LIVE VIRTUAL COMMITTEE MEETING

MAY 19, 2021, 2021 AT 8:00 AM

EQUITY: PUBLIC/PRIVATE COMMITTEE MEETING

TO VIEW VIA WEB

https://members.lacera.com/lmpublic/live_stream.xhtml

TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you are requesting to speak, please include your contact information, agenda item, and meeting date in your request.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A REGULAR MEETING OF THE EQUITY: PUBLIC/PRIVATE COMMITTEE

OF THE BOARD OF INVESTMENTS AND BOARD OF INVESTMENTS *

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, MAY 19, 2021

This meeting will be conducted by teleconference pursuant to the Governor's Executive Order N-29-20.

Any person may view the meeting online at
https://members.lacera.com/lmpublic/live_stream.xhtml

The Committee may take action on any item on the agenda, and agenda items may be taken out of order.

I. CALL TO ORDER

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Equity: Public/Private Committee Meeting of March 10, 2021.

III. PUBLIC COMMENT

(**You may submit written public comments by email to PublicComment@lacera.com. Please include the agenda number and meeting date in your correspondence. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

You may also request to address the Boards. A request to speak must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting. Please include your contact information, agenda item, and meeting date so that we may contact you with information and instructions as to how to access the Board meeting as a speaker.)

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by Chris Wagner, Principal Investment Officer; Calvin Chang, Senior Investment Analyst: That the Committee advance the Private Equity emerging manager program discretionary separate account manager search Request for Proposal minimum qualifications to the Board of Investments for approval.
(Memo dated May 6, 2021)

B. Recommendation as submitted by Ted Wright, Principal Investment Officer; Ron Senkandwa, Investment Officer: That the Committee advance the Global Equity emerging manager search Request for proposal minimum qualifications to the Board of Investments for approval.
(Memo dated May 6, 2021)

V. REPORT

A. Currency Hedge Program Review
Ted Wright, Principal Investment Officer
Jeff Jia, Senior Investment Analyst
Tim Filla, Meketa Investment Group
Alina Yuan, Meketa Investment Group
(Memo dated May 6, 2021)

VI. ITEMS FOR STAFF REVIEW

VII. GOOD OF THE ORDER
(For information purposes only)

VIII. ADJOURNMENT

The Board of Investments has adopted a policy permitting any member of the Board to attend a standing committee meeting open to the public. In the event five or more members of the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Investments. Members of the Board of Investments who are not members of the Committee may attend and participate in a meeting of a Committee but may not vote, make a motion, or second on any matter discussed at the meeting. The only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Investments that are distributed to members of the Board of Investments less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the Board of Investments Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 a.m. to 5:00 p.m. Monday through Friday.

*****Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.***

MINUTES OF THE SPECIAL MEETING OF THE EQUITY: PUBLIC/PRIVATE

COMMITTEE AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

8:00 A.M., WEDNESDAY, MARCH 10, 2021

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20. The public may attend the meeting at LACERA's offices.

PRESENT: Herman Santos, Chair

Shawn Kehoe, Vice Chair

Ronald Okum

Elizabeth Greenwood

David Green, Alternate

MEMBERS AT LARGE:

Keith Knox

Alan Bernstein

Joseph Kelly

Gina Sanchez

STAFF, ADVISORS, PARTICIPANTS:

Ted Wright, Principal Investment Officer

Chris Wagner, Principal Investment Officer

STAFF, ADVISORS, PARTICIPANTS (Continued):

StepStone Group, LP
Ian Aaker, Partner

State Street Global Advisors
Nathaniel Evarts, Managing Director

I. CALL TO ORDER

The meeting was called to order by Chair Santos at 8:00 a.m. in the Board Room of Gateway Plaza.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Meeting of December 9, 2020

Mr. Okun made a motion, Ms. Greenwood seconded, to approve the minutes of the special meeting of December 9, 2020.

The motion passed unanimously (roll call) with Messrs. Santos, Okum, and Ms. Greenwood voting yes. Mr. Kehoe was not present at the time of the vote.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. REPORTS

A. Private Equity Education
An educational presentation titled "Private Equity-Technology Investing."
Guest Speaker: Ian Aaker, Partner, StepStone
(Memo dated February 22, 2021)

Mr. Aaker answered questions from the Committee.

IV. REPORTS (Continued)

B. Global Equity Education
An educational presentation titled "Global Equity Trade Execution Process."
Guest Speaker: Nathaniel Evarts, SSGA
(Memo dated February 25, 2021)

Mr. Evarts answered questions from the Committee.

V. ITEMS FOR STAFF REVIEW

There were no items to report.

VI. GOOD OF THE ORDER
(For information purposes only)

There was nothing to report.

VII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at approximately at 8:57 a.m.

May 6, 2021

TO: Equity: Public/Private Committee

FROM: Christopher Wagner cjw
Principal Investment Officer

Calvin Chang CC
Senior Investment Analyst

FOR: May 19, 2021 Equity: Public/Private Committee Meeting

SUBJECT: **PRIVATE EQUITY EMERGING MANAGER PROGRAM DISCRETIONARY SEPARATE ACCOUNT MANAGER REQUEST FOR PROPOSAL – MINIMUM QUALIFICATIONS**

RECOMMENDATION

Advance the Private Equity emerging manager program discretionary separate account manager search Request for Proposal minimum qualifications to the Board of Investments for approval.

BACKGROUND

The Board of Investments ("BOI") approved the first implementation plan ("Plan") for the Private Equity emerging manager program ("Program") in June 2001. The goal of the Plan, which is still true today, is to increase the prospects for better risk-adjusted returns through exposure to smaller, lesser-known private equity firms. At the time, staff was tasked with bringing fund recommendations forward to the BOI for approval.

Due to the growth of opportunities in the marketplace, a separately managed account structure was established in October 2007. In May 2008, LACERA concluded a formal Request for Proposal ("RFP") search process for a separate account manager. JPMorgan Private Equity Group ("JPM") was selected to manage a $150 million allocation on a discretionary basis. Subsequently, JPM was selected to manage three additional allocations. In total, JPM manages four separate allocations equaling $650 million of committed capital. The fourth allocation ($300 million) of capital is projected to be fully utilized by the end of the second quarter 2022. Therefore, to continue investing in emerging managers without interruption, staff is proposing a separate account manager search for the next phase of the Program.

PROGRAM PROGRESS

A key objective of the Program is to position LACERA as a significant investor to firms and funds early in their organizational development to help foster graduation into the core Private Equity Program. The velocity of manager graduates is expected to increase with the continued maturity of the Program. Since inception of the separate account mandate, four managers have graduated to the core Private Equity Program.

The next phase of the Program will provide further growth towards the upper range of the Emerging Manager Policy net asset value target of 7%. The Program currently represents approximately 5% ($375 million) of the private equity portfolio's net asset value.

The RFP mandate recommendation is for a $400 million allocation to be deployed over four years. This mandate may increase the emerging manager allocation beyond the current policy range of 0-7%. As a result, staff will assess the current policy range and discuss the results with the Equity Committee at a future meeting.

CONCLUSION

Staff prepared materials related to the RFP for discussion with the Equity Committee. **Attachment I** describes the recommended search criteria in compliance with the Procurement Policy for Investment-Related Services. This includes: (i) scope of work; (ii) minimum qualifications; (iii) search timing; (iv) structure of the evaluation team; (v) evaluation criteria, and (vi) selection authority. **Attachment II** provides additional details to the Minimum Qualifications, which have been broadened since the last search and are consistent with LACERA's T.I.D.E. (Toward Inclusion Diversity & Equity) initiative within the Capital Formation pillar, which focuses on widening the opportunity set to diverse managers. Expectations from these enhancements is an increase in the number of RFP responses from the 29 received in the last search. Following this discussion, staff will incorporate any recommended changes before presenting the revised documents to the BOI for consideration.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

CW:CC:mm

ATTACHMENT I

Private Equity Emerging Manager Discretionary Separate Account Search Request for Proposal Minimum Qualifications

Equity: Public/Private Committee Meeting

May 19, 2021

Christopher Wagner, Principal Investment Officer
Calvin Chang, Senior Investment Analyst

Recommendation and Background

Recommendation

- Advance the Private Equity emerging manager discretionary separate account search Request for Proposal ("RFP") minimum qualifications to the Board of Investments for approval

Background

- The most recent Private Equity emerging manager program manager search was conducted in 2017 via RFP which went through a competitive process
- JPMorgan Private Equity Group ("JPM") was selected and retained in December 2017
- The current $300 million tranche with JPM is projected to be fully utilized by the second quarter of 2022

Evaluation Process

- Proposed Evaluation Team would consist of one Principal Investment Officer, one Investment Officer, and one Senior Investment Analyst
- Evaluation Team will conduct the Request for Proposal process in two phases:
  - Phase One: Evaluation of written RFP responses
  - Phase Two: Candidate interviews (most likely virtual)
- Final scores, evaluation review, and recommendation will be advanced to the Board
- Selection authority for this RFP will be the Board

Evaluation Criteria

All responses received shall be subject to evaluations on the following six categories and portfolio fit within the private equity portfolio:

1. Organization
2. Professional Staff
3. Investment Process
4. Transparency and Collaboration
5. Performance
6. Fees

Proposed Search Timeline

I	II	III	IV
Apr 21 - Jun 21	Oct 21	Dec 21	Feb 22

Phase	Steps	Actions	Firms in Process (Est.)	Timing	Status
I	**RFP Design and Launch**	- **Equity Committee and BOI approval of search recommendation including composition of Evaluation Team** - **Publish the RFP document**	**N/A**	**April 21 - June 21**	**In process**
II	RFP Evaluation	- Evaluation Team to review and rank RFP responses, select semi-finalists	30-40	October 2021	Not started
III	Semi-Finalist Evaluation	- Evaluation Team conducts interviews and completes reference checks	3-6	December 2021	Not started
IV	Finalist Recommendation	- Evaluation Team presents review of the finalist's qualifications and makes manager recommendation to the BOI	0-3	February 2022	Not started

Minimum Qualifications

1. The firm must have an eight-year verifiable performance track record of committing capital to Emerging Managers[1,2]
2. The firm, or founding team, must have committed a minimum of $100 million to Emerging Managers within the past 12 months
3. The firm, or founding team, must have at least five institutional clients, with a minimum of two public pension funds, one of whom has a plan size of at least $10 billion
4. The firm, or founding team, must have at least $500 million of private equity assets under management as a fiduciary
5. Must agree to be a fiduciary to LACERA under California and other applicable laws

[1]Emerging Managers are defined by LACERA as first, second, or third institutional funds with capital commitments between $300 million to $1 billion for buyout and growth equity funds and between $100 and $400 million for venture capital funds.

[2]Consistent with LACERA's T.I.D.E (Towards Inclusion Diversity & Equity) initiative, Minimum Qualifications for 2021 mandate were broadened from the 2017 RFP.

Scope of Services Summary

Identify and Select High-Quality Emerging Managers

- Conduct independent evaluations of investment opportunities and provide detailed written recommendations, including results of investment and operational due diligence

Investment Monitoring

- Monitor and report on investments in collaboration with LACERA's custodian bank, as well as meet all reporting requirements under California and other applicable laws
- Assess the general partner's commitment to diversity, equity, and inclusion ("DEI") and provide DEI metrics
- Evaluate the general partner's environmental, social, and governance ("ESG") policy and provide ESG metrics

Collaboration with Board and Staff

- Provide educational workshops and periodic Separate Account updates
- Collaborate with staff in investment diligence opportunities and future initiatives
- Facilitate LACERA's direct access and maximum allocation to co-investment and secondary opportunities offered by general partners in the Emerging Manager program
- Provide LACERA with a weekly pipeline report of all investable opportunities known
- Make best efforts to obtain an advisory board seat for LACERA in each fund contained in the Program and ensure LACERA is positioned to systematically receive complete information required to remain compliant with California public disclosure regulations and laws

Minimum Qualifications

1. **The firm must have an eight-year verifiable performance track record of committing capital to emerging managers.**

   Eight years of performance history allows for assessment of the quality of partnership selection by a separate account manager and covers a range of economic environments. Firms with a longer successful track record and audited performance returns will be considered more favorably.

2. **The firm must have committed a minimum of $100 million to emerging managers within the past 12 months.**

   By requiring a firm to have a recent history of investing with emerging managers, LACERA will be able to hire a separate account manager that is actively investing and is familiar with the marketplace and the various investment strategies employed by emerging managers.

3. **The firm must have at least five institutional clients, with a minimum of two public pension funds, one of whom has a plan size of at least $10 billion.**

   This ensures that the firm is not dependent on just a few clients to sustain the business and understands the specialized requirements of public pension funds.

4. **The firm must have at least $500 million of private equity assets under management as a fiduciary.**

   Reduces the potential that the amount of capital that LACERA commits to the firm does not represent a disproportionate amount of the firm's assets under management and that the firm has operational capabilities to manage a large program.

5. **Must agree to be a fiduciary to LACERA under California and other applicable laws.**

   Formally establishes a duty of loyalty to require the firm to put the interest of LACERA ahead of their own interest and a duty of care which requires that fiduciaries perform their functions with a high level of competence and in LACERA's best interest.

May 6, 2021

TO: Equity: Public/Private Committee

FROM: Ted Wright, CFA, FRM, PRM, CAIA TW
Principal Investment Officer

Ron Senkandwa RS
Investment Officer

FOR: May 19, 2021 Equity: Public/Private Committee Meeting

SUBJECT: **GLOBAL EQUITY EMERGING MANAGER SEARCH REQUEST FOR PROPOSAL – MINIMUM QUALIFICATIONS**

RECOMMENDATION

Advance the Global Equity emerging manager search Request for Proposal ("RFP") minimum qualifications to the Board of Investments for approval.

BACKGROUND

The Global Equity Emerging Manager Program ("Program") was established in 1995 through an indirect fund-of-funds model focused on U.S.-only equity mandates. On September 11, 2017, the Board of Investments ("Board") approved restructuring the Program from a fund-of- funds model to a direct investment structure and expanded the Program to include Non-U.S. mandates. Consequently, an RFP was issued for active U.S. and Non-U.S. emerging managers on October 2, 2017. The search was concluded in August 2018 with three managers hired, two U.S. small cap managers, and one Non-U.S. small cap manager.

After the manager hires, the Board approved a new Emerging Manager Policy at the February 12, 2020 meeting. One of the key objectives was to make the policy more market aware and to widen the opportunity set. Manager searches are tailored for each asset class and minimum requirements are determined by the manager universe prevailing at the time when a search is conducted. An additional area of focus for the new policy was manager graduations, in which graduation recommendations would be made in the biennial asset class structure reviews.

During the November 2020 Equity: Public/Private Committee, staff presented a structure review of the Growth functional asset category. Included with this analysis were several initiatives, one of which was to continue to build out the Program. As a result, staff is proposing a manager search for U.S. Equity, Non-U.S. Equity, and Global Equity emerging managers.

PROGRAM PROGRESS

The Program currently represents 0.9% ($230 million) of the $25 billion Global Equity portfolio and is within the Board-approved policy range of 0-5%. Subject to Committee and Board approval, the RFP search mandate size will be up to $500 million and up to three managers hired, depending on the types of strategies proposed/received and portfolio fit within the Global Equity portfolio. The mandate size could potentially increase the Program allocation from 0.9% allocation to 3.0%.

For the next phase, to bring the Program allocation closer to the upper range of 5%, staff proposes conducting an emerging manager search every two years. This will not only help us expand the Program but also ensure that the emerging manager portfolio is refreshed with the latest managers. The size of the mandate will depend upon the Program allocation, number of existing managers, and manager graduations at the time of the search.

A key goal of the Program is to maximize risk-adjusted returns. Smaller firms may be able to help achieve this goal. To the extent that these managers perform well, they would be graduated to the core Global Equity portfolio. Graduation recommendations will be made at biennial structure reviews with each manager evaluated for graduation at least every five years.

CONCLUSION

Staff prepared materials related to the Global Equity Emerging Manager Program RFP for discussion with the Equity Committee. **Attachment I** describes the recommended search criteria in compliance with the Procurement Policy for Investment-Related Services. This includes: (i) scope of work; (ii) minimum qualifications; (iii) search timing; (iv) structure of the evaluation team; (v) evaluation criteria; and (vi) selection authority. **Attachment II** provides additional details to the Minimum Qualifications, which have been broadened and consistent with LACERA's T.I.D.E. (Toward Inclusion, Diversity, and Equity) initiative within the Capital Formation pillar which focuses on widening the opportunity set to diverse managers and enhancing risk-adjusted returns. Following this discussion, staff will incorporate any recommended changes before presenting the revised documents to the Board of Investments for consideration.

Meketa Investment Group ("Meketa"), LACERA's general investment consultant, has provided a memo that concurs with staff's recommendation (**Attachment III**).

Attachments

Noted and reviewed:

Jonathan Grabel
Chief Investment Officer

TW:rs

ATTACHMENT I

Global Equity Emerging Manager Search
Request for Proposal
Minimum Qualifications

Equity: Public/Private Committee Meeting

May 19, 2021

Ted Wright, CFA, FRM, PRM, CAIA – Principal Investment Officer

Ron Senkandwa – Investment Officer

Recommendation and Background

Recommendation

- Advance the Global Equity emerging manager search Request for Proposal ("RFP") minimum qualifications to the Board of Investments for approval

Background

- The Board of Investments approved a Global Equity direct emerging manager program in September 2017
- Prior Global Equity emerging manager search was conducted in 2018 and resulted in three investment manager hires, two U.S. small cap managers and one Non-U.S. small cap manager
- The Board of Investments approved new emerging manager policy in February 2020
- Current allocation to emerging managers is 0.9% ($230 million) which is within the Board approved target allocation of 0-5%
- Staff will work with LACERA's general consultant, Meketa, on the search

Search Overview

- Staff will conduct the Request for Proposal for U.S. Equity, Non-U.S. Equity, and Global Equity emerging managers
- LACERA's preference is for mandates that are managed in a separate account
- The expected size of the mandate may be up to $500 million and up to three managers will be selected, dependent upon the types of strategies proposed/received and portfolio fit
- Using eVestment Alliance's manager database, approximately 40 potential firms were identified that meet the proposed minimum qualifications
- LACERA expects external asset managers and other third-party providers to reflect LACERA's T.I.D.E. (Towards Inclusion Diversity & Equity) initiatives

Evaluation Process

- Proposed Evaluation Team would consist of one Principal Investment Officer, one Investment Officer, and one Senior Investment Analyst

- Evaluation Team will conduct the Request for Proposal process in two phases:
  - Phase One: Evaluation of written RFP responses
  - Phase Two: Candidate interviews (most likely virtual)

- Final scores, evaluation review, and recommendation will be advanced to the Board

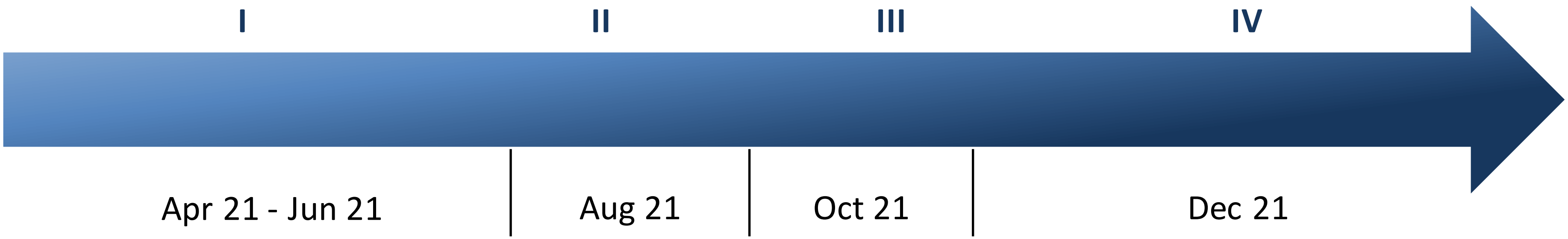
- Selection authority for this RFP will be the Board

Evaluation Criteria

All responses received shall be subject to evaluation of portfolio fit within the Global Equity portfolio in addition to the following categories:

1. Organization
2. Professional Staff
3. Investment Process
4. Trading and Operations
5. Performance
6. Fees

Proposed Search Timeline



Phase	Steps	Actions	Firms in Process (Est.)	Timing	Status
I	**RFP Design and Launch**	**- Equity Committee and BOI approval of search recommendation including composition of Evaluation Team** **- Publish the RFP document**	**N/A**	**April 21 - June 21**	**In process**
II	RFP Evaluation	- Evaluation Team to review and rank RFP responses, select semi-finalists	40-50	August 2021	Not started
III	Semi-Finalist Evaluation	- Evaluation Team conducts interviews and completes reference checks	3-6	October 2021	Not started
IV	Finalist Recommendation	- Evaluation Team presents review of the finalist's qualifications and makes manager recommendation to the BOI	0-3	December 2021	Not started

Minimum Qualifications

1. Must be registered as an investment adviser with the U.S. Securities and Exchange Commission (“SEC”) or exempt from registration (if exempt, must explain the nature of the exemption)

2. Must be in good standing with regulatory authorities

3. Must be at least fifty-one percent (51%) employee-owned firm

4. Must have no more than $3 billion in total firm assets under management as of March 31, 2021

5. Must have no more than fifteen (15) years of operation as an investment firm as of March 31, 2021

6. Must have at least $150 million of assets under management as of March 31, 2021 in the same investment style to be managed for LACERA and must not be an ETF/mutual fund or carve-out strategy

7. Must have at least three (3) years of verifiable experience for the portfolio manager managing proposed strategy or a similar investment style

8. Must comply with the Global Investment Performance Standards of the CFA Institute

Scope of Services Summary

Provide long-only U.S. Equity, Non-U.S. Equity, or Global Equity investment management services

- Manage LACERA assets in accordance with the terms of the investment management agreement and all applicable laws, rules, and regulations
- Act as fiduciary to LACERA and put the interests of LACERA ahead of investment manager's own interests

Investment Monitoring and Reporting

- Monitor and report on investments in collaboration with LACERA's custodian bank, as well as meet all reporting requirements under California and other applicable laws
- Reflect LACERA's values of diversity, equity, and inclusion ("DEI") and provide DEI metrics
- Incorporate environmental, social, and governance ("ESG") factors into investment process where applicable and provide ESG metrics on a regular basis

Collaboration with Board and Staff

- Provide topical updates on market environment and investment themes as requested
- Share periodic research papers, house views, and market outlook

Minimum Qualifications

1. **The firm must be registered as an investment adviser with the U.S. Securities and Exchange Commission ("SEC") or exempt from registration (if exempt, must explain the nature of the exemption).**

   Assures that firm adheres to a fiduciary standard of care which requires investment advisers to act solely in the best interest of client.

2. **The firm must be in good standing with regulatory authorities.**

   Good standing with regulatory authorities affirms that firm is in compliance with all regulatory laws and requirements.

3. **The firm must be at least fifty-one percent (51%) employee-owned.**

   By requiring a firm to be majority owned by its principals/employees ensures independence and greater alignment of interests with investors such as LACERA.

4. **The firm must have no more than $3 billion in total firm assets under management as of March 31, 2021.**

   Increases the opportunity for LACERA to invest in smaller investment firms that may generate superior performance because of increased market flexibility associated with smaller asset bases. $3 billion market value is based on 45th percentile of eVestment manager database broad global equity manager universe.

5. **The firm must have no more than fifteen (15) years of operation as an investment firm as of March 31, 2021.**

   This ensures that the LACERA will be investing in promising investment firms early in their development and are motivated to perform well for early investors who are crucial to their growth. Newer emerging managers may have a greater alignment of interest with institutional investors than established firms.

6. **The firm must have at least $150 million of assets under management as of March 31, 2021 in the same investment style to be managed for LACERA and must not be an ETF/mutual fund or carve-out strategy.**

   Reduces the potential that the amount of capital that LACERA commits to the firm does not represent a disproportionately large amount of the product's assets under management, and that strategy is a stand-alone product that is structured for institutional investors.

7. **The firm must have at least three (3) years of verifiable experience for the portfolio manager managing proposed strategy or a similar investment style.**

   Three years of history managing a proposed strategy or similar strategy allows for assessment of the experience of the portfolio manager to navigate various market environments. Portfolio managers with a longer successful track record and audited performance returns will be considered more favorably.

8. **The firm must comply with the Global Investment Performance Standards of the CFA Institute.**

   Ensures that firms are calculating and reporting historical investment performance in a standardized framework. Allows LACERA to have greater confidence in the integrity of performance presented and can more easily compare track records of various managers world-wide.

MEKETA
INVESTMENT GROUP

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Suite 110
Carlsbad, CA 92008

760.795.3450
Meketa.com

MEMORANDUM

TO: Equity: Public/Private Committee
FROM: Stephen McCourt, Leandro Festino, Tim Filla, Alina Yuan, Meketa Investment Group
DATE: May 6, 2021
RE: Global Equity Emerging Manager Minimum Qualifications

Background

The Board of Investments ("The Board", or "BOI") approved a new emerging manager policy in February 2020, which enhances LACERA'S efforts to access Emerging Managers by removing specific constraints form the policy and allowing for development of guidelines, qualifications, and procedures during specific asset class structure reviews. As a result of the Growth structure review in the November 2020 Equity Committee meeting, Meketa and staff have worked closely to produce a request for proposal ('RFP") and establish Minimum Qualifications (MQs) for separate account emerging managers.

The Emerging Manager program currently is valued at 0.9% of the $25 billion Global Equity portfolio with a range of 0-5%. Conducting this Emerging Manager RFP will bring the Total Fund closer to the middle of the 5% range. These MQs enable LACERA to narrow down the universe to target managers that are most suitable and should eliminate biases that can lead to favoring managers based off of investment style preference. Meketa also recommended excluding a performance measurement in the MQs in order to eliminate recent outperformance or end date biases, particularly given the shorter track records of emerging managers.

Meketa has reviewed the proposed Minimum Qualifications for Emerging Manager RFP and found them appropriate. In addition, we think staff's proposed timeline is reasonable. We would be pleased to elaborate on this recommendation at the May meeting and assist both staff and the Board during the coming months in matters related to this search.

SPM/LF/TF/AY/sf

May 6, 2021

TO: Equity: Public/Private Committee

FROM: Ted Wright , CFA, FRM, PRM, CAIA TW
Principal Investment Officer

Jeff Jia JJ
Senior Investment Analyst

FOR: May 19, 2021 Equity: Public/Private Committee Meeting

SUBJECT: **CURRENCY HEDGE PROGRAM REVIEW**

BACKGROUND

At the November 2020 Equity: Public/Private Committee meeting, staff mentioned that Meketa and staff will present a currency hedge program review in 2021. The attached presentation contains an education session on currency hedging, a review of LACERA's currency hedge program, and a peer survey result of currency hedge programs at other plans.

CONCLUSION

Since inception, the currency hedge program has met its objective and provided the Global Equity portfolio with reduced return volatility from non-U.S. equities. Staff and Meketa will incorporate feedback from the Committee and address potential next steps.

Attachment

Noted and reviewed:

Jonathan Grabel
Chief Investment Officer

TW:jj

MEKETA

INVESTMENT GROUP

Los Angeles County Employees Retirement Association

May 6, 2021

Currency Hedge Program Review

Introduction

- LACERA acknowledges foreign currency as a risk in the portfolio that will adversely affect the fair value of an investment.[1]
- In June 2009, the LACERA Board implemented a currency hedging program.
- The growing complexity of the Total Fund may warrant a consideration to apply the program to other asset categories.
- This presentation will provide educational background on currency hedging, a brief history of LACERA's program, a peer survey, and additional considerations moving forward.

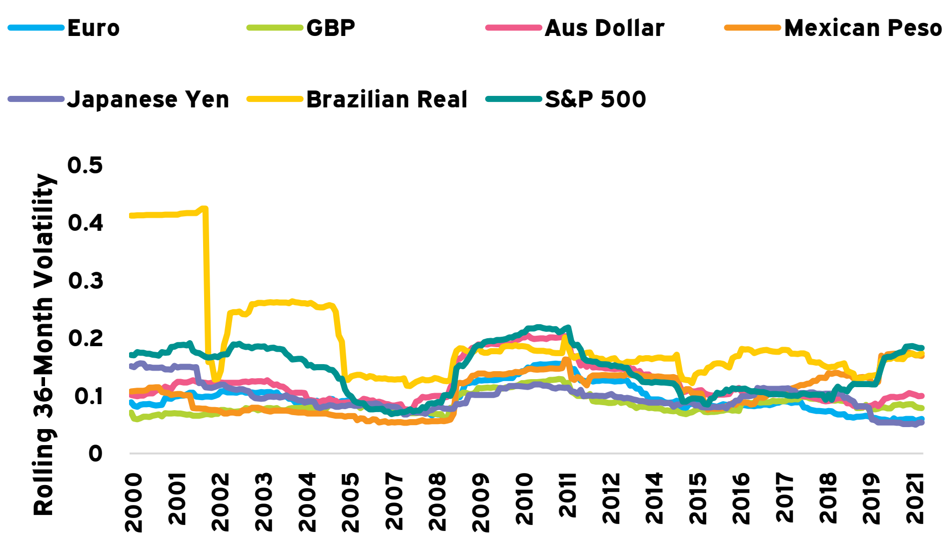
[1] LACERA 2020 Annual Financial Report

Why Investors Should Care

Currency risk results from purchasing assets denominated in a foreign currency.

- Most foreign currencies' values are determined by market forces and cannot be predicted.
- Over the long term, the fluctuation of foreign currencies' values versus a home currency is expected to balance out, leading to zero change in the average return.
- However, the fluctuation adds to the risk (as measured by volatility) of those foreign assets, and thus the broader portfolio, without any compensation in the form of added return.

Foreign Currency Volatilities Relative to USD (with S&P 500 for comparison)



As An Investment Decision

Institutional investors must decide how to deal with currency risk in their portfolios, based upon several factors, including:

1. Foreign Currency Outlook
2. Size of Foreign Currency Exposure
3. Cost of Hedging
4. Types of Foreign Assets in the Portfolio
5. How Much to Hedge

As An Investment Decision

1. Foreign Currency Outlook
   - If an investor does not want currency risk exposure, a strategic decision to hedge away currency risk is warranted.
   - But if current market conditions lend to expectations of positive currency returns, an investor can tactically lower / remove hedges to attempt to capture some of these returns.
   - For a US-based investor, a positive currency return occurs if a foreign currency appreciates against the USD (i.e., the dollar is "weakening").

2. Size of Foreign Currency Exposure
   - The larger the foreign investment allocation in a portfolio, the more foreign currency risk, and the greater the impetus to implement a currency hedge.

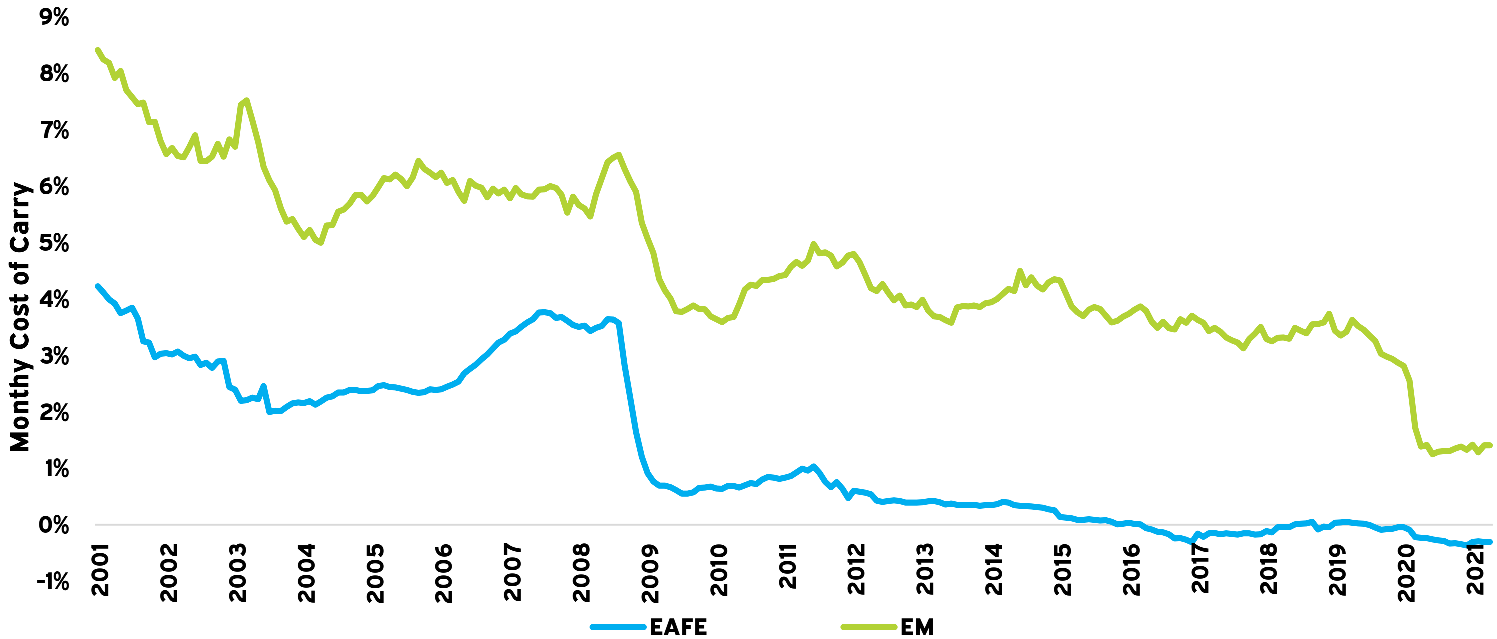
As An Investment Decision (continued)

3. Cost of Hedging

   – Hedging currency exposure through derivatives (i.e., forwards) is relatively inexpensive for developed market currencies such as the Euro, Japanese Yen, and British Pound.

   – Less-liquid currencies such as those for emerging markets incur higher costs which can detract from performance over the long term.

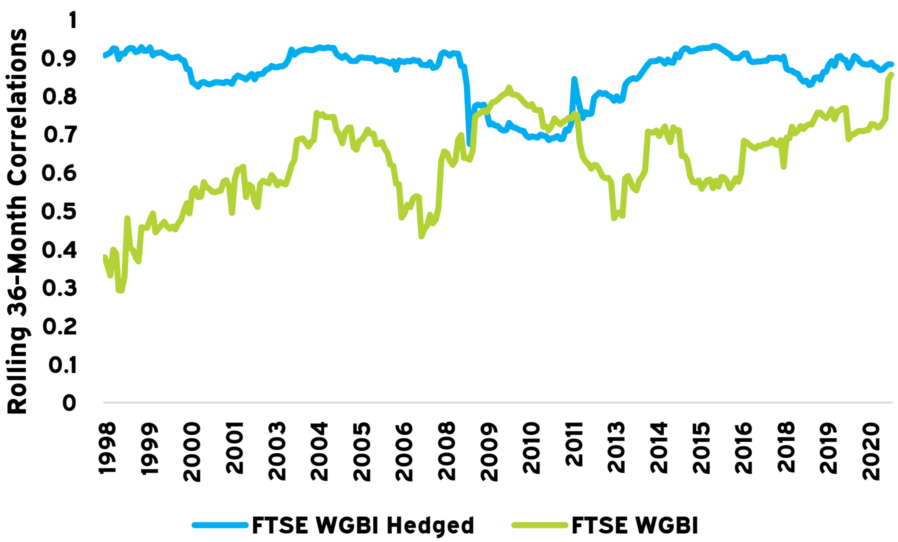
Weighted-Average Cost of Hedging (Cost of Carry)



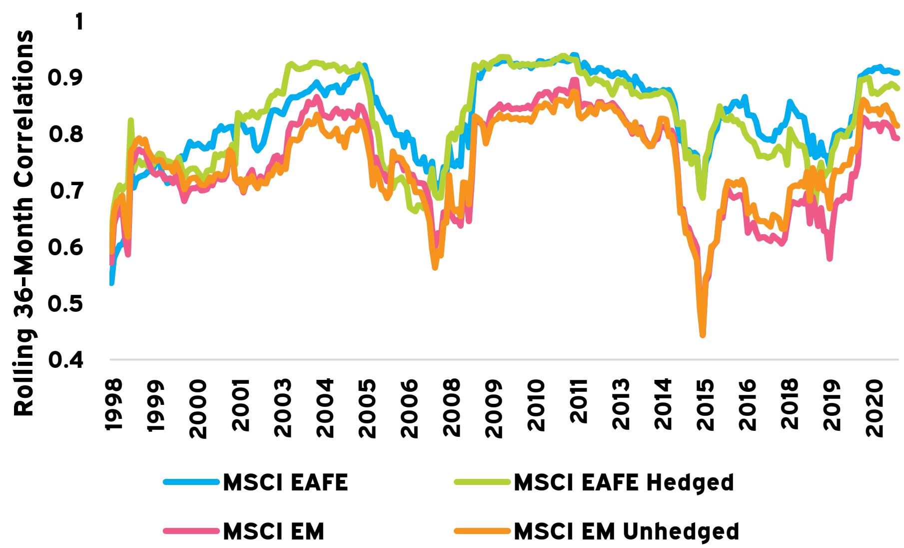
As An Investment Decision (continued)

4. Types of Foreign Assets in the Portfolio
   - Do not hedge foreign fixed income exposure, but do hedge foreign equity exposure.
     - Currency drives the majority of foreign bonds' volatility, but hedged foreign bond portfolios behave much like US bonds, reducing the diversification benefits.
     - By contrast, for foreign equities, hedging out their currency does not lead to a noticeable increase in correlations to domestic equities.

Rolling 3-year Correlations to Barclays US Aggregate



Rolling 3-year Correlations to S&P 500



As An Investment Decision (continued)

5. How Much to Hedge
   - Practitioners and academics advocate for various levels of foreign currency hedge ratios[1]:
     - No hedge at all (0% hedge ratio).
     - Full hedge (100% hedge ratio).
     - Half hedge (50% hedge ratio), viewed as minimizing regret ("half-right all the time" rather than "fully wrong half the time").

[1] Hedge Ratio (%) = Foreign Currency Exposure Hedged / Total Foreign Currency Exposure

Implementation Options

Investors can utilize the following to establish currency-hedging overlay programs to manage portfolio exposures:

- *In-House Currency Management*: Some large, well-resourced institutions have investment staff that can directly implement currency hedges, saving management fees but requiring considerable governance and infrastructure capabilities.
- *Passive Management*: A passively-managed program will define static rules regarding hedge ratio, currencies to hedge, and tenor of hedges. This is the most widely-used and least expensive solution, yet is also least flexible.
- *Semi-Active Management*: Semi-active managers employ systematic, rules-based programs to hedge currency, with some flexibility to implement time-varying hedging ratios within specified ranges.
- *Active Currency Management*: Active currency managers seek to capture currency returns within an "absolute return" benchmark, not taking into account an investor's existing currency exposures, and thus cannot be considered hedging programs.

Summary

Investors with substantial foreign assets should consider utilizing a hedging program to reduce currency risk.

- As there are both setup and ongoing costs, a program should only be implemented if the currency exposures are large enough to justify its use.
- It is likely that:
  - Hedging developed-market currencies will be less costly than emerging markets.
  - Hedging the currency exposure of equity assets will preserve the diversification benefits of those assets, unlike fixed income assets.
  - A half hedge will minimize regret, which may be more robust from the standpoint of investor behavior.
- Passive currency hedging programs are attractive as they are widely-used and inexpensive, provided that the investor does not have tactical views on foreign currency returns.

LACERA Currency Hedge Program History and Background[1]

2009

In June, the Board of Investments ("Board") approved asset allocation policy with two objectives for global public equities:

- Move equities to a global equity allocation with split between U.S. and Non-U.S. equities determined by country weights in MSCI ACWI IMI Index.
- Implement currency hedging program to dampen the currency return volatility associated with the increased Non-U.S. equity exposure. Wilshire Associates (LACERA's general consultant at the time) recommended a 50% hedge in their Asset/Liability Study.

2010

- Manager search launched for currency hedging strategies
- Board approved BlackRock to manage a passive 50% developed markets[1] currency hedge program (implemented in August)

2017

Currency hedging presentation from staff and Meketa

2019

Board approved combined oversight of U.S. and Non-U.S. equities in January

2020

Board affirmed currency hedge in the Global Equity Structure Review advanced by the Committee in December

[1] Developed market currencies included in the hedge program are: Australian Dollar, Canadian Dollar, Swiss Franc, Danish Kroner, Euro, British Pound, Hong Kong Dollar, Israeli Shekel, Japanese Yen, Norwegian Krone, New Zealand Dollar, Swedish Krona, Singapore Dollar.

Program Overview

Objective / Expectation	• Minimize or eliminate exchange rate risk • Passively managed - no directional currency bets • Over the long-term, program should help to reduce return volatility of foreign developed markets due to fluctuations in currency movements
Operation / Implementation	• 50% passive currency hedge (to U.S. Dollar) on the Non-U.S. developed markets foreign currency exposure in accordance with weights of the MSCI World-ex US IMI Index • Emerging markets not included due to higher transaction costs • Collaboration with BlackRock to identify relevant equity exposures for hedge • Implement using currency forward contracts • Currency exposures are rebalanced monthly
Risk Monitoring	Manager compliance with program guidelines is reviewed monthly: • Counterparty exposure – Six counterparties – max exposure to any counterparty is 33% – All rated BBB+ or higher • Currency forward maturities – contract maturity limited to 110 days • Independently calculate monthly realized gain/loss from currency forward rolls to confirm receipt/disbursement of cash

Program Performance

Historical Performance[1]	1-Year	3-Year	5-Year	10-Year	Since Inception
Passive Currency Hedge Program Return (Net)	(3.03)	1.14	0.54	1.11	0.68
Benchmark Return	(3.00)	1.14	0.57	1.13	0.70
Tracking Error	0.04	0.05	0.05	0.05	0.05

Historical Volatility of Non-US Equity[2]	1-Year	3-Year	5-Year	10-Year
Non-US Equity – Hedged (Net)	12.04	15.79	12.97	13.50
Non-US Equity – Unhedged (Net)	14.59	17.77	14.69	15.19

- Currency hedge performance is in-line with benchmark, with minimal tracking error.
- The program has met its objective and provided Non-US equity with reduced return volatility as measured by standard deviation.
- As of March 2021, LACERA has received $793.8 million in cash flow from gains on monthly currency forward settlements since inception. The monthly cash-flows from the currency hedge are reported to the Board in the Monthly CIO Report.

[1] As of March 2021. Program inception date of August 2010.
[2] As of March 2021.

Peer Survey

Plan	Utilizes Currency Hedge Program?	AUM ($B)	Size	Active/Passive
Plan A	✓	100+	Developed and EM (Equity)	Passive
Plan B	✓	100+	Developed	Active External/Passive Internal
Plan C	✓	50-100	2% of Total Plan	
Plan D	✓	50-100	Developed and EM (Equity)	Active
Plan E	✓	50-100	50% target but current is 82% of DM	Passive
Plan F	✓	50-100	50% of Developed	Active
Plan G	✓	50-100	50% of Total	Active
Plan H	✓	50-100	0.10% of Total	Passive
Plan I	✗	100+		
Plan J	✗	100+		
Plan K	✗	50-100		
Plan L	✗	50-100		
Plan M	✗	50-100		
Plan N	✗	50-100		
Plan O	✗	50-100		

- In a survey of 15 public pension plans with greater than $50 billion AUM, 53% of plans utilized a currency overlay program to manage foreign currency risk.

Meketa 2021 Capital Market Expectations

	10-YR Expected Return	20-YR Expected Return	Standard Deviation
Developed Market Equity (non-US)	8.5%	8.9%	19.0%
Developed Market Equity (non-US) (hedged)	7.4%	8.1%	16.0%

- Hedged developed market equities have lower returns over both 10 and 20 year expectations and lower volatility.

Impact of Sharpe Ratios under Varying Hedged Ratios[1]

	0% Hedge (%)	50% Hedge (%)	100% Hedge (%)
Growth	47	47	47
US Equity	20	20	20
Developed Market Equity (non-US)	12	6	0
Developed Market Equity (non-US) (hedged)	0	6	12
Emerging Market Equity	3	3	3
Private Equity	10	10	10
Opportunistic Real Estate	2	2	2
Credit	12	12	12
Real Assets and Inflation Hedges	17	17	17
Risk Reduction and Mitigation	24	24	24
Expected Return (20 years)	*6.38*	*6.36*	*6.33*
Standard Deviation	*11.8*	*11.5*	*11.3*
Sharpe Ratio	0.42	0.42	0.43

- When comparing a Total Fund portfolio with varying levels of developed market currency hedging (0%, 50%, and 100%), we find that the Sharpe ratio increases slightly, while both expected returns and volatility decrease.

[1] Expected return and standard deviation are based upon Meketa Investment Group's 2021 Annual Asset Study. Throughout this document, returns for periods longer than one year are annualized.