

# **PROCUREMENT POLICY FOR INVESTMENT-RELATED SERVICES**

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## **Statement of Purpose**

LACERA's Procurement Policy for Investment-Related Services (the "Procurement Policy") sets forth the procedures and guidelines by which LACERA shall procure investment-related services. Investment-related services include, but are not limited to, external investment management, general and specialty consulting, custodial, securities lending, and analytics/database service providers. Procurement of services and products not related to investments are governed by LACERA's General Policy Guidelines for Purchasing Goods and Services.

## **Legal Authority**

The California Constitution and LACERA's governing statutes create a legal framework within which the Procurement Policy must be interpreted and implemented by LACERA's Board of Investments (the "Board") in approaching its decisions. The Board is independent and has sole and exclusive legal responsibility over investment of the Fund's assets.

### **A. Fiduciary Duty**

The Board, its members, and staff are fiduciaries, making decisions for the benefit of the Fund as a whole without other concerns or outside influence. All Board members, whether they are elected, appointed, or ex officio, have the same fiduciary duty under the law.

### **B. Ethics and Code of Conflicts**

The Board and staff must refrain from personal activity that could conflict with the proper management of the investment program, or that could impair their ability to make decisions in compliance with fiduciary duty. Further details are defined in LACERA's Code of Ethical Conduct, Conflict of Interest Code, the Political Reform Act, Fair Political Practices Commission regulations, and other applicable law.

## **C. Process**

Because the Board is a governing body of a public agency, the Board and its members must conduct business according to the State of California Ralph M. Brown Act, which provides that Board meetings, deliberations, and actions must be public unless subject to a specific closed session exception. The Board may go into closed session to discuss the purchase and sale of particular, specific investments under the Brown Act.

## 1. Introduction

The Procurement Policy supplements LACERA’s Investment Policy Statement (the “IPS”). The IPS defines the framework by which LACERA manages the assets of the Fund in order to fulfill its mission. The Procurement Policy is designed to comply with and follow all guidance included within the IPS. To the extent a conflict exists between the IPS and the Procurement Policy, the IPS shall prevail.

The Board has adopted investment beliefs (“Investment Beliefs”) to describe its core beliefs and underlying assumptions about how capital markets operate. Collectively, the Investment Beliefs provide a framework to guide LACERA’s investment decisions in a manner consistent with the Fund’s position as an institutional investor with a long-term investment horizon in order to achieve the Fund’s objectives.

Consistent with the Investment Beliefs, the Procurement Policy is designed to adhere to the following guiding principles.

- **Fiduciary.** The Board and staff are fiduciaries to LACERA. Procurement decisions are made for the benefit of the Fund as a whole without other concerns or outside influence.
- **Inclusive.** Opportunity to provide investment-related services to LACERA will be as inclusive as possible, providing all qualified service providers a chance to participate in procurement efforts.
- **Fair.** Procurement efforts will be conducted in a fair and impartial manner. Selections of service providers will be made free from any conflict of interest or bias.

- **Transparent.** Records of procurement efforts will be subject to public disclosure unless subject to a specific exception pursuant to the Ralph M. Brown Act.
- **Timely.** Procurement efforts will be conducted in as efficient and timely manner as practical.
- **Rule-Based.** Procurement efforts will be conducted in a consistent manner
- **Market Aware.** Procurement efforts will be tailored to the specifics of a mandate or service need.
- **Informed.** Procurement efforts will utilize available databases, tools and advances in underwriting to inform the process. Databases may be used to identify a comprehensive list of qualified service providers to optimize submissions/responses to RFPs.

Searches for service providers completed under the Procurement Policy do not have a pre-ordained outcome. Searches could result in the selection and retention of one or multiple service providers. Alternatively, no service provider may be selected.

## **Scope**

Investment-Related Services covered by this Procurement Policy include investment consulting services, investment management services, and specialized services that support investment functions, such as, but not limited to, attorneys, appraisers, auditors, custodians, data and analytics providers, securities lending providers, and independent fiduciaries.

## **Term**

The term for engagements with service providers selected via the Procurement Policy vary.

- i. **Investment Managers.** Terms for agreements with separate account investment managers may be evergreen. Investment managers engaged via separate accounts and open-end comingled funds are monitored closely relative to return objectives, benchmarks, and alternative options. All contracts between LACERA and separate account managers must contain reasonable termination rights for LACERA.
- ii. **Custody Services.** Engagements with custody service providers may be for terms of up to ten years and may provide for two one-year extensions at the discretion of the Chief Investment Officer. The Board will be notified of any extensions. Agreements with custody providers shall contain reasonable termination provisions.
- iii. **Other Service Providers.** Other services procured using the Procurement Policy will have a term of no longer than five years, with two one-year extensions at the discretion of the Chief Investment Officer with respect to investment-related matters, or Chief Legal Counsel for the procurement of services for legal-related matters. The Board will be notified of any extensions.

## 2. Definitions

- a) **Active Management** refers to investment managers whose investment strategy and process allow them to make investments that attempt to exceed their benchmarks.
- b) **Board** means the LACERA Board of Investments
- c) **Evaluation Team** means the group of individuals that have been assigned responsibility to review the search respondents relative to the criteria set forth in the search as well as to each other, as appropriate. Each phase of evaluation must be completed by the same participating members of the Evaluation Team. The Evaluation Team will include staff as appropriate and possibly a third-party advisor.
- d) **Fund** or **Funds** means both the Los Angeles County Employees Retirement Association (LACERA), and the Other Post-Employment Benefits Master Trust (OPEB).
- e) **Illiquid Investment** means securities or other assets that cannot easily be sold or exchanged for cash within one month without a substantial loss in value. These investments include private equities, private credit, private real assets (including real estate), and hedge fund strategy products. These assets are intended to provide the portfolio with higher risk-adjusted returns and/or enhanced diversification. They are not intended to be a source of short-term liquidity.
- f) **Legal Services Procurements** means the procurement of investment-related legal services to assist in transactions or other investment matters.
- g) **Liquid Investments** means securities and other assets that can be converted into cash quickly without material impact on fair value and where there is typically a transactional price available on a daily basis. These assets include

global equities, investment-grade bonds, publicly-traded real estate and real assets, and overlays implemented via exchange-traded instruments.

- h) **Miscellaneous Small Purchases** means the procurement of investment-related services for flat-fee or hourly compensation that may not exceed a total of \$150,000 per provider for any single transaction or assignment, even if the services are provided over a five-year period. Small Purchases may be approved, and later renewed or extended every five years subject to a new \$150,000 cap, jointly by the Chief Executive Officer and Chief Investment Officer. Small Purchases do not include any services for on-going investment management.
- i) **Passive Management** refers to investment managers whose investment strategy and process are designed to replicate a benchmark.
- j) **RFP** means open Requests for Proposals. An RFP is a public solicitation posted on LACERA's website inviting all qualified bidders to respond. Recommendations to initiate an RFP will be presented to the Board and will identify the recommended: (i.) Scope of Services; (ii.) Minimum Qualifications; (iii.) Search timing; (iv.) Structure of the Evaluation Team; (v.) Evaluation Criteria; and (vi.) Selection Authority.
- k) **Selection Authority** refers to the body, group or individual that has authority to select the service provider that will be retained. This may be the Board, the Evaluation Team, the Chief Investment Officer, Chief Legal Counsel, or some combination of the above. A Selection Authority will be recommended to the Board for its approval for each procurement effort unless otherwise delegated in existing LACERA policy.
- l) **Staff** means employees of LACERA.
- m) **Trustee** means a member of the Board of Investments.

### **3. Service Being Procured and Selection Method**

The types of investment-related services being procured can be characterized as:

- Investment Management
- Consulting
- Other Investment Related Services
- Legal
- Miscellaneous Small Assignments

The method or process utilized to procure services is dependent upon the type of service being procured. Regardless of the selection method utilized, a high level of scrutiny and rigor is applied for whatever length of time is needed to ensure that the successful service provider(s) are most appropriate for the Fund.

The selection method for the different types of services covered by the Procurement Policy is described below. Upon selection of service providers, the Legal Division and Investment Office are responsible for completing engagement agreements and/or contracts.

#### **a) Investment Management Services**

- Active Management
  - Liquid Investments

Investment Managers utilizing Active Investment strategies to invest in Liquid Investments shall be selected using an RFP.

- Illiquid Investments

Illiquid Investments are identified and underwritten on a one-off basis and, if deemed appropriate, advanced to the Board for consideration, unless delegated within the IPS. Individual

Actively Managed Illiquid Investments do not lend themselves to selection via an RFP. Rather, illiquid investments are discussed in periodic asset class structure reviews and individual recommendations include independent third-party assessments. Exceptions to this are fund-of-fund mandates. In those circumstances, an RFP will be utilized for selection efforts.

- **Passive Management**
  - Liquid Investment managers shall be selected using an RFP.
  - Illiquid Investments (N/A)

Staff will obtain Board authorization on a mandate-by-mandate basis prior to initiating an RFP.

The Evaluation Team is responsible for making an affirmative recommendation of the most qualified candidate manager(s) to the Selection Authority.

#### **b) Consulting Services**

LACERA will select general and/or specialist consultants using an RFP. Staff will recommend an Evaluation Team and obtain Board authorization prior to initiating a search effort.

The Evaluation Team is responsible for presenting the most qualified candidate consultants to the Selection Authority.

#### **c) Other Investment Related Services**

Numerous specialized investment related service providers that **do not** directly manage money are utilized to support Fund investment activities. Some specialized providers are on retainer or under an open

contract for services as needed and are utilized repetitively to deliver expert services, such as legal counsel negotiating and documenting transactions. Other specialized providers may be retained to deliver ongoing operational support services, such as a master custodian or securities lending service provider. Still other specialized providers may be retained to deliver frequently needed services, such as private equity fee verifications or real estate appraisals.

The selection process utilized for Other Investment Related Service providers will be an RFP. The selection process utilized will be authorized by the Board on a case-by-case basis.

**d) Legal Services Procurements**

The Chief Legal Counsel may initiate an RFP without Board approval to select a panel of outside counsel to assist on investment-related matters on an individual asset class basis. The Chief Legal Counsel will report the selected panelists to the Board after the panel selection. The Chief Legal Counsel or their designee, in consultation with the Investment Division, may thereafter select outside counsel from the panel to represent LACERA in individual transactions or provide other necessary legal services.

The Chief Legal Counsel also has the authority, without the need to conduct an RFP, to (1) retain specialized counsel based on expertise or geographical location when necessary to complete a transaction or fulfill a Board-approved initiative or programmatic priority, or (2) retain litigation counsel when necessary to protect LACERA's interests before a Board meeting seeking approval can be held, with the selected

litigation counsel presented to the Board for ratification at the next meeting.

Any selection of legal counsel covered by this Policy will be reported to the Board no later than the meeting of the Board immediately following the selection.

**e) Miscellaneous Small Purchases**

Miscellaneous Small Purchases shall be made after seeking multiple bids. The Board shall be notified of the selected specialized service providers within the monthly Chief Investment Officer report.

#### **4. Proposal Evaluation**

An Evaluation Team will be identified by Staff prior to the commencement of a search effort. The Evaluation Team will be responsible for evaluating and scoring written responses to the RFP, interviewing respondents, conducting due diligence, and deliberating and determining which of the respondents would best meet the needs of the Fund.

Each member of the Evaluation Team is responsible for evaluating and scoring each search response meeting the minimum qualifications. The Evaluation Team subsequently meets to discuss and justify scores to avoid inconsistencies and jointly determine a score for each respondent.

Further evaluation of the top ranked respondents may consist of in-house interviews at LACERA's offices, requests for and evaluation of additional information, and, if deemed appropriate, on-site interviews.

When a template agreement exists, top ranked respondents will be provided and asked to review and comment on the LACERA template agreement. The template agreement has key legal terms that the respondent must mark up with any proposed modifications. The RFP requires that respondents be bound to LACERA's terms, unless the respondent identifies an objection or addition, sets forth the basis for the objection or addition, and provides substitute language to make the clause acceptable to the respondent.

The Evaluation Team relies upon the Legal Division to determine the acceptability of any proposed language affecting legal issues or terms in the agreement. The respondent's proposed language is a significant consideration in the evaluation and scoring of proposals.

Upon completion of the process, the Evaluation Team assigns final scores to the respondents based on all information gathered during the entire evaluation process.

The Evaluation Team will prepare and submit a summary of its findings along with an affirmative recommendation for which respondent(s) should be hired to the Selection Authority.

## 5. Observance of a Quiet Period

LACERA requires a quiet period to ensure that the process of selecting a contractor is efficient, diligent and fair. The Quiet Period is a “no contact period” during the procurement process to prevent Trustees and staff communication with prospective vendors. Questions concerning the quiet period should be directed to the Legal Office.

- A. The quiet period shall be maintained after the issuance of a solicitation and continue until a final selection is made or the process is otherwise terminated.
- B. Initiation, continuation, and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations.
- C. During the quiet period, all Trustees and staff, except for designated LACERA contact persons, shall refrain from communicating with contractor candidates regarding any product or service offered by the candidate, except as permitted by Subsection G below.
- D. During the quiet period, no Trustee or staff member shall accept meals, travel, lodging, entertainment, or any other good or service of value from the candidates.
- E. All authority related to the search process shall be exercised, when the Board has authority under this policy, solely by the Board, or by delegated staff, and not by individual Board members. With respect

to procurements within the authority of Staff, authority related to the search process shall be exercised solely by the authorized staff member with contracting authority for the search.

- F. If any Trustee or staff member is contacted by a candidate during the quiet period about a matter relating to the pending selection, the Trustee or staff member shall refer the candidate to the designated LACERA contact person and report the contact to the Chief Counsel.
- G. The quiet period does not prevent Board-approved meetings or communications by staff with an incumbent contractor that is also a candidate provided that their communication is strictly limited to matters necessary in connection with the contractor's existing scope of work. Other than due diligence, discussion related to the pending selection is not permitted during these activities.
- H. A contractor candidate may be disqualified from a search process for a willful violation of this policy.