AGENDA

A REGULAR MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., WEDNESDAY, OCTOBER 10, 2018

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

I. CALL TO ORDER

II. PLEDGE OF ALLEGIANCE

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of September 12, 2018

IV. REPORT ON CLOSED SESSION ITEM

V. PUBLIC COMMENT

VI. INTERIM CHIEF EXECUTIVE OFFICER'S REPORT
(Memo dated October 2, 2018)

VII. CHIEF INVESTMENT OFFICER'S REPORT
(Memo dated September 28, 2018)

VIII. CONSENT ITEMS

A. Recommendation as submitted by Wayne Moore, Chair, Credit and Risk Mitigation Committee: That the Board approve the proposed Minimum Qualifications and Scope of Work thereby authorizing staff to initiate the Request for Proposal process for a cash overlay manager search. (Memo dated September 28, 2018)

VIII. CONSENT ITEMS (Continued)

B. Recommendation as submitted by Wayne Moore, Chair, Credit and Risk Mitigation Committee: That the Board (1) approve the 2019 Hedge Funds Annual Investment Plan, and (2) approve the Hedge Funds Objectives, Policies, and Procedures.
(Memo dated September 25, 2018)

C. Recommendation as submitted by Michael Schneider, Chair, Real Assets Committee: That the Board conduct a Request for Information for Real Estate Administrative Services for approval by the Board of Investments. (Memo dated September 25, 2018)

D. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 Milken Institute London Summit on December 4, 2018 in London and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Placed on the agenda at the request of Mrs. Sanchez)
(Memo dated September 28, 2018)

IX. REPORTS

A. Investment Policy Statement – Draft 2 Discussion
Jude Perez, Principal Investment Officer
(Memo dated September 28, 2018)

B. Standing Committee Discussion
Jonathan Grabel, Chief Investment Officer
(Memo dated September 28, 2018)

C. Ralph M. Brown Act, "Sunshine is the Best Antiseptic"
Harvey L. Leiderman, Reed Smith LLP
(Presentation material dated October 10, 2018)

D. Implementation Update On LACERA Pension Trust Strategic Asset Allocation
Jonathan Grabel, Chief Investment Officer
(For Information Only) (Memo dated September 24, 2018)

E. 2018 Year-End Legislative Report
Barry W. Lew, Legislative Affairs Officer
(For Information Only) (Memo dated October 1, 2018)

IX. REPORTS (Continued)

F. Evaluation and Selection of Real Estate Counsel
Christine Roseland, Senior Staff Counsel
(For Information Only) (Memo dated October 1, 2018)

G. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated October 3, 2018)

H. September 2018 Fiduciary Counsel Contact and Billing Report
Steven P. Rice, Chief Counsel
(Memo dated October 1, 2018) (Privileged and Confidential)
(Attorney-Client Communication/Attorney Work Product)

I. Report on Public Records Act Response
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated October 3, 2018)

X. ITEMS FOR STAFF REVIEW

XI. GOOD OF THE ORDER
(For information purposes only)

XII. EXECUTIVE SESSION

A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments
(Pursuant to California Government Code Section 54956.81)

1. Secondary Private Equity Sales
2. CAPULA GLOBAL RELATIVE VALUE FUND L.P.
3. SIRIS PARTNERS IV, L.P. (For Information Only)

B. Conference with Legal Counsel - Pending Litigation (Pursuant to Paragraph (1) of Subdivision (d) of California Government Code Section 54956.9).

1. LACERA v. BHP Billiton Limited, et al, etc.
Victoria Registry, Federal Court of Australia,
Case No. VID1218/2018
(For Information Only)

XIII. EDUCATION

A. An Introduction to Factors
Ted Wright, Principal Investment Officer
Timothy Filla, Meketa Investment Group
(Memo dated September 28, 2018)

XIV. ADJOURNMENT

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.

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 REGULAR MEETING OF THE BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., WEDNESDAY, SEPTEMBER 12, 2018

PRESENT: David Green, Chair

Shawn Kehoe, Vice Chair

Wayne Moore, Secretary

Joseph Kelly

David Muir

Ronald Okum

Gina V. Sanchez

Herman B. Santos

Michael Schneider

STAFF ADVISORS AND PARTICIPANTS

Robert Hill, Interim Chief Executive Officer

Jonathan Grabel, Chief Investment Officer

Steven P. Rice, Chief Counsel

Christine Roseland, Senior Staff Counsel

Christopher Wagner, Principal Investment Officer

Jude Perez, Principal Investment Officer

John McClelland, Principal Investment Officer

James Rice, Principal Investment Officer

STAFF ADVISORS AND PARTICIPANTS (Continued)

Esmeralda V. del Bosque, Senior Investment Officer

Chad Timko, Investment Officer

David Simpson, Investment Officer

Elin W. Szymanowski, Investment Officer

Amit Aggarwal, Investment Officer

Trina Sanders, Investment Officer

Kevin Bassi, Senior Investment Analyst

Michael Herrera, Senior Staff Counsel

Meketa Investment Group
Stephen McCourt, Managing Principal
Timothy Filla, Managing Principal
Andrea Light, Investment Analyst

StepStone Group LP
Jose Fernandez, Partner
Natalie Zar Walker, Principal

The Townsend Group
Micolyn Magee, Principal

GCM Grosvenor
Tom Rowland, Managing Director, Hedge Fund Strategies
Andrew Preda, Managing Director, Public Markets Investments

State Street
Andrew Erickson, Executive Vice President

Unite Here
Jordan Fein
Mitra Elie
Juan Chavez
Isabel Ponce

I. CALL TO ORDER

The meeting was called to order by Chair Green at 9:00 a.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Ms. Sanchez led the Board Members and staff in reciting the Pledge of Allegiance.

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of August 8, 2018

Mr. Santos made a motion, Mr. Kehoe seconded, to approve the minutes of the regular meeting of August 8, 2018. The motion passed unanimously.

IV. PUBLIC COMMENT

Jordan Fein, Mitra Elie, Juan Chavez and Isabel Ponce from UNITE HERE addressed the Board regarding CBRE Global Investors.

V. INTERIM CHIEF EXECUTIVE OFFICER'S REPORT
(Memo dated August 31, 2018)

Mr. Hill shared that staff has been working closely with the Chief Executive Officer at CALAPRS to make the retirement transfer process more effective.

Furthermore, Barry Lew, James Brekk, and Joe Ackler visited State Legislators in Sacramento earlier this month.

Lastly, Mr. Hill provided the Board with a timeline regarding the OPEB valuation.

VI. CHIEF INVESTMENT OFFICER'S REPORT
(Memo dated August 30, 2018)

Mr. Grabel provided a brief discussion on the Chief Investment Officer's Report.

VII. CONSENT ITEMS

Mr. Santos made a motion, Mr. Kehoe seconded, to approve the following agenda items. The motion passed unanimously by all members present. Mr. Okum was absent for the vote.

A. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the approve attendance of Board members at the Association for Asian American Investment Managers' National Conference on September 19 –20, 2018 in Los Angeles, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Santos)
(Memo dated September 4, 2018)

B. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the AVCJ's 31st Annual Private Equity & Venture Forum on November 13–15, 2018 in Hong Kong, China and ChrysCapital Annual Investor Conference on November 15–16, 2018 Hong Kong, China and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.
(Placed on the agenda at the request of Mr. Green)
(Memo dated August 31, 2018)

C. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at The Harvard Business School – Executive Education: Women on Boards: Succeeding as a Corporate Director on November 26 – 30, 2018 in Boston, Massachusetts, and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Placed on the agenda at the request of Ms. Sanchez)
(Memo dated September 4, 2018)

VII. CONSENT ITEMS (Continued)

D. Recommendation as submitted by Robert R. Hill, Interim Chief Executive Officer: That the Board approve attendance of Board members at the 2018 Crypto Invest Summit on October 22 – 24, 2018 in Los Angeles, California and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy. (Placed on the agenda at the request of Mr. Kehoe)
(Memo dated September 4, 2018)

VIII. NON-CONSENT ITEMS

A. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer: That the Board approve Meketa's benchmarks for LACERA Pension Trust's New Asset Allocation. (Memo dated August 28, 2018)

Mr. Grabel, Mr. Filla and Ms. Light of Meketa Investment Group were present and answered questions from the Board.

Mr. Santos made a motion, Ms. Sanchez seconded, to approve Meketa's benchmarks for LACERA Pension Trust's New Asset Allocation. The motion passed unanimously.

B. Recommendation as submitted by John McClelland, Principal Investment Officer: That the Board adopt the proposed Manager-Specific return objectives. (Memo dated August 23, 2018)

Mr. McClelland and Mrs. Magee of the Townsend Group were present and answered questions from the Board.

Mr. Santos made a motion, Mr. Okum seconded, to adopt the proposed Manager-Specific return objectives. The motion passed unanimously.

IX. REPORTS

A. Draft Investment Policy Statement
Jude Perez, Principal Investment Officer
(Memo dated August 31, 2018)

Mr. Perez and Ms. del Bosque provided a presentation and received feedback from the Board and suggested changes to the draft Investment Policy Statement.

B. Fund Performance Review as of June 30, 2018
Meketa Performance Report as of June 30, 2018
Leandro Festino, Managing Principal
Timothy Filla, Managing Principal

Mr. Festino of Meketa Investment Group provided a presentation and answered questions from the Board.

C. State Street Update
Andrew Erickson, Executive Vice President

Mr. Erickson of State Street was present and answered questions from the Board.

D. Secured Oversight Financing Rate
Adam Cheng, Senior Investment Analyst
(For Information Only) (Memo dated August 23, 2018)

E. OPEB Master Trust
Jude Perez, Principal Investment Officer
(For Information Only) (Memo Dated August 6, 2018)

F. Implementation Update on LACERA Pension Trust Strategic Asset Allocation
Jonathan Grabel, Chief Investment Officer
(For Information Only) (Memo dated August 30, 2018)

IX. REPORTS (Continued)

G. Hedge Fund Performance Report – 2018 Second Quarter
James Rice, Principal Investment Officer
(For Information Only) (Memo dated August 30, 2018)

H. CEO Search Update
CEO Search Ad-Hoc Committee and Korn Ferry
(For Information Only) (Memo dated September 5, 2018)

I. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated August 31, 2018)

J. August 2018 Fiduciary Counsel Contact and Billing Report
Steven P. Rice, Chief Counsel
(Memo dated September 4, 2018) (Privileged and Confidential)
(Attorney-Client Communication/Attorney Work Product)

X. REPORT ON STAFF ACTION ITEMS

There were no items to report out.

XI. GOOD OF THE ORDER
(For information purposes only)

Mr. Kehoe congratulated Mr. Kelly for completing his fellowship with the National Association of Corporate Directors.

Mr. Kelly shared that on September 18, 2018 the Los Angeles County Treasurer and Tax Collector's office will be receiving an award from Supervisor Barger for September's National Preparedness Month.

Mr. Muir shared that the California Secure Choice Retirement Savings Plan is going to become operational in 2019 and congratulated Meketa Investment Group for advising the Investment Board on the saving plan.

XI. GOOD OF THE ORDER (Continued)
(For information purposes only)

Mr. Santos and Mr. Moore requested that staff review the documents provided by Unite Here and compose a letter to address their concerns.

Mr. Santos and Mr. Green emphasized the importance of the California Secure Choice Retirement Savings Plan.

XII. EXECUTIVE SESSION

A. Conference with Staff and Legal Counsel to Consider the Purchase or Sale of Particular, Specific Pension Fund Investments
(Pursuant to California Government Code Section 54956.81)

1. PIMCO TACTICAL OPPORTUNITIES ONSHORE FUND, L.P.

Messrs. Jim Rice and Timko and Messrs. Rowland and Preda of GCM Grosvenor were present and answered questions from the Board.

Mr. Santos made a motion, Ms. Sanchez seconded, to approve staff's recommendation. The motion passed unanimously (roll call) with Messrs. Green, Kehoe, Kelly, Moore, Muir, Okum, Santos, Schneider and Mrs. Sanchez voting yes.

The Board's decision and vote to approve a commitment of up to $250 million in PIMCO Tactical Opportunities Onshore Fund, L.P., which is a hedge fund investment that pursues a relative value strategy across public and private credit, including residential mortgages, commercial mortgages, private non-qualified mortgages, corporate loans, asset

XII. EXECUTIVE SESSION (Continued)

backed securities, and bridge and receivable financing, was reported out.

2. RIVERSIDE MICRO-CAP FUND V, L.P.

Messrs. Wagner, Simpson and Jose Fernandez of StepStone Group LP were present and answered questions from the Board.

Mr. Santos made a motion, Mr. Muir seconded, to approve staff's recommendation. The motion passed unanimously (roll call) with Messrs. Green, Kehoe, Kelly, Moore, Muir, Okum, Santos, Schneider and Ms. Sanchez voting yes.

The Board's decision and vote to approve a commitment of up to $100 million in Riverside Micro-Cap Fund V, L.P., which is a private equity fund investment with a U.S. small buyout strategy targeting the information technology, consumer, healthcare, and industrial sectors, was reported out.

3. TRITON FUND V, L.P.

Mr. Wagner, Ms. Szymanowski and Mrs. Zar Walker of StepStone Group LP were present and answered questions from the Board.

Mr. Santos made a motion, Mr. Okum seconded, to approve staff's recommendation. The motion passed unanimously (roll call) with Messrs. Green, Kehoe, Kelly, Moore, Muir, Okum, Santos, Schneider and Ms. Sanchez voting yes.

XII. EXECUTIVE SESSION (Continued)

The Board's decision and vote to approve a commitment of up to 150 million Euros (or approximately $175 million) in Triton Fund V, L.P., which is a private equity fund investment with a European buyout strategy targeting middle market companies, primarily in Northern Europe, in the industrial, business services, consumer, and healthcare sectors, was reported out.

4. TPG REAL ESTATE PARTNERS III

Mrs. Sanders, Mr. Bassi and Mrs. Magee of the Townsend Group were present and answered questions from the Board.

Mr. Santos made a motion, Mr. Kehoe seconded, to approve staff's recommendation. The motion passed unanimously (roll call) with Messrs. Green, Kehoe, Kelly, Moore, Muir, Okum, Santos, Schneider and Ms. Sanchez voting yes.

The Board's decision and vote to approve a commitment of up to $100 million in TPG Real Estate Partners Fund III, which is a real estate fund investment, primarily in North America, up to 1/3 in Europe, and smaller allocations outside these geographies, was reported out.

5. Other Managers/Assets: 11

Messrs. Grabel, McClelland and Mrs. Magee of the Townsend Group were present and answered questions from the Board.

XII. EXECUTIVE SESSION (Continued)

Mr. Santos made a motion, Mr. Sanchez seconded, to approve staff's recommendation. The motion passed unanimously (roll call) with Messrs. Green, Kehoe, Kelly, Moore, Muir, Okum, Santos, Schneider and Ms. Sanchez voting yes.

The Board's decision and vote to approve a group of 11 real estate related transactions. Additional details will be reported out and available to the public at the earlier of the close of each separate transaction or the transfer of pension assets in accordance with the requirements of the Brown Act.

6. GGV DISCOVERY II L.P., GGV CAPITAL VII L.P., AND GGV CAPITAL VII PLUS L.P. (For Information Only)

The Board was provided with an information only memo confirming a re-up commitment by staff, in accordance with the authority and criteria set forth in the Board's 2018 Private Equity Objectives, Policies, and Procedures, of $100 million allocated to three private equity funds – GGV Discovery II L.P., GGV Capital VII L.P., and GGV Capital VII Plus L.P. GGV Discovery II is focused on early-stage investments; GGV Capital VII is focused on providing follow-on capital to GGV Discovery II companies and other high growth early-stage companies; and GGV Capital VII Plus is focused on providing later stage capital to GGV Capital VII companies.

XII. EXECUTIVE SESSION (Continued)

7. HELLMAN & FRIEDMAN CAPITAL PARTNERS IX, L.P. (For Information Only)

The Board was provided with an information only memo confirming a re-up commitment by staff, in accordance with the authority and criteria set forth in the Board's 2018 Private Equity Objectives, Policies, and Procedures, of $180 million as a private equity investment in Hellman & Friedman Capital Partners IX, L.P., which will focus on buyout opportunities in financial and business services, software/Internet and digital media, consumer discretionary, and healthcare companies.

B. Conference with Legal Counsel - Anticipated Litigation Initiation of Litigation (Pursuant to Paragraph (4) of Subdivision (d) of California Government Code Section 54956.9)

Number of Potential Cases: One

The Board met in closed session with counsel under Government Code Section 54956.9(d)(2) to discuss a matter of anticipated litigation. On a motion by Mr. Santos, seconded by Ms. Sanchez, the Board voted 7-0 (with Mr. Moore and Mr. Kehoe absent for the vote) to initiate litigation. Additional details will be reported out and be available to the public after the case has been filed in accordance with the Brown Act.

XIII. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 1:30 p.m.

<u>Green Folder Information (Information distributed in each Board Members Green Folder at the beginning of the meeting)</u>

1. LACERA's Long Term Returns (CIO Presentation)
2. Modification of Resolution of Potential Claims Regarding Calculation of Retiree Healthcare Premium Subsidy for New L Items Under PEPRA (Privilege & Confidential) (Memo dated September 4, 2018)

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WAYNE MOORE, SECRETARY

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DAVID GREEN, CHAIR

L//.CERA

October 2, 2018

TO: Each Member
Board of Retirement
Board of Investments

FROM: Robert R. Hill
Interim Chief Executive Officer

SUBJECT: **CHIEF EXECUTIVE OFFICER'S REPORT**

I am pleased to present the Interim Chief Executive Officer's Report that highlights a few of the operational activities that have taken place during the past month, key business metrics to monitor how well we are meeting our performance objectives, and an educational calendar.

LACERA Wellness & Employee Benefits Workshops

LACERA's greatest assets are the over 400 staff members that work at LACERA. As we continue to support health and wellness through Wellness Fairs, Health Screenings, and Workshops, we recently celebrated LACERA's 20th Annual Wellness & Employee Benefits (WEB) Program. Human Resources successfully produced their annual 2-Day WEB Event.

Wellness & Employee Benefits Workshops – September 26, 2018
Day 1: Focused on a wide spectrum of wellness and benefits presentations on subjects including everything from health and fitness to personal finances. There were over 20 workshops held throughout LACERA offices. The most popular workshops with 25 to 50 attending staff members included Healthy Eating, Back Care, Stress Reduction, Meditation, Caring for Elderly Parents, and Wills and Living Trust.

Wellness & Employee Benefits Fair – September 27, 2018
Day 2: Focused on fitness, healthy living, and well-being. In celebration of our 20th anniversary, this year the Wellness & Employee Benefits Fair was held at Lake Avenue Church. Staff members were able to visit over 20 vendor booths including a wide variety of employee benefits and health screenings. All staff members were allowed to participate in one of three sessions with approximately 250 staff members taking advantage of the Fair.

Wellness and employee benefits fairs are a cost-effective way of providing valuable health information and screening services for all our staff members at a single event. When it comes to health and wellness, effective work-life balance and ongoing employee wellness education is our mission in administering LACERA's Wellness & Employee Benefits Program. A successful wellness and benefits fair requires a good amount of planning, commitment, and dedication. In return, we provide staff members an opportunity to reevaluate their lifestyles. Human Resources works hard to make sure the entire life experience is taken into account, not just the physical and mental, but also the social, financial and community factors. Providing these Fairs is just one way of demonstrating we care about our staff members. I would like to thank the Human Resources Division and other staff members for all the hard work they put into this year's fair. It is a true reflection of LACERA's Values and Vision in action.

CEO Report Dashboard Update

In our continuing effort to provide the Boards with meaningful metrics we have updated the CEO Report Dashboard with two new graphs. We have added a "My LACERA Registrations" graph to the "Striving for Excellence in Service" section of the report. The graph will provide the Boards with annual registrations for My LACERA. As you can see we have had a steady growth in members registering for online access since 2013.

We have added a new "Average Monthly Benefit Allowance w/ COLA Distribution" graph to the "Member Snapshot" section of the report. This will provide the Boards with the number of members that fall into one of eight monthly allowance categories. It should come as no surprise that most members receive a very modest retirement benefit under $4,000 a month. In fact, the average base benefit (without COLA) is a modest $3,465.

We continue to look for meaningful metrics to share with the Boards and welcome your feedback on any metrics that you would like to see included in future versions of the CEO Report Dashboard.

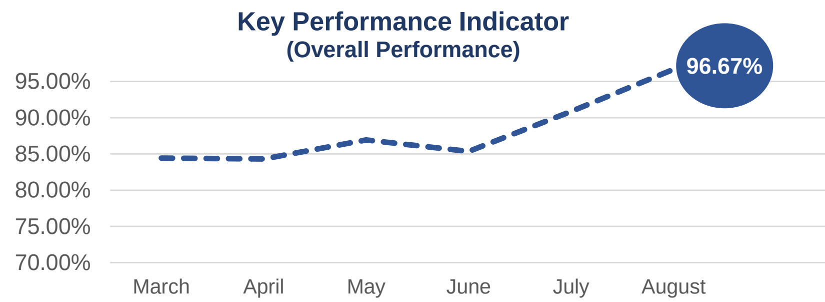
RH: jp
CEO report Oct 2018.doc

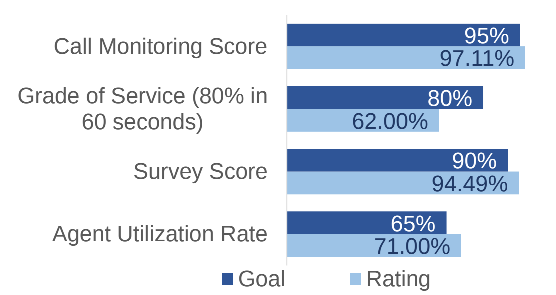
Attachments

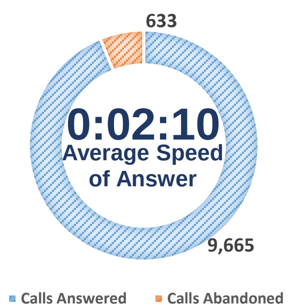
Striving for Excellence in Service

Outreach Attendance	Outreach Events	Outreach Satisfaction	Member Service Center	Member Services Calls
3,145	34	96.0%	98.2%	10,298
5,660 Year-to-Date	66 Year-to-Date	1.7% Change Since Last Mo.	1.8% Change Since Last Mo.	10,347 3 Mo. Avg.

Member Services



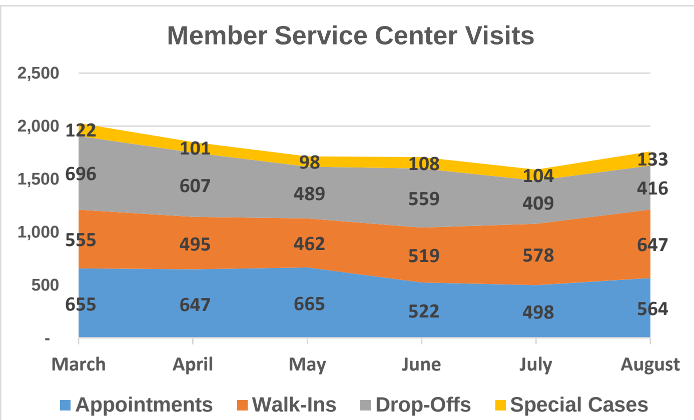


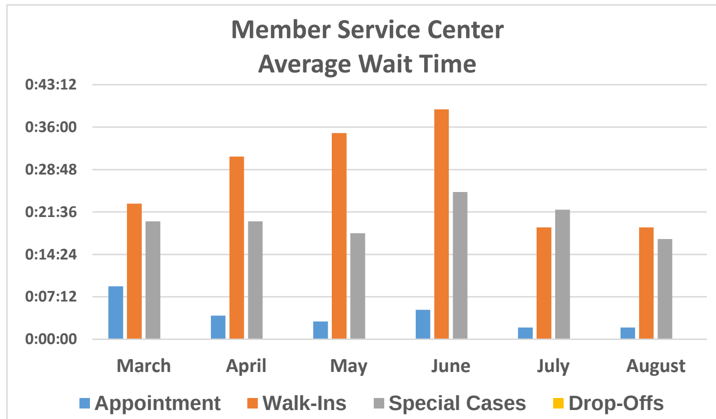


Top Calls

1. Workshop Info/Appointments Inquiry
2. Benefit Payments: Gen. Inquiry/Payday
3. Retirement Counseling: Estimates

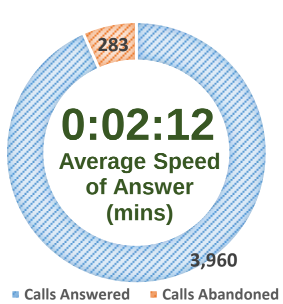
300 Emails
3:50 hours
Avg. Response Time (ART)





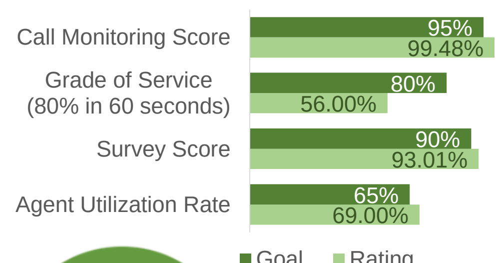
*Drop Off Wait Time: No Waiting

Retiree Healthcare



Top Calls

1. New Enrollment/Change/Cancel
2. Med. Benefits - General Inquiries (RHC)
3. Part B Premium Reimbursement



141 Emails
5 day
Avg. Response Time (ART)

Striving for Excellence in Service (Continued)

Disability

Applications

573 On Hand

39 Received
85 Year-to-Date

0 Re-opened
0 Year-to-Date

53 To Board - Initial
91 Year-to-Date

0 Closed
13 Year-to-Date

559 In Process
559 Year-to-Date

Appeals

101 On Hand

2 Received
3 Year-to-Date

1 Admin Closed/Rule 32
5 Year-to-Date

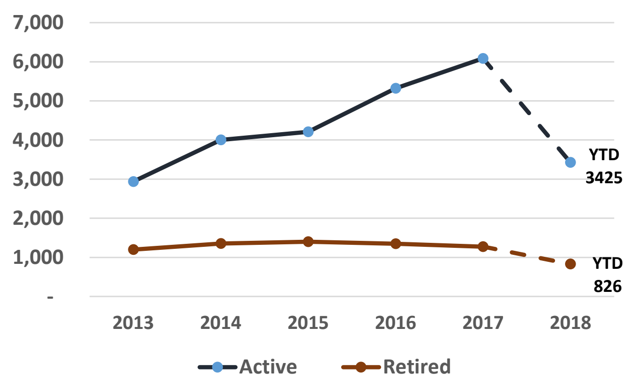
2 Referee Recommended
3 Year-to-Date

1 Revised/Reconsidered for Granting
1 Year-to-Date

99 In Process
99 Year-to-Date

My LACERA

My LACERA Registrations

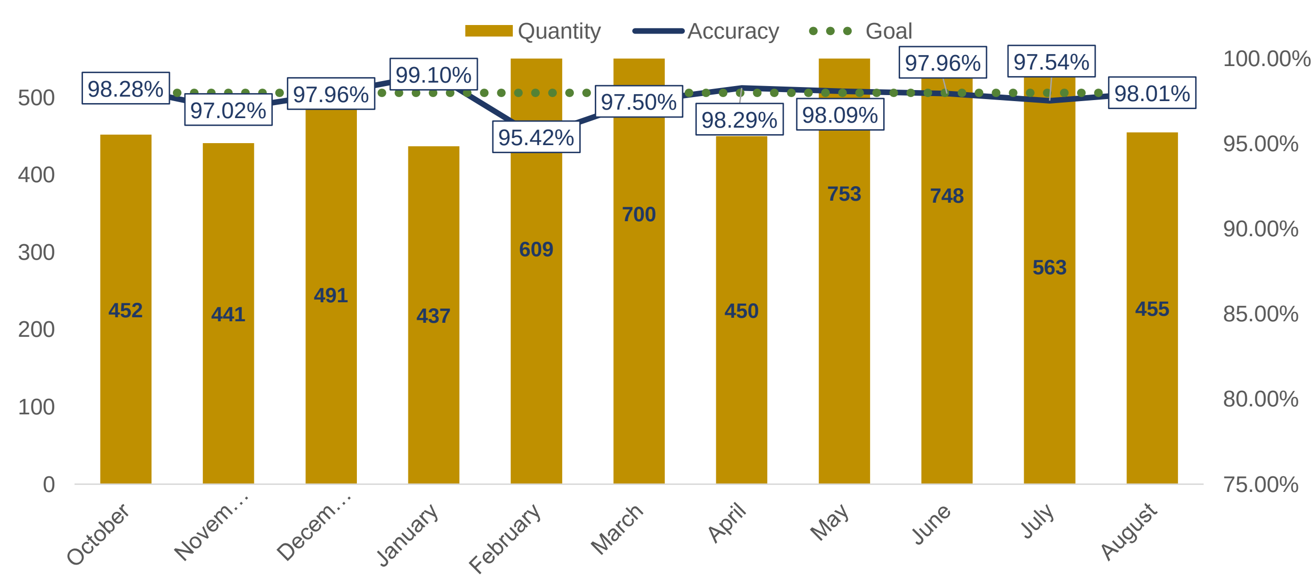


MORE COMING SOON!

Striving for Excellence in Quality

Audits of Retirement Elections, Payment Contracts, and Data Entry

Quality Assurance and Metrics



August 2018
98.01%

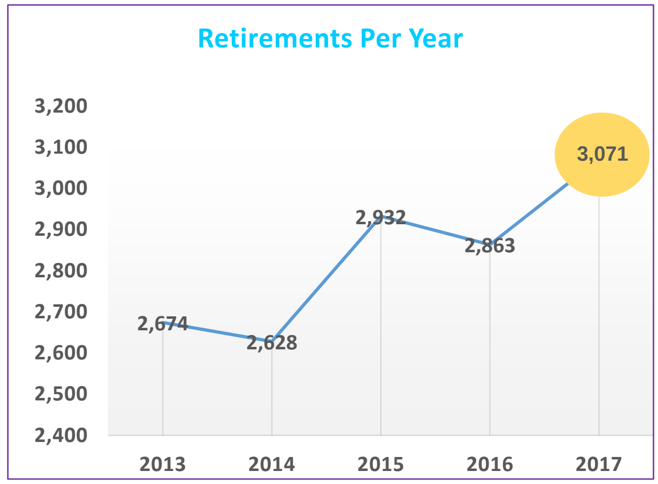
Retirement Elections
191 Samples
97.38% Accuracy

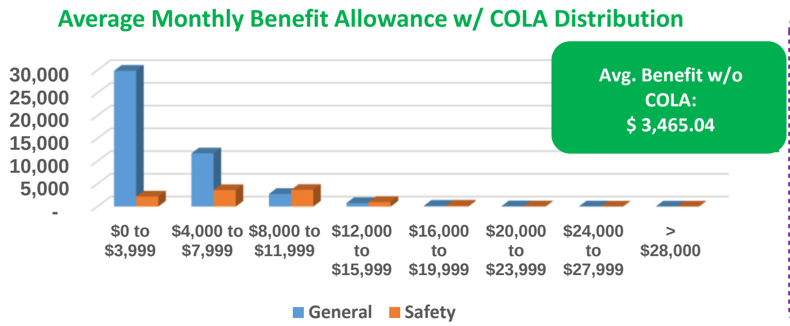
Payment Contracts
174 Samples
97.43% Accuracy

Data Entry
90 Samples
99.22% Accuracy

Member Snapshot

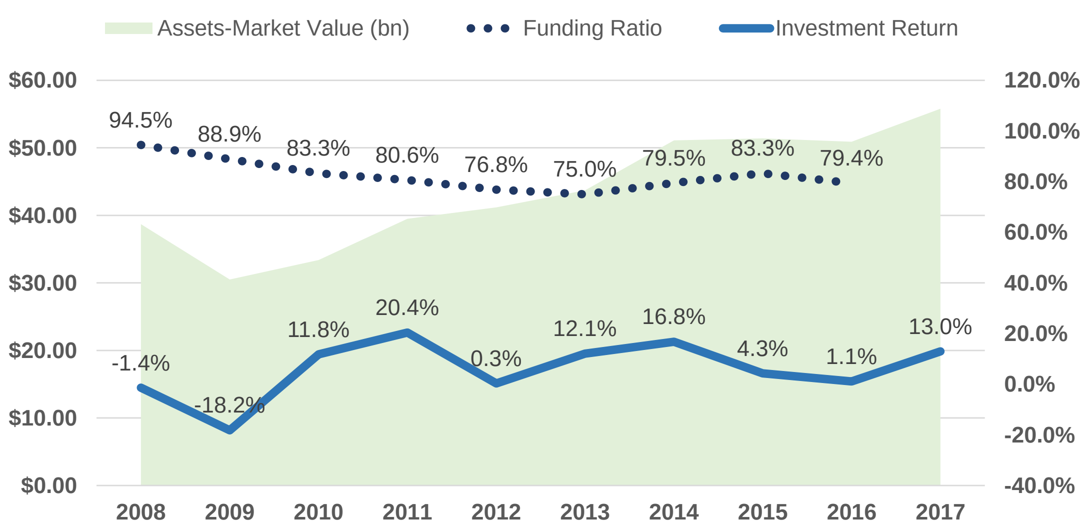
	Members as of 09/24/18				
	Plan	Active	Retired	Survivors	Total
General	Plan A	134	17,515	4,502	**22,151**
	Plan B	43	683	67	**793**
	Plan C	54	423	64	**541**
	Plan D	43,246	14,387	1,313	**58,946**
	Plan E	18,255	12,477	1,115	**31,847**
	Plan G	24,219	15	1	**24,235**
	Total General	85,951	45,500	7,062	138,513
Safety	Plan A	5	5,426	1,587	**7,018**
	Plan B	10,226	5,374	269	**15,869**
	Plan C	2,660	8	0	**2,668**
	Total Safety	12,891	10,808	1,856	25,555
TOTAL MEMBERS		98,842	56,308	8,918	164,068
% by Category		60%	34%	5%	100%





	Healthcare Program (YTD)			Healthcare Enrollments (Monthly)
	Employer	Member		
Medical	$85.2m	$7.2m	Medical	50,058
Dental	$7.2m	$735,411	Dental	51,258
Part B	$10.4m	xxxx	Part B	33,532
			LTC	674
Total	**$102.8m**	**$7.9m**	**Total**	**135,522**

Key Financial Metrics



Funding Metrics
(as of 6/30/17)

Employer NC	9.97%*
UAAL	9.73%*
Assumed Rate	7.25%*
Star Reserve	$614m*
Total Assets	$52.7b*

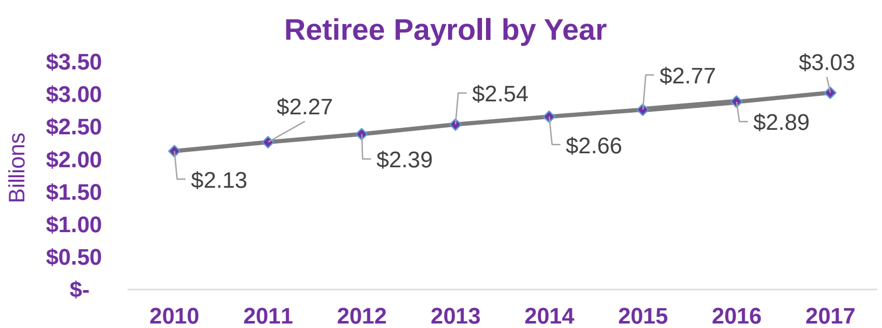
Contributions
(as of 6/30/17)

	Employer	Member
Annual Add	$1,331.4m	$526.6m
% of Payroll	19.7%*	6.65%*

*Effective July 1, 2017, as of 06/30/16 actuarial valuation

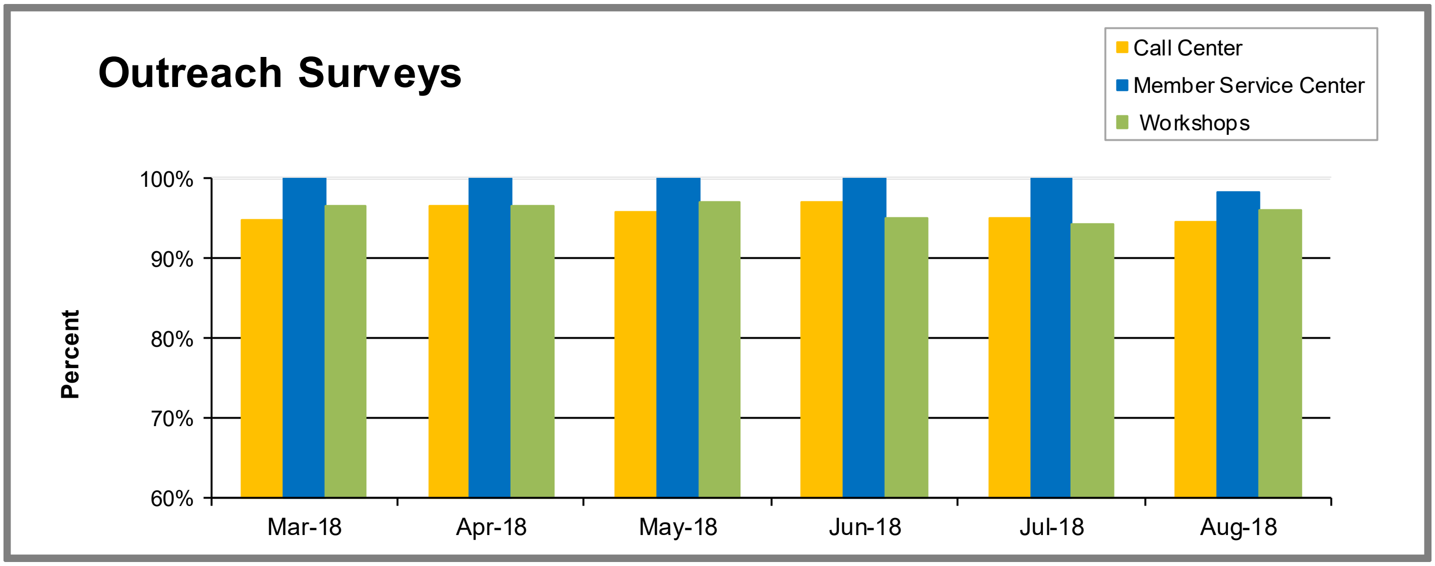
Retired Members Payroll

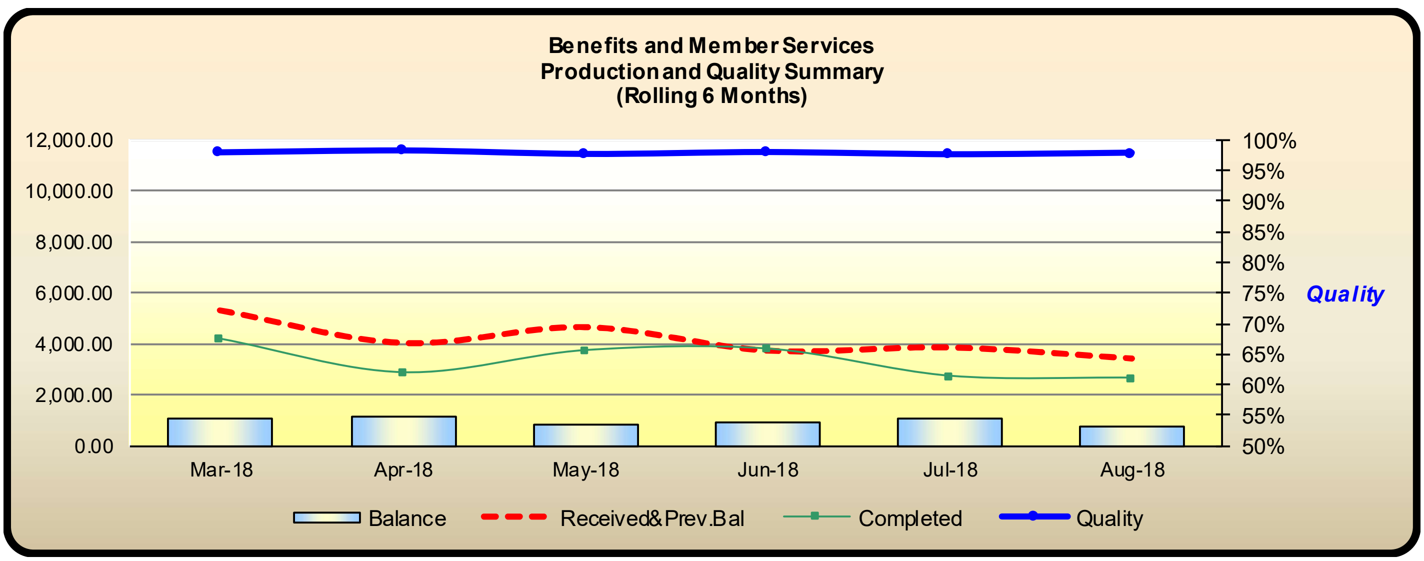
Monthly Payroll	$283.43m
Payroll YTD	.6b
New Retired Payees Added	355
Seamless %	98.31%
New Seamless Payees Added	633
Seamless YTD	97.79%
By Check %	4.00%
By Direct Deposit %	96.00%



LACERA's KEY BUSINESS METRICS

OUTREACH EVENTS AND ATTENDANCE				
Type	# of WORKSHOPS		# of MEMBERS	
	Monthly	YTD	Monthly	YTD
Benefit Information	16	26	752	1,194
Mid Career	2	4	85	120
New Member	9	20	212	530
Pre-Retirement	4	9	84	200
General Information	3	7	252	267
Retiree Events	0	0	0	0
Member Service Center	Daily	Daily	1,760	3,349
TOTALS	**34**	**66**	**3,145**	**5,660**





Member Services Contact Center			RHC Call Center	Top Calls
Overall Key Performance Indicator (KPI)		96.67%		
Category	**Goal**	**Rating**		Member Services
Call Center Monitoring Score	95%	97.11%	99.48%	1) Workshop Info.\Appointments: Inquiry
Grade of Service (80% in 60 seconds)	80%	62%	56%	2) Benefit Pmts.: Gen. Inq./Payday Info
Call Center Survey Score	90%	94.49%	93.01%	3) Retirement Counseling: Estimate
Agent Utilization Rate	65%	71%	69%	
Number of Calls		10,298	4,254	Retiree Health Care
Number of Calls Answered		9,665	3,960	1) New Enrollment/Change/Cancel
Number of Calls Abandoned		633	283	2) Med. Benefits-General Inquiries (RHC)
Calls-Average Speed of Answer (hh:mm:ss)		00:02:10	00:02:12	3) Part B Premium Reimbursement
Number of Emails		300	141	
Emails-Average Response Time (hh:mm:ss)		03:50:24	(Days) 5	Adjusted for weekends

Metrics YTD from July 1, 2018 through August 31, 2018

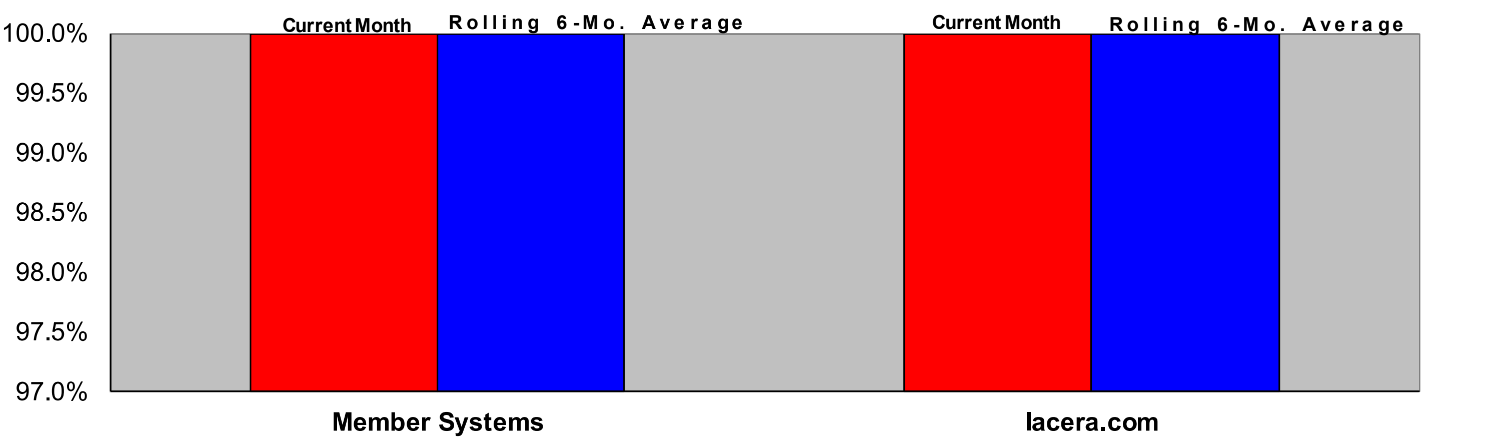
LACERA's KEY BUSINESS METRICS

Fiscal Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assets-Market Value	$38.7	$30.5	$33.4	$39.5	$41.2	$43.7	$51.1	$51.4	$50.9	$55.8
Funding Ratio	94.5%	88.9%	83.3%	80.6%	76.8%	75.0%	79.5%	83.3%	79.4%	n/a
Investment Return	-1.4%	-18.2%	11.8%	20.4%	0.3%	12.1%	16.8%	4.3%	1.1%	13.0%

DISABILITY INVESTIGATIONS

APPLICATIONS	TOTAL	YTD		APPEALS	TOTAL	YTD
On Hand	573	xxxxxxx		On Hand	101	xxxxxxx
Received	39	85		Received	2	3
Re-opened	0	0		Administratively Closed/Rule 32	1	5
To Board – Initial	53	91		Referee Recommendation	2	3
Closed	0	13		Revised/Reconsidered for Granting	1	1
In Process	**559**	**559**		**In Process**	**99**	**99**

SYSTEMS AVAILABILITY - AUGUST 2018



Active Members as of 9/24/18	
General-Plan A	134
General-Plan B	43
General-Plan C	54
General-Plan D	43,246
General-Plan E	18,255
General-Plan G	24,219
Total General	**85,951**
Safety-Plan A	5
Safety-Plan B	10,226
Safety-Plan C	2,660
Total Safety	**12,891**
TOTAL ACTIVE	**98,842**

Retired Members/Survivors as of 9/24/18	Retirees	Survivors	Total
General-Plan A	17,515	4,502	22,017
General-Plan B	683	67	750
General-Plan C	423	64	487
General-Plan D	14,387	1,313	15,700
General-Plan E	12,477	1,115	13,592
General-Plan G	15	1	16
Total General	**45,500**	**7,062**	**52,562**
Safety-Plan A	5,426	1,587	7,013
Safety-Plan B	5,374	269	5,643
Safety-Plan C	8	0	8
Total Safety	**10,808**	**1,856**	**12,664**
TOTAL RETIRED	**56,308**	**8,918**	**65,226**

Retired Members	
Monthly Payroll	283.43 Million
Payroll YTD	0.6 Billion
No. Monthly Added	355
Seamless %	98.31%
No. YTD Added	633
Seamless YTD %	97.79%
Direct Deposit %	96.00%

Health Care Program (YTD Totals)

	Employer Amount	Member Amount
Medical	85,175,997	7,154,952
Dental	7,241,132	735,411
Med Part B	10,423,016	xxxxxxxxxx
Total Amount	**$102,840,145**	**$7,890,363**

Health Care Program Enrollments (Monthly)

Medical	50,058
Dental	51,258
Med Part B	33,532
Long Term Care (LTC)	674

Funding Metrics as of 6/30/17

Employer Normal Cost	9.97%*
UAAL	9.73%*
Assumed Rate	7.25%*
Star Reserve	$614 million
Total Assets	$52.7 billion

Member Contributions as of 6/30/17

Annual Additions	$526.6 million
% of Payroll	6.65%*

Employer Contributions as of 6/30/17

Annual Addition	$1,331.4 million
% of Payroll	19.70%*

*Effective July 1, 2017, as of 6/30/16 actuarial valuation.

Metrics YTD from July 1, 2018 through August 31, 2018

Date	Conference
November, 2018	
7-8	Institutional Limited Partners Association (ILPA) Summit New York, NY
8	2018 USC Marshall Corporate Directors Symposium Los Angeles, CA
13-15	AVCJ's 31st Annual Private Equity & Venture Forum Hong Kong, China
13-16	SACRS Indian Wells, CA
15-16	ChrysCapital Annual Investor Conference Hong Kong, China
26-30	Harvard Business School-Executive Education: Women on Boards – Succeeding as a Corporate Director Boston, MA
January, 2019	
27-29	NCPERS (National Conference on Public Employee Retirement Systems) Legislative Conference Washington D.C.
February, 2019	
5-6	IMN (Information Management Network) Annual Beneficial Owners' Intl. Securities Finance & Collateral Mgmt. Conference Fort Lauderdale, FL
27-March 1	Pacific Pension Institute (PPI) North American Winter Roundtable Los Angeles, CA
March, 2019	
2-5	CALAPRS (California Association of Public Retirement Systems) General Assembly Meeting Monterey, CA
4-6	Council of Institutional Investors (CII) Spring Conference Washington D.C.
13-14	AHIP (America's Health Insurance Plans) National Health Policy Conference Washington D.C.
14-15	PREA (Pension Real Estate Association) Spring Conference Dallas, TX
27-29	CALAPRS (California Association of Public Retirement Systems) Advanced Principles of Pension Management for Trustees at UCLA Los Angeles, CA

September 28, 2018

TO: Each Member
Board of Investments

FROM : Jon Grabel
Chief Investment Officer

SUBJECT: **CHIEF INVESTMENT OFFICER'S REPORT—AUGUST 2018**

The following memorandum and attachments constitute the CIO report for August 2018. **Attachment 1** presents summary investment information including market values, actual and target allocations, and returns. **Attachment 2** is a summary investment report for the OPEB Master Trust. A list of all current applicants for public investment-related searches is included as **Attachment 3** and will be provided on a monthly basis to identify firms with whom LACERA is in a quiet period. **Attachment 4** is a summary of a private equity secondary sale.

PERFORMANCE

The Total Fund finished the month with an investment balance of approximately $56.7 billion.[1] The month had a positive net return of 0.5%. For fiscal year to date, the Total Fund has gained 1.8% net of fees.

The OPEB Master Trust generated a positive return in August. For the month, the L.A. County, LACERA, and the Superior Court funds had net gains of 0.7%. Fiscal year to date, the L.A. County and LACERA funds had net gains of 2.2% and the Superior Court fund had a net gain of 2.1%.

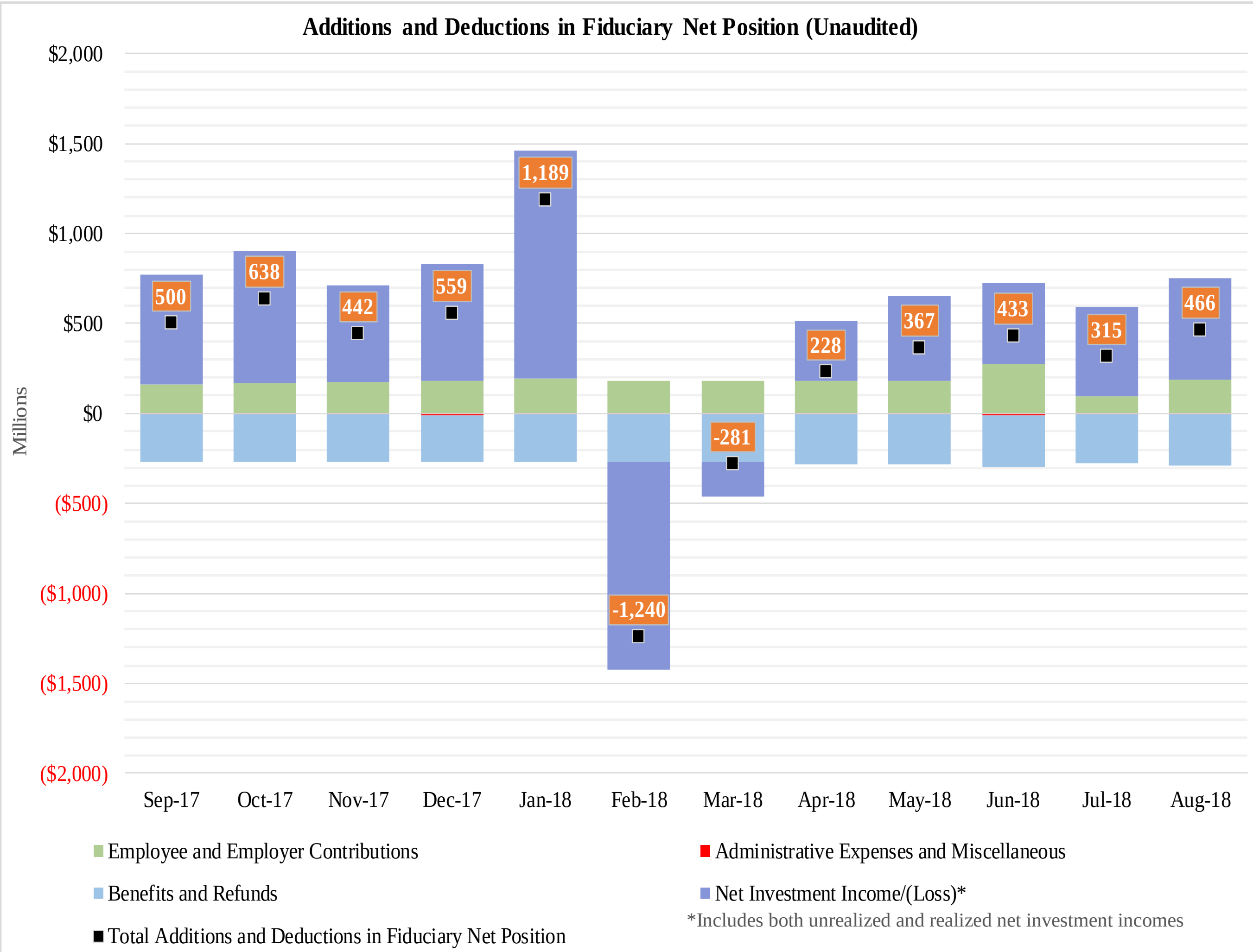
CASH FLOWS, CASH BALANCES, AND FIDUCIARY NET POSITION[2]

As illustrated in Chart 1 below, included to provide detail on the sources of monthly transactional flows, the Plan's Fiduciary Net Position increased by $466 million during the month of August. Over the last twelve months, the Plan's net position has increased by $3.6 billion.

[1] For months that coincide with calendar quarter end, the Total Fund value is calculated using the custodian's quarter-end market values for all asset classes. For inter-quarter periods, the Total Fund value is calculated using the custodian's month-end market value for all asset classes except for private equity and real estate. Private equity and real estate market values are calculated by adjusting the preceding quarter-end market value for subsequent cash flows.

[2] LACERA's fiduciary net position is an unaudited snapshot of account balances as of the preceding month end and reflects assets available for future payments to retirees and their beneficiaries, including investment fund assets, as well as any liabilities owed as of the report date. The Plan's net position is inclusive of both investment and operational net assets, while the Total Fund's position includes investment net assets only.

Chart 1: Additions and Deductions in Fiduciary Net Position (Unaudited)



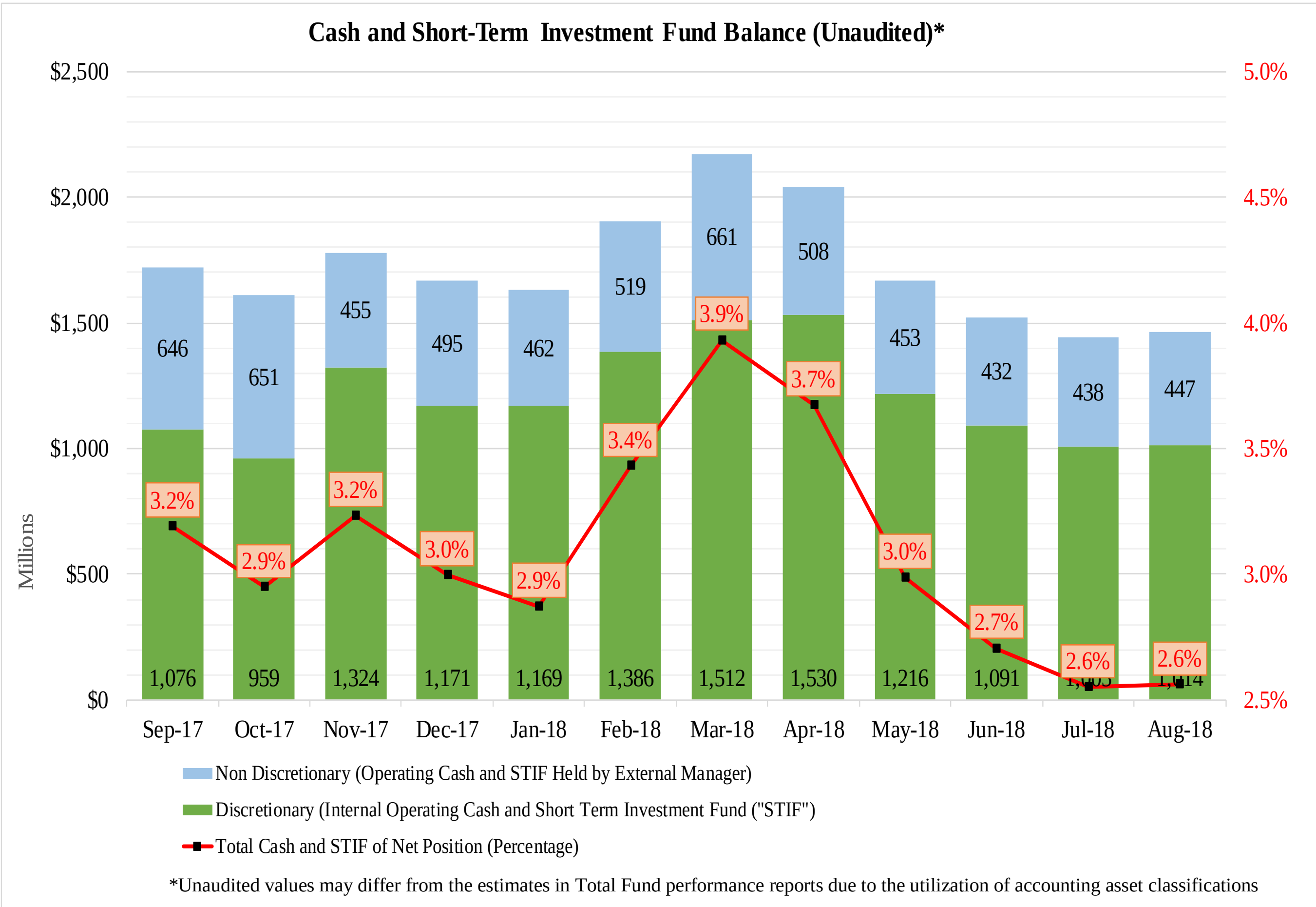
With respect to cash, LACERA finished the month of August with approximately $1.0 billion in the Fund's primary operating account, as reported by the master custodian and identified as "cash" on various Total Fund reports. There was additional cash held in internal accounts dedicated to asset categories with frequent cash flows as well as cash held by select external managers. As illustrated in Chart 2 below, LACERA held a total of $1.0 billion of internal operating cash and short-term investments across all of its operating accounts and LACERA's external investment managers held a further $447 million in cash and short-term investments.

In total, LACERA held approximately $1.5 billion in cash and short-term investment funds at the end of August, which can be categorized as follows:

- Non-discretionary (operating cash and Short Term Investment Fund ("STIF") balances held by external investment managers): $447 million
- Discretionary (internal operating cash and STIF balances accessible for the daily operating needs of the Plan): $1.0 billion

The Fund's total cash and short-term investment fund balance represented 2.6% of the Plan's unaudited net position, while its discretionary cash and short-term investment fund balance represented 1.8% of the Plan's unaudited net position.

<u>Chart 2: Cash and Short-Term Investment Fund Balance (Unaudited)</u>



The following table (Table 1) provides a summary of cash flows at the asset category level. For the month of August, the Total Fund had net investment inflows totaling $83.6 million.

<u>Table 1: Asset Category Cash Flows</u>

Asset Category and Activity	$ in Millions	Cash Impact
<u>Private Equity</u>		
Distributions	$142.0	Inflow
Capital calls	<u>-$74.9</u>	<u>Outflow</u>
Private Equity	*$67.1*	*Net Inflow*
<u>Public Equity: U.S.</u>		
Distributions	$8.1	Inflow

Contributions	-$5.0	Outflow
U.S. Equity	*$3.1*	*Net Inflow*
Public Equity: Non-U.S.		
Distributions	$0.0	n/m
Contributions	$0.0	n/m
Currency hedge	$71.0	Inflow
Non-U.S. Equity	*$71.0*	*Net Inflow*
Fixed Income		
Distributions	$0.0	
Contributions	$0.0	n/m
Fixed Income	*$0.0*	*n/m*
Commodities		
No activity	$0.0	n/m
Commodities	*$0.0*	*n/m*
Hedge Funds		
Distributions	$5.0	Inflow
Contributions	-$25.0	Outflow
Hedge Funds	*-$20.0*	*Net Outflow*
Real Estate		
Separate account net activity	-$20.8	Outflow
Commingled fund net activity	-$16.8	Outflow
Real Estate	*-$37.6*	*Net Outflow*

The Public Equity asset class realized a $71.0 million cash inflow from the Non-U.S. Equity currency-hedging program. LACERA's Non-U.S. Equity Investment Policy requires that the developed markets Non-U.S. Equity allocation, currently $9.5 billion, maintain a passive currency hedge overlay on 50% of its investment value. Note that when the currency overlay program sustains a loss due to a depreciating U.S. dollar, underlying Non-U.S. equity values should be positively impacted. Conversely, in an appreciating U.S. dollar environment, the currency-hedging program will have a gain, while underlying Non-U.S. equity values should be negatively impacted. Due to currency market movements in the previous three months, the currency hedges maturing in early August realized a gain and $71.0 million was transferred to cash from LACERA's passive currency overlay account. The hedged Non-U.S. Equity portfolio lost -1.8% net of fees, or approximately -$174.5 million during the month. A change in currency valuation is one of many variables that influences returns for a hedged Non-U.S. Equity portfolio. Cash flow from the currency-hedging program and the related equity portfolio can both deliver positive or negative results in a given period due to the staggered rolling of multiple futures contracts across three months.

ACTIVE SEARCHES

This section is intended to keep the Board of Investments apprised of active investment-related searches that include Requests for Proposal (RFP), Information (RFI), and Quote (RFQ). At this time, there are six searches currently underway.

The first is a targeted search requesting information from select investment management firms that have an offering in the relative value hedge fund category. Staff is scheduled to make a recommendation at the October Board meeting.

The second is a targeted search requesting information from select investment management firms that have an offering in the hedged equity hedge fund category. Responses have been received and are being reviewed.

The third is a targeted search requesting information from select investment management firms that have an offering in the macro or tactical trading hedge fund category. Responses have been received and are being reviewed.

The fourth is a targeted search for passive exposure to Treasury Inflation Protected Securities (TIPS) through a separate account. The targeted search was issued in August 2018 and responses were received in September 2018.

The fifth search is an RFP issued for a liquid real assets completion portfolio manager. The Board has approved minimum qualifications for this search and the RFP was released in August 2018. Responses for this mandate are expected in October 2018.

The sixth search is an RFP issued for specialized consultant services in hedge funds, illiquid credit and real assets. The Board has approved minimum qualifications for this search and the RFP was released in August 2018. Responses for this mandate were received in September 2018.

UPDATES

This section provides a brief synopsis of recent developments, near-term work priorities and upcoming projects.

<u>Total Fund</u>

- Staff, in conjunction with Meketa and the Legal Office, is working on updating the Total Fund Investment Policy Statement to reflect the new strategic asset allocation.

- An asset allocation implementation plan and glide path are under development.
- A program to utilize MBA interns within the Investment Division is in development and anticipated to be finalized with schools' career centers in September.
- Staff is working with State Street to re-onboard the custodial bank relationship. Internal processes are being reevaluated with and between different LACERA divisions.
- A procurement procedure for investment-related searches is in development.
- Staff is working with the Accounting Division to prepare LACERA's annual financial report for FYE 2018.

Growth

- Public Equity
  - Staff has begun the process of moving assets from public market commingled strategies to separate account structures. The Domestic Equity portion of this transition was completed in August with the international potion of the transition scheduled to begin in Q4.
  - Staff is in legal negotiations with the Public Equity Emerging Managers that were approved at the August BOI Meeting.

- Private Equity
  - A personnel search has been launched for an Investment Officer to focus on venture capital fund investments.
  - LACERA recently sold its interest in the Resolute II Fund on the secondary market. A summary of the transaction is included in Attachment 4.
  - Staff and JPMorgan are working on finalizing the business plan and legal documents for the next tranche of the Emerging Manager Program.
  - Staff will review the co-investment program structure in the second half of 2018 and provide results to the Equity Committee and BOI by the end of the calendar year.

Credit

- Staff is developing a structure review to realign sub-strategy weights with targets and resize current liquid managers.

Real Assets and Inflation Hedges

- Real Estate
  - Staff is developing an implementation plan for the transfers approved by the Board in September.
  - Staff is underwriting several potential commingled fund opportunities.

- Natural Resources, Infrastructure and Commodities
  - Staff is preparing to transition the commodities exposure to the new functional asset allocation framework.

Risk Reducing and Mitigating

- Fixed Income
  - Subject to Board approval, staff anticipates launching an RFP for an Emerging Manager in the fourth quarter.
  - Consistent with the goal of reducing credit risk attributable to out-of-benchmark sectors, staff anticipates recommending changes to manager allocations in the fourth quarter.
  - A personnel search is underway for a Investment Officer position.

- Hedge Funds
  - A direct portfolio is being built with individual manager recommendations occurring throughout 2018.

Portfolio Analytics

- Assessment of public markets managers' ESG practices continues to be refined, with takeaways integrated into LACERA's public market manager searches and monitoring.
- A personnel search is in process for a Financial Analyst II.
- Staff is working on enhancing the risk and return attribution reporting at the Total Fund level.
- LACERA has received its 2017 PRI Annual Assessment, which demonstrates broad improvements across reporting modules. The report will be discussed at the October Corporate Governance Committee.
- Staff is developing a multifaceted score card for public market managers. The scorecard will be discussed with the Board in the fourth quarter.

OPEB

- Transition to the updated asset allocation was completed.

COMPLIANCE MONITOR

Evaluating the Fund's investment portfolios against established policies and guidelines is an integral part of the ongoing portfolio management process and is commonly referred to as compliance. The Fund's portfolio is implemented in a nuanced way across multiple asset categories, so LACERA utilizes a multi-faceted approach to evaluate compliance. A summary of compliance activities across the Total Fund identifying advisory notifications where appropriate is provided on a calendar quarter basis. Compliance categories include allocation target weights, portfolio policies such as the use of leverage, and guidelines for various items such as types of permissible holdings. The next report is scheduled to be provided as part of the September CIO Report.

INVESTMENT MANAGER MEETINGS

The purpose of this section is to promote transparency and governance best practices through the timely listing of manager meeting requests that the staff and/or consultant(s) receive from either the Chief Executive Officer (CEO) or a member of the Board of Investments.

In the normal course of business, the CEO or a Board member might recommend that staff meet with a specific manager; there might even be a subsequent discussion regarding a specific manager. If a third communication about the manager takes place within a rolling one-year period, LACERA's Investment Policy Statement directs that the full Board be notified of the requests. This process is designed to preserve the integrity of the decision-making process. Such contact would be reported in this section.

There are no contacts to report this month.

SEPTEMBER FORECAST

U.S. equities, as measured by the S&P 500, reached new all-time highs again in September, as economic reports were mostly positive. The U.S. imposed $200 billion worth of tariffs on Chinese goods, but this activity did not appear to surprise market participants or cause broad market volatility. The Federal Reserve acted consistent with expectations and raised the federal funds rate a quarter point to a range of 2.00% to 2.25%. This was the third time the Fed increased rates in 2018. Fed communication included an expectation of one additional rate hike in 2018 and at least three hikes in 2019. Additionally, the Fed removed language saying that “the stance of monetary policy remains accommodative” from its statement. The U.S. Bureau of Economic Analysis released data that core inflation in the U.S. remained at the Federal Reserve’s target of 2% in August.

As of publication of this report, during the month of September, the S&P 500 stock index was up 0.5% while the Bloomberg Barclays Global Aggregate bond index was down by -0.7%. The Total Fund will likely have a flat to slightly positive month.

Attachments

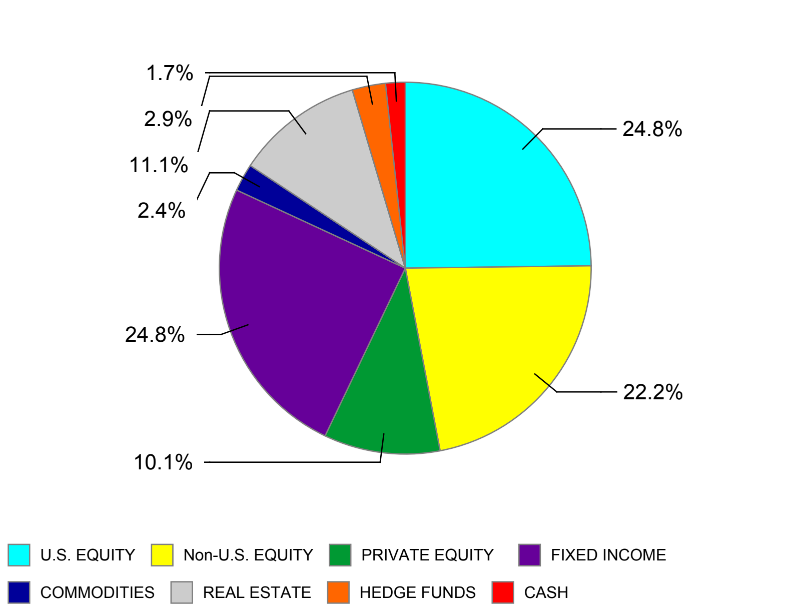
Attachment 1

LACERA'S ***ESTIMATED*** TOTAL FUND

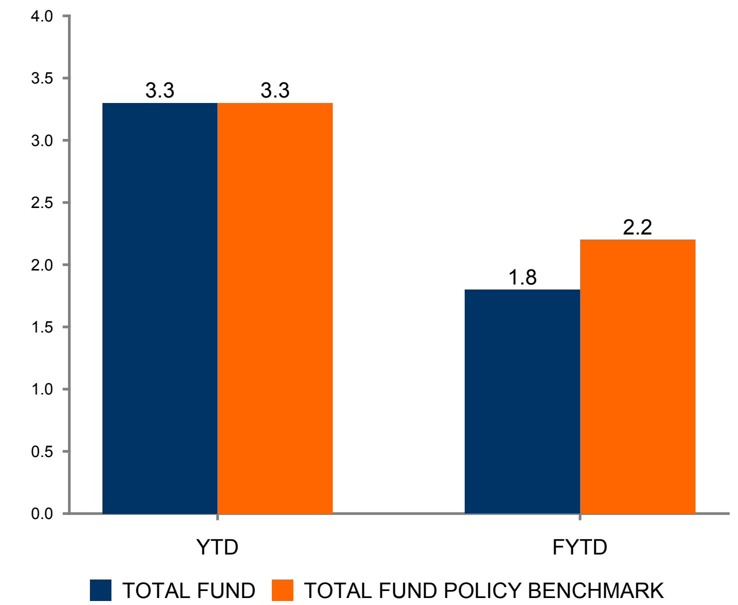
August 31, 2018

	Market Value (millions)	Actual % Total Fund	Target % Total Fund	TOTAL RETURNS (NET) YTD	FYTD	3 Year	5 Year	10 Year
U.S. EQUITY	**14,054.2**	**24.8**	**23.1**	**9.9**	**6.8**	**15.4**	**14.0**	**10.8**
RUSSELL 3000 (DAILY)				10.4	6.9	15.9	14.3	10.9
Non-U.S. EQUITY (Hedged)	**12,610.4**	**22.2**	**20.3**	**-1.9**	**0.2**	**9.5**	**7.7**	**4.8**
CUSTOM MSCI ACWI IMI N 50%H				-2.1	0.4	8.9	7.2	4.6
PRIVATE EQUITY [1]	**5,758.3**	**10.1**	**10.0**	**9.8**	**0.0**			
PRIVATE EQUITY TARGET [2]				9.5	2.3			
FIXED INCOME	**14,100.5**	**24.8**	**26.6**	**-0.2**	**0.8**	**3.4**	**3.5**	**5.3**
FI CUSTOM INDEX				-1.0	0.7	2.3	2.8	4.1
REAL ESTATE [1]	**6,273.7**	**11.1**	**11.0**	**4.2**	**0.0**			
REAL ESTATE TARGET				5.4	1.3			
COMMODITIES	**1,361.7**	**2.4**	**2.8**	**-2.8**	**-3.5**	**-0.0**	**-6.7**	**-6.1**
Bloomberg Commodity Index Total Return				-3.9	-3.9	-1.9	-8.0	-7.6
HEDGE FUNDS [3]	**1,634.1**	**2.9**	**4.2**	**2.8**	**0.2**	**2.9**	**3.9**	
HEDGE FUND CUSTOM INDEX [3]				4.4	1.1	5.7	5.4	
CASH	**950.3**	**1.7**	**2.0**	**1.3**	**0.4**	**1.1**	**0.7**	**0.8**
FTSE 6 M Treasury Bill Index				1.1	0.3	0.8	0.5	0.4
TOTAL FUND [1]	**56,743.2**	**100.0**	**100.0**	**3.3**	**1.8**			
TOTAL FUND POLICY BENCHMARK				3.3	2.2			

Asset Allocation



Net Returns



[1] Returns for private equity and real estate are calculated on a quarterly basis and are not updated intra quarter. Therefore, 3-, 5- and 10-year returns are only calculated at quarter-end for private equity and real estate. In addition, the Total Fund's returns are based on the latest available quarterly returns for these two asset classes.

[2] Rolling ten-year return of the Russell 3000 plus 500 basis points (one-quarter lag).

[3] One-month lag. Performance included in the Total Fund beginning 10/31/11

These are preliminary returns *Periods greater than 1-year are annualized*

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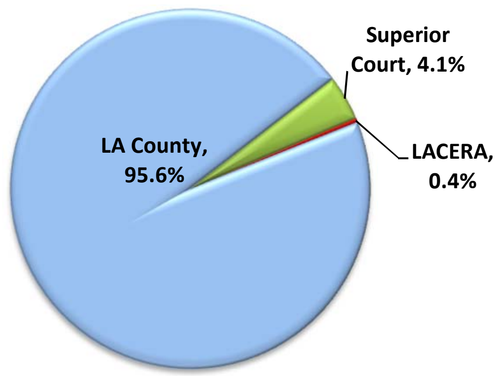
OPEB MASTER TRUST

August 31, 2018

Fund Name		Inception Date	Market Value (millions)	Trust Ownership	Month	3 Month	FYTD	1 Year	3 Year	5 Year	Since Incept.
Los Angeles County:	Gross	Feb-2013	$918.8	95.6%	0.67	2.42	2.18	9.81	10.32	6.81	6.12
	Net				0.66	2.40	2.16	9.76	10.27	6.77	6.08
	Net All				0.65	2.39	2.15	9.72	10.23	6.72	6.03
LACERA:	Gross	Feb-2013	$3.5	0.4%	0.67	2.41	2.18	9.86	10.38	6.85	6.15
	Net				0.66	2.39	2.16	9.81	10.33	6.80	6.11
	Net All				0.63	2.32	2.11	9.26	9.63	6.38	5.72
Superior Court:	Gross	Jul-2016	$39.0	4.1%	0.67	2.37	2.13	9.77	---	---	10.82
	Net				0.66	2.35	2.12	9.71	---	---	10.78
	Net All				0.65	2.32	2.09	9.56	---	---	9.98
TRUST OWNERSHIP TOTAL:			**$961.3**	**100.0%**							

Trust Ownership



Fund Name		Inception Date	Market Value (millions)	Trust Ownership	Month	3 Month	FYTD	1 Year	3 Year	5 Year	Since Incept.
OPEB Growth	Gross	Jul-2016	$474.7	49.4%	0.95	3.16	3.76	12.13	---	---	16.04
	Net				0.94	3.15	3.76	12.09	---	---	16.00
OPEB Credit	Gross	Jul-2018	$190.0	19.8%	-0.63	---	0.27	---	---	---	0.27
	Net				-0.66	---	0.20	---	---	---	0.20
OPEB Risk Reduction & Mitigation	Gross	Jul-2016	$101.2	10.5%	0.44	0.93	0.61	2.12	---	---	1.55
	Net				0.44	0.92	0.61	2.08	---	---	1.51
OPEB Inflation Hedges	Gross	Jul-2018	$195.4	20.3%	1.38	---	1.10	---	---	---	1.10
	Net				1.37	---	1.09	---	---	---	1.09
Uninvested Cash			$0.1	0.0%	---	---	---	---	---	---	---
TRUST OWNERSHIP TOTAL:			**$961.3**	**100.0%**							

These are preliminary returns

Periods greater than 1-year are annulized

Allocation		Inception Date	Market Value (millions)	Allocation %	Month	3 Month	FYTD	1 Year	3 Year	5 Year	Since Incept.
OPEB Global Equity:	Gross	Mar-2014	$474.7	49.4%	0.95	3.16	3.76	12.13	12.40	---	8.11
	Net				0.94	3.15	3.76	12.09	12.36	---	8.07
Benchmark: MSCI ACWI IMI Net					0.92	3.09	3.71	11.80	12.01	---	7.74
Excess Return (Net - Benchmark)					*0.03*	*0.06*	*0.04*	*0.29*	*0.34*	---	*0.34*
OPEB BTC High Yield Bonds:	Gross	Jul-2018	$57.8	6.0%	0.76	---	1.86	---	---	---	1.86
	Net				0.76	---	1.84	---	---	---	1.84
Benchmark: BC High Yield Index					0.74	---	1.84	---	---	---	1.84
Excess Return (Net - Benchmark)					*0.02*	---	*0.01*	---	---	---	*0.01*
OPEB BTC EM Debt LC:	Gross	Jul-2018	$36.1	3.8%	-6.21	---	-4.45	---	---	---	-4.45
	Net				-6.22	---	-4.47	---	---	---	-4.47
Benchmark: JPM GBI-EM Global Diversified Index					-6.09	---	-4.31	---	---	---	-4.31
Excess Return (Net - Benchmark)					*-0.13*	---	*-0.16*	---	---	---	*-0.16*
OPEB BTC Inv. Grade Bonds:	Gross	Jul-2018	$77.6	8.1%	0.65	---	0.68	---	---	---	0.68
	Net				0.65	---	0.68	---	---	---	0.68
Benchmark: BBG BARC US Aggregate Index					0.64	---	0.67	---	---	---	0.67
Excess Return (Net - Benchmark)					*0.00*	---	*0.02*	---	---	---	*0.02*
OPEB BTC TIPS:	Gross	Jul-2018	$57.9	6.0%	0.74	---	0.26	---	---	---	0.26
	Net				0.73	---	0.26	---	---	---	0.26
Benchmark: BBG US TIPS Index					0.72	---	0.24	---	---	---	0.24
Excess Return (Net - Benchmark)					*0.01*	---	*0.03*	---	---	---	*0.03*
OPEB BTC REITs:	Gross	Jul-2018	$100.7	10.5%	2.98	---	3.55	---	---	---	3.55
	Net				2.98	---	3.54	---	---	---	3.54
Benchmark: DJ US Select Real Estate Sec Index					2.98	---	3.54	---	---	---	3.54
Excess Return (Net - Benchmark)					*0.00*	---	*0.00*	---	---	---	*0.00*
OPEB BTC Commodities:	Gross	Jul-2018	$36.8	3.8%	-1.82	---	-3.86	---	---	---	-3.86
	Net				-1.83	---	-3.88	---	---	---	-3.88
Benchmark: Bloomberg Commodity Index (Total Return)					-1.77	---	-3.87	---	---	---	-3.87
Excess Return (Net - Benchmark)					*-0.06*	---	*-0.01*	---	---	---	*-0.01*
OPEB BTC Bank Loans:	Gross	Jul-2018	$96.0	10.0%	0.80	---	1.19	---	---	---	1.19
	Net				0.74	---	1.08	---	---	---	1.08
Benchmark: S&P/LSTA Leveraged Loan Index					0.40	---	1.14	---	---	---	1.14
Excess Return (Net - Benchmark)					*0.34*	---	*-0.06*	---	---	---	*-0.06*
OPEB Enhanced Cash:	Gross	Feb-2013	$23.6	2.5%	0.20	0.88	0.80	2.07	1.34	0.95	0.89
	Net				0.20	0.87	0.80	2.02	1.29	0.89	0.83
Benchmark: Citigroup 6 M T-Bill Index					0.18	0.50	0.35	1.53	0.82	0.52	0.48
Excess Return (Net - Benchmark)					*0.02*	*0.38*	*0.45*	*0.54*	*0.52*	*0.43*	*0.35*

ATTACHMENT 3

PUBLIC INVESTMENT-RELATED SEARCHES APPLICANTS

This document identifies firms who have pro-actively submitted an application to LACERA in response to a publicly posted request. These publicly posted requests are commonly referred to as searches and may include minimum qualifications. When an external firm submits an application to a search, LACERA is in a quiet period with the applying firm while the search is active.

The following firms have responded to a targeted request for proposal regarding a passive exposure mandate to Treasury Inflation Protected Securities (TIPS) through a separate account:

BlackRock Capital Investment Corporation
Fidelity Institutional Asset Management
Northern Trust Investments, Inc.
State Street Global Advisors Trust Company

The following firms have responded to a request for proposal regarding specialized consultant services in hedge funds, illiquid credit and real assets:

Albourne America LLC
StepStone Group LP
Cliffwater LLC
Cambridge Associates
Aksia LLC
Hamilton Lane
Wilshire Private Markets
TorreyCove Capital Partners
Portfolio Advisors LLC
Pension Consulting Alliance
Meketa Investment Group

JG: cq

LACERA

September 27, 2018

TO: Christopher J. Wagner CJW
Principal Investment Officer

FROM: David Simpson DES
Investment Officer

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: **SECONDARY SALE**

This memorandum summarizes the recent sale of a secondary interest in the Resolute II private equity fund.

Summary of Transaction
Fund Name: The Resolute Fund II, L.P.
Fund Type: Buyout
Vintage Year: 2007
Commitment Amount: $60,000,000
Unfunded Commitment Amount: $5,855,918
Net Asset Value as of 12/31/17: $26,738,352
Price Paid: $26,738,352
Date of Transfer: 12/31/2018

CJW:mm

September 28, 2018

TO: Each Member
Board of Investments

FROM: Credit and Risk Mitigation Committee
Jude Pèrez, Principal Investment Officer

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: **CASH OVERLAY MANAGER SEARCH MINIMUM QUALIFICATIONS AND SCOPE OF WORK**

RECOMMENDATION

Approve the proposed Minimum Qualifications ("MQs") and Scope of Work ("SOW") thereby authorizing staff to initiate the Request for Proposal ("RFP") process for a cash overlay manager search.

BACKGROUND

On September 12, 2018, the Credit and Risk Mitigation Committee ("Committee") unanimously approved the MQs and SOW for a cash overlay RFP. The recommendation is intended to facilitate a cash overlay program that may help LACERA achieve policy objectives more effectively through maintaining asset allocation targets, enhancing rebalancing practices and reducing cash drag.

Attachment 1 is the memorandum that staff presented to the Committee as well as the memo from the Board's general consultant, Meketa, which is in support of the recommendation.

OPTIONS AVAILABLE TO THE BOARD

The Board may wish to approve, modify, or reject the recommendation.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

Committee members asked questions about the following topics on September 12:

- Will all of LACERA's available cash be exposed through the overlay program
  - Only the cash above the target allocation of 1-percent, per the strategic asset allocation, will be considered as part of the cash overlay program.

- Counterparty Risk
  - Counterparty risk is the risk that the counterparty in an over the counter ("OTC") transaction defaults. OTC swap exposure is not necessary for a

disciplined cash securitization and rebalancing program as exchanged index futures are the primary securities used. Post the Great Financial Crisis, regulations such as Dodd/Frank have led to centrally cleared swaps. These instruments continue to trade over the counter, but function much like a futures contract. Specifically, swaps clear through a central exchange, which mitigates risk by aggregating the credit risk exposure of each counterparty. However, LACERA would use exchanged index futures due to their high liquidity, minimal counterparty risk, transparency, and capital efficiency.

- Purchasing on margin
    - LACERA will seek to minimize leverage in the management of the overlay program. Futures positions are fully collateralized by cash or cash equivalent exposures from a total Fund perspective.

      While margin in some cases can be regarded as a form of leverage, the overlay program is not generally regarded as a levered strategy to the extent that positions are managed to align with underlying collateral. That is, all of the exposure gained through an overlay program will be 100% collateralized with cash.

RISKS OF ACTION AND INACTION

If the Board approves the recommendation, staff will release an RFP to conduct a search for a cash overlay manager for consideration by the Board at a later date.

If the Board does not approve the recommendation, this will result in no changes to the current cash management practices.

CONCLUSION

The Committee approved the proposed MQs and SOW thereby recommending that the Board authorize staff to initiate an RFP for a cash overlay manager search. A cash overlay program is designed to reduce cash drag, increase efficiency, hedge currency[1] exposures, and assist in rebalancing. Staff would report findings and conclusions, and possibly a recommendation, to the Board for consideration.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

[1] While LACERA currently utilizes a currency hedging program, this RFP will evaluate consolidating those services with the cash overlay program.

Attachment

August 30, 2018

TO: Each Member
Credit and Risk Mitigation Committee

FROM: Jude Pérez
Principal Investment Officer

FOR: September 12, 2018 Credit and Risk Mitigation Committee

SUBJECT: **CASH OVERLAY MANAGER SEARCH MINIMUM QUALIFICATIONS AND SCOPE OF WORK**

RECOMMENDATION

Approve the proposed Minimum Qualifications ("MQs") and Scope of Work ("SOW") thereby authorizing staff to initiate the Request for Proposal ("RFP") process for a cash overlay manager search.

BACKGROUND

As previewed at the July 9, 2018 Board of Investments ("BOI") offsite, staff proposed the utilization of a cash overlay program. Such a program is designed to reduce cash drag, increase efficiency, hedge currency[1] exposures, and assist in rebalancing.

MANDATE DESCRIPTION

It is common for institutions such as LACERA to set an asset allocation target for cash at 1% or smaller, since cash is expected to generate lower returns than other asset classes over the long term. In order to make benefit payments, pay operating expenses and meet illiquid capital calls, however, it is necessary to maintain a sufficient cash balance. Over time, cash causes a return-based "drag" on performance. Also, the transaction costs and market exposure gaps from rebalancing through physically held securities may cause further performance headwinds. These costs may be minimized, and liquidity and efficiency may be increased, by using liquid index futures to maintain portfolio exposures and reduce the number of physical security transactions.

A cash overlay program is a comprehensive solution intended to help investors achieve their policy objectives more effectively through adherence to detailed investment guidelines. A well-designed overlay program may mitigate risk, such as allocation drift, and have investment objectives that include:

- Best execution and exposure management cost reduction
- Increased expected portfolio returns, liquidity, and flexibility

[1] While LACERA currently utilizes a currency hedging program, this RFP will evaluate consolidating those services with the cash overlay program.

- Enhanced risk control during monitoring and fund exposure
- Reduced tracking errors to the policy benchmark

A cash overlay program may allow LACERA to remain fully invested while retaining all the benefits of "on demand" liquidity. By expanding the investment toolkit and utilizing a cash overlay program, LACERA may better balance liquidity management with more efficiency.

SCOPE OF WORK

1. Securitization
   - Provide cash securitization to allow full market exposure to LACERA's policy benchmark while maintaining cash balances by securitizing it through futures in order to reduce cash drag on the portfolio.

2. Portfolio Rebalancing
   - Have the ability to provide flexible and cost-effective portfolio rebalancing solutions.

3. Currency Management[2]
   - Have the ability to provide currency hedging.

4. Transition Management
   - Have the ability to provide transition management services with the objective to prevent assets from being unexposed to specific market segments during the movement of capital in an effort to reduce cash drag and improve tracking error to the policy benchmark.

5. Customized Exposure
   - Have the ability to provide LACERA the expertise and facility to implement unique exposure needs across the portfolio on a capital and cost efficient manner.

MINIMUM QUALIFICATIONS

1. Must be a SEC-registered investment advisor or exempt from registration. If exempt, must explain the nature of this exemption.

2. Must submit entire Form ADV, including Part 1 and Part 2 brochures and relevant Schedules.

3. Must have at least five (5) defined benefit pension plan clients, of which three (3) are public pension plans each with total plan assets of at least $10 billion as of September 30, 2018.

4. Must have at least $2 billion in total notional assets under management.

[2] While LACERA currently utilizes a currency hedging program, this RFP will evaluate consolidating those services with the cash overlay program.

5. The organization must have at least a seven-year (7) performance track record as of September 30, 2018 for the proposed overlay services to institutional investors.

6. The organization must conform to Global Investment Performance Standards for performance reporting.

PROPOSED TIMELINE

The proposed RFP timeline (**Table 1)** seeks to ensure a thorough and thoughtful process that efficiently enables LACERA to engage market-leading cash overlay managers.

Table 1 Proposed RFP Timeline

Phase	Steps	Actions	Firms in Process (Est.)	Timing	Status
I	**RFP Design and Launch**	- Codify and gain Board approval of Minimum Qualifications, Evaluation Criteria, and Scope of Work - Publish the RFP document	N/A	Sep-Oct/18	In process
II	**RFP Evaluation**	– Staff to review and rank RFP responses, select semi-finalists	3-8	Nov/18	Not started
III	**Semi-Finalist Evaluation**	– Staff to conduct in-person interviews, complete reference calls	3-4	Dec/18	Not started
IV	**Finalist Recommendations**	- Staff presents to the Board a review of the RFP process and finalist selections - Finalists present to the BOI - BOI selects manager	1-2	Jan-Feb/19	Not started

CONCLUSION

Staff anticipates the proposed MQs and SOW for the cash overlay manager search will attract qualified candidates. Therefore, with the Boards approval of the MQs, staff will issue an RFP for a cash overlay manager.

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

JP:cq

MEMORANDUM

To: LACERA Board of Investments

From: Stephen McCourt, Leandro Festino, Tim Filla
Meketa Investment Group

Date: September 4, 2018

Re: Cash Overlay Manager Search Minimum Qualifications and Scope of Work

Meketa Investment Group is in agreement with staff's recommendation to conduct a search for a cash overlay manager, as well as the proposed Minimum Qualifications ("MQs") and scope of work ("SoW).

Cash overlay programs were addressed by staff at the Board of Investment's most recent retreat in July, 2018. Typically, these programs are designed to reduce cash drag and increase efficiency, and may be expanded to hedge currency exposures and assist in rebalancing. These four objectives are appropriate for LACERA and are the ones staff recommends, and we consent.

It should be noted, however, that these potential benefits come with risks, as all investments present trade-offs. While the benefits, described in detail in staff's memo, outweigh the risks, it is appropriate for the Board to be aware of the key risks encountered in cash overlay programs, most notably the risk of cash outperforming a variety of market returns. Typically, during a downturn cash holds up its value, but most risk assets suffer losses. By using futures to obtain market exposures, the cash position would be subject to market volatility, and losses. In addition, another risk is margin/liquidity calls. Future positions that move against an investor result in calls for additional capital or in closing positions at a loss. This situation could happen at a time when the overall Pension Fund is also declining in value.

In conclusion, we agree with Staff recommendation to initiate a search for a cash overlay manager. We would be pleased to elaborate on this recommendation at the upcoming Board meeting in September, and assist both staff and the Board during the coming months in matters related to this search. In the meantime, if you have any questions or would like additional information, please call us at (760) 795-3450.

LF/srt

M E K E T A   I N V E S T M E N T   G R O U P
5796 ARMADA DRIVE SUITE 110   CARLSBAD CA 92008
760 795 3450   fax 760 795 3445   www.meketagroup.com

September 25, 2018

TO: Each Member
Board of Investments

FROM: Credit and Risk Mitigation Committee
James Rice, CFA
Principal Investment Officer

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: **2019 HEDGE FUNDS ANNUAL INVESTMENT PLAN AND OBJECTIVE, POLICIES, AND PROCEDURES RECOMMENDATION**

RECOMMENDATION

1. Approve the 2019 Hedge Funds Annual Investment Plan.
2. Approve the Hedge Funds Objectives, Policies, and Procedures.

BACKGROUND

On September 12, 2018, staff presented proposed changes to the Hedge Funds Annual Investment Plan ("AIP") and proposed changes to the Hedge Funds Objectives, Policies, and Procedures ("OPP") to the Credit and Risk Mitigation Committee. The Committee voted to advance these items to the Board of Investments for approval.

The following documents enclosed are the cover memo to the Committee (**Attachment**), the AIP (**Attachment 1**) and the OPP (**Attachment 2**). Both a redline version with changes from last year and a clean version are attached for the AIP and OPP.

OPTIONS AVAILABLE TO THE BOARD

In the OPP and AIP, the documents have been updated generally to propose the following changes to reflect new policies and actions already approved by the Board:

- The removal of the Credit Hedge Fund of Funds portfolios from the Program. Credit Hedge Fund of Funds will be re-categorized under a new sub-category called Illiquid Credit within a new asset category called Credit.
- Updating the Program's benchmark to be in line with the General Consultant's capital market assumptions which were approved at the September 2018 Board of Investments meeting. The proposed primary benchmark of the Diversified Hedge Fund Program is an annualized return of 250 basis points greater than an index of 3-month United States

Treasury bills ("T-bills")[1].

- An updated capital allocation plan regarding building the direct hedge funds portfolio, and eventually moving allocations from the diversified hedge fund of funds to direct hedge funds.
- Consideration of adjustments to the mandates over time of the two diversified hedge fund of fund managers, Grosvenor Capital Management and Goldman Sachs Asset Management, possibly to an emerging manager mandate and/or more targeted hedge fund strategies.
- Consideration of the outstanding search for a hedge fund Consultant.

If the Board does not approve the proposed changes, staff will consult with the Committee and propose an alternative Plan or OPP.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

Some of the opinions expressed by Committee members during its deliberation and staff's response include the following:

There was a question about the current credit hedge fund of funds and how those would be managed with the new separate Credit allocation and whether the diversified hedge funds portfolio would include any credit. Staff responded that the hedge fund team would continue to oversee the credit hedge fund of funds even though they would be part of the Credit strategy category. The Diversified Hedge Fund Program will still contain credit strategies that often include a hedged component but the portfolio will not include as much longer-locked credit strategies which have been the main component of the credit hedge fund of funds.

There were additional questions about the process for potentially transitioning the existing fund of funds mandates to one that includes an emerging manager mandate or a more targeted mandate such as for a particular geographic region. Staff responded that once the desired 4% allocation is reached, it will reduce the allocation from the fund of funds mandates to move into the direct portfolio. This is expected by the end of the third quarter of calendar year 2019. Staff will explore the capabilities of LACERA's fund of funds managers to determine if they would be suitable for an emerging manager mandate or a more targeted mandate. Staff will review this status with the Committee around the end of 3Q 2019 to make any necessary recommendations.

If an existing fund of funds manager could appropriately manage an emerging manager mandate, staff would not directly manage an emerging manager portfolio, and an RFP process to select the fund of funds manager would not be used. Staff indicated that leveraging an existing fund of funds relationship may be a more efficient way to carry out the Board's desired mandate.

---

[1] This benchmark has been 500 basis points greater than an index of 3-month United States Treasury bills ("T-bills") since the inception of the program.

RISKS OF ACTION AND INACTION

If the Board approves the revisions, the Investment Plan will continue the direction already approved in prior Investment Plans. The OPP will reflect additional policies and actions already approved by the Board. An additional change includes the evolution of the existing fund of funds portfolios to pursue an emerging manager mandate or more targeted investment strategy. If approved, these changes to the fund of funds mandates may result in more concentration risk by pursuing a more targeted strategy or more operational risk if LACERA pursues an emerging manager strategy.

If these items are not approved, the fund of funds will continue in their existing current strategy. If the Investment Plan is not approved, staff will not be able to implement the existing plan to migrate the hedge funds portfolio to one centered on a direct hedge fund portfolio rather than fund of funds. Not approving this could result in higher fees for the hedge fund program because the fund of funds program includes a second layer of fees which do not accrue in the direct hedge fund portfolio. Also, if not approved, there is a risk of maintaining an overly diversified portfolio in the current structure, as LACERA has more hedge fund manager relationships than are necessary to achieve a diversified portfolio.

CONCLUSION

Staff has proposed changes to the Hedge Funds Annual Investment Plan and the Hedge Funds Objectives, Policies, and Procedures, generally to reflect already approved policies and actions and to evolve the role of the fund of funds portfolios. The Credit and Risk Mitigation Committee reviewed and advanced these documents to the Board for approval at its September 2018 meeting.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

JR:ct:mm

August 31, 2018

TO: Each Member
Credit and Risk Mitigation Committee

FROM: James Rice, CFA
Principal Investment Officer

FOR: September 12, 2018 Credit and Risk Mitigation Committee

SUBJECT: **2019 HEDGE FUNDS ANNUAL INVESTMENT PLAN AND THE OBJECTIVE, POLICIES, AND PROCEDURES**

RECOMMENDATION

1. Advance the 2019 Hedge Funds Annual Investment Plan to the Board of Investments for approval.
2. Advance the 2019 Hedge Funds Objectives, Policies, and Procedures to the Board of Investments for approval.

BACKGROUND

LACERA's Hedge Funds Program ("Program") is governed by LACERA's Investment Policy Statement ("IPS") and two documents: The Hedge Funds Annual Investment Plan ("HFAIP") (**Attachment 1**) and the Hedge Funds Objectives, Policies, and Procedures ("OPP") (**Attachment 2**). Both a redline version with changes from last year and a clean version are attached for each document.

The OPP defines the Program's objectives and its high level parameters, stipulates the detailed policies that govern the Program, establishes the Program's risk management practices, spells out the procedures to be followed, and delineates the responsibilities of the various parties involved.

The HFAIP describes and guides capital planning for investments over the next few years, including direct hedge fund investments. Both the OPP and HFAIP address the Program broadly, but have an emphasis on the addition of a direct portfolio as this component is undergoing the most change.

DISCUSSION

In the HFAIP, the capital investment for 2019 is approximately $985 million to be invested in direct hedge funds. This will bring the Program to 4% of the Total Fund by 4Q 2019, in line with LACERA's asset allocation policy approved in May 2018. There will also be a reduction in allocation to the diversified hedge fund of funds portfolio in 4Q 2019 by $250 million, the amount to be invested into the direct portfolio during that same quarter.

There is an effort underway to streamline and standardize the LACERA level Investment Policy Statement with a separate Procedures document that could include the various OPP's for the private market asset classes. The OPP and HFAIP documents under consideration today have not been modified to reflect any changes in Fund level policies and procedures documents given the time frame these documents are required for approval and the early stage of the LACERA level efforts.

In the OPP and AIP, the documents have been updated to propose the following notable changes:

- The removal of the Credit Hedge Fund of Funds portfolios from the Program. Credit Hedge Fund of Funds will be re-categorized under a new sub-category called Illiquid Credit within a new asset category called Credit.
- Subject to the Board of Investments' approval at the September 12th meeting, updating the Program's benchmark to be in line with the General Consultant's capital market assumptions. The proposed primary benchmark of the Diversified Hedge Fund Program is an annualized return of 250 basis points greater than an index of 3-month United States Treasury bills ("T-bills")[1].
- An updated capital allocation plan regarding building the direct hedge funds portfolio, and eventually moving allocations from the diversified hedge fund of funds to direct hedge funds.
- Consideration of adjustments to the mandates over time of the two diversified hedge fund of fund managers, Grosvenor Capital Management and Goldman Sachs Asset Management, possibly to an emerging manager mandate and/or more targeted hedge fund strategies.
- Consideration of the outstanding search for a hedge fund Consultant.

Elsewhere, in both documents, figures have been updated to reflect current values and a number of phrasing changes are proposed that intend to clarify the language in the documents. The proposed language changes are not intended to materially alter the way the Program is governed.

CONCLUSION

Staff has modified the OPP and the HFAIP, the two documents that will govern the Hedge Fund Program and recommends the Committee advance both of these to the Board for approval.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

JR:jr:mm

[1] This benchmark has been 500 basis points greater than an index of 3-month United States Treasury bills ("T-bills") since the inception of the program.

ATTACHMENT 1

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

HEDGE FUNDS

~~2018~~2019 Hedge Funds Annual Investment Plan

~~November 2, 2017~~

September 12, 2018

TABLE OF CONTENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
HEDGE FUNDS ANNUAL INVESTMENT PLAN

INTRODUCTION

The ~~2018~~2019 Hedge Funds Annual Investment Plan (“HFAIP”) will guide hedge fund investment activities of the Los Angeles County Employees Retirement Association (the “Fund” or “Total Fund”) during the ~~2018~~2019 calendar year. It outlines the near term efforts towards meeting the long term objectives identified within LACERA’s Hedge Funds Objectives, Policies, and Procedures ("OPP").

The Fund is currently invested in diversified fund of funds~~ and~~, credit fund of funds~~.~~, and direct hedge funds. As of June 30, ~~2017~~2018, approximately 2.~~7~~2% of the assets of the Total Fund are allocated to ~~hedge~~ Diversified Hedge Fund Investments. These are comprised of diversified fund of funds and direct hedge funds, which ~~is~~are below the ~~3.~~4% ~~target allocation.~~ new policy allocation to Diversified Hedge Funds in the asset category Risk Mitigating and Inflation Hedges adopted by the Board in 2018. The interim target allocation to ~~the~~Diversified Hedge Funds ~~Investment Program~~Investments is proposed to be 3% as of 2Q19 and increases ~~in a stepped manner~~ to ~~5~~4% at the end of ~~2018. This HFAIP and the OPP will guide LACERA’s investment in a direct hedge fund portfolio to reach the 5% target over~~2019. Separately, LACERA has 0.7% of the Total Fund invested in Credit Hedge Fund of Funds which are now part of the ~~next calendar year. Much of this document addresses this plan to reach the 5%~~Credit allocation ~~target~~and no longer part of this Investment Plan.

This HFAIP and the OPP will guide LACERA’s investment in a direct hedge fund portfolio to reach the 4% target for Diversified Hedge Funds over the next calendar year. Much of this document addresses this plan to reach the 4% allocation target. This document sets forth a capital plan for LACERA’s Diversified Hedge Funds ~~Investment Program~~Investments (the “Program,” “Hedge Funds,” or “Hedge Funds Program”). Additional details on the Program are broadly outlined in LACERA’s Investment Policy Statement (“IPS”) and further detailed in the OPP, which provides the blueprint that guides the structure and administration of the Program and its underlying portfolios. The OPP also delineates the responsibilities of the Board of Investments (the "Board"), LACERA staff~~ (“Staff”),~~, the Hedge Funds Advisor(s) ("HFA"), the hedge funds portfolio administrator(s~~),~~) (“Administrator”), LACERA’s custodian~~,~~ (“Custodian”), and LACERA’s general consultant~~.~~ (“General Consultant”).

SECTION I – PROGRAM OBJECTIVES

1. Introduction

   The Board has determined that, over the long term, inclusion of diversified hedge fund investments will enhance the risk/return characteristics of the Total Fund. ~~The~~As established in the Investment Policy Statement (“IPS”), the Hedge Funds~~ Investment~~ Program has an objective to reduce the volatility of the Fund without materially decreasing Fund returns. Primarily, the Hedge Funds Program enhances the diversification of the Total Fund portfolio. This objective is achieved through investing in targeted strategies that have low to moderate correlation with public global equity returns, and have historically exhibited moderate return volatility. Hedge funds have historically had greater volatility than fixed income markets while having less than half the volatility of public global equity markets.

2. Role of Hedge Funds in the Total Fund

The IPS states that the Program objective–to reduce Fund volatility without materially decreasing Fund returns–should be measured and evaluated by the Sharpe ratio[1]. The Program is expected to improve the Sharpe ratio of the Total Fund. ~~-~~Even modest improvements in the Sharpe ratio benefit the Fund's ability to compound returns over the long run.

Investment decisions regarding the Program's primary objective of reducing volatility while maintaining returns are guided by the following separate objectives: (i) generating returns that exceed a target annualized return of ~~500~~250 basis points[2] greater than an index of 3-month United States Treasury bills ("T-bills"), (ii) achieving realized volatility of ~~5~~3-8% as measured by the annualized standard deviation of monthly returns, and (iii) maintaining a Program beta[3] of 0.25 or lower to public global equity markets as measured by the Morgan Stanley Capital International ("MSCI") All Country World Index.

3. Hedge Funds Asset Allocation

~~The~~

In May 2018, the Board established a long-term target allocation to ~~the~~diversified Hedge Funds ~~Program~~of 4%. This allocation is part of a newly-created Risk Reduction and Mitigation asset category that also includes investment grade fixed income and cash. Previously the asset allocation target for all hedge funds, including credit hedge funds of funds was 5% of the Total Fund asset value. ~~This 5% target allocation was established by the Board in October 2015. Since Program inception in 2011, the Board has approved several~~

Additionally, the new May 2018 policy re-categorized credit hedge fund of funds strategies, previously categorized under the Hedge Funds Program, to a new sub-category called Illiquid Credit within a new asset category named Credit. The credit hedge fund of funds portfolios ~~that are~~ comprised 0.7% of the Total Fund as of June 30, 2018. The new policy allocation to Illiquid Credit is 3%. The allocation to Illiquid Credit includes other investments apart from Credit hedge fund of funds and will be managed by ~~external fund of funds managers.~~ the Credit team and will continue to be

[1] Sharpe ratio is a measure of the excess return of the program over cash divided by program volatility as measured by standard deviation of returns.

[2] Subject to Board Approval. Benchmark review scheduled for September 12, 2018 BOI Meeting.

[3] Portfolio equity beta is a measurement of a portfolio's volatility relative to equity market returns. A portfolio with a beta of 1.0 has the same volatility as the equity market. Mathematically, historical beta can be viewed as the slope of the regression line of portfolio returns against market returns. The Morgan Stanley Capital International All Country World Index is used as the global equity market reference against which to measure equity beta realized by the Program.

overseen by the Credit and Risk Mitigation Committee (formerly Fixed Income/Hedge Funds Commodities Committee).

This Plan excludes any future investments in Illiquid Credit Hedge Funds as they will be overseen via a separate allocation process managed by the Credit team which looks at Credit Hedge Funds relative to all illiquid credit opportunities. Any reference to the Diversified Hedge Funds Investments (the "Program," "Hedge Funds," or "Hedge Funds Program") herein will exclude credit hedge fund of funds investments. As of June 30, ~~2017~~2018, the actual Hedge Funds Program allocation is 2.~~7% of the Total Fund~~[4]~~. Additionally, there remained $6 million of unfunded~~[5]~~ commitments to Hedge Funds that are expected to be funded in 3Q 2017. This unfunded commitment represents 0.01~~2% of the Total Fund~~ asset value.~~

[6]. As the actual allocation is currently below the long-term target allocation, which is planned to be reached in Q4 ~~2018,~~2019, an interim target ~~allocations~~allocation for Diversified Hedge Fund Investments is being recommended at the September BOI meeting to be 3.0% at the beginning of 2Q19. The Diversified Hedge Funds ~~have been developed and approved by the Board as part of the implementation plan for the 2015 Total Fund asset allocation~~ policy~~. This implementation plan has the Hedge Funds~~ allocation ~~increasing incrementally at the end of each year~~is planned to change in the following quarters as shown in **Table~~-~~ 1** ~~on the next page.~~below.

~~TABLE~~Table 1
Target Hedge Funds Allocation by Quarter

Calendar Quarter	Target Diversified Hedge Funds Allocation
Current	~~3.4~~2.2%
~~Q4 2017~~Q2 2019	~~4.2~~3.0%
Q4 ~~2018~~2019	~~5~~4.0%

The Total Fund asset allocation policy in the IPS limits the actual Hedge Funds allocation to a range around the target allocation whereby the minimum allocation is the lower of ~~3~~0% or 4% less than target, and the maximum allocation is 2% greater than the target~~ allocation. ~~. Thus, at the ~~current~~proposed 3~~.4~~% target allocation, the hedge funds allocation range is 0~~.4~~% to 5~~.4%. ~~%. At the final ~~5.0~~4% target allocation, the allocation range will be ~~2.~~0% to ~~7.0%.~~6%.

[4]~~Based on a $1.4 billion asset value of the Program and $52.5 billion Total Fund asset value.~~
[5]~~Capital committed by LACERA but not yet invested by the HFoF manager.~~
[6]$1.23 billion asset value of Hedge Funds and $56.0 billion Total Fund asset value.

4. Program Benchmark Return

~~To evaluate the performance of the Program,~~

A recommendation to the Board of Investments is being made at the September 2018 meeting which, consistent with the General Consultant's capital market assumptions, would make the primary Diversified Hedge Fund Program benchmark ~~is the~~an annualized return of 250 basis points greater than an index of 3-month United States Treasury ~~Bills plus 5% per annum,~~bills ("T-bills")[7]. The benchmark is used to evaluate the performance of the Program over three to seven years. When measuring realized returns against this objective, the returns are net of all fees charged by underlying hedge funds and any fund of funds managers.

Program returns are also measured against a universe of similar hedge fund strategies, as provided by a reliable third party source such as Hedge Fund Research, Inc. ("HFR"). By measuring performance over three to seven years, the Program's performance relative to a fund universe can be considered. **Table 2** identifies benchmarks for each portfolio type within the Program. A description for each portfolio ~~type~~ follows in Section 5 of this HFAIP.

~~TABLE~~Table 2
Fund Benchmarks by Type

Portfolio Type	Primary Benchmark	Secondary Benchmark
Diversified Hedge Fund of Funds	3 month T-bills plus ~~500~~250 bps annualized[8]	HFRX Global Index[9]
~~Credit Hedge Fund of Funds~~		~~HFRX Fixed Income–Credit Index[10]~~
Direct Hedge Funds~~[11]~~		~~HFRX Global Index~~
Total Diversified Hedge Funds Portfolio		~~HFRX Global Index~~

5. Investment Structure

The Fund currently invests in two diversified portfolio types in the Program (~~diversified~~ hedge fund of funds and ~~credit hedge fund of funds), and will be adding a third portfolio type (~~direct hedge funds).

[7] This benchmark has been 500 basis points greater than an index of 3-month United States Treasury bills ("T-bills") since the inception of the program.
[8] Subject to BOI approval.
[9] The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted. *Source: Hedge Fund Research, Inc.*
~~[10] The HFRX Fixed Income–Credit Index includes strategies with exposure to credit across a broad continuum of credit sub-strategies, including corporate, sovereign, distressed, convertible, asset backed, capital structure arbitrage, multi-strategy and other relative value and event driven sub-strategies. *Source: Hedge Fund Research, Inc.*~~
~~[11] Direct hedge funds portfolio is yet to be invested. See Section III.1 Capital Planning.~~

The Fund currently deploys capital to two Hedge Fund of Fund ("HFoF") managers ~~to invest in the two existing portfolio types. The first manager,~~ Grosvenor Capital Management ("~~Grosvenor"), runs~~ GCM") and Goldman Sachs Asset Management ("GSAM"). GCM and GSAM each run a diversified HFoF portfolio ~~and~~ for the Program.

GCM also runs two credit HFoF portfolios~~. The second manager, Goldman Sachs Asset Management ("GSAM"), runs a diversified HFoF portfolio.~~ which, as previously mentioned, are categorized under the Illiquid Credit sub-category in the Credit asset category.

As the Program implementation moves forward, direct hedge fund investments ~~will be~~are used for the advantages they provide to the Fund, namely that they are not subject to the additional layer of fees paid to fund of funds managers, they facilitate direct relationships with hedge fund managers, and they allow the Fund to have greater control over its Program.

In addition to their existing fiduciary role in investing the fund of funds portfolios, the HFoF managers have also agreed contractually to serve as HFAs, acting as a fiduciary, to support LACERA investing directly in hedge funds. ~~The HFAs will provide these services as a fiduciary.~~ The roles and responsibilities of the HFA are further described in the OPP. LACERA issued a Request for Proposal for a Consultant(s) in the Hedge Funds, Credit and Real Assets categories. When and if LACERA selects a separate Hedge Fund Consultant, the Consultant will act as an HFA.

Hedge Fund Program Portfolio Types

1. Diversified Hedge Fund of Funds: HFoF portfolio managed by an external HFoF manager who invests across ~~major~~ hedge fund strategies. HFoF managers have discretion to construct portfolios consistent with the Hedge Fund section of LACERA's Investment Policy Statement and any individual portfolio guidelines. Each HFoF manager identifies, selects, and monitors these investment strategies as part of a diversified portfolio.[12]

~~2. Credit Hedge Fund of Funds: HFoF portfolio managed by an external HFoF manager that invests primarily in credit strategies. These strategies typically are oriented to longer-term investments and require capital lock-up periods of one to five years, generally longer than those in the Diversified HFoF. These investments are held in limited-life vehicles whereby substantially all of the capital is expected to be returned within the limited life of the vehicle.~~

~~3.~~2. Direct Hedge Funds: ~~Portfolio~~ Diversified portfolio of hedge funds invested across ~~major~~ hedge fund strategies, with LACERA selecting the ~~hedge funds.~~

[12]The Fund's contractual relationship with Goldman Sachs Asset Management regarding the diversified HFoF portfolio is through a discretionary investment management agreement rather than a fund agreement in part because those underlying funds are held directly in the Fund's name.

managers and strategies. LACERA retains discretion to construct and maintain a portfolio consistent with the Program policies including the OPP and this HFAIP. As additional resources, the HFAs provide independent due diligence and technical assistance to LACERA in support of areas including market research, ~~manager~~investment due diligence, operational due diligence, portfolio construction, and risk aggregation.

SECTION II – FUTURE INVESTMENT ACTIVITY

~~6.~~1. Hedge Funds Investment Pacing

The Program value and allocation as a percentage of the Total Fund are expected to increase over the coming quarters due to ~~changes in two portfolios. The first Credit HFoF portfolio is expected to return nearly all~~continued build out of ~~its remaining $193 million (as of June 30, 2017) in capital in 2017 and in early 2018 as its five-year scheduled life comes to an end.~~the direct portfolio. LACERA ~~will begin~~began investing capital in a direct portfolio in ~~2017.~~ 2018.

While these changes will result in an increase in the expected allocation to 3.0% of the Total Fund at ~~year end 2017~~the beginning of Q2 2019, this is below the 4.~~2~~0% target hedge fund allocation at year end ~~2017~~2019 shown in **Table 1**.

LACERA has a target to reach a ~~5~~4.0% diversified hedge fund allocation by ~~year-end 2018.~~ the beginning of Q4 2019. **Table 3** summarizes expected quarterly investment pacing of the Program over the ~~2018~~2019 calendar year.
~~**TABLE**~~
While this section describes a pacing model for the continued implementation of the direct hedge fund portfolio, other considerations for the Hedge Fund program priorities may also affect or delay the timing of this plan. These include the selection and implementation of a new Hedge Fund Consultant, implementation of a separately managed account platform for hedge fund strategies, market conditions, and the implementation of an emerging manager program.

Table 3
~~EXPECTED INVESTMENT PACING~~

Investment Pacing – Direct Hedge Funds Portfolio

Calendar Time Period	~~Investment in Second Credit HFoF~~	~~Redemption from First Credit HFoF~~	Estimated Investment in Direct Hedge Funds Portfolio	Reduction in Diversified HFoF Portfolio	~~Expected~~Estimated Ending Value of Diversified Hedge Funds ($ millions)	% of Total Fund[13]
			~~Change in Investments ($ millions)~~			
3Q18~~3Q17~~			~~6~~$25	~~($78)~~	$1,~~371~~255	2.~~6~~2%
~~4Q17~~4Q18		~~($71)~~	$250		$1,~~550~~505	~~3.0~~2.7%
~~1Q18~~1Q19		~~($24)~~	$250		$1,~~776~~755	3.~~4~~1%
~~2Q18~~2Q19			$250		$2,~~026~~005	3.~~9~~6%
3Q19			$235		$2,240	4.0%
4Q19~~3Q18~~			$250	($250)	$2,~~276~~240	4.~~3~~0%
~~4Q18~~				~~($20)~~	~~$371~~	~~$2,627~~ ~~5.0%~~
Aggregate ~~2018~~2019			$985	($~~44~~250)	~~$1,121~~	

2. Future Investment Structure by Portfolio Type

Table 4 ~~on the next page~~ shows the current allocation to the portfolio types within LACERA's Hedge Funds Program and defines the allowable allocation range for the Program. With the planned pacing described in **Table 3**, the expected allocation to the ~~three~~two portfolio types at the end of calendar year ~~2017,~~ 2018 ~~and~~, 2019 and 2020 is also shown in **Table 4**.

The allocation to a direct portfolio is expected to move from ~~0%~~21% as of June 30, 2018 to ~~52~~68% of the Program by the end of calendar year ~~2018.~~ 2019. Diversified HFoFs are expected to decline from ~~64~~79% of the Program to ~~35% and credit HFoFs are expected to decline from 36% to 13% of the Program.~~ 32%. Allocations by portfolio type are expected to stay in the allowable allocation ranges during the next two years.

[13] Estimate based on June 30, ~~2017~~2018 Total Fund asset value, excluding any investment return from Hedge Funds and Total Fund subsequent to June 30, ~~2017~~2018.

Table 4
~~LACERA HEDGE FUND CURRENT AND ALLOWABLE ALLOCATION BY PORTFOLIO TYPE~~

LACERA Hedge Fund Current And Allowable Allocations By Portfolio Type

Portfolio Type	Asset Value as of ~~June~~Jun 30, ~~2017~~ 2018 ($ millions)	Allocation % as of ~~June~~Jun 30, ~~2017~~2018	~~Expected Dec. 31, 2017 Allocation %~~	~~Expected~~ Estimated Dec~~.~~ 31, 2018 Allocation %	~~Expected~~ Estimated Dec~~.~~ 31, 2019 Allocation %	Allowable Allocation Range
Diversified Hedge Fund of Funds	~~919~~974	~~64~~79%		~~60~~65%	~~35~~32% ~~19%~~	~~15~~0-90%
~~Credit Hedge Fund of Funds~~	~~524~~	~~36%~~		~~24%~~	~~13%~~ ~~13%~~	~~10-45%~~
Direct Hedge Funds	~~0.0~~255	~~0~~21%		~~16~~35% ~~52%~~	68%	0-~~75~~100%
Total Program	**$1,~~443~~229**	**100%**		**100%**	**100%**	~~**100%**~~

~~3. Note: If $6 million in unfunded commitments to the credit HFoF was funded and added to the existing Program, the credit HFoF would be 37% of the total Hedge Funds Program and the diversified HFoF would be 63% of the Program, as of June 30, 2017.~~

~~7.~~3. Investment Strategy Categories

LACERA's achievement of its Hedge Funds Program objectives requires an ability to adjust portfolio allocations across various hedge fund strategy categories since each may respond differently to prevailing market environments. ~~–~~The Program-level investment category constraints (shown in **Table 5)** limit strategy category exposures in order to promote diversification across strategy categories while also being flexible enough to allow for tactical shifts in and out of strategies based on their relative attractiveness and the market environment.

The constraints for each of the six investment strategy categories (defined and discussed below) are measured on a look-through basis.[14] ~~Additionally, individual~~Individual fund of fund portfolios have investment guidelines that are consistent with or more limiting than these Program-level constraints.

Definitions for the categories generally draw from the index definitions created by HFR. HFR's definitions of the first four categories in the table are objective and follow predetermined rules which place all eligible hedge funds in their Global Index into one of these four categories. However, solely using these four definitions ~~are~~can be limiting to broad portfolio construction, and LACERA has broadened the strategy categories to include Hedged Credit and Multi-Strategy. While the six categories are commonly used, they do not represent an exhaustive list that covers all possible hedge fund investments. The Program may invest in some funds that are not well ~~categorized~~ described by one of these ~~strategies~~strategy definitions if they otherwise meet ~~the other~~broad objectives and constraints established for the Program.

Additionally, LACERA may consider investing in "hedge fund premia" or replication-type strategies that seek to obtain systematic exposures to investment themes used by hedge funds ~~or market exposures~~, but at a lower cost. These strategies are expected to fall within the six strategy categories ~~shown~~identified below.

Table 5
~~TOTAL PROGRAM~~ Diversified Hedge Funds
Investment Allocation Constraints
by Strategy Category

	Strategy Constraint	Current Look-Through Allocation	Target Allocation of Direct Portfolio	Estimated Overall Allocation at year end ~~2018~~2019
Event Driven (excluding Credit)	Maximum 40%	~~7~~12%	7.5%	~~8~~11%
Relative Value	Maximum 60%	~~13~~12%	15%	15%
Hedged Equity ~~Hedge~~	Maximum 40%	~~16~~20%	15%	~~17~~20%
Macro ~~(Directional~~/Tactical~~)~~ Trading	Maximum 50%	~~18~~16%	15%	18%
Hedged Credit	Maximum 60%	~~42~~11%	7.5%	~~20~~10%
Multi-Strategy	Maximum 60%	429%	40%	~~23~~26%

[14]Look-through basis for the Hedge Funds Program is defined as the total strategy category allocation based on the underlying portfolios in the Program, viewed independently of their portfolio structure.

The table includes the target allocation for the direct portfolio when it is fully invested by year end ~~2018. Over the coming year the addition of the direct portfolio, and the ending of the first credit HFoF is expected to increase the percentage allocation to multi-strategy managers while reducing the allocation to credit managers.~~ 2019. The estimated strategy allocation at calendar year end ~~2018~~2019 is shown in the final column, with the assumption that the direct portfolio is invested at its target allocation at the end of ~~2018~~2019.

LACERA recognizes the opportunistic nature of investing in these strategies and will allow ~~Staff and the HFoF managers~~ latitude regarding the lower and upper limits of allocation constraints and targets. In the short term, as LACERA ~~builds~~sequentially ramps up its allocations in the direct portfolio to reach the ~~5~~4% Total Fund target allocation, some individual fund allocations may cause large changes in the strategy allocation weights in the direct portfolio. Thus, these strategy constraints might not be met during the ramp up phase.

4. Portfolio Guidelines and Risk Parameters

The Hedge Fund Program and direct portfolio guidelines and risk parameters set forth in the OPP, such as liquidity, will be maintained when the direct portfolio is constructed. Program-level compliance for the portfolio guidelines and risk parameters will be reported quarterly to the Board of Investments in a section of the quarterly performance book.

5. Geographic Allocation

LACERA does not currently categorize managers by geographic concentration, as there is not a stated objective to allocate capital by region. Managers are given flexibility to invest where they find opportunity based on where they have demonstrated ability to add value, regardless of whether the region includes the United States or not. A relatively small number of managers invest solely in markets outside the U.S. Some invest on a global basis and many invest solely or mostly in U.S. markets. Staff will monitor regional and country exposures on a look-through basis so that significant unintentional regional or country exposures ~~do not arise.~~ can be managed.

6. Manager Concentration

Allocation limits to individual investment management organizations or funds are set by guidelines for the hedge fund of funds managers. For the Direct Hedge Funds portfolio, investment in an individual fund is limited to 20% of the market value of the direct portfolio.

~~On a look-through basis, the Program currently does not have large exposures to any individual investment management organizations. LACERA currently has greater than 5% exposure to an investment management organization through its fund of funds. 6.0% of the Program is invested with Chenavari Credit Partners, LLP. The manager has two separate funds in which LACERA is invested. This organization is expected~~

~~to be below 5% of the Program value at the end of 2018, unless LACERA selects this firm to manage an investment in LACERA's direct hedge fund portfolio.~~

SECTION III – ~~2017~~2018 INVESTMENT ACTIVITY

1. Calendar year ~~2017~~2018 Investment Activity

~~In 2016,~~

LACERA ~~began investing~~ has invested $285 million in ~~its second credit~~three separate direct hedge ~~fund of~~ funds ~~vehicle, named San Gabriel 3. LACERA committed $300 million to this five-year fund vehicle~~through August 2018.This portfolio is described in ~~late 2015. As of June 2017, $294 million of~~ the ~~commitment has been funded~~regular quarterly Hedge Fund reporting and ~~$6 million remains unfunded.~~

~~Also~~new fund cash flows are included in ~~2016, San Gabriel 2, a credit hedge fund of funds vehicle with a vintage year in 2013, began returning capital. Through June 2017, San Gabriel 2 had returned $66.6 million~~the monthly CIO letter.

SECTION IV – NEAR TERM AND FUTURE PRIORITIES

1. Near Term and Future Priorities

This HFAIP and the OPP recommend a pace of investing that will result in ~~an allocation to reach~~reaching the ~~5~~4% target allocation by ~~end~~beginning of ~~calendar 2018.~~ Q4 2019. Much of the capital pacing in this HFAIP reflects ~~new~~ allocations to newly approved managers to ~~construct~~build up the direct hedge fund portfolio.

After the full ~~5~~4% strategic target allocation to Hedge Funds is reached (expected by Q4 ~~2018~~2019), allocations will be moved from diversified hedge fund of funds to direct hedge funds, so that each diversified hedge fund of funds portfolio will be reduced to an approximate net asset value of $250 million. $250 million was the initial amount allocated to each HFoF manager at their inception. Such an allocation is expected to maintain the level of services required to support their role as a Hedge Fund Advisor. Beyond ~~2018~~2019, approximately ~~20~~22% of the Program would be in diversified HFoFs after LACERA reaches its ~~5~~4% strategic allocation target and after the diversified HFoFs are brought down to $250 million each.[15]

Once each diversified HFoF portfolio is brought down to approximately $250 million, LACERA may re-evaluate the role of its HFoF managers ~~and HFAs in its Program.~~ . At that time, LACERA may consider alternative structures for the Program that eliminate one or both HFoF managers ~~and consider~~. LACERA is currently soliciting for the retention of ~~an~~a HFA that acts in a purely advisory capacity~~.~~— which provides flexibility to eliminate one or both diversified funds of funds structures entirely if desired.

~~Once~~

[15] Based on current total fund asset value of $~~52.5~~56 billion.

LACERA may also consider alternatives to the ~~full 5% allocation is reached~~current mandates for the fund of funds managers. For example, LACERA may wish to consider changing the mandates to be more targeted to a specific strategy, manager profile, or geographic region where a fund of funds manager may be better resourced than LACERA to accomplish.

In 2019, LACERA will also ~~consider its options~~explore strategies through Committee and Board discussions for constructing an emerging manager hedge fund portfolio. Such strategies may include converting all or a portion of an existing Diversified HFoF portfolio mandate to an Emerging Manager HFoF portfolio mandate or working with a new non-discretionary HFA to build a direct Hedge Fund Emerging Manager Program. This portfolio would follow ~~the~~new policies and objectives for emerging manager portfolios that already exist in LACERA's other asset ~~classes~~categories.

SECTION V – MARKET OUTLOOK

1. Market Outlook

The following pages describe the current outlook for hedge fund strategies from LACERA's hedge fund advisors, GSAM and ~~Grosvenor.~~ GCM. Neither HFA currently expresses a significant view towards or against any individual hedge fund strategy category. LACERA will generally invest in a balanced manner across the various strategies ~~with an emphasis on~~including multi-strategy managers who have the ability to invest tactically across strategies.

GSAM's current ~~view~~market outlook includes mainly neutral views across hedge funds with positive views for select sub strategies in ~~balanced hedged equities, volatility trading in~~ tactical trading, including trading ~~and select credit strategies in leveraged loans~~monetary policy, emerging ~~market credit~~markets and ~~private credit.~~ volatility. Their view is ~~most positive in multi-style macro strategies. Their view on directional equities, most~~neutral overall for event- driven strategies, ~~and developed markets sovereign debt and currencies in tactical trading are modestly less attractive.~~most segments of the credit markets, and equity long/short.

Grosvenor's market outlook and investment focus includes strategic allocations across all major strategy categories with volatility trading the most favorable. ~~Tactical allocations are currently made to opportunistic credit, specialized hedged equity in the financial, energy, healthcare, and biotechnology sectors, special situations in litigation finance, the energy sector, a bridge loan in an emerging market utility and commercial real estate mezzanine loan portfolios, and relative value volatility arbitrage strategies.~~Their views are mixed/neutral for equities and commodities/currency trading. Their views are mixed/unfavorable for credit and rates trading.

AIMS Hedge Funds and Public Equity

Strategy Views

Goldman Sachs Asset Management

AIMS One Year Forward Looking View [1]

	Less Attractive						More Attractive	Change From Prior Quarter
Equity Long / Short				●				↓
Directional			●					
Moderate				●				
Balanced					●			↓
Event Driven			●					↓
Soft Catalyst / Higher Beta			●					
Merger Arbitrage				●				
Hard Catalyst / Lower Beta			●					↓
Activism			●					
Tactical Trading				●				
Macro - G3 Multi-Asset			●					↓
Macro - G3 Fixed Income / FX			●					↓
Macro - Multi-Style						●		↑
Quant - Multi-Style				●				
Quant - Trend-bias				●				
Quant - Trend Following				●				
Commodities				●				
Volatility Trading					●			
Credit				●				
Municipal Debt				●				
Liquid Corporate – Investment Grade				●				
Liquid Corporate – High Yield				●				
Liquid Corporate – Leveraged Loans					●			
Structured / ABS				●				
Growth and Emerging Markets					●			
Spec Sits/ Distressed/ Opportunistic				●				
Private Lending					●			

Key Points

- **Equities:** We have a constructive view for equity long/short strategies, driven by a neutral outlook on the opportunity set for both alpha generation and equity beta. This leads us to prefer managers with more balanced net exposure over directional or moderate managers. Upgrade our view on long-only to neutral due to a more attractive view on international equities due to improved earnings growth and relatively cheap valuations.
- **Event Driven:** Maintain a cautious view for event driven strategies driven by reduced equity return expectations over the next 12-months on higher beta segments of the universe (soft catalyst and activist), coupled with lower expected returns for credit/distressed managers given historically tight spreads. We remain neutral on merge arbitrage given spreads remain near the historical average despite a meaningful tightening year-over-year.
- **Tactical Trading:** Maintain our constructive view for tactical trading strategies, expressed as an overweight to Multi-style and relative value volatility trading. This quarter we moved from neutral to negative for G3 Macro while we wait for concrete signs of a better opportunity set in the absence of consistent trends, low market volatility, and central bank intervention. An overweight to Multi-style macro has been driven by a constructive view on EM and more niche, idiosyncratic opportunities.
- **Credit:** Maintain our constructive view for credit strategies overall. Broad-based, public large-cap distressed corporate opportunities remain fleeting, given the sharp reversal in the leveraged credit markets; however, the large volume of CCC-rated debt issued post crisis, and the wave of pending CMBS refinancing likely portends opportunities ahead. Alternatively, private-market distressed strategies continue to show that pockets of potential, idiosyncratic opportunities remain in special situations investments. Further, as rates continue to rise, floating rate leveraged loans are enjoying technical tailwinds that will likely drive prices higher going forward.

[1] Source: AIMS. As of June 2017. Colors represent views by sector. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice.

Strategic and Tactical Investment Focus (August 2017)

Hedge Fund Strategies

Strategic allocation		Tactical allocation	
Credit	▪ Corporate and structured credit, including both long-biased and long/short approaches ▪ Investments that seek to exploit asset class dislocations and arbitrage pricing anomalies ▪ Stressed and distressed underlying securities ▪ Complex, idiosyncratic and event-driven investments	Opportunistic credit	▪ Opportunities related to the deleveraging of the European financial sector ▪ Emerging market stressed and distressed credit ▪ Energy sector-related opportunities in negotiated and distressed public credit ▪ Other structured credit and specialty finance strategies
Equity	▪ Globally-focused, hedged equity investments across regions and sectors ▪ Seek low correlation among funds through a mix of generalists and specialists that employ various styles and exposure biases ▪ Fundamental research-oriented approach ▪ Quantitative equity market neutral strategies	Specialized hedged equity	▪ Financial sector ▪ Energy sector ▪ Healthcare and biotechnology sectors
Relative value & multi-strategy	▪ Flexible mandates across strategies ▪ Niche strategy exposures (e.g., converts, capital structure arbitrage) ▪ Lower beta and correlation; less market dependence	Special situations	▪ Portfolio of litigation finance cases involving international commercial arbitration disputes ▪ Direct investments in post-restructured equities of U.S. energy E&P companies ▪ Senior, secured, short-term bridge loan and preferred equity stake in emerging market utility ▪ Tactical purchase of a seasoned portfolio of commercial real estate mezzanine loans from a liquidating hedge fund
Macro & commodities	▪ Low correlation; seek downside loss mitigation ▪ Highly liquid and flexible; diversified by style, asset class and instrument ▪ Includes emerging market macro strategies	Relative value	▪ Fixed income, FX, and equity volatility arbitrage

Our strategic allocations are implemented through core allocations to alternative credit and hedged equity strategies, complemented with allocations to diversifying and lesser correlated strategies.

Our portfolio construction is enhanced through focused tactical investments designed to capture niche and/or timely market opportunities.

All investments discussed herein are subject to certain risks and a summary of these risks are set forth in the disclosures following this presentation.

GCM GROSVENOR

Confidential : Mr. Jim Rice (08-SEP-2017

Market Factor Review and Outlook

3rd Quarter 2017

Factor / Outlook	Views
Economic factors Mixed	▪ Global real GDP growth is expected to be 2.7% and 2.9% in 2017 and 2018, respectively. U.S. real GDP growth estimates remain at 2.1% and 2.2% in 2017 and 2018[1] ▪ The U.S. Federal Reserve is expected to continue with tight monetary conditions after raising rates for the second time in 2017 ▪ With Macron's victory in the May French elections, investor attention in Europe now turns to the start of Brexit negotiations ▪ Ongoing concerns regarding RMB depreciation and slow growth in China and its impact on emerging markets and commodities ▪ Uncertainty surrounding healthcare reform and the implications on Trump's legislative agenda ▪ Heightened geopolitical and terrorism concerns ▪ Following two years of deep recessions, the World Bank still projects Brazil and Russia will see positive growth in 2017[1] ▪ The yen acted as a safe haven against turmoil on the Korean peninsula, holding onto most of its Q1 gains versus the USD
Credit Mixed/ Unfavorable	▪ Reflation theme present as CCC rated bonds in the HY index have generated greater total returns over last 18 months relative to AA rated bonds and above ▪ Corporate credit spreads in the U.S. and other developed markets remain at historically tight levels ▪ Concerns surrounding ECB tapering led to EUR bond underperformance ▪ Heightened interest rate sensitivity continues to persist in the HY market ▪ Global bond selloff deepened in Q2 as central banks hinted at ending accommodative money policies
Equities Mixed/ Neutral	▪ Global equities increased in Q2 2017 ▪ The Schiller P/E ratio continued to increase, closing Q2 at its highest level in the post-2008 era ▪ Emerging markets continued to rally in Q2; outlook is for wider-than-historical dispersion
Volatility Favorable	▪ FX and rates volatilities are expected to increase amid political and policy uncertainty ▪ Divergence in policies of global central banks may continue to increase volatility ▪ The VIX plunged below 10 in May and remains near historical lows
Rates Mixed /Neutral	▪ The ECB and the Bank of Japan have large-scale monetary easing policies in place ▪ The US Federal Reserve raised rates in June with a third hike widely expected for late 2017
Commodities/ currencies Mixed/ Unfavorable	▪ The U.S. Dollar depreciated against a basket of global currencies in Q2 2017, falling below pre-U.S. election levels ▪ Oil prices continued to decrease due to increased U.S. output ▪ We expect central bank policies to continue to influence currency trends

1 World Bank, Global Economic Prospects. June 2017.
Data sources: Bloomberg; Financial Times.
These views represent GCM Grosvenor's good-faith expectations concerning future opportunities and can not be viewed as indications of whether particular opportunities will occur. All investments discussed herein are subject to certain risks and a summary of these risks are set forth in the disclosures following this presentation.

GCM GROSVENOR

Confidential: Mr. Jim Rice 08-SEP-2017

Public Equities and Equity Long / Short Outlook

Rising stock correlations and EPS growth remain in focus

Goldman Sachs Asset Management

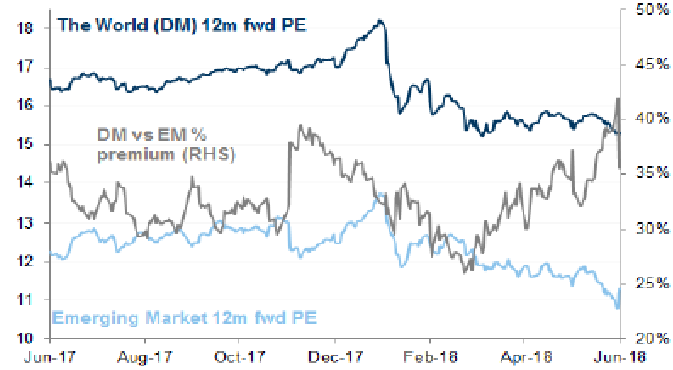
AIMS outlook

- Neutral outlook for equity long/short managers on both the alpha generation and equity beta opportunity; volatility and stock correlations have fallen back from high levels in Q1'18
- Prefer managers with more balanced net exposure and diversified, less-crowded alpha drivers, rather than directional managers in crowded hedge fund themes; when taking equity beta we favor high quality/secular growth biased exposure
- Neutral view on long-only equities driven by a more positive view on international equities due to improved earnings growth and relatively cheap valuations; more constructive on Emerging Markets equities

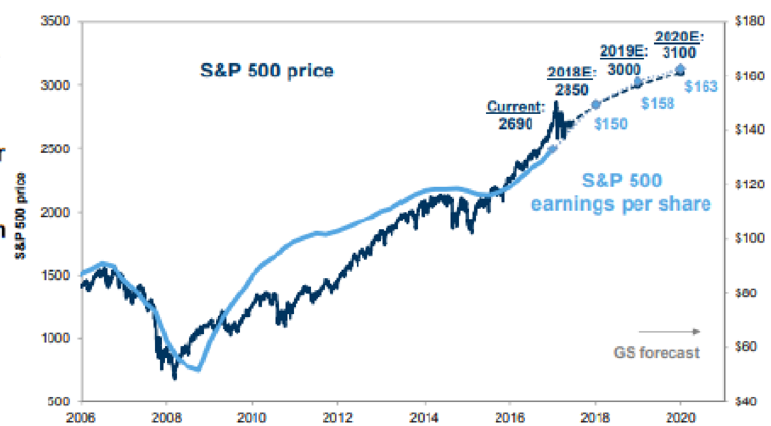
Top 5 potentially investable themes

1. **Rising rates potential tailwind for active management** – Improving opportunity set for shorting and a driver of higher stock price dispersion
2. **Positive signals outside of the US** – Cheaper valuations and constructive economic indicators provide a fruitful environment for stock picking
3. **Narrow valuation dispersion and modest economic growth in the US** – Could support further outperformance of growth
4. **Attractive entry point for MLPs** – Valuations and fundamentals remain supportive
5. **Potential long/short opportunities in therapeutics healthcare** – Supportive fundamental, regulatory, and capital market forces coupled with evolving research and technology

EM trading at higher than average discount to DM[1]



Earnings: S&P 500 earnings and index targets[1]



Source: AIMS Group, Morningstar Bloomberg, MSCI. As of June 2018. [1] Source: GIR. As of June 2018. For illustrative purposes only. Past correlations are not indicative of future correlations, which may vary. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Investors cannot invest directly in indices.

Event Driven & Credit Hedge Funds Outlook

Maintain neutral outlook for merger arb & multi-strategy

Goldman Sachs Asset Management

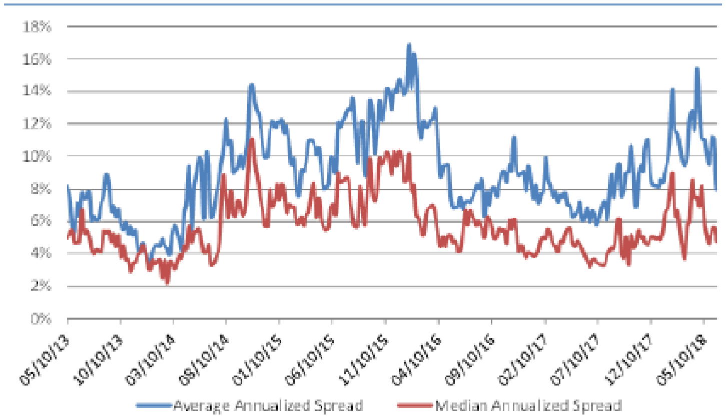
AIMS outlook

- Maintain overall neutral outlook for event driven strategies. Most notably, we have maintained our neutral outlook for merger arbitrage as spreads on vertical and media-related mergers have rallied, offsetting the perceived reduced regulatory risk
- We believe the current environment will favor managers with strong deal underwriting capabilities as we have observed a divergence in merger spreads between perceived safe deals and those with higher risk of regulatory intervention
- We maintain a neutral outlook for most segments of the credit market, focusing our investments on segments of the market offering correlation benefits (e.g., structured credit, insurance)

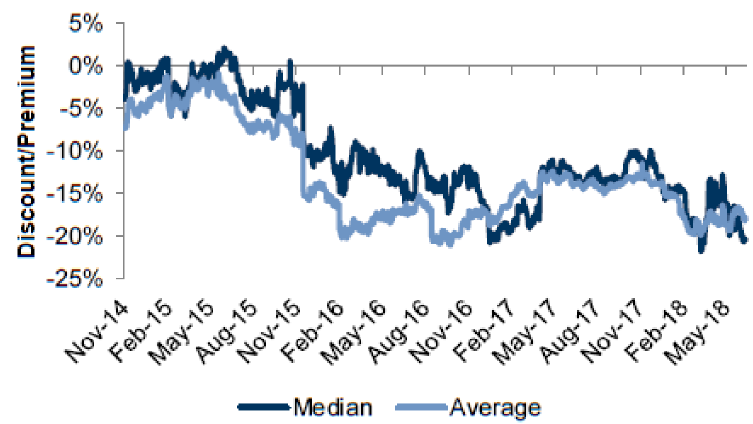
Top 5 potentially investable themes

1. **Event driven** – "Stub trades"[4] have the potential to offer idiosyncratic returns, with US tax reform serving as a catalyst for spread compression
2. **Distressed opportunities** – While the proportion of bonds and loans trading at stressed/distressed levels remains low, there are still select opportunities in retail, telecom and energy.
3. **Structured / ABS** – Asymmetric way to implement bearish retail view, specifically on Class B/C malls, via CMBX shorts
4. **Structured / RMBS** – The credit cycle for housing is much younger than for corporate credit, supporting the risk-adjusted opportunities in legacy non-agency RMBS and Agency CRTs
5. **Growth & emerging markets** – Relatively attractive carry and risk-adjusted return potential, particularly in select LatAm markets

Annualized merger arb spreads[1] remain modest but volatile[2]



Premium / Discount of HoldCos to Listed Subsidiaries[3]



Source: AIMS Group, Barclays, Bloomberg. As of June 2018. [1](0%- 50% annualized). [2] Source: Bloomberg, UBS Special Situations. As of June 15, 2018. [3] Source: Bloomberg. Includes 4-9 different commonly held stub trades. For illustrative purposes only. Past performance does not guarantee future results, which may vary. Past correlations are not indicative of future correlations, which may vary. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Investors cannot invest directly in indices. [4]Capturing the spread between the share price of listed holding companies and their listed subsidiaries.

Tactical Trading Outlook

Attractive opportunities to trade monetary policy, emerging markets and volatility

Goldman Sachs Asset Management

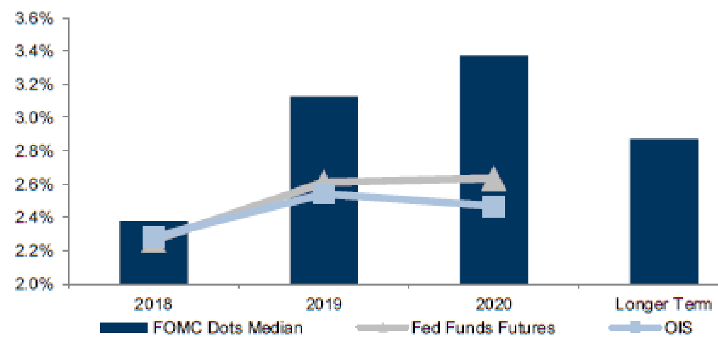
AIMS outlook

- Monetary policy normalization and higher volatility could present opportunities for tactical trading managers as rates rise and QE unwinds
- However, the gap between views and market pricing is now mostly further out on the curve, making potential exogenous shocks from trade and geopolitics more challenging to trade.
- Emerging markets offer long/short opportunities with managers still finding attractive niche areas. Valuations have improved but higher US rates, a stronger US dollar and upcoming elections could pose challenges.

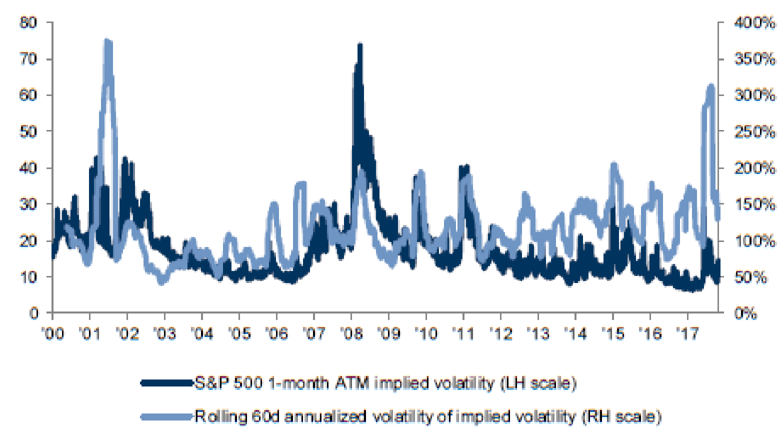
Top 5 potentially investable themes

1. **Fixed income** – changing supply and demand dynamics with relative progress of central bank tightening and transition may create opportunities for RV and directional trading
2. **EM** - managers are finding niche opportunities, as idiosyncratic events may be mispriced. Differing monetary policies and political cycles can create long/short opportunities.
3. **Volatility** – with implied and realized vol remaining close to historical lows, there may be opportunities for long-biased volatility trading and thoughtful tail risk managers
4. **US fiscal policy** – fiscal stimulus could have significant growth and monetary policy implications
5. **FX** – Central bank tightening may increase yield differentials and impact trade and flows, with opportunities in DM and EM

Markets are pricing fewer hikes than the Fed dot plot[1]



Volatility has picked up after hitting all-time lows in 2017[2]



Sources: AIMS Group, Morningstar Bloomberg, MSCI. As of June 2018 . [1]Source: Bloomberg. As of June 2018. [2]Sources: GSAM, Bloomberg. As of June 2018 For illustrative purposes only. Past correlations are not indicative of future correlations, which may vary. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Investors cannot invest directly in indices.

Market Factor Review and Outlook

3rd Quarter 2018 (1 of 2)

<table>
<tr><th>Factor / Outlook</th><th>Views</th></tr>
<tr><td>Economic factors
Mixed/Unfavorable</td><td>

While the global economic expansion is expected to continue through 2019, with global real GDP estimated to increase by 3.90% in both 2018 and 2019, there are mounting risks to the economic outlook. Economic growth has not only peaked across a number of major economies, but growth has also become more uneven among both developed and emerging market economies.[1]
The US Federal Reserve is expected to continue tightening monetary conditions after raising interest rates in June for the third time in as many quarters. The Fed's June dot plot indicated an expectation of two additional rate hikes in 2018, increasing its total number of projected interest rate hikes to four in 2018.
The Trump administration's threat to impose tariffs on $500 billion worth of Chinese imports raised fears of a prolonged trade war between the world's two largest economies.
Increased trade tensions risk undermining the global economy and devolving into a full-fledged currency war.
November's midterm Congressional elections and their potential impact on the US political landscape and Trump's legislative agenda.
With less than one year remaining until Brexit takes effect in March 2019, UK and EU officials continue to negotiate the terms of a withdrawal treaty. The prospect of a "soft Brexit" led to a number of high profile resignations from Theresa May's cabinet, including Foreign Secretary Boris Johnson and chief Brexit negotiator David Davis.
The Five Star Movement and League political parties in Italy are viewed as anti-Euro, and despite somewhat softened rhetoric regarding a potential Italian exit from the EU, risks in the region are elevated.
Concerns regarding elevated equity valuations and potential disruptions from ongoing reforms temper an otherwise positive outlook for India.
Easing tensions on the Korean peninsula and the Bank of Japan's commitment to its negative interest rate policy contributed to yen weakness.
</td></tr>
<tr><td>Credit
Mixed/Unfavorable</td><td>

While credit spreads have widened somewhat from Q1's historically tight levels, spreads remain reasonably tight and there have not yet been dislocations that create significant directional credit opportunities.
Treasury yields closed Q2 at their highest levels since 2011 as the unemployment rate reached its lowest level since 1999.
Spreads in the BBB market remain historically tight relative to US Treasuries.
Heightened interest rate sensitivity continues to persist in the HY market.
EM credit faces acute challenges driven by both global macroeconomic issues (trade and rates) and idiosyncratic missteps in individual markets (most notably in Argentina, Venezuela, and Turkey).
The global bond selloff continued in Q2 as central banks hinted at ending easy-money policies in the face of a stronger global recovery.
</td></tr>
</table>

1 International Monetary Fund, World Economic Outlook. April 2018.

Data sources: Bloomberg; Financial Times. MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI; S&P. S&P and its third-party information providers do not accept liability for the information and the context from which it is drawn.

Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. No assurance can be given that any investment will achieve its objective or avoid losses.

GCM GROSVENOR

Confidential : Quoc Nguyen | 29-Aug-2018

Market Factor Review and Outlook

3rd Quarter 2018 (2 of 2)

Factor / Outlook	Views
Equities Mixed/ Neutral	▪ Global equities climbed higher in Q2 2018, with the S&P 500 and Russell 2000 rising 3.43% and 7.43%, respectively. ▪ The Shiller P/E ratio remains at its highest level since 2001. ▪ Emerging markets saw large losses in Q2 with the MSCI Emerging Markets Index down -7.86%. Outlook is for wider-than-historical dispersion.
Volatility Favorable (higher)	▪ After spiking in Q1 to its highest level since 2015, the VIX steadily declined to its historical average in Q2. For the year, volatility continues to recover from the historic lows observed in 2017. ▪ Divergences in global central bank policies may continue to increase volatility. ▪ Volatility is expected to continue in the coming months due to concerns over the economic factors listed above.
Rates Mixed /Unfavorable	▪ The ECB and the Bank of Japan currently have large-scale monetary easing policies in place. ▪ The ECB announced in June that it will end its monthly asset purchasing program after December 2018 and that it will hold interest rates unchanged through at least Q2 2019. ▪ The US Federal Reserve expects to raise interest rates four times in 2018.
Commodities/ currencies Mixed/ Neutral	▪ The US Dollar appreciated against a basket of global currencies in Q2 2018. ▪ We expect continued volatility as central bank policies continue to influence currency trends. ▪ Geopolitical tensions drove oil prices up over 11% in Q2 to a nearly four-year high of $72 per barrel.

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Data sources: Bloomberg; Financial Times. MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI; S&P. S&P and its third-party information providers do not accept liability for the information and the context from which it is drawn.

Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. No assurance can be given that any investment will achieve its objective or avoid losses.

GCM GROSVENOR

SUMMARY STATEMENT

This document outlines the near term capital plan for LACERA's Hedge Fund Program as its structure transitions from one invested ~~entirely~~primarily in discretionary diversified fund of funds to one which ~~also includes a directly invested~~primarily consists of direct hedge fund ~~portfolio.~~ investments. Subject to future modifications by the Board, this document establishes the investment pacing for the Program over the next calendar year as LACERA increases its investment in hedge funds to reach its ~~5~~4% strategic allocation target (which is expected by the beginning of Q4 ~~2018~~2019).

This Investment Plan will be updated annually to meet the evolving needs of the Hedge Fund Program. Updates concerning progress or meaningful challenges will be communicated or discussed with the ~~Fixed Income/Hedge Funds/Commodities~~Risk Reduction and Mitigation Asset Committee or Board, as appropriate~~. Once investments are funded within the direct portfolio, Staff will enhance the quarterly Hedge Fund Program Performance Report to address matters such as investment pacing, portfolio positioning, and direct portfolio performance~~.

APPENDIX

Descriptions of six main Hedge Fund Strategy Categories

Event Driven Strategies

Event Driven ("ED") strategies invest in securities of companies undergoing or expected to undergo corporate transactions, including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments. Security types may include equities; senior, junior, or subordinated debt; and derivatives. ED investments may include exposure to equity markets, credit markets, and idiosyncratic, company-specific developments. Investment ideas are typically fundamental rather than quantitative and are generally realized around developments affecting a specific company rather than the general market.

The underlying sub-strategies may include activist, credit arbitrage, distressed/restructuring, merger arbitrage, private issue/Regulation D[16], or special situations.

Relative Value Strategies

Relative Value ("RV") strategies may invest across equity, fixed income, derivative, or other security types in order to realize an identified valuation discrepancy between securities. Managers' investment ideas may use fundamental and/or quantitative techniques. Fixed income RV strategies are typically quantitative and identify attractive opportunities based on value discrepancies or risk adjusted spreads between instruments. RV may invest in corporate transactions based on the realization of a pricing discrepancy between related securities, but as opposed to ED, these investments are not based on the outcome of a corporate transaction.

The underlying sub-strategies may include fixed income—convertible bond arbitrage, fixed income—sovereign, statistical arbitrage, option volatility arbitrage, or yield alternatives.

Hedged Equity ~~Hedge~~ Strategies

Hedged Equity ~~Hedge ("EH~~("HE") strategies maintain long and short[17] positions primarily in equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including use of both quantitative and fundamental techniques. The range of processes may include a multi-portfolio manager platform or single portfolio manager structure, a broadly diversified approach or narrow sector or thematic focus, net equity exposures from 100% short to 100% long, use of zero to high levels of leverage, short-term to multi-

[16] Regulation D securities are private placements whereby smaller companies can raise equity or debt capital without registering these securities with the Securities and Exchange Commission.

[17] "Long" positions benefit from asset price increases while "short" positions benefit from asset price decreases.

year holding periods, regional to global geographic market focus, growth to value styles, and small to large market capitalization focus.

The underlying sub-strategies may include equity market neutral, fundamental growth, fundamental value, quantitative directions, sector specific sub-strategies, or short bias.

Macro (~~Directional/~~Tactical) Strategies

Macro strategies may invest in equity, fixed income, currency, and/or commodity markets in order to benefit from ideas on economic variables and their impact on market movements, or the market movements themselves. Managers employ a variety of techniques including these: discretionary and systematic analysis, top-down and bottom-up ideas, quantitative and fundamental approaches, and long-term and short-term holding periods. Macro strategies are distinct from RV strategies in that the primary investment ideas are based on predicting future market movements rather than realizing valuation discrepancies between securities. In a similar way, while both Macro and Equity Hedge strategies may hold equities, Macro equity positions are based on investment ideas that predict market movements and their effect on security prices based on macroeconomic variables, as opposed to EH, where company fundamentals are more important for development of investment ideas.

The underlying sub-strategies may include active trading, commodity (including its subsectors of agriculture, energy, and metals), discretionary currency, systematic currency, discretionary thematic, or systematic diversified.

Hedged Credit Strategies

Hedged Credit strategies may include investment in all credit securities as well as equities, credit derivatives, sovereign bonds, commodities, currencies, or other hybrid securities. Investment ideas are based on valuation discrepancies between credit instruments, or between credit securities and other security types. Hedged Credit is distinguished from the fixed income RV strategies in that Hedged Credit includes a significant component of investment ideas based on evaluation of credit quality of underlying instruments rather than based on sovereign debt or interest rate exposures. Also, relative to fixed income RV strategies, Hedged Credit generally has more net exposure in credit markets, is less hedged, and is less leveraged.

The underlying sub-strategies may include corporate, emerging market sovereign, distressed, mezzanine debt, structured credit—residential mortgages, structured credit—commercial mortgages, other asset-backed, bank debt, direct lending, and capital structure arbitrage.

Multi-Strategy

Multi-Strategy managers invest across some or all of the five main strategy categories and may make tactical shifts among strategies at any given time. Multi-Strategy managers are not expected to have a dominant, consistent weighting to any one strategy and instead are expected to have significant investment in more than one strategy category.

ATTACHMENT 1

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

HEDGE FUNDS

2019 Hedge Funds Annual Investment Plan

September 12, 2018

TABLE OF CONTENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
HEDGE FUNDS ANNUAL INVESTMENT PLAN

INTRODUCTION

The 2019 Hedge Funds Annual Investment Plan ("HFAIP") will guide hedge fund investment activities of the Los Angeles County Employees Retirement Association (the "Fund" or "Total Fund") during the 2019 calendar year. It outlines the near term efforts towards meeting the long term objectives identified within LACERA's Hedge Funds Objectives, Policies, and Procedures ("OPP").

The Fund is currently invested in diversified fund of funds, credit fund of funds, and direct hedge funds. As of June 30, 2018, approximately 2.2% of the assets of the Total Fund are allocated to Diversified Hedge Fund Investments. These are comprised of diversified fund of funds and direct hedge funds, which are below the 4% new policy allocation to Diversified Hedge Funds in the asset category Risk Mitigating and Inflation Hedges adopted by the Board in 2018. The interim target allocation to Diversified Hedge Funds Investments is proposed to be 3% as of 2Q19 and increases to 4% at the end of 2019. Separately, LACERA has 0.7% of the Total Fund invested in Credit Hedge Fund of Funds which are now part of the Credit allocation and no longer part of this Investment Plan.

This HFAIP and the OPP will guide LACERA's investment in a direct hedge fund portfolio to reach the 4% target for Diversified Hedge Funds over the next calendar year. Much of this document addresses this plan to reach the 4% allocation target. This document sets forth a capital plan for LACERA's Diversified Hedge Funds Investments (the "Program," "Hedge Funds," or "Hedge Funds Program"). Additional details on the Program are broadly outlined in LACERA's Investment Policy Statement ("IPS") and further detailed in the OPP, which provides the blueprint that guides the structure and administration of the Program and its underlying portfolios. The OPP also delineates the responsibilities of the Board of Investments (the "Board"), LACERA staff, the Hedge Funds Advisor(s) ("HFA"), the hedge funds portfolio administrator(s) ("Administrator"), LACERA's custodian ("Custodian"), and LACERA's general consultant ("General Consultant").

SECTION I – PROGRAM OBJECTIVES

1. Introduction

   The Board has determined that, over the long term, inclusion of diversified hedge fund investments will enhance the risk/return characteristics of the Total Fund. As established in the Investment Policy Statement ("IPS"), the Hedge Funds Program has an objective to reduce the volatility of the Fund without materially decreasing Fund returns. Primarily, the Hedge Funds Program enhances the diversification of the Total Fund portfolio. This objective is achieved through investing in targeted strategies that have low to moderate correlation with public global equity returns, and have historically exhibited moderate return volatility. Hedge funds have historically had greater volatility than fixed income markets while having less than half the volatility of public global equity markets.

2. Role of Hedge Funds in the Total Fund

The IPS states that the Program objective–to reduce Fund volatility without materially decreasing Fund returns–should be measured and evaluated by the Sharpe ratio[1]. The Program is expected to improve the Sharpe ratio of the Total Fund. Even modest improvements in the Sharpe ratio benefit the Fund's ability to compound returns over the long run.

Investment decisions regarding the Program's primary objective of reducing volatility while maintaining returns are guided by the following separate objectives: (i) generating returns that exceed a target annualized return of 250 basis points[2] greater than an index of 3-month United States Treasury bills ("T-bills"), (ii) achieving realized volatility of 3-8% as measured by the annualized standard deviation of monthly returns, and (iii) maintaining a Program beta[3] of 0.25 or lower to public global equity markets as measured by the Morgan Stanley Capital International ("MSCI") All Country World Index.

3. Hedge Funds Asset Allocation

In May 2018, the Board established a long-term target allocation to diversified Hedge Funds of 4%. This allocation is part of a newly-created Risk Reduction and Mitigation asset category that also includes investment grade fixed income and cash. Previously the asset allocation target for all hedge funds, including credit hedge funds of funds was 5% of the Total Fund asset value.

Additionally, the new May 2018 policy re-categorized credit hedge fund of funds strategies, previously categorized under the Hedge Funds Program, to a new sub-category called Illiquid Credit within a new asset category named Credit. The credit hedge fund of funds portfolios comprised 0.7% of the Total Fund as of June 30, 2018. The new policy allocation to Illiquid Credit is 3%. The allocation to Illiquid Credit includes other investments apart from Credit hedge fund of funds and will be managed by the Credit team and will continue to be overseen by the Credit and Risk Mitigation Committee (formerly Fixed Income/Hedge Funds Commodities Committee).

This Plan excludes any future investments in Illiquid Credit Hedge Funds as they will be overseen via a separate allocation process managed by the Credit team which looks at Credit Hedge Funds relative to all illiquid credit opportunities. Any reference to the Diversified Hedge Funds Investments (the "Program," "Hedge Funds," or "Hedge Funds Program") herein will exclude credit hedge fund of funds investments.

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[1] Sharpe ratio is a measure of the excess return of the program over cash divided by program volatility as measured by standard deviation of returns.

[2] Subject to Board Approval. Benchmark review scheduled for September 12, 2018 BOI Meeting.

[3] Portfolio equity beta is a measurement of a portfolio's volatility relative to equity market returns. A portfolio with a beta of 1.0 has the same volatility as the equity market. Mathematically, historical beta can be viewed as the slope of the regression line of portfolio returns against market returns. The Morgan Stanley Capital International All Country World Index is used as the global equity market reference against which to measure equity beta realized by the Program.

As of June 30, 2018, the actual Hedge Funds Program allocation is 2.2% of the Total Fund[4]. As the actual allocation is currently below the long-term target allocation, which is planned to be reached in Q4 2019, an interim target allocation for Diversified Hedge Fund Investments is being recommended at the September BOI meeting to be 3.0% at the beginning of 2Q19. The Diversified Hedge Funds policy allocation is planned to change in the following quarters as shown in **Table 1** below.

Table 1
Target Hedge Funds Allocation by Quarter

Calendar Quarter	Target Diversified Hedge Funds Allocation
Current	2.2%
Q2 2019	3.0%
Q4 2019	4.0%

The Total Fund asset allocation policy in the IPS limits the actual Hedge Funds allocation to a range around the target allocation whereby the minimum allocation is the lower of 0% or 4% less than target, and the maximum allocation is 2% greater than the target. Thus, at the proposed 3% target allocation, the hedge funds allocation range is 0% to 5%. At the final 4% target allocation, the allocation range will be 0% to 6%.

4. Program Benchmark Return

A recommendation to the Board of Investments is being made at the September 2018 meeting which, consistent with the General Consultant's capital market assumptions, would make the primary Diversified Hedge Fund Program benchmark an annualized return of 250 basis points greater than an index of 3-month United States Treasury bills ("T-bills")[5]. The benchmark is used to evaluate the performance of the Program over three to seven years. When measuring realized returns against this objective, the returns are net of all fees charged by underlying hedge funds and any fund of funds managers.

Program returns are also measured against a universe of similar hedge fund strategies, as provided by a reliable third party source such as Hedge Fund Research, Inc. ("HFR"). By measuring performance over three to seven years, the Program's performance relative to a fund universe can be considered. **Table 2** identifies benchmarks for each portfolio type within the Program. A description for each portfolio follows in Section 5 of this HFAIP.

[4] $1.23 billion asset value of Hedge Funds and $56.0 billion Total Fund asset value.
[5] This benchmark has been 500 basis points greater than an index of 3-month United States Treasury bills ("T-bills") since the inception of the program.

Table 2
Fund Benchmarks by Type

Portfolio Type	Primary Benchmark	Secondary Benchmark
Diversified Hedge Fund of Funds	3 month T-bills plus 250 bps annualized[6]	HFRX Global Index[7]
Direct Hedge Funds		
Total Diversified Hedge Funds Portfolio		

5. Investment Structure

The Fund currently invests in two diversified portfolio types in the Program (hedge fund of funds and direct hedge funds).

The Fund currently deploys capital to two Hedge Fund of Fund ("HFoF") managers - Grosvenor Capital Management ("GCM") and Goldman Sachs Asset Management ("GSAM"). GCM and GSAM each run a diversified HFoF portfolio for the Program.

GCM also runs two credit HFoF portfolios which, as previously mentioned, are categorized under the Illiquid Credit sub-category in the Credit asset category.

As the Program implementation moves forward, direct hedge fund investments are used for the advantages they provide to the Fund, namely that they are not subject to the additional layer of fees paid to fund of funds managers, they facilitate direct relationships with hedge fund managers, and they allow the Fund to have greater control over its Program.

In addition to their existing fiduciary role in investing the fund of funds portfolios, the HFoF managers have also agreed contractually to serve as HFAs, acting as a fiduciary, to support LACERA investing directly in hedge funds. The roles and responsibilities of the HFA are further described in the OPP. LACERA issued a Request for Proposal for a Consultant(s) in the Hedge Funds, Credit and Real Assets categories. When and if LACERA selects a separate Hedge Fund Consultant, the Consultant will act as an HFA.

Hedge Fund Program Portfolio Types

1. Diversified Hedge Fund of Funds: HFoF portfolio managed by an external HFoF manager who invests across hedge fund strategies. HFoF managers have discretion to construct portfolios consistent with the Hedge Fund section of LACERA's Investment Policy Statement and any individual portfolio guidelines.

[6] Subject to BOI approval.
[7] The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted. *Source: Hedge Fund Research, Inc.*

Each HFoF manager identifies, selects, and monitors these investment strategies as part of a diversified portfolio.[8]

2. Direct Hedge Funds: Diversified portfolio of hedge funds invested across hedge fund strategies, with LACERA selecting the managers and strategies. LACERA retains discretion to construct and maintain a portfolio consistent with the Program policies including the OPP and this HFAIP. As additional resources, the HFAs provide independent due diligence and technical assistance to LACERA in support of areas including market research, investment due diligence, operational due diligence, portfolio construction, and risk aggregation.

SECTION II – FUTURE INVESTMENT ACTIVITY

1. Hedge Funds Investment Pacing

The Program value and allocation as a percentage of the Total Fund are expected to increase over the coming quarters due to continued build out of the direct portfolio. LACERA began investing capital in a direct portfolio in 2018.

While these changes will result in an increase in the expected allocation to 3.0% of the Total Fund at the beginning of Q2 2019, this is below the 4.0% target hedge fund allocation at year end 2019 shown in **Table 1**.

LACERA has a target to reach a 4.0% diversified hedge fund allocation by the beginning of Q4 2019. **Table 3** summarizes expected quarterly investment pacing of the Program over the 2019 calendar year.

While this section describes a pacing model for the continued implementation of the direct hedge fund portfolio, other considerations for the Hedge Fund program priorities may also affect or delay the timing of this plan. These include the selection and implementation of a new Hedge Fund Consultant, implementation of a separately managed account platform for hedge fund strategies, market conditions, and the implementation of an emerging manager program.

[8]The Fund's contractual relationship with Goldman Sachs Asset Management regarding the diversified HFoF portfolio is through a discretionary investment management agreement rather than a fund agreement in part because those underlying funds are held directly in the Fund's name.

Table 3
Investment Pacing – Direct Hedge Funds Portfolio

Calendar Time Period	Estimated Investment in Direct Hedge Funds Portfolio	Reduction in Diversified HFoF Portfolio	Estimated Ending Value of Diversified Hedge Funds ($ millions)	% of Total Fund[9]
3Q18	$25		$1,255	2.2%
4Q18	$250		$1,505	2.7%
1Q19	$250		$1,755	3.1%
2Q19	$250		$2,005	3.6%
3Q19	$235		$2,240	4.0%
4Q19	$250	($250)	$2,240	4.0%
Aggregate 2019	$985	($250)		

2. Future Investment Structure by Portfolio Type

Table 4 shows the current allocation to the portfolio types within LACERA's Hedge Funds Program and defines the allowable allocation range for the Program. With the planned pacing described in **Table 3**, the expected allocation to the two portfolio types at the end of calendar year 2018, 2019 and 2020 is also shown in **Table 4**

The allocation to a direct portfolio is expected to move from 21% as of June 30, 2018 to 68% of the Program by the end of calendar year 2019. Diversified HFoFs are expected to decline from 79% of the Program to 32%. Allocations by portfolio type are expected to stay in the allowable allocation ranges during the next two years.

[9] Estimate based on June 30, 2018 Total Fund asset value, excluding any investment return from Hedge Funds and Total Fund subsequent to June 30, 2018.

Table 4
LACERA Hedge Fund Current And Allowable Allocations By Portfolio Type

Portfolio Type	Asset Value as of Jun 30, 2018 ($ millions)	Allocation % as of Jun 30, 2018	Estimated Dec 31, 2018 Allocation %	Estimated Dec 31, 2019 Allocation %	Allowable Allocation Range
Diversified Hedge Fund of Funds	974	79%	65%	32%	0-90%
Direct Hedge Funds	255	21%	35%	68%	0-100%
Total Program	**$1,229**	**100%**	**100%**	**100%**	

3. Investment Strategy Categories

LACERA's achievement of its Hedge Funds Program objectives requires an ability to adjust portfolio allocations across various hedge fund strategy categories since each may respond differently to prevailing market environments. The Program-level investment category constraints (shown in **Table 5)** limit strategy category exposures in order to promote diversification across strategy categories while also being flexible enough to allow for tactical shifts in and out of strategies based on their relative attractiveness and the market environment.

The constraints for each of the six investment strategy categories (defined and discussed below) are measured on a look-through basis.[10] Individual fund of fund portfolios have investment guidelines that are consistent with or more limiting than these Program-level constraints.

Definitions for the categories generally draw from the index definitions created by HFR. HFR's definitions of the first four categories in the table are objective and follow predetermined rules which place all eligible hedge funds in their Global Index into one of these four categories. However, solely using these four definitions can be limiting to broad portfolio construction, and LACERA has broadened the strategy categories to include Hedged Credit and Multi-Strategy. While the six categories are commonly used, they do not represent an exhaustive list that covers all possible hedge fund investments. The Program may invest in some funds that are not well- described by one of these strategy definitions if they otherwise meet broad objectives and constraints established for the Program

Additionally, LACERA may consider investing in "hedge fund premia" or replication-type strategies that seek to obtain systematic exposures to investment themes used

[10]Look-through basis for the Hedge Funds Program is defined as the total strategy category allocation based on the underlying portfolios in the Program, viewed independently of their portfolio structure.

by hedge funds, but at a lower cost. These strategies are expected to fall within the six strategy categories identified below.

Table 5
Diversified Hedge Funds
Investment Allocation Constraints by Strategy Category

	Strategy Constraint	Current Look-Through Allocation	Target Allocation of Direct Portfolio	Estimated Overall Allocation at year end 2019
Event Driven (excluding Credit)	Maximum 40%	12%	7.5%	11%
Relative Value	Maximum 60%	12%	15%	15%
Hedged Equity	Maximum 40%	20%	15%	20%
Macro/Tactical Trading	Maximum 50%	16%	15%	18%
Hedged Credit	Maximum 60%	11%	7.5%	10%
Multi-Strategy	Maximum 60%	29%	40%	26%

The table includes the target allocation for the direct portfolio when it is fully invested by year end 2019. The estimated strategy allocation at calendar year end 2019 is shown in the final column, with the assumption that the direct portfolio is invested at its target allocation at the end of 2019.

LACERA recognizes the opportunistic nature of investing in these strategies and will allow latitude regarding the lower and upper limits of allocation constraints and targets. In the short term, as LACERA sequentially ramps up its allocations in the direct portfolio to reach the 4% Total Fund target allocation, some individual fund allocations may cause large changes in the strategy allocation weights in the direct portfolio. Thus, these strategy constraints might not be met during the ramp up phase.

4. Portfolio Guidelines and Risk Parameters

The Hedge Fund Program and direct portfolio guidelines and risk parameters set forth in the OPP, such as liquidity, will be maintained when the direct portfolio is constructed. Program-level compliance for the portfolio guidelines and risk parameters will be reported quarterly to the Board of Investments in a section of the quarterly performance book.

5. Geographic Allocation

LACERA does not currently categorize managers by geographic concentration, as there is not a stated objective to allocate capital by region. Managers are given flexibility to invest where they find opportunity based on where they have demonstrated ability to add value, regardless of whether the region includes the United States or not. A relatively small number of managers invest solely in markets outside the U.S. Some invest on a global basis and many invest solely or mostly in U.S. markets. Staff will monitor regional and country exposures on a look-through basis so that significant unintentional regional or country exposures can be managed.

6. Manager Concentration

   Allocation limits to individual investment management organizations or funds are set by guidelines for the hedge fund of funds managers. For the Direct Hedge Funds portfolio, investment in an individual fund is limited to 20% of the market value of the direct portfolio.

SECTION III – 2018 INVESTMENT ACTIVITY

1. Calendar Year 2018 Investment Activity

   LACERA has invested $285 million in three separate direct hedge funds through August 2018.This portfolio is described in the regular quarterly Hedge Fund reporting and new fund cash flows are included in the monthly CIO letter.

SECTION IV – NEAR TERM AND FUTURE PRIORITIES

1. Near Term and Future Priorities

   This HFAIP and the OPP recommend a pace of investing that will result in reaching the 4% target allocation by beginning of Q4 2019. Much of the capital pacing in this HFAIP reflects allocations to newly approved managers to build up the direct hedge fund portfolio.

   After the full 4% strategic target allocation to Hedge Funds is reached (expected by Q4 2019), allocations will be moved from diversified hedge fund of funds to direct hedge funds, so that each diversified hedge fund of funds portfolio will be reduced to an approximate net asset value of $250 million. $250 million was the initial amount allocated to each HFoF manager at their inception. Such an allocation is expected to maintain the level of services required to support their role as a Hedge Fund Advisor. Beyond 2019, approximately 22% of the Program would be in diversified HFoFs after LACERA reaches its 4% strategic allocation target and after the diversified HFoFs are brought down to $250 million each.[11]

   Once each diversified HFoF portfolio is brought down to approximately $250 million, LACERA may re-evaluate the role of its HFoF managers. At that time, LACERA may consider alternative structures for the Program that eliminate one or both HFoF managers. LACERA is currently soliciting for the retention of a HFA that acts in a

[11] Based on current total fund asset value of $56 billion.

purely advisory capacity which provides flexibility to eliminate one or both diversified funds of funds structures entirely if desired.

LACERA may also consider alternatives to the current mandates for the fund of funds managers. For example, LACERA may wish to consider changing the mandates to be more targeted to a specific strategy, manager profile, or geographic region where a fund of funds manager may be better resourced than LACERA to accomplish.

In 2019, LACERA will also explore strategies through Committee and Board discussions for constructing an emerging manager hedge fund portfolio. Such strategies may include converting all or a portion of an existing Diversified HFoF portfolio mandate to an Emerging Manager HFoF portfolio mandate or working with a new non-discretionary HFA to build a direct Hedge Fund Emerging Manager Program. This portfolio would follow new policies and objectives for emerging manager portfolios that already exist in LACERA's other asset categories.

SECTION V – MARKET OUTLOOK

1. Market Outlook

   The following pages describe the current outlook for hedge fund strategies from LACERA's hedge fund advisors, GSAM and GCM. Neither HFA currently expresses a significant view towards or against any individual hedge fund strategy category. LACERA will generally invest in a balanced manner across the various strategies including multi-strategy managers who have the ability to invest tactically across strategies.

   GSAM's current market outlook includes mainly neutral views across hedge funds with positive views for select sub strategies in tactical trading, including trading monetary policy, emerging markets and volatility. Their view is neutral overall for event driven strategies, most segments of the credit markets, and equity long/short.

   Grosvenor's market outlook and investment focus includes strategic allocations across all major strategy categories with volatility trading the most favorable. Their views are mixed/neutral for equities and commodities/currency trading. Their views are mixed/unfavorable for credit and rates trading.

Public Equities and Equity Long / Short Outlook

Rising stock correlations and EPS growth remain in focus

Goldman Sachs Asset Management

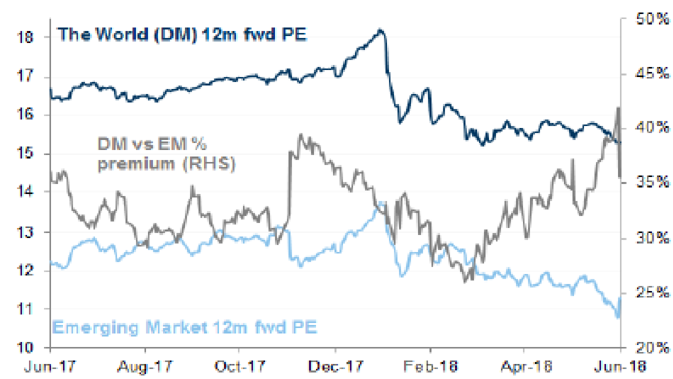
AIMS outlook

- Neutral outlook for equity long/short managers on both the alpha generation and equity beta opportunity; volatility and stock correlations have fallen back from high levels in Q1'18
- Prefer managers with more balanced net exposure and diversified, less-crowded alpha drivers, rather than directional managers in crowded hedge fund themes; when taking equity beta we favor high quality/secular growth biased exposure
- Neutral view on long-only equities driven by a more positive view on international equities due to improved earnings growth and relatively cheap valuations; more constructive on Emerging Markets equities

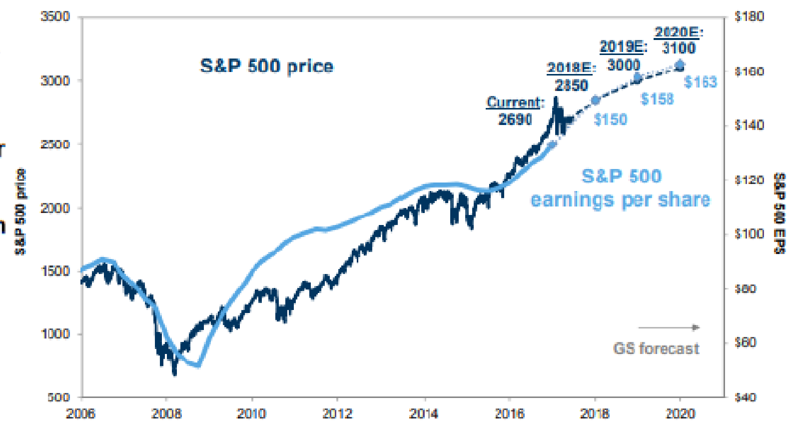
Top 5 potentially investable themes

1. **Rising rates potential tailwind for active management –** Improving opportunity set for shorting and a driver of higher stock price dispersion
2. **Positive signals outside of the US –** Cheaper valuations and constructive economic indicators provide a fruitful environment for stock picking
3. **Narrow valuation dispersion and modest economic growth in the US –** Could support further outperformance of growth
4. **Attractive entry point for MLPs –** Valuations and fundamentals remain supportive
5. **Potential long/short opportunities in therapeutics healthcare –** Supportive fundamental, regulatory, and capital market forces coupled with evolving research and technology

EM trading at higher than average discount to DM[1]



Earnings: S&P 500 earnings and index targets[1]



Source: AIMS Group, Morningstar Bloomberg, MSCI. As of June 2018. [1] Source: GIR. As of June 2018. For illustrative purposes only. Past correlations are not indicative of future correlations, which may vary. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Investors cannot invest directly in indices.

Event Driven & Credit Hedge Funds Outlook

Maintain neutral outlook for merger arb & multi-strategy

Goldman Sachs Asset Management

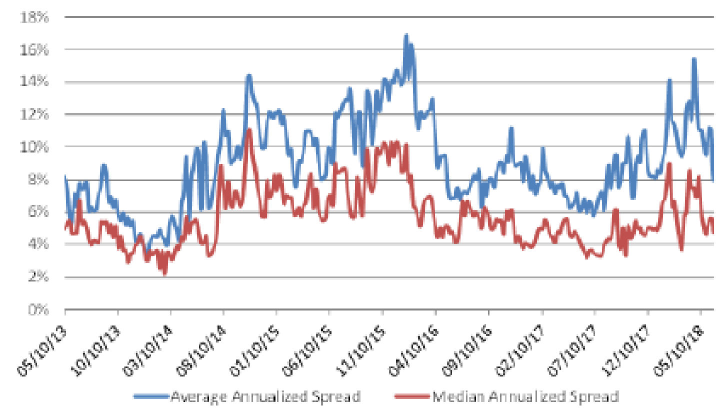
AIMS outlook

- Maintain overall neutral outlook for event driven strategies. Most notably, we have maintained our neutral outlook for merger arbitrage as spreads on vertical and media-related mergers have rallied, offsetting the perceived reduced regulatory risk
- We believe the current environment will favor managers with strong deal underwriting capabilities as we have observed a divergence in merger spreads between perceived safe deals and those with higher risk of regulatory intervention
- We maintain a neutral outlook for most segments of the credit market, focusing our investments on segments of the market offering correlation benefits (e.g., structured credit, insurance)

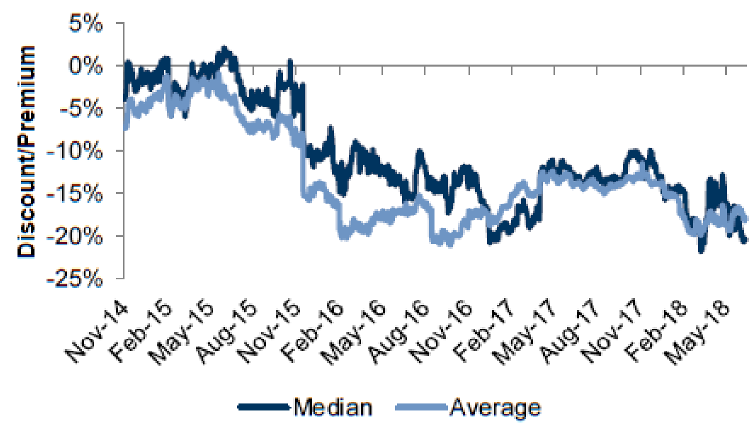
Top 5 potentially investable themes

1. **Event driven** – "Stub trades"[4] have the potential to offer idiosyncratic returns, with US tax reform serving as a catalyst for spread compression
2. **Distressed opportunities** – While the proportion of bonds and loans trading at stressed/distressed levels remains low, there are still select opportunities in retail, telecom and energy.
3. **Structured / ABS** – Asymmetric way to implement bearish retail view, specifically on Class B/C malls, via CMBX shorts
4. **Structured / RMBS** – The credit cycle for housing is much younger than for corporate credit, supporting the risk-adjusted opportunities in legacy non-agency RMBS and Agency CRTs
5. **Growth & emerging markets** – Relatively attractive carry and risk-adjusted return potential, particularly in select LatAm markets

Annualized merger arb spreads[1] remain modest but volatile[2]



Premium / Discount of HoldCos to Listed Subsidiaries[3]



Source: AIMS Group, Barclays, Bloomberg. As of June 2018. [1](0%- 50% annualized). [2]Source: Bloomberg, UBS Special Situations. As of June 15, 2018. [3]Source: Bloomberg. Includes 4-9 different commonly held stub trades. For illustrative purposes only. Past performance does not guarantee future results, which may vary. Past correlations are not indicative of future correlations, which may vary. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Investors cannot invest directly in indices. [4]Capturing the spread between the share price of listed holding companies and their listed subsidiaries.

Tactical Trading Outlook

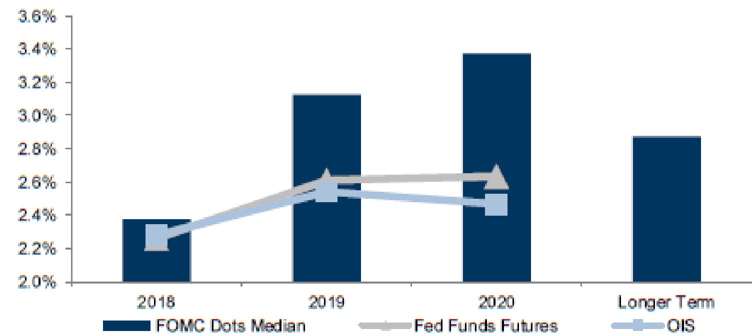
Attractive opportunities to trade monetary policy, emerging markets and volatility

Goldman Sachs Asset Management

AIMS outlook

- Monetary policy normalization and higher volatility could present opportunities for tactical trading managers as rates rise and QE unwinds
- However, the gap between views and market pricing is now mostly further out on the curve, making potential exogenous shocks from trade and geopolitics more challenging to trade.
- Emerging markets offer long/short opportunities with managers still finding attractive niche areas. Valuations have improved but higher US rates, a stronger US dollar and upcoming elections could pose challenges.

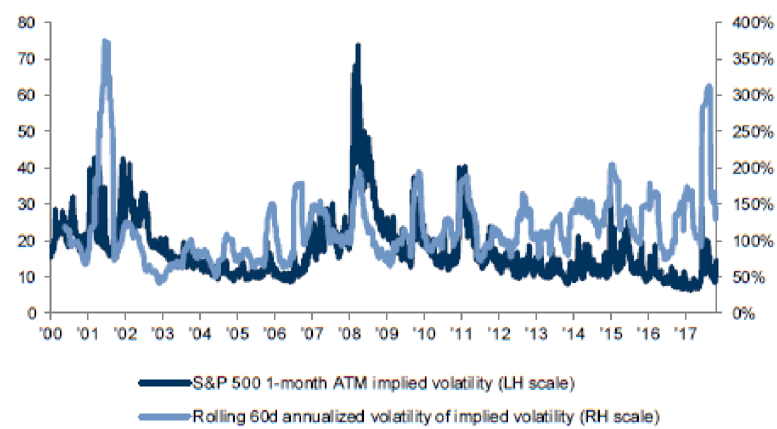
Markets are pricing fewer hikes than the Fed dot plot[1]



Top 5 potentially investable themes

1. **Fixed income** – changing supply and demand dynamics with relative progress of central bank tightening and transition may create opportunities for RV and directional trading
2. **EM** - managers are finding niche opportunities, as idiosyncratic events may be mispriced. Differing monetary policies and political cycles can create long/short opportunities.
3. **Volatility** – with implied and realized vol remaining close to historical lows, there may be opportunities for long-biased volatility trading and thoughtful tail risk managers
4. **US fiscal policy** – fiscal stimulus could have significant growth and monetary policy implications
5. **FX** – Central bank tightening may increase yield differentials and impact trade and flows, with opportunities in DM and EM

Volatility has picked up after hitting all-time lows in 2017[2]



Sources: AIMS Group, Morningstar Bloomberg, MSCI. As of June 2018 . [1] Source: Bloomberg. As of June 2018. [2] Sources: GSAM, Bloomberg. As of June 2018 For illustrative purposes only. Past correlations are not indicative of future correlations, which may vary. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. Investors cannot invest directly in indices

Market Factor Review and Outlook

3rd Quarter 2018 (1 of 2)

Factor / Outlook	Views
Economic factors Mixed/Unfavorable	▪ While the global economic expansion is expected to continue through 2019, with global real GDP estimated to increase by 3.90% in both 2018 and 2019, there are mounting risks to the economic outlook. Economic growth has not only peaked across a number of major economies, but growth has also become more uneven among both developed and emerging market economies.[1] ▪ The US Federal Reserve is expected to continue tightening monetary conditions after raising interest rates in June for the third time in as many quarters. The Fed's June dot plot indicated an expectation of two additional rate hikes in 2018, increasing its total number of projected interest rate hikes to four in 2018. ▪ The Trump administration's threat to impose tariffs on $500 billion worth of Chinese imports raised fears of a prolonged trade war between the world's two largest economies. ▪ Increased trade tensions risk undermining the global economy and devolving into a full-fledged currency war. ▪ November's midterm Congressional elections and their potential impact on the US political landscape and Trump's legislative agenda. ▪ With less than one year remaining until Brexit takes effect in March 2019, UK and EU officials continue to negotiate the terms of a withdrawal treaty. The prospect of a "soft Brexit" led to a number of high profile resignations from Theresa May's cabinet, including Foreign Secretary Boris Johnson and chief Brexit negotiator David Davis. ▪ The Five Star Movement and League political parties in Italy are viewed as anti-Euro, and despite somewhat softened rhetoric regarding a potential Italian exit from the EU, risks in the region are elevated. ▪ Concerns regarding elevated equity valuations and potential disruptions from ongoing reforms temper an otherwise positive outlook for India. ▪ Easing tensions on the Korean peninsula and the Bank of Japan's commitment to its negative interest rate policy contributed to yen weakness.
Credit Mixed/Unfavorable	▪ While credit spreads have widened somewhat from Q1's historically tight levels, spreads remain reasonably tight and there have not yet been dislocations that create significant directional credit opportunities. ▪ Treasury yields closed Q2 at their highest levels since 2011 as the unemployment rate reached its lowest level since 1999. ▪ Spreads in the BBB market remain historically tight relative to US Treasuries. ▪ Heightened interest rate sensitivity continues to persist in the HY market. ▪ EM credit faces acute challenges driven by both global macroeconomic issues (trade and rates) and idiosyncratic missteps in individual markets (most notably in Argentina, Venezuela, and Turkey). ▪ The global bond selloff continued in Q2 as central banks hinted at ending easy-money policies in the face of a stronger global recovery.

1 International Monetary Fund, World Economic Outlook. April 2018.

Data sources: Bloomberg; Financial Times. MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI; S&P. S&P and its third-party information providers do not accept liability for the information and the context from which it is drawn.

Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. No assurance can be given that any investment will achieve its objective or avoid losses.

GCM GROSVENOR

Market Factor Review and Outlook

3rd Quarter 2018 (2 of 2)

Factor / Outlook	Views
Equities Mixed/ Neutral	▪ Global equities climbed higher in Q2 2018, with the S&P 500 and Russell 2000 rising 3.43% and 7.43%, respectively. ▪ The Shiller P/E ratio remains at its highest level since 2001. ▪ Emerging markets saw large losses in Q2 with the MSCI Emerging Markets Index down -7.86%. Outlook is for wider-than-historical dispersion.
Volatility Favorable (higher)	▪ After spiking in Q1 to its highest level since 2015, the VIX steadily declined to its historical average in Q2. For the year, volatility continues to recover from the historic lows observed in 2017. ▪ Divergences in global central bank policies may continue to increase volatility. ▪ Volatility is expected to continue in the coming months due to concerns over the economic factors listed above.
Rates Mixed /Unfavorable	▪ The ECB and the Bank of Japan currently have large-scale monetary easing policies in place. ▪ The ECB announced in June that it will end its monthly asset purchasing program after December 2018 and that it will hold interest rates unchanged through at least Q2 2019. ▪ The US Federal Reserve expects to raise interest rates four times in 2018.
Commodities/ currencies Mixed/ Neutral	▪ The US Dollar appreciated against a basket of global currencies in Q2 2018. ▪ We expect continued volatility as central bank policies continue to influence currency trends. ▪ Geopolitical tensions drove oil prices up over 11% in Q2 to a nearly four-year high of $72 per barrel.

Data sources: Bloomberg; Financial Times. MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI; S&P. S&P and its third-party information providers do not accept liability for the information and the context from which it is drawn.

Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. No assurance can be given that any investment will achieve its objective or avoid losses.

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Confidential : Quoc Nguyen | 29-AUG-2018

SUMMARY STATEMENT

This document outlines the near term capital plan for LACERA's Hedge Fund Program as its structure transitions from one invested primarily in discretionary diversified fund of funds to one which primarily consists of direct hedge fund investments. Subject to future modifications by the Board, this document establishes the investment pacing for the Program over the next calendar year as LACERA increases its investment in hedge funds to reach its 4% strategic allocation target (which is expected by the beginning of Q4 2019).

This Investment Plan will be updated annually to meet the evolving needs of the Hedge Fund Program. Updates concerning progress or meaningful challenges will be communicated or discussed with the Risk Reduction and Mitigation Asset Committee or Board, as appropriate.

APPENDIX

Descriptions of six main Hedge Fund Strategy Categories

Event Driven Strategies

Event Driven ("ED") strategies invest in securities of companies undergoing or expected to undergo corporate transactions, including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments. Security types may include equities; senior, junior, or subordinated debt; and derivatives. ED investments may include exposure to equity markets, credit markets, and idiosyncratic, company-specific developments. Investment ideas are typically fundamental rather than quantitative and are generally realized around developments affecting a specific company rather than the general market.

The underlying sub-strategies may include activist, credit arbitrage, distressed/restructuring, merger arbitrage, private issue/Regulation D[12], or special situations.

Relative Value Strategies

Relative Value ("RV") strategies may invest across equity, fixed income, derivative, or other security types in order to realize an identified valuation discrepancy between securities. Managers' investment ideas may use fundamental and/or quantitative techniques. Fixed income RV strategies are typically quantitative and identify attractive opportunities based on value discrepancies or risk adjusted spreads between instruments. RV may invest in corporate transactions based on the realization of a pricing discrepancy between related securities, but as opposed to ED, these investments are not based on the outcome of a corporate transaction.

The underlying sub-strategies may include fixed income—convertible bond arbitrage, fixed income—sovereign, statistical arbitrage, option volatility arbitrage, or yield alternatives.

Hedged Equity Strategies

Hedged Equity ("HE") strategies maintain long and short[13] positions primarily in equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including use of both quantitative and fundamental techniques. The range of processes may include a multi-portfolio manager platform or single portfolio manager structure, a broadly diversified approach or narrow sector or thematic focus, net equity exposures from 100% short to 100% long, use of zero to high levels of leverage, short-term to multi-year holding periods,

[12] Regulation D securities are private placements whereby smaller companies can raise equity or debt capital without registering these securities with the Securities and Exchange Commission.

[13] "Long" positions benefit from asset price increases while "short" positions benefit from asset price decreases.

regional to global geographic market focus, growth to value styles, and small to large market capitalization focus.

The underlying sub-strategies may include equity market neutral, fundamental growth, fundamental value, quantitative directions, sector specific sub-strategies, or short bias.

Macro (Tactical) Strategies

Macro strategies may invest in equity, fixed income, currency, and/or commodity markets in order to benefit from ideas on economic variables and their impact on market movements, or the market movements themselves. Managers employ a variety of techniques including these: discretionary and systematic analysis, top-down and bottom-up ideas, quantitative and fundamental approaches, and long-term and short-term holding periods. Macro strategies are distinct from RV strategies in that the primary investment ideas are based on predicting future market movements rather than realizing valuation discrepancies between securities. In a similar way, while both Macro and Equity Hedge strategies may hold equities, Macro equity positions are based on investment ideas that predict market movements and their effect on security prices based on macroeconomic variables, as opposed to EH, where company fundamentals are more important for development of investment ideas.

The underlying sub-strategies may include active trading, commodity (including its subsectors of agriculture, energy, and metals), discretionary currency, systematic currency, discretionary thematic, or systematic diversified.

Hedged Credit Strategies

Hedged Credit strategies may include investment in all credit securities as well as equities, credit derivatives, sovereign bonds, commodities, currencies, or other hybrid securities. Investment ideas are based on valuation discrepancies between credit instruments, or between credit securities and other security types. Hedged Credit is distinguished from the fixed income RV strategies in that Hedged Credit includes a significant component of investment ideas based on evaluation of credit quality of underlying instruments rather than based on sovereign debt or interest rate exposures. Also, relative to fixed income RV strategies, Hedged Credit generally has more net exposure in credit markets, is less hedged, and is less leveraged.

The underlying sub-strategies may include corporate, emerging market sovereign, distressed, mezzanine debt, structured credit—residential mortgages, structured credit—commercial mortgages, other asset-backed, bank debt, direct lending, and capital structure arbitrage.

Multi-Strategy

Multi-Strategy managers invest across some or all of the five main strategy categories and may make tactical shifts among strategies at any given time. Multi-Strategy managers are not expected to have a dominant, consistent weighting to any one strategy and instead are expected to have significant investment in more than one strategy category.

ATTACHMENT 2

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

HEDGE FUNDS

Objectives, Policies, and Procedures

September 12, 2018

HEDGE FUNDS OBJECTIVES, POLICIES, and PROCEDURES

TABLE OF CONTENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
HEDGE FUNDS OBJECTIVES, POLICIES, AND PROCEDURES

DOCUMENT PURPOSE

The Hedge Funds Objectives, Policies, and Procedures ("OPP") document sets forth in further detail certain elements of LACERA's Diversified Hedge Funds Investment Program (the "Program," "Hedge Funds," or "Hedge Funds Program") which are broadly outlined in LACERA's Investment Policy Statement ("IPS"). ~~-~~The OPP defines the Program's objectives and high level parameters, stipulates the detailed policies that govern the Program, establishes risk management practices, spells out the procedures to be followed, and delineates the responsibilities of the Board of Investments (the "Board"), LACERA staff ~~("Staff"),~~, the Hedge Funds Advisor(s) ("HFA"), the hedge funds portfolio administrator(s) ("Administrator"), LACERA's custodian (Custodian"), and LACERA's general consultant ("General Consultant"). ~~-~~In essence, the OPP provides the blueprint that guides the structure and ~~administration~~implementation of the Program and its underlying portfolios.

SECTION I – PROGRAM OBJECTIVES

1. Introduction

The Board ~~of Investments of the Los Angeles County Employees Retirement Association (the "Fund" or "Total Fund")~~ has determined that, over the long term, inclusion of diversified hedge fund investments will enhance the risk/return characteristics of the Total Fund. ~~The~~ As established in the Investment Policy Statement "IPS", the Hedge Funds ~~Investment~~ Program has an objective to reduce the volatility of the Fund without materially decreasing Fund returns. ~~-~~Primarily, the Hedge Funds Program enhances the diversification of the Total Fund portfolio. ~~-~~This objective is achieved through investing in targeted strategies that have ~~historically had~~ low to moderate correlation with public global equity returns, and have historically exhibited moderate return volatility.~~-~~ Hedge funds have historically had greater volatility than fixed income markets while having less than half the volatility of public global equity markets.

2. Role of Hedge Funds in the Total Fund

~~LACERA's~~

The IPS states that the Program objective–to reduce Fund volatility without materially decreasing Fund returns–should be measured and evaluated by the Sharpe ratio[1]. The Program is expected to improve the Sharpe ratio of the Total Fund.~~-~~ Even modest improvements in the Sharpe ratio benefit the Fund's ability to compound returns over the long run.

Investment decisions regarding the Program's primary objective of reducing volatility while maintaining returns are guided by the following separate objectives: (i) generating returns that exceed a target annualized return of ~~500~~250 basis points[2] greater than an index of 3-month United States Treasury bills~~,~~ ("T-bills"), (ii) achieving realized volatility of ~~5~~3-8% as measured by the annualized standard deviation of monthly returns, and (iii) maintaining a Program beta of 0.25 or lower to public global

[1] Sharpe ratio is a measure of the excess return of the program over cash divided by program volatility as measured by standard deviation of returns.

[2] Subject to Board approval. Benchmark review scheduled for September 12, 2018 BOI Meeting.

equity markets as measured by the Morgan Stanley Capital International ("MSCI") All Country World Index.

3. Hedge Funds Asset Allocation

~~The~~

In May 2018, the Board established a long-term target allocation to ~~the~~diversified Hedge Funds ~~Program~~of 4%. This allocation is part of a newly-created Risk Reduction and Mitigation asset category that also includes investment grade fixed income and cash. Previously the asset allocation target for all hedge funds, including credit hedge funds of funds was 5% of the Total Fund asset value. ~~This 5% target allocation was established by the Board in October 2015. Since Program inception in 2011, the Board has approved several~~

Additionally, the new May 2018 allocation policy re-categorized credit hedge fund of funds strategies, previously categorized under the Hedge Funds Program, to a new sub-category called Illiquid Credit within a new asset category named Credit. The credit hedge fund of funds portfolios ~~that are~~ comprised 0.7% of the Total Fund as of June 30, 2018. The new policy allocation to Illiquid Credit is 3%. The allocation to Illiquid Credit includes other investments apart from Credit hedge fund of funds and will be managed by ~~external fund of funds managers.~~ the Credit team and will continue to be overseen by the Credit and Risk Mitigation Committee (formerly Fixed Income/ Hedge Funds/ Commodities Committee).

Any reference to the Diversified Hedge Funds Investments (the "Program," "Hedge Funds," or "Hedge Funds Program") herein will exclude credit hedge fund of funds investments.

As of June 30, ~~2017~~2018, the actual Hedge Funds Program allocation is 2.~~7% of the Total Fund[3]. Additionally, there remained $6 million of approved but unfunded[4] commitments to Hedge Funds that are expected to be funded by third calendar quarter of 2017. This unfunded commitment represents 0.01~~2% of the Total Fund ~~asset value.~~[5]. As the actual allocation is currently below the long-term target allocation, which is planned to be reached in Q4 ~~2018,~~2019, an interim target ~~allocations~~allocation for Diversified Hedge Fund Investments is being recommended at the September 2018 BOI meeting to be 3.0% at the beginning of 2Q19. The Diversified Hedge Funds ~~have been developed and approved by the Board as part of the implementation plan for the 2015 Total Fund asset allocation~~ policy. ~~The Hedge Funds~~ allocation is planned to ~~increase incrementally each quarter~~change in the following quarters as shown in ~~the table~~**Table 1** below.

~~[3]$1.4 billion asset value of Hedge Funds and $ 52.5 billion Total Fund asset value.~~
~~[4]Capital committed by LACERA but not yet invested by the HFoF manager.~~
[5]$1.23 billion asset value of Hedge Funds and $56.0 billion Total Fund asset value.

Table 1
Target Hedge Funds Allocation by Quarter

Calendar Quarter	Target Diversified Hedge Funds Allocation
Current	~~3.4~~2.2%
~~Q4 2017~~Q2 2019	~~4.2~~3.0%
Q4 ~~2018~~2019	~~5~~4.0%

~~In addition to the target allocation percentages, the~~The Total Fund asset allocation policy in the IPS limits the actual Hedge Funds allocation to a range ~~of 3%~~ around the target allocation whereby the minimum allocation is the lower of 0% or 4% less than target, and the maximum allocation is 2% greater than the target ~~allocation.~~ . Thus, at the ~~current~~proposed 3~~.4~~% target allocation, the hedge funds allocation range is 0~~.4~~% to 5~~.4%.~~%. At the final 4% target allocation, the allocation range will be 0% to 6%.

4. Program Objectives and Parameters

4.1 Program Benchmark Return

~~To evaluate the performance of the Program,~~

A recommendation to the Board of Investments is being made at the September 2018 BOI meeting which, consistent with the General Consultant's capital market assumptions, would make the primary Diversified Hedge Fund Program benchmark ~~is the~~an annualized return of 250 basis points greater than an index of 3-month United States Treasury ~~Bills plus 5% per annum,~~bills ("T-bills")[6]. The benchmark is used to evaluate the performance of the Program over three to seven years. When measuring realized returns against this objective, the returns are net of all fees charged by underlying hedge funds and any fund of funds managers.

Program returns are also measured against a universe of similar hedge fund strategies, as provided by a reliable third party source such as Hedge Fund Research, Inc. ("HFR"). By measuring performance over three to seven years, the Program's performance relative to a fund universe can be considered. **Table 2** identifies benchmarks for each portfolio type within the Program. A description for each portfolio follows in Section 5 of this HFAIP.

[6] This benchmark has been 500 basis points greater than an index of 3-month United States Treasury bills ("T-bills") since the inception of the program.

Table 2
Fund Benchmarks by Type

~~PortfolioType~~Portfolio Type	~~After Fee~~ Primary Benchmark	~~After Fee~~ Secondary Benchmark
Diversified Hedge Fund of Funds	3 month T-bills plus ~~500~~250 bps annualized[7]	HFRX Global Index8
~~Credit Hedge Fund of Funds~~		~~HFRX Fixed Income–Credit Index~~[9]
Direct Hedge Funds~~[10]~~		~~HFRX Global Index~~
Total Diversified Hedge Funds Portfolio		~~HFRX Global Index~~

4.2 Program Parameters

The Diversified Hedge Funds Program is expected to have volatility greater than that of fixed income markets but less than that of public equity markets, generally at a level of less than half of public equity market volatility. Realized volatility, as measured by standard deviation of returns, is expected to range from 3-8% over three-year rolling time periods. The program is expected to have low to moderate correlation with public global equities and will be managed by maintaining a portfolio equity beta[11] of 0.25 or lower.

5. Investment Structure

The Fund currently invests in two diversified portfolio types in the Program (~~diversified~~ hedge fund of funds and ~~credit hedge fund of funds), and will be adding a third portfolio type (~~direct hedge funds).

The Fund currently deploys capital to two Hedge Fund of Fund ("HFoF") managers ~~to invest in the two existing portfolio types. The first manager,~~ Grosvenor Capital

[7] Subject to BOI approval.

[8]The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, hedged equity ~~hedge~~, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted. *Source: Hedge Fund Research, Inc.*

~~[9]The HFRX Fixed Income–Credit Index includes strategies with exposure to credit across a broad continuum of credit sub-strategies, including corporate, sovereign, distressed, convertible, asset backed, capital structure arbitrage, multi-strategy and other relative value and event driven sub-strategies. *Source: Hedge Fund Research, Inc.*~~

~~[10]Direct hedge funds portfolio is yet to be invested. See Section III.1 Capital Planning.~~

[11]Portfolio equity beta is a measurement of a portfolio's volatility relative to equity market returns. A portfolio with a beta of 1.0 has the same volatility as the equity market. Mathematically, historical beta can be viewed as the slope of the regression line of portfolio returns against market returns. The Morgan Stanley Capital International All Country World Index is used as the global equity market reference against which to measure equity beta realized by the Program.

Management ("GCM~~"), runs~~ ") and Goldman Sachs Asset Management ("GSAM"). GCM and GSAM each run a diversified HFoF portfolio ~~and~~ for the Program. GCM also runs two credit HFoF portfolios~~. The second manager, Goldman Sachs Asset Management ("GSAM"), runs a diversified HFoF portfolio.~~ which are categorized under the Illiquid Credit sub-category in the Credit asset category.

As the Program implementation moves forward, direct hedge fund investments ~~will be~~are used for the advantages they provide to the Fund, namely that they are not subject to the additional layer of fees paid to fund of funds managers, they facilitate direct relationships with hedge fund managers, and they allow the Fund to have greater control over its Program.

In addition to their existing fiduciary role in investing the fund of funds portfolios, the HFoF managers have also agreed contractually to serve as HFAs, acting as a fiduciary, to support LACERA ~~directly~~ investing directly in hedge funds. ~~The HFAs will provide these services as a fiduciary.~~ The roles and responsibilities of the HFA are further described in ~~section IV of this~~the OPP. LACERA issued a Request for Proposal for a Consultant(s) in the Hedge Funds, Credit and Real Assets categories. When and if LACERA selects a separate Hedge Fund Consultant, the Consultant will act as an HFA.

Hedge Fund Program Portfolio Types

1. Diversified Hedge Fund of Funds: HFoF portfolio managed by an external HFoF manager who invests across ~~major~~ hedge fund strategies. HFoF managers have discretion to construct portfolios consistent with the Hedge Fund section of LACERA's Investment Policy Statement and any individual portfolio guidelines. Each HFoF manager identifies, selects, and monitors these investment strategies as part of a diversified portfolio.[12]

~~2. Credit Hedge Fund of Funds: HFoF portfolio managed by an external HFoF manager that invests primarily in credit strategies. These strategies typically are oriented to longer-term investments and require capital lock-up periods of one to five years, generally longer than those in the Diversified HFoF. These are held in limited-life vehicles whereby substantially all of the capital is expected to be returned within the limited life of the vehicle.~~

~~3.~~2. Direct Hedge Funds: ~~Portfolio~~ Diversified portfolio of hedge funds invested across ~~major~~ hedge fund strategies, with LACERA selecting the ~~hedge funds.~~ managers and strategies. LACERA retains discretion to construct and maintain a portfolio consistent with the Program policies including the OPP and this ~~OPP.~~ HFAIP. As additional resources, the HFAs provide independent due diligence and technical assistance to LACERA in support of areas including market research, ~~manager~~investment due diligence, operational due diligence, portfolio construction, and risk aggregation.

[12]The Fund's contractual relationship with Goldman Sachs Asset Management regarding the diversified HFoF portfolio is through a discretionary investment management agreement rather than a fund agreement in part because those underlying funds are held directly in the Fund's name.

~~The table on page 5~~

Table 3 shows the current allocation to the portfolio types among LACERA's ~~entire~~ Hedge Funds Program and defines the allowable allocation range for the Program. ~~As of yet,~~

Table 3

LACERA ~~has not begun investing in a direct hedge fund portfolio.~~**Hedge Funds Program**

~~**LACERA HEDGE FUND**~~
~~**CURRENT AND ALLOWABLE ALLOCATION BY PORTFOLIO TYPE**~~
Current and Allowable Allocation By Portfolio Type

Portfolio Type	~~**Net Asset Value as of June 30, 2017 ($ million)**~~	~~**Allocation %**~~	**Allowable Allocation Range**
Diversified Hedge Fund of Funds[13]	~~919~~	~~64%~~	~~15~~0-90%
~~Credit Hedge Fund of Funds~~	~~524~~	~~36%~~	~~10-45%~~
Direct Hedge Funds	~~0~~	~~0%~~	0-~~75~~100%
Total Program	~~**$1,443**~~	~~**100%**~~	

~~Note: If all $6 million in unfunded commitments to the credit HFoF was funded and added to the existing Program, the credit HFoF would be 37% of the total Hedge Funds Program and the diversified HFoF would be 63% of the Program.~~

6. Investment Strategy Categories

LACERA's achievement of its Hedge Funds Program objectives requires an ability to adjust portfolio allocations across various hedge fund strategy categories~~,~~ since each may respond differently to prevailing market environments~~ differently.~~ . The Program-level investment category constraints (~~page 6~~shown in **Table 4)** limit strategy category exposures in order to promote diversification across~~ ~~ strategy categories while also being flexible enough to allow for tactical shifts in and out of strategies based on their relative attractiveness and the market environment.

[13]When invested to reach the ~~5~~4% strategic asset allocation Total Fund target, ~~20~~22% of the Hedge Funds Program would be approximately $500 million (at a $~~50~~56 billion Total Fund valuation). LACERA's initial allocation to its two HFoF managers was $250 million each. This minimum level of investment is necessary for LACERA to continue to receive HFA services as part of its agreements with the HFoF managers. ~~20~~Approximately 22% of the Program is the longer- term target for the diversified HFoFs after LACERA reaches its ~~5~~4% strategic allocation target.

The constraints for each of the six investment strategy categories (defined and discussed below) are measured on a look-through basis[14]~~. Additionally, individual.~~[15] Individual fund of fund portfolios have investment guidelines that are consistent with or more limiting than these Program-level constraints.

Definitions for the categories generally draw from the index definitions created by HFR. HFR's definitions of the first four categories ~~below~~in the table are objective and follow predetermined rules which place all eligible hedge funds in their Global Index into one of these four categories. However, solely using these four definitions ~~are~~can be limiting to broad portfolio construction, and LACERA has broadened the strategy categories to include Hedged Credit and Multi-Strategy. While the six categories are commonly used, they do not represent an exhaustive list that covers all possible hedge fund investments. The Program may invest in some funds that are not well ~~categorized~~ described by one of these ~~strategies~~strategy definitions if they otherwise meet ~~the other~~broad objectives and constraints established for the Program.

Additionally, LACERA may consider investing in "~~alternative beta~~hedge fund premia" or replication-type strategies that seek to obtain systematic exposures to investment themes used by hedge funds~~ or market exposures~~, but at a lower cost. These strategies are expected to fall within the six strategy categories ~~shown~~identified below.

~~TOTAL PROGRAM~~

Table 4

Diversified Hedge Funds Investment Allocation Constraints by Strategy Category

Strategy	Strategy Constraint	Target Allocation of Direct Portfolio
Event Driven (excluding Hedged Credit)	Maximum 40%	7.5%
Relative Value	Maximum 60%	15%
Hedged Equity ~~Hedge~~	Maximum 40%	15%
Macro~~ (Directional~~/Tactical~~)~~ Trading	Maximum 50%	15%
Hedged Credit	Maximum 60%	7.5%
Multi-Strategy	Maximum 60%	40%

The table includes the target allocation for the direct portfolio when it is fully invested by year end 2019.

~~[14] Look-through basis for the Hedge Funds Program is defined as the total strategy category allocation throughout all the underlying portfolios in the Program, viewed independently of their portfolio structure.~~

[15] Look-through basis for the Hedge Funds Program is defined as the total strategy category allocation based on the underlying portfolios in the Program, viewed independently of their portfolio structure.

LACERA recognizes the opportunistic nature of investing in these strategies and will allow ~~Staff and the HFoF managers some~~ latitude ~~outside~~regarding the lower and upper limits of ~~the ranges.~~ allocation constraints and targets. In the short term, as LACERA ~~builds~~sequentially ramps up its allocations in the direct portfolio to reach the ~~5%~~4% Total Fund target allocation, some individual fund allocations may cause ~~material~~large changes in the strategy allocation weights in the direct portfolio. Thus, these strategy constraints ~~may~~might not be met ~~while the direct portfolio is being constructed through~~during the ~~fourth quarter of 2018.~~ ramp up phase.

6.1 Event Driven Strategies

Event Driven ("ED") strategies invest in securities of companies undergoing or expected to undergo corporate transactions, including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments. Security types may include equities; senior, junior, or subordinated debt; and derivatives. ED investments may include exposure to equity markets, credit markets, and idiosyncratic, company-specific developments. Investment ideas are typically fundamental rather than quantitative and are generally realized around developments affecting a specific company rather than the general market.

The underlying sub-strategies may include activist, credit arbitrage, distressed/restructuring, merger arbitrage, private issue/Regulation D, or special situations.

6.2 Relative Value Strategies

Relative Value ("RV") strategies may invest across equity, fixed income, derivative, or other security types in order to realize an identified valuation discrepancy between securities. Managers' investment ideas may use fundamental and/or quantitative techniques. Fixed income RV strategies are typically quantitative and identify attractive opportunities based on value discrepancies or risk-adjusted spreads between instruments. RV may invest in corporate transactions based on the realization of a pricing discrepancy between related securities, but as opposed to ED, these investments are not based on the outcome of a corporate transaction.

The underlying sub-strategies may include fixed income—convertible bond arbitrage, fixed income—sovereign, statistical arbitrage, option volatility arbitrage, or yield alternatives.

6.3 Hedged Equity ~~Hedge~~ Strategies

Hedged Equity ~~Hedge ("EH~~("HE") strategies maintain long and short[16] positions primarily in equity and equity derivative securities. A wide variety of investment

[16]"Long" positions benefit from asset price increases while "short" positions benefit from asset price decreases.

processes can be employed to arrive at an investment decision, including use of both quantitative and fundamental techniques. The range of processes may include a multi-portfolio manager platform or single portfolio manager structure, a broadly diversified approach or narrow sector or thematic focus, net equity exposures from 100% short to 100% long, use of zero to high levels of leverage, short-term to multi-year holding periods, regional to global geographic market focus, growth to value styles, and small to large market capitalization focus.

The underlying sub-strategies may include equity market neutral, fundamental growth, fundamental value, quantitative directions, sector specific sub-strategies, or short bias.

6.4 Macro (~~Directional/~~Tactical) Strategies

Macro strategies may invest in equity, fixed income, currency, and/or commodity markets in order to benefit from ideas on economic variables and their impact on market movements, or the market movements themselves. Managers employ a variety of techniques including these: discretionary and systematic analysis, top-down and bottom-up ideas, quantitative and fundamental approaches, and long-term and short-term holding periods. Macro strategies are distinct from RV strategies in that the primary investment ideas are based on predicting future market movements~~,~~ rather than realizing valuation discrepancies between securities. In a similar way, while both Macro and ~~Equity Hedge~~Hedged equity strategies may hold equities, Macro equity positions are based on investment ideas that predict market movements and their effect on security prices based on macroeconomic variables, as opposed to EH, where company fundamentals are more important for development of investment ideas.

The underlying sub-strategies may include active trading, commodity (including its subsectors of agriculture, energy, and metals), discretionary currency, systematic currency, discretionary thematic, or systematic diversified.

6.5 Hedged Credit Strategies

Hedged Credit strategies may include investment in all credit securities as well as equities, credit derivatives, sovereign bonds, commodities, currencies, or other hybrid securities. Investment ideas are based on valuation discrepancies between credit instruments, or between credit securities and other security types. Hedged Credit is distinguished from the fixed income RV strategies in that Hedged Credit includes a significant component of investment ideas based on evaluation of credit quality of underlying instruments, rather than based on sovereign debt or interest rate exposures. Also, relative to fixed income RV strategies, Hedged Credit generally has more net exposure in credit markets, is less hedged, and is less leveraged.

The underlying sub-strategies may include corporate, emerging market sovereign, distressed, mezzanine debt, structured credit—residential mortgages, structured credit—commercial mortgages, other asset-backed, bank debt, direct lending, and capital structure arbitrage.

6.6 Multi-Strategy

Multi-Strategy managers invest across some or all of the five main strategy categories and may make tactical shifts among strategies at any given time. ~~–~~Multi-Strategy managers are not expected to have a dominant~~,~~ consistent weighting to any one strategy and instead are expected to have significant investment in more than one strategy category.

SECTION II – PROGRAM POLICIES

Policies for the Program are designed to allow access to returns available in flexible investment strategies that target returns from sources other than equity markets, as equity market risk is the most significant risk in LACERA's Total Fund, while controlling for risks that may lead to large losses.~~–~~ In the Program, controlling risk, limiting downside losses, and dampening overall volatility by diversifying the Total Fund away from general market risks are as important as seeking returns.~~-~~ LACERA adheres to prudent risk management practices by establishing guidelines that mitigate the main sources of risk in the Hedge Funds Program.

1. Risk Management

Hedge fund strategies generally entail a number of identifiable risks that are distinct from or heightened compared to traditional public market strategies. ~~-~~These include both investment-related and operational risks.~~-~~ It is LACERA's policy that the key risks particular to a hedge fund investment strategy be identified and understood. ~~–~~The ~~HFoF managers/HFAs aid~~HFA(s) aids LACERA in identifying, understanding, and monitoring risks in their portfolios and aggregated risks across the ~~program~~Program, including ~~in the other HFoF manager's portfolio~~all fund of funds and ~~LACERA's~~ direct ~~portfolio.~~ portfolios.

The types of risks are summarized in the following five main areas: illiquidity, transparency, leverage, quantitative risk, and operational risk. LACERA's methods for mitigating these risks are supplied below. ~~To~~Staff shall manage risk by applying these risk management practices to the entire Program.

As it relates to transparency risk, to the extent that a hedge fund's risks are opaque and cannot be sufficiently understood or identified, LACERA will not undertake an investment. ~~-~~If risks increase to a level beyond what is allowable in this OPP, LACERA will seek to redeem or reduce investments to bring the Program into compliance.
~~The types of risks are summarized in the following five main areas: illiquidity, transparency, leverage, quantitative risk, and operational risk. LACERA's methods for mitigating these risks are supplied below. Staff shall manage risk by applying the Risk Management Policy to the entire Program.~~

INVESTMENT RISK	METHOD OF MITIGATION
1. Illiquidity – Illiquidity may originate from the form of the assets or securities held by the underlying hedge funds as well as terms of the investment vehicle that delay investors' receipt of cash proceeds from their investments, e.g., lock-up periods, redemption periods, notification periods, or gates.	LACERA generally funds only those hedge funds that ~~are expected to~~ invest primarily in liquid assets. Additionally, the majority of the Program asset value is in hedge funds that have a lock-up period of one year or less and, after expiration of the lock-up period, a majority of Program asset value is in funds that provide for full or partial redemption at least quarterly. Beyond the initial lock-up periods, a liquidity schedule is maintained such that the majority of Program asset value is liquid within one year. ~~While the Program in total complies with this policy, it is recognized that the opportunistic credit portfolio generally invests in less liquid investments than the diversified portfolios and may include individual funds that invest primarily in less liquid assets.~~
2. Transparency – Many hedge funds may not fully disclose current position-level holdings.	LACERA requires ongoing disclosure of either position-level data or risk-exposure-level data from the hedge funds. Position-level data includes all of a fund's security holdings and their amounts. Examples of risk-exposure-level data include net and gross equity exposure, sector level net equity exposure, and net fixed income allocation by sector and credit quality category. Additionally, frequent communication with the hedge funds is undertaken by Staff ~~or~~and the HFA to understand the largest positions in the fund.
3. Leverage – The underlying hedge funds may use leverage, which enables them to gain financial exposure greater than invested capital.	LACERA does not permit excessive use of leverage in the Program. Appropriate leverage levels are dependent on the type of strategies used, the degree to which positions have offsetting risks, and the volatility of the assets held in the fund. The leverage ratio at the strategy level is not permitted to exceed 4.0x for hedged credit, event driven and hedged equity ~~hedge~~, 5.0x for multi-strategy, 8.0x for relative value, and 20.0x for macro and other tactical trading strategies. Portfolio-level leverage is monitored to manage the overall risk level of the Program. Only leverage derived from hedge fund managers' positions is permitted and no additional leverage will be added at the portfolio level.

4. <u>Quantitative Risk</u> – Hedge funds are exposed to a number of quantifiable market risks (e.g., beta and volatility levels).	LACERA's HFAs measure quantitative risks in the Hedge Funds Program through the use of their risk measurement system(s). Risk is evaluated at both the manager level and portfolio level to comply with this policy. The system(s) are used to identify unintentional risks in the portfolio which can be reduced through diversification and to identify portfolio changes which would reduce undesired risk levels while maintaining Program objectives. Other risk analyses used include scenario analysis to determine how the portfolio might behave in certain unfavorable market environments and value-at-risk analysis to identify the potential for losses in severe downside cases.
5. <u>Operational Risk</u> – Hedge fund investments are made through separate legal structures such as limited partnerships. Therefore, additional operational risk can arise when assets leave LACERA's custody.	LACERA invests only in hedge funds where an operational due diligence review determines that the funds' control and compliance environments are sufficient for investment. LACERA invests in funds that are administered by independent third parties, have assets that are held in custody by third parties, and are audited by reputable third parties. The valuation policies of the hedge funds are reviewed periodically to make sure that they are sufficiently strong.

2. Investment Exposure Parameters

At the portfolio level, measurable parameters are employed to mitigate some of the risks that might lead to portfolio losses.

For HFoF portfolios, risks are managed by investment guidelines in place for each portfolio. Though not included in this document, they are consistent with or more strict than the Program-level risk constraints in Section II, Subsection 1, Risk Management, of the OPP.

For LACERA's direct hedge fund portfolio, risk management will be governed by the risk parameters appearing below. Note that this portfolio may be out of the range of these parameters temporarily as LACERA builds its direct hedge fund portfolio to reach the ~~5~~4% target allocation by the fourth quarter of ~~2018.~~ 2019.

Additionally, beyond the time when the ~~5~~4% allocation is reached, fund notification period and redemption terms may prevent LACERA from immediately remediating an exposure outside of these parameters. LACERA will take prompt action to remediate any exposures outside the parameters.

LACERA Direct Hedge Fund Portfolio Risk Parameters

Risk Limits:

Estimated portfolio equity beta[17]	Not to exceed 0.20%
Target range of standard deviation	3-8%
Portfolio-level rate of Return at Severe Case Loss[18]	> -10%

Maximum Leverage by Investment Strategy Category:

Event Driven (excluding Credit)	4x
Relative Value	8x
Hedged Equity ~~Hedge~~	4x
Macro (Directional/Tactical)	20x
Hedged Credit	4x
Multi-Strategy	5x

Number of Investment Managers: The direct portfolio is expected to have between eight and ~~20~~twenty individual hedge funds.

Size of Investments: The minimum size of a hedge fund investment will be $5 million, while the maximum size of investment made will be 20% of LACERA's direct hedge fund market value. For the purposes of this policy, uninvested amounts that bring LACERA's total direct hedge fund investment up to the ~~5~~4% strategic policy allocation target shall be considered when determining the maximum investment.

Partnership/Investment Management Organization Limits: LACERA's share in a single hedge fund partnership or other entity structure will not exceed 35% of that organization's total commitments from all limited partners.

LACERA will limit maximum ~~exposure~~Program investments to any investment management organization such that the aggregate investment with that organization across multiple funds is not greater than 20% of LACERA's direct hedge fund portfolio market value. For the purposes of this policy, uninvested amounts that bring LACERA's total direct hedge fund investment up to the ~~5~~4% policy target shall be considered when determining the maximum investment.

[17] ~~As measured~~Based on forward looking estimates or realized performance measures relative to the MSCI All Country World Index.

[18] Return at Severe Case Loss is determined by applying a consistent measure of an unexpected negative return event for each fund (e.g., downside returns at a two standard deviation event), while applying some level of portfolio correlation by strategy (e.g., 0.4) which implies some level of diversification benefit across strategies.

Liquidity Limits: The portfolio may not invest so that more than 40% of the portfolio value is in funds that are subject to a remaining "lock-up" period greater than one year.

The portfolio may not invest so that more than 25% of the portfolio value is in funds that are subject to a remaining "lock-up" period greater than two years.

The portfolio may not invest so that more than 10% of portfolio value is in funds that are subject to a remaining "lock-up" period greater than three years.

The portfolio may not invest any capital in funds that require a "lock-up" period greater than five years.

Minimum capital invested as a percent of portfolio asset value in funds where full or partial liquidity is available within one quarter (excluding notification periods and after expiration of lock-up periods) is 40%.

Minimum capital invested as a percent of portfolio asset value where liquidity is available within one year (excluding notification periods and after expiration of lock-up periods) is 65%.

Side Pocket Investments: The portfolio is prohibited from investing in funds that make illiquid, "side pocket,[19]" or "designated" investments. Exceptions are allowable in the following cases:

- When the hedge fund offers investors the ability to opt-out of side pocket investments, in which case LACERA will make such election.

- When the hedge fund documents are silent about the ability to invest in side pocket investments, but LACERA and the HFA reasonably expect that the hedge fund manager will not make side pocket investments.

- When the hedge fund documents allow the ability to invest in side pocket investments, but LACERA and the HFA reasonably expect that the hedge fund manager will not make side pocket investments.

~~3.~~

3. Prohibited Investments

Hostile Takeovers: LACERA avoids investment strategies that primarily involve hostile takeovers, defined as acquisitions opposed by the board of directors of the target company.

[19] Side pocket investments in a hedge fund are usually less liquid than the remainder of the fund and are therefore accounted for differently. Generally, unlike the remainder of the fund, interests in these investments are allocated to investors at the time they are made and not to any future investors. Even if redeeming out of a fund, an investor may not be able to redeem out of its side pocket investments until those investments are realized.

LACERA Hedge Funds Privatization Policy: LACERA avoids investing in hedge funds that are dependent on privatization strategies. LACERA does not aim to promote privatization of public jobs through its Hedge Funds Program.

When performing due diligence prior to making the initial investment in a fund for the direct hedge fund portfolio, Staff and/or the HFA, as applicable, will use reasonable efforts to ascertain the following:

- Whether the fund's main investment strategy includes the privatization of jobs held by LACERA members, and
- Whether other funds operated by the investment management organization, if any, have invested in companies dependent upon privatization of jobs held by LACERA members.

4. Investment Vehicle Guidelines

Limitation of Liability:

LACERA anticipates that its investments in this Program will take place through pooled investment vehicles that limit its liability to the amount of its capital commitment to the fund. LACERA, or its external legal advisors, will review fund documents before investment to determine that they are governed by the laws of a jurisdiction that recognizes and preserves investors' limited liability.

Taxability: LACERA, or its external legal advisors, will also review fund documents and consider the jurisdictions in which the funds are formed to confirm that they are "tax neutral."

5. Legal

Investments are made, managed, and redeemed in compliance with applicable federal, state, and local country-specific laws. Qualified legal counsel selected by the Legal Office, or Legal Office staff, reviews or negotiates fund documents, side letters, and other legal documents associated with investments.

6. Derivatives

Given that hedge fund managers may have discretion to use short selling, leverage, and derivatives, LACERA's Derivatives Policy will not apply to Hedge Funds Program investments.

7. Fees

LACERA requires fee transparency from its investments in hedge funds, specifying the amount of management fees and accrued performance fees which affect LACERA's net performance. LACERA is complying with new California legislation that requires disclosure of hedge fund fees.

SECTION III – PROGRAM PROCEDURES

Investing in hedge funds requires unique investment procedures. This section defines and explains the methodologies used when investing in this Program.

1. Capital Planning

~~In the 2018~~

For each calendar year, a Hedge Funds Annual Investment Plan ("HFAIP"), ~~Staff~~ will ~~recommend a specific~~establish a pace of investing that will result in an allocation that will fall within the target allocation range. Over the next few years, the focus of the HFAIP will be on new allocations to managers to fully fund the direct hedge fund portfolio. LACERA currently invests in diversified fund of funds and direct hedge funds. ~~LACERA currently invests in diversified fund of funds and credit fund of funds. LACERA will invest in the direct hedge fund portfolio after the approval of this policy document and the HFAIP.~~

~~After the full 5% strategic allocation to Hedge Funds is reached (expected by Q4 2018), allocations will be moved from diversified hedge fund of funds to direct hedge funds, so that each diversified hedge fund of funds portfolio will be reduced to an approximate net asset value of $250 million. $250 million is the initial amount allocated to each HFoF manager.~~

~~Once each diversified HFoF portfolio is brought down to approximately $250 million, LACERA may re-evaluate the role of its HFoF managers in its Program. At that time, LACERA may consider alternative investment structures that eliminate one or both HFoF managers and consider the retention of an HFA that acts in a purely advisory capacity.~~

2. Sourcing Investments

Currently the HFoF managers source investments through the resources of their manager research staffs. For the direct portfolio, ~~Staff~~LACERA and the HFA ~~(at Staff's request)~~ will source potential investments and identify those that meet the Program's selection criteria and performance goals. All investment opportunities that meet the established criteria and goals will be considered. ~~In the initial phase of filling the direct hedge fund allocation, LACERA may consider the use of a targeted Request for Information process to assist in selecting funds.~~

LACERA will avoid undue fund or manager overlap or concentration between LACERA's direct hedge fund portfolio and the underlying HFoF portfolio. If LACERA holds or is preparing to hold a fund or manager in its direct hedge fund portfolio, LACERA may prohibit the HFoF managers from holding or adding that fund or manager, or may require the redemption or transfer of a fund or manager already held in a HFoF portfolio.

Methods of sourcing prospective investments include, but are not limited to, the following:

- Meeting investment managers in LACERA's ~~or~~, the HFA's, or investment manager's offices,
- Accessing the ~~HFA's~~ market intelligence or databases from the HFA(s) or other sources,
- Referencing funds already approved for investment by an HFA or HFoF manager,
- ~~Traveling to and holding meetings at the offices of investment managers~~
- Meeting with placement agents who represent investment managers,
- Attending investment conferences to meet investment managers,
- Cold-calling potential investment managers, and
- ~~Accessing proprietary databases to identify potential investment managers~~
- Reading industry publications to keep abreast of people and fund news.

3. Conducting Due Diligence

By conducting due diligence, ~~Staff~~LACERA and the HFA/HFoF manager pursue favorable investments and reject those that do not meet the Program's criteria. Major factors to be considered ~~by either Staff and/or HFA,~~ include, but are not limited to, the following:

- Experience and cohesiveness of the investment manager or principals involved,
- Depth of resources at the investment management organization, including personnel and technology,
- Soundness of the investment manager's strategy,
~~Suitability~~
- Attractiveness of the strategy in the current market environment and the manager's ability to capitalize on it,
- Assessment of the expected risk/return profile of the strategy, including volatility and expected diversification benefits,
~~Appropriateness~~
- Fit and appropriateness of the investment for inclusion in LACERA' s portfolio,
- Manager's knowledge of the securities or instruments used in the investment process,
- Appropriateness of the investment manager's risk management practices,
- Transparency of manager with respect to the strategy,

- Financial health and sustainability of the investment management firm,

- Attribution of the investment manager's track record to skill rather than market factors,

- Compliance with LACERA's guidelines,

- Compliance with all national, state, and local financial, regulatory, and legal requirements and evaluation of any audit reports,

- Observations and findings of a recent full operational due diligence review by the HFA or an external provider which ~~includes~~investigates the manager's operating, control, and compliance environments,

- Consistently positive references and background checks on the investment management firm and key personnel,

- Appropriate level of the investment manager's Environmental, Social, and Governance risk analysis in place~~.~~, and

- Approach to diversity and inclusion at the investment manager organization.

4. Addressing Conflicts of Interest

~~**Staff**~~

LACERA and the HFA will not recommend/make any investment until all identified real and potential conflicts of interest have been assessed and mitigated to the extent deemed appropriate.

5. Structuring and Negotiating Key Terms, Provisions, and Fees

Staff will negotiate terms and provisions and structure fees so as to provide maximum investor protection and value.
~~In order to construct a direct hedge fund portfolio that has lower fees than the "standard" 2% management fee and 20% performance fee,~~
LACERA will consider opportunities to lower fees that some managers may offer for larger allocations, or for extended lock-up terms. Staff may recommend the Board approve exceptions to the policies in this document (e.g. limitations on amount of portfolio value which is subject to remaining lockup periods of greater than two years) for certain hedge funds in order to receive lower fees. LACERA may also consider fee arrangements with a lower management fee, but potentially higher performance fee. LACERA will take into consideration the fee breaks available through its HFA relationship.

6. Approving Investments in the Direct Portfolio

Consistent with LACERA's current governance model, all direct hedge fund investments will be recommended by ~~Staff~~staff and the HFA and will be subject to Board approval.

Any ~~Staff~~staff recommendation of a direct hedge fund investment for Board approval will be accompanied by an opinion memo from an HFA. This memo will address investment merit, risks, fit with LACERA's portfolio, objectives, and constraints, and an assessment of the fund's operating, control, and compliance environment.

~~7.~~

7. Rebalancing and Redeeming Funds in the Direct Portfolio

Investments in a direct hedge fund portfolio require the flexibility to rebalance the portfolio and terminate managers in a timely manner, within the terms of the notification period and fund redemption schedule for each fund.

In order to rebalance the portfolio to take advantage of changes in market opportunities or reflect evolving views on a manager, LACERA will need to add to or partially redeem from certain funds from time to time. When funds are recommended for approval by the Board, ~~Staff~~staff will propose an initial investment amount and maximum allocation. LACERA ~~Staff~~staff may add capital to or reduce amounts invested with already approved managers as long as the value of the new investment amount remains below the maximum allocation amount. A summary of fund additions and redemptions will be reported to the Board periodically~~.~~ through regular quarterly reporting and the monthly CIO Letter.

LACERA may also need to take rapid action to terminate an investment manager for various reasons that include unexplained poor performance, staff turnover, change in fund strategy, evidence of unethical manager behavior, or the existence of more attractive opportunities elsewhere. Staff may terminate funds by requesting a full redemption at the next available redemption period and will promptly report terminations to the Board.

8. Monitoring and Reporting Portfolio Performance

<u>Use of Third Party Administrators in Performance Reporting</u>: In order to provide additional monitoring, independent of reporting provided by HFoF managers, and to provide specialized accounting services for its direct hedge fund portfolio, LACERA requires the use of third party Administrators. Administrators are responsible for accounting for all investor-level activity in a hedge fund portfolio, reporting official independent portfolio valuations and performance on a monthly basis, and reporting interim monthly valuations as required by Staff or the HFoF manager. The selection of Administrators varies by portfolio.

Grosvenor Capital Management ("GCM") is a HFoF manager that uses partnership structures to hold underlying funds for its three portfolios and acts as general partner for its partnerships. As general partner, GCM is responsible for selecting and overseeing the Administrator for these partnerships, and that Administrator delivers valuation and performance reports for each partnership directly to LACERA and its Custodian.

For the Goldman Sachs Asset Management ("GSAM") HFoF portfolio, where LACERA holds the fund interests directly, the fund of funds manager acts under a discretionary Investment Management Agreement. For the GSAM portfolio, LACERA has procured International Fund Services, LLC ("IFS"), a wholly owned division of State Street, LACERA's Custodian, to act as a portfolio-level Administrator. ~~Staff intends for IFS to act~~LACERA may also substitute the Custodian as Administrator for the direct ~~portfolio~~and GSAM portfolios or otherwise evaluate alternative solutions.

Reporting to LACERA's Staff: The Administrators track capital flows, measure returns, and provide monthly portfolio performance reports to ~~Staff.~~ LACERA. Additionally, the HFoF managers provide monthly and quarterly reporting with analyses regarding the portfolios they manage for LACERA. Individual fund managers provide various forms of monthly, quarterly, or annual reports regarding fund positioning, performance, and outlook.

Calculation of Composite Returns: LACERA's Custodian, State Street, receives portfolio values from the Administrators and calculates multiple portfolio composite returns and the Hedge Funds Program composite return~~ in the reporting process. ~~. LACERA's hedge fund performance is consolidated into the Total Fund performance on a one-month lagged basis. This approach allows the Administrator time to capture the closing period cycle for the underlying hedge funds, which have a valuation cycle that often exceeds the global custodian's monthly cutoff for unlagged performance. LACERA may remove the lag in the future if it can obtain sufficient performance data for the hedge fund program within its normally monthly closing cycle.

Reporting to the Board: Staff shall issue quarterly portfolio performance reports to the Board. In addition, ~~Staff~~staff and at least one of the HFAs shall report to the Board at least annually on the performance and status of ~~investments held in the portfolio.~~ the Program. Reports shall include, but not be limited to, such items as the following:

- Risk and return across the Program and its portfolios,
- Summary of investment portfolio performance and its relation to overall market performance,
  - Program impact on the Sharpe ratio of the Total Fund,
- The general investment environment,
- Allocations across different strategies of hedge funds,
- Capital activity such as new commitments, contributions, redemptions, and terminations made since the last report,
- Summary of new investments and redemptions by strategy, and

  Compliance with applicable LACERA policies/risk limitations.

Monitoring Adherence to Strategy: Staff shall monitor the type, amount, and allocation of investments to ensure that the strategy set forth in this document is adhered to. LACERA expects staff and ~~the HFA~~and any HFoF managers to strictly adhere to the ranges set forth in this document, to any other applicable portfolio guidelines, as well as to the investment guidelines as set forth in the HFAIP or as agreed upon from time to time by LACERA and ~~the HFA.~~ any HFoF managers.

9. Implementation Using Separate Accounts or "Funds of One"

LACERA will explore the use of structures which include directly managed separate accounts or "funds of one[20]" that allow LACERA greater operational control over its direct hedge fund investments. The advantages of these structures are that they allow for greater control over assets, lower operational costs, an enhanced negotiating position for lower management and performance fees, full transparency, and an enhanced comfort to take on emerging managers. The disadvantages are greater operational complexity for LACERA and an unwillingness of some fund managers to add to their own operational risk and complexity with these structures. While these structures provide some overall improvements to LACERA, a fund manager's unwillingness to adopt these structures will be considered but not generally used to exclude funds from recommendation.

10. Planning for a Hedge Fund Emerging Manager Program

In 2019, LACERA will also explore strategies through Committee and Board discussions for constructing an emerging manager hedge fund portfolio. Such strategies may include converting all or a portion of an existing Diversified HFoF portfolio mandate to an Emerging Manager HFoF portfolio mandate. This portfolio would follow policies and objectives for emerging manager portfolios that already exist in LACERA's other asset categories.

SECTION IV – SUMMARY OF ROLES AND RESPONSIBILITIES

The roles of the Board, ~~Staff~~staff, HFA, Hedge Fund of Funds Manager, Administrator, Custodian, and the General Consultant are summarized below:

1. Board Responsibilities

- Review and approve the Hedge Funds Objectives, Policies, and Procedures~~.~~,
- Review and approve the HFAIP~~.~~,
- Review performance of the Program with the HFA and/or ~~Staff~~staff at least annually
- Review and approve direct allocations to externally managed funds and fund of funds mandates~~.~~, and

[20] A "Fund of One" structure is a customized investment vehicle such as a Limited Partnership for which LACERA would be the sole limited partner.

- Refer hedge fund investment opportunities to ~~Staff~~staff for evaluation, either directly or with the assistance of the HFA.

2. Staff Responsibilities

- Develop, evaluate, review, and make recommendations to the Board on the Hedge Funds Objectives, Policies, and Procedures,
- Review the HFAIP at least annually, recommending changes to the Board as appropriate,
- Monitor and report on the activities of the HFAs to the Board,
- Conduct searches for HFAs as authorized by the Board,
- Source, screen, evaluate, and recommend investments to the Board in consultation with the HFAs,
- Perform investment due diligence on prospective investment managers and investment opportunities that potentially fit the objectives and constraints of the Program,
- Review with an HFA the operational due diligence findings for managers recommended by ~~Staff~~staff,
- Monitor the investment managers in the direct portfolio on an ongoing basis, and consider their replacement with other more attractive investment opportunities,
- Ensure that adequate measurement systems are implemented to monitor the performance and fees of the Program,
- Meet with the HFA and the Board at least annually to review Program performance, ~~asset~~ allocation to the various hedge fund portfolios and other parameters, and other issues that arise,
- Assure that LACERA has appropriate legal counsel resources to work with ~~Staff~~staff to review terms and conditions on all proposed investment vehicles,
- Document due diligence procedures undertaken for recommended investments, and
- Maintain internal processes for administering LACERA's role in financial operations of direct and HFoF portfolios.

3. HFA~~/~~ and Hedge Fund of ~~Fund~~Funds Manager Responsibilities

- Act as fiduciary throughout all phases of the investment process, as overseen by LACERA~~. Specific processes covered~~ that may include investment sourcing, consideration, evaluation, recommendation, negotiation, reporting, and monitoring ,
- Assist LACERA Board and Staff in identifying potential investment opportunities, conducting due diligence, and monitoring investments,
- For the direct portfolio, provide a written memo and appear at Board meetings in reference to potential fund investments recommended by Staff,
- For the direct portfolio, provide an operational due diligence report addressing the operating, control and compliance environment related to funds and investment management organizations recommended by ~~Staff~~staff,
- Make investment selections within approved fund of funds mandates,
- Serve the interest of the Board in support of its fiduciary obligation to LACERA,
- Carry out strategic or portfolio-based initiatives as directed by the Board~~–~~,
- Review Draft HFAIP~~–~~,
- Provide portfolio performance reporting and evaluation for discretionary portfolios ,
- Meet with the Board and ~~Staff~~staff at least annually to review performance of the hedge fund portfolio(s) and the Program,
- Provide the Board and ~~Staff~~staff with ongoing educational presentations and/or materials covering market conditions and developments as requested,
- Proactively disclose any perceived or actual conflicts of interest which become apparent to the HFA, and
- With respect to the Grosvenor HFoF: act as general partner in HFoF partnership structures and oversee third party administration, perform cash management for fund of funds, and properly oversee all partnership functions.

4. Administrator Responsibilities

- Maintain accounting records and provide timely official portfolio positions to the Custodian, LACERA, and, if applicable, the HFoF manager,
- Calculate monthly performance of each portfolio and provide this data to the Custodian and LACERA,

- Provide interim valuation and performance estimates of each portfolio to LACERA and, if applicable, the HFoF manager~~.~~,

5. Custodian Responsibilities

- Calculate performance of multi-portfolio hedge fund composites and of the Program over various time periods, and

- Provide all Hedge Funds Program performance figures that are consolidated into LACERA's Total Fund performance.

6. General Consultant Responsibilities

- Review the OPP and make any recommendations,

- Review the HFAIP annually~~.~~,

- Review Program-level recommendations for compliance with LACERA policy, and

- Report to the Board on any Program issues, as appropriate.

SUMMARY STATEMENT

~~This document outlines the basic objectives, policies, and procedures of LACERA's Hedge Fund Program as its structure transitions from one invested entirely in fund of funds to one which also includes a directly invested hedge fund portfolio. Subject to future modifications by the Board, this document establishes the parameters for the Program as LACERA increases its investment in hedge funds to reach its 5% strategic allocation (which is expected by Q4 2018).~~

This document establishes the framework and practices by which the Hedge Fund Program is to be implemented. These objectives, policies, and procedures will be updated annually to meet the evolving needs of the Hedge Fund Program.

ATTACHMENT 2

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

HEDGE FUNDS

Objectives, Policies, and Procedures

September 12, 2018

HEDGE FUNDS OBJECTIVES, POLICIES, and PROCEDURES

TABLE OF CONTENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
HEDGE FUNDS OBJECTIVES, POLICIES, AND PROCEDURES

DOCUMENT PURPOSE

The Hedge Funds Objectives, Policies, and Procedures ("OPP") document sets forth in further detail certain elements of LACERA's Diversified Hedge Funds Investment Program (the "Program," "Hedge Funds," or "Hedge Funds Program") which are broadly outlined in LACERA's Investment Policy Statement ("IPS"). The OPP defines the Program's objectives and high level parameters, stipulates the detailed policies that govern the Program, establishes risk management practices, spells out the procedures to be followed, and delineates the responsibilities of the Board of Investments (the "Board"), LACERA staff, the Hedge Funds Advisor(s) ("HFA"), the hedge funds portfolio administrator(s) ("Administrator"), LACERA's custodian (Custodian"), and LACERA's general consultant ("General Consultant"). In essence, the OPP provides the blueprint that guides the structure and implementation of the Program and its underlying portfolios.

SECTION I – PROGRAM OBJECTIVES

1. Introduction

   The Board has determined that, over the long term, inclusion of diversified hedge fund investments will enhance the risk/return characteristics of the Total Fund. As established in the Investment Policy Statement "IPS", the Hedge Funds Program has an objective to reduce the volatility of the Fund without materially decreasing Fund returns. Primarily, the Hedge Funds Program enhances the diversification of the Total Fund portfolio. This objective is achieved through investing in targeted strategies that have low to moderate correlation with public global equity returns, and have historically exhibited moderate return volatility. Hedge funds have historically had greater volatility than fixed income markets while having less than half the volatility of public global equity markets.

2. Role of Hedge Funds in the Total Fund

   The IPS states that the Program objective–to reduce Fund volatility without materially decreasing Fund returns–should be measured and evaluated by the Sharpe ratio[1]. The Program is expected to improve the Sharpe ratio of the Total Fund. Even modest improvements in the Sharpe ratio benefit the Fund's ability to compound returns over the long run.

   Investment decisions regarding the Program's primary objective of reducing volatility while maintaining returns are guided by the following separate objectives: (i) generating returns that exceed a target annualized return of 250 basis points[2] greater than an index of 3-month United States Treasury bills ("T-bills"), (ii) achieving realized volatility of 3-8% as measured by the annualized standard deviation of monthly returns, and (iii) maintaining a Program beta of 0.25 or lower to public global equity markets as measured by the Morgan Stanley Capital International ("MSCI") All Country World Index.

[1] Sharpe ratio is a measure of the excess return of the program over cash divided by program volatility as measured by standard deviation of returns.
[2] Subject to Board approval. Benchmark review scheduled for September 12, 2018 BOI Meeting.

3. Hedge Funds Asset Allocation

In May 2018, the Board established a long-term target allocation to diversified Hedge Funds of 4%. This allocation is part of a newly-created Risk Reduction and Mitigation asset category that also includes investment grade fixed income and cash. Previously the asset allocation target for all hedge funds, including credit hedge funds of funds was 5% of the Total Fund asset value.

Additionally, the new May 2018 allocation policy re-categorized credit hedge fund of funds strategies, previously categorized under the Hedge Funds Program, to a new sub-category called Illiquid Credit within a new asset category named Credit. The credit hedge fund of funds portfolios comprised 0.7% of the Total Fund as of June 30, 2018. The new policy allocation to Illiquid Credit is 3%. The allocation to Illiquid Credit includes other investments apart from Credit hedge fund of funds and will be managed by the Credit team and will continue to be overseen by the Credit and Risk Mitigation Committee (formerly Fixed Income/ Hedge Funds/ Commodities Committee).

Any reference to the Diversified Hedge Funds Investments (the “Program,” “Hedge Funds,” or “Hedge Funds Program”) herein will exclude credit hedge fund of funds investments.

As of June 30, 2018, the actual Hedge Funds Program allocation is 2.2% of the Total Fund[3]. As the actual allocation is currently below the long-term target allocation, which is planned to be reached in Q4 2019, an interim target allocation for Diversified Hedge Fund Investments is being recommended at the September 2018 BOI meeting to be 3.0% at the beginning of 2Q19. The Diversified Hedge Funds policy allocation is planned to change in the following quarters as shown in **Table 1** below.

Table 1
Target Hedge Funds Allocation by Quarter

Calendar Quarter	Target Diversified Hedge Funds Allocation
Current	2.2%
Q2 2019	3.0%
Q4 2019	4.0%

The Total Fund asset allocation policy in the IPS limits the actual Hedge Funds allocation to a range around the target allocation whereby the minimum allocation is the lower of 0% or 4% less than target, and the maximum allocation is 2% greater than the target. Thus, at the proposed 3% target allocation, the hedge funds allocation range is 0% to 5%. At the final 4% target allocation, the allocation range will be 0% to 6%.

[3]$1.23 billion asset value of Hedge Funds and $56.0 billion Total Fund asset value.

4. Program Objectives and Parameters

4.1 Program Benchmark Return

A recommendation to the Board of Investments is being made at the September 2018 BOI meeting which, consistent with the General Consultant's capital market assumptions, would make the primary Diversified Hedge Fund Program benchmark an annualized return of 250 basis points greater than an index of 3-month United States Treasury bills ("T-bills")[4]. The benchmark is used to evaluate the performance of the Program over three to seven years. When measuring realized returns against this objective, the returns are net of all fees charged by underlying hedge funds and any fund of funds managers.

Program returns are also measured against a universe of similar hedge fund strategies, as provided by a reliable third party source such as Hedge Fund Research, Inc. ("HFR"). By measuring performance over three to seven years, the Program's performance relative to a fund universe can be considered. **Table 2** identifies benchmarks for each portfolio type within the Program. A description for each portfolio follows in Section 5 of this HFAIP.

Table 2
Fund Benchmarks by Type

<table>
<tr><th>Portfolio Type</th><th>Primary Benchmark</th><th>Secondary Benchmark</th></tr>
<tr><td>Diversified Hedge Fund of Funds</td><td rowspan="3">3 month
T-bills plus 250 bps annualized[5]</td><td rowspan="3">HFRX Global Index[6]</td></tr>
<tr><td>Direct Hedge Funds</td></tr>
<tr><td>Total Diversified Hedge Funds Portfolio</td></tr>
</table>

[4] This benchmark has been 500 basis points greater than an index of 3-month United States Treasury bills ("T-bills") since the inception of the program.

[5] Subject to BOI approval.

[6] The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, hedged equity, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted. *Source: Hedge Fund Research, Inc.*

4.2 Program Parameters

The Diversified Hedge Funds Program is expected to have volatility greater than that of fixed income markets but less than that of public equity markets, generally at a level of less than half of public equity market volatility. Realized volatility, as measured by standard deviation of returns, is expected to range from 3-8% over three-year rolling time periods. The program is expected to have low to moderate correlation with public global equities and will be managed by maintaining a portfolio equity beta[7] of 0.25 or lower.

5. Investment Structure

The Fund currently invests in two diversified portfolio types in the Program (hedge fund of funds and direct hedge funds).

The Fund currently deploys capital to two Hedge Fund of Fund ("HFoF") managers - Grosvenor Capital Management ("GCM") and Goldman Sachs Asset Management ("GSAM"). GCM and GSAM each run a diversified HFoF portfolio for the Program. GCM also runs two credit HFoF portfolios which are categorized under the Illiquid Credit sub-category in the Credit asset category.

As the Program implementation moves forward, direct hedge fund investments are used for the advantages they provide to the Fund, namely that they are not subject to the additional layer of fees paid to fund of funds managers, they facilitate direct relationships with hedge fund managers, and they allow the Fund to have greater control over its Program.

In addition to their existing fiduciary role in investing the fund of funds portfolios, the HFoF managers have also agreed contractually to serve as HFAs, acting as a fiduciary, to support LACERA investing directly in hedge funds. The roles and responsibilities of the HFA are further described in the OPP. LACERA issued a Request for Proposal for a Consultant(s) in the Hedge Funds, Credit and Real Assets categories. When and if LACERA selects a separate Hedge Fund Consultant, the Consultant will act as an HFA.

Hedge Fund Program Portfolio Types

1. Diversified Hedge Fund of Funds: HFoF portfolio managed by an external HFoF manager who invests across hedge fund strategies. HFoF managers have discretion to construct portfolios consistent with the Hedge Fund section of LACERA's Investment Policy Statement and any individual portfolio guidelines.

[7] Portfolio equity beta is a measurement of a portfolio's volatility relative to equity market returns. A portfolio with a beta of 1.0 has the same volatility as the equity market. Mathematically, historical beta can be viewed as the slope of the regression line of portfolio returns against market returns. The Morgan Stanley Capital International All Country World Index is used as the global equity market reference against which to measure equity beta realized by the Program.

Each HFoF manager identifies, selects, and monitors these investment strategies as part of a diversified portfolio.[8]

2. Direct Hedge Funds: Diversified portfolio of hedge funds invested across hedge fund strategies, with LACERA selecting the managers and strategies. LACERA retains discretion to construct and maintain a portfolio consistent with the Program policies including the OPP and this HFAIP. As additional resources, the HFAs provide independent due diligence and technical assistance to LACERA in support of areas including market research, investment due diligence, operational due diligence, portfolio construction, and risk aggregation.

Table 3 shows the current allocation to the portfolio types among LACERA's Hedge Funds Program and defines the allowable allocation range for the Program.

Table 3
LACERA Hedge Funds Program
Current and Allowable Allocation By Portfolio Type

Portfolio Type	Allowable Allocation Range
Diversified Hedge Fund of Funds[9]	0-90%
Direct Hedge Funds	0-100%
Total Program	

6. Investment Strategy Categories

LACERA's achievement of its Hedge Funds Program objectives requires an ability to adjust portfolio allocations across various hedge fund strategy categories since each may respond differently to prevailing market environments. The Program-level investment category constraints (shown in **Table 4)** limit strategy category exposures in order to promote diversification across strategy categories while also being flexible enough to allow for tactical shifts in and out of strategies based on their relative attractiveness and the market environment.

The constraints for each of the six investment strategy categories (defined and discussed below) are measured on a look-through basis.[10] Individual fund of fund

[8]The Fund's contractual relationship with Goldman Sachs Asset Management regarding the diversified HFoF portfolio is through a discretionary investment management agreement rather than a fund agreement in part because those underlying funds are held directly in the Fund's name.

[9]When invested to reach the 4% strategic asset allocation Total Fund target, 22% of the Hedge Funds Program would be approximately $500 million (at a $56 billion Total Fund valuation). LACERA's initial allocation to its two HFoF managers was $250 million each. This minimum level of investment is necessary for LACERA to continue to receive HFA services as part of its agreements with the HFoF managers. Approximately 22% of the Program is the longer term target for the diversified HFoFs after LACERA reaches its 4% strategic allocation target.

[10]Look-through basis for the Hedge Funds Program is defined as the total strategy category allocation based on the underlying portfolios in the Program, viewed independently of their portfolio structure.

portfolios have investment guidelines that are consistent with or more limiting than these Program-level constraints.

Definitions for the categories generally draw from the index definitions created by HFR. HFR's definitions of the first four categories in the table are objective and follow predetermined rules which place all eligible hedge funds in their Global Index into one of these four categories. However, solely using these four definitions can be limiting to broad portfolio construction, and LACERA has broadened the strategy categories to include Hedged Credit and Multi-Strategy. While the six categories are commonly used, they do not represent an exhaustive list that covers all possible hedge fund investments. The Program may invest in some funds that are not well-described by one of these strategy definitions if they otherwise meet broad objectives and constraints established for the Program.

Additionally, LACERA may consider investing in "hedge fund premia" or replication-type strategies that seek to obtain systematic exposures to investment themes used by hedge funds, but at a lower cost. These strategies are expected to fall within the six strategy categories identified below.

Table 4
Diversified Hedge Funds Investment Allocation Constraints by Strategy Category

Strategy	Strategy Constraint	Target Allocation of Direct Portfolio
Event Driven (excluding Hedged Credit)	Maximum 40%	7.5%
Relative Value	Maximum 60%	15%
Hedged Equity	Maximum 40%	15%
Macro/Tactical Trading	Maximum 50%	15%
Hedged Credit	Maximum 60%	7.5%
Multi-Strategy	Maximum 60%	40%

The table includes the target allocation for the direct portfolio when it is fully invested by year end 2019.

LACERA recognizes the opportunistic nature of investing in these strategies and will allow latitude regarding the lower and upper limits of allocation constraints and targets. In the short term, as LACERA sequentially ramps up its allocations in the direct portfolio to reach the 4% Total Fund target allocation, some individual fund allocations may cause large changes in the strategy allocation weights in the direct portfolio. Thus, these strategy constraints might not be met during the ramp up phase.

6.1 Event Driven Strategies

Event Driven ("ED") strategies invest in securities of companies undergoing or expected to undergo corporate transactions, including mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments. Security types may include equities; senior, junior, or subordinated debt; and derivatives. ED investments may include exposure to equity markets, credit markets, and idiosyncratic, company-specific developments. Investment ideas are typically fundamental rather than quantitative and are generally realized around developments affecting a specific company rather than the general market.

The underlying sub-strategies may include activist, credit arbitrage, distressed/restructuring, merger arbitrage, private issue/Regulation D, or special situations.

6.2 Relative Value Strategies

Relative Value ("RV") strategies may invest across equity, fixed income, derivative, or other security types in order to realize an identified valuation discrepancy between securities. Managers' investment ideas may use fundamental and/or quantitative techniques. Fixed income RV strategies are typically quantitative and identify attractive opportunities based on value discrepancies or risk-adjusted spreads between instruments. RV may invest in corporate transactions based on the realization of a pricing discrepancy between related securities, but as opposed to ED, these investments are not based on the outcome of a corporate transaction.

The underlying sub-strategies may include fixed income—convertible bond arbitrage, fixed income—sovereign, statistical arbitrage, option volatility arbitrage, or yield alternatives.

6.3 Hedged Equity Strategies

Hedged Equity ("HE") strategies maintain long and short[11] positions primarily in equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including use of both quantitative and fundamental techniques. The range of processes may include a multi-portfolio manager platform or single portfolio manager structure, a broadly diversified approach or narrow sector or thematic focus, net equity exposures from 100% short to 100% long, use of zero to high levels of leverage, short-term to multi-year holding periods, regional to global geographic market focus, growth to value styles, and small to large market capitalization focus.

The underlying sub-strategies may include equity market neutral, fundamental growth, fundamental value, quantitative directions, sector specific sub-strategies, or short bias.

[11] "Long" positions benefit from asset price increases while "short" positions benefit from asset price decreases.

6.4 Macro (Tactical) Strategies

Macro strategies may invest in equity, fixed income, currency, and/or commodity markets in order to benefit from ideas on economic variables and their impact on market movements, or the market movements themselves. Managers employ a variety of techniques including these: discretionary and systematic analysis, top-down and bottom-up ideas, quantitative and fundamental approaches, and long-term and short-term holding periods. Macro strategies are distinct from RV strategies in that the primary investment ideas are based on predicting future market movements rather than realizing valuation discrepancies between securities. In a similar way, while both Macro and Hedged equity strategies may hold equities, Macro equity positions are based on investment ideas that predict market movements and their effect on security prices based on macroeconomic variables, as opposed to EH, where company fundamentals are more important for development of investment ideas.

The underlying sub-strategies may include active trading, commodity (including its subsectors of agriculture, energy, and metals), discretionary currency, systematic currency, discretionary thematic, or systematic diversified.

6.5 Hedged Credit Strategies

Hedged Credit strategies may include investment in all credit securities as well as equities, credit derivatives, sovereign bonds, commodities, currencies, or other hybrid securities. Investment ideas are based on valuation discrepancies between credit instruments, or between credit securities and other security types. Hedged Credit is distinguished from the fixed income RV strategies in that Hedged Credit includes a significant component of investment ideas based on evaluation of credit quality of underlying instruments, rather than based on sovereign debt or interest rate exposures. Also, relative to fixed income RV strategies, Hedged Credit generally has more net exposure in credit markets, is less hedged, and is less leveraged.

The underlying sub-strategies may include corporate, emerging market sovereign, distressed, mezzanine debt, structured credit—residential mortgages, structured credit—commercial mortgages, other asset-backed, bank debt, direct lending, and capital structure arbitrage.

6.6 Multi-Strategy

Multi-Strategy managers invest across some or all of the five main strategy categories and may make tactical shifts among strategies at any given time. Multi-Strategy managers are not expected to have a dominant consistent weighting to any one strategy and instead are expected to have significant investment in more than one strategy category.

SECTION II – PROGRAM POLICIES

Policies for the Program are designed to allow access to returns available in flexible investment strategies that target returns from sources other than equity markets, as equity market risk is the most significant risk in LACERA's Total Fund, while controlling for risks that may lead to large losses. In the Program, controlling risk, limiting downside losses, and dampening overall volatility by diversifying the Total Fund away from general market risks are as important as seeking returns. LACERA adheres to prudent risk management practices by establishing guidelines that mitigate the main sources of risk in the Hedge Funds Program.

1. Risk Management

Hedge fund strategies generally entail a number of identifiable risks that are distinct from or heightened compared to traditional public market strategies. These include both investment-related and operational risks. It is LACERA's policy that the key risks particular to a hedge fund investment strategy be identified and understood. The HFA(s) aids LACERA in identifying, understanding, and monitoring risks in their portfolios and aggregated risks across the Program, including all fund of funds and direct portfolios.

The types of risks are summarized in the following five main areas: illiquidity, transparency, leverage, quantitative risk, and operational risk. LACERA's methods for mitigating these risks are supplied below. Staff shall manage risk by applying these risk management practices to the entire Program.

As it relates to transparency risk, to the extent that a hedge fund's risks are opaque and cannot be sufficiently understood or identified, LACERA will not undertake an investment. If risks increase to a level beyond what is allowable in this OPP, LACERA will seek to redeem or reduce investments to bring the Program into compliance.

INVESTMENT RISK	METHOD OF MITIGATION
1. Illiquidity – Illiquidity may originate from the form of the assets or securities held by the underlying hedge funds as well as terms of the investment vehicle that delay investors' receipt of cash proceeds from their investments, e.g., lock-up periods, redemption periods, notification periods, or gates.	LACERA generally funds only those hedge funds that invest primarily in liquid assets. Additionally, the majority of the Program asset value is in hedge funds that have a lock-up period of one year or less and, after expiration of the lock-up period, a majority of Program asset value is in funds that provide for full or partial redemption at least quarterly. Beyond the initial lock-up periods, a liquidity schedule is maintained such that the majority of Program asset value is liquid within one year.

2. Transparency – Many hedge funds may not fully disclose current position-level holdings.	LACERA requires ongoing disclosure of either position-level data or risk-exposure-level data from the hedge funds. Position-level data includes all of a fund's security holdings and their amounts. Examples of risk-exposure level data include net and gross equity exposure, sector level net equity exposure, and net fixed income allocation by sector and credit quality category. Additionally, frequent communication with the hedge funds is undertaken by Staff and the HFA to understand the largest positions in the fund.
3. Leverage – The underlying hedge funds may use leverage, which enables them to gain financial exposure greater than invested capital.	LACERA does not permit excessive use of leverage in the Program. Appropriate leverage levels are dependent on the type of strategies used, the degree to which positions have offsetting risks, and the volatility of the assets held in the fund. The leverage ratio at the strategy level is not permitted to exceed 4.0x for hedged credit, event driven and hedged equity, 5.0x for multi-strategy, 8.0x for relative value, and 20.0x for macro and other tactical trading strategies. Portfolio-level leverage is monitored to manage the overall risk level of the Program. Only leverage derived from hedge fund managers' positions is permitted and no additional leverage will be added at the portfolio level.
4. Quantitative Risk – Hedge funds are exposed to a number of quantifiable market risks (e.g., beta and volatility levels).	LACERA's HFAs measure quantitative risks in the Hedge Funds Program through the use of their risk measurement system(s). Risk is evaluated at both the manager level and portfolio level to comply with this policy. The system(s) are used to identify unintentional risks in the portfolio which can be reduced through diversification and to identify portfolio changes which would reduce undesired risk levels while maintaining Program objectives. Other risk analyses used include scenario analysis to determine how the portfolio might behave in certain unfavorable market environments and value-at-risk analysis to identify the potential for losses in severe downside cases.

5. Operational Risk – Hedge fund investments are made through separate legal structures such as limited partnerships. Therefore, additional operational risk can arise when assets leave LACERA's custody.	LACERA invests only in hedge funds where an operational due diligence review determines that the funds' control and compliance environments are sufficient for investment. LACERA invests in funds that are administered by independent third parties, have assets that are held in custody by third parties, and are audited by reputable third parties. The valuation policies of the hedge funds are reviewed periodically to make sure that they are sufficiently strong.

2. Investment Exposure Parameters

At the portfolio level, measurable parameters are employed to mitigate some of the risks that might lead to portfolio losses.

For HFoF portfolios, risks are managed by investment guidelines in place for each portfolio. Though not included in this document, they are consistent with or more strict than the Program-level risk constraints in Section II, Subsection 1, Risk Management, of the OPP.

For LACERA's direct hedge fund portfolio, risk management will be governed by the risk parameters appearing below. Note that this portfolio may be out of the range of these parameters temporarily as LACERA builds its direct hedge fund portfolio to reach the 4% target allocation by the fourth quarter of 2019.

Additionally, beyond the time when the 4% allocation is reached, fund notification period and redemption terms may prevent LACERA from immediately remediating an exposure outside of these parameters. LACERA will take prompt action to remediate any exposures outside the parameters.

LACERA Direct Hedge Fund Portfolio Risk Parameters

Risk Limits:

Estimated portfolio equity beta[12]	Not to exceed 0.20%
Target range of standard deviation	3-8%
Portfolio-level rate of Return at Severe Case Loss[13]	> -10%

[12]Based on forward looking estimates or realized performance measures relative to the MSCI All Country World Index.

[13]Return at Severe Case Loss is determined by applying a consistent measure of an unexpected negative return event for each fund (e.g., downside returns at a two standard deviation event), while applying some level of portfolio correlation by strategy (e.g., 0.4) which implies some level of diversification benefit across strategies.

Maximum Leverage by Investment Strategy Category:

Event Driven (excluding Credit)	4x
Relative Value	8x
Hedged Equity	4x
Macro (Directional/Tactical)	20x
Hedged Credit	4x
Multi-Strategy	5x

Number of Investment Managers: The direct portfolio is expected to have between eight and twenty individual hedge funds.

Size of Investments: The minimum size of a hedge fund investment will be $5 million, while the maximum size of investment made will be 20% of LACERA’s direct hedge fund market value. For the purposes of this policy, uninvested amounts that bring LACERA’s total direct hedge fund investment up to the 4% strategic policy allocation target shall be considered when determining the maximum investment.

Partnership/Investment Management Organization Limits: LACERA's share in a single hedge fund partnership or other entity structure will not exceed 35% of that organization’s total commitments from all limited partners.

LACERA will limit maximum Program investments to any investment management organization such that the aggregate investment with that organization across multiple funds is not greater than 20% of LACERA's direct hedge fund portfolio market value. For the purposes of this policy, uninvested amounts that bring LACERA’s total direct hedge fund investment up to the 4% policy target shall be considered when determining the maximum investment.

Liquidity Limits: The portfolio may not invest so that more than 40% of the portfolio value is in funds that are subject to a remaining “lock-up” period greater than one year.

The portfolio may not invest so that more than 25% of the portfolio value is in funds that are subject to a remaining “lock-up” period greater than two years.

The portfolio may not invest so that more than 10% of portfolio value is in funds that are subject to a remaining “lock-up” period greater than three years.

The portfolio may not invest any capital in funds that require a “lock-up” period greater than five years.

Minimum capital invested as a percent of portfolio asset value in funds where full or partial liquidity is available within one quarter (excluding notification periods and after expiration of lock-up periods) is 40%.

Minimum capital invested as a percent of portfolio asset value where liquidity is available within one year (excluding notification periods and after expiration of lock-up periods) is 65%.

Side Pocket Investments: The portfolio is prohibited from investing in funds that make illiquid, "side pocket,[14]" or "designated" investments. Exceptions are allowable in the following cases:

- When the hedge fund offers investors the ability to opt-out of side pocket investments, in which case LACERA will make such election.
- When the hedge fund documents are silent about the ability to invest in side pocket investments, but LACERA and the HFA reasonably expect that the hedge fund manager will not make side pocket investments.
- When the hedge fund documents allow the ability to invest in side pocket investments, but LACERA and the HFA reasonably expect that the hedge fund manager will not make side pocket investments.

3. Prohibited Investments

Hostile Takeovers: LACERA avoids investment strategies that primarily involve hostile takeovers, defined as acquisitions opposed by the board of directors of the target company.

LACERA Hedge Funds Privatization Policy: LACERA avoids investing in hedge funds that are dependent on privatization strategies. LACERA does not aim to promote privatization of public jobs through its Hedge Funds Program.

When performing due diligence prior to making the initial investment in a fund for the direct hedge fund portfolio, Staff and/or the HFA, as applicable, will use reasonable efforts to ascertain the following:

- Whether the fund's main investment strategy includes the privatization of jobs held by LACERA members, and
- Whether other funds operated by the investment management organization, if any, have invested in companies dependent upon privatization of jobs held by LACERA members.

[14]Side pocket investments in a hedge fund are usually less liquid than the remainder of the fund and are therefore accounted for differently. Generally, unlike the remainder of the fund, interests in these investments are allocated to investors at the time they are made and not to any future investors. Even if redeeming out of a fund, an investor may not be able to redeem out of its side pocket investments until those investments are realized.

4. Investment Vehicle Guidelines

   Limitation of Liability:

   LACERA anticipates that its investments in this Program will take place through pooled investment vehicles that limit its liability to the amount of its capital commitment to the fund. LACERA, or its external legal advisors, will review fund documents before investment to determine that they are governed by the laws of a jurisdiction that recognizes and preserves investors' limited liability.

   Taxability: LACERA, or its external legal advisors, will also review fund documents and consider the jurisdictions in which the funds are formed to confirm that they are "tax neutral."

5. Legal

   Investments are made, managed, and redeemed in compliance with applicable federal, state, and local country-specific laws. Qualified legal counsel selected by the Legal Office, or Legal Office staff, reviews or negotiates fund documents, side letters, and other legal documents associated with investments.

6. Derivatives

   Given that hedge fund managers may have discretion to use short selling, leverage, and derivatives, LACERA's Derivatives Policy will not apply to Hedge Funds Program investments.

7. Fees

   LACERA requires fee transparency from its investments in hedge funds, specifying the amount of management fees and accrued performance fees which affect LACERA's net performance. LACERA is complying with new California legislation that requires disclosure of hedge fund fees.

SECTION III – PROGRAM PROCEDURES

Investing in hedge funds requires unique investment procedures. This section defines and explains the methodologies used when investing in this Program.

1. Capital Planning

   For each calendar year, a Hedge Funds Annual Investment Plan ("HFAIP"), will establish a pace of investing that will result in an allocation that will fall within the target allocation range. Over the next few years, the focus of the HFAIP will be on new allocations to managers to fully fund the direct hedge fund portfolio. LACERA currently invests in diversified fund of funds and direct hedge funds.

2. Sourcing Investments

Currently the HFoF managers source investments through the resources of their manager research staffs. For the direct portfolio, LACERA and the HFA will source potential investments and identify those that meet the Program's selection criteria and performance goals. All investment opportunities that meet the established criteria and goals will be considered.

LACERA will avoid undue fund or manager overlap or concentration between LACERA's direct hedge fund portfolio and the underlying HFoF portfolio. If LACERA holds or is preparing to hold a fund or manager in its direct hedge fund portfolio, LACERA may prohibit the HFoF managers from holding or adding that fund or manager, or may require the redemption or transfer of a fund or manager already held in a HFoF portfolio.

Methods of sourcing prospective investments include, but are not limited to, the following:

- Meeting investment managers in LACERA's, the HFA's, or investment manager's offices,
- Accessing the market intelligence or databases from the HFA(s) or other sources,
- Referencing funds already approved for investment by an HFA or HFoF manager,
- Meeting with placement agents who represent investment managers,
- Attending investment conferences to meet investment managers,
- Cold-calling potential investment managers, and
- Reading industry publications to keep abreast of people and fund news.

3. Conducting Due Diligence

By conducting due diligence, LACERA and the HFA/HFoF manager pursue favorable investments and reject those that do not meet the Program's criteria. Major factors to be considered include, but are not limited to, the following:

- Experience and cohesiveness of the investment manager or principals involved,
- Depth of resources at the investment management organization, including personnel and technology,
- Soundness of the investment manager's strategy,
- Attractiveness of the strategy in the current market environment and the manager's ability to capitalize on it,

- Assessment of the expected risk/return profile of the strategy, including volatility and expected diversification benefits,
- Fit and appropriateness of the investment for inclusion in LACERA' s portfolio,
- Manager's knowledge of the securities or instruments used in the investment process,
- Appropriateness of the investment manager's risk management practices,
- Transparency of manager with respect to the strategy,
- Financial health and sustainability of the investment management firm,
- Attribution of the investment manager's track record to skill rather than market factors,
- Compliance with LACERA's guidelines,
- Compliance with all national, state, and local financial, regulatory, and legal requirements and evaluation of any audit reports,
- Observations and findings of a recent full operational due diligence review by the HFA or an external provider which investigates the manager's operating, control, and compliance environments,
- Consistently positive references and background checks on the investment management firm and key personnel,
- Appropriate level of the investment manager's Environmental, Social, and Governance risk analysis in place, and
- Approach to diversity and inclusion at the investment manager organization.

4. Addressing Conflicts of Interest

LACERA and the HFA will not recommend/make any investment until all identified real and potential conflicts of interest have been assessed and mitigated to the extent deemed appropriate.

5. Structuring and Negotiating Key Terms, Provisions, and Fees

Staff will negotiate terms and provisions and structure fees so as to provide maximum investor protection and value.

LACERA will consider opportunities to lower fees that some managers may offer for larger allocations, or for extended lock-up terms. Staff may recommend the Board approve exceptions to the policies in this document (e.g. limitations on amount of portfolio value which is subject to remaining lockup periods of greater than two years) for certain hedge funds in order to receive lower fees. LACERA may also consider fee arrangements with a lower management fee, but potentially higher performance fee. LACERA will take into consideration the fee breaks available through its HFA relationship.

6. Approving Investments in the Direct Portfolio

Consistent with LACERA's current governance model, all direct hedge fund investments will be recommended by staff and the HFA and will be subject to Board approval.

Any staff recommendation of a direct hedge fund investment for Board approval will be accompanied by an opinion memo from an HFA. This memo will address investment merit, risks, fit with LACERA's portfolio, objectives, and constraints, and an assessment of the fund's operating, control, and compliance environment.

7. Rebalancing and Redeeming Funds in the Direct Portfolio

Investments in a direct hedge fund portfolio require the flexibility to rebalance the portfolio and terminate managers in a timely manner, within the terms of the notification period and fund redemption schedule for each fund.

In order to rebalance the portfolio to take advantage of changes in market opportunities or reflect evolving views on a manager, LACERA will need to add to or partially redeem from certain funds from time to time. When funds are recommended for approval by the Board, staff will propose an initial investment amount and maximum allocation. LACERA staff may add capital to or reduce amounts invested with already approved managers as long as the value of the new investment amount remains below the maximum allocation amount. A summary of fund additions and redemptions will be reported to the Board periodically through regular quarterly reporting and the monthly CIO Letter.

LACERA may also need to take rapid action to terminate an investment manager for various reasons that include unexplained poor performance, staff turnover, change in fund strategy, evidence of unethical manager behavior, or the existence of more attractive opportunities elsewhere. Staff may terminate funds by requesting a full redemption at the next available redemption period and will promptly report terminations to the Board.

8. Monitoring and Reporting Portfolio Performance

Use of Third Party Administrators in Performance Reporting: In order to provide additional monitoring, independent of reporting provided by HFoF managers, and to provide specialized accounting services for its direct hedge fund portfolio, LACERA requires the use of third party Administrators. Administrators are responsible for accounting for all investor-level activity in a hedge fund portfolio, reporting official independent portfolio valuations and performance on a monthly basis, and reporting interim monthly valuations as required by Staff or the HFoF manager. The selection of Administrators varies by portfolio.

Grosvenor Capital Management ("GCM") is a HFoF manager that uses partnership structures to hold underlying funds for its three portfolios and acts as general partner for its partnerships. As general partner, GCM is responsible for selecting and overseeing the Administrator for these partnerships, and that Administrator delivers valuation and performance reports for each partnership directly to LACERA and its Custodian.

For the Goldman Sachs Asset Management ("GSAM") HFoF portfolio, where LACERA holds the fund interests directly, the fund of funds manager acts under a discretionary Investment Management Agreement. For the GSAM portfolio, LACERA has procured International Fund Services, LLC ("IFS"), a wholly owned division of State Street, LACERA's Custodian, to act as a portfolio-level Administrator. LACERA may also substitute the Custodian as Administrator for the direct and GSAM portfolios or otherwise evaluate alternative solutions.

Reporting to LACERA's Staff: The Administrators track capital flows, measure returns, and provide monthly portfolio performance reports to LACERA. Additionally, the HFoF managers provide monthly and quarterly reporting with analyses regarding the portfolios they manage for LACERA. Individual fund managers provide various forms of monthly, quarterly, or annual reports regarding fund positioning, performance, and outlook.

Calculation of Composite Returns: LACERA's Custodian, State Street, receives portfolio values from the Administrators and calculates multiple portfolio composite returns and the Hedge Funds Program composite return. LACERA's hedge fund performance is consolidated into the Total Fund performance on a one-month lagged basis. This approach allows the Administrator time to capture the closing period cycle for the underlying hedge funds, which have a valuation cycle that often exceeds the global custodian's monthly cutoff for unlagged performance. LACERA may remove the lag in the future if it can obtain sufficient performance data for the hedge fund program within its normally monthly closing cycle.

Reporting to the Board: Staff shall issue quarterly portfolio performance reports to the Board. In addition, staff and at least one of the HFAs shall report to the Board at least annually on the performance and status of the Program. Reports shall include, but not be limited to, such items as the following:

- Risk and return across the Program and its portfolios,
- Summary of investment portfolio performance and its relation to overall market performance,

Program impact on the Sharpe ratio of the Total Fund,

- The general investment environment,
- Allocations across different strategies of hedge funds,
- Capital activity such as new commitments, contributions, redemptions, and terminations made since the last report,
- Summary of new investments and redemptions by strategy, and

  Compliance with applicable LACERA policies/risk limitations.

Monitoring Adherence to Strategy: Staff shall monitor the type, amount, and allocation of investments to ensure that the strategy set forth in this document is adhered to. LACERA expects staff and and any HFoF managers to strictly adhere to the ranges set forth in this document, to any other applicable portfolio guidelines, as well as to the investment guidelines as set forth in the HFAIP or as agreed upon from time to time by LACERA and any HFoF managers.

9. Implementation Using Separate Accounts or "Funds of One"

LACERA will explore the use of structures which include directly managed separate accounts or "funds of one[15]" that allow LACERA greater operational control over its direct hedge fund investments. The advantages of these structures are that they allow for greater control over assets, lower operational costs, an enhanced negotiating position for lower management and performance fees, full transparency, and an enhanced comfort to take on emerging managers. The disadvantages are greater operational complexity for LACERA and an unwillingness of some fund managers to add to their own operational risk and complexity with these structures. While these structures provide some overall improvements to LACERA, a fund manager's unwillingness to adopt these structures will be considered but not generally used to exclude funds from recommendation.

10. Planning for a Hedge Fund Emerging Manager Program

In 2019, LACERA will also explore strategies through Committee and Board discussions for constructing an emerging manager hedge fund portfolio. Such strategies may include converting all or a portion of an existing Diversified HFoF portfolio mandate to an Emerging Manager HFoF portfolio mandate. This portfolio would follow policies and objectives for emerging manager portfolios that already exist in LACERA's other asset categories.

SECTION IV – SUMMARY OF ROLES AND RESPONSIBILITIES

The roles of the Board, staff, HFA, Hedge Fund of Funds Manager, Administrator, Custodian, and the General Consultant are summarized below:

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[15]A "Fund of One" structure is a customized investment vehicle such as a Limited Partnership for which LACERA would be the sole limited partner.

1. Board Responsibilities

    - Review and approve the Hedge Funds Objectives, Policies, and Procedures,

    - Review and approve the HFAIP,

    Review performance of the Program with the HFA and/or staff at least annually

    - Review and approve direct allocations to externally managed funds and fund of funds mandates, and

    - Refer hedge fund investment opportunities to staff for evaluation, either directly or with the assistance of the HFA.

2. Staff Responsibilities

    - Develop, evaluate, review, and make recommendations to the Board on the Hedge Funds Objectives, Policies, and Procedures,

    - Review the HFAIP at least annually, recommending changes to the Board as appropriate,

    - Monitor and report on the activities of the HFAs to the Board,

    - Conduct searches for HFAs as authorized by the Board,

    - Source, screen, evaluate, and recommend investments to the Board in consultation with the HFAs,

    - Perform investment due diligence on prospective investment managers and investment opportunities that potentially fit the objectives and constraints of the Program,

    - Review with an HFA the operational due diligence findings for managers recommended by staff,

    - Monitor the investment managers in the direct portfolio on an ongoing basis, and consider their replacement with other more attractive investment opportunities,

    - Ensure that adequate measurement systems are implemented to monitor the performance and fees of the Program,

    - Meet with the HFA and the Board at least annually to review Program performance, allocation to the various hedge fund portfolios and other parameters, and other issues that arise,

    - Assure that LACERA has appropriate legal counsel resources to work with staff to review terms and conditions on all proposed investment vehicles,

- Document due diligence procedures undertaken for recommended investments, and

- Maintain internal processes for administering LACERA's role in financial operations of direct and HFoF portfolios.

3. HFA/Hedge Fund of Funds Manager Responsibilities

- Act as fiduciary throughout all phases of the investment process, as overseen by LACERA that may include investment sourcing, consideration, evaluation, recommendation, negotiation, reporting, and monitoring,
- Assist LACERA Board and Staff in identifying potential investment opportunities, conducting due diligence, and monitoring investments,

- For the direct portfolio, provide a written memo and appear at Board meetings in reference to potential fund investments recommended by Staff,

- For the direct portfolio, provide an operational due diligence report addressing the operating, control and compliance environment related to funds and investment management organizations recommended by staff,

- Make investment selections within approved fund of funds mandates,

- Serve the interest of the Board in support of its fiduciary obligation to LACERA,

- Carry out strategic or portfolio-based initiatives as directed by the Board,

- Review Draft HFAIP,

- Provide portfolio performance reporting and evaluation for discretionary portfolios,

- Meet with the Board and staff at least annually to review performance of the hedge fund portfolio(s) and the Program,

- Provide the Board and staff with ongoing educational presentations and/or materials covering market conditions and developments as requested,

- Proactively disclose any perceived or actual conflicts of interest which become apparent to the HFA, and

- With respect to the Grosvenor HFoF: act as general partner in HFoF partnership structures and oversee third party administration, perform cash management for fund of funds, and properly oversee all partnership functions.

4. Administrator Responsibilities

- Maintain accounting records and provide timely official portfolio positions to the Custodian, LACERA, and, if applicable, the HFoF manager,

- Calculate monthly performance of each portfolio and provide this data to the Custodian and LACERA,

- Provide interim valuation and performance estimates of each portfolio to LACERA and, if applicable, the HFoF manager,

5. Custodian Responsibilities

- Calculate performance of multi-portfolio hedge fund composites and of the Program over various time periods, and

- Provide all Hedge Funds Program performance figures that are consolidated into LACERA's Total Fund performance.

6. General Consultant Responsibilities

- Review the OPP and make any recommendations,

- Review the HFAIP annually,

- Review Program-level recommendations for compliance with LACERA policy, and

  Report to the Board on any Program issues, as appropriate.

SUMMARY STATEMENT

This document establishes the framework and practices by which the Hedge Fund Program is to be implemented. These objectives, policies, and procedures will be updated annually to meet the evolving needs of the Hedge Fund Program.

L//CERA

September 25, 2018

TO: Each Member
Board of Investments

FROM: Board of Investments Real Assets Committee
John McClelland, Principal Investment Officer

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: **RFI RECOMMENDATION**
REAL ESTATE ADMINISTRATIVE SERVICES

RECOMMENDATION

Conduct a Request for Information for Real Estate Administrative Services for approval by the Board of Investments.

BACKGROUND

Staff suggests that a Request for Information be issued to determine whether there is an outside service provider that could perform the real estate-related administrative and operational-related tasks currently done in-house at a reasonable cost while increasing internal controls and transparency to the Fund. A possible additional benefit to the Fund could be making higher and better use of its employees. Incremental benefits may include enhanced performance reporting, entity level accounting, fee transparency and Fund level risk metrics. This process may result in consolidation of the use of external bank accounts and service providers and better aggregate the book of record for the real estate program.[1] It is important to note that third party service providers perform these functions for all other asset categories.

Attachment 1 is the memorandum that staff presented to the Real Assets Committee supporting the recommendation.

OPTIONS AVAILABLE TO THE BOARD

The proposed RFI will help determine whether there are service providers that could efficiently assist LACERA in a cost effective manner. If the Board does not approve issuing the RFI, staff will continue to provide real estate administrative services in-house.

[1] The current book of record for real estate is The Townsend Group and FASD.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

Some topics discussed and opinions expressed by Committee members during its deliberations and staff's response include the following:

There was a discussion about the impact on the number of full-time equivalent (FTE) positions that an external service provider may have. Staff observed that no change in the number of FTEs was anticipated. However, duties of some FTEs may be changed to higher and better uses.

The results of the RFI should include an analysis of the cost of an external administrative service provider compared to the cost of continuing to provide the service internally. There may be ancillary benefits to using an external administrator, such as enhanced performance reporting, entity-level accounting, fee transparency and Fund-level risk metrics.

RISKS OF ACTION AND INACTION

Failure to approve the RFI will result in no changes being made to how real estate administrative services are provided to the Fund. Staff would continue to be responsible for coordinating all administrative matters related to real estate.

CONCLUSION

Fund administration service providers have expanded into real estate and may now offer LACERA a viable way to improve operational accuracy and efficiency while freeing up staff resources. An RFI would allow a complete evaluation of the costs and benefits of using such a service provider. Staff would report findings and conclusions, and possibly a recommendation, to the Board for consideration.

The Committee voted unanimously to recommend the RFI be approved by the Board.

Attachment

NOTED AND REVIEWED:

Jonathan Grabel
Chief Investment Officer

JM/dr

LACERA

ATTACHMENT 1

August 28, 2018

TO: Each Member
Real Asset Committee

FROM: Jon Grabel
Chief Investment Officer

John McClelland
Principal Investment Officer

FOR: September 12, 2018 Real Assets Committee Meeting

SUBJECT: **RFI RECOMMENDATION**
REAL ESTATE ADMINISTRATIVE SERVICES

RECOMMENDATION

Advance a recommendation to conduct a Request for Information for Real Estate Administrative Services for approval by the Board of Investments.

BACKGROUND

The real estate investment program requires a substantial amount of operational-related work to administer. Commingled vehicles make periodic capital calls and distributions. The Fund's separate account activities utilize special purpose entities (or SPEs), such as Title Holding Companies (or THCs) to hold title to real estate. Each THC requires a significant amount of maintenance to protect the integrity of the entity. Further, there are frequent transfers of funds from an entity to/from a LACERA account. The large amount of administrative activity necessitated by these structures requires the full-time equivalent (FTE) of several employees and creates compliance and operational risk to the Fund.

Staff suggests that a Request for Information be issued to determine whether there is an outside service provider that could perform the real estate-related administrative and operational-related tasks currently done in-house at a reasonable cost while increasing internal controls and transparency to the Fund. A possible additional benefit to the Fund could be making higher and better use of its employees. Incremental benefits may include enhanced performance reporting, entity level accounting, fee transparency and Fund level risk metrics. This process may result in consolidation of the use of external bank accounts and service providers and better aggregate the book of record for the real estate program.[1] It is important to note that third party service providers perform these functions for all other asset categories.

[1] The current book of record for real estate is The Townsend Group and FASD.

DISCUSSION

The operational and administrative responsibilities incident with the real estate investment activity of the Fund impact several groups within the organization, including the Executive Office, the Legal Office, Financial Accounting Services Division (FASD) and the Investment Office. Each group devotes significant FTEs to tasks such as:

- Establishing legal SPEs
    - Preparing articles of incorporation
    - Making necessary filings in states of operations
    - Obtaining appropriate federal and state identification numbers
    - Engaging legal service agents in each state where property is held
    - Engaging auditors
    - Maintaining corporate records
    - Holding mandatory corporate meetings
    - Declaring and making dividend distributions to the shareholder

- Establishing and maintaining accounting records
    - Fee validation
    - Book to market value reconciliation

- Creating separate bank accounts for each SPE
    - Administering bank account signature authority

- Reviewing and approving each capital call and distribution

- Preparing wire transfer requests/documentation as needed to/from each SPE to/from LACERA

- Reconciling amounts funded/received for each SPE

Personnel involved in these and related activity include the Assistant Chief Executive Officer, Chief Investment Officer, Principal Investment Officer, Investment Officer, Senior Staff Counsel, Para-legal, Senior Accountant, Staff Accountant, and Finance Analysts I, II, and III. The numerous and detailed tasks that are necessitated by the investment structure create risk to LACERA of compliance lapses or administrative errors.

Providers of fund administrative services have developed increased capability to address the needs and requirements of private real estate investors. They are structurally organized to handle the large amount of detailed activity that is incident to real estate investing.

MANDATE DESCRIPTION

Staff proposes investigating the possibility that LACERA could utilize the services of a fund administrator for real estate. Such a service provider could improve operational accuracy and efficiency. Substantial LACERA resources could be freed up for potential enhanced value creation.

The evaluation of prospective service providers would balance internal controls, portfolio insights and expenses.

According to an eVestment survey conducted in 2018, sixteen firms were identified that provide fund administration services relating to real assets, including real estate. Only five firms reported more than $50 billion of Assets Under Administration (AUA). **TABLE 1** lists the five firms.

TABLE 1
Fund Administration Firms
In Excess of $50 billion of AUA

Company Name	Real Assets AUA ($ in billions)
State Street	$ 165
BNY Mellon Alt. Inv. Svcs.	$ 115
Citco Fund Services	$ 112
RBC I&TS	$ 88
SS&C GlobeOp	$ 76

Source: eVestment Industry Survey. Alternative Fund Administration 2018, May 8, 2018

Staff considers these five firms to be most likely to respond to an RFI from LACERA. However, staff suggests that an open RFI is appropriate and the RFI would not be limited to the five firms listed on TABLE 1.

SCOPE OF WORK

The suggested scope of work would include the administrator performing as much of the administrative and operational tasks relating to LACERA's real estate investment program as possible. Tasks would relate to both commingled fund and separate account activities.

The fund administrator would be charged with:

1. Establishing and maintaining bank accounts as required by LACERA's activity
2. Reviewing and acting on capital draws and distributions
3. Preparing records and reconciliations of investment and banking activity
4. Providing monthly reports on investment and banking activity
5. Reporting investment activity to LACERA's master custodian
6. Fee validation
7. Other duties as determined by a review of the internal operation-related activities

MINIMUM QUALIFICATIONS

Staff proposes an open search be conducted in order to maximize the chances of identifying the best qualified firms that can meet LACERA's needs. Consequently, only two minimum qualifications are suggested.

1. The service provider must have at least three years of history providing fund and program administration services relating to real estate.

2. The service provider must have at least three institutional clients for which real estate fund administration services are provided.

PROPOSED TIMELINE

The proposed timeline for the RFI is outlined in **TABLE 2** below.

TABLE 2
PROPOSED RFI TIMELINE

Date	Task
September 2018	Real Assets Committee
October 2018	Board of Investments
November 2018	Issue RFI
December 2018	RFI Responses Due
December 2018-January 2019	Evaluate RFIs
February 2019	Report Results to Board of Investments

CONCLUSION

Fund administration service providers have expanded into real estate and may now offer LACERA a viable way to improve operational accuracy and efficiency while freeing up staff resources. An RFI would allow a complete evaluation of the costs and benefits of using such a service provider. Staff would report findings and conclusions, and possibly a recommendation, to the Board for consideration.

LACERA

September 21, 2018

TO: Each Member
Board of Investments

FROM: Robert R. Hill RH
Interim Chief Executive Officer

FOR: Board of Investments Meeting of October 10, 2018

SUBJECT: 2018 Milken Institute London Summit on December 4, 2018 in London

The 2018 Milken Institute London Summit will be held on December 4, 2018 in London at the Park Plaza Westminster Bridge Hotel. The Summit will bring together many of the leading minds in business, government, technology, philanthropy, academia, and media. The Summit will focus on the choices the United Kingdom and Europe make and the paths they will each take in the coming months and will answer major questions about their intertwined futures: What is the relationship between prosperity and populism; the balance between independence and isolation; the urgency to ensure both progress and privacy? How will Europe and the U.K. continue to lead advancements in technology, finance, health and workforce at a time of such monumental uncertainty in politics and policy? As the Brexit hour comes round at last, can the center hold or are other unforeseen disruptions at hand?

The main conference highlights include the following:

- Future of Finance: The Artificially Intelligent Hedge Fund
- The Evolution of Impact Investing and ESG
- The Future of European Values, Identity and Politics

The conference meets LACERA's policy of an average of five (5) hours of substantive educational content. The standard hotel rate at the Park Plaza Westminster Bridge hotel is $360.00 per night plus applicable taxes and the registration fee to attend is included in LACERA's annual membership.

If the registration fee is insufficient to pay the cost of the meals provided by the conference sponsor, LACERA must reimburse the sponsor for the actual cost of the meals, less any registration fee paid. Otherwise, the attendee will be deemed to have received a gift equal to the value of the meals, less any registration fee paid, under California's Political Reform Act.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve attendance of Board members at the 2018 Milken Institute London Summit on December 4, 2018 in London and approve reimbursement of all travel costs incurred in accordance with LACERA's Education and Travel Policy.

RH/lg
Attachment

Milken Institute London Summit Public Sessions

Please keep in mind that the following descriptions are drafts and subject to change

PLENARY SESSIONS

The Future of the United Kingdom and the European Union

Relevant Points for this session: Macroeconomic and geopolitical outlook on Europe. Discussion could include: ECB interest rate hikes, trade war, decline of transatlantic alliance, Russian aggression, consequences of Brexit etc.

Fireside Chat Lunch Program

Global Capital Markets

Description: Business models must adapt to global political shifts. How are companies navigating markets with the recent political risk?

BREAKOUT SESSIONS

Finance Focused Breakout Sessions

Future of Finance: The Artificially Intelligent Hedge Fund

Description: From advances in satellite crop imaging and weather surveillance radars to machine learning enabled quantitative analysis, how are hedge funds employing the most cutting-edge technology to determine their investment strategies?

Credit Markets

Description: Europe's credit markets have weakened slightly in 2018 as the European Central Bank plans to cut support. At the same time, global debt markets are shining a bullish light on America's economic trajectory -- while the rest of the world struggles for traction. Where are the best opportunities and takeaways for yield around sovereign and regional trends? How does political risk, industry shifts, impact investors' strategy? What were the biggest lessons learned from 2018?

Asset Management Outlook

Description: The shifting regulations, geopolitical tensions and technologies impact the asset management industry. How are asset managers best positioning themselves to capitalize on these shifts? How are asset managers taking into account evolving risk appetites? What technologies have be the most disruptive or over hyped?

The Evolution of Impact Investing and ESG

Description: The approach to impact investment has changed. Impact is no longer an objective but a core principle in business creation and fund allocation strategies. Second, beyond, impact has shifted from investment to empowerment. Finally, companies are finally becoming more transparent with ESG.

De-risking Emerging Markets Opportunities

Description: Investing in emerging and developing markets offers a unique opportunity to generate yield while potentially financing positive social impact. For the first half of the year, emerging markets showed large amounts of volatility. Despite the selloff, some investors are taking bullish outlooks on the investments. What lessons this year's geo-political events can we apply now to discover new opportunities? When evaluating emerging markets, how do investors calculate political risk, friendly-trade regimes, or effective infrastructure?

Non-Finance Themed Breakout Sessions

US Overview

Description: Each week seems to bring renewed tumult to America's economic and foreign policy prospects. As the Federal Reserve continues to revise interest rates higher, investors' faith in the tech-anchored economy remains largely, and at times seemingly unshakably, bullish. Meanwhile, the message delivered in November's midterm elections will almost certainly influence the direction, ambitions and success of the Trump administration's agenda until 2020. How will this unique blend of unconventional politics and economic policy play out for business and national interests?

The Future of European Values, Identity and Politics

Description: Brexit, populism, the migration crisis and an increasingly common variety of hyper-local terrorist attacks have stoked the conflagration over immigration and social integration across Europe.

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Both sides of the debate say European values and identity are under attack but disagree by whom. In what form does liberal democratic Europe survive this struggle?

Trade Outlook: New Deals and the Price of Protectionism

Description: The Trump administration's trade posture toward China and its European allies may have piqued politicians more than roiled global markets. But is there a tipping point? Can the European Union and United States each emerge from these disruptions with better terms, or is the price of protectionism too great? This session looks into how the maneuvering and deal making will play out, and rates the prospects for America, Europe, the U.K. and China to come out ahead.

Digital Strategies for a Post-GDPR World

Description: In 2018, The European Union scolded Facebook, launched the strictest rules on Earth to protect citizens' online data and, later, slapped a $5.1-billion fine on Google. But the regulations impact is far more reaching than just the tech titans. How are companies adjusting business strategies in this post-GDPR world? Where are the opportunities in a borderless ecosystem like the internet? Are business prepared if European regulatory model turns into a roadmap for the U.S. regulations?

New Rules: Open Banking, FinTech, and Big Tech

Description: Though GDPR has dominated headlines, Open Banking and the European Union's Second Payment Services Directive (PSD2) have set the tone for regulating financial data. By allowing customers to transfer their banking data between institutions, Open Banking and PSD2 are hailed by proponents as a way to make financial markets more competitive. FinTech companies have cheered these changes as an opportunity to level the playing field with traditional banks. But even the competition has competition: Chinese and American tech firms seem poised to challenge both incumbents and FinTechs alike. How will contention for financial services shape up, and what should policymakers consider as they implement the new regulations?

The Future of Human Performance

Description: To maximize our own individual potential, what lessons can we learn from truly exceptional performers—the best of the best in sport, business, the military, the arts, and beyond? This master class

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in exceeding one's self-prescribed limits will investigate the physical, emotional, and cognitive tools that elite performers and coaches use to create extraordinary results, regardless of industry or profession.

The Future of European Security

Description: The Atlantic alliance has been for decades the cornerstone of European security. But geopolitical trends and forces are tearing at the fabric of that compact. To the west, the US government demands that "free-riding" continental allies ramp up their defense spending. To the east, Russia's leadership seeks to restore power lost after the fall of the Berlin Wall; Turkey is evolving in ways incongruent to certain Western values; and China's Belt and Road ambitions extend to Europe's doorstep. Are we on the verge of new European security order? What are the implications for investors and business, and the ripple effects on global security?

Energy Plays In A Carbon-Constrained World

Description: Steady as the growth in renewables and natural gas remains, relentless demand from the United States, Asia and elsewhere point to the continued need for oil to meet global energy needs into the foreseeable future. Although oil for vehicle use may peak by 2030, crude as a source of energy and manufacturing feedstock will remain essential for commercial transportation and chemical production for decades. But as carbon-based energy efficiency increases, how will the smartest energy companies, from the supermajors to venture-backed solar and wind startups, respond to a changing global climate and marketplace, as well as shifts – both telegraphed and unforeseen – in near-term geopolitical and economic conditions?

Solving the Gender Disparity Problem in the Modern Workplace

Description: There are more men named Dave or Steve than there are women leading the top 100 companies on the London stock exchange. (There are also more men named John than women at the top of large companies in the United States.) Clearly, parity is still a dream in development in the U.K. and Europe. In an effort to address that imbalance, Britain has called for women to make up a third of all board members among companies listed on the index by 2020. How can disparity be solved in our lifetimes? What are the chances?

Superbugs: Avoiding an Existential Threat to Humanity

Description: Antimicrobial resistance remains one of the greatest to human life. Untreatable infections, and their economic costs, have risen dramatically in recent years and the trend is not encouraging. How can we effectively limit the use of antibiotics in both hospitals and farms to halt the rise of superbugs, while still keeping us safe from microorganisms?

The Impact of Aging on Global Productivity

Description: As populations around the world age and as national labor forces decline, the average loss in health-related productivity is projected to reach 8.6% GDP by the year 2030. What are the demographic trends facing European, North American and Asian countries, and how might collaboration among governments, NGOs and the private sector mitigate age-related downward pressure on growth?

The Future of Food

Description: By 2050, the world's population will grow to more than nine billion, and our appetite for protein is growing along with it. 60 percent of consumers say they are actively trying to add more protein to their diet – which has the potential to put greater strain on our planet and its resources. This conversation among leading CEOs, investors and academics will explore the sustainability challenges facing us all, plus consumers' ever-evolving demands and the role alternative proteins can play in meeting them.

Philanthropy in Transition: Better Ways of Doing Good

Description: Philanthropy has seen its own share of transition and disruption. The era of passive, keep-your-fingers-crossed grant making has given way to a whole new crop of savvy social entrepreneurs, big data analysts, creative dealmakers, master storytellers, B-corp mavens, and impact investors looking for a world of positive returns. Some of the world's most creative change-makers will share how they are creating long-term, fundamental change by tackling complex issues using best-in-class technologies and sophisticated financial strategies.

Potential Breakout Sessions (these sessions are still tentative)

European Venture Capital: From Unrealized Returns to Large Exists

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Description: European VCs are finally distributing significant returns to their LPs. 2018 saw a record number of large exists from European VCs from the IPO of Adyen to PayPal's acquisition of iZettle. Join our deep dive into opportunities, trends, and challenges in the European VC sector and what to expect in the year ahead.

The Singularity and the Odds of a Dystopian Robot Future

Description: Armed, highly athletic robots are stars on YouTube. Military drones that launch and fly themselves – and pick out and shoot targets without human permission – are already in the air. Consumer-friendly listening posts monitor an increasing number of household conversations. And Russians might have already hacked your smart toaster. In an age in which robots often intellectually and physically outperform humans, how far are we from the dystopian tech vision of *Black Mirror*?

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LACERA

September 28, 2018

TO: Each Member
Board of Investments

FROM: Jude Perez
Principal Investment Officer

FOR: October 11, 2018 Board of Investments Meeting

SUBJECT: **INVESTMENT POLICY STATEMENT – DRAFT 2 DISCUSSION**

At the May 2018 Board of Investments ("Board") meeting, the Board adopted a revised asset allocation for the LACERA Pension Trust. A significant step in implementing the new asset allocation is incorporating the associated changes in LACERA's Investment Policy Statement ("IPS"). A working group consisting of LACERA staff was formed to update the IPS with input from LACERA's legal division and Meketa.

At the September 12, 2018 Board meeting, staff presented a draft revision of LACERA's IPS that included the functional risk framework and asset classes that were approved as part of the new asset allocation. The draft endeavored to elevate the IPS as the Board's primary guiding document by asserting the Board's decision making authority, adding in LACERA's Investment Beliefs, and extracting procedural language as a means to keep the IPS purely policy-oriented. The draft was also updated to reflect current Board policies and industry best practices.

At the meeting, the Board requested specific changes to the draft document. Attached to this memo are clean and red-lined second drafts of the IPS which reflect the feedback from the discussion. In addition, the IPS introduces sections that cover liquidity management, prohibited transactions, and structure reviews. The working group maintains a color-coded version which will be presented to the Board at a future meeting when a comprehensive comparison of all revisions is discussed.

The table below lists each of the Board's requested edits and resultant modifications:

Section	Board Feedback/Comments	Modification
Statement of Purpose, Legal Authority	· Remove Legal Authority from Statement of Purpose and create a stand-alone section · Soften legal tone	✓ Legal Authority made into a stand-alone section (pg. 6) ✓ Legal Counsel re-worded section (pg. 6)
Investment Philosophy and Strategy, Objectives of the Investment Program	· Move "provide the promised benefit" from third to first bullet	✓ The flow of this section mirrors that of LACERA's Mission Statement; re-worded bullets to emphasize the verbs "produce, protect, provide" (pg. 8)
Investment Process, Costs	· Add AB2833 disclosure to section	✓ AB2833 disclosure is California law; legal authority articulates that LACERA, in all respects, follows all applicable laws (pg. 6)
Investment Process, Liquidity Management and Other Functions	· Add language on leverage	✓ Leverage addressed in Investment Process, Prohibited Transactions (pg. 15)
Investment Process, Risk Management	· Make Risk Management a stand-alone section	✓ Risk Management made into a stand-alone section (pg. 16)
Roles and Responsibilities, Third Party Providers	· On diversity, ensure values are still enunciated	✓ A section on Diversity and Inclusion has been added to the Investment Beliefs (pg. 8)
Appendix, Chief Investment Officer Delegated Authorities	· Move the descriptive section of the introductory paragraph to end of document	✓ Moved the descriptive section after the list of delegated authorities (pg. 24)

Additional comments and revisions from the Board will be reflected in the next version of the document.

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer
JP:EDB

Attachment 1

INVESTMENT POLICY STATEMENT

Draft version revised subsequent to September 12, 2018 Board of Investments meeting

21 September 2018

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Table 4: Correlation Matrix

B. Chief Investment Officer Delegated Authorities

List of Attachments

Corporate Governance Principles
Corporate Governance Policy
Responsible Contractor Policy
Emerging Manager Policy

[Other attached policies to be determined and filled in]

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About LACERA

The Los Angeles County Employees Retirement Association ("LACERA") administers a defined benefit retirement plan (the "Fund") and other post-employment benefits ("OPEB" or the "Trust") for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA by ordinance in 1937. LACERA has operated since 1938 and today, serves over 170,000 active and retired members.

LACERA's mission is to "produce, protect, and provide the promised benefits." LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with its *Investment Beliefs* and in consideration of actuarial analysis.

LACERA's Board of Investments (the "Board") is responsible for establishing LACERA's investment policy and objectives, as well as exercising oversight of the investment management for both the Fund and the Trust.

LACERA
Mission Statement:

We Produce, Protect, and Provide the Promised Benefits

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Statement of Purpose

LACERA's Investment Policy Statement (the "IPS") defines the framework by which LACERA manages the assets of the Fund in order to fulfill its mission. The document provides the primary guidance for LACERA's investment activities by outlining the philosophy and structure of LACERA's investment program, describing the general process by which assets are managed, and defining the key roles and responsibilities in LACERA's investment program.

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Legal Authority

The California Constitution and LACERA's governing statutes create a legal framework within which this IPS must be interpreted and implemented by the Board of Investments 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 and its members 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. This fiduciary duty has two components:

- *Duty of Loyalty.* Under the duty of loyalty, Board members have the sole and exclusive responsibility to administer the Fund to ensure prompt delivery of benefits to members and their beneficiaries. In making every decision, the Board must act according to a three-pronged legal formula that balances the interests of the Fund's stakeholders: (1) solely in the interest of providing benefits to members and beneficiaries, (2) to minimize employer contributions, and (3) to defray the expenses of administering the Fund. The Board's duty to members and their beneficiaries takes precedence over any other duty.

- *Duty of Prudence.* Board members must discharge their duties with the care, skill, prudence, and diligence that a prudent fiduciary familiar with the matters and the circumstances of each particular decision would use in the conduct of a similar enterprise with like aims. The Board of Investments must diversify fund investments so as to minimize risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. The Board may invest or delegate the authority to invest Fund assets 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.

B. Ethics and Code of Conflicts

The Board and LACERA 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, 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.

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Investment Policy

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I. Investment Philosophy and Strategy

A. Objectives of the Investment Program

LACERA follows a carefully planned and executed strategic investment program in order to:

i. **Produce** the promised benefits for LACERA members and beneficiaries by achieving the Fund's assumed rate of return on a total return basis over the long-term, consistent with LACERA's mission;

ii. **Protect** the promised benefits on behalf of LACERA members and beneficiaries by mitigating investment risks through Fund diversification and other means, consistent with LACERA's mission; and

iii. **Provide** the promised benefits for LACERA members and beneficiaries, in part, by ensuring adequate liquidity, consistent with LACERA's mission.

B. Investment Beliefs

The Board has adopted the following 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 nature as an institutional investor with a long-term investment horizon in order to achieve the Fund's objectives defined above.

i. Strategic Asset Allocation

Long-term strategic asset allocation will be the primary determinant of LACERA's risk/return outcomes.

a. It is important that LACERA be forward looking as its investment horizon spans decades, if not indefinitely into the future.

b. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection. It is essential to account for LACERA's liabilities in setting long-term investment strategy.

c. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.

ii. Market Efficiency

Markets are largely efficient over the long term (10 – 20 years); however, during certain economic and financial environments markets may not be efficient in setting prices.

a. Consequently, LACERA will allow for modest tactical asset allocation adjustments during times of disruption.

iii. Active versus Passive Management

As markets are largely efficient, passive management, when available, is the preferred structure for investment management; however, the Board recognizes that some asset classes may justify the higher fees and/or expected enhanced returns associated with active management.

a. Consequently, active strategies will be used only when there is strong conviction that they can be expected to add value net of their higher fees, and adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for excess returns.

a. The total capital allocated to illiquid strategies must be kept at a prudent level.

b. The high return potential of these assets needs to be balanced with LACERA's need for liquidity.

c. Liquid assets serve a critical role to fund benefit payments and rebalance the portfolio.

v. Risk

Risk is a broad term used to capture the concept of uncertainty. Since no single metric adequately conveys risk, LACERA will evaluate risk holistically, incorporating quantitative measures and qualitative assessments in managing its portfolio.

a. LACERA operates in a global financial marketplace, and as such, LACERA believes that in order to diversify its risk broadly, it is vital that LACERA possess a global perspective.

b. Diversification across different risk factors is necessary for risk reduction.

c. Markets are cyclical; risk premia, volatility and correlations vary over time.

d. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status and contribution rates.

e. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.

f. For LACERA, not taking enough risk is risky; therefore, LACERA will accept a prudent amount of risk to achieve its long-term target returns.

g. LACERA considers the risks of environmental, social, and governance ("ESG") factors as relevant to its investment process.

h. LACERA believes that conflicts of interest may pose risk; therefore, any perceived conflicts should be identified and explored as a material factor in risk analysis.

vi. Costs and Fees

Investment outcomes are determined by risk, returns, and costs. All three must be managed, and cost is the most certain.

a. Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy.

b. Costs and fees should be actively monitored and negotiated to the greatest extent possible.

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vii. Education

In an increasingly complex and dynamic investment universe, continued education on new concepts and strategies is essential for long-term success.

viii. Diversity and Inclusion

LACERA values diversity and inclusion, and believes that effectively accessing and managing diverse talent – inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture – is a competitive advantage.

C. Strategic Asset Allocation

LACERA fundamentally believes long-term strategic asset allocation will be the primary determinant of risk/return outcomes, and therefore establishes a strategic asset allocation to meet its mission and investment objectives.

LACERA's strategic asset allocation categorizes capital outlays into four groups, defined by the function each allocation is intended to serve in the portfolio: (1) Growth; (2) Credit; (3) Real Assets and Inflation Hedges; and, (4) Risk Reduction and Mitigation. The functional categories include various asset classes that represent the risk/return characteristics of each area. LACERA expects the four functional categories to diversify the Fund and optimize upside growth while mitigating downside risk. The asset allocation determines what proportion of the Fund is allocated to each functional category and underlying asset class, including target weights and allowable ranges as a percentage of the Fund.

In order to determine its strategic asset allocation, LACERA conducts a comprehensive asset allocation study every three to five years, or at the Board's request. The asset allocation study considers a number of factors, such as:

- A projection of actuarial assets, liabilities, benefits payments, contributions, and the actuarial rate of return for the Fund, as well as its current and projected funded status.
- Historical results and expected long-term capital market risk, return and correlation forecasts.
- An assessment of future economic conditions, including inflation and interest rate levels.
- Various risk/return scenarios.
- The Fund's liquidity requirements.

LACERA's approved asset allocation, benchmark table, annualized return and volatility expectations, and correlation estimates are detailed in the tables of the Appendix.

D. Overview of Strategic Asset Allocation

LACERA groups asset classes into the following functional categories:

i. Growth

a. Role in the portfolio: The role of assets in this category is to be the primary driver of long-term total returns for the Fund.

b. Asset Classes: Global Equity, Private Equity, Opportunistic Real Estate.

c. Investment Approach: Growth assets generally represent equity or equity-like interests in current and future income streams. Growth assets include public and private market

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strategies that include both liquid and illiquid investments. LACERA utilizes passive strategies in relatively efficient segments of the market for global equity. LACERA employs active strategies in relatively less efficient market segments of global equities, as well as in private equity and opportunistic real estate.

d. Risk Factors: Growth assets are primarily equity ownership positions that tend to perform well in times of positive economic growth. They are highly sensitive to economic conditions and are subject to potential loss in value based on a number of factors. For example, growth assets may be sensitive to inflation and generally perform poorly in times of high and unexpected inflation. To a lesser extent, growth assets may be sensitive to interest rates due to the use of leverage in certain strategies as well as the relationship between interest rates and the discount rates used to price securities.

ii. Credit

a. Role in the portfolio: LACERA expects assets categorized as Credit to produce current income and moderate long-term total returns. Credit has more moderate levels of risk than assets categorized as Growth, and, accordingly, provides incremental diversification to the total Fund.

b. Asset Classes: High Yield, Bank Loans, Emerging Market Debt, and Illiquid Credit.

c. Investment Approach: Credit assets are generally fixed claims on assets or income streams of an issuer (e.g. government, corporation, asset-backed securities). The category is composed of certain fixed income, hedge funds, real estate, and private debt investments. Investment strategies within this category may have a specific mandate (e.g. high yield or emerging market debt) or be multi-strategy. The investment strategies may be liquid, illiquid, or a combination of both, depending on the nature and terms of the specific investment vehicle. LACERA employs active strategies across all asset classes within the Credit category, but may employ passive strategies in certain segments that are relatively more efficient.

d. Risk Factors: The primary risk for owners of Credit assets is the failure of the borrower to make timely payments of interest and principal. There are three elements of credit risk: the risk of default, the risk of a credit downgrade, and spread risk, which is the risk that investors may demand greater compensation for bearing the first two types of risk. Bonds with credit risk offer a yield premium over government bonds to compensate investors for the additional risk. Bonds with greater credit risk (i.e., bonds with lower credit ratings) are typically less liquid than higher quality bonds.

iii. Real Assets and Inflation Hedges

a. Role in the portfolio: LACERA expects assets in this category to provide income as well as a hedge against inflation, while diversifying the Fund due to the assumed low correlation of returns between these assets and other asset classes.

b. Asset classes: Core and Value-Added Real Estate, Natural Resources/Commodities, Infrastructure, and Treasury Inflation Protected Securities (“TIPS”).

c. Investment Approach: Real Assets generally include physical assets, such as real estate and infrastructure, or securities whose value is derived from a physical asset, such as commodities or natural resources. Assets in this category may be invested in both public and private investments and may be liquid or illiquid, as well as passively or actively managed.

d. Risk Factors: Real Assets and Inflation Hedges are sensitive to inflation. The primary risk for owners of real assets/inflation hedges is that they fail to provide a hedge against long-term changes in inflation. A secondary risk is loss of principal. The value of real estate and natural resources assets may fall, particularly during an economic downturn, but also due to idiosyncratic aspects of each asset. Diversification may offset asset-specific risk. Foreign assets are also subject to currency movements against the U.S. dollar. TIPS are exposed to liquidity risk, as they tend to be less liquid than nominal U.S. Treasuries, particularly during a market environment in which there is a flight to safety.

iv. Risk Reduction and Mitigation

a. Role in the portfolio: LACERA expects assets in this category to provide moderate amounts of current income by generating a modest level of return while also reducing total Fund risks in part by preserving capital in the event of a downturn in equity markets. LACERA anticipates that assets in this category will have a low level of volatility and a low correlation to Growth assets, thereby providing downside protection. In the event of a market correction, these assets could also provide a source of liquidity for benefit payments.

b. Asset classes: Investment Grade Bonds, Diversified Hedge Fund Portfolio, Cash.

c. Investment Approach: The category is composed of investment grade bonds, diversified hedge funds, and cash. Cash is the least volatile asset class, as well as the most liquid; the flexibility it provides during periods of market decline helps to mitigate risk. Investment grade bonds comprise a mix of U.S. Treasuries, corporate debt, and other bonds of high quality, typically rated “BBB” or above by rating agencies. High quality bonds would be expected to protect the total Fund by retaining or increasing their value during a market correction. Diversified hedge funds comprise a variety of hedged investments, such as relative value, arbitrage, and long/short strategies within a diversified portfolio. They would be expected to produce returns at or above high grade bond portfolios, with equal or lower volatility, and be largely uncorrelated with other portfolio assets.

d. Risk Factors: The primary risk factor for Risk Reduction and Mitigation Assets is that they will fail to provide the anticipated level of protection during market downturns. Assets in this category are also subject to additional risks. For example, investment grade bonds are sensitive to fluctuations in interest rates and have some risk of default. Specific hedge fund investments are subject to a variety of risk factors including equity risk, credit risk, interest rate risk, and leverage risk. Cash can include short-term instruments and vehicles where there is a low probability of loss of principal.

E. Performance Objectives

The Fund’s long-term performance objective is to generate risk-adjusted returns that meet or exceed its defined actuarial target as well as its policy benchmark, net-of-fees, over the Fund’s designated investment time horizon. LACERA’s policy benchmarks at the total Fund level, the functional category level, and the asset class level can be found in the Appendix.

F. Rebalancing

LACERA considers rebalancing the Fund a key aspect of prudent long-term portfolio management. LACERA rebalances the Fund’s portfolio in accordance with established guidelines and procedures to adhere to its approved strategic asset allocation, consistent with the Fund’s stated Investment Beliefs. The approved ranges for each functional asset category and underlying asset class are defined in the Appendix.

G. Responsible Stewardship and Beneficial Ownership Rights

In pursuing its investment program, and as part of mitigating risks associated with LACERA's investments, LACERA seeks to manage its investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission. LACERA prudently exercises its rights as an investor to support policies and practices at companies in which LACERA invests, as well as public policies governing financial markets, that are consistent with LACERA's economic interests. In doing so, LACERA aims to promote sustainable, long-term value on behalf of its members and enhance LACERA's ability to fulfill its mission. LACERA has therefore adopted *Corporate Governance Principles* and a *Corporate Governance Policy* (see Attachments). Beneficial ownership rights pertaining to LACERA's investments, including but not limited to proxy voting, are managed in accordance with LACERA's *Corporate Governance Principles* and consistent with LACERA's *Corporate Governance Policy.*

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II. Investment Process

The following sections articulate the general parameters and processes by which LACERA executes its investment strategy, in adherence to established policies and procedures.

A. Structure Review

After an asset allocation study apportions capital across categories, LACERA conducts a structure review to address how to implement each asset category. A structure review establishes the framework for each asset category by addressing its role within a total Fund context. The structure review evaluates the objectives, portfolio composition, related strategic initiatives, and how the portfolio may evolve in the near to medium term. These reviews are presented to the Board of Investments no less frequently than the comprehensive asset allocation study conducted for the total Fund, or at the Board's request.

B. Investment Management

i. Selection and Monitoring

LACERA may utilize internal resources or externally managed portfolios implemented by asset management firms and service providers to effectuate LACERA's investment program. In determining whether to use internal or external resources to implement a specific investment mandate, strategy, or investment-related service, LACERA takes into consideration numerous factors, including, but not limited to, return expectations, associated risks, compliance requirements, and expenses related to the specific strategy or service.

LACERA has adopted formal procedures to guide the selection, appointment, and monitoring of external managers and service providers. LACERA expects any external party that manages Fund assets on behalf of LACERA to serve as a fiduciary.

ii. Costs

LACERA considers the costs and expenses related to executing its investment program to be a crucial component of its fiduciary duty and an important element in determining its strategic asset allocation. In all aspects and functions of its investment program, LACERA seeks to actively identify, assess, and monitor expenses. LACERA expects that the economic terms and conditions by which any external party is compensated for investment-related services should promote an alignment of interests between LACERA and the external party in fulfilling LACERA's mission and investment objectives. Accordingly, LACERA diligently attends to and negotiates the economic terms of investment services rendered to the Fund.

C. Liquidity Management and Other Investment Functions

The following sections provide the general guiding principles and parameters for certain components of LACERA's investment process, including liquidity management, the use of derivative instruments, securities lending, and certain prohibited transactions.

i. Liquidity and Cash Management

Effective cash management is integral to LACERA's investment process. LACERA strives to maintain appropriate levels of liquidity – i.e. the ability to convert investments into cash – in order to meet immediate or short-term obligations and liabilities, such as funding member benefits, meeting capital calls, and rebalancing the portfolio per the strategic asset allocation. LACERA manages liquidity by monitoring the Fund's aggregate liquidity and liquidity risk exposures.

ii. Derivatives Management

LACERA may employ derivative instruments to hedge or gain exposure to certain investments. A derivative is a financial instrument that derives its value from an underlying asset which represents direct ownership of a security or a direct obligation of an issuer. Derivatives may be exchange-traded or traded over-the-counter (OTC). LACERA expects that any use of derivatives by external managers must adhere to LACERA's policies and investment guidelines.

iii. Securities Lending

LACERA may lend designated securities to provide the Fund with additional income generation and offset administrative expenses. LACERA lends eligible securities (both U.S. and Non-U.S. equities and bonds) to approved and qualified borrowers, subject to the terms and conditions specified in LACERA's contract agreements. Any securities lending activity is expected to be transparent to LACERA's external investment managers and should not impede or otherwise impair the investment management process.

iv. Prohibited Transactions

LACERA prohibits the following transactions unless stated otherwise in the investment management agreement:

- "Prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA).
- Transactions that involve a broker acting as a "principal," where such broker is also the investment manager (or an entity related to the investment manager) who is making the transaction.
- Any or all applicable investment activities forbidden by the United States Securities and Exchange Commission or other applicable governing bodies.
- LACERA does not lever the Fund's investment portfolio as a whole. However, leverage is implicit in many investment strategies. LACERA expects that any use of leverage by external managers must adhere to LACERA's established policies and investment guidelines.

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III. Risk Management

LACERA manages risk by establishing and adhering to investment guidelines, pursuing multiple approaches to diversification (such as asset class, geography, liquidity profile, currency, and degree of active management), and conducting regular measurement and analytical exercises. LACERA assumes certain risks to achieve sufficient returns to meet the Fund's financial obligations and investment objectives. Investment risks pertain to the prospect of a permanent loss of capital or of not meeting objectives within the designated timeframe. LACERA seeks to mitigate the impact of a drawdown to the Fund in order to accomplish its investment objectives, reduce volatility, and avoid increased contributions to the Fund from the plan sponsor or employees.

A. Philosophy and Objectives

LACERA considers risk multi-faceted and, therefore, views risk from multiple perspectives. Risk may vary and evolve over time, across sectors or geographic exposures, and depends on the nature and terms of the investment vehicle that LACERA deploys to implement the Fund's investment strategies. Risk may be systematic (i.e. present across the market) or unsystematic (i.e. specific to a particular investment strategy). A risk may pertain to and potentially impact the total Fund, a functional asset category, or individual underlying asset classes.

LACERA seeks to diligently identify, assess, and monitor relevant investment risks throughout the investment process, from determining its strategic asset allocation to ongoing evaluation and monitoring of the Fund's performance. This helps to ensures that risks assumed by the Fund are intentional and are adequately compensated.

B. Approach

LACERA's strategic asset allocation attempts to position the Fund to capture growth while mitigating large drawdowns. LACERA's investment strategy is designed to take intentional risk, called active risk, in order to achieve commensurate investment results. LACERA may define expectations for active return earned per unit of active risk taken for various investment strategies and portfolios.

LACERA seeks to identify and acknowledge the sources and types of risk inherent in each investment strategy. However, LACERA also recognizes that even sophisticated risk measurement techniques may not detect certain risks, including extreme events, in advance. Accordingly, risk models may only provide limited predictive qualities. LACERA endeavors to test and challenge investment strategies and assumptions prior to a capital outlay as well as for ongoing monitoring.

LACERA measures investment risk using multiple metrics on both an absolute and relative basis at all relevant levels (i.e. total Fund, functional asset categories, and underlying asset classes). LACERA also strives to employ stress testing, scenario analyses, and broader financial and economic analyses to understand current and potential risks related to its investment strategy and decisions. LACERA selects appropriate benchmarks to assess and determine whether investment risks taken by the Fund are appropriate in order to achieve expected investment returns.

LACERA may establish a risk budget to set active risk targets for each functional asset category and underlying asset classes. LACERA aims to minimize unintended risk caused by asset allocation drift or other factors.

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IV. Roles and Responsibilities

LACERA has established the following roles and responsibilities to implement its investment program. The duties explained below apply to the Board, staff, and various external parties who collectively oversee and administer the functions necessary for LACERA to accomplish its investment objectives. The overview outlined below is further complemented by the following documents: *Board of Investments Charter*, *Board of Investments Powers Reserved Defined*, *Board of Investments Powers Reserved and Delegated Authorities*, and the *Board of Investments Regulations* (previously referred to as "Bylaws").

A. Board of Investments

i. Board

The exclusive fiduciary responsibility of the Board is to ensure prudent investment and management of the Fund so as to provide for the timely payment of benefits to members and their beneficiaries, minimize employer contributions, and defray the reasonable cost of administration, with the duty to members being paramount. It is the responsibility of the Board to ensure that LACERA employees administer Fund investments at reasonable cost, while preserving the quality of investments. The Board exercises oversight of all aspects of the investment program. The Board oversees the management of the Fund in compliance with all aspects of this IPS and all applicable federal and state laws and regulations concerning the administration of a government pension plan. The Board may request staff and investment consultants to inform and make recommendations to it on matters pertinent to LACERA's investment operations. The Board may also delegate specific authorities to the Chief Investment Officer ("CIO"), as further outlined in the Appendix.

ii. Committees

To assist the Board in carrying out its duties, the Board may establish one or more committees ("Committee"). A Committee makes recommendations to the Board on investment actions related to its area of focus. A Committee may request staff and investment consultants to inform and make recommendations to it on matters pertinent to LACERA's investment program.

B. Staff

i. Chief Executive Officer

The Board of Retirement and Board of Investments jointly appoint the Chief Executive Officer ("CEO"). The CEO is responsible for planning, organizing, and administering the operations of LACERA under policy guidance and direction from the Board of Investments and the Board of Retirement. The CEO exercises administrative oversight of the CIO, excluding investment decisions delegated to the CIO.

ii. Chief Investment Officer and Investment Staff

The CIO and staff assist the Board in performing its fiduciary duty. The internal investment staff reports to the CIO, who in turn reports to the CEO, with the input of the Board. The CIO, with the assistance of staff, has the responsibility and authority to assist the Board in establishing investment and administrative policies. The CIO and staff are responsible for implementing the policies and programs established by the Board. The CIO has primary responsibility for the implementation of the Board's investment decisions. The CIO and staff manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, oversee operational aspects of the Fund, report on the progress of the Fund in meeting its investment objectives, and monitor and report to the Board on the performance of the Fund relative to the appropriate benchmarks. The Board has delegated specific investment authority and responsibility directly to the CIO as described in the Appendix. The CIO is authorized to interact with and communicate directly with the Board regarding all investment-related matters. The CEO does not have any authority over any and all investment decisions that are delegated to the CIO.

iii. Chief Counsel and Legal Staff

The Office of Chief Counsel and legal staff (Legal Counsel) are primarily responsible for legal issues concerning the investment program and advises the Board, the CEO, the CIO, and staff on investment-related legal matters. Legal Counsel advises the Board in performing its fiduciary responsibility. In addition to reliance upon internal resources for such matters, the Chief Counsel, or designee within the Legal Office, may retain external legal counsel, when deemed necessary and appropriate, to advise staff and negotiate and prepare contracts on investment related matters, individual transactions, and provide other investment legal advice to protect LACERA's interests, including its status as a tax-exempt government plan.

C. Third Party Service Providers

LACERA may engage external service providers, as described below, to implement its investment program. All service providers, unless otherwise not applicable, are expected to serve as fiduciaries to the Fund in fulfilling their contracted services.

i. Investment Consultants

An investment consultant works with the Board and staff in the oversight and implementation of investment objectives. The Board's general investment consultant provides advice and recommendations to the Board or Committee regarding LACERA's strategic objectives, risks, oversight and implementation of investment objectives. Investment consultants, both general and specialized, provide advice and recommendations regarding strategic asset allocation, portfolio implementation and oversight of the Fund to the Board, CIO, and staff. Investment consultants report to the Board or the Committee, as directed, and are accountable to the Board.

ii. Custodian Bank

The Custodian Bank ("Bank") serves as a fiduciary in the safekeeping of Fund assets. The Bank is responsible for maintaining the Fund's official accounting book of record, including the ongoing pricing and valuation of all assets, collection of income generated by those assets, any corporate action notification, and performance calculation. The Bank cooperates with and provides assistance to staff and investment managers in the reconciliation process. LACERA may opt to designate other duties to the Bank as stipulated in the professional services agreement. LACERA's investment office works with LACERA's accounting division to manage the custodial relationship.

iii. Investment Managers

Investment managers are selected by the Board and, subject to the terms and conditions of this IPS, serve LACERA through contracts that specify investment guidelines, administrative requirements, responsibilities, and performance expectations for management of each mandate. Investment managers provide reporting to LACERA on the performance of specific investment mandates in adherence to established guidelines and agreements. Staff and consultants synthesize investment managers' performance for presentation to the Board in accordance with established performance monitoring and oversight procedures.

iv. Other Third Party Service Providers

Additional third party service providers may be retained, subject to the terms and conditions of LACERA's established policies and procedures, in order to perform other duties to assist in the administration of the Fund.

Appendix

A. **Investment Tables**

Table 1: Approved Asset Allocation

Asset Class	Target Allocation (%)	Allocation Range +/- (%)
Growth	**47.0**	**+/- 7**
Global Equity	35.0	+/- 7
Private Equity	10.0	+/-3
Opportunistic Real Estate	2.0	+1/-2
Credit-Oriented Fixed Income	**12.0**	**+/- 3**
High Yield Bonds	3.0	+/-3
Bank Loans	4.0	+2/-4
Emerging Market Debt	2.0	+/-2
Illiquid Credit	3.0	+2/-3
Real Assets & Inflation Hedges	**17.0**	**+/- 3**
Core & Value-Added Real Estate	7.0	+/-3
Natural Resources/Commodities	4.0	+/-2
Infrastructure	3.0	+1/-3
TIPS	3.0	+2/-3
Risk Reducing & Mitigating	**24.0**	**+/-6**
Investment Grade Bonds	19.0	+/-6
Diversified Hedge Fund Portfolio	4.0	+2/-4
Cash	1.0	+2/-1
TOTAL FUND	**100.0**	

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Table 2: Benchmark Table

Asset Class	Benchmark
Growth	Custom Blend
Global Equity	TBD
Private Equity	TBD
Opportunistic Real Estate	TBD
Credit-Oriented Fixed Income	Custom Blend
High Yield Bonds	TBD
Bank Loans	TBD
Emerging Market Debt	TBD
Illiquid Credit	TBD
Real Assets & Inflation Hedges	Custom Blend
Core & Value-Added Real Estate	TBD
Natural Resources/Commodities	TBD
Infrastructure	TBD
TIPS	TBD
Risk Reducing & Mitigating	Custom Blend
Investment Grade Bonds	TBD
Diversified Hedge Fund Portfolio	TBD
Cash	TBD
TOTAL FUND	**Custom Blended Policy Benchmark**

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Table 3: Ten-Year Annualized Return and Volatility Expectations

Asset Class	Expected Return (%)	Volatility (%)
Growth	**7.9**	**19.5**
Global Equity	6.7	19.0
Private Equity	9.3	26.0
Opportunistic Real Estate	7.5	25.0
Credit-Oriented Fixed Income	**5.6**	**10.9**
High Yield	5.0	12.5
Bank Loans	5.1	10.0
Emerging Markets Debt	5.1	13.3
Illiquid Credit	6.1	18.0
Real Assets & Inflation Hedges	**5.8**	**11.5**
Core & Value-Added Real Estate	4.0/6.0	12.5/19.0
Natural Resources/Commodities	7.9	23.0
Infrastructure	6.6	17.4
TIPS	3.0	7.5
Risk Reducing & Mitigating	**2.8**	**3.5**
Investment Grade Bonds	2.5	4.0
Diversified Hedge Fund Portfolio	4.0	9.9
Cash	1.5	1.0

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Table 4: Correlation Matrix

Correlation Table

Asset Name	Cash Equivalents	Investment Grade Bonds	TIPS	High Yield Bonds	Bank Loans	Private Debt Composite	Emerging Market Bonds (local)	Global Equity	Private Equity	Real Estate	Natural Resources (Private)	Commodities	Infrastructure	Diversified Hedge Funds
Cash Equivalents	1.00													
Investment Grade Bonds	0.05	1.00												
TIPS	0.05	0.80	1.00											
High Yield Bonds	0.00	0.20	0.30	1.00										
Bank Loans	0.05	0.00	0.20	0.80	1.00									
Private Debt Composite	0.10	0.20	0.10	0.85	0.80	1.00								
Emerging Market Bonds (local)	0.00	0.35	0.40	0.65	0.40	0.65	1.00							
Global Equity	0.00	0.05	0.10	0.70	0.60	0.70	0.70	1.00						
Private Equity	0.10	0.00	0.05	0.72	0.67	0.79	0.52	0.84	1.00					
Real Estate	0.18	0.23	0.09	0.47	0.46	0.37	0.23	0.39	0.41	1.00				
Natural Resources (Private)	0.05	0.10	0.10	0.45	0.40	0.40	0.60	0.60	0.62	0.50	1.00			
Commodities	0.00	0.05	0.35	0.40	0.40	0.35	0.45	0.50	0.32	0.10	0.65	1.00		
Infrastructure	0.20	0.30	0.30	0.61	0.50	0.41	0.61	0.66	0.51	0.61	0.61	0.36	1.00	
Diversified Hedge Funds	0.10	0.05	0.21	0.64	0.60	0.56	0.52	0.68	0.51	0.36	0.52	0.54	0.49	1.00

Asset Name	Growth	Credit	Real Assets	Risk Mitigating
Growth	1.00	0.65	0.41	0.14
Credit	0.65	1.00	0.39	0.23
Real Assets	0.41	0.39	1.00	0.32
Risk Mitigating	0.14	0.23	0.32	1.00

B. Chief Investment Officer Delegated Authorities

The Board has delegated to the CIO the following authorities:

- Authority to approve real estate co-investments according to the Real Estate Co-Investment Policy found in LACERA's Real Estate Objectives, Policies, and Procedures.
- Authority to approve the purchase or sale of any existing fund investment within the Private Equity portfolio in accordance with the LACERA's Private Equity Objectives, Policies and Procedures.
- Authority to sign, or delegate authority to sign, all investment-related contracts and agreements, subsequent to Board approval. Thereafter, authority to sign all amendments and modifications with respect to such contracts and agreements, and make all decisions with respect to their day-to-day operation and implementation where the investment mandate remains substantially unchanged.
- Authority to approve temporary variances from public market investment manager guidelines.
- Authority to approve reductions to investment manager fee schedules and service provider costs.
- Authority to approve variances from LACERA's Fund of Funds sub-manager selection and compliance criteria on a case-by-case basis.
- Authority to limit or freeze manager trading activity pending discussion and action by the Board of Investments. Such actions shall be reported as an informational item as reasonably practicable to the Board of Investments, and no later than the next scheduled meeting of the Board
- Authority to take actions not otherwise specifically delegated, in concurrence with the CEO and the Chair of the Board of Investments, when deemed necessary in the best interest of the Fund and there is not time to take the action to the full Board of Investments. Such actions shall be reported as an informational item as soon as reasonably practicable to the full Board, and no later than the next scheduled meeting of the Board of Investments.
- Authority to rebalance the Fund, approve secondary PE transactions, PE re-ups, Title Holding Companies, and advisory board seats.
- Authority to add capital to, or reduce amounts invested in the already approved hedge fund managers or terminate a hedge fund manager according to established procedures in the hedge funds policies and procedures.

In the event the CIO is not available, and time is of the essence in making a decision, the CEO shall have the authorities identified above. In the event neither the CIO or CEO are available at the time that a decision must be reasonably made under contract or law or to further the best interest of the Fund, a committee comprised of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is comprised of at least one Principal or Senior Investment Officer and one Assistant Executive Officer. The Board will receive written notification of all such actions.

List of Attachments

Corporate Governance Principles
Corporate Governance Policy
Responsible Contractor Policy
Emerging manager Policy

[Other attached policies to be determined]

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Attachment 2

INVESTMENT POLICY STATEMENT

~~Revised d~~Draft version revised subsequent to September 12, 2018 Board of Investments meeting

21~~8~~ September~~August~~ 2018

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List of Attachments

Corporate Governance Principles
Corporate Governance Policy
Responsible Contractor Policy
Emerging Manager Policy

[Other attached policies to be determined and filled in]

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About LACERA

The Los Angeles County Employees Retirement Association (“LACERA”) administers a defined benefit retirement plan (the “Fund”) and other post-employment benefits (“OPEB” or the “Trust”) for employees of Los Angeles County and certain other districts.

The Los Angeles County Board of Supervisors established LACERA by ordinance in 1937. LACERA ~~began~~has ~~been in~~ operated~~ions~~ ~~in~~ since 1938 and today, serves over 1~~65~~70,000 active and retired members.

LACERA’s mission is to “produce, protect, and provide the promised benefits.” LACERA aims to fulfill its mission through prudent investment and conservation of plan assets, in accordance with its *Investment Beliefs* and in consideration of actuarial analysis.

LACERA’s Board of Investments (the “Board”) is responsible for establishing LACERA’s investment policy and objectives, as well as exercising oversight of the investment management for both the Fund and the Trust.

LACERA Mission Statement:

We Produce, Protect, and Provide the Promised Benefits

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Statement of Purpose

LACERA's Investment Policy Statement (the "IPS") defines the framework by which LACERA manages the assets of the Fund in order to fulfill its mission. The document provides the primary guidance for LACERA's investment activities by outlining the philosophy and structure of LACERA's investment program, describing the general process by which assets are managed, and defining the key roles and responsibilities in LACERA's investment program~~cess~~.

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Legal Authority

The California Constitution and LACERA's governing statutes create a legal framework within which this IPS must be interpreted and implemented by the Board of Investments 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 and its members 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. This fiduciary duty has two components:

- *Duty of Loyalty.* Under the duty of loyalty, Board members have the sole and exclusive responsibility to administer the Fund to ensure prompt delivery of benefits to members and their beneficiaries. In making every decision, the Board must act according to a three-pronged legal formula that balances the interests of the Fund's stakeholders: (1) solely in the interest of providing benefits to members and beneficiaries, (2) to minimize employer contributions, and (3) to defray the expenses of administering the Fund. The Board's duty to members and their beneficiaries takes precedence over any other duty.

- *Duty of Prudence.* Board members must discharge their duties with the care, skill, prudence, and diligence that a prudent fiduciary familiar with the matters and the circumstances of each particular decision would use in the conduct of a similar enterprise with like aims. The Board of Investments must diversify fund investments so as to minimize risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. The Board may invest or delegate the authority to invest Fund assets 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.

B. Ethics and Code of Conflicts

The Board and LACERA 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, 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.

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Investment Policy

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I. Investment Philosophy and Strategy

A. Objectives of the Investment Program

LACERA follows a carefully planned and executed strategic investment program in order to:

i. **Produce** the promised benefits for LACERA members and beneficiaries by achieving the Fund's assumed rate of return on a total return basis over the long-term, consistent with LACERA's mission; ~~Achieve the Fund's assumed rate of return on a total return basis over the long-term, consistent with LACERA's mission, in order to ***produce*** the promised benefits for LACERA members and beneficiaries;~~

ii. **Protect** the promised benefits on behalf of LACERA members and beneficiaries by mitigating investment risks through Fund diversification and other means, consistent with LACERA's mission; and ~~Mitigate investment risks through Fund diversification and other means, consistent with LACERA's mission, in order to ***protect*** the promised benefits on behalf of LACERA members and beneficiaries; and~~

iii. **Provide** the promised benefits for LACERA members and beneficiaries, in part, by ensuring adequate liquidity, consistent with LACERA's mission. ~~Ensure adequate liquidity, consistent with LACERA's mission, in order to ***provide*** the promised benefits for LACERA members and beneficiaries.~~

B. Investment Beliefs

The Board has adopted the following 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 nature as an institutional investor with a long-term investment horizon in order to achieve the Fund's objectives defined above.

i. Strategic Asset Allocation

Long-term strategic asset allocation will be the primary determinant of LACERA's risk/return outcomes.

a. It is important that LACERA be forward looking as its investment horizon spans decades, if not indefinitely into the future.

b. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection. It is essential to account for LACERA's liabilities in setting long-term investment strategy.

c. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.

ii. Market Efficiency

Markets are largely efficient over the long term (10 – 20 years); however, during certain economic and financial environments markets may not be efficient in setting prices.

a. Consequently, LACERA will allow for modest tactical asset allocation adjustments during times of disruption.

iii. Active versus Passive Management

As markets are largely efficient, passive management, when available, is the preferred structure for investment management; however, the Board recognizes that some asset classes may justify the higher fees and/or expected enhanced returns associated with active management.

a. Consequently, active strategies will be used only when there is strong conviction that they can be expected to add value net of their higher fees, and adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for excess returns.

a. The total capital allocated to illiquid strategies must be kept at a prudent level.

b. The high return potential of these assets needs to be balanced with LACERA's need for liquidity.

c. Liquid assets serve a critical role to fund benefit payments and rebalance the portfolio.

v. Risk

Risk is a broad term used to capture the concept of uncertainty. Since no single metric adequately conveys risk, LACERA will evaluate risk holistically, incorporating quantitative measures and qualitative assessments in managing its portfolio.

a. LACERA operates in a global financial marketplace, and as such, LACERA believes that in order to diversify its risk broadly, it is vital that LACERA possess a global perspective.

b. Diversification across different risk factors is necessary for risk reduction.

c. Markets are cyclical; risk premia, volatility and correlations vary over time.

d. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status and contribution rates.

e. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.

f. For LACERA, not taking enough risk is risky; therefore, LACERA will accept a prudent amount of risk to achieve its long-term target returns.

g. LACERA considers the risks of environmental, social, and governance ("ESG") factors as relevant to its investment process.

h. LACERA believes that conflicts of interest may pose risk; therefore, any perceived conflicts should be identified and explored as a material factor in risk analysis.

vi. Costs and Fees

Investment outcomes are determined by risk, returns, and costs. All three must be managed, and cost is the most certain.

a. Consideration of net-of-fees returns is an integral part of a successful long-term investment strategy.

b. Costs and fees should be actively monitored and negotiated to the greatest extent possible.

vii. Education

In an increasingly complex and dynamic investment universe, continued education on new concepts and strategies is essential for long-term success.

viii. Diversity and Inclusion

LACERA values diversity and inclusion, and believes that effectively accessing and managing diverse talent – inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture – is a competitive advantage.

C. Strategic Asset Allocation

LACERA fundamentally believes long-term strategic asset allocation will be the primary determinant of risk/return outcomes, and therefore establishes a strategic asset allocation to meet its mission and investment objectives.

LACERA's strategic asset allocation categorizes capital outlays into four groups, defined by the function each allocation is intended to serve in the portfolio: (1) Growth; (2) Credit; (3) Real Assets and Inflation Hedges; and, (4) Risk Reduction and Mitigation. The functional categories include various asset classes that represent the risk/return characteristics of each area. ~~Collectively,~~ LACERA expects the four functional categories to diversify the Fund and~~to~~ optimize upside growth while mitigating downside risk. The asset allocation determines what proportion of the Fund is allocated to each functional category and underlying asset class, including target weights and allowable ranges as a percentage of the Fund.

In order to determine its strategic asset allocation, LACERA conducts a comprehensive asset allocation study every three to five years, or at the Board's request. The asset allocation study considers a number of factors, such as:

- A projection of actuarial assets, liabilities, benefits payments, contributions, and ~~LACERA's~~ the actuarial rate of return for the Fund, as well as ~~the~~its current and projected funded status~~ of the Fund~~.
- Historical results~~behavior~~ and expected long-term capital market risk, return and correlation forecasts.
- An assessment of future economic conditions, including inflation and interest rate levels.
- Various risk/return scenarios.
- The Fund's liquidity requirements.

LACERA's approved asset allocation, benchmark table, annualized return and volatility expectations, ~~current market assumptions, strategic asset allocation targets and ranges,~~ and correlation estimates are detailed in the tables of the Appendix.

D. Overview of Strategic Asset Allocation

LACERA groups~~categorizes defined investible~~ asset classes into the following function~~s~~al categories~~ and investment guidelines~~~~approaches~~:

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i. Growth

a. Role in the portfolio: The role of assets in this category is to be the primary driver of long-term total returns for the Fund.

b. Asset Classes: Global Equity, Private Equity, Opportunistic Real Estate.

c. Investment Approach: Growth assets generally represent equity or equity-like interests in current and future income streams. Growth assets include public and private market strategies that include both liquid and illiquid investments~~mandates~~. LACERA utilizes passive strategies in relatively efficient segments of the market for global equity. LACERA employs active strategies in~~to~~ relatively less efficient market segments of global equities, as well as in private equity and opportunistic real estate.

d. Risk Factors: Growth assets ~~primarily~~ are primarily equity ownership positions that tend to perform well in times of positive economic growth. They are highly sensitive to economic conditions and are subject to potential loss in value based on a number of factors. For example, growth assets may be sensitive to inflation and generally perform poorly in times of high and unexpected inflation. To a lesser extent, growth assets may be sensitive to interest rates due to the use of leverage in certain strategies as well as the relationship between interest rates and the discount rates used to price securities.

ii. Credit

a. Role in the portfolio: LACERA expects assets categorized as Credit to produce current income and moderate long-term total returns. Credit has ~~at~~ more moderate levels of risk than assets categorized as Growth, and, accordingly, provides incremental diversification to the total Fund.

b. Asset Classes: High Yield, Bank Loans, Emerging Market Debt, and Illiquid Credit.

c. Investment Approach: Credit assets are generally fixed claims on assets or income streams of an issuer (e.g. government, corporation~~mpany~~, asset~~-~~backed securities).~~, plus associated interest payments.~~ The category is composed of certain fixed income, hedge funds, real estate, and private debt investments. Investment strategies within this category may have a specific mandate (e.g. high yield or emerging market debt) or be multi-strategy. The investment strategies may be liquid, ~~or~~ illiquid, or a combination of both, depending on the nature and terms of the specific investment vehicle. LACERA employs active strategies across all asset classes within the Credit category, but may employ passive strategies in certain segments that are relatively more efficient.

d. Risk Factors: The primary risk for owners of Credit assets is the failure of the borrower to make timely payments of interest and principal. There are three elements of credit risk: the risk of default, the risk of a credit downgrade, and spread risk, which is the risk that investors may demand greater compensation for bearing the first two types of risk. Bonds with credit risk offer a yield premium over government bonds to compensate investors for the additional risk. Bonds with greater credit risk (i.e., bonds with lower credit ratings) are typically less liquid than higher quality bonds.

iii. Real Assets and Inflation Hedges

a. Role in the portfolio: LACERA expects assets in this category to provide income as well as a hedge against inflation, while diversifying the Fund due to the assumed low correlation of returns between these assets and other asset classes.

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b. Asset classes: Core and Value-Added Real Estate, Natural Resources/Commodities, Infrastructure, and Treasury Inflation Protected Securities ("TIPS").

c. Investment Approach: Real Assets generally include physical assets, such as real estate and infrastructure, or securities whose value is derived from a physical asset, such as commodities or natural resources. ~~The category is composed of core and value-added real estate, natural resources and commodities investments, infrastructure, and TIPS.~~ Assets in this category may be invested in both public and private investments and may be liquid or illiquid, as well as passively or actively managed.

d. Risk Factors: Real Assets and Inflation Hedges are sensitive to inflation. The primary risk for owners of real assets/inflation hedges is that they fail to provide a hedge against long-term changes in inflation. A secondary risk is loss of principal. The value of real estate and natural resources assets may fall, particularly during an economic downturn, but also due to idiosyncratic aspects of each asset. Diversification may offset asset-specific risk. Foreign assets are also subject to currency movements against the U.S. dollar. TIPS are exposed to liquidity risk, as they tend to be less liquid than nominal U.S. Treasuries, particularly during a market environment in which there is a flight to safety.

iv. Risk Reduction and Mitigation

a. Role in the portfolio: LACERA expects assets in this category to provide moderate amounts of current income by generating a modest level of return while also reducing total Fund risks in part by preserving capital in the event of a downturn in equity markets. LACERA anticipates that assets in this category will have a low level of volatility and a low~~negative~~ correlation to Growth assets, thereby providing downside protection. In the event of a market correction, ~~LACERA expects that t~~these assets ~~w~~could also provide a source of liquidity for benefit~~ciary~~ payments.

b. Asset classes: Investment Grade Bonds, Diversified Hedge Fund Portfolio, Cash.

c. Investment Approach: The category is composed of investment grade bonds, diversified hedge funds, and cash. Cash is the least volatile asset class ~~from a valuation perspective~~, as well as the most liquid; the ~~optionality~~flexibility it provides during periods of market decline helps to mitigate risk. Investment grade bonds comprise a mix of U.S. Treasuries, corporate debt, and other bonds of high quality, typically rated "BBB" or above by rating agencies. High quality bonds would be expected to protect the total Fund by retaining~~,~~ or ~~even~~ increas~~e~~ing~~,~~ their value~~,~~ during a market correction. ~~As such, they would be expected to protect the portfolio during a broad market correction.~~ Diversified hedge funds comprise a variety of hedged investments~~strategies~~, such as relative value, arbitrage, and long/short strategies within~~, typically in~~ a diversified portfolio. They would be expected to produce returns at or above high grade bond portfolios, with equal or lower volatility, and ~~. Furthermore, they would be expected to~~ be largely uncorrelated with other portfolio assets.

d. Risk Factors: The primary risk factor for Risk Reduction and Mitigation Assets is that they will fail to provide the anticipated level of protection during market downturns. Assets in this category are also subject to additional risks. For example, investment grade bonds are sensitive to fluctuations in interest rates and have some risk of default. Specific hedge fund investments are subject to a variety of risk factors including equity risk, credit risk, interest rate risk, and leverage risk. Cash can include short-term instruments and vehicles where there is a low probability~~possibility~~ of loss of principal.

E. Performance Objectives

The Fund's long-term performance objective is to generate risk-adjusted returns that meet or exceed its defined actuarial target as well as its policy benchmark, net-of-fees, over the Fund's designated investment time horizon. LACERA's policy benchmarks at the total Fund level, the functional category level, and the asset class level can be found in the Appendix.

F. Rebalancing

LACERA considers rebalancing the Fund a key aspect of prudent long-term portfolio management. LACERA rebalances the Fund's portfolio in accordance with established guidelines and procedures to adhere to its approved strategic asset allocation, consistent with the Fund's stated Investment Beliefs. The approved ranges for each functional asset category and underlying asset class are defined in the Appendix. ~~LACERA considers rebalancing the Fund a key aspect of prudent long-term portfolio management.~~

G. Responsible Stewardship and Beneficial Ownership Rights

In pursuing its~~the~~ investment program~~ articulated above~~, and as part of mitigating risks associated with LACERA's investments, LACERA seeks to manage its investments in a manner that promotes and safeguards the economic interests of LACERA and its members, consistent with LACERA's mission. LACERA prudently exercises its rights as an investor to support policies and practices at companies in which LACERA invests, as well as public policies governing financial markets, that are consistent with LACERA's economic interests. In doing so, LACERA aims to promote sustainable, long-term value on behalf of its~~LACERA's~~ members and enhance LACERA's ability to fulfill its mission. LACERA has therefore adopted *Corporate Governance Principles* and a *Corporate Governance Policy* (see Attachments). Beneficial ownership rights pertaining to LACERA's investments, including but not limited to proxy voting, are managed in accordance with LACERA's *Corporate Governance Principles* and consistent with LACERA's *Corporate Governance Policy*.

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II. Investment Process

The following sections articulate the general parameters and processes by which LACERA executes its investment strategy, in adherence to established policies and procedures.

A. Structure Review~~[Placeholder for Structure Review]~~

After an asset allocation study apportions capital across categories, LACERA conducts a structure review to address how to implement each asset category. A structure review establishes the framework for each asset category by addressing its role within a total Fund context. The structure review evaluates the objectives, portfolio composition, related strategic initiatives, and how the portfolio may evolve in the near to medium term. These reviews are presented to the Board of Investments no less frequently than the comprehensive asset allocation study conducted for the total Fund, or at the Board's request.

B. Investment Management

~~The following sections articulate the general parameters and processes by which LACERA executes its investment strategy, in adherence to established policies and procedures.~~

i. Selection and Monitoring

LACERA may utilize internal resources or externally managed portfolios implemented by asset management firms and service providers to effectuate LACERA's investment program. In determining whether to use internal or external ~~services and~~ resources to implement a specific investment mandate, strategy, or investment-related service, LACERA takes into consideration numerous factors, including, but not limited to, ~~the~~ return expectations, associated risks, compliance requirements, and expenses related to the specific strategy or service.

LACERA has adopted formal procedures to guide the selection, appointment, and monitoring of external managers and service providers. LACERA expects any external party that manages Fund assets on behalf of LACERA to serve as a fiduciary.

ii. Costs

LACERA considers the costs and expenses related to executing its investment program to be a crucial component of its fiduciary duty and an important element in determining its strategic asset allocation. In all aspects and functions of its investment program, LACERA seeks to actively identify, assess, and monitor expenses. LACERA expects that the economic terms and conditions by which any external party is compensated for investment-related services should promote an alignment of interests between LACERA and the external party in fulfilling LACERA's mission and investment objectives. Accordingly, LACERA diligently attends to and negotiates the economic terms of investment services rendered to the Fund.

C. Liquidity Management and Other Investment Functions

The following sections provide the general guiding principles and parameters for certain components of LACERA's investment process, including liquidity management, the use of derivative instruments, securities lending, and certain prohibited transactions.

i. Liquidity and Cash Management

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Effective cash management is integral to LACERA's investment process. LACERA strives to maintain appropriate levels of liquidity – i.e. the ability to convert investments into cash – in order to meet immediate or short-term obligations and liabilities, such as funding member benefits, meeting capital calls, and rebalancing the portfolio per the strategic asset allocation. LACERA manages liquidity by monitoring the Fund's aggregate liquidity and liquidity risk exposures.

ii. Derivatives Management

LACERA may employ derivative instruments to hedge or gain exposure to certain investments. A derivative is a financial instrument that derives its value from an underlying asset which represents direct ownership of a security or a direct obligation of an issuer. Derivatives may be exchange-traded or traded over-the-counter (OTC). LACERA expects that any use of derivatives by external managers must adhere to LACERA's policies and investment guidelines.

iii. Securities Lending

LACERA may lend designated securities to provide the Fund with additional income generation and offset administrative expenses. LACERA lends eligible securities (both U.S. and Non-U.S. equities and bonds) to approved and qualified borrowers, subject to the terms and conditions specified in LACERA's contract agreements. Any securities lending activity is expected to be transparent to LACERA's external investment managers and should not impede or otherwise impair the investment management process.

iv. Prohibited Transactions

LACERA prohibits the following transactions unless stated otherwise in the investment management agreement:

- "Prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA).
- Transactions that involve a broker acting as a "principal," where such broker is also the investment manager (or an entity related to the investment manager) who is making the transaction.
- Any or all applicable investment activities forbidden by the United States Securities and Exchange Commission or other applicable governing bodies.
- LACERA does not lever the Fund's investment portfolio as a whole. However, leverage is implicit in many investment strategies. LACERA expects that any use of leverage by external managers must adhere to LACERA's established policies and investment guidelines.

~~A. Risk Management~~

~~LACERA manages risk by establishing and adhering to investment guidelines, pursuing multiple approaches to diversification (such as asset class, geography, liquidity profile, and level of active management), and regular measurement and analytical exercises. LACERA assumes certain risks to achieve sufficient returns to meet the Fund's financial obligations and investment objectives. At the core, investment risks pertain to the prospect for a permanent loss of capital or of not meeting objectives within the designated timeframe. LACERA seeks to mitigate the likelihood of a drawdowns to the Fund in order to accomplish its investment objectives and avoid volatility or undesired changes to employer or employee contributions to the Fund. Risk is therefore a consideration in the management of the Fund's assets.~~

~~v. Philosophy and Objectives~~

~~LACERA considers risk multi-faceted and, therefore, views risk from multiple perspectives. Risk may vary and evolve over time, across geographic or sectoral investment exposures, and depending on the nature and terms of the investment vehicle that LACERA deploys to implement the Fund's investment strategy. Risk may be systematic (e.g. present across the market) or unsystematic (e.g. specific to a particular investment strategy). A risk may pertain to and potentially bear upon the total Fund, a functional asset class level, or individual underlying asset classes, as defined in LACERA's strategic asset allocation described herein. Alternatively, risk or risks may be relevant to all of the above.~~

~~LACERA seeks to diligently identify, assess, and monitor relevant investment risks throughout the investment process, from determining its strategic asset allocation to ongoing evaluation and monitoring of Fund performance, in order to ensure that risks assumed by the Fund are intentional and to assess whether LACERA is being adequately compensated.~~

~~vi. Approach~~

~~LACERA's strategic asset allocation attempts to position the Fund to capture growth while mitigating large drawdowns. LACERA's investment strategy is designed to take intentional risk, called active risk, and achieve commensurate investment results. LACERA may define expectations for active return earned per unit of active risk taken for various investment strategies and portfolios.~~

~~LACERA seeks to identify and acknowledge the sources and types of risk inherent to each investment strategy. However, LACERA also recognizes that even sophisticated risk measurement techniques may not detect certain risks, including extreme events, in advance. Accordingly, risk models may only provide limited predictive qualities. LACERA endeavors to test and challenge investment strategies and assumptions prior to a capital outlay as well as for on-going monitoring.~~

~~LACERA measures investment risk using multiple metrics on both an absolute and relative basis at all relevant levels (i.e. total Fund, functional asset categories, and underlying asset classes). LACERA also strives to employ stress testing, scenario analyses, and broader financial and economic analyses to understand current and potential risks related to its investment strategy and decisions. LACERA selects appropriate benchmarks to assess and determine whether investment risks taken by the Fund are appropriate in order to achieve expected investment rewards.~~

~~LACERA may establish a risk budget set active risk targets for each function asset category and underlying asset classes. LACERA aims to minimize unintended risk caused by asset allocation drift or other factors.~~

III. Risk Management

LACERA manages risk by establishing and adhering to investment guidelines, pursuing multiple approaches to diversification (such as asset class, geography, liquidity profile, currency, and ~~level~~degree of active management), and conducting regular measurement and analytical exercises. LACERA assumes certain risks to achieve sufficient returns to meet the Fund's financial obligations and investment objectives. ~~At the core, i~~Investment risks pertain to the prospect of~~for~~ a permanent loss of capital or of not meeting objectives within the designated timeframe. LACERA seeks to mitigate the impact of ~~likelihood of~~ a drawdown to the Fund in order to accomplish its investment objectives, ~~and~~ reduce~~avoid~~ volatility, and avoid ~~or undesired changes to employer or employee~~ increased contributions to the Fund from the plan sponsor or employees. ~~Risk is therefore a consideration in the management of the Fund's assets.~~

A. Philosophy and Objectives

LACERA considers risk multi-faceted and, therefore, views risk from multiple perspectives. Risk may vary and evolve over time, across sectors or geographic ~~or sectoral investment~~ exposures, and depends~~ing~~ on the nature and terms of the investment vehicle that LACERA deploys to implement the Fund's investment strategies~~y~~. Risk may be systematic (i.e.~~e.g.~~ present across the market) or unsystematic (i.e.~~e.g.~~ specific to a particular investment strategy). A risk may pertain to and potentially impact~~bear upon~~ the total Fund, a functional asset ~~class~~ category,~~level,~~ or individual underlying asset classes.~~, as defined in LACERA's strategic asset allocation described herein. Alternatively, risk or risks may be relevant to all of the above.~~

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determine whether investment risks taken by the Fund are appropriate in order to achieve expected investment returns~~wards~~.

LACERA may establish a risk budget to set active risk targets for each functional asset category and underlying asset classes. LACERA aims to minimize unintended risk caused by asset allocation drift or other factors.

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IV. Roles and Responsibilities

LACERA has established the following roles and responsibilities to implement its investment program. The duties explained below apply to the Board, staff, and various external parties who collectively oversee and administer the functions necessary for LACERA to accomplish its investment objectives. The overview outlined below is further complemented by the following documents: *Board of Investments Charter*, *Board of Investments Powers Reserved Defined*, *Board of Investments Powers Reserved and Delegated Authorities*, and the *Board of Investments Regulations* (previously referred to as "Bylaws").

A. Board of Investments

i. Board

The exclusive fiduciary responsibility of the Board is to ensure prudent investment and management of the Fund so as to provide for the timely payment of benefits to members and their beneficiaries, minimize employer contributions, and defray the reasonable cost of administration, with the duty to members being paramount. It is the responsibility of the Board to ensure that LACERA employees administer Fund investments at reasonable cost, while preserving the quality of investments. The Board exercises oversight of all aspects of the investment program. The Board oversees the management of the Fund in compliance with all aspects of this IPS~~nvestment Policy Statement~~ and all applicable federal and state laws and regulations concerning the administration of a government pension plan. The Board may request staff and investment consultants to inform and make recommendations to it on matters pertinent to LACERA's investment operations. The Board may also delegate specific authorities to the Chief Investment Officer ("CIO"), as further outlined in the Appendix.

ii. Committees

To assist the Board in carrying out its duties, ~~it~~the Board may establish one or more committees ("Committee"). A Committee makes recommendations to the Board on investment actions related to its area of focus. A Committee may request staff and investment consultants to inform and make recommendations to it on matters pertinent to LACERA's investment program.

B. Staff

i. Chief Executive Officer

The Board of Retirement and Board of Investments jointly appoint the Chief Executive Officer ("CEO"). The CEO is responsible for planning, organizing, and administering the operations of LACERA under policy guidance and direction from the Board of Investments and the Board of Retirement. The CEO exercises administrative oversight of the CIO~~hief Investment Officer~~, excluding investment decisions delegated to the CIO~~hief Investment Officer~~.

ii. Chief Investment Officer and Investment Staff

The CIO and staff assist the Board in performing its fiduciary duty~~responsibility~~. The internal investment staff reports to the CIO~~hief Investment Officer (the CIO)~~, who in turn reports to the CEO, with the input of the Board. The CIO, with the assistance of staff, has the responsibility and authority to assist the Board in establishing investment and administrative policies. The CIO and staff are responsible for implementing the policies and programs established by the Board. The CIO has primary responsibility for the implementation of the Board's investment decisions. The CIO and staff manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, oversee operational aspects of the Fund, report on the progress of the Fund in meeting its investment objectives, and monitor and report to the Board on the performance of the Fund relative to~~against~~ the appropriate benchmarks. The Board has delegated specific investment authority and responsibility directly to the CIO as described in

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the Appendix. The CIO is authorized to interact with and communicate directly with the Board regarding~~in~~ all investment-related matters. The CEO does~~shall~~ not have any authority over any and all investment decisions that are delegated to the CIO.

iii. Chief Counsel and Legal Staff

The Office of Chief Counsel and legal staff (Legal Counsel) are primarily responsible for legal ~~compliance~~issues concerning ~~of~~ the investment program and advises the Board, the CEO, the CIO, and staff on investment-related legal matters. Legal Counsel advises the Board in performing its fiduciary responsibility. In addition to reliance upon internal resources for such matters, the Chief Counsel, or designee within the Legal Office, may retain external legal counsel, when deemed necessary and appropriate, to advise staff and negotiate and prepare contracts on investment related matters, individual transactions, and provide other investment legal advice to protect LACERA's interests, including its ~~and~~ status as a tax-exempt government plan.

C. Third Party Service Providers

LACERA may engage external service providers, as described below, to implement its investment program. All service providers, unless otherwise not applicable, are expected to serve as fiduciaries to the Fund in fulfilling their contracted services.

i. Investment Consultants

An investment consultant works with the Board and staff in the oversight and implementation of investment objectives. The Board's general investment consultant provides advice and recommendations to the Board or Committee regarding LACERA's strategic objectives, risks, oversight and implementation of investment objectives. Investment consultants, both general and specialized, provide advice and recommendations regarding strategic asset allocation, portfolio implementation and oversight of the Fund to the Board, CIO, and staff. Investment consultants report to the Board or the Committee, as directed, and are accountable to the Board.

ii. Custodian Bank

The Custodian Bank ("Bank") serves as a fiduciary in the safekeeping of Fund assets. The Bank is responsible for maintaining the Fund's official accounting book of record, including the ongoing pricing and valuation of all assets, collection of income generated by those assets, any corporate action notification, and performance calculation. The Bank cooperates with and provides assistance to staff and investment managers in the reconciliation process. LACERA may opt to designate other duties to the Bank as stipulated in the professional services agreement. LACERA's investment office works with ~~the~~LACERA's accounting division to manage the custodial relationship.

iii. Investment Managers

Investment managers are selected by the Board and, subject to the terms and conditions of this IPS, serve LACERA through contracts that specify ~~in principal part:~~ investment guidelines, administrative requirements, responsibilities, and performance expectations for management of each mandate. Investment managers provide reporting to LACERA on the performance of specific investment mandates in adherence to established guidelines and agreements. Staff and consultants synthesize investment managers' performance ~~of investment manager's~~ for presentation to the Board in accordance with established performance monitoring and oversight procedures.

iv. Other Third Party Service Providers

Additional~~Other~~ third party service providers~~, not mentioned above,~~ may be retained, subject to the terms and conditions of LACERA's established policies and procedures, in order to perform other duties to assist in the administration of the Fund.

Appendix

A. Investment Tables

Table 1: Approved Asset Allocation

Asset Class	Target Allocation (%)	Allocation Range +/- (%)
Growth	**47.0**	**+/- 7**
Global Equity	35.0	+/- 7
Private Equity	10.0	+/-3
Opportunistic Real Estate	2.0	+1/-2
Credit-Oriented Fixed Income	**12.0**	**+/- 3**
High Yield Bonds	3.0	+/-3
Bank Loans	4.0	+2/-4
Emerging Market Debt	2.0	+/-2
Illiquid Credit	3.0	+2/-3
Real Assets & Inflation Hedges	**17.0**	**+/- 3**
Core & Value-Added Real Estate	7.0	+/-3
Natural Resources/Commodities	4.0	+/-2
Infrastructure	3.0	+1/-3
TIPS	3.0	+2/-3
Risk Reducing & Mitigating	**24.0**	**+/-6**
Investment Grade Bonds	19.0	+/-6
Diversified Hedge Fund Portfolio	4.0	+2/-4
Cash	1.0	+2/-1
TOTAL FUND	**100.0**	

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Table 2: Benchmark Table

Asset Class	Benchmark
Growth	Custom Blend
Global Equity	TBD
Private Equity	TBD
Opportunistic Real Estate	TBD
Credit-Oriented Fixed Income	Custom Blend
High Yield Bonds	TBD
Bank Loans	TBD
Emerging Market Debt	TBD
Illiquid Credit	TBD
Real Assets & Inflation Hedges	Custom Blend
Core & Value-Added Real Estate	TBD
Natural Resources/Commodities	TBD
Infrastructure	TBD
TIPS	TBD
Risk Reducing & Mitigating	Custom Blend
Investment Grade Bonds	TBD
Diversified Hedge Fund Portfolio	TBD
Cash	TBD
TOTAL FUND	**Custom Blended Policy Benchmark**

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Table 3: Ten-Year Annualized Return and Volatility Expectations

Asset Class	Expected Return (%)	Volatility (%)
Growth	7.9	19.5
Global Equity	6.7	19.0
Private Equity	9.3	26.0
Opportunistic Real Estate	7.5	25.0
Credit-Oriented Fixed Income	5.6	10.9
High Yield	5.0	12.5
Bank Loans	5.1	10.0
Emerging Markets Debt	5.1	13.3
Illiquid Credit	6.1	18.0
Real Assets & Inflation Hedges	5.8	11.5
Core & Value-Added Real Estate	4.0/6.0	12.5/19.0
Natural Resources/Commodities	7.9	23.0
Infrastructure	6.6	17.4
TIPS	3.0	7.5
Risk Reducing & Mitigating	2.8	3.5
Investment Grade Bonds	2.5	4.0
Diversified Hedge Fund Portfolio	4.0	9.9
Cash	1.5	1.0

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Table 4: Correlation Matrix

Correlation Table

Asset Name	Cash Equivalents	Investment Grade Bonds	TIPS	High Yield Bonds	Bank Loans	Private Debt Composite	Emerging Market Bonds (local)	Global Equity	Private Equity	Real Estate	Natural Resources (Private)	Commodities	Infrastructure	Diversified Hedge Funds
Cash Equivalents	1.00													
Investment Grade Bonds	0.05	1.00												
TIPS	0.05	0.80	1.00											
High Yield Bonds	0.00	0.20	0.30	1.00										
Bank Loans	0.05	0.00	0.20	0.80	1.00									
Private Debt Composite	0.10	0.20	0.10	0.85	0.80	1.00								
Emerging Market Bonds (local)	0.00	0.35	0.40	0.65	0.40	0.65	1.00							
Global Equity	0.00	0.05	0.10	0.70	0.60	0.70	0.70	1.00						
Private Equity	0.10	0.00	0.05	0.72	0.67	0.79	0.52	0.84	1.00					
Real Estate	0.18	0.23	0.09	0.47	0.46	0.37	0.23	0.39	0.41	1.00				
Natural Resources (Private)	0.05	0.10	0.10	0.45	0.40	0.40	0.60	0.60	0.62	0.50	1.00			
Commodities	0.00	0.05	0.35	0.40	0.40	0.35	0.45	0.50	0.32	0.10	0.65	1.00		
Infrastructure	0.20	0.30	0.30	0.61	0.50	0.41	0.61	0.66	0.51	0.61	0.61	0.36	1.00	
Diversified Hedge Funds	0.10	0.05	0.21	0.64	0.60	0.56	0.52	0.68	0.51	0.36	0.52	0.54	0.49	1.00

Asset Name	Growth	Credit	Real Assets	Risk Mitigating
Growth	1.00	0.65	0.41	0.14
Credit	0.65	1.00	0.39	0.23
Real Assets	0.41	0.39	1.00	0.32
Risk Mitigating	0.14	0.23	0.32	1.00

B. Chief Investment Officer Delegated Authorities

The Board has delegated to the CIO the following authorities: ~~In the event the CIO is not available, and time is of the essence in making a decision, the CEO shall have the authorities identified below. In the event neither the CIO or CEO are available, a committee comprised of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is comprised of at least one Principal or Senior Investment Officer and one Assistant Executive Officer. The Board will receive written notification of all such actions.~~

- Authority to approve real estate co-investments according to the Real Estate Co-Investment Policy found in LACERA's Real Estate Objectives, Policies, and Procedures.
- Authority to approve the purchase or sale of any existing fund investment within the Private Equity portfolio in accordance with the LACERA's Private Equity Objectives, Policies and Procedures.
- Authority to sign, or delegate authority to sign, all investment-related ~~consultant~~ contracts and agreements, subsequent to Board approval. Thereafter, authority to sign all amendments and modifications with respect to such contracts and agreements, and make all decisions with respect to their day-to-day operation and implementation where the investment mandate remains substantially unchanged.
- Authority to approve temporary variances from public market investment manager guidelines.
- Authority to approve reductions to investment manager fee schedules and service provider costs.
- Authority to approve variances from LACERA's Fund of Funds sub-manager selection and compliance criteria on a case-by-case basis.
- Authority to limit or freeze manager trading activity pending discussion and action by the Board of Investments. Such actions shall be reported as an informational item as reasonably practicable to the Board of Investments, and no later than the next scheduled meeting of the Board
- Authority to take actions not otherwise specifically delegated, in concurrence with the CEO and the Chair of the Board of Investments, when deemed necessary in the best interest of the Fund and there is not time to take the action to the full Board of Investments. Such actions shall be reported as an informational item as soon as reasonably practicable to the full Board, and no later than the next scheduled meeting of the Board of Investments.
- Authority to rebalance the Fund, approve ~~[Placeholder for additional authority once the comprehensive review of all investment policies and procedures is complete (e.g. rebalancing,~~ secondary PE transactions, PE re-ups, Title Holding Companies~~'s~~, and advisory board seats.~~, RFPs and procurement, etc.)~~
- Authority to add capital to, or reduce amounts invested in the already approved hedge fund managers or terminate a hedge fund manager according to established procedures in the hedge funds policies and procedures.

In the event the CIO is not available, and time is of the essence in making a decision, the CEO shall have the authorities identified above~~below~~. In the event neither the CIO or CEO are available at the time that a decision must be reasonably made under contract or law or to further the best interest of the Fund, a committee comprised of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is comprised of at least one Principal or Senior Investment Officer and one Assistant Executive Officer. The Board will receive written notification of all such actions.

List of Attachments

Corporate Governance Principles
Corporate Governance Policy
Responsible Contractor Policy
Emerging manager Policy

[Other attached policies to be determined]

DRAFT

September 28, 2018

TO: Each Member
Board of Investments

FROM: Jonathan Grabel
Chief Investment Officer

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: **STANDING COMMITTEE DISCUSSION**

At the September 10, 2018 Board of Investments (BOI) meeting, questions were asked by a Board member about ways to increase the effectiveness of BOI Standing Committees (BOISCs). The current configuration is comprised of five BOISCs: Equity, Credit and Risk Mitigation, Real Assets, Risk, and Corporate Governance. Each BOISC typically meets once per quarter, and meetings are held prior to and/or after the conclusion of the monthly BOI meetings.

There are increasing demands on the BOI calendar, including ad-hoc meetings, joint BOI and Board of Retirement meetings, and the Audit Committee. Consequently, attaining a quorum of committee members for BOISC meetings scheduled in the afternoon has been challenging, and as a result, some of these meetings have been postponed.

To address these scheduling challenges, the Board may want to consider modifying certain aspects of the BOISCs, such as: (1) meeting frequency, (2) number of committees, and (3) meeting scope. Staff notes that these options are presented as ideas to stimulate discussion rather than as recommendations.

Regarding the BOISCs meeting frequency, the BOI may want to consider scheduling the BOISCs only in the morning prior to the BOI. Historically, BOI member participation tends to be higher in the morning. This will also help reduce the size of the monthly board package.

Another option is to reduce the number of committees. One suggestion is to make one of the BOISCs that has comprehensive portfolio coverage part of the BOI itself. Certain subjects within BOISCs are extensive in nature and relate to all other committees and the LACERA Fund as a whole. Potentially reducing the number of BOISCs to four may give the BOI increased scheduling flexibility and may increase the depth of focus of the remaining committees.

Changing the scope of BOISC meetings may also be worth deliberating, to help make BOISCs more efficient. In response to the increasing demand from BOI members for education—which is consistent with LACERA's investment beliefs and CERL—one idea is to remove the education topics from each of the BOISCs, and instead, schedule educational sessions after the end of BOI meetings as necessary. This would help separate more urgent BOISC matters from less time-sensitive, though still important, educational topics. Scheduling the education sessions in the afternoons should also provide a more conducive learning environment for BOI members, as it reduces the time pressure often present during the items that require actions at BOI and BOISC meetings. Moreover, BOI members would have greater freedom to choose which educational topics are of interest.

Another way to enhance BOISC efficiency would be to remove more routine agenda items, such as Requests for Proposal (RFPs), in order to focus on policy-level issues. For example, several BOI members have commented on the lengthy time needed to complete manager searches. Currently, RFP discussions at BOISC committees are scheduled by quarter and then delayed by at least a month before the BOI can evaluate. Having a more organic and timely process where RFPs could be addressed with the full BOI instead of BOISCs would help eliminate redundancy and thereby streamline and expedite the search process.

A summary of these options and considerations for making the BOISCs more efficient and productive is provided in the table below.

Options	Considerations
1) Reduce frequency of committee meetings	• Suggest BOISCs occur only in the morning prior to a BOI meeting given the historical higher participation rates and difficulty of attaining a quorum in the afternoon • This will reduce the size of the monthly Board package
2) Reduce number of committees	• Certain subjects within BOISCs are extensive in nature and relate to all other committees and the LACERA Fund as a whole • Potentially reducing the number of BOISCs to four may give the BOI increased scheduling flexibility and may increase the depth of focus of the remaining committees • One suggestion is to make one of the BOISCs that has comprehensive portfolio coverage part of the BOI itself
3) Change the scope of committee meetings	• Remove education topics from each of the BOISCs and schedule educational sessions as needed after the end of every BOI meeting • Urgent LACERA BOISC matters are separated from less time-sensitive educational topics • Separating the education sessions provides a more conducive learning environment for BOI members as it reduces the time pressure often present during the items that require actions at BOI and BOISC meetings • Helps address the increasing demand from BOI members for education, which is consistent with LACERA's investment beliefs and CERL • BOI members can pick and attend educational topics that are of interest • Remove more routine agenda items, such as Requests for Proposal (RFPs), in order to focus on policy-level issues • Several BOI members have commented on the lengthy time needed to complete manager searches • Currently, RFP discussions at BOISCs committees are scheduled by quarter and then delayed by at least a month before the BOI can approve • Having a more organic and timely process where RFPs could be addressed with the full BOI instead of BOISCs would help eliminate redundancy and thereby streamline and expedite the search process

“SUNSHINE IS THE BEST ANTISEPTIC”

THE RALPH M. BROWN ACT

Board of Investments
Los Angeles County Employees Retirement Association

October 10, 2018

Harvey L. Leiderman
Reed Smith LLP

“BUT IT’S SO MESSY!”

“Many elected officials find the Brown Act inconsistent with their private business experiences. Closed meetings can be more efficient; they eliminate grandstanding and promote candor. The techniques that serve well in business – the working lunch, the sharing of information through a series of phone calls or emails, the backroom conversations and compromises – are often not possible under the Brown Act.”

- League of Cities’ Guide to the Brown Act

TWO FUNDAMENTAL PUBLIC POLICIES

- The public is entitled to meaningful access to elected officials and decision-makers.
- All governing bodies and standing committees of local public agencies must conduct their business in noticed, open meetings, giving the public the right to attend, observe and comment.

WHAT ARE "MEETINGS"?

1. Face-to-face or by teleconference

   Any gathering of a quorum of the board, *except* discussions of general interest at conferences and social gatherings (*if no discussion about board business*)

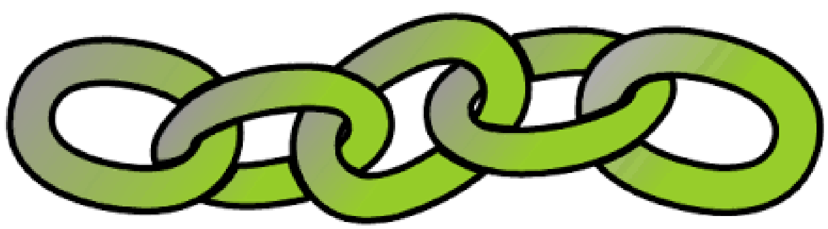
ReedSmith

WHAT ARE "MEETINGS"?

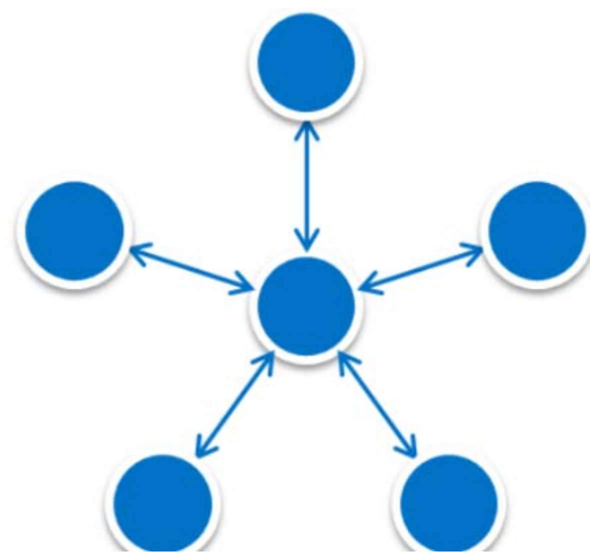
2. Serial communications
   - Chains of communications designed to "hear, discuss, deliberate or take action" on any item within the board's jurisdiction
   - "Daisy chains"
   - "Hubs and spokes"
   - Actual concurrence unnecessary
   - *Exception: Staff answering questions or providing information one-way to board members*

ReedSmith

SERIAL MEETINGS



Chain



Hub & Spoke

ReedSmith

WHAT ARE "MEETINGS"?

3. Writings
   - Any medium can be a "meeting" – letters, emails, texts
   - 2001 AG opinion – email exchanges are not sanitized by sending to staff, posting on websites or reporting on later
   - SB 1732 (2008) – all writings circulated to board members are disclosable public records. Must be available at relevant meeting
     - *Except confidential communications with your attorney*
   - Warning: Board business you conduct on your private device or server is not private – it's a system public record

ReedSmith

AGENDA REQUIREMENTS

- Regular meetings – Set per bylaws or resolution. Minimum 72 hours advance notice and posting; must include a brief general description of each item

- "Posting" must include on the Board website (eff. 2019)

- Special meetings – Minimum 24 hours advance notice and posting; called by Chair or majority of board; no other business may be conducted. Not to be used for executive compensation decisions.

- Non-agendized matters may not be discussed, unless a need for immediate action arose since agenda posting. Requires 2/3 vote of board present, or unanimous vote if 2/3 not present, to consider the matter.

NON-AGENDIZED COMMUNICATIONS

- Board may not take action on non-agendized matters, but:
- Public, Board members, staff and advisors may comment briefly on non-agendized matters
- Public has right to comment briefly on anything within Board's jurisdiction
- Board may comment briefly to respond to public comment, direct staff to respond or later agendize, and provide information to public
- In all circumstances, avoid protracted discussion on non-agendized matters

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CLOSED SESSIONS

- Permissible closed sessions are highly limited
  - Personnel – hiring, firing, complaints, evaluation of performance, labor negotiations – *but not final action on compensation*
  - Legal – pending or threatened litigation, significant exposure to litigation or board considering initiating litigation
  - Purchase or sale of specific investments
  - Real property negotiations
  - Security consultation
- Confidentiality must be maintained

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CONFIDENTIALITY OF CLOSED SESSIONS

- Confidentiality requires non-disclosure of subject matter, contents (whether oral or written), statements made, attribution of positions, strategies
- Ironically, the Brown Act does <u>not</u> require confidentiality of investment materials discussed in closed session under Section 54956.81 – *but see the Public Records Act*
- Later reporting out of actions taken in closed session must not compromise confidentiality
- Confidentiality may only be waived by the entire Board, not by an individual member
- Penalties can include disciplinary action and referral to grand jury

MOTIONS OR DIRECTION?

- Use a *motion* to have the Board take action on matters within the subject matter jurisdiction of LACERA that affect the public interest (*e.g.*, selecting CEO, leasing property, setting contribution rates, making actuarial assumptions, hiring investment managers, adopting asset allocations)
- Use *direction* when Board or a member requests ministerial acts (*e.g.*, putting a topic on the agenda for a future meeting), or to ask staff to review a matter, change a practice, provide additional information, or report to the Board at a future date

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DISCLOSURE OF PUBLIC RECORDS

- Writings circulated to Board for meetings are disclosable upon request, unless non-disclosable under Public Records Act, or attorney-client privileged material (even if discussed generally in open session)
- Especially impacts investment deliberations – *not all investment-related material is confidential!*
- Best practice is to shift responsibility to source of material (vendors, managers) to identify, segregate, defend confidential, proprietary information

VOTING

- SB 751 (2013) – Requires that all actions be taken by recorded vote equivalent to a roll call – unless unanimous, the vote of each Board member must be identified publicly at the meeting
- Chair can call for oral vote, but if not unanimous, must orally announce ayes, nays and abstentions by name
- Abstentions should be avoided – trustees have an affirmative duty to administer the plan; strong public policy that you be present and prepared, and vote
- No need to abstain from approving minutes, even if absent from the meeting

ACTION ON COMPENSATION

- AB 1344 (2011) – No special meetings (*e.g.*, on short notice) may be called to discuss or adopt executive compensation (the "City of Bell Amendment")

- SB 1436 (2016) – Recommended executive compensation must be announced orally before final action is taken at the same meeting

- Board may meet in closed session to discuss employee performance, but not compensation (except a reduction due to discipline)

ReedSmith

PENALTIES AND REMEDIES

- Criminal – misdemeanor for knowing actions in violation of the Act
- Civil – injunction/declaratory relief; voiding actions
  - Anyone can seek – D.A., member of public, by "cease and desist" letter
  - 30 & 90 day opportunities to cure before suit may be filed
  - Attorneys fees and costs against agency (*not* against board member)
- Insurance coverage?

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FOR GUIDANCE

Good sources:

- "Open and Public V: A Guide to the Ralph M. Brown Act," found at http://www.cacities.org/Resources/Open-Government
- Your counsel

ReedSmith

CONCLUSION

- Yes, it's messy!
- The Brown Act strikes a balance between the public's Constitutional rights and yours (CA Const. art. 1 sec. 3; Prop. 59, 2004)
- The rules are interpreted liberally and the exceptions are interpreted narrowly – so be conservative
- Compliance is a fiduciary duty

Ralph Milton Brown (1908–1966) was a member of the California State Assembly representing the 30th State Assembly district from 1943 to 1961. Born in Kentucky and a resident of Modesto, California, he was Speaker of the Assembly from January 1959 until he resigned in September 1961 to accept appointment to the California Courts of Appeal, Fifth Appellate District Court. He is best known for writing the Brown Act, California's first sunshine law, providing for increased public access to government meetings, which was enacted in 1953.

HYPOTHETICAL #1

During a large SACRS reception, the board Chair and three other trustees hear a rumor that the CEO is considering another job. Alarmed, they agree to bring up a proposal for a pay raise at the board meeting the next morning. Later that evening, the Chair runs into another trustee and floats out the pay raise idea; she agrees they just have to keep the CEO happy!

During the meeting the next day the Chair calls the board into closed session and they vote to offer the CEO a pay raise.

Any concerns?

HYPOTHETICAL #2

During closed session to consider candidate resumes for the CEO position, the search firm informs the board that one candidate has been accused of workplace harassment in a former position. After the meeting, a board member calls the candidate "on the QT" and suggests that during his upcoming interview, he should address any allegations of improper behavior ever made against him. The candidate thanks her for the suggestion.

Concerns?

ReedSmith

HYPOTHETICAL #3

During a contentious board meeting, the members seem deadlocked over a pending motion. The Chair calls a 5 minute recess to cool off. During the recess, 5 of the 9 members chat behind the dais about a compromise. When the session resumes, the maker and seconder of the pending motion withdraw it and replace it with a compromise motion, which then passes without further comment.

Concerns?

HYPOTHETICAL #4

The CIO emails an article to all the board members that praises the skills of a private equity manager candidate. He asks, “let me know what *you* think.” Six of the board members carefully reply to the CIO alone and each says that they agree and intend to vote for the manager.

At the board meeting, the CIO announces that he has had favorable replies from most of the board. The Chair calls for the vote, without further discussion.

Concerns?

HYPOTHETICAL #5

The Chair of the board of supervisors separately emails each of the four appointed members of the retirement board, and warns that if they don't vote to increase the assumed rate of return to 8%, she will replace them. Each separately replies, "Oh, I will!" One trustee later button-holes the Treasurer, and says, "please vote for 8% or I'll be thrown off the board!" The Treasurer agrees. At the next board meeting, there is no discussion and the board adopts 8% by a 5-4 vote.

Concerns?

ReedSmith

Los Angeles Times | ARTICLE COLLECTIONS

← Back to Original Article

D.A. investigates Brown Act violations

April 10, 2009 | Jack Leonard

Dozens of local government agencies across Los Angeles County have silenced critics at public meetings, held secret conferences to hash out important business or taken other actions that violated the state's open meetings law, according to a Times review of the district attorney's records.

Responding to complaints from the public, prosecutors have sent more than 50 letters since 2001 warning government officials that they acted illegally. District attorney's officials frequently threatened civil court action or criminal charges if the violations continued.

Though no one has been prosecuted, some agencies have been required to publicly reverse decisions made in secret. Several elected bodies, including the city councils of El Segundo and, more recently, Lancaster, have received repeated warnings to clean up their act.

Among the actions prosecutors have faulted are the shutting off of a critic's microphone during a meeting and the hiring of a "facilitator" to poll council members about an issue so that they would not have to formally meet on it.

Some city attorneys say they feel they have been unfairly treated like criminals and complain that prosecutors sometimes see violations where none exist. But activists for open government say the warnings help improve compliance and will show that too many local agencies embrace a culture of secrecy.

"It's arrogance and a feeling that they know best and they can do whatever they want," said Richard McKee, an advocate for open government who has filed more than a dozen lawsuits against government agencies. The suits allege violations of the state's open meetings law.

Agencies that act in secret deprive the public of the opportunity to weigh in on important issues, such as development proposals and officials' salaries. Prosecutors say it also prevents the sort of scrutiny that deters officials from benefiting themselves or their friends and supporters at public expense.

For more than 50 years, California's open meetings law, the Brown Act, has required members of city councils, school boards and a host of other local government agencies to conduct business in public. Every state gives the public the right to attend government meetings and limits what officials can decide in secret, experts said. But California's law goes further than some, giving the public the right to speak at agency meetings, they added.

Introduced by the late Assemblyman Ralph M. Brown, a Modesto Democrat, the legislation, enacted in 1953, was inspired by a 10-part series written by San Francisco Chronicle reporter Mike Harris that exposed many local agencies making decisions in secret. Brown then led a legislative committee investigation that confirmed the practice.

The Los Angeles County district attorney's warning letters offer a unique window into local compliance with the state's open meetings law. Activists for open government said few prosecutors, if any, are as thorough or consistent as L.A. County's in following up on complaints from the public about secrecy or censorship.

Juli Potter, an El Segundo resident, was addressing her City Council in 2003 when she was interrupted as she began to question why then-Mayor Mike Gordon was not spending his campaign funds on events in the city.

Gordon, who was running for a seat on the state Assembly, accused Potter of campaigning and told her to stop, according to district attorney's records.

"We'll take you out every time," he warned her.

But Potter continued. Gordon interrupted her again.

"We're done," he finally told her. "Microphone's off."

A videotape of the meeting showed a uniformed officer escorting Potter out of the council chamber, according to district attorney's records.

Susan Chasworth, a Los Angeles County prosecutor, sent a letter telling the council that state law protects the public from censorship of criticism during meetings.

"El Segundo public officials are servants of the people -- all of the people -- whether they hold conflicting opinions or not," Chasworth wrote.

The prosecutor's scolding drew cheers from some regulars at the council's meetings. But Mark Hensley, El Segundo's city attorney, said he believed the district attorney's office was wrong.

The law, he said, protects only comments involving issues that the council has authority over. That would not include how a state Assembly candidate spends his campaign cash, Hensley said. He faulted prosecutors for sometimes reacting too quickly to complaints, adding that they could fix minor problems with a phone call.

"They send that letter and . . . it means they're going to embarrass you," Hensley said. "You feel like they're treating you like a criminal."

Los Angeles County prosecutors began scrutinizing complaints about Brown Act violations soon after Steve Cooley took office as district attorney in December 2000.

Within a month, prosecutors concluded that the Los Angeles Unified School District's board had violated the law by voting in secret to allow the superintendent to explore whether to sell or finish construction of the controversial Belmont Learning Complex. The board's attorneys denied wrongdoing. But the board later rescinded the vote, marking a victory for the district attorney's office.

"One of the best ways to deter public corruption is to have transparency in government," Cooley said recently. "That injects honesty."

Some elected officials said they support open government but believe the law sometimes imposes limits that stifle free discussion among officials.

"They're so afraid of stepping on the Brown Act that no one talks to each other," said Lancaster Mayor R. Rex Parris.

Last year, prosecutors faulted Parris and two other council members for attending a barbecue at the newly elected mayor's home, where they hobnobbed with prospective city commissioners. The law prohibits a majority of a government body from meeting privately to discuss issues within its jurisdiction.

Parris said no city business was discussed and called the event "purely social." But the district attorney's office disagreed and described the event as an illegal meeting. A prosecutor noted in a letter to council members that the city had been warned five months earlier, before Parris was elected to the council as mayor, that it had already violated the law.

At that time, a prosecutor complained that the council appeared to have hired a "facilitator" to meet with each member and develop a plan to remove the city manager. The law prohibits public officials from using intermediaries to help a majority come to an agreement outside of public view.

Parris said he disagreed with the findings about his barbecue but has sought to make the city as open as possible.

"Maybe it's because my first action was to have a barbecue and I got my hand slapped, I'm hypersensitive to it," Parris said. "I certainly don't fault the D.A."

Some complainants, however, fault the district attorney for not doing more. Genevieve Clavreul, a nurse and regular critic of the Board of Supervisors, said some elected officials deserve prosecution for violating the Brown Act.

"I'm glad there has been progress, but I don't think they are aggressive enough," she said.

But criminal charges are nearly impossible to bring, said Terry Francke, a lawyer and author of a guide to the state's open meetings law. Prosecutors must show that an official intentionally violated the law, a difficult standard to meet in court, he said.

"The idea of a letter, firing a shot across the offender's bow, is a very good one," Francke said.

From her office on the seventh floor of the downtown Hall of Records, Jennifer Lentz Snyder pores over meeting agendas, watches videos and reviews other documents to investigate complaints. Snyder, a 20-year veteran prosecutor who has tried more than two dozen gang murders, receives roughly 40 complaints a year.

The number of complaints involving serious violations has decreased in recent years, she said. Snyder attributed the change to the office's written legal warnings -- or "knock-it-off letters," as she calls them -- which she said educate public officials about the law. The goal, she said, is compliance.

"I don't think that most of these people go out there trying to subvert the law," said Snyder, the assistant head of the office's Public Integrity Division. "But the road to hell is paved with good intentions."

Among recent warnings was one Snyder sent to the city of Avalon. The council, she said, violated the law by creating a citizens' advisory board that was not complying with the Brown Act. In response, the council disbanded the board.

In other cases, Snyder has raised the threat of legal action.

In August, Walnut City Council members held a meeting behind closed doors during which Mayor Joaquin Lim was said to have led a council discussion and polled his colleagues about opposing construction of an NFL stadium in the neighboring city of Industry.

Lim said the council did nothing wrong and heeded the advice of the city's attorney during the meeting.

But in her letter to the council in September, Snyder said she was prepared to take agencies to court if they flout the law.

"Such closed door 'secret meetings,' " she wrote, "are precisely the kind of backdoor politics that the Brown Act prohibits."

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jack.leonard@latimes.com

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LACERA

FOR INFORMATION ONLY

September 24, 2018

TO: Each Member
Board of Investments

FROM: Jonathan Grabel
Chief Investment Officer

FOR: October 10, 2018 Board of Investments

SUBJECT: **IMPLEMENTATION UPDATE ON LACERA PENSION TRUST STRATEGIC ASSET ALLOCATION**

At the May 9, 2018 Board of Investments meeting (BOI), the Board approved a new Strategic Asset Allocation (SAA) for LACERA's Pension Trust. At the July 9, 2018 BOI Offsite, a prospective implementation plan was reviewed.

During the BOI Offsite, staff noted that the SAA could be prudently implemented in the next 12 to 24 months. **Table 1** below summarizes the status of the actions and reports as well as the timeline for transitioning to the new SAA targets. Future items that require BOI approval will be placed on the agenda of subsequent meetings along with supporting documentation.

Table 1
Strategic Asset Allocation Implementation Timeline

Implementation Steps	Target Dates for Completion or Discussion
Determine the appropriate policy ranges for the Pension Trust Asset Allocation	Completed
Identify the appropriate benchmarks for the Pension Trust Asset Allocation	Completed
Update Governance Documents • Investment Policy Statement • Procedures manual	 October 2018 - Report 1st Quarter of 2019

Align Management and Oversight
• Align Committees to new SAA
• Staffing
  • Real Assets – PIO
  • Real Assets – FA-III
  • Portfolio Analytics – SIO
  • Portfolio Analytics – FA-II
  • Portfolio Analytics – FA-I
• Consultant searches
  • Recommendation to conduct search
	
	Completed
	
	Completed
	4th Quarter of 2018
	Completed
	In Process
	4th Quarter of 2018
	1st Quarter of 2019 - Completion
	Completed

Growth	
• Public Equities	
• Structure review	1st Quarter of 2019
• Reduce public equity exposure	
• Possible manager consolidation	
• Rebalance passive exposure to Board approved benchmark	
• Private Equity	
• Investment plan	4th Quarter of 2018
• Potential secondary sale	4th Quarter of 2018
• Opportunistic Real Estate	
• Implement structure review and investment plan	Ongoing
Credit	
• Conduct consultant search – Credit	In Process
• Structure review	4th Quarter of 2018
• Realign weights with targets	
• Resize current liquid managers	
• Conduct new mandate searches	Ongoing
Risk Reducing & Mitigation	
• Conduct consultant search – Hedge Funds	In Process
• Implementation of Fixed Income structure review	4th Quarter of 2018
• Potential manager rebalancing and consolidation	
• Conduct RFP for cash overlay program	October 2018 – Recommendation
Real Assets & Inflation Hedges	
• Conduct consultant search – Real Assets	In Process
• Issue RFI for a completion portfolio	In Process
• Add TIPS through invitation to bid process	In Process
• Conduct new mandate searches	Ongoing
Adapt Portfolio Analytics	
• Analytics Reporting	Second Quarter 2019*
• Performance Reporting	Second Quarter 2019*
Complete operational updates at State Street	4th Quarter of 2018
Transition to updated asset allocation*	September 2018 – June 2020

*Dependent on BOI approved IPS

This timeline allows for a comprehensive review and revision of LACERA's Pension Trust Investment Policy Statement as well as pertinent operational changes including composite structure, custodian accounts, investment management agreements and new target allocations. Barring any unforeseen circumstances, staff expects to complete the transition by June 2020. This document will be updated monthly, communicating the progress of individual steps and provided to the BOI throughout the implementation process.

October 1, 2018

FOR INFORMATION ONLY

TO: Each Member
Board of Investments
Board of Retirement

FROM: Barry W. Lew
Legislative Affairs Officer

FOR: October 10, 2018 Board of Investments Meeting
October 11, 2018 Board of Retirement Meeting

SUBJECT: **2018 Year-End Legislative Report**

This report summarizes the bills on which the Board of Retirement or the Board of Investments had taken a position during the 2018 legislative year. It also includes bills on which the Boards had taken a position during the 2017 legislative year that carried over into the 2018 legislative year.

Section I lists the bills amending the County Employees Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). Section II lists California legislation other than those bills related to CERL or PEPRA. Section III lists federal legislation.

The last day for the California Legislature to pass any bills was August 31, 2018. Any bills that were not passed by the Senate and Assembly before that date are dead and will not carry over to the next legislative year since 2018 is the second year of the 2017-2018 two-year session. September 30, 2018 was the last day for the Governor to sign or veto bills. Unless otherwise noted, the bills signed into law become effective January 1, 2019.

The 2nd session of the 115th Congress is expected to adjourn on December 14, 2018. Staff will continue monitoring the federal legislation in this report and will report any changes in status when Congress adjourns.

I. BILLS AMENDING THE COUNTY EMPLOYEES RETIREMENT LAW OF 1937 (CERL) OR THE CALIFORNIA PUBLIC EMPLOYEES' PENSION REFORM ACT OF 2013 (PEPRA)

AB 2004 (Obernolte): Big Bear Fire Agencies Pension Consolidation Act of 2018

Summary: Authorizes the Board of Retirement of the San Bernardino County Employees' Retirement Association (SBCERA) to consent to membership of the Big Bear Fire Authority, a joint powers authority, in the retirement association.

Status: Signed into law.

Board of Retirement Position: Watch.

AB 2076 (Rodriguez): Effective Date of Disability Retirement

Summary: Authorizes the Los Angeles County Employees Retirement Association to correct prior board decisions determining the effective date of disability retirement that were made between 2013-2105 and were based upon an error of law existing at the time of the decision.

Status: Enacted.

Board of Retirement Position: Sponsor.

AB 2085 (Cooley): Surviving Spouse

Summary: Defines surviving spouse, for purposes of the County Employees Retirement Law of 1937, as a person legally married to the member, who is neither divorced nor legally separated at the time of the member's death, and who meets other requirements relating to length of marriage and the person's age at the time of the member's death.

Status: In ASSEMBLY Committee on PUBLIC EMPLOYEES, RETIREMENT & SOCIAL SECURITY. Set, first hearing. Hearing canceled at the request of the author.

Board of Retirement Position: Oppose.

SB 1270 (Vidak): Assistant Administrators and Chief Investment Officers

Summary: Authorizes county retirement boards to appoint assistant administrators and chief investment officers outside of county charter, civil service, or merit system rules, who serve at the pleasure of the appointing boards and may be dismissed without cause. Provisions are applicable if the board of supervisors of that county makes those provisions applicable by resolution adopted by majority vote.

Status: Enacted.

Board of Retirement Position: Watch.

CARRIED OVER FROM 2017

AB 283 (Cooper): County Employees Retirement: Permanent Incapacity

Summary: Relates to county employee retirement and permanent incapacity. Requires, for purposes of determining permanent incapacity of members employed as peace officers, that those members be evaluated by the retirement system to determine if they can perform all of the usual and customary duties of a peace officer as described under the Penal Code.

Status: In SENATE Committee on PUBLIC EMPLOYMENT & RETIREMENT: Set, second hearing. Hearing canceled at the request of the author.

Board of Retirement Position: Neutral.

AB 526 (Cooper): County Employees Retirement: Districts: Retirement System Governance

Summary: Defines the Sacramento County retirement system as a district under the County Employees Retirement Law. Authorizes the county board of retirement to adopt provisions to classify personnel as employees of the retirement system rather than the county. Establishes notification requirements for the use of this authority. Grants rights to elect to be employees of the retirement system. Provides for benefits for retirement system employees. Prescribes requirements for labor agreements.

Status: In SENATE Committee on PUBLIC EMPLOYMENT & RETIREMENT: Set, first hearing. Hearing canceled at the request of the author.

Board of Retirement Position: Watch.

II. OTHER CALIFORNIA LEGISLATION

AB 2571 (Gonzalez Fletcher): Race and Gender Pay Equity

Summary: Requires a public investment fund to require an alternative investment vehicle to report at least annually certain information regarding hospitality employers relating to race and gender pay equity and sexual harassment. Requires public investment fund to disclose race and gender equity and sexual harassment information provided to it in a report presented at a meeting open to the public.

Status: In ASSEMBLY Committee on PUBLIC EMPLOYEES, RETIREMENT & SOCIAL SECURITY. Set, first hearing. Hearing canceled at request of author.

Board of Investments Position: Watch.

SB 1031 (Moorlach): Cost-of-Living Adjustments

Summary: Prohibits a public retirement system from making a cost-of-living adjustment to any allowance payable to a retired person who becomes a member on or after January 1, 2019, or to any survivor or beneficiary of that member, for any year in which the unfunded actuarial liability of the system is greater than 20 percent.

Status: In SENATE Committee on PUBLIC EMPLOYMENT AND RETIREMENT. Failed passage. Reconsideration granted.

Board of Retirement Position: Oppose.

CARRIED OVER FROM 2017

ACA 15 (Brough): Protecting Schools and Keeping Pension Promises Act of 2018

Summary: Prohibits a government employer from enhancing employee benefits without approval by the voters of the jurisdiction and prohibits a government employer from enrolling a new government employee in a defined benefit pension plan without approval by the voters of the jurisdiction.

Status: Introduced.

Board of Retirement Position: Oppose.

SB 562 (Lara): The Healthy California Act

Summary: Creates the Healthy California program to provide comprehensive universal single-payer health care coverage and a health care cost control system for the benefit of all residents of the state. Provides that the program incorporates benefits from existing programs. Provides for the participation of health care providers in the program. Creates the Healthy California Trust Fund for financing of the program. Authorizes providers to collectively negotiate rates of payment.

Status: In ASSEMBLY. Read first time. Held at desk.

Board of Retirement Position: Watch.

SCA 8 (Moorlach): Reduction of Public Employee Retirement Benefits

Summary: Permits a government employer to reduce retirement benefits that are based on work not yet performed by an employee regardless of the date that the employee was first hired, notwithstanding other provisions of the constitution. Prohibits it from being interpreted to permit the reduction of benefits that a public employee has earned based on work that has been performed, as specified. Defines government employer and retirement benefits for these purposes.

Status: In SENATE Committee on PUBLIC EMPLOYMENT & RETIREMENT. Failed passage. Reconsideration granted.

Board of Retirement Position: Oppose.

SCA 10 (Moorlach): Voter Approval of Benefit Increases

Summary: Prohibits a government employer from providing public employees any retirement benefit increase until it is approved by a vote of the electorate of the applicable jurisdiction and that vote is certified. Defines retirement benefit to mean any postemployment benefit and a benefit increase as any change that increases the value of an employee's retirement benefit. Defines government employer to include the state and its subdivisions, cities, counties, school districts special districts and universities.

Status: In SENATE Committee on PUBLIC EMPLOYMENT & RETIREMENT. Failed passage. Reconsideration granted.

Board of Retirement Position: Oppose.

III. FEDERAL LEGISLATION

HR 6290 (Nunes): Public Employee Pension Transparency Act

Summary: Amends the Internal Revenue Code of 1986 to provide for reporting an disclosure by state and local public employee retirement pension plans.

Status: Referred to HOUSE Committee on WAYS AND MEANS.

Board of Retirement Position: Oppose.

CARRIED OVER FROM 2017

HR 1205 (Davis): Social Security Fairness Act of 2017

Summary: Amends title II of the Social Security Act to repeal the government pension offset and the windfall elimination provisions.

Status: In HOUSE Committee on WAYS AND MEANS: referred to Subcommittee on SOCIAL SECURITY.

Board of Retirement Position: Support.

S 915 (Brown): Social Security Fairness Act of 2017

Summary: Amends title II of the Social Security Act to repeal the government pension offset and the windfall elimination provisions.

Status: Referred to SENATE Committee on FINANCE.

Board of Retirement Position: Support.

Reviewed and Approved:

Steven P. Rice

Steven P. Rice, Chief Counsel

cc: LACERA Executive Office
LACERA Division Managers
Anthony J. Roda, Williams & Jensen
Joe Ackler, Ackler & Associates

FOR INFORMATION ONLY

October 1, 2018

TO: Each Member
Board of Investments

FROM: Christine Roseland CR
Senior Staff Counsel

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: **Evaluation and Selection of Real Estate Counsel**

From time to time, the Legal Office utilizes the services of outside counsel in connection with certain investment related transactions, including real estate purchases, dispositions, and financings. The Legal Office currently maintains a pool of four pre-approved firms for real estate equity and debt investments.[1] In order to refresh this pool of pre-approved firms and as a matter of good practice, the Legal Office intends to issue a request for proposals this month seeking law firm(s) to serve as real estate counsel to LACERA.

The last time the Legal Office issued a request for proposals for real estate counsel was over ten years ago. Since then, many of the attorneys having the requisite real estate experience as well as knowledge of LACERA's policies and practices have left those firms and moved to others. In addition, LACERA's real estate program has evolved over time and with the addition of the real assets overlay, it is a good time to seek counsel with expertise in real asset investments such as infrastructure and timber. Furthermore, this request for proposals will ensure that LACERA is benefiting from more competitive pricing and the best talent currently available, with demonstrated expertise and experience providing legal services in real estate.

As part of the RFP process, the Legal Office will invite firms to submit proposals based upon the qualifications and experience of their attorneys, the size and resources of their firm, and their overall success, reputation, and specialization in real estate transactions.

A review committee composed of three to four staff members will review and evaluate the proposals received from the firms, follow up on client references submitted by each respondent, and, if necessary, conduct firm interviews. Upon completion of the review process, which we anticipate will last approximately two to three months, we expect to update your Board with the finalists selected.

[1] These firms are Cox, Castle, & Nicholson LLP, DLA Piper US LLP, Orrick, Herrington, & Sutcliffe LLP, and Seyfarth Shaw LLP

Reviewed and Approved

Steven P. Rice
Chief Counsel

cc: Robert R. Hill
James P. Brekk
Jonathan I. Grabel
Steven P. Rice
John McClelland
Cheryl Lu
Margo McCabe
Lisa Garcia

LACERA

FOR INFORMATION ONLY

October 3, 2018

TO: Each Member
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: Monthly Status Report on Board of Investments Legal Projects

Attached is the monthly report on the status of Board-directed investment-related projects handled by the Legal Division as of October 1, 2018.

Attachment

c: Robert Hill
James Brekk
John Popowich
Bernie Buenaflor
Jon Grabel
Vache Mahseredjian
John McClelland
Christopher Wagner
Ted Wright
Jim Rice
Jude Perez
Scott Zdrazil
Christine Roseland
John Harrington
Cheryl Lu
Barry Lew
Margo McCabe
Lisa Garcia

LACERA Legal Division
Board of Investments Projects
Monthly Status Report - Pending as of October 1, 2018

	Project/ Investment	Description	Amount	Board Approval Date	Completion Status	% Complete	Notes
EQUITIES	CornerCap Investment Counsel	Investment Management Agreement	$60,000,000.00	August 8, 2018	Complete	100%	Investment Management Agreement was executed and manager commenced trading.
	Global Alpha Capital Management	Investment Management Agreement	$160,000,000.00	August 8, 2018	In Progress	75%	Legal negotiations in progress.
	Matarin Capital Management	Investment Management Agreement	$125,000,000.00	August 8, 2018	Complete	100%	Investment Management Agreement was executed and manager commenced trading.
HEDGE FUNDS	PIMCO Tactical Opportunities Onshore Fund, L.P.	Subscription	$250,000,000.00	September 12, 2018	In Progress	25%	Legal review and negotiations in progress.
PRIVATE EQUITY	JP Morgan Investment	Private Equity Emerging Manager Separate Account Investment Management Agreement	$300,000,000.00	December 13, 2017	In Progress	75%	Legal and business teams had multiple conference calls with JPM to discuss agreement. Legal review and negotiations in process. JPM still has available commitment to invest through the end of the calendar year.
	Storm Ventures Fund VI, L.P.	Subscription	$50,000,000.00	June 13, 2018	In Progress	75%	Legal negotiations on LPA close to final. Waiting for GP comments to revised side letter comments.
	GGV Discovery II L.P., GGV Capital VII L.P. and GGV Capital VII Plus L.P.	Subscription	$100,000,000.00	September 12, 2018	Complete	100%	Completed.

LACERA Legal Division
Board of Investments Projects
Monthly Status Report - Pending as of October 1, 2018

	Project/ Investment	Description	Amount	Board Approval Date	Completion Status	% Complete	Notes
PRIVATE EQUITY	Hellman & Friedman Capital Partners IX, L.P.	Subscription	$180,000,000.00	September 12, 2018	Complete	100%	Completed.
	Riverside Micro-Cap Fund V, L.P.	Subscription	$65,000,000.00	September 12, 2018	Complete	100%	Completed.
	Triton Fund V, L.P.	Subscription	€ 100,000,000.00 (approx. $117,635,500.00)	September 12, 2018	In Progress	75%	Legal negotiations in process. Closing expected first week of October.
REAL ESTATE	Aermont Capital Real Estate Fund IV	Subscription	€ 50,000,000.00 (approx. $58,300,000.00)	August 8, 2018	Complete	100%	Completed.
	TPG Real Estate Partners III	Subscription	$100,000,000.00	September 12, 2018	In Progress	25%	Legal review negotiations in process.

Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101

L//CERA

October 3, 2018

TO: Each Member,
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: October 10, 2018 Board of Investments Meeting

SUBJECT: Report on Public Records Act Response

At Mr. Muir's request, each Board member, in their green folder for this meeting, will be provided a DVD with records of Board of Investments travel for the period September 1, 2017 to August 20, 2018 as recently produced to FundFire in response to its Public Records Act request. A copy of the DVD will be provided to members of the Board of Retirement upon request.

c: Board of Retirement
Robert Hill
James Brekk
John Popowich
Bernie Buenaflor
Jonathan Grabel
Beulah Auten
Ted Granger

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Attention: Public Records Act Requests
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Pasadena, CA 91101

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Pasadena, CA 91101

LACERA

September 28, 2018

TO: Each Member
Board of Investments

FROM: Ted Wright, CFA, FRM, PRM, CAIA TW
Principal Investment Officer

FOR: October 10, 2018 Board of Investments

SUBJECT: **AN INTRODUCTION TO FACTORS**

Attached is a presentation from Meketa Investment Group ("Meketa"), with input from staff, on public equity market factor investing. As a reminder, a structure review of the Global Equities portfolio is scheduled to be presented to the Growth Committee at an upcoming meeting. In preparation, staff is reviewing LACERA's current equity investments and other potential opportunities that may enhance the portfolio. In particular, staff, in conjunction with Meketa, would like to explore the role of factor investing in institutional portfolios. Meketa's attached presentation provides an overview of factor investing and its potential role in portfolio optimization.

Attachment

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

TW:jj

Los Angeles County Employees Retirement Association

An Introduction to Factors

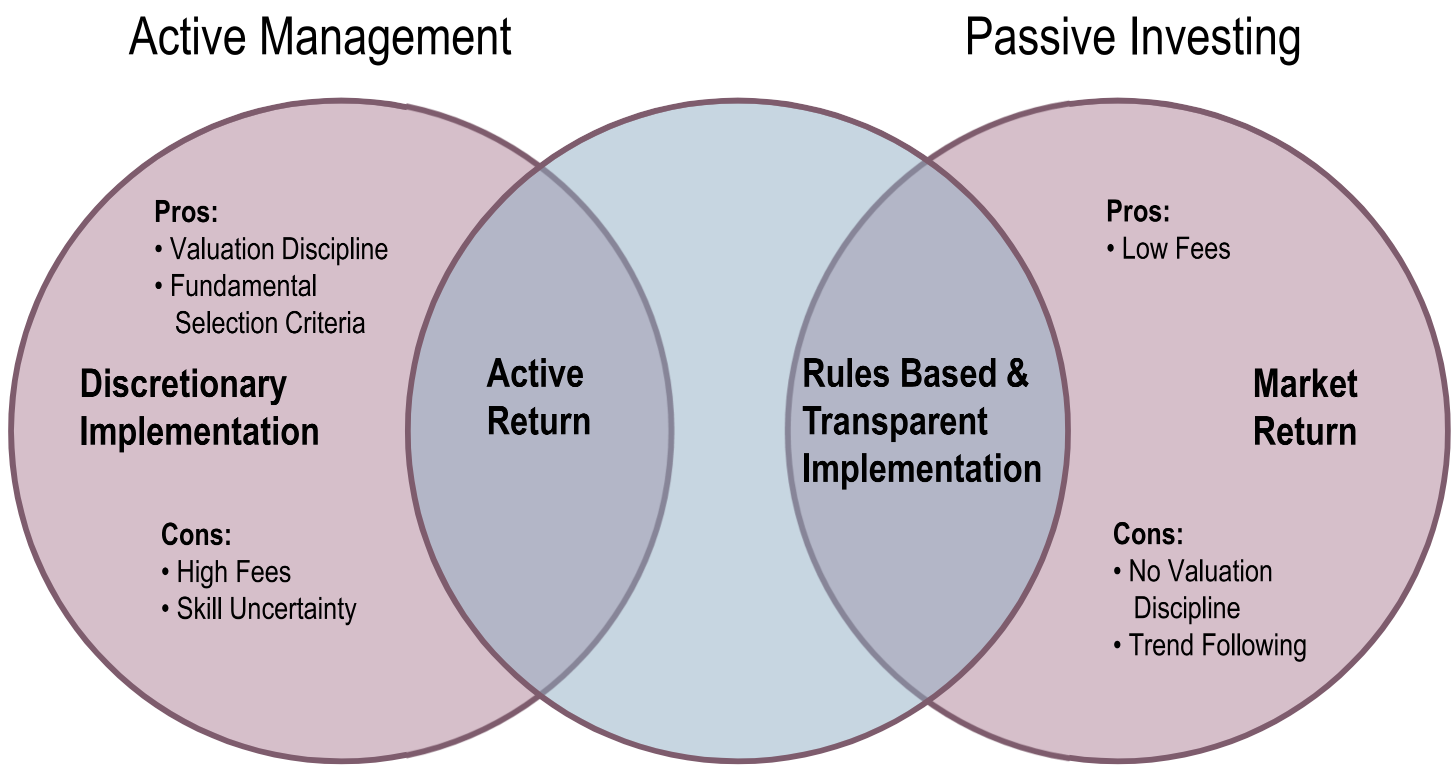
October 10, 2018

Ted Wright, CFA, FRM, PRM, CAIA
Principal Investment Officer - Global Equities
LACERA

Timothy Filla, CAIA
Vice President
Meketa Investment Group

Factor Investing Overview

Factor Investing

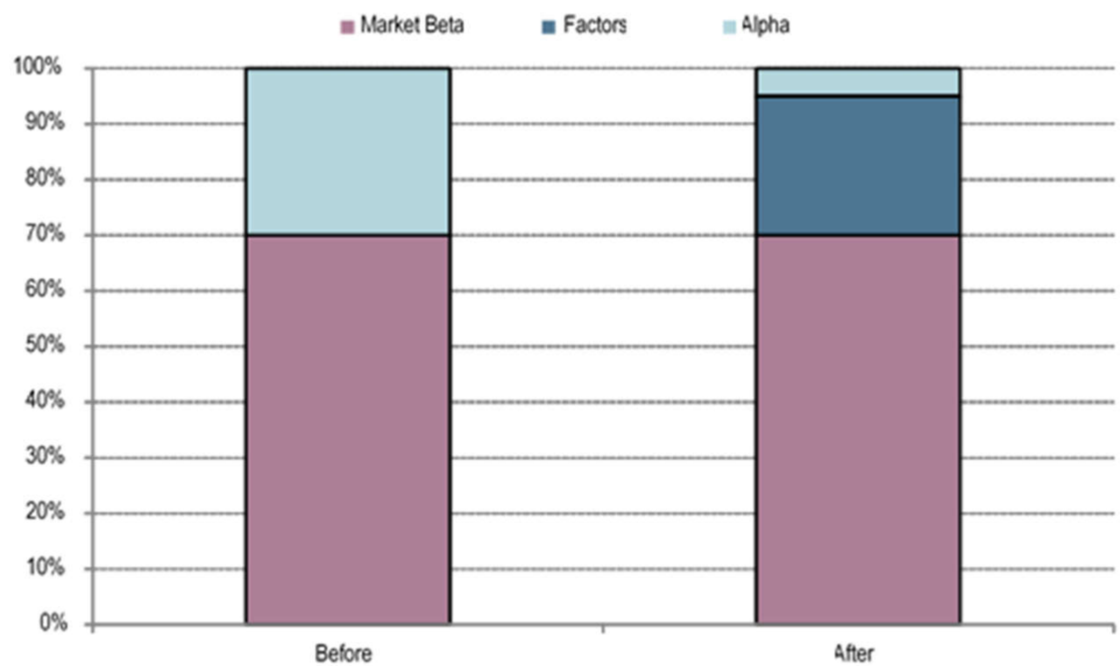


✓ Automated Rules Based Selection
✓ Valuation Criteria
✓ Fundamental Criteria
✓ Low Fees

Source: (2018, March Published) http://www.msci.com/msci-factor-indexes

Evolution of Equity Returns

- **Market beta is not the only systematic source of equity returns.**
- **Factor based strategies provide passive, index-like exposure to alternative risk premia or return factors in equities.**
- **Factor based strategies aim to achieve better risk-adjusted performance than cap-weighted indices.**



What are Factors?

Primary Factors & Characteristics

Size

Compensation for owning less widely researched and riskier companies

Value

Stocks that appear relatively cheap tend to perform better than stocks that appear relatively expensive

Momentum

Winning Stocks tend to continue to perform well

Quality

More profitable companies tend to do better than less profitable ones

Low Volatility

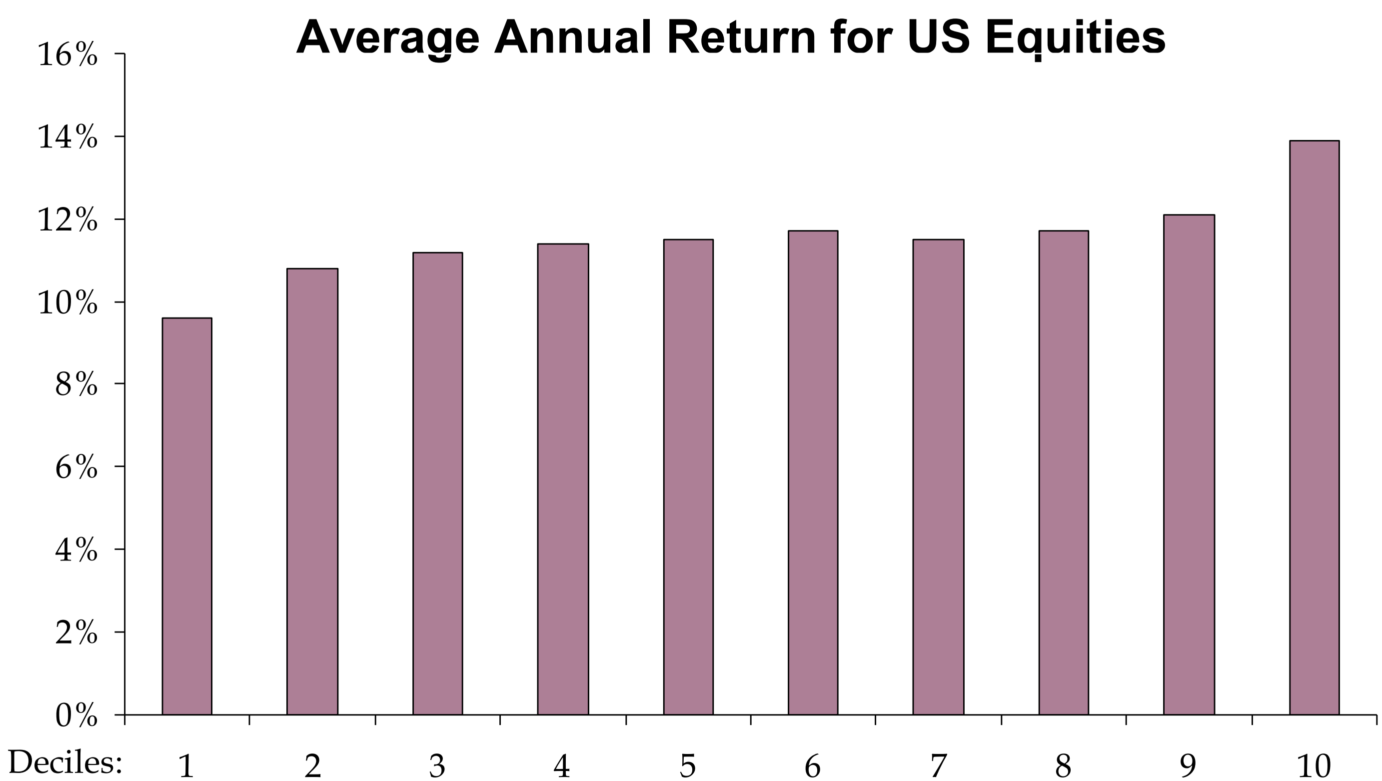
Stocks with low volatility or low beta tend to out perform high volatility or high beta stocks

Types of Factors

The Size Effect

Somewhere along the way, a couple of academics (Fama and French) noticed something odd about the stock market:

Small stocks outperformed large stocks



Source: Ibbotson Associates. Data begins in 1926.

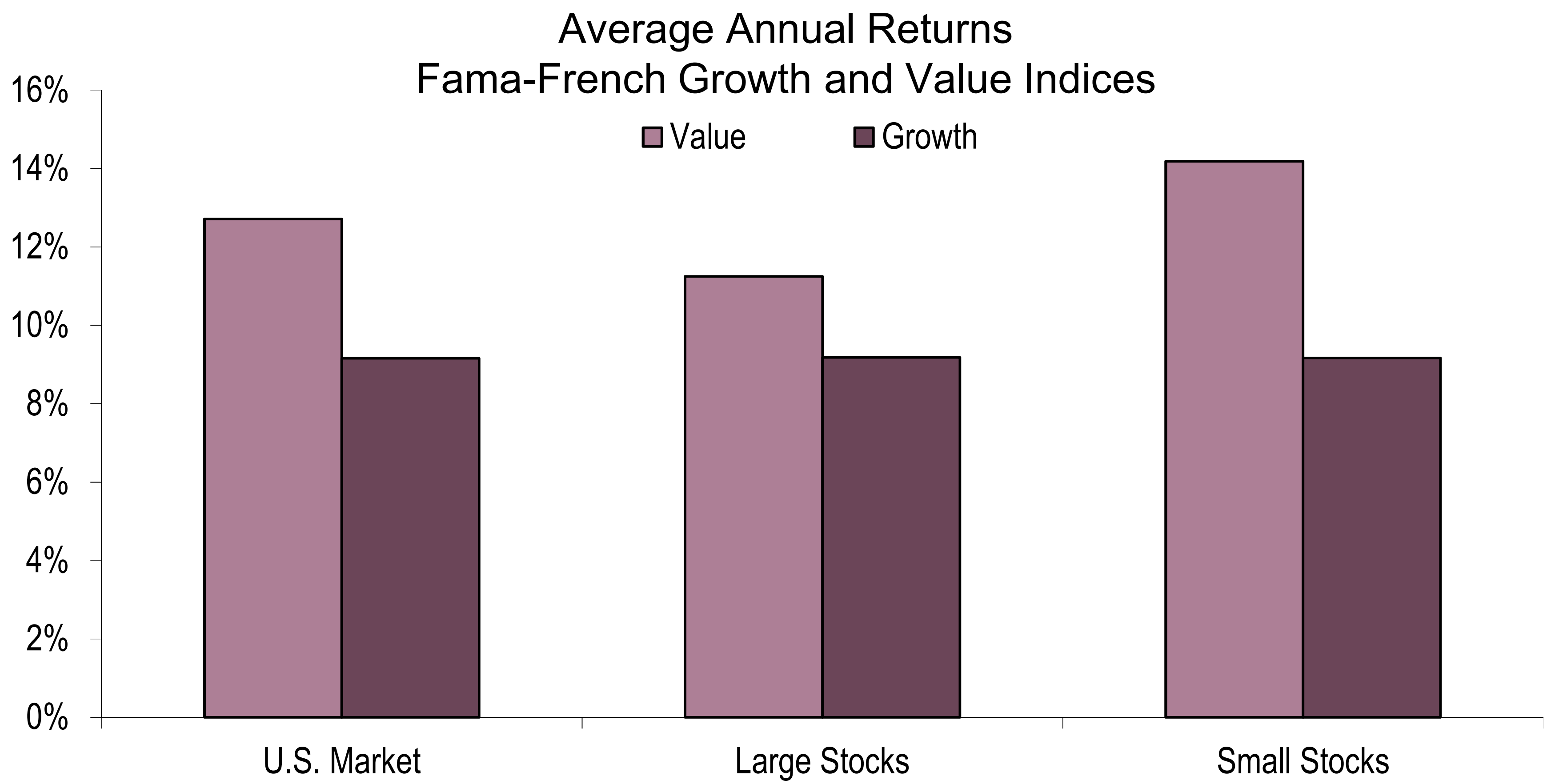
The Size Effect

Why have small stocks outperformed?

- Investors demand extra return to compensate them for increased risk
- Market inefficiency (e.g., limited analyst coverage)
- Higher expected earnings growth
- Small stocks generally trade at lower price ratios than larger stocks…

The Value Effect

Fama and French noticed something else odd about the stock market:
Low priced stocks outperformed higher priced stocks.



Source: Ibbotson Associates. Data begins in 1926.

The Value Effect

Why have value stocks outperformed?

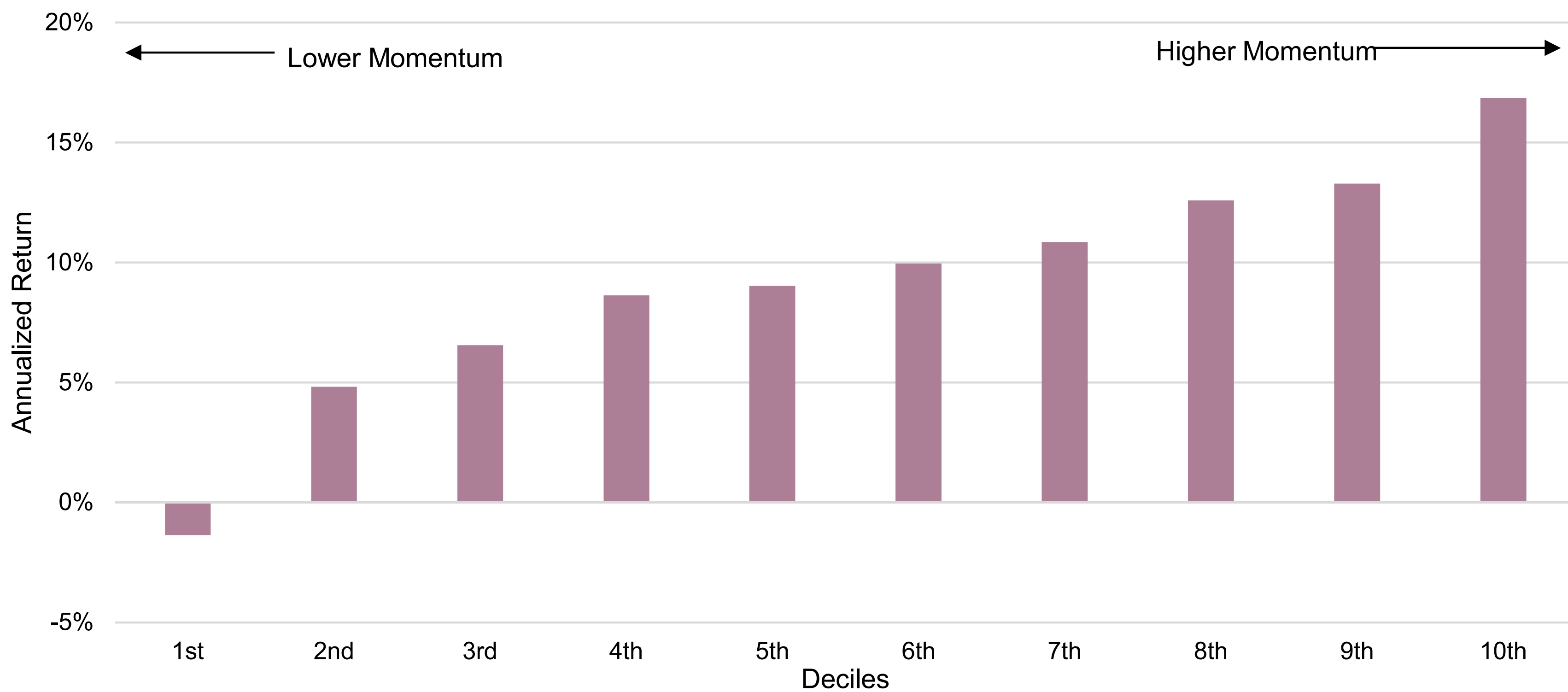
- Value stocks are more risky
- It is partly a small cap effect
- It represents contrarian investing
- Investors tend to overpay for the implied promise of future earnings growth

The Momentum Effect

Along came another academic (Carhart), who likewise noticed something odd about the stock market:

Recent winners tended to keep winning, while recent losers tended to keep losing

Let's call this "Momentum"



Source: Ibbotson Associates. Data begins in 1926.

The Momentum Effect

Why has momentum worked?

- It is compensation for taking on additional risk (e.g., volatility)[1]
- It exploits behavioral shortcomings in other investors, such as herding, over- and under-reaction, and confirmation bias

Again, these explanations make us think momentum is a sustainable factor

[1] *Momentum strategies can achieve high performance in trending markets, but their main source of risk and underperformance occurs when trends break or mean reversion occurs.*

The Quality Effect

The Quality factor is perhaps the most controversial because there is no universal agreement on how to define it

Some investors define quality with profitability measures such as ROE or ROIC, others by stability of earnings or leverage measures.

Regardless, higher-quality stocks have been found to outperform lower-quality stocks over the long run.

The Low Volatility Effect

Low volatility is not based on an equity risk factor but is rather defined as an anomaly that has been found empirically

The anomaly shows that over long enough periods of time, low volatility or low beta portfolios have outperformed high volatility or high beta portfolios

- This blows the minds of your average finance professor because it contradicts CAPM and the basis of finance theory

Why do Factors Persist?

They are psychological factors, not a trend that can be easily arbitraged away.

They have been rigorously tested and debated in the academic community.

Every reason to think the small stock and value effects are likely to continue for as long as investors behave irrationally.

However, these factors can be in or out of favor for longer periods (we'll come back to this later).

This is *really important*, because a factor has to be sustainable (i.e., robust) for us to put any faith in it.

How many factors are there?

Academia and the investment industry did not stop there. *Dozens* of additional factors have been posited in the past twenty years.

Many of these factors can explain historical returns, but…

- They tend to be highly correlated with each other or the pre-existing list
- They do not have a long enough period of performance post-publication for us to have faith that they are robust

However, there are two other equity factors worth discussing

How many factors are there?

Factors don't just apply to equities. In fact, they can be used to explain practically any asset class.

- Interest Rates
- Term structure of the Yield Curve
- Oil prices
- Leverage
- Credit spreads
- FX Carry

Performance of Factors

How have these factors performed?

Depending on how they are measured, most have outperformed the broad stock market

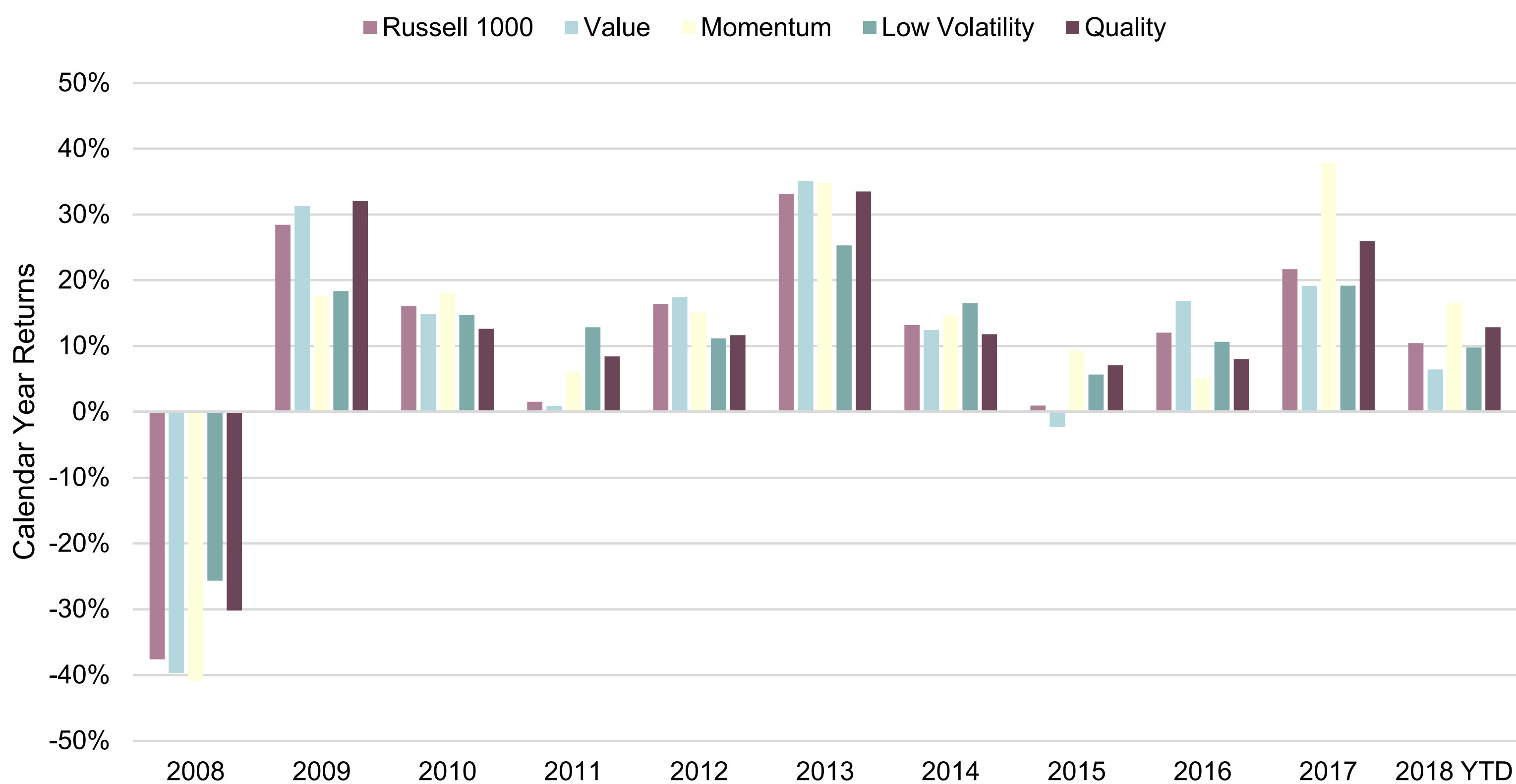
…hence their popularity

Oct 1998-Sept 2018	Annualized Return (%)	Annualized Standard Deviation (%)	Sharpe Ratio	Maximum Drawdown (%)	Correlation to S&P 500
S&P 500	7.4	14.4	39.2	-50.9	1.00
Russell 1000	7.7	14.6	40.6	-51.1	1.00
Value	7.8	15.1	40.0	-56.2	0.96
Momentum	10.9	15.5	59.0	-51.7	0.86
Low Volatility	8.4	11.2	58.9	-41.0	0.92
Quality	8.5	13.4	50.2	-40.5	0.96

How have these factors performed?

The different characteristics of the equity risk factors translate into factor performance that can differ greatly from the market in any given year.

Performance of Factor Indices



How have these factors performed?

Equity risk premia exhibit moderate correlations to the market and with each other.

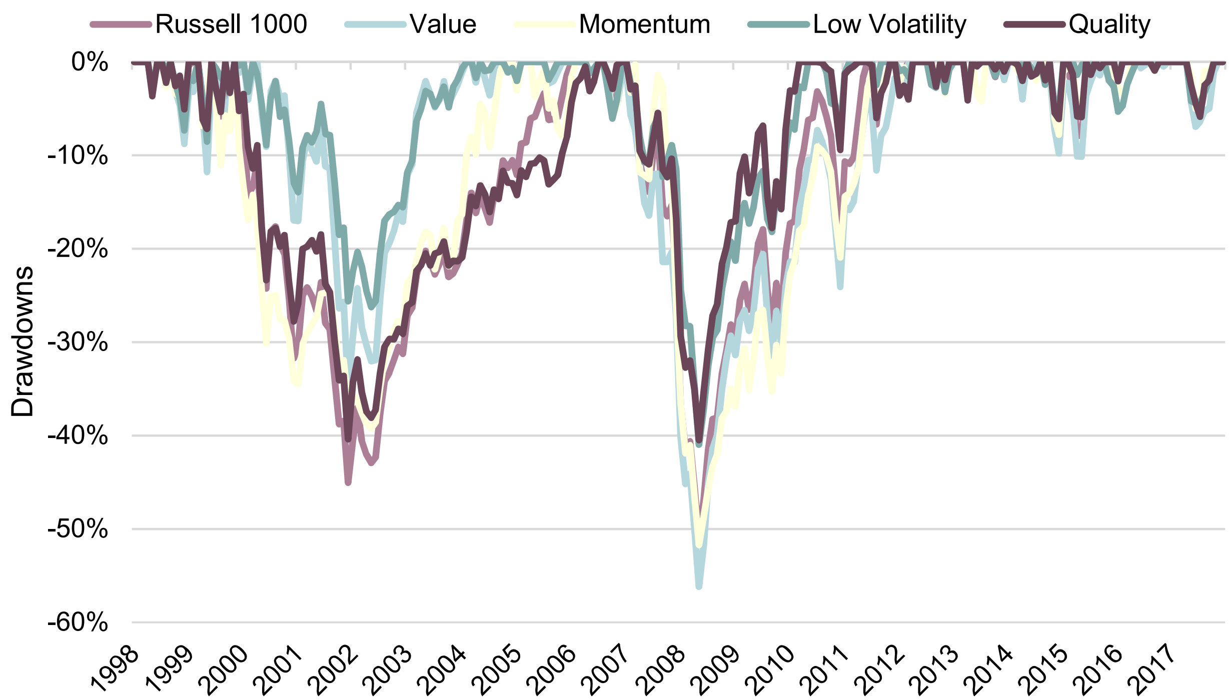
Correlation of Factor Indices

Oct 1998-Sept 2018	S&P 500	Russell 1000	Value	Momentum	Low Volatility	Quality
S&P 500	1.00					
Russell 1000	1.00	1.00				
Value	0.96	0.96	1.00			
Momentum	0.86	0.87	0.76	1.00		
Low Volatility	0.92	0.91	0.91	0.80	1.00	
Quality	0.96	0.96	0.89	0.85	0.87	1.00

Their diversification benefits are intriguing for purposes of portfolio construction.

How have these factors performed?

Drawdowns of Factor Indices



Low Volatility and Quality performed best during drawdowns

Momentum has experienced pronounced drawdowns

Value can protect returns, but has not done so consistently

Is this just for US equities?

These factors generally apply to markets outside the US, too

This is another sign that they are robust

However, there is not as much data available

And they may not apply universally (e.g., due to different accounting methods)

Summary

Summary

Factors help explain the behavior of markets

You get paid for taking on risk

Factors can be an important source of returns

- Much of your return can be explained by the overall market
- Most of the rest can be explained by factors
- Only a small amount can be explained by skill or luck

Some factors are unique and robust

An investor can build a more efficient portfolio using factors

Appendix

FTSE Global Factor Index Series

FTSE Russell

Russell 1000® Universe

Highest index returns

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Yield Focused 25.41	Momentum Focused 16.97	Yield 22.72	Quality 11.56	Low Volatility Focused -27.04	Yield Focused 42.84	Size 27.76	Yield 11.06	Yield Focused 19.20	Momentum Focused 40.21	Low Volatility Focused 19.16	Volatility 3.06	Yield Focused 23.35	Quality 28.07	Quality 5.40
Low Volatility Focused 23.34	Comprehensive 15.28	Yield Focused 20.70	Momentum 9.13	Volatility -31.10	Size 41.73	Momentum Focused 25.62	Volatility 8.46	Size 19.19	Comprehensive 38.15	Volatility 15.85	Momentum 2.69	Value 18.66	Momentum 22.83	Momentum 5.13
Comprehensive 21.33	Size 11.08	Value 19.43	Momentum Focused 7.09	Quality -31.14	Momentum Focused 37.34	Comprehensive 23.59	Quality 8.46	Value 18.82	Low Volatility Focused 37.56	Comprehensive 14.83	Quality 2.11	Yield 17.37	Russell 1000 21.69	Size 4.09
Momentum Focused 20.45	Low Volatility Focused 10.55	Volatility 18.29	Comprehensive 5.89	Comprehensive -31.37	Low Volatility Focused 32.21	Low Volatility Focused 23.49	Comprehensive 6.31	Momentum Focused 17.25	Size 36.60	Yield 14.03	Low Volatility Focused 2.08	Low Volatility Focused 16.22	Momentum Focused 21.07	Russell 1000 2.85
Size 18.00	Momentum 9.21	Low Volatility Focused 16.78	Russell 1000 5.77	Yield Focused -32.23	Comprehensive 32.17	Yield Focused 23.00	Low Volatility Focused 6.17	Low Volatility Focused 16.93	Value 36.38	Quality 13.33	Comprehensive 2.00	Size 15.99	Comprehensive 20.22	Yield Focused 2.54
Value 16.54	Value 8.35	Comprehensive 15.85	Value 3.92	Yield -32.46	Russell 1000 28.43	Value 20.13	Yield Focused 4.90	Comprehensive 16.51	Yield Focused 36.15	Russell 1000 13.24	Russell 1000 0.92	Comprehensive 13.07	Volatility 20.00	Low Volatility Focused 1.51
Yield 12.79	Quality 7.54	Russell 1000 15.46	Volatility 3.70	Momentum Focused -35.95	Quality 26.72	Yield 17.34	Momentum Focused 3.70	Russell 1000 16.42	Momentum 33.58	Value 12.88	Yield 0.04	Momentum Focused 12.72	Value 19.74	Momentum Focused 1.28
Volatility 11.77	Yield Focused 6.63	Momentum 14.59	Size 3.48	Momentum -36.66	Value 24.90	Momentum 17.07	Momentum 2.28	Quality 16.09	Russell 1000 33.11	Momentum 12.65	Momentum Focused -0.70	Russell 1000 12.05	Size 18.25	Comprehensive 0.90
Momentum 11.64	Russell 1000 6.27	Momentum Focused 14.45	Low Volatility Focused 2.93	Value -36.74	Momentum 22.44	Russell 1000 16.10	Value 1.80	Momentum 15.45	Quality 31.66	Yield Focused 12.62	Size -2.26	Volatility 11.56	Low Volatility Focused 18.22	Volatility 0.18
Russell 1000 11.40	Volatility 4.24	Quality 14.30	Yield 1.99	Size -37.58	Volatility 17.85	Quality 14.55	Russell 1000 1.50	Volatility 13.25	Volatility 29.61	Momentum Focused 12.30	Value -3.34	Quality 10.71	Yield 15.96	Value -0.45
Quality 10.50	Yield 3.85	Size 14.26	Yield Focused -2.26	Russell 1000 -37.60	Yield 17.02	Volatility 11.83	Size -1.17	Yield 11.84	Yield 28.60	Size 11.32	Yield Focused -7.49	Momentum 7.94	Yield Focused 15.64	Yield -1.27

Lowest index returns

*Source: FTSE Russell. Data as of June 29, 2018. Indexes referenced in this performance quilt chart, including their launch date, are listed in the table below. Any returns prior to this date are simulated.