

IN PERSON & VIRTUAL BOARD MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit the above link and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

Attention: If you have any questions, you may email PublicComment@lacera.com. If you would like to make a public comment during the committee meeting, review the [Public Comment instructions](#).

AGENDA

A REGULAR MEETING OF THE CREDIT AND RISK MITIGATION

COMMITTEE AND THE BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., WEDNESDAY, MAY 10, 2023

This meeting will be conducted by the Credit and Risk Mitigation Committee and Board of Investments both in person and by teleconference under California Government Code Section 54953 (f).

Any person may view the meeting in person at LACERA's offices or online at <https://lacera.com/leadership/board-meetings>

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. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953(f)
 - A. Just Cause
 - B. Action on Emergency Circumstance Requests
 - C. Statement of Persons Present at AB 2449 Teleconference Locations
- III. APPROVAL OF MINUTES
 - A. Approval of the Minutes of the Regular Credit and Risk Mitigation Committee Meeting of August 10, 2022.
- IV. PUBLIC COMMENT

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IV. PUBLIC COMMENT (Continued)

If you select oral comment, we will contact you via email with information and instruction as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Committee. Oral comment request will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email PublicComment@lacara.com.)

V. REPORT

A. Private Credit Overview

Vache Mahseredjian, Principal Investment Officer
James Walsh, Partner, Head of Portfolio Group, Albourne
Kristen Jones, Senior Credit Analyst, Albourne
(Presentation) (Memo dated April 28, 2023)

VI. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

VII. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

VIII. GOOD OF THE ORDER

(For information purposes only)

IX. 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.

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MINUTES OF THE REGULAR MEETING OF THE CREDIT AND RISK
MITIGATION COMMITTEE AND THE BOARD OF INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, AUGUST 10, 2022

*This meeting was conducted by teleconference under California Government
Code Section 54953(e).*

PRESENT: Elizabeth Greenwood, Chair
Joseph Kelly, Vice Chair
Onyx Jones (arrived 8:07)
Patrick Jones

ABSENT: Shawn Kehoe

MEMBERS AT LARGE:

David Green
Keith Knox
Gina Sanchez (arrived 8:44)
Herman Santos

STAFF, ADVISORS, PARTICIPANTS:

Jonathan Grabel, Chief Investment Officer

Vache Mahseredjian, Principal Investment Officer

STAFF, ADVISORS, PARTICIPANTS: (continued)

Meketa Investment Group
Timothy Filla, Managing Principal/Consultant

Albourne
James Walsh, Partner/Head of Portfolio Group
Stephen Kennedy, Partner/Portfolio Analyst Coordinator

I. CALL TO ORDER

The meeting was called to order virtually by Chair Greenwood at 8:00 a.m.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Meeting of May 11, 2022.

Mr. Kelly made a motion, Mr. Jones seconded, to approve the minutes of the meeting of May 11, 2022. The motion passed unanimously with trustees present via roll call with Messrs. Kelly, Jones and Ms. Greenwood voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. REPORT

A. Credit Performance Report
Vache Mahseredjian, Principal Investment Officer
Timothy Filla, Managing Principal/Consultant, Meketa
James Walsh, Partner/Head of Portfolio Group, Albourne
(Memo dated July 29, 2022)

Messrs. Filla and Walsh provided a presentation on the Credit portfolio and answered questions from the Committee.

IV. REPORT (continued)

- B. Risk Reduction and Mitigation Performance Report
Vache Mahseredjian, Principal Investment Officer
Timothy Filla, Managing Principal/Consultant, Meketa
Stephen Kennedy, Partner/Portfolio Analyst Coordinator, Albourne
(Memo dated July 29, 2022)

Messrs. Filla and Kennedy provided a presentation on the Risk Mitigation portfolio and answered questions from the Committee.

V. ITEMS FOR STAFF REVIEW

There were no items for staff review.

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 8:52 a.m.

April 28, 2023

TO: Trustees – Credit and Risk Mitigation Committee

FROM: Vache Mahseredjian, CFA, CAIA, FRM, ASA 
Principal Investment Officer

FOR: May 10, 2023 Credit and Risk Mitigation Committee Meeting

SUBJECT: **PRIVATE CREDIT OVERVIEW—ALBOURNE PRESENTER**

The single item on today's Committee agenda is an overview of private credit by Kristen Jones of Albourne. Ms. Jones' presentation is scheduled for approximately 30 minutes, leaving plenty of time for Q&A.

As a reminder, the target allocation to Credit from the most recent Strategic Asset Allocation is 11% of the Total Fund. That 11% allocation is further subdivided into Liquid Credit (4%) and Illiquid Credit (7%). The private credit strategies that Ms. Jones will describe reside in the Illiquid Credit segment.

Kristen Jones Biography

Kristen Jones is a Partner, Head of US Private Credit and Senior Private Markets Investment Due Diligence Research Analyst. Kristen holds primary responsibility for maintaining coverage on a range of Private Credit sub-strategies including US distressed and special situations (including control, non-control, asset-backed and distressed lending), private lending, specialty finance, esoteric credit (e.g., life science lending and litigation finance) and multi-strategy credit. In addition to providing intensive onsite due diligence, strategy forecasts, written manager evaluations and investment recommendations, Kristen directly supports the Albourne Head of Private Markets and Albourne COO as a project manager and function liaison for Private Markets initiatives. Before joining Albourne in 2009, Kristen worked at Waycrosse, Inc. Cargill and MacMillan Family Office (2006-2008) and Lacrosse Global Fund Services in the cash and collateral group (2008). Kristen is based in Minnesota and reports through Albourne's San Francisco office. Kristen holds a BSB Finance with High Distinction from the University of Minnesota, Twin Cities Curtis L. Carlson School of Management.

Attachment

Noted and Reviewed:



Jonathan Grabel
Chief Investment Officer

VM:cll

Private Credit Overview

Presented by Albourne America LLC

Kristen Jones, Partner and Head of US Private Credit

10 May 2023

Private Credit Introduction

- Private Credit includes a wide array of strategies spanning the capital structure, borrower types, collateral types and risk types
- Various terms are often used interchangeably when referring to Private Credit
 - Direct lending, non-bank lending, middle market lending, alternative lending, capital solutions, etc.
 - Typically referring to loans that do not trade and therefore include an illiquidity premium

Private Credit's value proposition

Flexibility

Speed

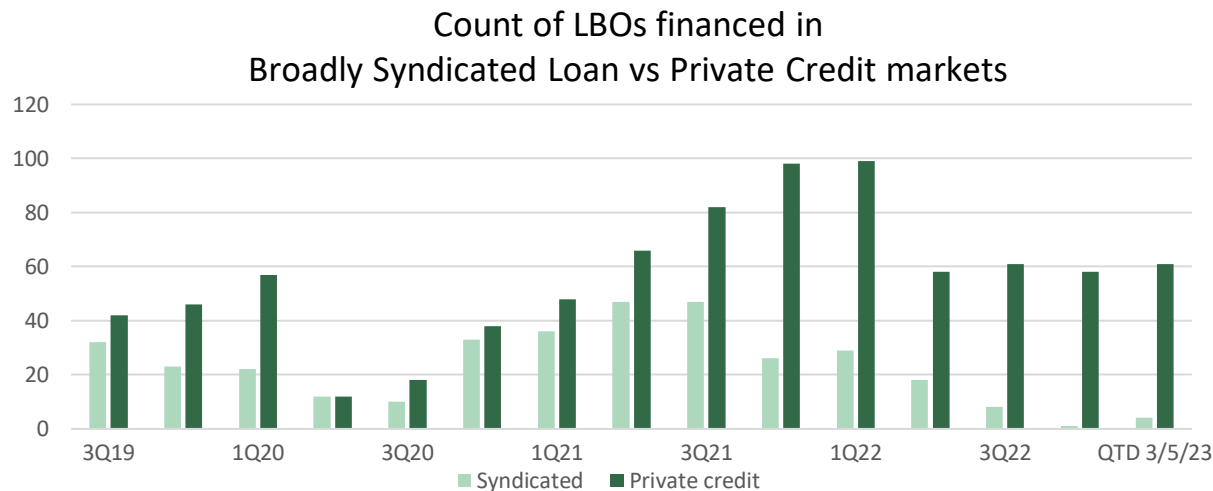
Certainty

Creativity

Confidentiality

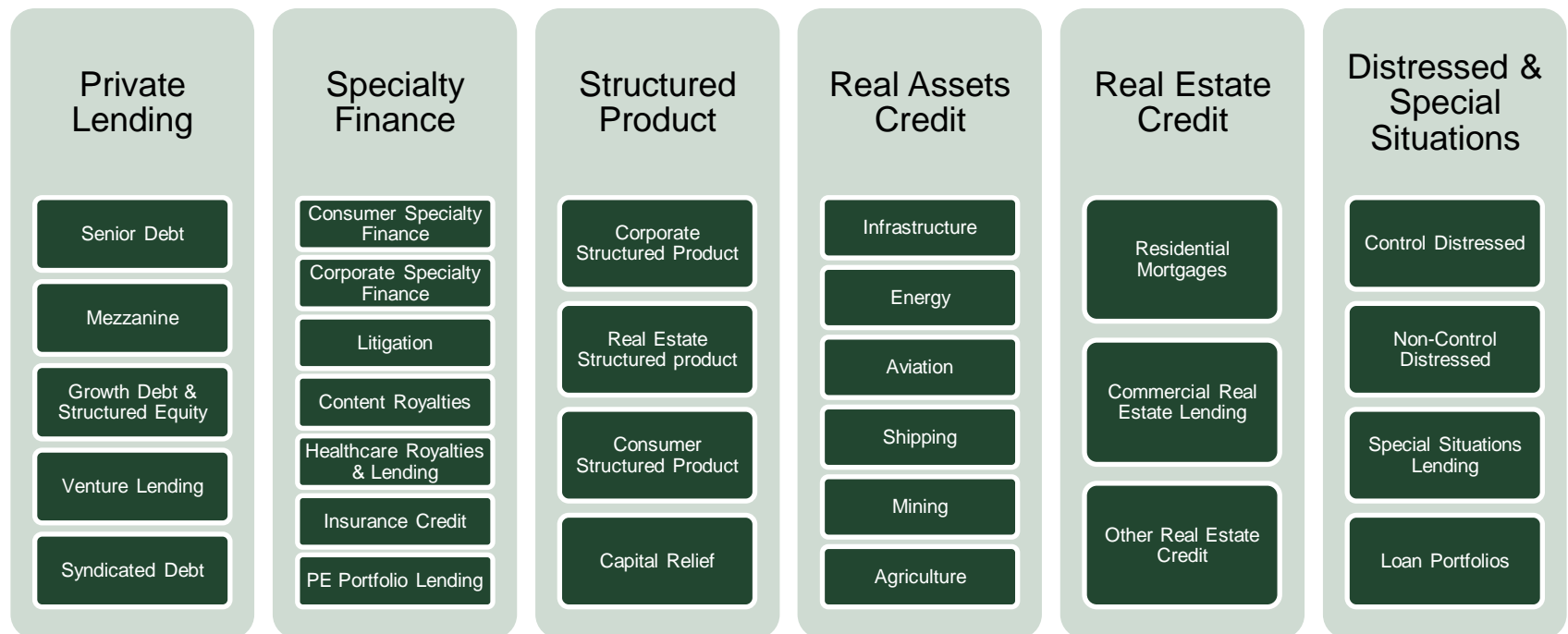
The Rise of Private Credit

- Private Credit AUM has surpassed \$1.2trn – reaching ~30% of the total credit market
- Demand fueled by a range of dynamics, including:
 - Bank retrenchment and challenging public primary (syndicated) issuance
 - Private Equity sponsors sitting on dry powder and looking for debt ‘partners’
 - Few viable alternatives for yield and the lack of mark-to-market volatility
 - Elevated investor allocations

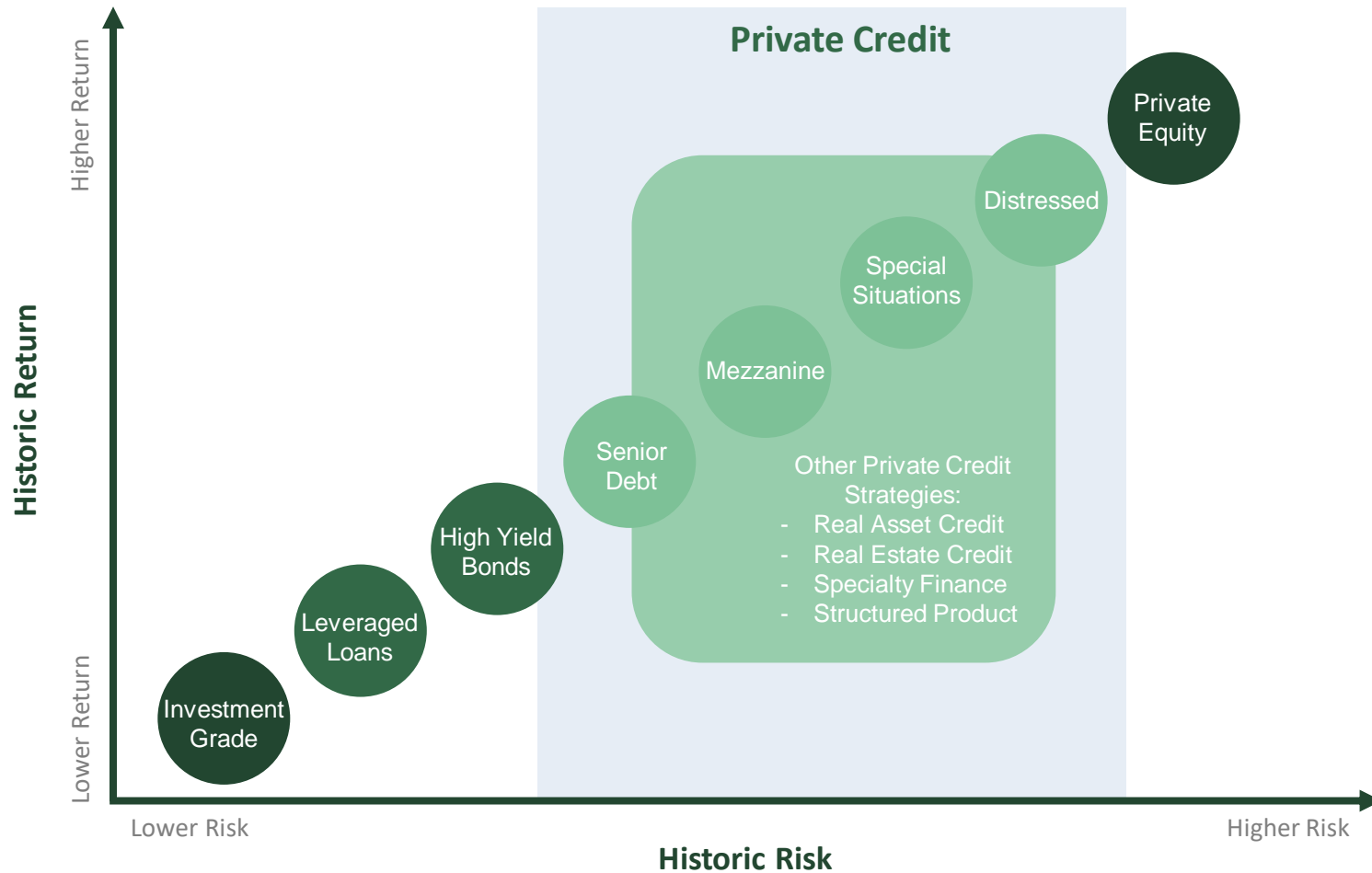


The Types of Private Credit

- Private Credit funds pursue a wide range of strategies with different risk/return profiles
- Target returns range from 5%-20%+ net based on borrower and risk profile
- Return drivers can be a combination of income and appreciation
- Fund investment periods typically range 2-4 years and fund life 5-8 years (10+ on the long end)



Risk vs Return Spectrum*



Strategy Considerations

Private Credit

Seniority

Security

Leverage

Resilience

Income Generation

Return Enhancement

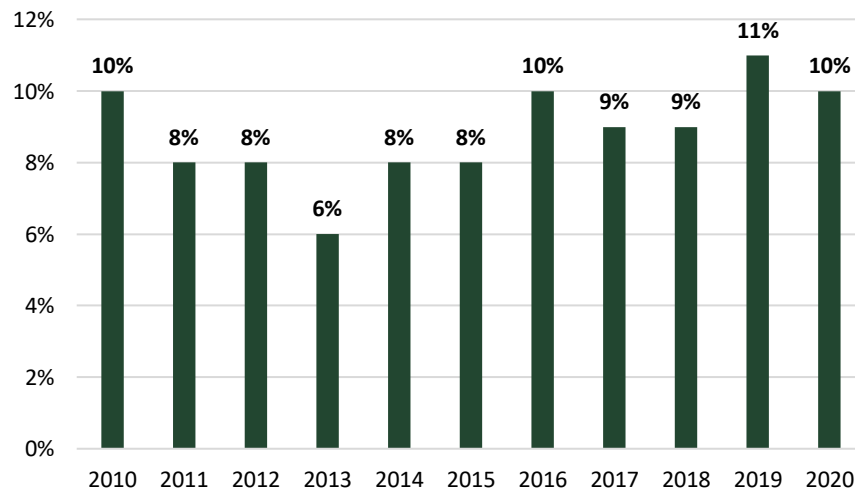
Diversification

Fees & Liquidity

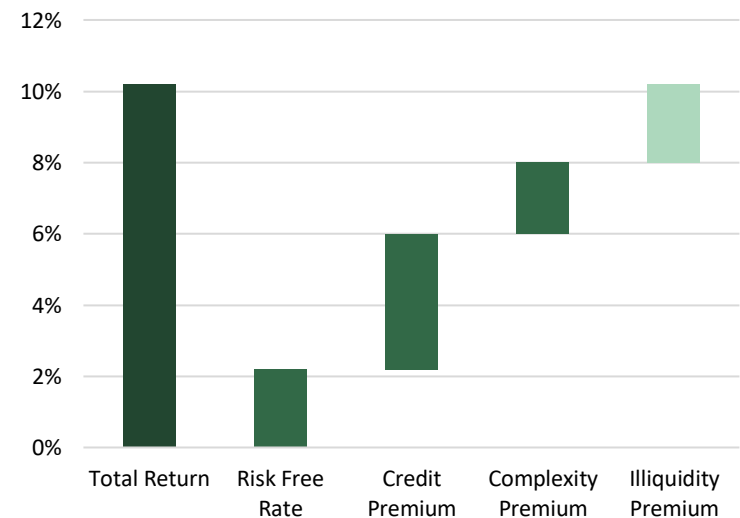
Private Credit Performance

- The median IRR ranges from 6%-11% for the 2010-2020 vintages
 - Private Credit is typically floating rate and offers some “illiquidity premium” relative to syndicated loans
 - A “complexity premium” may represent an increasing proportion of Private Credit’s superior returns over the new issue market over time
- Return dispersion has been relatively tight over the last decade but is expected to widen out

Vintage Year IRRs

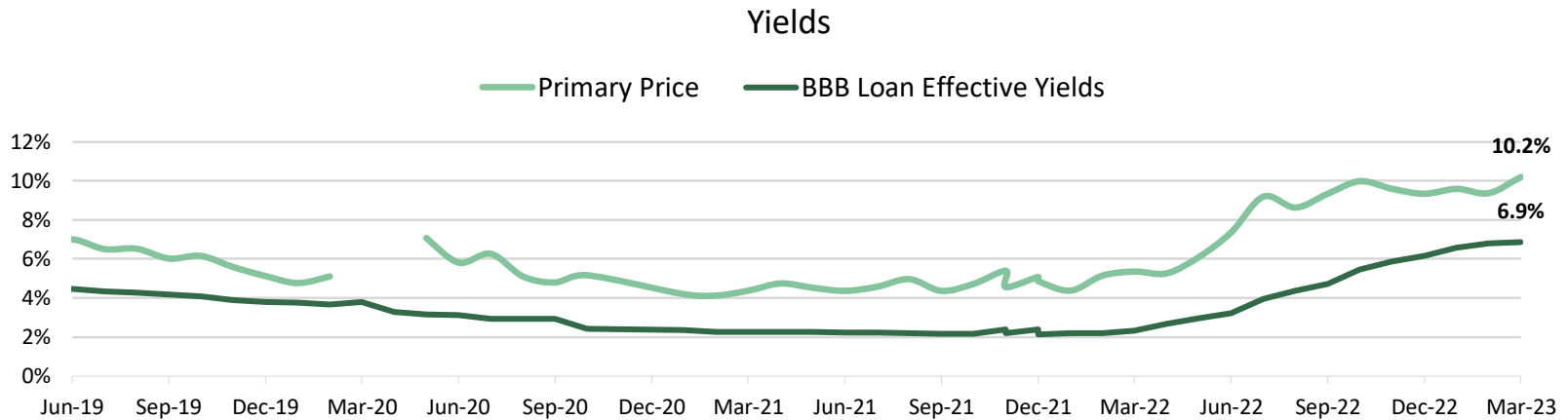


Illustrative Risk Premiums

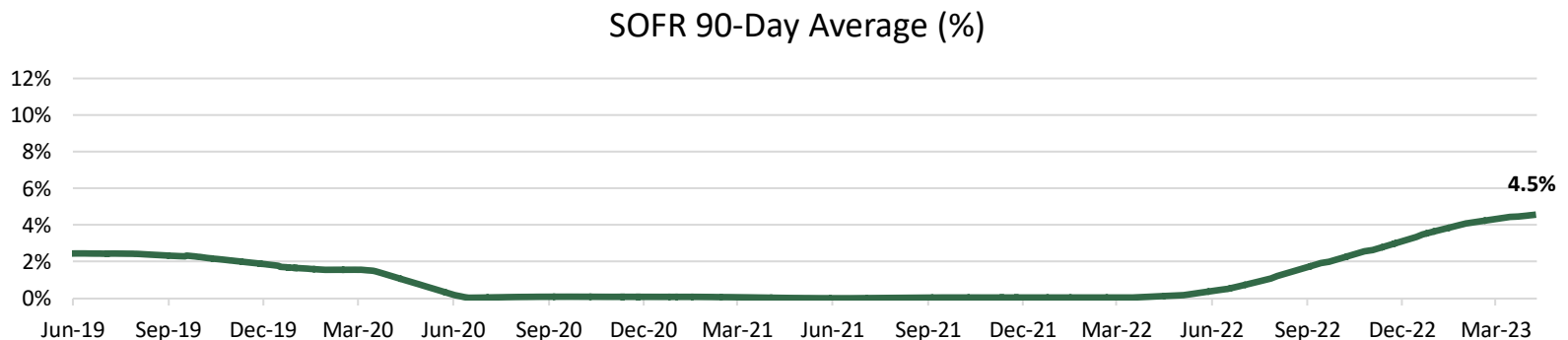


Attractive Entry Point for Floating Rate Credit

- Yields are at their highest in the last 15 years except for the GFC and 14 trading days in March-April 2020



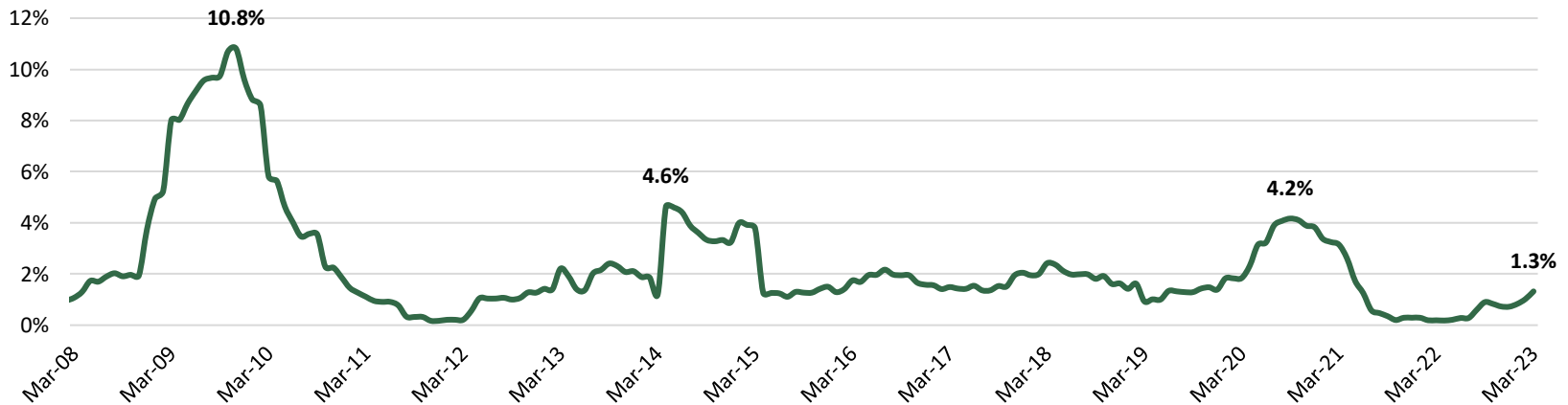
- Base rates are higher and expected to stay higher for longer



Default Rates

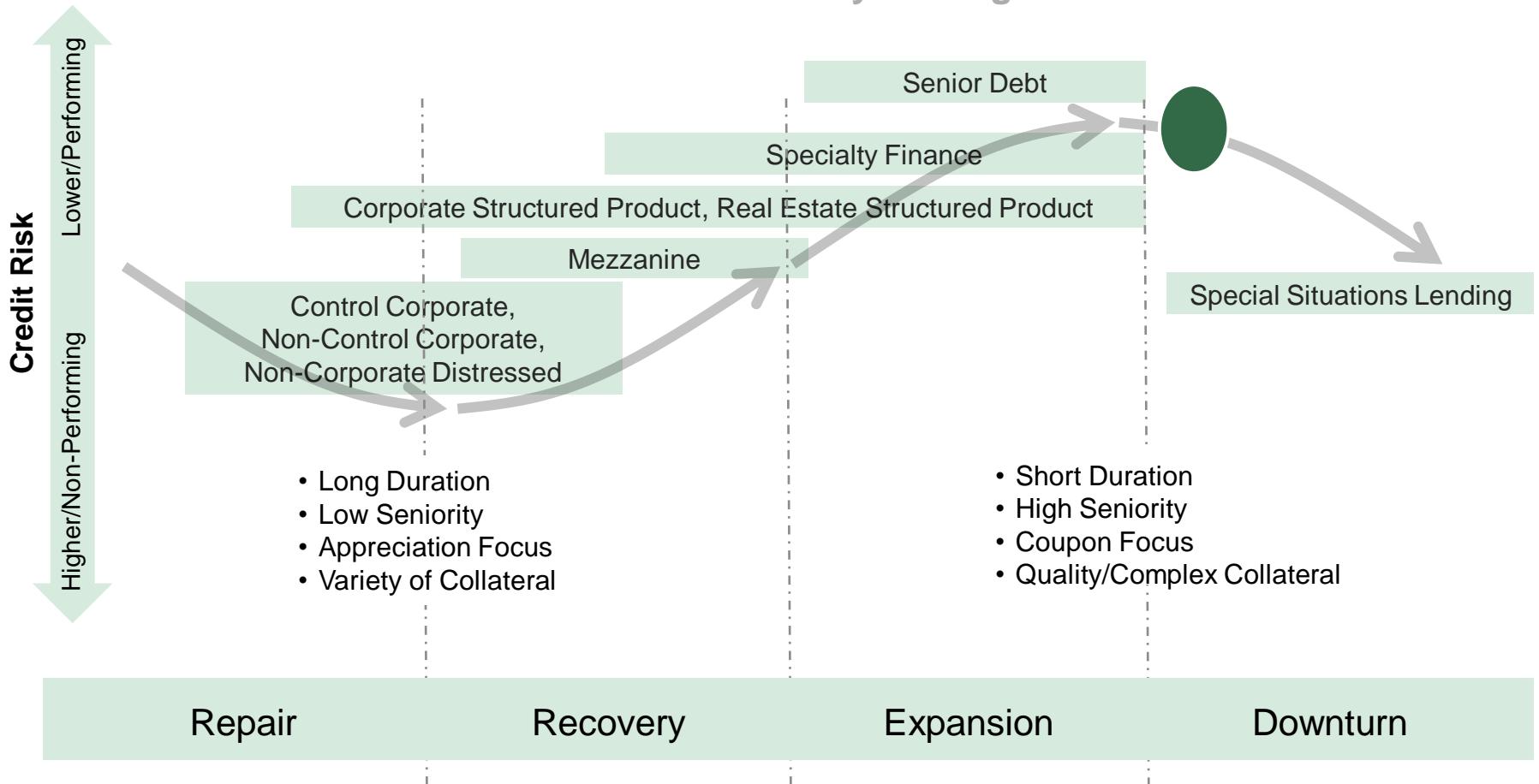
- The COVID-19 pandemic provided a test for private credit, and the asset class is generally considered to have “passed”
 - Private Credit default trends were no worse than those for larger corporates
 - This has led to strong absolute and risk-adjusted returns versus other asset classes
- Higher equity cushions, lower leverage multiples, greater number of covenants and tighter loan documentation are key tools private credit lender use to manage recovery and loss rates

Morningstar LSTA US Leveraged Loan Index
LTM Default Rate by Principal Amount



Private Credit and the Economic Cycle

Generalized Credit Cycle Stages

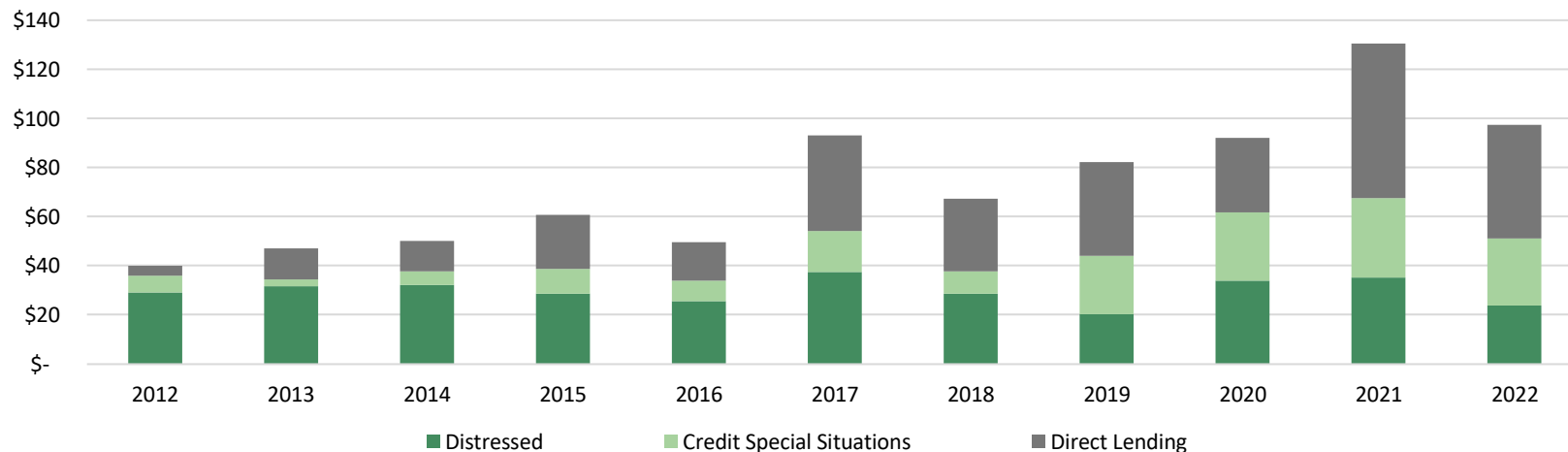


● = Estimate of where we are currently in the cycle

Private Credit AUM and Dry Powder

- Private Credit fund raising reached record levels in 2021
- Dry Powder availability continues its downward trend
 - The size of the leveraged loan markets has outpaced growth in fundraising levels
 - Less constructively, a slowdown in prepayments of late has reduced the pace of recycling and therefore the amount of total available capital to pursue new deals

Capital Raised North America (\$bn)





Appendix

Private Lending

Borrower

70-90%+ are middle and large market cap sponsor-backed corporations or real estate projects; the balance are non-sponsored. Loans are issued bilaterally, as club deals, or syndications

Leverage

Corporate Leverage: 4-7x Debt/EBITDA

Protection

1st lien secured to unsecured with incurrence-based covenants

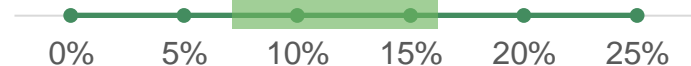
Return Drivers

Amount of dry powder, leveraged loans and high yield markets, LBO dry powder & M&A activity, competition from banks, credit spreads

Typical Duration of Investment (Years)



Targeted Net Returns (%)



Typical Fees



Management Fee:
0.85%-1.5%

Carry:
10%-20%

Investment Structure *

| | Open Ended | Closed Ended |
|------------|------------|--------------|
| Commingled | | |
| Managed | | |

Structured Product

Borrower

Trusts with loans backed by residential and commercial real estate and other assets and credit of consumers, SMEs*, and large corporates. Bilateral synthetic trades with banks' loan portfolio as reference assets

Leverage

Corporate Leverage: 4-7x Debt/EBITDA
Asset-level leverage: 60-80%

Protection

At the collateral level, Loan to Value cushion for asset-backed and equity cushion for corporates; consumer assets are unsecured. At the trust level, credit enhancement for mezzanine and senior tranches

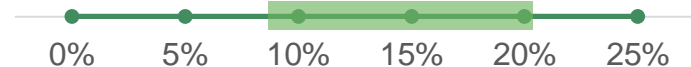
Return Drivers

Cash flows from loans, active collateral management, events such as refinancing and restructuring, and recovery in case of distressed credit. Premiums received for writing protection on pool of assets

Typical Duration of Investment (Years)



Targeted Net Returns (%)



Typical Fees



Management Fee:
1.5%

Carry:
15%-20%

Investment Structure *

| | Open Ended | Closed Ended |
|------------|------------|--------------|
| Commingled | | |
| Managed | | |

* Small & Medium Sized Enterprises

* Represents the typical distribution of Investment Structures utilized. Based on Albourne Analyst estimates. Past performance is not indicative of future returns.

Real Assets and Esoteric Credit

Borrower

Project finance loans to infrastructure projects or corporate loans to infrastructure companies. Aviation finance typically approached as a sale-leaseback strategy with carrier. Mine finance loans to public junior mining companies

Leverage

Up to 85% Loan to Value on core operating infrastructure with locked in cash flows. Depending on the stage of development, loans to mining companies may equate to 20-75% Loan to Value

Protection

1st or 2nd lien, typically with strong investor protections including cash flow covenants, restrictions on business activities, contractor controls. Aviation follows a typical lease arrangement

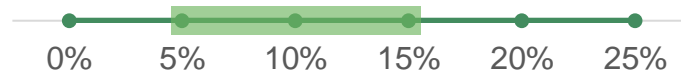
Return Drivers

Banks and insurance companies retrenching from the sub-investment grade infrastructure lending space, also complexity and illiquidity premium. In the case of Aviation, attractive financing strategy for carriers

Typical Duration of Investment (Years)



Targeted Net Returns (%)



Typical Fees



| Management Fee: | Carry: |
|---------------------|-------------------|
| Infra: 75 bps-1.25% | Infra: 10%-15% |
| Aviation: 2% | Aviation: 20% |
| Mining: 1.5%-2% | Mining: 17.5%-20% |

Investment Structure *

| | Open Ended | Closed Ended |
|------------|------------|--------------|
| Commingled | ○ | ● |
| Managed | ○ | ○ |

Distressed

Borrower

Mid to large cap corporations, typically stressed or distressed, and traded on secondary market

Leverage

4-10x EV/EBITDA company creation (the entry value of the company is contingent on the discount to par value of the debt)

Protection

For Control, usually the fulcrum security with equity value as cushion; Non-Control often target senior and secured debt

Return Drivers

Dislocations in markets, cyclical sectors (i.e., Oil & Gas, shipping), and stressed sellers (i.e., bank regulatory requirements) create opportunities

Typical Duration of Investment (Years)



Targeted Net Returns (%)



Typical Fees



Management Fee:
1.25%-1.75%

Carry:
20%

Investment Structure *

| | Open Ended | Closed Ended |
|------------|------------|--------------|
| Commingled | | |
| Managed | | |

* Represents the typical distribution of Investment Structures utilized. Based on Albourne Analyst estimates. Past performance is not indicative of future returns.

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