

NOTICE OF MEETING AND AGENDA

**SPECIAL MEETING OF THE OPERATIONS OVERSIGHT COMMITTEE
and
BOARD OF RETIREMENT***

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

**300 NORTH LAKE AVENUE, SUITE 810
PASADENA, CA 91101**

THURSDAY, OCTOBER 12, 2017 - 9:00 A.M.**

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

COMMITTEE MEMBERS:

Alan Bernstein, Chair
Anthony Bravo, Vice Chair
Joseph Kelly
Ronald Okum
David Muir, Alternate

I. APPROVAL OF THE MINUTES

A. Approval of the minutes of the regular meeting of September 6, 2017

II. PUBLIC COMMENT

III. FOR INFORMATION

A. LACERA Operations Briefing
Robert Hill/JJ Popowich

IV. REPORT ON STAFF ACTION ITEMS

V. GOOD OF THE ORDER

(For information purposes only)

VI. ADJOURNMENT

***The Board of Retirement 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 Retirement (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement. Members of the Board of Retirement who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote 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.**

****Although the meeting is scheduled for 9:00 a.m., it can start anytime thereafter, depending on the length of the Board of Retirement meeting preceding it. Please be on call.**

Any documents subject to public disclosure that relate to an agenda item for an open session of the Committee, that are distributed to members of the Committee 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 Committee, at LACERA's offices at 300 North Lake Avenue, Suite 820, Pasadena, California during normal business hours from 9:00 a.m. to 5:00 p.m. Monday through Friday.

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626)-564-6000, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.

MINUTES OF THE MEETING OF THE
OPERATIONS OVERSIGHT COMMITTEE
and
BOARD OF RETIREMENT*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

GATEWAY PLAZA - 300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

WEDNESDAY, SEPTEMBER 6, 2017, 2:05 P.M. – 2:30 P.M.

COMMITTEE MEMBERS

PRESENT: Anthony Bravo, Vice Chair
Ronald Okum
Joseph Kelly
David Muir, Alternate

ABSENT: Alan Bernstein, Chair

ALSO ATTENDING:

BOARD MEMBERS AT LARGE

Marvin Adams
Vivian H. Gray
Shawn R. Kehoe

STAFF, ADVISORS, PARTICIPANTS

Robert Hill	Nathan Amick
JJ Popowich	Allan Cochran
Richard Bendall	

The meeting was called to order by Chair Bravo at 2:05 p.m. Due to the absence of Mr. Bernstein, the Chair announced that Mr. Muir, as the alternate, would be a voting member of the Committee.

I. APPROVAL OF THE MINUTES

A. Approval of the minutes of the regular meeting of August 2, 2017

Mr. Okum made a motion, Mr. Bravo seconded, to approve the minutes of the regular meeting of August 2, 2017. The motion passed unanimously.

II. PUBLIC COMMENT

III. FOR INFORMATION

A. LACERA Operations Briefing
Robert Hill/JJ Popowich

Messrs. Hill and Popowich presented the monthly briefing on LACERA's operations. Many of the items highlighted may recur in subsequent briefings or may result in a future comprehensive OOC presentation.

- Public Records Request Update
- Report of Felony Forfeiture Cases Processed

B. Retiree Healthcare Member Verification Audit Report
Audit Committee

At their August 16, 2017 meeting, the Audit Committee directed staff to forward this report to the Operations Oversight Committee for information. The recommendations in the report relate to improving operational controls over protecting the privacy of member data. Richard Bendall and Nathan Amick from the Internal Audit Division provided an overview of the report and answered questions from the Committee.

C. Member Services: Escalations
Allan Cochran

Most member issues are resolved at the staff or supervisory level. However, highly complex, time intensive problems are managed through the Member Services Escalation process. Escalations are tracked and results communicated to the member. They are later analyzed for the root cause to foster process improvement and limit future escalations. This process provides our members with frequent communication and quicker problem resolution, while also providing LACERA with feedback on improving operations. The next phase planned in the Member Services Escalations process is to increase focus on analysis of all escalations, shorten the completion time of the escalation process, and identify the root cause of any repetitive, systemic issue.

IV. REPORT ON STAFF ACTION ITEMS

There was nothing to report on for staff action items.

September 6, 2017

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V. GOOD OF THE ORDER

(For information purposes only)

VI. ADJOURNMENT

The meeting adjourned at 2:30 p.m.

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FOR INFORMATION ONLY

October 3, 2017

TO: Operations Oversight Committee
Alan Bernstein, Chair
Anthony Bravo, Vice Chair
Joseph Kelly
Ronald Okum
David Muir, Alternate

FROM: Robert R. Hill, Interim Chief Executive Officer *RRH*
JJ Popowich, Assistant Executive Officer *JJ*

FOR: October 12, 2017 Operations Oversight Committee Meeting

SUBJECT: **LACERA OPERATIONS BRIEFING**

The purpose of this briefing is to share insights on staff activities, updates on goals, and discuss opportunities and/or concerns. Many of the items highlighted may recur in subsequent briefings or may result in a future comprehensive OOC presentation.

- Public Records Request Update
- Report of Felony Forfeiture Cases Processed

DATE RECEIVED	REQUESTER	DOCS REQUESTED
08-15-17	M. Joffe	<p>Requested electronic copy of 2016 Actuarial Valuation report and also 2016 Experience Study.</p> <p><i>Transmitted 2 documents.</i></p> <p><i>Transmitted on August 17, 2017, via email, the 2016 OPEB Actuarial Valuation on and transmitted on August 18, 2017, via email, the 2016 OPEB Experience Study.</i></p>
08-17-17	B. Lawson	<p>Information requested as to which firm was selected for the study and what is the fee?</p> <p><i>On August 17, 2017, Human Resources transmitted, via email, response: Regarding Investment Accounting Positions, that study has not started yet. We just completed review and selected a consultant this week.</i></p> <p><i>On August 21, 2017, Legal transmitted, via email, response: LACERA selected Aon Hewitt to perform the compensation study. The contract is for a not to exceed price of \$75,000.</i></p>
08-18-17	S. Sutton, Buyouts Insider	<p>Questions about discrepancy between reported management fees in annual report vs. Pavillion report. Answers shown in blue text.</p> <p>LACERA has allocated \$687 million to PE so far this year, and the board approved commitments totaling roughly \$390 million to Onex, Waterland and Alchemy. <i>The LACERA Board has approved private equity commitments of one billion in 2017.</i></p> <p>The Pavillion report on fees and expenses is extremely interesting. As the report states, management fees were \$68.1 million in FY 2016. Partnership expenses totaled \$15.6 million, and other fees/expenses totaled \$6.2 million. Total costs, excluding carried interest – came to \$89.8 million (this figure is net offsets/rebates, per the report).</p> <p>In its FY 2016 Annual Report, LACERA reported FY 2016 Management Fees and Other Investment Expenses totaled \$52.6 million. Back of the envelope, it looks like the Pavillion report uncovered more than \$37 million of fees and expenses associated with the PE program. Put another way, the costs of the program – excluding carry – were more than 70 percent higher than what was previously reported.</p> <p><i>LACERA reviews its Private Equity Program on a net of fee basis. LACERA reports its Private Equity financial information with three layers of transparency. The first layer of transparency is the Plan's CAFR. The fiscal year 2016 CAFR is prepared in accordance with GAAP and audited by an independent firm. This annual exercise resulted in an unqualified opinion letter in fiscal year 2016.</i></p> <p><i>The second layer of transparency is the supplemental information that we choose to add to the CAFR. This data is based on the best available information at that time and is not audited information (as stated in the supplemental CAFR disclosures).</i></p> <p><i>A third layer of transparency is the LACERA Board's decision to engage a consultant, Pavilion, to better understand its Private Equity fees and expenses and go beyond the first and second layers. This third layer, by virtue of not having the time constraints associated with the annual CAFR schedule provides additional information.</i></p>

DATE RECEIVED	REQUESTER	DOCS REQUESTED
		<p><i>The audited numbers attest to the fair value of the Program on a net of fee and expense level. While the incremental disclosures enhance transparency, they do not impact the fair value of the underlying assets. It is important to note that LACERA's CAFR net of fee valuation has not changed and Private Equity continues to be LACERA's best performing asset class net of fees over the past ten years.</i></p> <p>Main question is, how?</p> <p>What was LACERA's methodology for tabulating PE fees/expenses prior to the report? Was it from K-1s? Was there a template, pre-ILPA?</p> <p><i>Our custodian bank maintains the books based on capital call and distribution letters, similar to most other major institutional investors. Final apportionment between investments, fees, and expenses may not be available at the time of the initial capital call.</i></p> <p>What processes has LACERA implemented to better account for PE fees and expenses, moving forward?</p> <p><i>LACERA now utilizes the detailed publicly available ILPA capital call and distribution template.</i></p> <p>Will LACERA/Pavillion undertake a similar project next year? Is this how LACERA will ascertain fees and expenses moving forward?</p> <p><i>Yes, this is an on-going effort.</i></p> <p>Your memo indicates this was no small undertaking – 3500+ man hours – do you anticipate this will become easier as more firms adopt the ILPA template?</p> <p><i>Yes, the process should improve significantly over the years as more firms adopt the ILPA fee template. LACERA expects the use of the ILPA template to increase the information available and its timeliness.</i></p> <p>Does this change staff's assessment of the pros/cons of PE? Even if the costs are higher than what was originally reported, it seems like the program's been very successful on a net basis.</p> <p><i>The Private Equity program has been successful (the best performing major investment strategy over the past ten years). We will continue to negotiate in the best interest of our members. Private Equity and other asset categories are continuously reviewed by the Board.</i></p>
08-21-17	M. Sunitha, AARM Corp	<p>Requested information for Alternative Investment's performance data for the Q1, Q2 of 2017.</p> <p><i>Response transmitted via email: LACERA does not create Q1 or Q3 reports any longer. We expect the Q2 2017 report to be finalized by the second week of December 2017. LACERA has no documents responsive to your request.</i></p>

DATE RECEIVED	REQUESTER	DOCS REQUESTED
08-21-17	J. Martins, Waterland Private Equity Investments, B.V.	<p>Please provide the public information available on Waterland at LACERA such as the investment memo.</p> <p><i>Transmitted 1 document.</i></p> <p><i>Sent August 21, 2017 via email the redacted BOI memo dated July 21, 2017 regarding Waterland Private Equity Fund VII, C.V. – Recommendation: Approve a commitment of up to €50 million (approximately \$59 million) to Waterland Private Equity Fund VII, C.V.</i></p> <p><i>Also transmitted the following email response: Attached redacted LACERA memo and Stepstone memo (LACERA’s Private Equity Consultant) in response to your request below. After reviewing the LACERA public record log LACERA has received one request for these materials previously, from Buyouts Insider.</i></p>
08-24-17	A. Jacobius, Pensions & Investments	<p>Requested copies of some of the reports shared with the board at the meeting. They are the revised Corporate Governance Principles, the Proposed Board of Investments Regulations, the Private Equity Fee Summary Report – Fiscal Year 2016 and the real estate report</p> <p><i>Transmitted 1 document.</i></p> <p><i>Transmitted as a single pdf: The revised Corporate Governance Principles (p1 - p44), the Proposed Board of Investments Regulations (p45 - p48), the Private Equity Fee Summary Report – Fiscal Year 2016 (p46 - p52), and the real estate report (p53 -p67).</i></p>
08-29-17	R. Rao, Money Management Report	<p>Questions. Answers shown in blue text.</p> <p>LACERA committed \$75m to Canaan XI and hired Milliman for actuary services.</p> <p>Were these decisions made recently?</p> <p><i>Canaan XI was approved at the Board of Investments meeting on June 14, 2017. Milliman is LACERA’s incumbent actuary consultant. LACERA issued an RFP for services in November, 2016. The Board selected Milliman as a result of the competitive RFP process and Board interview.</i></p> <p>When were they made?</p> <p><i>Canaan XI was approved at the Board of Investments meeting on June 14, 2017. Milliman Was Selected at the June 14th 2017 meeting by the Board of Investments.</i></p> <p>Why is the fund investing \$75m in a new venture capital strategy at this time?</p> <p><i>LACERA has been investing in venture capital since 1986 and has previously invested with Canaan.</i></p> <p>What makes VC so attractive to LACERA?</p> <p><i>VC has been the 2nd highest returning sub-asset class within LACERA’s PE portfolio since inception.</i></p> <p>Why was Canaan chosen specifically?</p>

DATE RECEIVED	REQUESTER	DOCS REQUESTED
		<p><i>Canaan was selected because of a strong portfolio fit, solid performance track record, and a cohesive management team.</i></p> <p>Why was Milliman chosen as an actuary?</p> <p><i>Milliman was chosen by the LACERA Board of Investments based on staff's evaluation and scoring of their proposal in which they demonstrated their competence, experience and competitive fees related to performing the work, as well as their interview with the Board of Investments in June.</i></p> <p>Who were the other contenders and why was the incumbent actuary not chosen?</p> <p><i>The other two firms contending for the role were The Segal Company and Cavanaugh McDonald. The incumbent actuary consultant Milliman was selected.</i></p>
08-30-17	D. Lim, Wall Street Journal	<p>Requested materials, shown below, as part of an open record request:</p> <ul style="list-style-type: none"> From August 9 Public/Private equity committee: Item VI A -- a recommendation from Christopher Wagner on changes to the secondary transactions policy. https://www.lacera.com/about_lacera/boi/meetings/equity/2017-08-09_equities_agnd.PDF From the August 9 Board of Investments board meeting book -- Items VI: Chief Investment Officer's Report (Jul 29, 2017) and Item IX A-L - All reports and memos. (https://www.lacera.com/about_lacera/boi/meetings/2017-08-09_boi_agnd.pdf) <p><i>Transmitted 2 documents.</i></p> <p><i>Sent on August 30, 2017, via email, the requested agenda packet for BOI meeting held on, Wednesday, August 9, 2017 and BOI memo dated July 31, 2017 re LACERA'S Private Equity Secondary Program – Recommendation: Approve the following revisions to Appendix A of the 2017 Private Equity Objectives, Policies, and Procedures, which address LACERA'S Private Equity Secondary Policy.</i></p>
09-08-17	J. Peterson, SBC Global	<p>Requested board meeting documents that go along with the following agenda items from the September 11, 2017 Real Estate Committee Meeting:</p> <p>A. Retail Real Estate Review, Mary Ludgin, and B. Performance Attribution Analysis and Lessons Learned</p> <p><i>Transmitted 2 documents.</i></p> <p><i>Sent via email:</i></p> <p><i>RE Memo dated August 21, 2017 re Retail Real Estate titled VI.A. – Retail RE Review Heitman Full 3, and also sent RE memo dated August 25, 2017 re Performance Attribution Analyses and Lessons Learned titled VI.B. – Performance Attribution Full.</i></p>
09-11-17	K. Bouteraa, Palico	<p>Requested Q4 2016 data records concerning alternative investments. Requested information on all types of Private Equity asset investments (including Buyout, venture capital, distressed debt, mezzanine, fund of funds, infrastructure, real estate and special situations) in which the LACERA has been an investor.</p> <p><i>Transmitted 2 documents.</i></p>

DATE RECEIVED	REQUESTER	DOCS REQUESTED
		<i>Sent via email 4th Q 2016 Property Management Report and LACERA Portfolio Performance Report as of December 31, 2016.</i>
09-11-17	R. Rao, Pageant Media	<p>Questions. Answer in blue text.</p> <ol style="list-style-type: none"> 1. Give a summary of the hedge funds report presented by your senior investment officer? Are there some actionable items the system will decide on in the future based on the report? Is LACERA looking to change the way it approaches this asset class—either in terms of fees or allocation? 2. What is the private equity fee recalculation project? There's some discussion regarding alternative investment fee transparency as well as a closer look into LACERAs fees and corresponding returns. Is LACERA looking to change it's fee structure? How does LACERA plan to negotiate fees with managers/adopt new incentives to encourage managers to improve performance? 3. Can you tell me about the transition plan from indirect to direct investments? I know this is in relation to the termination of fund-of-fund managers FIS and Northern Trust. Is there a memo I can read about the process and why the board decided to approve of it? 4. Did the board decide to make any more commitments to new or existing managers in any asset classes? How much is each commitment, to whom and where will the money come from? How do these commitments fit in with the fund's overall strategy? 5. Were any managers terminated, put on the watch list or taken off the watch list? Who and why? <p><i>Transmitted 1 document.</i></p> <p><i>Sent via email BOI memo, with attachments, dated August 29, 2017 regarding Public Emerging Manager Program Structure – Recommendation: 1. Approve the revision of LACERA's Emerging Manager Policy to include a target range of 0-5% within the Non-U.S. equity composite.</i></p> <p><i>Answer transmitted 09-13-17 via email:</i></p> <p><i>I have attached the documents requested from the September 11, BOI meeting. Additionally, I have responded to your inquiries below.</i></p> <ol style="list-style-type: none"> <i>1. Hedge Fund Report attached; LACERA staff can't speculate as to future Board action or Policy.</i> <i>2. Private Equity Fee Recalculation Project documents attached; LACERA staff can't speculate as to future Board action or Policy.</i> <i>3. Board Memo attached.</i> <i>4. No commitments were made.</i> <i>5. No.</i>

DATE RECEIVED	REQUESTER	DOCS REQUESTED
09-11-18	A. Kruk, Mandate Wire	<p>Requested update on what occurred as well as board documents related to several agenda items. Answers in blue text.</p> <p>1. Did the board approve the revision to LACERA's emerging manager policy to include a 0-5% within the non-US equity composite? If so, could I get access to the board memo related to the recommendation (agenda item VIIIA).</p> <p><i>Yes.</i></p> <p>2. Did the board approve the revisions to LACERA's private equity secondary policy? If so, could I get access to the board memos on those subjects (agenda items VIII B and C)?</p> <p><i>The Board approved both policies, but directed the staff to make amendments to them for approval at a future meeting. I attached the Board Memos that were part of the package.</i></p> <p>3. Could I also have access to the alternative investment fee transparency report (agenda item IX D), the memo regarding the private equity fee recalculation project (agenda item IX B)?</p> <p><i>Attached.</i></p> <p>4. Was any action taken regarding Waterland Private Equity Fund VII?</p> <p><i>No action was taken.</i></p> <p><i>Transmitted 1 document.</i></p> <p><i>Sent via email Agenda Packet for Board of Investments Committee meeting held on September 11, 2017.</i></p>
09-11-17	A. Correa, Comision Clasificadora De Riesgo	<p>Requested information about implementation in Chile of a new regulation regarding the Investment by Pension Funds in alternative assets.</p> <p><i>Transmitted 1 document.</i></p> <p><i>Sent on September 14, 2017 LACERA Investment Policy Statement.</i></p>
09-13-17	S. Sutton, Buyout Insider	<p>Requested the items shown below from Monday's BOI meeting.</p> <ul style="list-style-type: none"> • Private Equity Fee Recalculation Project • Investment Fees Audit Report • Alternative Investment Fee Transparency <p><i>Transmitted 1 document.</i></p> <p><i>Sent via email: Pages from September 2017 BOI agenda package regarding Private Equity Fee Recalculation Project.</i></p>
09-14-17	A. Sandate, Individual	<p>Requested public records from the September 11, 2017 Special Meeting of the Real Estate Committee of the Board of Investments.</p>

DATE RECEIVED	REQUESTER	DOCS REQUESTED
		<ul style="list-style-type: none"><li data-bbox="602 243 1218 275">• Agenda Item VI. Report A and B. and Agenda Item VII. <p data-bbox="602 306 1516 369">Also requested all public record board packets and presentations made at the September 11, 2017 Board of Investments Meeting.</p> <p data-bbox="602 405 1516 468">Requested all public record board packets and presentations made at the September 11, 2017 Corporate Governance Committee of Board of Investments.</p> <p data-bbox="602 504 886 535"><i>Transmitted 3 documents.</i></p> <p data-bbox="602 571 1516 634"><i>Sent via email the Agenda Packets for BOI, Corporate Governance and Real Estate Committee Meetings held on September 11, 2017.</i></p>

