LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, JANUARY 14, 2025

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:	Todd Bouey
Executive Assistant:	Ani Ghoukassian
Legal Counselor:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

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CLICK HERE TO ACCESS BOARD REPORTS

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

II. APPROVAL OF MINUTES FOR THE MEETING OF DECEMBER 10, 2024 AND POSSIBLE COMMITTEE ACTION

III. CHIEF INVESTMENT OFFICER VERBAL REPORT

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

V. REAL ESTATE INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION

VI. OTHER BUSINESS

VII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, February 11, 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.

VIII. ADJOURNMENT

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, JANUARY 14, 2025

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VIII. ADJOURNMENT

Agenda of: Jan. 14, 2025

Item No: II

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

December 10, 2024

1:00 p.m.

PRESENT:	Chair:	Elizabeth Lee
	Committee:	Thuy T. Huynh Gaylord “Rusty” Roten
	Legal Counselor:	Miguel Bahamon
	Manager-Secretary:	Neil M. Guglielmo
	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 OCTOBER 8, 2024 AND POSSIBLE COMMITTEE ACTION – Committee Member Roten 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 Investment Committee Forward Calendar

IV

PRESENTATION BY AKSIA LLC OF THE PRIVATE EQUITY PROGRAM 2025 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION – Jeff Goldberger, Managing Director, and Trevor Jackson, Managing Director, with Aksia LLC, presented and discussed this item with the Committee for 27 minutes. Committee Member Roten moved approval, and adopted by the following vote: Ayes, Committee Members Huynh, Roten, and Chair Lee-3; Nays, None.

V

INVESTMENT POLICY AMENDMENTS AND POSSIBLE COMMITTEE ACTION – Rod June, Chief Investment Officer, James Wang, Investment Officer I, and Gina Di Domenico, Deputy City Attorney III, presented and discussed this item with the Committee for 35 minutes. Committee Member Huynh moved approval, and adopted by the following vote: Ayes, Committee Members Huynh, Roten, and Chair Lee-3; Nays, None.

VI

BROKERAGE ACTIVITY REPORT FOR THE PERIOD JULY 1, 2023 TO JUNE 30, 2024 – This report was received by the Committee and filed.

VII

OTHER BUSINESS – There was no 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 – There being no further business, Chair Lee adjourned the meeting at 2:00 p.m.

Elizabeth Lee
Chair

Neil M. Guglielmo
Manager-Secretary

LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE
From: Todd Bouey, Acting General Manager

MEETING: JANUARY 14, 2025
ITEM: IV

SUBJECT: **PRESENTATION BY AKSIA LLC OF THE PRIVATE CREDIT 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 Credit Program 2025 Strategic Plan.

Discussion

Aksia LLC (Aksia), LACERS' Private Credit Consultant, with input from staff, has developed the proposed Private Credit 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: Clark Hoover, Investment Officer I, Investment Division

TB/RJ/WL/EC/CH:rm

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

Aksia LLC

LACERS Private Credit Program
2025 Strategic Plan
January 2025

Aksia
New York • London • Tokyo

www.aksia.com

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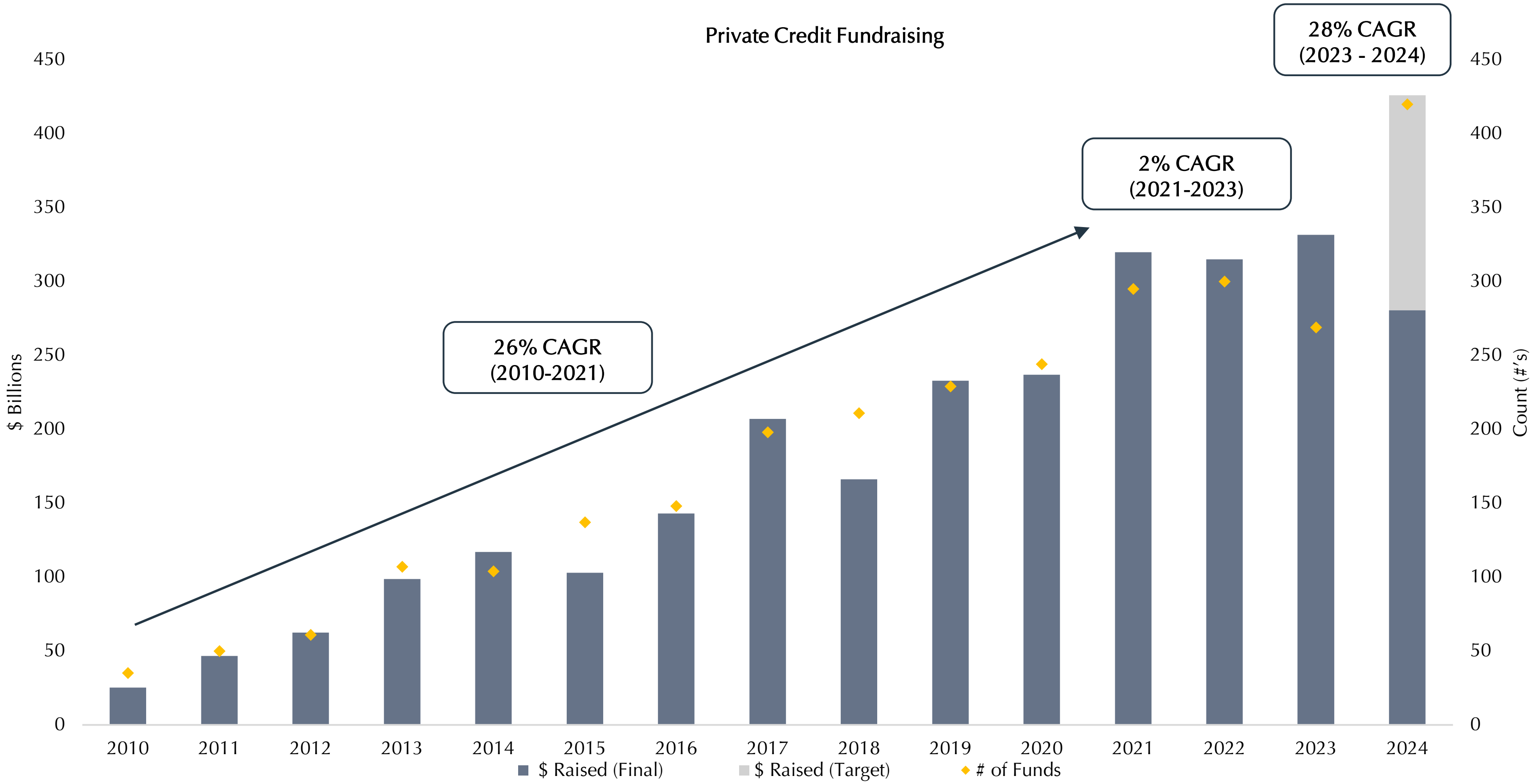
Private Credit Overview

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

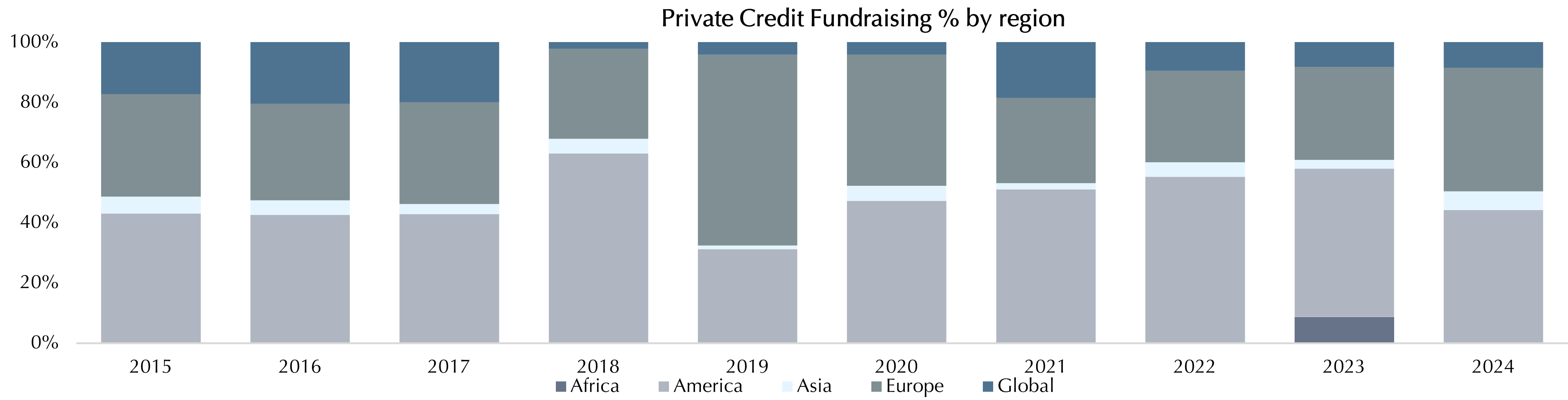
Aksia

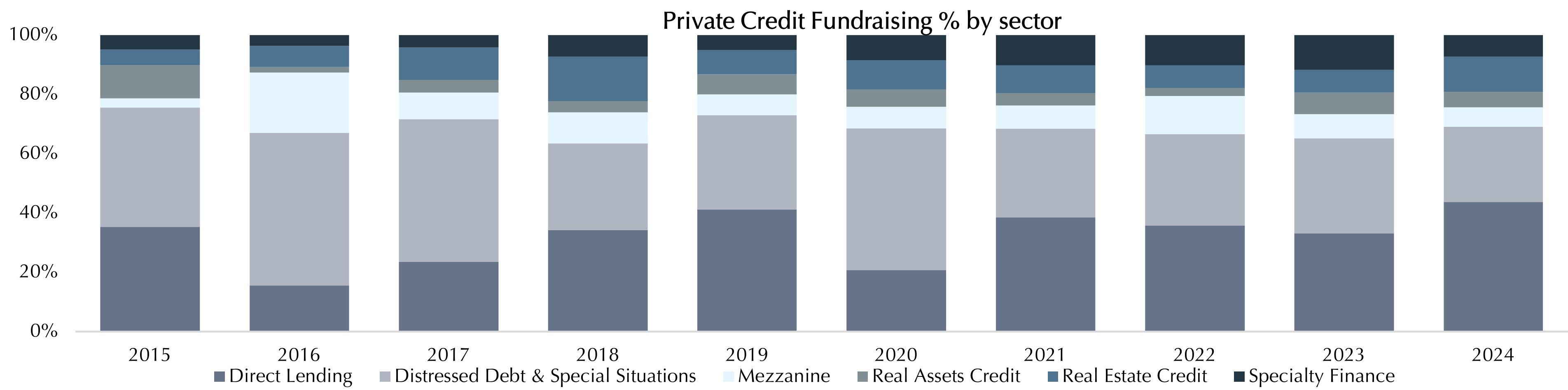


- The frenetic pace of fundraise activity throughout the late 2010's cooled dramatically over the 2021-2023 period.
- This year, however, the market appears to have returned to a similarly frenetic pace of AUM growth with GPs targeting what would be a record year in aggregate, should targets for 2024 be achieved.
- Based on our data, we do not yet think the global PC market is finally reaching a point of maturity / stability. Rather, the 'flat' fundraising environment of the 2021-2023 period reflects the very specific challenges which many LPs faced (denominator effect, LDI challenges etc.), combined with a general 'risk-off' sentiment in the face of macro-economic uncertainty.
- 2024 looks like it might reflect a significant rebounding of market sentiment as GPs (and LPs) look to get PC allocation pacing back on-plan after a number of subdued years.

Source: Aksia as of 12 September 2024. Note: Offerings with an incomplete fundraising profile were excluded.

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN





- PC remains a market which is characterized by a highly diversified group of underlying strategies – potentially more so than any other private markets asset class. Our fund raise data evidences this breadth.
- Whilst US-centric activity dominated the early / developmental years of the PC asset class – and still remains the largest single market to date – activity has broadened notably, particularly for European-centric strategies over recent years.
- Outside of these two main markets (U.S. and Europe), we are still yet to see Asian-focused strategies reach their full potential in terms of relative sizing and, in some respects, this market remains undersized compared to its potential.
- With respect to underlying strategies, Direct Lending has consistently represented the cornerstone of market activity, generally accounting for 30-40% of total market fundraising in any given year, with Distressed & Special Situations generally representing a similar proportion.

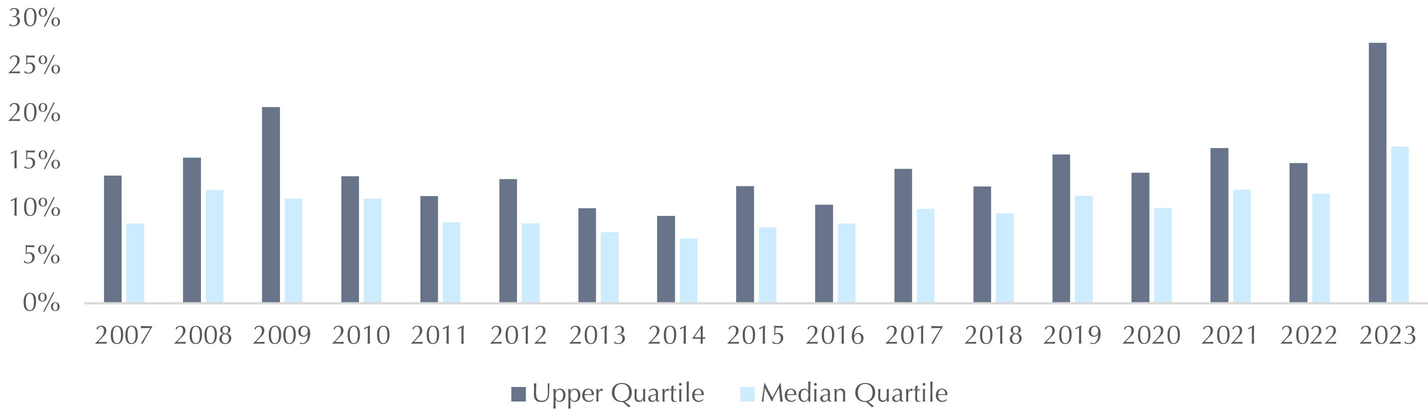
Source: Aksia as of April 23, 2024. Note: Offerings with an incomplete fundraising profile were excluded.

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

Private Credit Returns by Sector	5 Year	10 Year	15 Year
Subordinated Capital	11.2%	10.9%	11.6%
Credit Opportunities	8.5%	7.3%	11.4%
Senior Debt	7.3%	7.3%	7.7%
Control-Oriented Distressed	13.6%	11.3%	12.4%
Total	10.3%	9.1%	11.3%

Private Credit Returns by Vintage Year



- PC returns have been consistently positive over the past several years, though returns can differ by vintage year and strategy. As a result, there is a need for consistent deployment to achieve the desired level of vintage year diversification.
- Additionally, PC sectors have varying risk and return expectations, making continued diversified commitments important to overall performance.

Source: Cambridge Associates Pooled IRR: Subordinated Capital, Credit Opportunities, Senior Debt, Control-Oriented Distressed for the United States, Canada, Europe and Global as of June 30, 2024.

Portfolio Pacing

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Pacing Analysis Summary

- Aksia recommends LACERS commit approximately $600 million to $700 million for 2025, with an expected target of up to $650 million
- Aksia believes it is reasonable to consider a five-year aggregate total commitment target of $3.9 billion as a base case scenario to achieve and maintain the target allocation of 5.75%
- LACERS is expected to hit the 5.75% allocation target by 2031

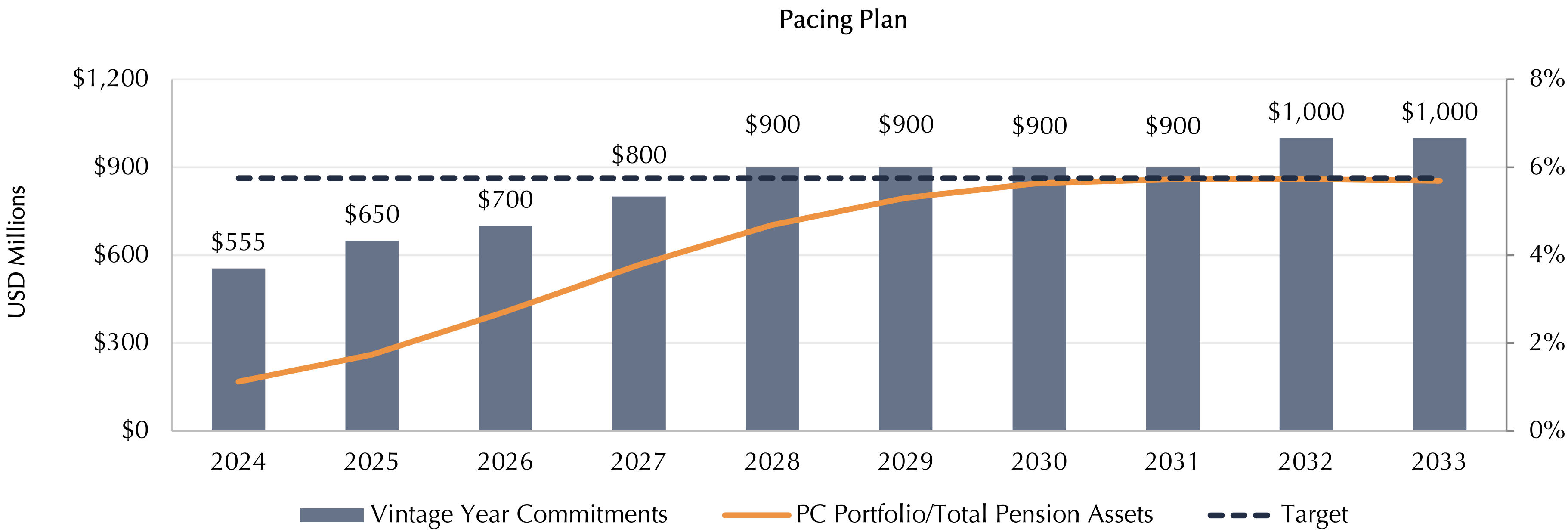
Key Assumptions

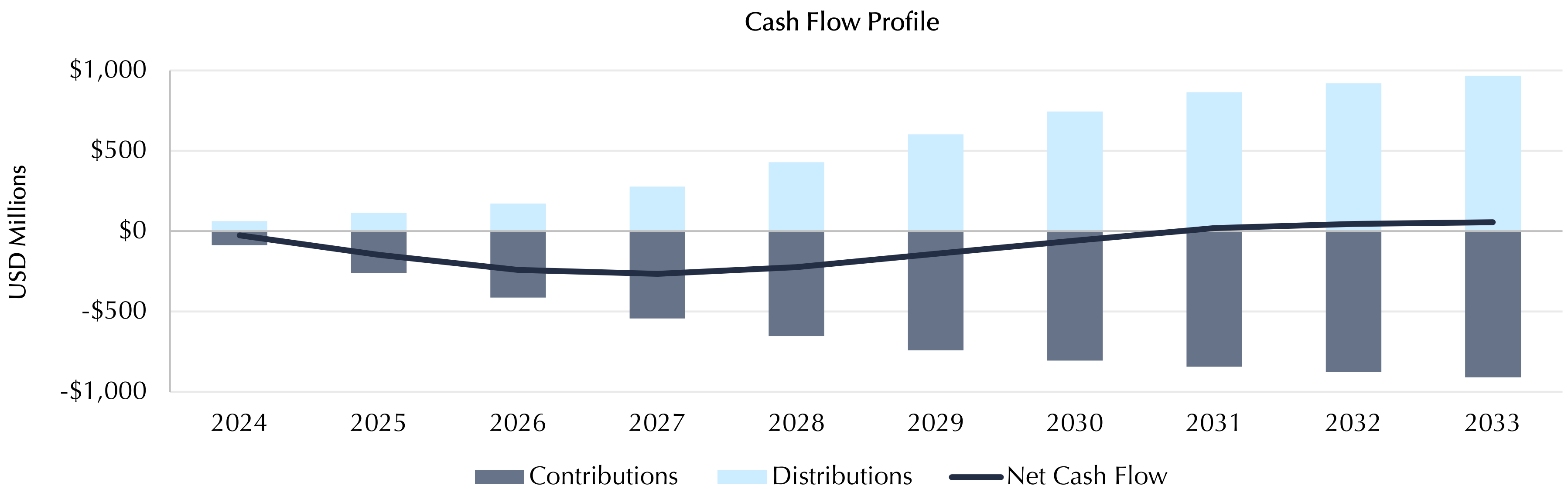
- $23.1bn plan value as June 30, 2024
- 4% long-term pension growth rate
- Incorporate LACERS' fund-level holdings information and Aksia's proprietary, private credit assumptions and scenarios

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

Pacing Model (Base Case)



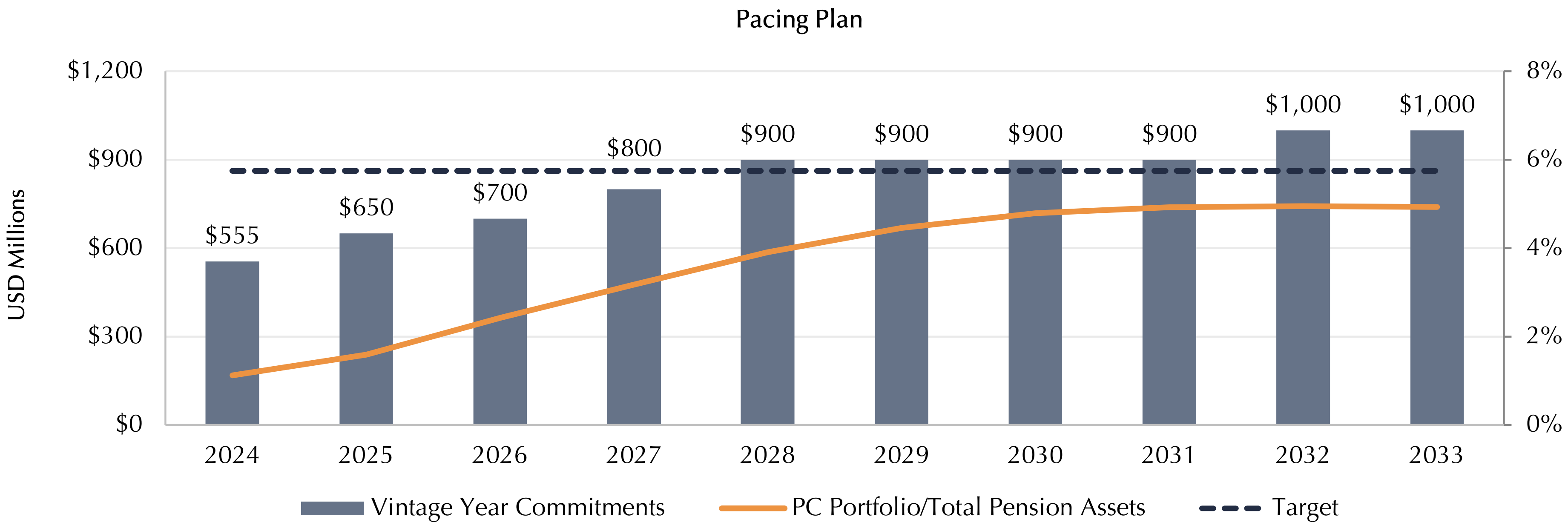


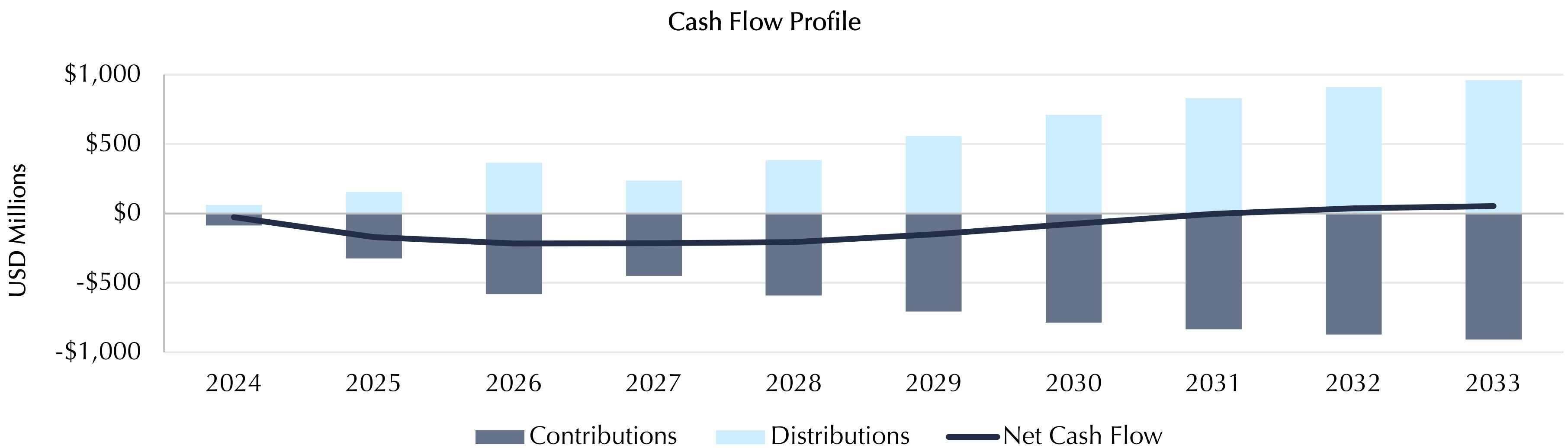
Data as of June 30, 2024

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

Updated Pacing Model (Upside Scenario)



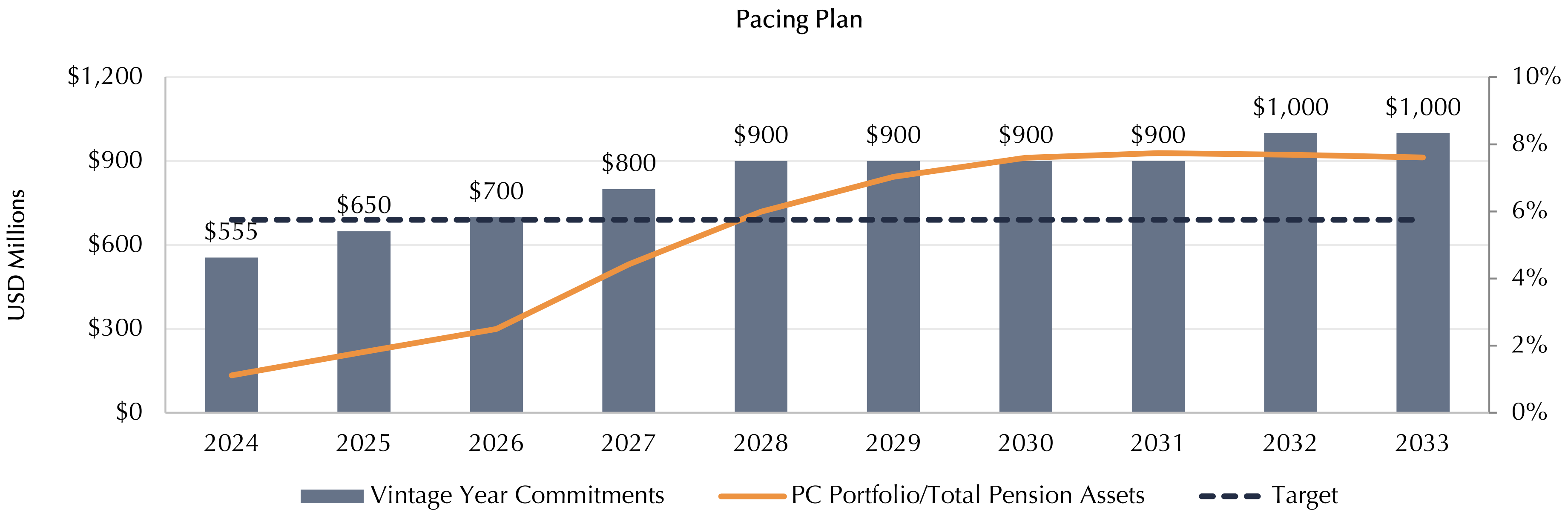


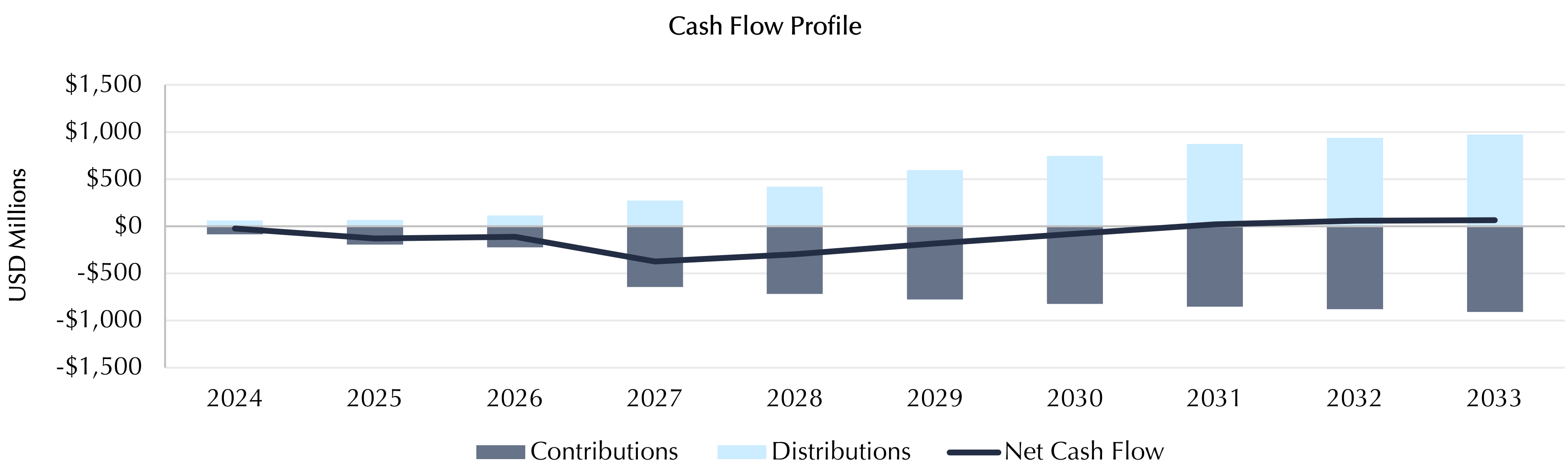
Data as of June 30, 2024

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

Updated Pacing Model (Downside Scenario)





Data as of June 30, 2024

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

2025 Commitment Recommendations | $ in Millions

Strategy	Current Exposure[1]	Target	Annual Allocation	Commitment Range[2]
Core	**0%**	**70%-100%**	**$450-$700**	**$50-$150**
Direct Lending	100%	40%-70%		
Real Estate/Real Asset Credit	0%	20%-40%		
Satellite	**0%**	**0%-30%**	**$0-$210**	**$30-$100**
Specialty Finance	0%	0%-25%		
Distressed/Special Situations	0%	0%-30%		
Geography	**Current Exposure[1]**	**Target**	**Annual Allocation**	**Commitment Range[2]**
Core	**100%**	**75%-100%**	**$450-$700**	**$50-$150**
North America	60%	40%-70%		
Europe	20%	20%-40%		
Satellite	**0%**	**0%-25%**	**$0-$175**	**$30-$75**
Asia	0%	0%-25%		
Rest-of-World	20%	0%-25%		
Emerging Managers	**Current Exposure[1]**	**Target**	**Annual Allocation**	**Commitment Range[2]**
Emerging Managers	0%	10%+	$60-$70	$20-$30
Total			**$600-$700**	

- Proposed investment of $600 million to $700 million for 2025, with expected target of up to $650 million
- Aksia believes it is reasonable to consider a five-year aggregate total commitment target of $3.9 billion as a base case scenario

[1]Data as of June 30, 2024
[2]Emerging Manager commitment sizes will likely be smaller

Portfolio Overview

Aksia

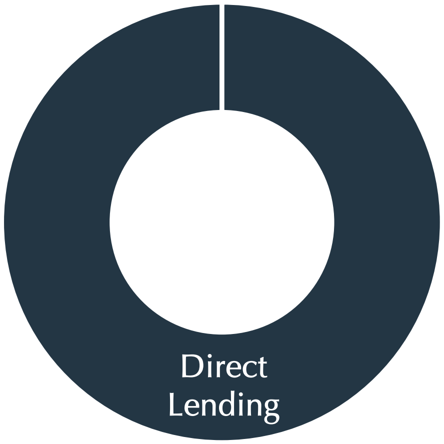
Portfolio Objectives and Guidelines

Asset/Strategy Mix	Diversified exposure to Private Credit strategies including: • Corporate Lending (Senior Focus) • Real Estate & Real Assets Lending • Distressed & Special Situations • Specialty Finance
Target Portfolio Size	5.75% of LACERS's plan assets
Target Commitment Size	$20m - $150m allocation sizes to 9-12 active GPs
Fund Structures	Commingled and Evergreen structures
Net Return Target	8-10%
Benchmark	Credit Suisse Leveraged Loan Index + 200bps
Geographic Diversity	Primarily U.S./North America, some Europe
Other Considerations	• Complement existing private credit exposure • Take advantage of first close discounts and aggregation discounts • Source and evaluate emerging managers (target at least 10% of portfolio over time)

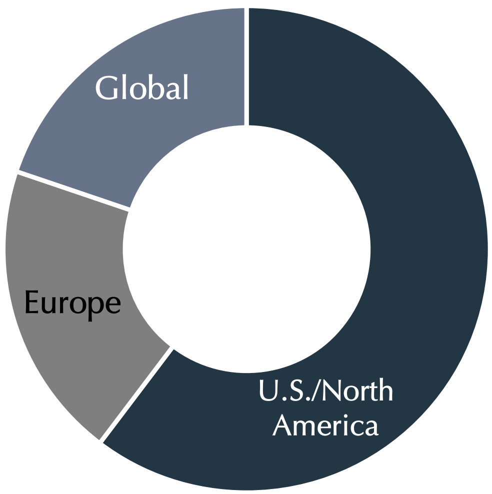
LACERS Private Credit Portfolio Actuals

	Strategy	Target %	Actual Portfolio %
Core	Direct Lending	40-70%	100%
	Real Assets Credit / Real Estate Credit	20-40%	0%
Satellite	Distressed/Special Situations	0-30%	0%
	Specialty Finance	0-25%	0%

Actual Portfolio*



	Geography	Target %	Actuals %
Core	U.S./North America	40-70%	60%
	Global		20%
	Europe	20-40%	20%
Satellite	Asia/Rest-of-World	0-25%	0%



* Data as of June 30, 2024

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

Direct Lending

- U.S. Direct Lending
  - Senior
  - Opportunistic
  - LMM (sponsored)
  - LMM (non-sponsored)
  - Private BDCs
  - Industry Focused
  - Revolvers
- European Direct Lending
  - Senior
  - Opportunistic
  - LMM
  - Country-Specific Funds
- Emerging Markets Lending
  - Asian
  - African
  - CEE/Middle East
  - Latin American
  - Pan-EM
- Global Direct Lending

Distressed Debt & Special Situations

- Corporate Distressed
  - Stress / Distressed Trading
  - Influence / Control
  - Diversified Distressed
- Opportunistic Structured Credit
  - 3rd Party CLO Equity
  - Captive CLO Equity
  - CLO Debt
  - CLO Multi
  - Consumer ABS
  - CMBS/CRE
  - Esoteric ABS
  - European Structured Credit
  - RMBS
  - Structured Credit Multi-Sector
- Real Estate Distressed
- NPLs
- Capital Solutions
- PC Special Situations
- PC Secondaries

Specialty Finance

- Consumer & SME Lending
  - Marketplace Finance
  - Lender/Platform Finance
- Rediscount Lending
- Factoring & Receivables
- Regulatory Capital Relief
- Music/Film/Media Royalties
- Oil & Gas Minerals Royalties
- Metals Royalties
- Healthcare Lending & Royalties
  - Healthcare Lending
  - Healthcare Royalties
- Venture Lending
- Technology Lending
- Financial Services Credit
- Insurance Linked Credit
  - Diversified
  - Life Insurance
  - Non-Life
- Litigation Finance
  - Litigation Finance
  - Merger Appraisal Rights
- PE Portfolio Finance
- Stretch ABL
- Diversified Specialty Finance

Real Estate Credit

- U.S. CRE Core Lending
- U.S. CRE Transitional Lending
  - Large Loan
  - Middle Market
  - Small Balance
  - Opportunistic
- U.S. CRE Bridge Lending
  - Large Loan
  - Middle Market
  - Small Balance
- European CRE Lending
  - Bridge
  - Transitional
  - Core
- Emerging Markets CRE Lending
- CRE Structured Credit
  - Agency CRE B-Piece
  - Non-Agency CRE B-Piece
- Residential Mortgages
  - Residential NPLs
  - Single Family Rental
  - Mortgage Servicing Rights
  - Residential Origination

Real Assets Credit

- Infrastructure Lending
  - Senior Focus
  - Sub-IG Focus
  - Mezz Focus
- Energy Credit
  - Energy Lending
  - Energy Mezzanine Lending
  - Opportunistic
- Trade Finance
- Metals & Mining Finance
- Agricultural Credit
- Transportation
  - Aviation Lending
  - Maritime Lending
  - Road & Rail Lending
  - Transportation Lending (Multi)

Mezzanine

- U.S. Mezzanine
  - Upper Middle Market
  - Middle Market
  - Lower Middle Market
- European Mezzanine
- Structured Equity

LACERS Finalized commitments

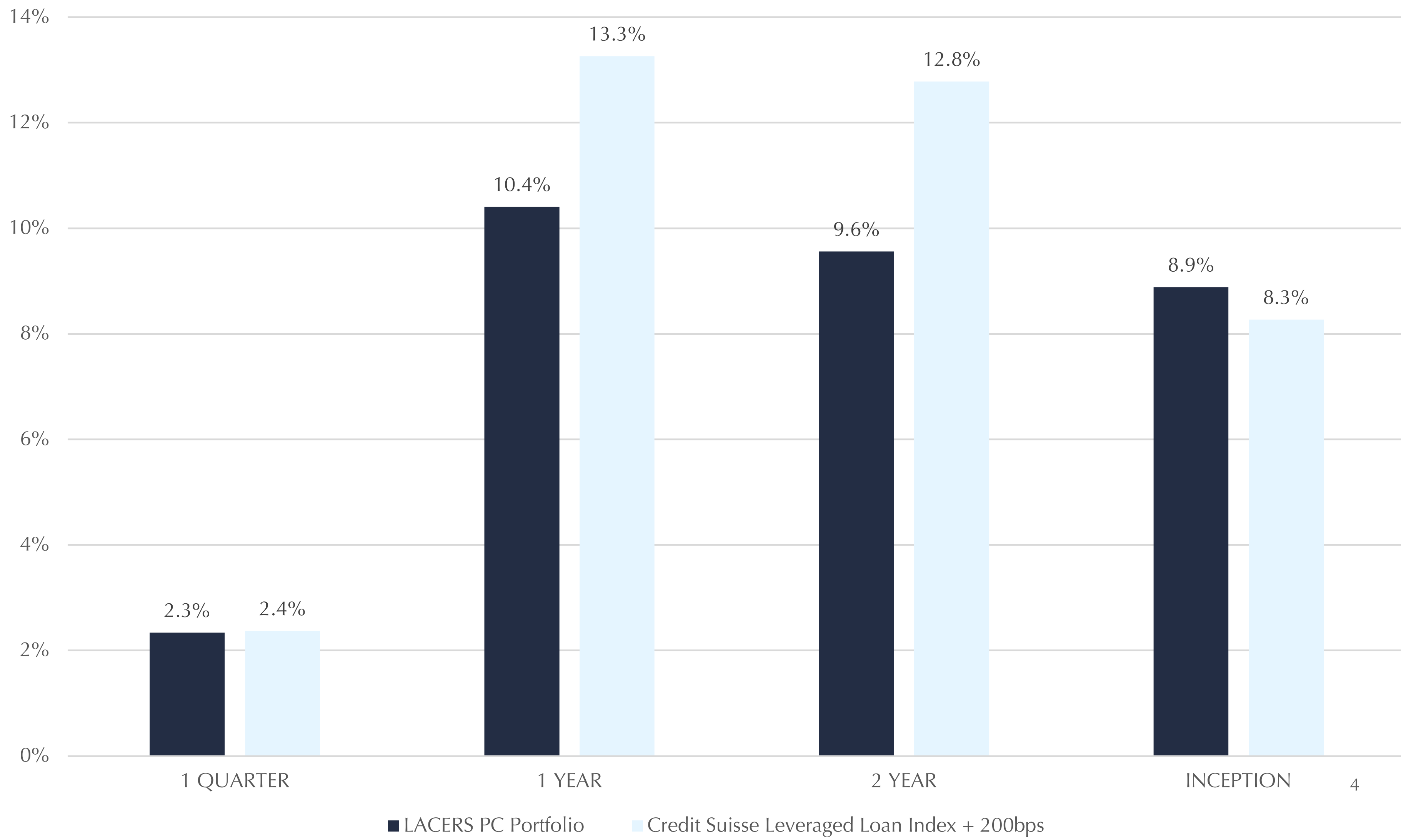
LACERS Pending commitments

LACERS Legacy commitments

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

LACERS PC Portfolio vs Benchmark*



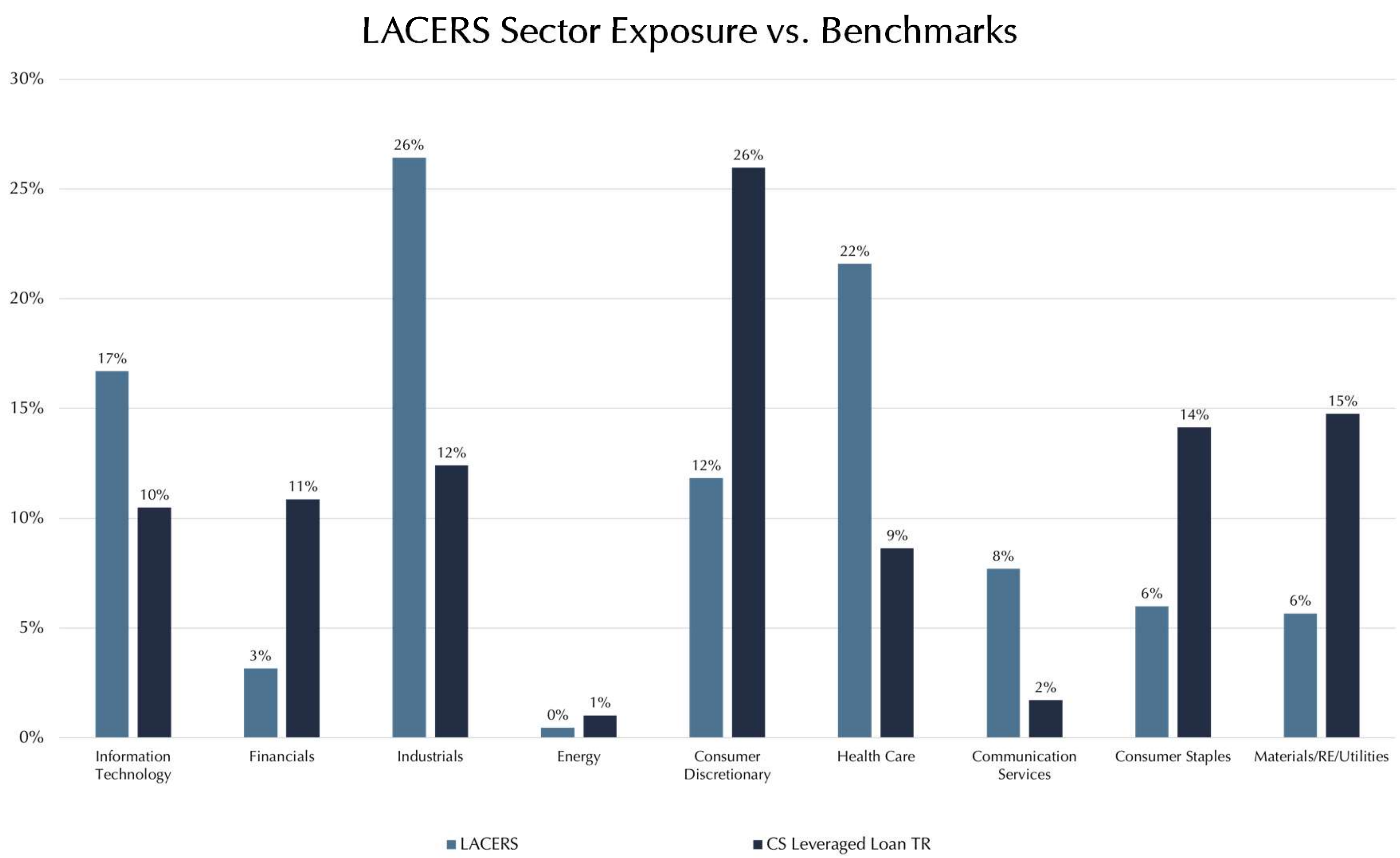
Data as of June 2024. *LACERS PC inception date: September 2020. LACERS' Legacy PC portfolio comprises: Benefit Street Partners SMA – Inception 9/24/2020, Crescent SMA – Inception 9/8/2021, Monroe Capital SMA – Inception 11/10/2021

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

LACERS Exposure by Sector vs. Benchmarks

- When compared to public and private benchmarks, LACERS is overweight in the Information Technology, Industrials, and Healthcare sectors
- The Information Technology over-weight has been a strong driver of performance
- Generally, LACERS has large mismatches versus the public benchmark in several key sectors: Information Technology, Industrials, Healthcare, Financials, and Consumer Discretionary



All percentages rounded. Source: CS / Aksia research.

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

2024 Commitments		Region	Sub-Strategy	Target Net IRR	LACERS Close
	AG Direct Lending Fund V	North America	U.S. LMM Lending	10-13%	Jun-24
	HPS Specialty Loan Fund VI-L	Global	Global Direct Lending	10-14%	Jun-24
	Centre Lane Credit Partners Fund III	North America	U.S. Opportunistic Lending	12.5%	Jul-24
	ICG Senior Debt Partners Fund 5-C	Europe	European Senior Lending	10-12%	Jul-24
	Quantum Capital Solutions II & Co-investment Fund	North America	Energy Lending	15%	Aug-24
	U.S. Direct Lending	North America	U.S. Direct Lending	12%	Sept-24
	U.S. Direct Lending	North America	U.S. Opportunistic Lending	13%	Pending
	Distressed Debt & Special Situations	Global	Opportunistic Structured Credit	12-15%	Pending

Source: Manager-provided information. As of December 2024. Investment period and fund life do not include potential extensions to investment or harvest periods. Certain fund information may be based on latest commingled raise if not currently in market. Please see page 27 for important disclaimers which are integral to reviewing this data.

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

		Region	Sub-Strategy	Target Net IRR	LACERS Close
2025 Pipeline	Real Estate (Opportunistic) – Emerging Manager	North America	Real Estate Distressed/ Special Situations	15%	2025
	PE Portfolio Finance	North America	Specialty Finance	11% - 13%	2025
	Real Estate Credit	North America	Real Estate Core	9% - 11%	2025
	Real Assets Credit	Global	Infrastructure/ Energy	11% - 13%	2025
	Distressed/Special Situations	North America	Corp Distressed/ Special Situations/ Cap Solutions	12% - 18%	2025
	Direct Lending – 2 Target Strategies	Global	Direct Lending	9% - 11%	2025
	Emerging Managers – 3 Target Strategies	TBD	TBD	TBD	2025

Source: Manager-provided information. As of December 2024. Investment period and fund life do not include potential extensions to investment or harvest periods. Certain fund information may be based on latest commingled raise if not currently in market. Please see page 27 for important disclaimers which are integral to reviewing this data.

LACERS PRIVATE CREDIT PROGRAM - 2025 STRATEGIC PLAN

Aksia

2025 Long-Term Strategic Plan Recommendations

- Pacing
  - Maintain relatively consistent longer-term pacing despite market volatility
  - Commitment plan of approximately $600 - $700 million proposed for 2025, with an expected target of up to $650 million
  - Commitments to 9-12 firms with a target size of $20-$150 million per commitment
  - 3-5 investments to Emerging Managers representing at least 10% of total annual commitments

- Broad Portfolio Considerations
  - Focus on direct lending to take advantage of historically higher base rates
  - Continue to build out complementary satellite and specialty exposures
  - Evaluate distressed and opportunistic strategies in dislocated markets and key sectors
  - Deploy at least 10% of commitments to emerging managers
  - Diversify portfolio overall by size, strategy, geography in line with target exposures
  - Consider a five-year aggregate total commitment target of $3.9 billion as a base case scenario to achieve and maintain the target allocation of 5.75%

Appendix

SWOT Analysis

Strengths

- Legacy portfolio is comprised of quality managers.
- Small number of relationships in legacy portfolio allows for high degree of selectivity in onboarding new manager relationships.

Weaknesses

- Private credit program is nascent and will require increased expertise in the asset class to further develop the program.
- Lack of deep and long relationships in private credit space relative to other asset classes such as private equity.

Opportunities

- Slowdown in debt capital markets and bank financing is leading more corporate and non-traditional borrowers to private credit to raise capital.
- Higher base rates have improved risk-adjusted returns across the risk spectrum in private credit.
- Attractive entry point for dislocated market segments including real estate and certain corporate sectors.
- .

Threats

- Potential for spread widening and higher default risk as companies battle higher financing costs and pressure on margins and top-line revenue.
- Risk of increased prepayment rates eroding returns in an expected falling interest rate environment.

PACING CONSIDERATIONS

There are a multiple factors to consider around annual commitment pacing

- A program of sustained and consistent commitments to private market strategies over time enhances vintage year diversification and leads to better performance versus attempts to market-time.
- The long-term nature of private market strategies, typically ten or more years, allows fund managers to not be forced sellers at low valuations or buyers at high valuations.
- Commitment pacing also drives future cash flows, and significant over-commitment to private markets followed by a retreat from the market will cause distortions in subsequent cash flows, including negative cash flows, if commitments are suspended or reduced for a number of periods.

PACING MODEL ASSUMPTIONS – PRIVATE CREDIT

Aksia

- Aksia's model uses actual fund level historical cash flows and then employs multiple variables as inputs to project future capital calls, distributions and net asset values, allowing for the projection of an annual pacing commitment target.
- For existing investments, the model uses default assumptions at the sector level. Additional adjustments may be made on a fund-by-fund basis. Forward looking assumptions for Separately Managed Accounts are tailored based on the terms set by each vehicle.
- Aksia stands ready to run this pacing analysis using any other assumptions upon request.

Private Credit Sector	Annual Growth	Investment Period	Harvest Period
Direct Lending	7.6%	4 years	4 years
Real Estate Credit	7.6%	3 years	5 years
Specialty Finance	13.0%	3 years	4 years
Mezzanine	12.3%	4 years	4 years
Real Assets Credit	8.5%	4 years	6 years
Distressed Debt & Special Situations	12.7%	4 years	3 years
PC Co-Investment Fund	13.0%	3 years	4 years

	Annual % Contribution			Distribution Bow
Private Credit Sector	Year 1	Year 2	Year 3 and after	
Direct Lending	23%	34%	47%	1.0
Real Estate Credit	17%	23%	32%	1.2
Specialty Finance	19%	38%	45%	0.8
Mezzanine	25%	36%	53%	1.1
Real Assets Credit	26%	34%	48%	0.9
Distressed Debt & Special Situations	20%	31%	38%	1.2
PC Co-Investment Fund	33%	50%	75%	1.1

NOTE: The assumptions shown as well as the pacing results they inform are based on Aksia's experience with and expectations for the specified asset class, typical fund structures, and historical performance and cash flow profile. We believe these assumptions are reasonable and note that the results are intended to provide insights, not conclusions. In addition, Aksia does rely on client input to inform these assumptions and produce the pacing results. As such, the output shown can be changed to reflect additional assumptions that the client believes could be relevant to its portfolio considerations and appropriate to its risk tolerance.

PACING MODEL SCENARIOS DETAIL

	Upside Scenario	Downside Scenario
Plan Growth		
2025	20%	-10%
2026	-	-10%
Contribution Rate Change		
2025	1.25x	0.75x
2026	1.50x	0.50x
2025	0.75x	1.50x
2026	0.50x	1.25x
2025	-	0.00x
2026	1.50x	-0.25x

NOTE: The assumptions shown as well as the pacing results they inform are based on Aksia's experience with and expectations for the specified asset class, typical fund structures, and historical performance and cash flow profile. We believe these assumptions are reasonable and note that the results are intended to provide insights, not conclusions. In addition, Aksia does rely on client input to inform these assumptions and produce the pacing results. As such, the output shown can be changed to reflect additional assumptions that the client believes could be relevant to its portfolio considerations and appropriate to its risk tolerance.

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LACERS
LA CITY EMPLOYEES' RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JANUARY 14, 2025**
From: Todd Bouey, Acting General Manager **ITEM: V**

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

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

Recommendation

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

Discussion

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. This proposed revision addresses the LACERS Real Estate Policy in order to optimize risk-adjusted returns, improve portfolio diversification, and strengthen governance processes.

The current process for the selection of Private Real Estate managers requires Committee review and ad-hoc presentations prior to receiving a potential recommendation for Board approval. This approach can create time constraints, limiting access to high-conviction managers. This proposal would make the private real estate manager selection process similar to the existing private credit and private equity discretion in-a-box models. The advantages of this approach include the potential for receiving first close discounts, increasing likelihood of receiving the full allocation requested during the commitment process, and improving access to funds that are in high demand with truncated closing deadlines.

Section XII.H has been added to reflect the proposed streamlined processes and section XII.E.5.d has been added to take advantage of secondary market opportunities arising from dislocations in the real estate sector.

Staff, in collaboration with LACERS' real estate consultant, Townsend Holdings LLC (Townsend), consistently perform due diligence on managers to ensure allocations and portfolio construction align with the objectives outlines in the annual Strategic Plan. Pacing and careful evaluation of recent market cycle dislocations are key priorities in the manager selection process.

The proposed attached policy authorizes Staff, in conjunction with Townsend, to effect investments in amounts up to and including $100 million. Townsend has determined that this amount is consistent with industry best practices given: LACERS program size; prudent risk management that limits exposure to individual underlying real estate assets; and, fund sizes available in the market. Any investment exceeding $100 million recommended by the Private Real Estate Consultant will require Board approval, regardless of staff agreement or disagreement with the consultant recommendation.

Staff recommends the Board approve the proposed revisions to the LACERS Real Estate Policy. The updated policy will better align with Private Credit and Private Equity governance structure while continuing to meet the long-term objectives of the Real Estate Program.

<u>Prepared By:</u> Jessica Chumak, Investment Officer I, Investments Division

TB/RJ/WL/EC/JC:rm

Attachments: 1. Proposed Real Estate Policy Statement Changes (Redlined Version)
2. Proposed Real Estate Policy Statement Changes (Clean Version)

XII. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Ethical Contracting Compliance Policy and in the Third-Party Marketing and Referrals Disclosure Policy, as amended ~~from time to time~~periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. Real Estate

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). ~~As further set forth in this policy~~Additionally, LACERS ~~also may~~may also invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a ~~case by case~~case-by-case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. Fiduciary Standards

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. Scope

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

~~LACERS has engaged the~~The Real Estate Consultant will evaluate and recommend commingled fund investments ~~transactions pursuant to~~consistent with the roles and responsibilities defined in ~~on a non-discretionary basis to assist the Board and Staff to implement and revise this policy when necessary. The Real Estate Consultant's duties and responsibilities, which are further defined in~~ Section XII.H. Managers will be responsible for property-level due diligence. ~~include selecting Managers, including performing due diligence and recommending new investments; monitoring existing investments; and generally providing advice to Staff and the Board with respect to the Portfolio.~~ With Staff concurrence on a recommendation from the Real Estate Consultant, LACERS may ~~effect~~consummate investments in ~~partnerships~~commingled funds up to and including $100 million, and co-investments up to and including $50 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff's concurrence due to foreign currency exchange rate fluctuations, and will not require ~~no~~ further Board approval.

For avoidance of doubt, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor or the general partner is the only other investor pursuant~~. So~~ to~~e~~ City Charter Section 1120.

The Real Estate Consultant and Staff shall conduct a review of this policy~~, in conjunction with the Board and Staff,~~ at a minimum of once per year by June 30;~~,~~ any recommended changes will be brought forth to the Board for review and approval. The Real Estate Consultant and Staff shall~~ and~~ set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio's framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System's fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

   To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XII.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

   To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

   To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

   To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value-add than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value-~~-~~add and core investments.

5. **Inflation-Hedge**

   To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

   To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The actual Real Estate Portfolio allocation percentage ~~actually achieved~~achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers;

however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and ~~control~~controlling rights generally not available to commingled fund investors.

The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies are referred to as core and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and high risk associated with institutional real estate investments.

a) **Core and Core Plus**

Core

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Core investments may also include high-quality, non-traditional property types (i.e. student housing, medical office, and self-storage) that produce stable income with low risk. Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 8~~9~~% range (net of fees) with annual standard deviation near ~~8~~6.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied.

Core Plus

Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, ~~high quality~~high-quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the ~~10~~9% to ~~14~~12% range (net of fees). Value-add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies (“REOCs”). Value-add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value-add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been ~~15~~12% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Opportunistic investments typically have even greater appreciation potential than value-add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value-add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XII.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, natural disaster, ~~earthquake~~ and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts ("REITs"). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

d) **Secondary Market Purchases**

Secondary Market Purchases include private real estate-related interests in which one or more of the original parties sells their ownership stake(s) or interests, as a single interest or a pool of interests. Such interests can take the form of: 1) Limited

Partnership Interests; 2) Co-investments; 3) General Partner interests; 4) Separately Managed Accounts; 5) Direct Ownership of Portfolio Companies; or 6) a combination of the above.

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any commitment.

Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. Manager/Investment Concentration

LACERS shall limit its exposure to any single Manager or ~~investment, and~~investment and be subject to other investment restrictions to reduce risk, as further defined below.

a) Maximum Manager Allocation

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) Maximum Investment Commitment

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) Commingled Fund Guidelines

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $150 million in committed capital inclusive of LACERS pending commitment.

d) Maximum Individual Separate Account Investment

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of ~~carbon based~~carbon-based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate

Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. Investment Processes ~~A~~and Procedures

1. Real Estate Manager Selection Process

The following discussion describes the process by which LACERS selects Managers and investments.

a) Universe of Potential Manager Candidates

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will maintain a ~~initiate a Manager search by creating a~~ global list of potential candidates for selection based on the Staff and Real Estate Consultant's ~~initial search~~ selection criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered for the global list of candidates. ~~The Real Estate Consultant and the Staff will consolidate their lists to create a single list of potential candidates.~~

b) Minimum Manager Qualifications

Minimum ~~The~~ Manager Qualifications ~~requirements~~ include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) Manager Candidate Summaries

The Real Estate Consultant shall complete a brief summary of the most viable Manager candidates, including how said managers met the~~descriptions of the~~ selection ~~ir meeting Manager~~ criteria established by the Real Estate Consultant and the Staff, ~~relating to~~ such as ~~the Managers'~~ organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen along these criteria~~factors~~ ~~summaries~~ and recommend one or more managers~~the finalists~~ for further due diligence to the Staff.

d) Due Diligence

After the ~~Staff and the R~~Real Estate Consultant selects the most qualified~~the~~ managers with Staff input ~~finalists~~, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related ~~factors~~criteria. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) Selection and Approval

After completing the due diligence ~~report~~process, S~~ and s~~taff will ~~has ~~reviewed~~ed~~ and discuss due diligence findings with the consultant. If S~~s~~taff concurs with the consultant's recommendation, the investment will be consummated pursuant to the Private Real Estate Investment Policy. Subsequent to fund closing, ~~ and concurred with consultant's recommendation~~, the ~~Staff and~~ the ~~Real Estate Consultant will recommend a candidate for consideration to the Board, which will make the final decision.~~prepare a Board notification report ~~for the Board will be provided~~that ~~-~~outlines~~ing~~ the basis for the investment, the investment/commitment amount, and an assessment of the fit within the Annual Real Estate Strategic Plan. Such ~~A~~ notification reports ~~and report of commitments~~ will be provided to the Board on a quarterly basis or as soon as practicable. In the event the investment amount would exceed the ~~limits~~ authorities provided in S~~s~~ection XII.H~~C~~, a decision would be referred to the Board for consideration and approval.~~Staff and the Real Estate Consultant will prepare a recommendation report for the Board, which will make the final decision on whether or not to effectuate the proposed investment.~~ In that instance, Staff would report the commitment in a manner consistent with the Brown Act.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties pursuant to the Private Real Estate Investment Policy~~authorized by the Board~~.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and ~~the~~ Staff, as~~when~~ available), will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings, virtually, telephonically, or directly ~~or in face-to-face or telephone meetings~~ either at the Manager's or the Real Estate Consultant's offices.

~~Investment~~ Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

H. Roles and Responsibilities (Part 1 of 2)

	Role of the Board	Role of Staff	Role of Private Real Estate Consultant
Strategy/Policy	• Select Private Real Estate Consultant. • Approve asset class funding level. • Review and approve the Private Real Estate Annual Strategic Plan which includes allocation targets and ranges. • Review the Private Real Estate Policy.	• In consultation with Private Real Estate Consultant and General Fund Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Provide input to the Private Real Estate Consultant in the development of the Private Real Estate Annual Strategic Plan.	• Help develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. • Develop the fiscal year Private Real Estate Annual Strategic Plan with staff input for presentation to the Board on or before the end of the fiscal year.
Investment Management and Monitoring	• Review quarterly, annual, and other periodic monitoring reports and plans. • Review Commitment Notification Reports.	• Review quarterly, annual, and other periodic monitoring reports prepared by the Private Real Estate Consultant. • Conduct meetings with existing ~~m~~Managers periodically. • Attend annual ~~partnership~~Manager meetings when appropriate. • Fund capital calls and manage distributions. • Review Private Real Estate Consultant's recommendations on partnership amendments and consents. • Execute ~~partnership~~contract amendments and consents. • Manage and approve the wind-down and/or dissolve private real estate fund investment(s) with ~~p~~Private ~~r~~Real ~~e~~Estate ~~c~~Consultant's concurrence. • Manage and execute the- sale of ~~partnership~~investments ~~interest~~ on the secondary market or ~~or~~ to other limited partner(s) or potential buyer(s). • Prepare Commitment Notification Reports for the Board.	• Maintain regular contact with existing M~~m~~anagers in the portfolio to ascertain significant events within the portfolio. • Recommend contract amendments and consents to Staff for approval. • Provide quarterly, annual, and other periodic monitoring reports and plans.

H. Roles and Responsibilities (Part 2 of 2)

	Role of Board	Role of Staff	Role of Private Real Estate Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in ~~partnerships of~~commingled funds in amounts greater than $100 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Real Estate Consultant, invest up to and including $100 million in ~~partnerships~~commingled funds without Board approval. If Staff opposes and Private Real Estate Consultant disagrees, refer to Board for decision. • In conjunction with Private Real Estate Consultant, make recommendations to Board for approval of~~for~~ investments over $100 million. • In conjunction with Private Real Estate Consultant, ~~review and concur with direct co-investment opportunities~~ invest up to and including $50 million in direct co-investment opportunities. • In conjunction with Private Real Estate Consultant, review and concur with the approval of- sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on commingled fund investments. • Prepare investment reports for Board consideration of~~n~~ commingled fund investments exceeding $100 million. • Recommend commingled fund investments of up to and including $100 million to Staff for approval. • Recommend direct co-investment opportunities up to and including $50 million to Staff for approval. • Present to Staff recommendations pertaining to the sale of existing ~~partnership~~investments ~~funds~~ on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • Provide investment analysis reports for each new commingled fund investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with ~~general partners~~Managers at the request of Staff. • Advise on and negotiate investment terms.

XII. PRIVATE REAL ESTATE INVESTMENT POLICY

This Real Estate Investment Policy sets forth a general framework for managing LACERS' investments in real estate. This policy provides that the LACERS' real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, the General Fund Consultant, Staff, the Real Estate Consultant, and the Investment Managers. Additionally, this policy is subject to the guidelines set forth by LACERS in the Ethical Contracting Compliance Policy and in the Third-Party Marketing and Referrals Disclosure Policy, as amended periodically by the Board, or as stated under applicable laws or regulations. This policy shall at all times comply with City Charter Section 1120.

The Real Estate Consultant, along with Staff, shall prepare an Annual Real Estate Strategic Plan, as defined below, to be considered and acted upon by the Board that will address the specific goals and guidelines to be achieved and followed in the Real Estate Portfolio each year. The Annual Real Estate Strategic Plan shall be consistent with the guidelines set forth in this policy.

A. **Real Estate**

For purposes of this policy, real estate shall be defined to include investments that are private equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, LACERS will invest primarily in discretionary commingled funds (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds). Additionally, LACERS may also invest in real estate assets on a direct ownership basis through a discretionary separate account vehicle. Such investments will be evaluated on a case-by-case basis, but at a minimum, need to provide a compelling opportunity, which is consistent with the Real Estate Portfolio's investment objectives and overrides or outweighs the benefits of commingled fund investments.

B. **Fiduciary Standards**

The investment and management of the Real Estate Portfolio shall be accomplished in a manner consistent with the "prudent person" standard of fiduciary care. This level of care requires that all LACERS' fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the System on behalf of LACERS' participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Real Estate Portfolio's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

C. **Scope**

This Real Estate Policy sets forth the objectives, policies, and processes and procedures related to the implementation and oversight of the Real Estate Portfolio. Specifically, the objectives outlined herein define the desired risk level and return expectations governing the Real Estate Portfolio; the policies provide guidelines governing investment styles to manage defined risk exposures within the asset class; the investment processes and procedures and roles and responsibilities describe the investment process and allocation of duties among the Board, Staff, the Managers, and the Real Estate Consultant.

The Real Estate Consultant will evaluate and recommend commingled fund investments consistent with the roles and responsibilities defined in Section XII.H. Managers will be responsible for property-level due diligence. With Staff concurrence on a recommendation from the Real Estate Consultant, LACERS may consummate investments in commingled funds up to and including $100 million, and co-investments up to and including $50 million. With Staff concurrence, recommended investments in excess of these amounts must be presented to the Board for approval. Non-U.S. dollar commitments to real estate partnerships shall be equal or less than the maximum U.S. dollar-equivalent limits as of the day Staff concurs with the Real Estate Consultant. However, non-U.S. dollar commitments to real estate partnerships may exceed the U.S. dollar currency equivalent maximum commitment limits after the date of Staff’s concurrence due to foreign currency exchange rate fluctuations, and will not require further Board approval.

For avoidance of doubt, the Board must approve any investment where LACERS would be the exclusive title holder or debt holder to an individual interest in real property, either directly or via a pass-through entity such as a fund of one or co-investment where LACERS is the sole investor or the general partner is the only other investor pursuant to City Charter Section 1120.

The Real Estate Consultant and Staff shall conduct a review of this policy at a minimum of once per year by June 30; any recommended changes will be brought forth to the Board for review and approval. The Real Estate Consultant and Staff shall set forth any strategic and tactical recommendations in the Annual Real Estate Strategic Plan.

D. **Investment Objectives**

The main investment objective with respect to the Real Estate Portfolio is to maximize returns given the defined level of risk, as determined by the Board. While it is necessary to use active asset management strategies to maximize total investment returns (i.e., income and appreciation returns), investment principal is to be safeguarded within the Portfolio’s framework of prudence and managed risk. Although real estate investments are illiquid and have a long-term holding period, investing in this asset class should improve the System’s fund level risk-adjusted returns by enhancing overall diversification, which reduces total portfolio risk. Specifically, the objectives of LACERS with respect to the Real Estate Portfolio include the following:

1. **Attractive Risk-Adjusted Returns**

   To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. As discussed in Section XII.G below, the benchmarks for the Portfolio will be the NFI-ODCE Index plus 80 basis points.

2. **Increased Portfolio Diversification/Reduced Portfolio Risk**

To use real estate to enhance overall diversification and, in turn, reduce overall risk of the System's assets, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Investments**

To access international real estate markets through private equity and debt real estate investments. By so doing, the Real Estate Portfolio will obtain exposure to diverse economies, populations, and currencies.

4. **Significant Current Cash Yields**

To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value-add than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value-add and core investments.

5. **Inflation-Hedge**

To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**

To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

E. **Investment Guidelines**

LACERS shall establish a long-term target allocation to real estate (the "Target Allocation"). The Target Allocation will fluctuate according to the relative values among the Real Estate Portfolio and the allocations to other asset classes of LACERS. To accomplish and maintain the Target Allocation, the Real Estate Consultant may recommend committing in excess of the Target Allocation percentage in order to meet full allocation objectives. The actual Real Estate Portfolio allocation percentage achieved quarterly may vary from the Target Allocation within a reasonable range as determined by the Board and Staff from time to time.

Eligible real estate funds will range from core open-end funds to opportunistic closed-end funds, and may also include separate investment accounts with selected fund managers; however, the Real Estate Portfolio will be comprised primarily of commingled fund vehicles. Separate accounts represent opportunities wherein LACERS would be the sole or significant equity sponsor for an investment manager pursuing a specifically targeted opportunity or defined strategy. As the sole or significant equity sponsor, LACERS would likely be entitled to voting and controlling rights generally not available to commingled fund investors.

The following investment guidelines set forth investment parameters consistent with the risk and return objectives of the Real Estate Portfolio.

1. **Portfolio Composition – Risk Strategy Mix**

The Real Estate Portfolio shall be comprised of two different but complementary risk/return categories or risk strategies. These categories or risk strategies are referred to as core and non-core, as defined below. These categories or risk strategies generally define the risk and return levels as low, medium, and high risk associated with institutional real estate investments.

a) **Core and Core Plus**

Core

Equity investment in operating and substantially-leased (i.e., at least at market occupancy levels) institutional quality real estate in the traditional property types (i.e., apartment, office, retail, industrial, and hotel). Core investments may also include high-quality, non-traditional property types (i.e. student housing, medical office, and self-storage) that produce stable income with low risk. Assets are located in significant metropolitan markets with reasonable population sizes and economies. Net returns historically have been in the 6% to 8% range (net of fees) with annual standard deviation near 6.0%. Of note, core investments typically feature current income as a large portion of overall return (i.e., up to 70%), and appreciation that generally matches or exceeds inflation. Low leverage is utilized (i.e., 50% or less on a portfolio basis). Core debt investments include first mortgage loans secured by the previously defined core equity real estate assets. Such mortgage loans are either newly originated or are existing but performing loans with reasonable borrowers (e.g., credit), reasonable terms (e.g., loan to value of less than 50% and debt service coverage of 1.25 or greater) and institutional-quality management (e.g., an institutional investment manager with reasonable experience and track record in managing first mortgage loan investments). During periods of market illiquidity, core equity investments can provide high going-in income returns and provide a reasonable inflation-hedge so long as markets are not over-supplied.

Core Plus

Core Plus investments typically will target a higher leverage ratio (around 50% on a loan-to-value basis) and allocate slightly more to non-operating real estate investments, around 20%.

b) **Non-Core**

Value Add

Value add investments are functional, high-quality assets with specific property issues, such as high vacancy, significant upcoming lease expirations, or below market rents. These are debt or equity investments that typically require rehabilitation, redevelopment, development, lease-up, and/or repositioning. Levered returns historically have been in the 9% to 12% range (net of fees). Value-add investments also typically feature both current income and appreciation as components of overall return, and frequently involve the repositioning of distressed assets (i.e., not fully leased and operating) and potentially the purchase of interests in real estate operating companies ("REOCs"). Value-add investments typically are expected to generate above-core returns through the leasing-up of a property, which increases the end value by increasing in-place income and, in many cases, ultimately decreasing the capitalization rate upon disposition. Value-add investments are typically more dependent on appreciation returns than core investments, with purchase prices based on in-place income or asset replacement cost (i.e., at a discount to replacement cost). During periods of market illiquidity, value equity investments can provide high going-in income returns and pricing at significant discounts to replacement costs. During periods of market liquidity, value equity investments include new development projects (i.e., acquire land, obtain entitlements, construct building and lease or sell), which require significant expertise and underwriting. Moderate leverage is utilized for these investments (i.e., targeting 50% to 65% on a portfolio basis).

Opportunistic

Equity or debt investment in real estate properties, operating companies, and other investment vehicles involving significant investment risk, including real estate, financial restructuring, and non-real estate risk. Levered returns have been 12% or higher (net of fees) with significant annual standard deviation. Opportunistic investing includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Opportunistic investments typically have even greater appreciation potential than value-add investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value-add investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little if any in-place income and therefore less current income as a portion of total return. These investments historically have experienced higher return performance during periods of market illiquidity (e.g., early 1990's in the U.S.). Higher leverage is used (i.e., up to 80% with some funds).

Core and core plus and non-core exposure targets shall be evaluated at a minimum of once per year and set forth in an Annual Real Estate Strategic Plan and approved by the Board. When making investment recommendations, the Real Estate Consultant shall evaluate the impact of the prospective investment on the Real Estate Portfolio's risk/return exposures based on the existing portfolio net asset value.

2. **Risk Mitigation**

a) **Leverage**

Leverage is a significant risk factor that shall have exposure guidelines and monitoring requirements, as set forth in Section XII.E.7 of this Real Estate Policy.

b) **Diversification**

Diversification is an important tool in reducing real estate portfolio risk and accomplishing superior risk-adjusted returns. The Real Estate Portfolio shall be diversified by risk factors which can be reduced through diversification (e.g., geographic region and property type). Diversification reduces the impact on the portfolio of any one investment or any single investment manager to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio.

It is expected that at various points in time, the Real Estate Portfolio may have a significant exposure to a single property type or location to take advantage of opportunities available in the market which are projected to generate superior returns. When making investment recommendations, the Real Estate Consultant shall consider as part of its investment recommendation the impact on Real Estate Portfolio diversification and risk and return. As part of the Annual Real Estate Strategic Plan, the Real Estate Consultant shall provide annually, or more frequently when market conditions require, the risk factor (e.g., property type and region) ranges which it believes provide reasonable diversification given the expected market conditions. The following describe the various diversification guidelines that will be utilized.

Property Type

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information, and industry indices' diversification. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have performed differently during economic cycles.

Real estate investments may include investments other than the traditional property types, such as healthcare facilities, manufactured housing, infrastructure, timber and farmland. The Real Estate Consultant shall include a section in each Annual Real Estate Strategic Plan, reviewing the Real Estate Portfolio's property-type exposures and investment objectives relating thereto.

Geographic Region

Diversification policy ranges are based on the universe of available real estate investments, institutional investor portfolio information and industry indices' diversification. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, natural disaster, and local government impact) of regional areas.

The Real Estate Consultant shall include in each Annual Real Estate Strategic Plan investment guidelines and targets related to the Real Estate Portfolio's allocation to geographic regions.

3. **Investment Life Cycle**

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Real Estate Portfolio have an exposure exceeding 30% to total non-operating investments (i.e., the total of pre-development/land, development/redevelopment and leasing). Also, the Real Estate Consultant shall monitor the Real Estate Portfolio's exposure to different life cycles through the quarterly performance report, which shall indicate the Real Estate Portfolio's non-operating investment exposure and whether a non-compliance issue exists.

4. **Permissible Investment Structures/Vehicles and Private Allocations**

The Real Estate Portfolio may include private real estate equity and debt investments. Private equity real estate investments may include any investment made in equity interests in real estate assets (i.e., land and assets deriving most of their income return from rents paid by tenants subject to lease agreements) or companies through private placements, including REOCs and Real Estate Investment Trusts ("REITs"). Typical property types include the following: office, retail, rental apartments, for sale residential, industrial and hotel. Private debt investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis. Private debt investments may also include loans secured by senior or junior mortgage or deed of trust agreements.

5. **Investment Vehicles**

Investment vehicle exposure ranges shall be used to mitigate portfolio risk including enhancing portfolio liquidity. The following discussion provides a summary of the advantages and disadvantages of the investment vehicles, which shall be used in developing the Real Estate Portfolio.

a) **Open-End Commingled Funds**

The open-end fund investments shall be made primarily to provide (1) reasonable property type and geographic diversification, (2) exposure to larger properties (i.e., over $50 million) or certain countries, and (3) reasonable liquidity (i.e., ability to redeem within 90 days). The Real Estate Consultant shall complete reasonable due diligence in evaluating open-end commingled funds consistent with this policy. Open-end commingled fund vehicles may include, but are not limited to, insurance company separate accounts, group trusts, limited liability companies, single purpose corporations or any other vehicle that is determined by the Real Estate Consultant to be consistent with the Real Estate Policy.

b) **Closed-End Commingled Funds**

The closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of value add and opportunistic investments. The primary advantages of closed-end funds are that they provide access to talented management teams with focused niche value add and opportunistic strategies. Also, management teams typically co-invest and rely on incentive fees, which combined enhance the alignment of investor and manager interests. The Real Estate Consultant shall complete reasonable due diligence in selecting closed-end fund investments. Co-investment by the manager of a fund or by investors in the fund is acceptable providing: (1) the co-investor(s) have similar investment objectives regarding risk/return exposures and holding periods, (2) control and voting rights with respect to investment decisions are deemed reasonable, and (3) reasonable buy/sell or other agreements exist to allow for the resolution of investor disagreements. Closed-end funds typically have terms of no less than seven years and are therefore illiquid.

c) **Separate Account Vehicles**

Separate accounts may be used to make private equity/debt investments. Separate accounts offer the primary advantage of control over the manager, the strategy, the asset investment and sales decisions, and the capital. The Real Estate Consultant shall complete reasonable due diligence in selecting the Managers for direct investment separate accounts.

d) **Secondary Market Purchases**

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

It may be necessary for LACERS to incur due diligence costs, expenses (including legal counsel and broker-dealers), and break-up fees on secondary transactions. The estimated magnitude of these items shall be 1) reasonable and consistent with industry standards as determined by the Private Real Estate Consultant; and 2) approved by the Chief Investment Officer in advance of any commitment.

Direct Investments

LACERS may make direct equity/debt investments using separate account vehicles; however, such investments require careful consideration. Transaction costs and management expenses are high and there may be a significant time commitment by the Staff. Separate account direct investments shall be made only when the opportunity is compelling, as determined by the Staff, the Real Estate Consultant, and the Board. To be compelling, a direct investment needs to: (1) be in compliance with this Real Estate Policy; (2) be consistent with the strategic needs of LACERS, as set forth in the Annual Real Estate Strategic Plan; and (3) present an investment opportunity that provides benefits to LACERS that outweigh or override those provided by commingled funds, as previously described. The Real Estate Consultant shall assist the Staff with any direct investments by recommending a Manager and by completing an independent report, which summarizes and evaluates the manager due diligence completed. The report shall include a summary of findings and conclusions and shall be retained by the Staff on file for review.

Direct investments shall also include any private REOC investments. These include full or joint venture ownership of an operating company, which may be used to acquire a single asset, to implement a niche investment strategy or to serve another purpose as defined by the Real Estate Consultant and approved by the Staff and the Board.

Each direct investment strategy, fee structure and level of investment discretion shall be defined by the Real Estate Consultant and approved by the Staff and the Board. The Manager shall complete an annual budget review, as defined by the Real Estate Consultant, and a hold/sell analysis, for each direct investment. Since the sale or refinancing of a direct investment interest is required to return invested capital, such investments are considered illiquid.

6. **Manager/Investment Concentration**

LACERS shall limit its exposure to any single Manager or investment and be subject to other investment restrictions to reduce risk, as further defined below.

a) **Maximum Manager Allocation**

No single manager (including any allocation to pooled funds and/or separate accounts) shall be allocated more than thirty percent (30%) of the Real Estate Portfolio's total allocation at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Real Estate Portfolio's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

b) **Maximum Investment Commitment**

The Real Estate Portfolio's maximum investment commitment to a non-core commingled fund or a separate account Manager shall be limited to fifteen percent (15%) of the Real Estate Portfolio's allocation to real estate at the time of the prospective investment commitment.

c) **Commingled Fund Guidelines**

The Real Estate Portfolio's investment in a single open-ended commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment. The Real Estate Portfolio's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment. LACERS shall not consider investments in a commingled fund that has less than $150 million in committed capital inclusive of LACERS pending commitment.

d) **Maximum Individual Separate Account Investment**

The Real Estate Portfolio's maximum investment in any single separate account investment shall be limited to a maximum of ten percent (10%) of the Real Estate Portfolio's total allocation to real estate at the time of the prospective separate account investment, unless otherwise approved by the Board.

The Real Estate Consultant and the Staff shall be responsible for reviewing separate account allocations and commingled fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund or separate account allocation may be in compliance with the Real Estate Policy restrictions, the Real Estate Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Staff and the Board. The Real Estate Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations, and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

7. **Leverage**

Leverage is a significant risk factor, the importance of which is magnified during an economic downturn when decreasing property values and stricter lending terms can lead to unexpected increased leverage levels and decreased equity interests. The Real Estate Consultant shall set forth reasonable leverage targets given market conditions in the Annual Real Estate Strategic Plan. When making a new investment recommendation, the Real Estate Consultant shall consider the impact on the Portfolio's leverage guidelines and targets at the time of the prospective investment.

Additionally, the Real Estate Consultant shall monitor the Real Estate Portfolio's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

8. **Specialized Investments**

LACERS has in the past, and as determined by the Staff, the Board, and the Real Estate Consultant, may continue to allocate to unique investment strategies and/or investment firms, as further described below.

a) **Unique Investment Strategies**

Unique investment strategies include those that have collateral benefit objectives, which include job creation, community development, green or environmental objectives (e.g., reduce the use of carbon-based fuels), and underserved market initiatives (e.g., defined by geography such as urban or inner city and by demographics such as minority or lower income areas). While such strategies offer attractive benefits, the Real Estate Consultant shall focus its evaluation on whether the expected return projected for the investment is reasonable given the level of risk. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation is reasonable and consistent with that of a comparable real estate strategy not providing the same collateral benefits.

b) **Unique Managers**

Unique Managers include those that are Emerging Managers pursuant to the LACERS Emerging Investment Manager Policy. To recommend such an investment to the Staff and the Board, the Real Estate Consultant needs to demonstrate that the expected risk and return of the prospective investment allocation to the unique Manager is reasonable. In so doing, the Real Estate Consultant needs to evaluate comprehensively any factors of the unique Manager that may adversely affect investment performance and conclude that such factors are not likely to affect return performance materially and adversely.

F. Investment Processes and Procedures

1. Real Estate Manager Selection Process

The following discussion describes the process by which LACERS selects Managers and investments.

a) **Universe of Potential Manager Candidates**

The Real Estate Consultant, pursuant to the Annual Real Estate Strategic Plan, will maintain a global list of potential candidates for selection based on the Staff and Real Estate Consultant’s selection criteria. The Real Estate Consultant shall provide information from its databases regarding the candidates to be reviewed with the Staff. The Staff will set forth any additional candidates to be considered for the global list of candidates.

b) **Minimum Manager Qualifications**

Minimum Manager Qualifications include that the Manager have $200 million of assets at a minimum under management and no less than three (3) years of real estate investment experience or a demonstrable track record of three (3) years of real estate investment experience.

c) **Manager Candidate Summaries**

The Real Estate Consultant shall complete a brief summary of the most viable Manager candidates, including how said managers met the selection criteria established by the Real Estate Consultant and the Staff, such as organization, track record, personnel, alignment of interests, terms and fees. The Real Estate Consultant will screen along these criteria and recommend one or more managers for further due diligence to the Staff.

d) **Due Diligence**

After the Real Estate Consultant selects the most qualified managers with Staff input, the Real Estate Consultant shall complete a comprehensive due diligence review. The comprehensive due diligence review includes an in-depth analysis of the firm's background, organization, personnel, strategy and other related criteria. The Real Estate Consultant shall invite the Staff to participate in completing due diligence activities.

e) **Selection and Approval**

After completing the due diligence process, Staff will review and discuss due diligence findings with the consultant. If Staff concurs with the consultant's recommendation, the investment will be consummated pursuant to the Private Real Estate Investment Policy. Subsequent to fund closing, a Board notification report that outlines the basis for the investment, the investment/commitment amount, and an assessment of the fit within the Annual Real Estate Strategic Plan. Such notification reports will be provided to the Board on a quarterly basis or as soon as practicable. In the event the investment amount would exceed the authorities provided in Section XII.H, a decision would be referred to the Board for consideration and approval. In that instance, Staff would report the commitment in a manner consistent with the Brown Act.

f) **Term Negotiation**

The Staff, Real Estate Consultant and the legal counsel will negotiate the Manager contract and propose a side letter if necessary. The final contract shall be executed by LACERS' General Manager or the appropriate party or parties pursuant to the Private Real Estate Investment Policy.

2. **Monitoring Process and Performance Measurement**

The Real Estate Consultant (and Staff, as available), will meet with managers on a periodic basis to determine the progress being made in the fund. These discussions may occur at annual investor meetings, virtually, telephonically, or directly either at the Manager's or the Real Estate Consultant's offices.

Managers will send financial reports and capital account statements on a regularly scheduled basis to the Real Estate Consultant and LACERS. Semi-annual Portfolio Performance Review Reports ("PPR") shall be prepared by the Real Estate Consultant and formally presented to the Board. The PPR is a comprehensive reporting and evaluation system addressing each investment. The PPR system shall provide such information as may be required by LACERS to understand and administer its investments and shall include attributes for both the Managers and the total portfolio. These attributes include: income, appreciation, gross and net returns for the portfolio and each manager, cash flow, internal rate of return calculations, diversification, comparisons to relevant industry performance indices, and information reporting standards.

G. **Benchmark Returns**

While no return objectives are stated by strategy, relative performance comparisons will be made to various indices to provide additional perspective on performance and/or facilitate attribution analysis. The return objectives are as follows:

LACERS' Real Estate Portfolio Benchmark Guideline	
Strategy	**Return Objectives Over Rolling 5-year Periods**
Core Real Estate	NFI-ODCE Index
Non-Core Real Estate	NFI-ODCE Index + 200 basis points
Timber	NCREIF Timberland Index, gross of fees

Portfolio Benchmark

With respect to private real estate investments, The Real Estate Consultant, the Staff and the Board shall use the NFI-ODCE plus 80 basis points over a rolling 5-year period as its benchmark.

H. Roles and Responsibilities (Part 1 of 2)

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

H. **Roles and Responsibilities (Part 2 of 2)**

	Role of Board	Role of Staff	Role of Private Real Estate Consultant
Investment Selection	• Review investment analysis reports. • Review and approve investments in commingled funds in amounts greater than $100 million prior to investment. • Review and approve direct co-investment opportunities that exceed $50 million. • Review and approve the sale of any one existing partnership fund on the secondary market exceeding $50 million in Fair Market Value. • Review and approve a simultaneous sale of multiple partnership fund interests in a packaged structure. • Review and approve any direct investment where LACERS would be exclusive title holder or debt holder in real property interest.	• Refer investments and forward to Private Real Estate Consultant for preliminary screening. • Conduct meetings with prospective or existing general partners representing new investment opportunities. • Conduct due diligence with general partners and Managers to better ascertain risk and return profile, as determined by the Chief Investment Officer. • In conjunction with Private Real Estate Consultant, invest up to and including $100 million in commingled funds without Board approval. If Staff opposes and Private Real Estate Consultant disagrees, refer to Board for decision. • In conjunction with Private Real Estate Consultant, make recommendations to Board for approval of investments over $100 million. • In conjunction with Private Real Estate Consultant, invest up to and including $50 million in direct co-investment opportunities. • In conjunction with Private Real Estate Consultant, review and concur with the approval of sale of existing partnership funds on the secondary market up to and including $50 million in Fair Market Value. • General Manager or designee with signature authority will execute agreements and other legal or business documents to effectuate the transaction closing. • Ensure review of relevant fund documents by the City Attorney and/or external legal counsel.	• Conduct appropriate analysis and due diligence on commingled fund investments. • Prepare investment reports for Board consideration of commingled fund investments exceeding $100 million. • Recommend commingled fund investments of up to and including $100 million to Staff for approval. • Recommend direct co-investment opportunities up to and including $50 million to Staff for approval. • Present to Staff recommendations pertaining to the sale of existing investments on the secondary market exceeding $50 million in Fair Market Value. Such transactions shall be brought to the Board for review and approval. • Provide investment analysis reports for each new commingled fund investment and for sales of partnership fund interest on the secondary market or to other limited partner(s) or potential buyer(s). • Communicate with Staff regarding potential investment opportunities undergoing analysis and due diligence. • Coordinate meetings with Managers at the request of Staff. • Advise on and negotiate investment terms.