mid Cap Core	33,302.07	
RhumbLine Advisers Limited Partnership			
	S&P 500 Index	28,146.86	
	Russell 2000 Index	11,086.63	
	Russell 2000 Value Index	4,984.59	
Segall, Bryant, & Hamill, LLC	Small Cap Value	64,851.12	3,061.20
Sub-total		**$662,853.82**	**$3,061.20**
Non-U.S Equities			
Axiom Investors, LLC	Emerging Markets Growth	495,565.50	5,908.05
Barrow, Hanley, Mewhinney & Strauss, LLC	Developed Markets Value	547,848.63	
Dimensional Fund Advisors LP	Emerging Markets Value	76,992.60	
Lazard Asset Management LLC	Developed Markets Core	529,054.64	
MFS Institutional Advisors, Inc.	Developed Markets Growth	59,758.63	
Oberweis Asset Management, Inc.	Small Cap Core	678,216.97	
State Street Global Advisors Trust Company	MSCI World ex-U.S. Index	24,731.14	
Wasatch Advisors, Inc.	Emerging Markets Small Cap	228,477.27	
Sub-total		**$3,303,499.20**	**$5,908.05**

Asset Class/Manager	Strategy	Total Commissions Paid ($)	Recaptured Commissions ($)
Public Real Assets			
Center Square Investment Management LLC	U.S. REITS	256.449.43	
Sub-total		**$256,449.43**	
Credit Opportunities			
Loomis, Sayles & Company, LP	High Yield Fixed Income	243.15	
Sub-total		**$243.15**	
Private Equity			
Khosla Ventures IV	Private Equity	120.42	
Sub-total		**$120.42**	
Other			
Liquidation of Stock Distributions		30,694.30	
Sub-total		**$30,694.30**	
Combined total		**$3,691,616**	**$8,969.25**