

## POWERS AND DUTIES OF BOARD OF INVESTMENTS TRUSTEES

The Board of Investments provides this high-level summary to enable voters to evaluate candidates for the Board. The Board urges voters to review this summary prior to voting. This Powers and Duties document is drawn from the Board's adopted governing policies and the input of the Board in its providing approval, but it is not itself a governing document for the Board or LACERA. The Board's governing documents may be found at <https://www.lacera.com/accountability/governing-documents/>.

### INTRODUCTION

The Board of Investments oversees investment of LACERA's pension retirement fund (\$79.2 billion as of June 30, 2024) and determination of County and member contribution rates, as well as investment of funds to support retiree healthcare benefits, also referred to as other post-employment benefits (OPEB) (\$4.0 billion as of June 30, 2024). Board of Investments trustees are fiduciaries who must at all times put the interests of LACERA's almost 200,000 members and beneficiaries above any other interest. In total, Board trustees can expect to commit as many as 60 to 120 hours of their time each month to discharging their fiduciary duties, subject to variations based on the length and complexity of meeting agendas, each trustee's background and experience, Board tenure, level of familiarity with investment and financial issues, and time spent on a trustee's other LACERA activities as described below.

As to those elected Board trustees who are employed by the County or a participating district, the law provides that these LACERA duties are included as part of their County or other public employment and shall normally take precedence over any other duties. Given the time commitment necessary to fulfill the responsibilities of Board membership, elected Board trustees will be required to spend a material amount of their working time each month in carrying out their important LACERA duties and responsibilities.

The responsibilities and duties of the Board trustees are explained in detail below.

### BOARD TRUSTEE RESPONSIBILITIES

Board of Investments trustees' duties include:

1. **Board and Committee Meetings.** The Board meets once each month in person at LACERA's Pasadena offices unless otherwise specified, usually on the second Wednesday, with each meeting generally lasting from 4 to 6 hours. The Board has established committees to assist in carrying out its responsibilities. The Board also shares additional committees jointly with the system's Board of Retirement, including the Audit, Compliance, Risk, and Ethics Committee and Joint Organizational Governance Committee. The Board of Retirement is a separate board having responsibility for overseeing general plan administration. Committee meetings may be held both before and after regular Board meetings, and at other

times, and generally last 1 to 2 hours. The Board also holds an annual two-day offsite meeting to devote focused attention to strategic issues, education, and discussion. In addition to the time required to attend meetings, trustees will spend time to perform other duties, including preparation time for meetings, review of materials developed by staff and management, meetings with staff, other meetings, travel commitments, and other responsibilities described here.

2. ***Pension Fund Investments.*** The Board of Investments has exclusive fiduciary responsibility for all retirement system investments and is responsible for approving investment beliefs and objectives, the asset allocation for the portfolio, strategies, policies, and governance processes, which are subject to evaluation and change by the Board as part of strategic initiatives. The Board evaluates risk and return, including consideration of corporate governance issues. The Board makes these decisions based on information and input provided by staff and external consultants. Currently, LACERA's investment portfolio is, with a few exceptions, externally managed. The Board establishes investment objectives and guidelines and has delegated authority to the Chief Investment Officer (CIO) to approve selection of external investment managers in accordance with Board-approved guidelines and policies. The Board does not make individual investment selections for the externally managed portfolio. The Board of Investments oversees the investment activities and results of the portfolio based on ongoing due diligence by staff which is reported to the Board.
3. ***Retiree Healthcare Funds.*** Under agreement with the County and other participating employers, the Board of Investments manages and invests the OPEB trust funds prepaid for future retiree healthcare benefits. As with the pension fund, the Board of Investments oversees OPEB trust investments and is responsible for approving investment beliefs and objectives, the asset allocation, strategies, policies, and governance processes, which are subject to evaluation and change by the Board as part of strategic initiatives.
4. ***Contribution Rates and Actuarial Services.*** Using an annual actuarial valuation process, the Board of Investments determines the level of contributions necessary to fund retirement benefits. The Board of Investments is responsible for setting actuarial valuation policies, selecting the actuary who will perform the annual valuation and the triennial investigation of experience, approving the actuarial valuation services provided, and approving the actuarial assumptions utilized in the valuation based on the actuary's recommendation. The actuary submits to the Board of Investments for the Board's approval such changes in County and member contribution rates as are necessary to fund retirement benefits.
5. ***Securities and Other Claims and Litigation.*** The Board of Investments, through counsel and staff, is charged with actively identifying, evaluating, and monitoring securities class action lawsuits and other investment-related claims in which the fund has sustained a loss, and to determine whether the best interests of the fund are served by actively participating in such cases. The Board also participates with the Board of Retirement in certain other claims appropriate for joint Board

oversight. The Board of Retirement oversees claims and litigation related to fund administration.

6. **Other Fund Administration.** Some administrative functions are shared with the Board of Retirement:
  - a. CEO Appointment and Evaluation. The two Boards jointly act as the appointing authority for LACERA's Chief Executive Officer (CEO) and oversee the CEO's performance evaluation. The Boards work together on certain other senior staff personnel matters.
  - b. Budget Approval and Oversight. The Boards of Retirement and Investments, acting jointly, review, evaluate, and adopt LACERA's annual budget and monitor actual results against the budget. The Boards jointly approve a budget policy to govern the process.
  - c. Certain Employee Relations. The two Boards also act jointly in certain employee relations matters, including approval of class specifications for LACERA's employees, approval of Memoranda of Understanding (MOUs) negotiated with SEIU Local 721, which is the union bargaining for represented employees of LACERA, and approval of compensation to be provided to LACERA's nonrepresented employees.

The Board of Investments alone provides input on the Chief Investment Officer's appointment and performance evaluation. Other personnel issues are the responsibility of the Board of Retirement. The Board of Investments is not responsible for general administration of the retirement system and benefits. The Legislature assigned those responsibilities to the Board of Retirement.

7. **Delegation.** Day-to-day investment operations, including manager selection and termination, of the retirement system are delegated to the Chief Investment Officer, who oversees other staff and outside service providers. Board trustees consider what responsibilities will be delegated and to whom delegation is made. Board trustees ensure that delegated responsibilities are clearly defined and properly performed through monitoring, questioning, and accountability. In addition, the Board approves and oversees the retention and performance of expert consultants to assist in investment decision-making and monitoring, interact with staff, and aid the Board in performing its fiduciary duty.

The Boards have delegated stakeholder management to the Chief Executive Officer for administrative matters such as media and plan sponsor relations and to the Chief Investment Officer for matters related to LACERA's investments.

8. **Legal, Regulatory, and Policy Compliance and Risk Management.** The Board ensures that the retirement system maintains compliance with the plan documents and all other applicable laws, regulations, and policies governing the investments and funding of the system. Board trustees comply with this responsibility by overseeing investments and actuarial matters, evaluating

organizational and investment risks and controls, conducting a periodic review of plan documents and policies concerning matters within the Board's oversight, monitoring changing legal and regulatory requirements, with the assistance of counsel and other advisors, and maintaining accountability.

9. **Education.** Board trustees are legally required to further their education on appropriate topics, which may include pension fund investments and investment management processes, actuarial matters, pension funding, pension fund governance, ethics, and fiduciary responsibilities, among other topics. Such education must consist of a minimum of 24 hours within two years of assuming office and 24 hours every subsequent two-year period the trustee serves on the Board.
10. **Involvement.** Subject to applicable laws, Board policies, and LACERA protocols, Board trustees may participate in state and national pension and investment related organizations, including serving as an executive or committee member in these organizations. Subject to the same laws, policies, and protocols, Board trustees, with approval, may also represent LACERA's interests through engagement with the legislative and executive branches of state and federal government, which may add to the hours of time spent on a trustee's responsibilities depending on the extent of the trustee's organizational involvement.

## **FIDUCIARY DUTIES**

The funds set aside for the payment of retirement benefits to LACERA members are trust funds held for the benefit of these members and their beneficiaries, and LACERA's investment operations further the delivery of plan benefits. The California Constitution requires that Board of Investments trustees have the following fiduciary duties as trustees of the fund:

1. **Duty of Loyalty.** The California Constitution provides that Board of Investments trustees are fiduciaries and are required to "discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty." All Board trustees, whether elected or appointed, have the same fiduciary duty. The Board trustees' duty of loyalty at all times is to the participants and beneficiaries as a whole. Board trustees do not serve as the agent or representative of the agency or group responsible for their election or appointment. Where different groups of participants have different interests on an issue, Board trustees have a duty to be impartial as between conflicting participant interests and act to serve the overall best interests of all of the participants of the system.
2. **Duty of Care.** The California Constitution provides that assets of the retirement

system are trust funds to be used only for the purpose of providing benefits and paying the costs of administering the system. Under the Constitution, trustees of the Board of Investments “shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.” Governing law provides that the Board “may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board.” The Constitution further requires that Board trustees “shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.”

The duty of care means that Board trustees must exercise a prudent level of effort and diligence in administering and exercising oversight over the investments of the system, including: implementing, and periodically reviewing and updating, policies, procedures, and processes; determining whether and when to delegate authority to staff and third-parties, and exercising proper oversight; requesting necessary reports and information; analyzing the information, advice, and recommendations received; asking questions; seeking expert advice when required from staff and outside expert consultants; deliberating carefully before making decisions; and understanding the reason for actions before taking them. Board trustees must monitor the investments of the system, follow the plan documents and other applicable law, and take corrective action when required to ensure the sound administration of the retirement fund’s investments and the other matters under the responsibility of the Board of Investments are properly performed.

## **CONFLICTS OF INTEREST**

Board trustees must be free of conflicts of interest in compliance with applicable legal requirements and LACERA’s Conflict of Interest Code and Code of Ethical Conduct. Board trustees must disclose conflicts of interest when they arise, and they cannot participate in decisions that will impact, positively or negatively, their own financial interests or the interests of certain of their related persons and entities. Board trustees are public officials under California conflict of interest laws, and they must be familiar with and follow those laws. Board trustees are subject to public disclosure of their economic interests (Form 700) and annual reporting requirements under the Political Reform Act and Fair Political Practices Commission regulations. Violation of conflict of interest laws and regulations can result in civil and criminal penalties. Conflict of interest laws and regulations are complex, and Board trustees should seek legal advice when appropriate. See <http://www.fppc.ca.gov/> for more information.

## **COMPENSATION AND EXPENSES**

Elected Board trustees who are employed by the County or a participating district and the

Treasurer and Tax Collector who serves on the Board *ex officio* do not receive payment for attendance at Board meetings; they receive their County salary.

Board trustees elected by retirees and appointed trustees receive payment of \$100 per Board or committee meeting attended up to a maximum of \$500 per month. Required federal and state income tax and federal Health Insurance Tax (HIT) withholding is made from payments, which is reported on a Form W-2 for tax reporting purposes. Federal Social Security tax is not withheld.

All Board trustees receive reimbursement of reasonable and necessary expenses and are provided reasonable support for the performance of their duties.

APPROVED BY THE BOARD OF INVESTMENTS ON MARCH 12, 2025.