

Envision 2021: Investments Division Work Plan and Strategic Initiatives

Board of Investments

January 13, 2021

Jonathan Grabel – Chief Investment Officer



Discussion Outline

- I. Work Plan Background

- II. Plan for 2021 and Beyond

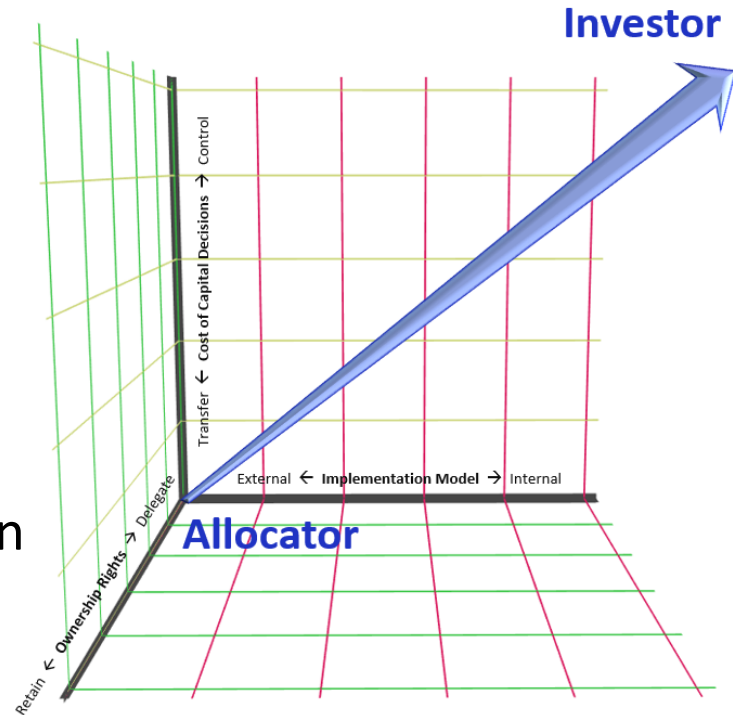
- III. Appendix: Preliminary Project Schedules for 2021

Investments Division Work Plan



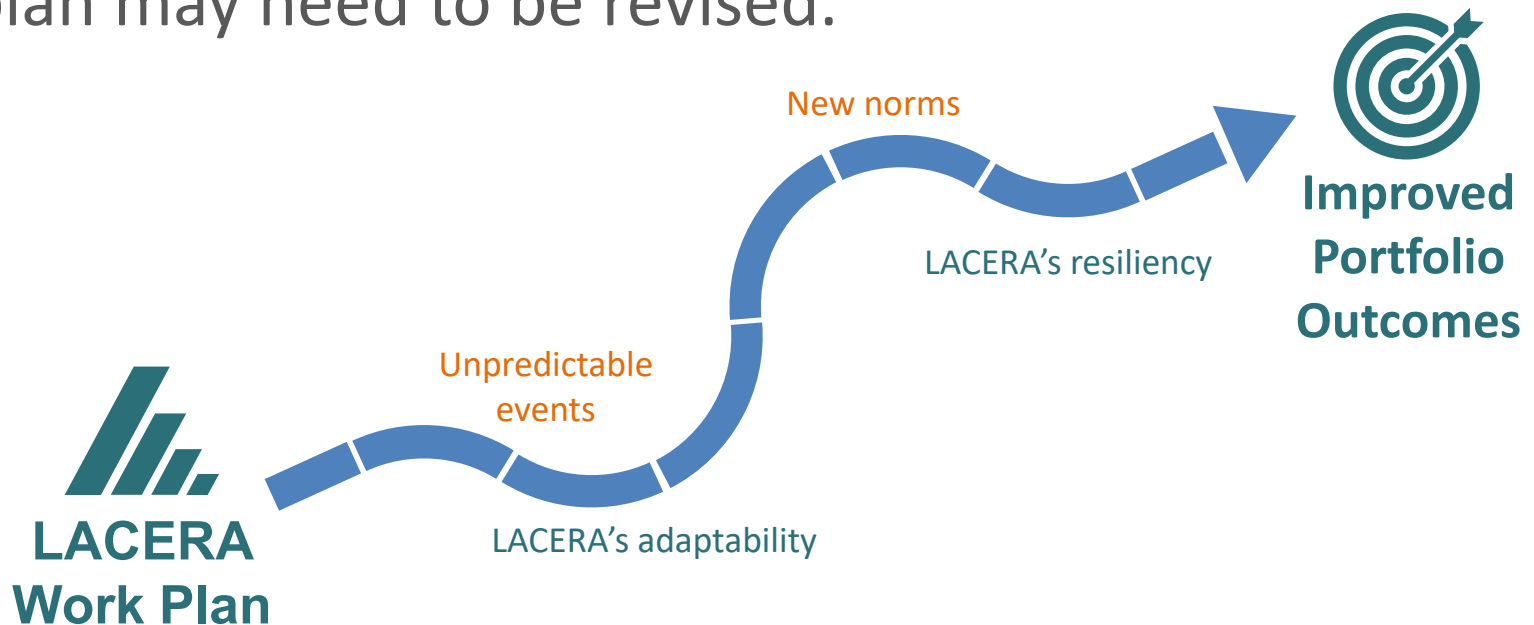
The Investments Division revisits its work plan for the coming year and beyond with the **following aims**:

1. Provide **visibility** into current and upcoming initiatives
2. Accurately **reflect and synthesize** all Board-approved projects and input from prior work plans, recent Board meetings, and Offsites into a cohesive action plan
3. Promote **disciplined execution** and aligned resources for defined priorities



Establish a Work Plan and Adapt

A thoughtful work plan is a necessary first step. Beyond having a plan, execution and adaptability are important. 2020 reminds us that surprises happen and even the best plan may need to be revised.



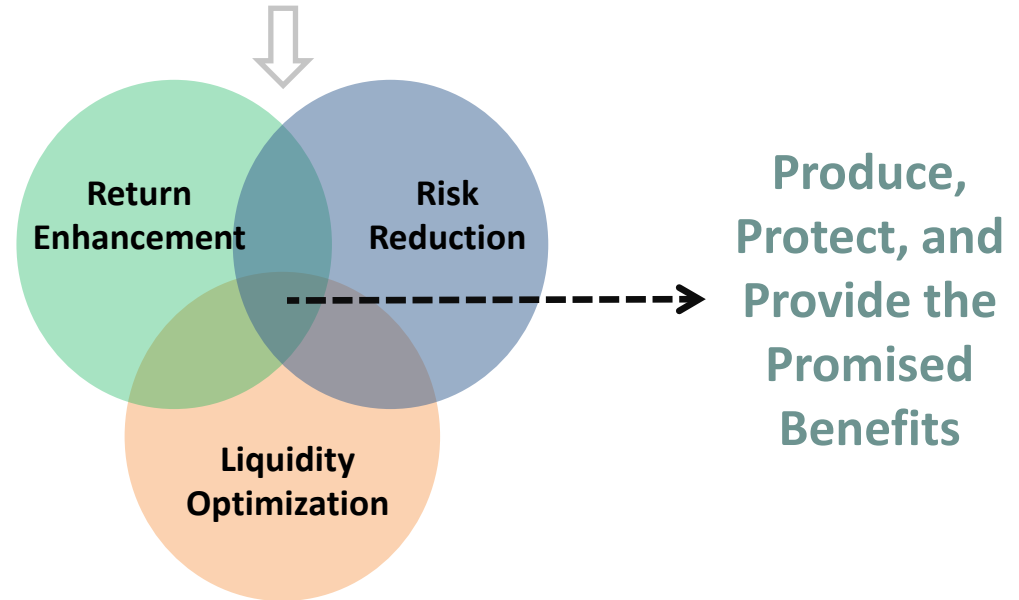
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Strategic Objective and Initiatives

Objective



Execute Strategic Asset Allocation
while balancing...



**Produce,
Protect, and
Provide the
Promised
Benefits**

Initiatives



**Enhance
Operational
Effectiveness**



**Optimize
Investment Model**



**Maximize
Stewardship and
Ownership Rights**



**Strengthen
Influence on Fees
and Cost of Capital**



**LACERA
T.I.D.E.**



Select Highlights of 2020 Accomplishments



Execute Strategic Asset Allocation



Enhance Operational Effectiveness

- Conducted review of investment office operational due diligence process
- Successfully managed fund liquidity through onset of COVID-19 economic crisis
- Incorporated remote due diligence practices into LACERA's multi-dimensional process
- Concluded search for Real Estate administrator and total Fund performance and risk platform
- Improved continuity crisis management and remote cash flow capabilities
- Completed private market scorecard methodology and grading and enhanced performance reporting



Optimize Investment Model

- Completed functional asset category structure reviews
- Continued to evaluate internal asset management for public markets
- Continued to increase Private Equity in-house co-investments and secondary activities
- Adapted to conduct remote diligence including initial mandates in private infrastructure funds



Maximize Stewardship and Ownership Rights

- Completed full year of exercising voting authority across the global equity portfolio
- Completed initial carbon footprinting assessment and conducted climate scenario analysis to inform upcoming SAA
- Maintained A+ assessment from UN Principles for Responsible Investments for ESG strategy and corporate governance
- Actively supported and collaborated with key associations (CII, SASB, ILPA, PRI and others) to advance LACERA principles



Strengthen Influence on Fees and Cost of Capital

- Generated fee savings across the portfolio
- Implemented creative structures such as performance fees with a hard hurdle and evergreen mandates
- Expanded in-house and co-investment secondary parameters to help further drive fee savings in PE portfolio



Raise LACERA T.I.D.E.

- Supported expanded DEI initiatives in private markets with ILPA and AIMA
- Formalized ongoing near and long term objectives under TIDE banner
- Completed baseline assessment of all investment partners' DEI profiles and practices
- Engaged 100 companies on corporate board diversity, with over 110 new directors appointed

Plan for 2021 and Beyond



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Strategic Initiatives: Key Short Term Projects

Enhance Operational Effectiveness

- Conduct Private Equity and Real Estate consultant searches
- Balance remote working and back-to-the-office
- Address complexities in Real Estate operations
- Create discrete overlay and hedging category
- Refine investment procedure manual
- Elevate operational due diligence

Optimize Investment Model

- Install risk platform capabilities and incorporate output
- Minimize benchmark misfit
- Enhance risk budgeting methodologies
- Implement structure review initiatives
- Develop emerging manager programs

Maximize Stewardship and Ownership Rights

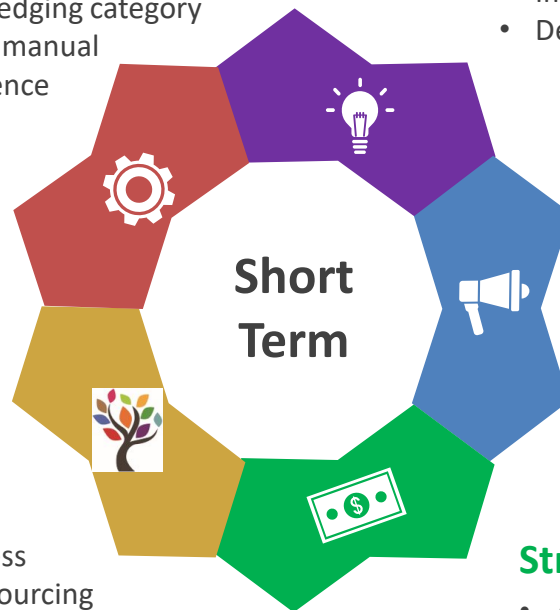
- Review Corporate Governance and Stewardship Principles
- Pursue effective public policy advocacy with CII, others
- Prioritize alignment of interests with business partners
- Complete proxy research and platform RFP
- Execute defined engagement initiatives

Raise LACERA T.I.D.E.

- Walk the talk
- Influence and monitor progress
- Refine RFP practices; widen sourcing
- DEI reporting from money managers
- Active advocacy including event sponsorship
- Engage with public companies to benefit board diversity

Strengthen Influence on Fees and Cost of Capital

- Apply creative fee structures to align interests
- Hire a dedicated managed account service provider
- Continue expansion of in-house co-investment and secondary program



Short term strategic initiatives cover those with less than a three-year horizon

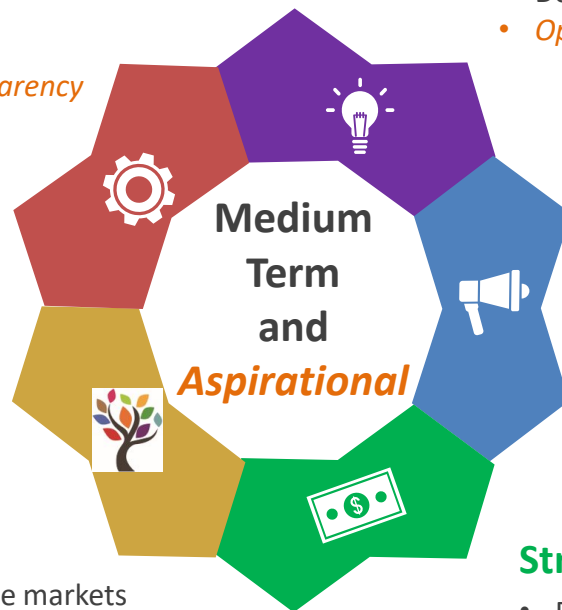


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Strategic Initiatives: Medium Term and Aspirational

Enhance Operational Effectiveness

- Consider operational structure of the OPEB Master Trust
- Standardize and refine performance and risk reports
- Expand contract compliance for private markets
- Refine rebalancing practices
- Custody bank search
- *Increase position-level transparency*



Raise LACERA T.I.D.E.

- Be adaptable; refine goals
- Move beyond data collection
- Expand engagement to private markets
- Inspire industry towards active DEI participation
- *Be an in-demand employer of choice*

Optimize Investment Model

- Evaluate additional investment strategies for the OPEB Master Trust
- Explore in-house investment management in public markets
- Form alliances with similarly situated investors
- Develop co-investing in Real Assets
- *Opportunistically evaluate early-stage manager seeding*

Maximize Stewardship and Ownership Rights

- Refine and continue to execute engagement initiatives
- Elevate relevant discussions with business partners
- Climate aware asset allocation implementation
- Produce thought and white papers
- *Influence market best practices and policy*

Strengthen Influence on Fees and Cost of Capital

- Partner with like-minded institutional investors
- Consider creative alternative account and fee structures
- Balance being an in-demand LP with top-tier access while driving LP-friendly terms
- *Be dynamic*

Many short-term projects evolve over time and become medium term and aspirational initiatives that may not be shown above



Prospective 2021 Calendar

Tentative Board of Investments and Committee Meetings

	January	February	March	April	May	June	July	August	September	October	November	December
Board of Investments	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	<i>[Potential mid-year virtual or Q4 in-person Offsite]</i>											
Corporate Governance Committee		✓								✓		
Credit and Risk Mitigation Committee			✓						✓			
Equity: Public/Private Committee					✓						✓	
Real Assets Committee						✓						✓

- Each committee meets at least two times
- Additional meetings would be scheduled on an as-needed basis
- Will work with the Board regarding Offsite format and logistics



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Aspirations

IPS and Beliefs



LACERA Values



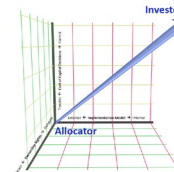
Continuous Board Guidance



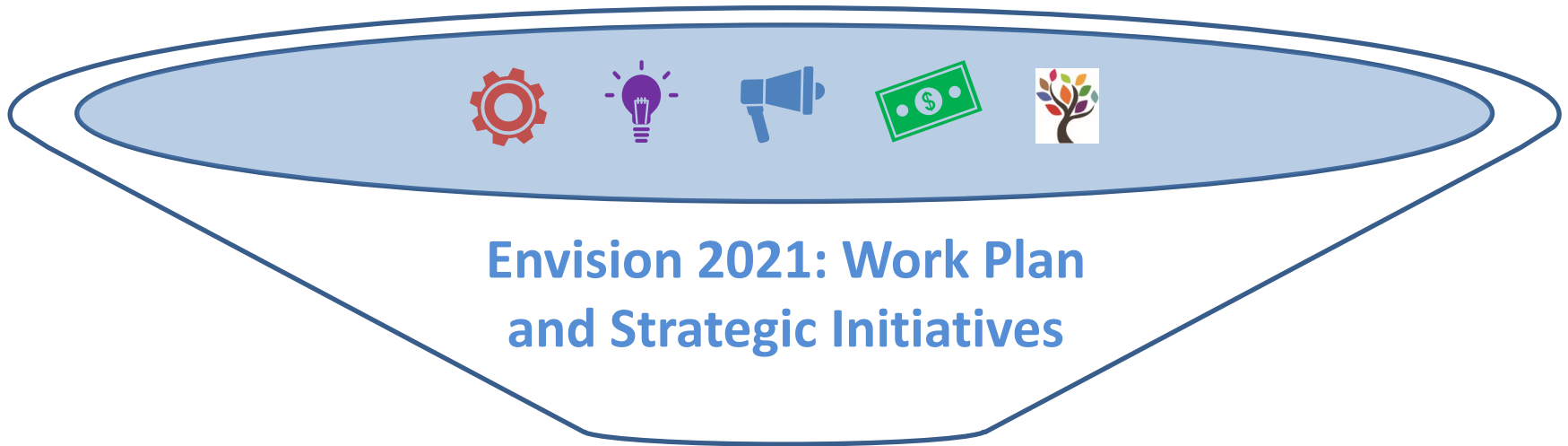
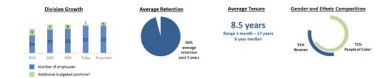
Strategic Asset Allocation



Allocator to Investor



Staffing and Culture



Envision 2021: Work Plan and Strategic Initiatives

Enhance risk adjusted return expectations while maintaining liquidity to ...



... produce, protect, and provide the promised benefits

Appendix



1st Quarter 2021 Preliminary Monthly Calendar View

FEBRUARY 2021	
Board of Investments:	
Category	Subject
Total Fund	Strategic Asset Allocation Study
Total Fund	4Q2020 Trust and OPEB Performance Report
Total Fund	Meketa 4Q2020 Trust and OPEB Performance Report
Total Fund	Revised Risk Reports – MSCI Barra One Preview
Growth	Private Equity Investment Recommendation
Risk Mitigation	Hedge Funds Investment Recommendation (2)
Real Assets	Real Estate Investment Recommendation (2)
Real Assets	Infrastructure Investment Recommendation
Credit	Illiquid Credit Investment Recommendation
Committee: Corporate Governance	
Category	Subject
Corporate Governance	Governance & Stewardship Principles Review
Corporate Governance	Possible Governance Ballot Actions

MARCH 2021	
Board of Investments:	
Category	Subject
Total Fund	OPEB Strategic Asset Allocation Recommendation
Total Fund	Strategic Asset Allocation Study
Total Fund	Board Offsite Planning
Growth	Private Equity Investment Recommendation
Risk Mitigation	Dedicated Managed Account Recommendation
Real Assets	Real Estate Investment Recommendation
Real Assets	Natural Resources Investment Recommendation
Credit	LIBOR Update Report
Credit	High Yield RFP Manager Recommendation
Corporate Governance	Governance & Stewardship Principles (Advanced)
Corporate Governance	Possible Governance Ballot Actions (Advanced)
Committee: Credit and Risk Mitigation	
Category	Subject
Credit	Illiquid Credit Education

Please note that certain listed items are subject to Committee advancement and/or Board approval



2nd Quarter 2021 Preliminary Monthly Calendar View

APRIL 2021	
Board of Investments:	
Category	Subject
Total Fund	Strategic Asset Allocation Study
Total Fund	Investment Procedure Manual Update
Total Fund	OPEB IPS Update
Growth	Private Equity Investment Recommendation
Real Assets	Infrastructure Investment Recommendation
Committee: none	
Category	Subject

MAY 2021	
Board of Investments:	
Category	Subject
Total Fund	Strategic Asset Allocation Recommendation
Total Fund	1Q2021 Trust and OPEB Performance Report
Total Fund	Meketa 1Q2021 Trust and OPEB Performance Report
Growth	Private Equity Investment Recommendation
Real Assets	Natural Resources Investment Recommendation
Corporate Governance	Proxy Platform and Research RFP Recommendation
Committee: Equity	
Category	Subject
Growth	Private Equity Synthetic Portfolio Education
Growth	Private Equity Emerging Manager MQs
Growth	Global Equity Currency Hedging Program Review

JUNE 2021	
Board of Investments:	
Category	Subject
Total Fund	IPS Update
Total Fund	General Consultant Search MQs
Growth	Private Equity Emerging Manager MQs (Advanced)
Growth	Private Equity Investment Recommendation
Committee: Real Assets	
Category	Subject
Real Assets	Real Estate Structure Review
Real Assets	Review of Role and Correlation to Other Assets
Real Assets	Title Holding Company Commercial Bank Review

Please note that certain listed items are subject to Committee advancement and/or Board approval



3rd Quarter 2021 Preliminary Monthly Calendar View

JULY 2021	
Board of Investments:	
Category	Subject
Total Fund	Potential Board Offsite
Total Fund	Active Overlay Recommendation
Growth	Private Equity Investment Recommendation
Growth	Assessment of Manager Search Process
Real Assets	Real Estate Structure Review (Advanced)
Real Assets	Infrastructure Investment Recommendation
Committee: none	
Category	Subject

AUGUST 2021	
Board of Investments:	
Category	Subject
Total Fund	2Q2021 Trust and OPEB Performance Report
Total Fund	Meketa 2Q2021 Trust and OPEB Performance Report
Growth	Private Equity Investment Recommendation
Risk Mitigation	Hedge Funds Investment Recommendation
Real Assets	Natural Resources Investment Recommendation
Committee: none	
Category	Subject

SEPTEMBER 2021	
Board of Investments:	
Category	Subject
Total Fund	Consultant Self-Evaluations
Total Fund	Risk Budgeting Education
Growth	Private Equity Investment Recommendation
Growth	Private Equity Consultant Recommendation
Committee: Credit and Risk Mitigation	
Category	Subject
Risk Mitigation	Structure Review
Credit	Structure Review
Credit	Emerging Manager Program

Please note that certain listed items are subject to Committee advancement and/or Board approval



4th Quarter 2021 Preliminary Monthly Calendar View

OCTOBER 2021	
Board of Investments:	
Category	Subject
Growth	Private Equity Investment Recommendation
Risk Mitigation	Structure Review (Advanced)
Credit	Structure Review (Advanced)
Credit	Emerging Manager Program (Advanced)
Real Assets	Infrastructure Investment Recommendation
Real Assets	Real Estate Investment Recommendation
Committee: Corporate Governance	
Category	Subject
Corporate Governance	Proxy Voting Results and Trends FY2021
Corporate Governance	PRI Assessment Results and ESG Integration Update
Corporate Governance	Governance Engagement Initiatives Update and Review

NOVEMBER 2021	
Board of Investments:	
Category	Subject
Total Fund	3Q2021 Trust and OPEB Performance Report
Total Fund	Meketa 3Q2021 Trust and OPEB Performance Report
Total Fund	T.I.D.E. Initiative Update
Growth	Private Equity Emerging Manager Recommendation
Growth	Private Equity Investment Recommendation
Real Assets	Natural Resources Investment Recommendation
Committee: Equity	
Category	Subject
Growth	2022 Private Equity Commitment Pacing
Growth	Analysis of the Role of Activist Managers

DECEMBER 2021	
Board of Investments:	
Category	Subject
Total Fund	AB2833 - Investment Fee Validation Review
Total Fund	Custody Bank Search MQs
Growth	Private Equity Investment Recommendation
Growth	2022 Private Equity Commitment Pacing (Advanced)
Growth	Analysis of the Role of Activist Managers (Advanced)
Credit	Illiquid Credit Investment Recommendation
Committee: Real Assets	
Category	Subject
Real Assets	International Real Estate Implementation Plan
Real Assets	Real Assets Structure Review

Please note that certain listed items are subject to Committee advancement and/or Board approval

