AGENDA

A SPECIAL 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., THURSDAY, NOVEMBER 8, 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 October 10, 2018

IV. REPORT ON CLOSED SESSION ITEM

V. PUBLIC COMMENT

VI. INTERIM CHIEF EXECUTIVE OFFICER'S REPORT
(Memo dated October 29, 2018)

VII. CHIEF INVESTMENT OFFICER'S REPORT
(Memo dated October 30, 2018)

VIII. CONSENT ITEMS

A. Recommendation as submitted by Shawn R. Kehoe, Chair, Corporate Governance Committee: That the Board approve LACERA formally nominating Board member, Gina Sanchez, for the Council of Institutional Investor's 2019 board elections.
(Memo dated October 16, 2018)

B. Recommendation as submitted by Shawn R. Kehoe, Chair, Corporate Governance Committee: That the Board approve LACERA signing the Global Investor Statement to Governments on Climate Change. (Memo dated October 19, 2018)

VIII. CONSENT ITEMS (Continued)

C. Recommendation as submitted by Scott Zdrazil, Senior Investment Officer: That the Board approve LACERA's ballot for Principles for Responsible Investment 2019 board elections.
(Memo dated October 16, 2018)

IX. NON-CONSENT ITEMS

A. Recommendation as submitted by Jude Perez, Principal Investment Officer: That the Board approve adoption of the revised Investment Policy Statement. (Memo dated October 26, 2018)

B. Recommendation as submitted by Jonathan Grabel, Chief Investment Officer: That the Board approve changes to the Standing Committees.
(Memo dated October 29, 2018)

X. REPORTS

A. Investment Manager Scorecard
Jonathan Grabel, Chief Investment Officer
(Memo dated October 30, 2018)

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

C. Council of Institutional Investors General Members Business Meeting Ballot
Scott Zdrazil, Senior Investment Officer
(For Information Only) (Memo dated October 19, 2018)

D. Comment Letter to Securities and Exchange Commission Roundtable on the Proxy Process
Scott Zdrazil, Senior Investment Officer
(For Information Only) (Memo dated October 30, 2018)

X. REPORTS (Continued)

E. LACERA and Meketa Performance Book Delivery –
Total Fund and OPEB Reports: Third Quarter Performance Report
Meketa Report: Third Quarter Total Fund Performance Report
(For Information Only) (Memo dated October 30, 2018)

F. Update on FPPC Advice Letter re Trustee Sanchez
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated October 30, 2018)

G. Monthly Status Report on Board of Investments Legal Projects
Steven P. Rice, Chief Counsel
(For Information Only) (Memo dated November 1, 2018)

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

XI. ITEMS FOR STAFF REVIEW

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

XIII. 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. Other Managers/Assets

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. EXECUTIVE SESSION (Continued)

C. Pursuant to Government Code Section 54957 - Public Employee Performance Evaluation:

1. Performance Evaluation
   Title: Chief Investment Officer

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

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

PRESENT: David Green, Chair

Shawn Kehoe, Vice Chair (left the Board meeting at 11:00 a.m.)

Joseph Kelly

David Muir

Ronald Okum (Left the Board meeting at 11:28 a.m.)

Gina V. Sanchez

Herman B. Santos

ABSENT: Wayne Moore, Secretary

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

STAFF ADVISORS AND PARTICIPANTS (Continued)

John McClelland, Principal Investment Officer

James Rice, Principal Investment Officer

Ted Wright, Principal Investment Officer

David Simpson, Investment Officer

Esmeralda V. del Bosque, Senior Investment Officer

Chad Timko, Investment Officer

Barry W. Lew, Legislative Affairs Officer

Reed Smith LLP
Harvey L. Leiderman

Greenhill Cogent
Andy Nick, Managing Director

Goldman Sachs Hedge Fund Strategies
Richard Quigley, Managing Director

Meketa Investment Group
Stephen McCourt, Managing Principal
Timothy Filla, Managing Principal

StepStone Group LP
Jose Fernandez, Partner

I. CALL TO ORDER

The meeting was called to order by Chair Green at 9:04 a.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Mr. Muir 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 September 12, 2018

Mr. Santos made a motion, Mrs. Sanchez seconded, to approve the minutes of the regular meeting of September 12, 2018. The motion passed unanimously.

IV. REPORT ON CLOSED SESSION ITEM

In closed session at the September 12, 2018 Board of Investments meeting, under Item XII.B. of the agenda for that meeting, the Board met with counsel under Government Code Section 54956.9 (d)(4) to discuss the initiation of litigation. The Board voted to approve the filing of a securities fraud class action against BHB Billiton Limited and others as appropriate in Australia to seek recovery of LACERA's losses on BHP ordinary shares. The motion made by Mr. Santos, seconded by Mrs. Sanchez, was passed 7-0, with Messrs. Okum, Muir, Green, Kelly, Santos, Schneider, and Mrs. Sanchez voting yes. Messrs. Kehoe and Moore were absent from the vote.

V. PUBLIC COMMENT

There were no requests from the public to speak.

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

No comments were made.

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

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

VIII. CONSENT ITEMS

Mr. Santos made a motion, Mr. Kehoe seconded, to approve the following agenda items. The motion passed unanimously.

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)

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)

Mr. Perez and Ms. del Bosque provided a presentation, answered questions, and received input from the Board.

IX. REPORTS (Continued)

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

Mr. Grabel provided a brief discussion, answered questions, and received input from the Board.

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

(This Item was held following Item XIII. A.) (Mr. Kehoe left the meeting at 11 a.m. and Mr. Okum left the meeting at 11:28 a.m.)

Mr. Leiderman of Reed Smith LLP provided a presentation and answered questions from the Board.

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

This Item was received and filed.

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

This Item was received and filed.

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

This Item was received and filed. Mr. Santos volunteered to assist with the RPF selection process.

IX. REPORTS (Continued)

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

This Item was received and filed.

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)

This Item was received and filed.

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

This Item was received and filed.

X. ITEMS FOR STAFF REVIEW

There was nothing to report.

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

Mr. Santos shared his conference experience in attending the PREA and LAVCA conferences. In addition, Mr. Kehoe shared his conference experience in attending the NACD Global Board Leader’s Summit and encouraged Board members to attend NACD. Lastly, Mr. Green shared his experience in attending the Public Pension Trustees Fiduciary conference and thanked Mr. Grabel and staff for the great work behind the scenes.

XI. GOOD OF THE ORDER (Continued)

Mr. Kelly shared that he is now designated as an official trainer for the County's Center for Financial Empowerment that helps constituents with services and resources to help them make effective money management decisions. Mr. Kelly shared his thoughts on the Orange County Employees Retirement Association initiative at SACRS to increase appointed board member meeting payments. Mr. Muir requested the Legal Division to consider ways by which Board of Investments input may be received before LACERA determines its position on SACRS legislative proposals that affect issues of concern to the Board of Investments.

Lastly, Mr. Grabel thanked his staff for their continued hard work and updated the Board on current projects in progress by the team.

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)

The Board met in Executive Session with counsel, pursuant to California Government Code Section 54956.81.

On Agenda Item XII. A. 1., the Board discussed a secondary private equity sale authorization. There is nothing to report. The item will be reported out under the Brown Act at the earlier of the close of the transaction or the transfer of pension fund

XII. EXECUTIVE SESSION (Continued)

assets.

On Agenda Item XII. A. 2., on a motion by Mr. Kehoe, seconded by Mr. Santos, the Board voted unanimously by all members present to approve an investment of up to $250 million in Capula Global Relative Value Fund L.P., with an initial allocation of $100 million. This fund is a direct hedge fund investment, which pursues a global fixed income relative value strategy that primarily targets pricing distortions between related government debt securities in developed countries. Messrs. Kehoe, Kelly, Muir, Okum, Green, Santos, and Mrs. Sanchez voted yes; and Messrs. Moore and Schneider were absent.

On Agenda Item XII. A. 3., 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 to Siris Partners IV, L.P., which will pursue middle market buyout transactions in the United States. Siris targets undervalued legacy information technology companies to exploit industry disruption.

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)

The Board met in Executive Session with counsel, pursuant to California

XII. EXECUTIVE SESSION (Continued)

Government Code Section 54956.9. On Agenda Item XII. B. 1. (d)(1), to receive information regarding the pending litigation, LACERA v. BHP Billiton Limited, filed in federal court in Australia. There is nothing to report.

XIII. EDUCATION

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

Mr. Wright and Mr. Filla provided a presentation to the Board.

XIV. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 11:40 a.m.

Green Folder Information (Information distributed in each Board Members Green Folder at the beginning of the meeting)

1. Chief Investment Officer’s Report (Presentation dated October 10, 2018)
2. SACRS 2019 Legislative Platform (Memo dated October 2, 2018)

WAYNE MOORE, SECRETARY

DAVID GREEN, CHAIR

October 29, 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.

Another Successful Year of HR Conferences

LACERA recently completed our 14th Annual Human Resources (HR) Conference, which due to increased demand was actually held over three dates in August, September, and October, accommodating 101 attendees. The HR Conference provides Los Angeles County HR representatives an opportunity to connect with LACERA staff and receive important updates on the latest in retirement information, including disability retirement and the Retiree Healthcare Benefits Program.

Putting on the HR Conference is a team effort, and could not take place without participation from LACERA staff across the organization. It is coordinated and hosted by Cynthia Martinez, Chief of Communications, with in-house subject matter experts sharing their knowledge on various topics. This year's presenters and the topics they covered were: The LACERA Special Durable Power of Attorney, presented by Carlos Barrios; Disability Retirement: Supplemental Disability Allowance, Long-Term Disability, and *After Disability Retirement Is Granted: The Process,* presented by Russell Lurina, Ricardo Salinas, and Marco Legaspi; and RHC: LACERA-Administered Healthcare Plans, presented by Letha Williams-Martin and Laura Fuentes. I would like to thank this team for their hard work and dedication to making this event a success.

The HR professionals attending gave the conference rave reviews, providing positive comments and mostly "excellent" ratings in feedback questionnaires. We thank this year's guests for their commitment to providing our active members with excellent service, and look forward to putting on next year's event.

Fall Staying Healthy Together Fair a Success

Retiree Healthcare, along with our carriers and healthcare consultant Segal, host a retiree wellness fair twice a year in the spring and fall. This year's fall fair, Staying Healthy Together, was held October 23, 2018 at the Pickwick Gardens in Burbank. The half-day workshop was well attended, with 270 attendees. Members came from as far as New Mexico and Arizona. Staff received positive reviews from attendees and appreciated LACERA's effort in providing this educational program and offering fun activities.

Eighth Floor Construction Update

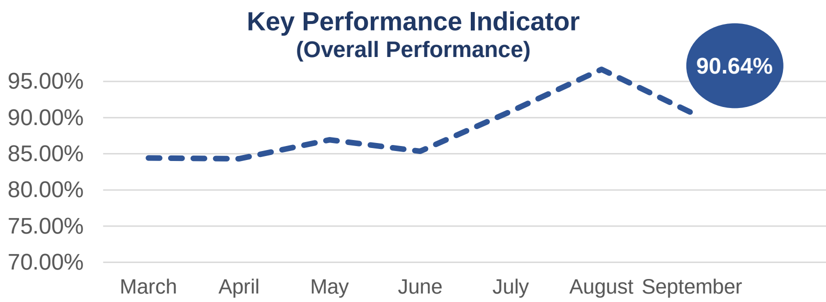
We are making progress with the construction on the eighth floor. We received word this week that the eighth floor restrooms have been completed and are awaiting the final City inspection before they can be opened. Hopefully, this inspection will occur this week or next and everything will be cleared for use.

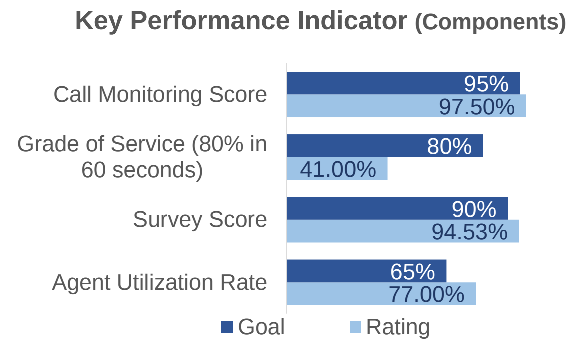
Construction is continuing as scheduled on the Investments Division renovation. The most recent reports have this project scheduled for completion in January, 2019. The contractors will then schedule the final phase of the project, which is to clean and repair walls, carpet, and repaint the Boardroom and Executive Offices. This is likely to extend into February 2019.

RH: jp
CEO report November 2018.doc
Attachments

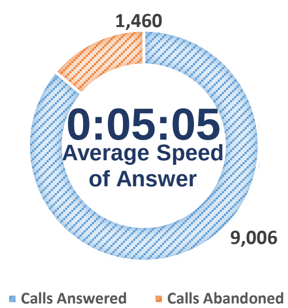
Striving for Excellence in Service

Outreach Attendance	Outreach Events	Outreach Satisfaction	Member Service Center	Member Services Calls
3,646	**38**	**95.5%**	**98.2%**	**10,466**
9,306 Year-to-Date	104 Year-to-Date	0.5% Change Since Last Mo.	1.8% Change Since Last Mo.	10,351 3 Mo. Avg.





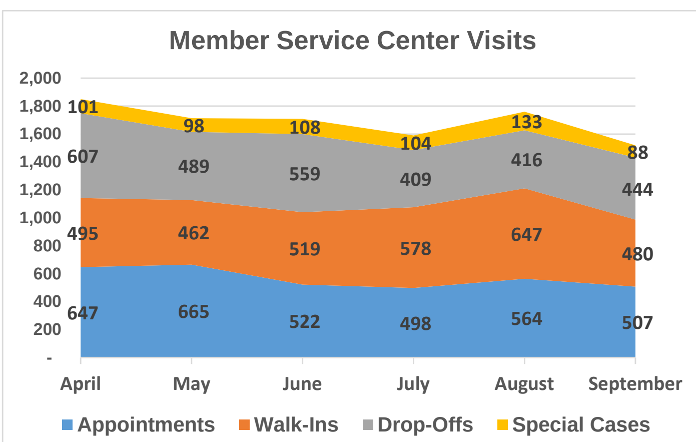
Member Services

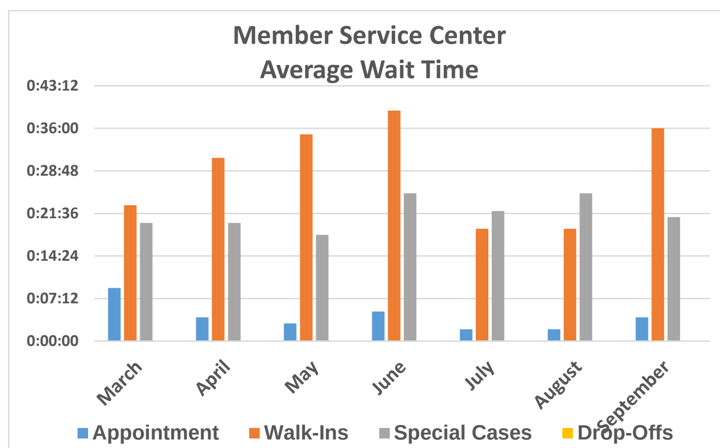


Top Calls

1. Workshop Info/Appointments Inquiry
2. POA: Explanation of - App Sent
3. Death: Benefit Explanation

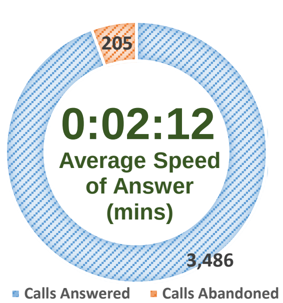
351 Emails
4:19 hours
Avg. Response Time (ART)





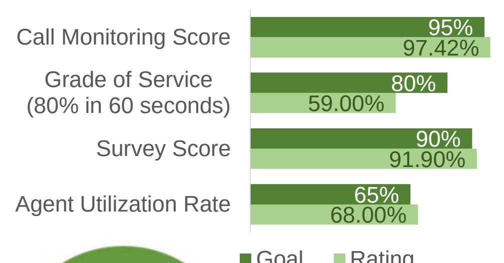
*Drop Off Wait Time: No Waiting

Retiree Healthcare



Top Calls

1. New Enrollment/Change/Cancel
2. Med. Benefits - General Inquiries (RHC)
3. Dental/Vision Benefits Gen. Inquiries



136 Emails
5 day
Avg. Response Time (ART)

Striving for Excellence in Service (Continued)

Disability

Applications

559 On Hand

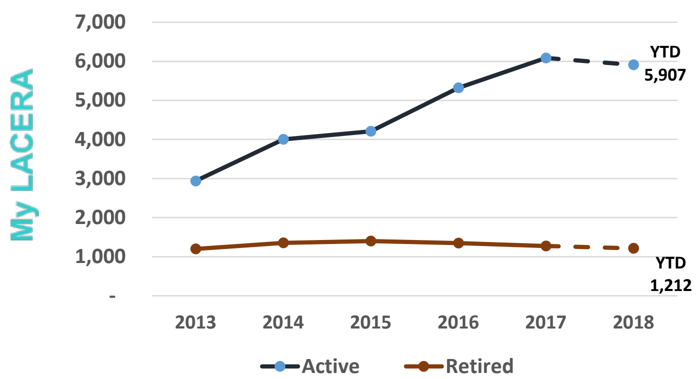
21	Received
106	Year-to-Date
0	Re-opened
0	Year-to-Date
42	To Board - Initial
133	Year-to-Date
0	Closed
13	Year-to-Date
538	In Process
538	Year-to-Date

Appeals

99 On Hand

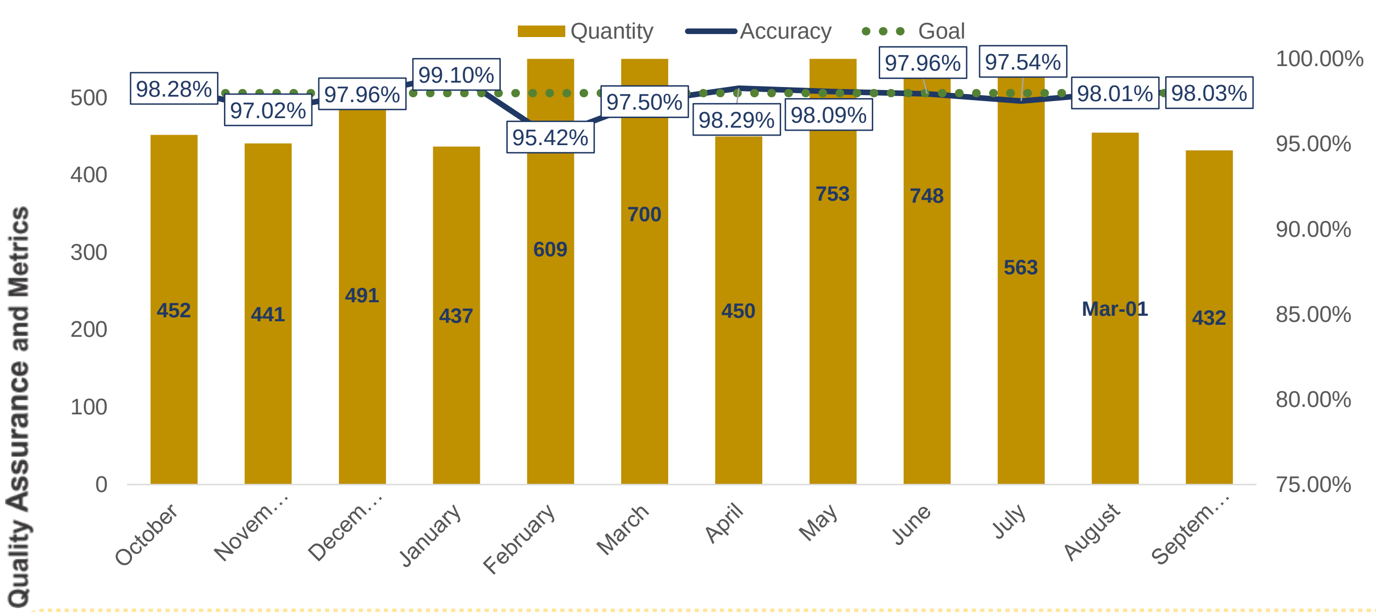
3	Received
6	Year-to-Date
1	Admin Closed/Rule 32
6	Year-to-Date
0	Referee Recommended
3	Year-to-Date
1	Revised/Reconsidered for Granting
2	Year-to-Date
100	In Process
100	Year-to-Date

My LACERA



MORE COMING SOON!

Striving for Excellence in Quality



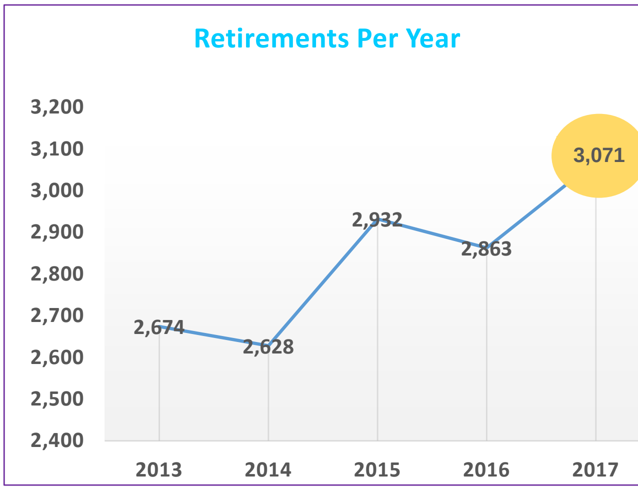
September 2018

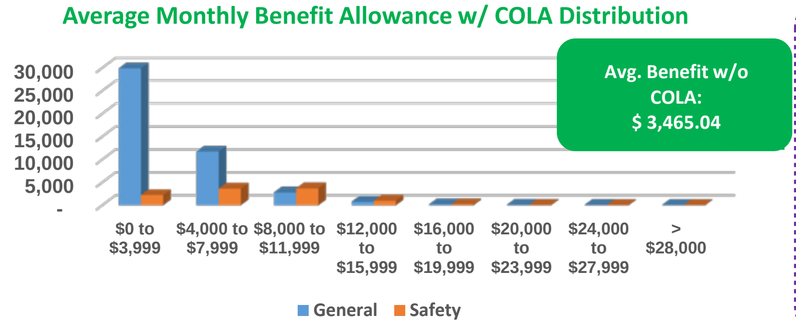
98.29%

	Retirement Elections	Payment Contracts	Data Entry
Samples	210	105	90
Accuracy	97.35%	98.76%	98.75%

Member Snapshot

	Members as of 10/29/18				
	Plan	Active	Retired	Survivors	Total
General	Plan A	133	17,418	4,494	**22,045**
	Plan B	43	683	66	**792**
	Plan C	54	421	65	**540**
	Plan D	43,128	14,464	1,324	**58,916**
	Plan E	18,150	12,525	1,116	**31,791**
	Plan G	24,518	15	1	**24,534**
	Total General	86,026	45,526	7,066	138,618
Safety	Plan A	5	5,408	1,589	**7,002**
	Plan B	10,198	5,394	272	**15,864**
	Plan C	2,649	8	0	**2,657**
	Total Safety	12,852	10,810	1,861	25,523
TOTAL MEMBERS		98,878	56,336	8,927	164,141
% by Category		60%	34%	5%	100%

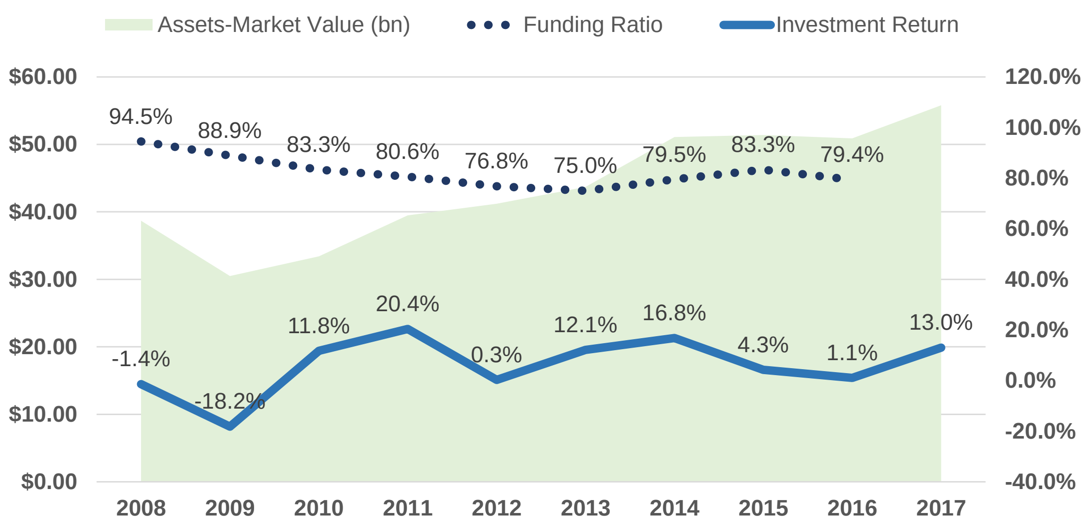




Healthcare Program (YTD)	Employer	Member
Medical	$127.9m	$10.7m
Dental	$10.9m	$1.1m
Part B	$15.7m	xxxx
Total	**$154.4m**	**$11.8m**

Healthcare Enrollments (Monthly)	
Medical	50,155
Dental	51,356
Part B	33,662
LTC	671
Total	**135,844**

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*

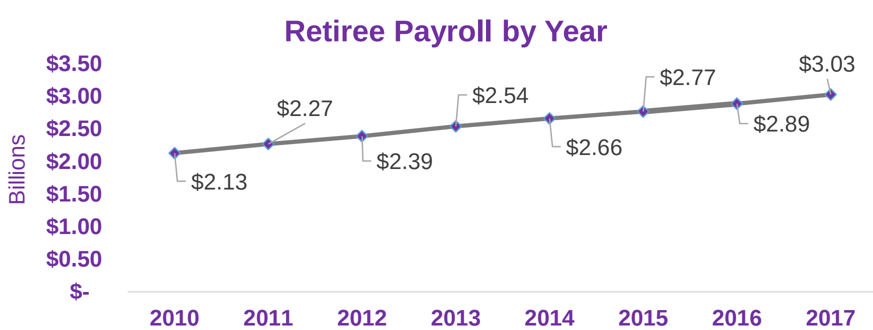
Contributions (as of 6/30/17)

	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

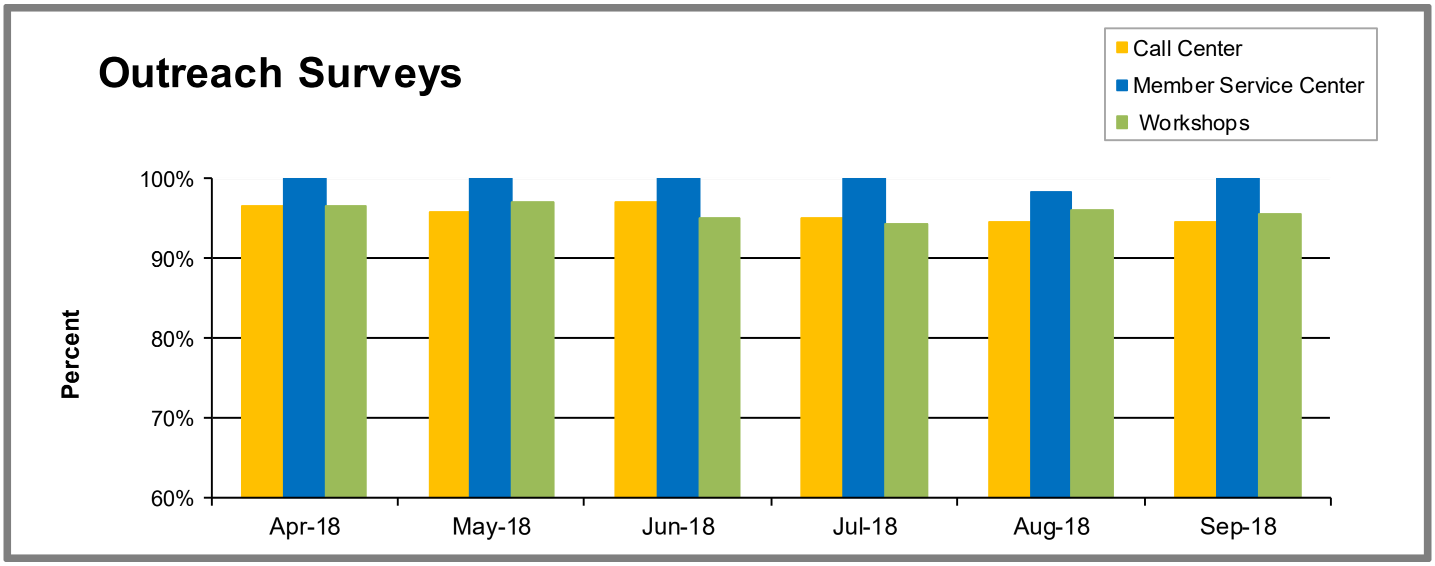
Retired Members Payroll

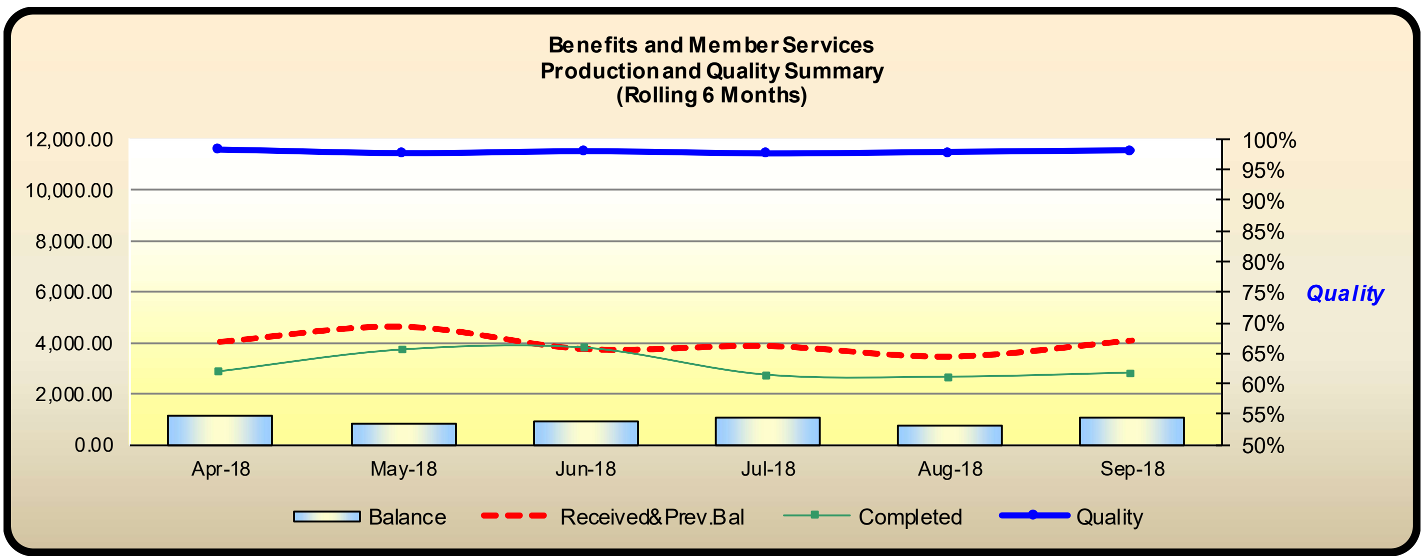
Monthly Payroll	$283.29m
Payroll YTD	.9b
New Retired Payees Added	293
Seamless %	98.63%
New Seamless Payees Added	926
Seamless YTD	98.06%
By Check %	4.00%
By Direct Deposit %	96.00%



LACERA's KEY BUSINESS METRICS

OUTREACH EVENTS AND ATTENDANCE				
Type	# of WORKSHOPS		# of MEMBERS	
	Monthly	YTD	Monthly	YTD
Benefit Information	17	46	1,261	2,455
Mid Career	2	6	100	220
New Member	9	29	225	755
Pre-Retirement	6	15	144	344
General Information	3	7	317	584
Retiree Events	1	1	80	80
Member Service Center	Daily	Daily	1,519	4,868
TOTALS	**38**	**104**	**3,646**	**9,306**





Member Services Contact Center			RHC Call Center	Top Calls	
Overall Key Performance Indicator (KPI)	90.64%				
Category	**Goal**	**Rating**			Member Services
Call Center Monitoring Score	95%	97.50%	97.42%	1)	Workshop Info.\Appointments: Inquiry
Grade of Service (80% in 60 seconds)	80%	41%	59%	2)	POA: Explanation of - App Sent
Call Center Survey Score	90%	94.53%	91.90%	3)	Death: Benefit Explanation
Agent Utilization Rate	65%	77%	68%		
Number of Calls		10,466	3,693		Retiree Health Care
Number of Calls Answered		9,006	3,486	1)	New Enrollment/Change/Cancel
Number of Calls Abandoned		1,460	205	2)	Medical Benefits-Gen. Inquiries (RHC)
Calls-Average Speed of Answer (hh:mm:ss)		00:05:05	00:02:12	3)	Dental/Vision Benefits Gen. Inquiries
Number of Emails		351	136		
Emails-Average Response Time (hh:mm:ss)		04:19:12	(Days) 5		Adjusted for weekends

Metrics YTD from July 1, 2018 through September 30, 2018

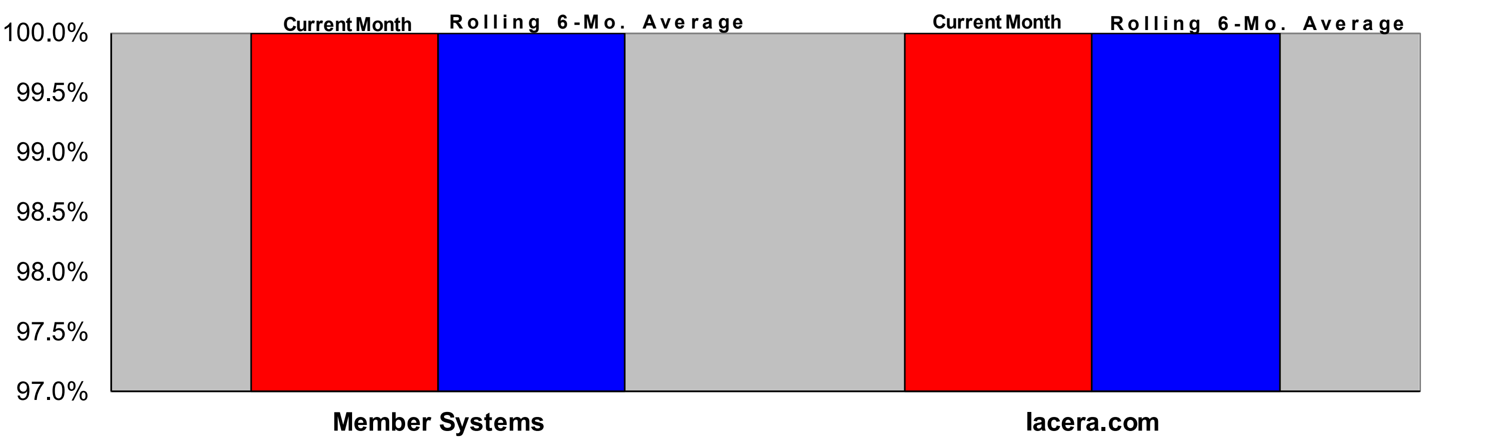
LACERA's KEY BUSINESS METRICS

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	559	xxxxxxx		On Hand	99	xxxxxxx
Received	21	106		Received	3	6
Re-opened	0	0		Administratively Closed/Rule 32	1	6
To Board – Initial	42	133		Referee Recommendation	0	3
Closed	0	13		Revised/Reconsidered for Granting	1	2
In Process	**538**	**538**		**In Process**	**100**	**100**

SYSTEMS AVAILABILITY - SEPTEMBER 2018



Active Members as of 10/29/18	
General-Plan A	133
General-Plan B	43
General-Plan C	54
General-Plan D	43,128
General-Plan E	18,150
General-Plan G	24,518
Total General	**86,026**
Safety-Plan A	5
Safety-Plan B	10,198
Safety-Plan C	2,649
Total Safety	**12,852**
TOTAL ACTIVE	**98,878**

Retired Members/Survivors as of 10/29/18	Retirees	Survivors	Total
General-Plan A	17,418	4,494	21,912
General-Plan B	683	66	749
General-Plan C	421	65	486
General-Plan D	14,464	1,324	15,788
General-Plan E	12,525	1,116	13,641
General-Plan G	15	1	16
Total General	**45,526**	**7,066**	**52,592**
Safety-Plan A	5,408	1,589	6,997
Safety-Plan B	5,394	272	5,666
Safety-Plan C	8	0	8
Total Safety	**10,810**	**1,861**	**12,671**
TOTAL RETIRED	**56,336**	**8,927**	**65,263**

Retired Members	
Monthly Payroll	283.29 Million
Payroll YTD	0.9 Billion
No. Monthly Added	293
Seamless %	98.63%
No. YTD Added	926
Seamless YTD %	98.06%
Direct Deposit %	96.00%

Health Care Program (YTD Totals)	Employer Amount	Member Amount
Medical	127,851317	10,718,387
Dental	10,882,576	1,101,700
Med Part B	15,685,140	xxxxxxxxxx
Total Amount	**$154,419,033**	**$11,820,087**

Health Care Program Enrollments (Monthly)	
Medical	50,155
Dental	51,356
Med Part B	33,662
Long Term Care (LTC)	671

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.

Date	Conference
December, 2018	
4	Milken Institute London Summit London, England
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
April, 2019	
8-10	IFEBP (International Foundation of Employment Benefit Plans) Investments Institute Phoenix, AZ
14-17	CRCEA (California Retired County Employees Association) Spring Conference San Diego, CA
28-May 1	World Healthcare Congress Washington D.C.
May, 2019	
6-8	IFEBP (International Foundation of Employment Benefit Plans) Health Care Mgmt. Conference Boston, MA

October 30, 2018

TO: Each Member
Board of Investments

FROM : Jon Grabel
Chief Investment Officer

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

The following memorandum and attachments constitute the CIO report for September 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** summarizes compliance regarding asset allocations, portfolio guidelines, and other policies across the Total Fund for the most recent quarter.

PERFORMANCE

The Total Fund finished the month with an investment balance of approximately $57.1 billion.[1] The month had a positive net return of 0.8%. For fiscal year to date, the Total Fund has gained 2.6% net of fees.

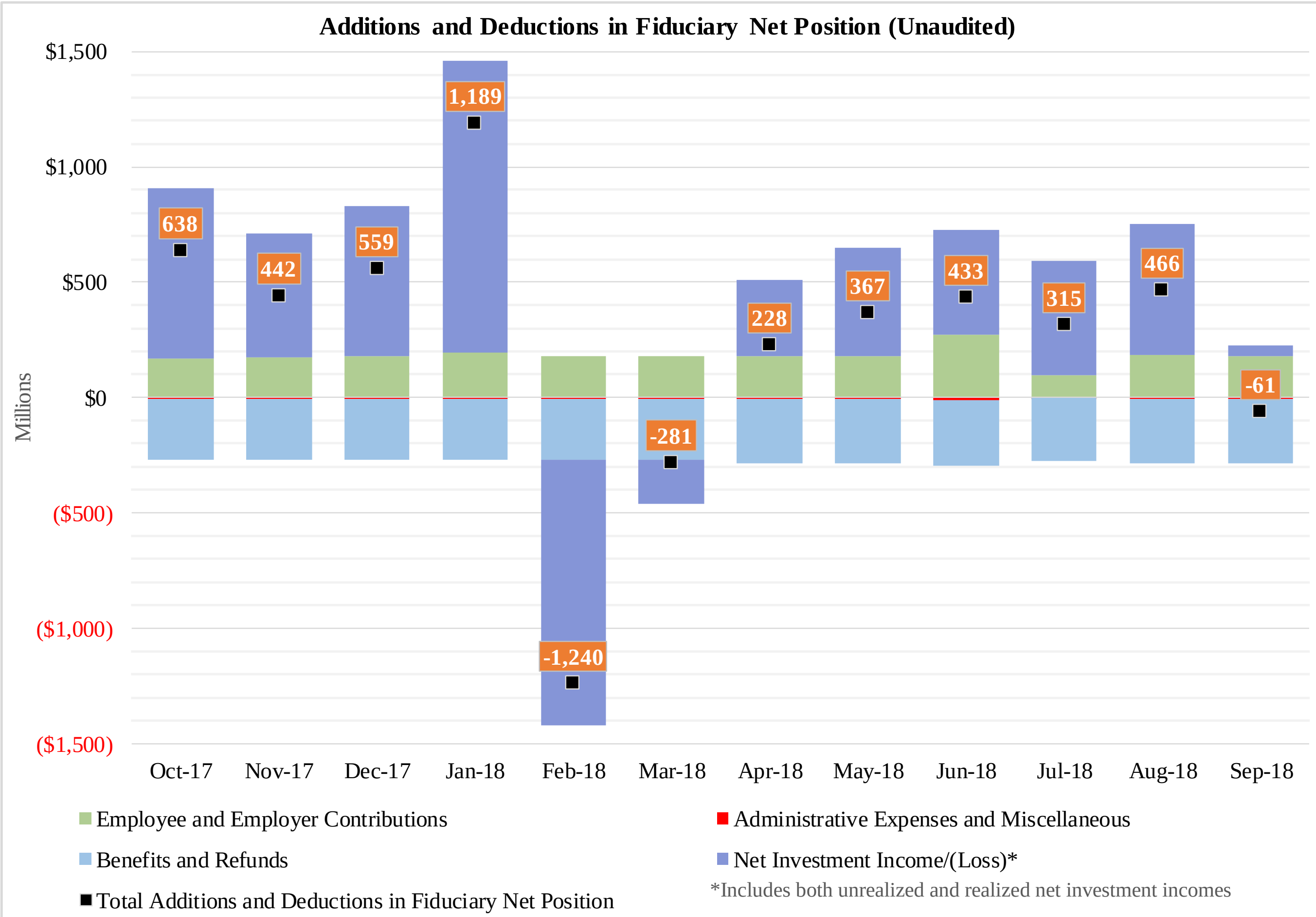
The OPEB Master Trust generated a negative return in September. For the month, the L.A. County, LACERA, and the Superior Court funds had a net loss of -0.04%. Fiscal year to date, the L.A. County, LACERA, and the Superior Court funds had net gains of 2.1%.

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 decreased by $61 million during the month of September. Over the last twelve months, the Plan's net position has increased by $3.1 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)



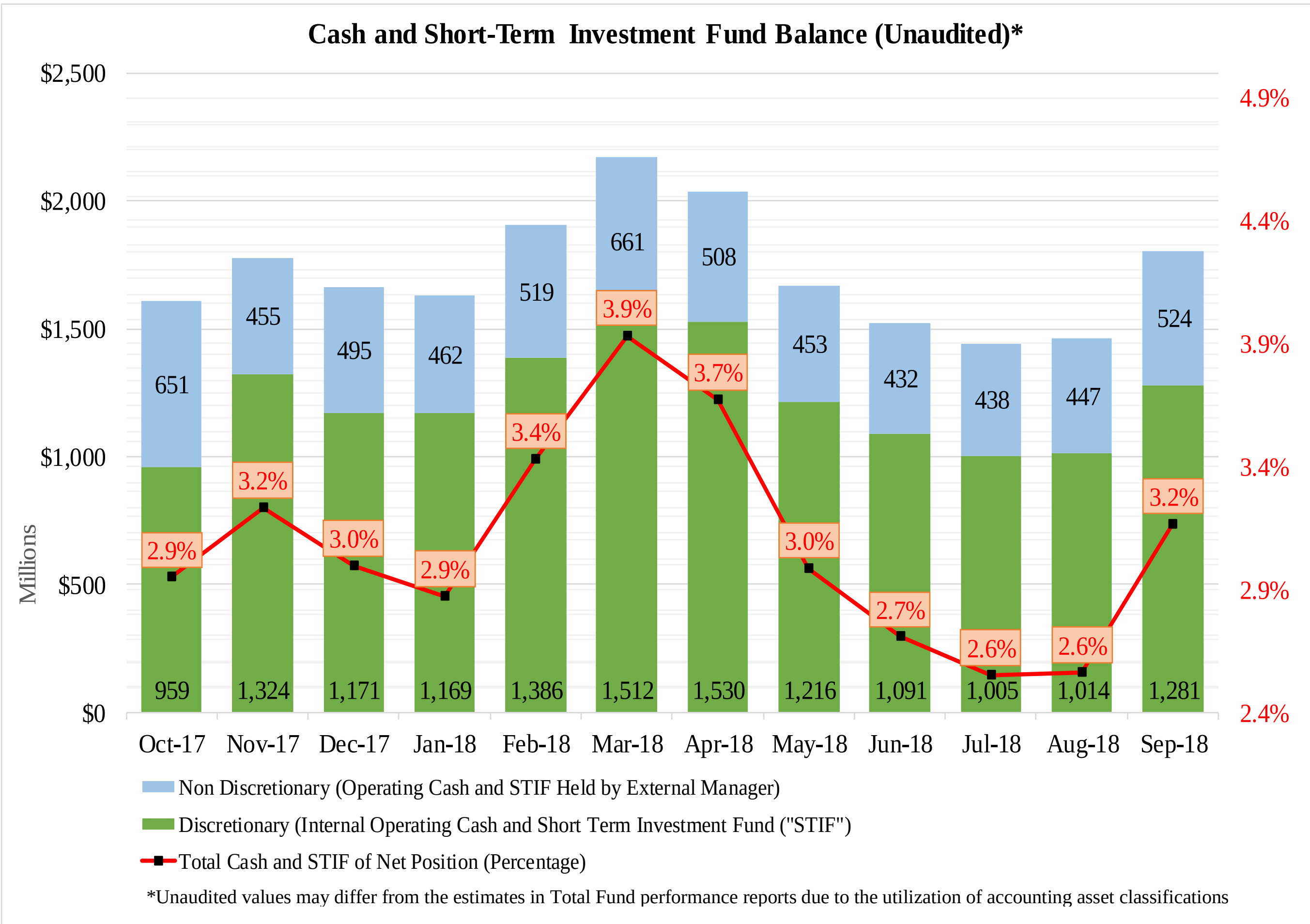
With respect to cash, LACERA finished the month of September with approximately $1.2 billion in the Fund's primary operating account, as reported by the master custodian and identified as "cash" on various Total Fund reports. There was additional cash held in internal accounts dedicated to asset categories with frequent cash flows as well as cash held by select external managers. As illustrated in **Chart 2**, LACERA held a total of $1.3 billion of internal operating cash and short-term investments across all of its operating accounts and LACERA's external investment managers held a further $524 million in cash and short-term investments.

In total, LACERA held approximately $1.8 billion in cash and short-term investment funds at the end of September, which can be categorized as follows:

- Non-discretionary (operating cash and Short Term Investment Fund ("STIF") balances held by external investment managers): $524 million
- Discretionary (internal operating cash and STIF balances accessible for the daily operating needs of the Plan): $1.3 billion

The Fund's total cash and short-term investment fund balance represented 3.2% of the Plan's unaudited net position, while its discretionary cash and short-term investment fund balance represented 2.2% of the Plan's unaudited net position.

Chart 2
Cash and Short-Term Investment Fund Balance (Unaudited)



The following table (**Table 1**) provides a summary of cash flows at the asset category level. For the month of September, the Total Fund had net investment inflows totaling $355.9 million.

Table 1
Asset Category Cash Flows

Asset Category and Activity	**$ in Millions**	**Cash Impact**
Private Equity		
Distributions	$252.0	Inflow
Capital calls	-$155.7	Outflow
Private Equity	*$96.3*	*Net Inflow*
Public Equity: U.S.		
Distributions	$187.5	Inflow
Contributions	-$185.3	Outflow
U.S. Equity	*$2.2*	*Net Inflow*
Public Equity: Non-U.S.		
Distributions	$160.0	Inflow
Contributions	$0.0	n/m
Currency hedge	$31.6	Inflow
Non-U.S. Equity	*$191.6*	*Net Inflow*
Fixed Income		
Distributions	$0.0	n/m
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	$6.9	Inflow
Contributions	$0.0	Outflow
Hedge Funds	*$6.9*	*Net Inflow*
Real Estate		
Separate account net activity	$61.7	Inflow
Commingled fund net activity	-$2.8	Outflow
Real Estate	*$58.9*	*Net Inflow*

The Public Equity asset class realized a $31.6 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 $9.4 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 September realized a gain and $31.6 million was transferred to cash from LACERA's passive currency overlay account. The hedged Non-U.S. Equity portfolio gained 0.5% net of fees, or approximately $47.8 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 seven searches currently underway.

The first 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 second 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 third is a targeted search for passive exposure to Treasury Inflation Protected Securities ("TIPS") through a separate account. The targeted search was issued in September 2018 and responses have been received and are being reviewed.

The fourth search is an RFP issued for a liquid real assets completion portfolio manager. Responses have been received and are being reviewed.

The fifth search is an RFP issued for specialized consultant services in each asset category of hedge funds, illiquid credit and real assets. The RFP was released in September 2018 and responses have been received and are being reviewed.

The sixth search is an RFP issued for a cash overlay manager. The Board has approved the minimum qualifications for this search and the RFP will be released in November 2018.

The seventh search is an RFI issued for real estate administrative services. The Board has approved the minimum qualifications for this search and the RFP will be released in November 2018.

UPDATES

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

Total Fund

- 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.
- A program to utilize MBA interns within the Investment Division is in development and resumes are currently being reviewed.
- 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.

Growth

- Public Equity
  - Staff is in 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 portion of the transition scheduled to begin once the Public Equity structure review is completed.
  - Staff has finalized the Public Equity Emerging Managers agreements and funded the accounts.

- Private Equity
  - A personnel search has been launched for an Investment Officer to focus on venture capital fund investments.
  - Staff and JPMorgan finalized the structure and legal documents for the next tranche of the Emerging Manager Program.
  - Staff has reviewed the structure of the co-investment program and will provide the results to the Equity Committee in October.

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 implementing the findings from the real estate structure review.
  - Staff is underwriting several potential commingled fund opportunities.

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

<u>Risk Reducing and Mitigating</u>

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

- <u>Hedge Funds</u>
    - A direct portfolio is being built with individual manager recommendations.

<u>Portfolio Analytics</u>

- LACERA, in partnership with CalSTRS and U.C. Regents, sent 91 letters to California companies lacking women directors regarding the companies' board diversity practices.
- 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.
- Staff is developing a multifaceted score card for public market managers. The scorecard will be discussed with the Board at the November meeting.

<u>OPEB</u>

- 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. See **Attachment 4**.

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.

OCTOBER FORECAST

LACERA's Total Fund is forecasted to lose approximately 6% in October due to a confluence of factors including geopolitical uncertainty, global trade tensions, and rising rates in the United States. Equity market volatility has been elevated in October, compared to recent periods. The trailing 30-day realized volatility of the S&P500 equity index is 19.6% in late October, while the same metric averaged 11.7%, 11.0%, and 11.6% over the last one, three, and five years, respectively. This measure increased above 20% three times in the past five years: August 2015, January 2016, and February 2018.

In the 2018 asset allocation study, the LACERA portfolio increased its level of expected diversification and decreased volatility by adding new asset categories such as real assets and charting a course to decrease allocations to public equity investments. The newly approved Total Fund allocation included a modestly decreased expected annual volatility of 12.0%, which calculates to a 3.5% monthly volatility expectation. With this monthly volatility expectation, the recent drawdown is an observation that is approximately two standard deviations away from the mean. Standard deviation is a statistical measure that provides information about how disperse or tightly grouped together data points are from their mean. The October 2018 drawdown is approximately a two standard deviation move from the mean and can statistically be expected to occur once every twenty months.

While a monthly drawdown in the portfolio is painful, this type of drawdown is within a range of expected outcomes. This drawdown reminds us the importance of implementing the new asset allocation, which contained higher risk adjusted return expectations based on lower volatility and a similar expected return compared to LACERA's existing portfolio. Relevant current initiatives include a search for a real assets completion portfolio manager, a search for a cash overlay manager, and a search for specialty consultants in hedge funds, real assets and credit.

As of publication of this report, during the month of October, the S&P 500 stock index was down -9.4% while the Bloomberg Barclays Global Aggregate bond index was down by -0.5%. The Total Fund will have a negative month as mentioned above.

Attachments

JG:jp:ct:cq

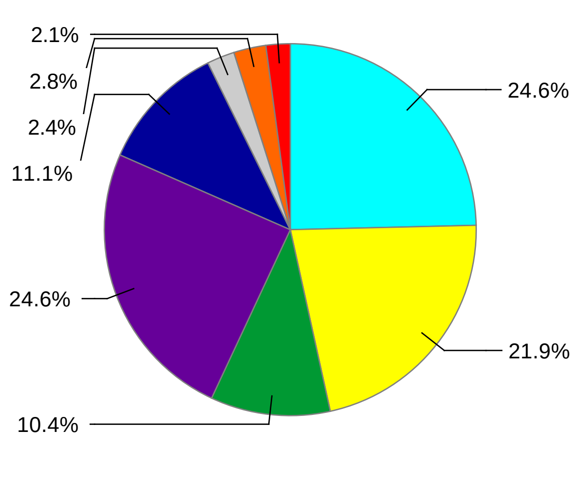
ATTACHMENT 1

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

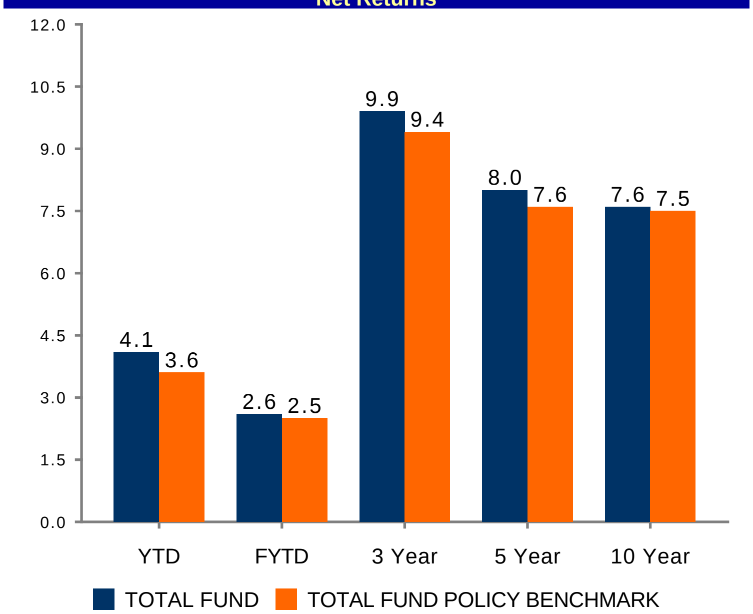
September 30, 2018

	Market Value (millions)	Actual % Total Fund	Target % Total Fund	TOTAL RETURNS (NET) YTD	FYTD	3 Year	5 Year	10 Year
U.S. EQUITY	**14,029.7**	**24.6**	**23.1**	**9.8**	**6.7**	**16.5**	**13.1**	**11.9**
RUSSELL 3000 (DAILY)				10.6	7.1	17.1	13.5	12.0
Non-U.S. EQUITY (Hedged)	**12,483.5**	**21.9**	**20.3**	**-1.4**	**0.8**	**11.3**	**6.5**	**6.6**
CUSTOM MSCI ACWI IMI N 50%H				-1.7	0.9	10.7	6.0	6.4
PRIVATE EQUITY [1]	**5,949.4**	**10.4**	**10.0**	**14.1**	**4.0**	**13.3**	**15.2**	**11.8**
PRIVATE EQUITY TARGET [2]				10.8	3.6	13.2	13.4	10.7
FIXED INCOME	**14,077.1**	**24.6**	**26.6**	**-0.4**	**0.6**	**3.5**	**3.3**	**5.6**
FI CUSTOM INDEX				-1.4	0.3	2.0	2.5	4.3
REAL ESTATE [1]	**6,363.2**	**11.1**	**11.0**	**7.2**	**2.9**	**8.2**	**9.4**	**3.6**
REAL ESTATE TARGET				6.0	1.9	8.8	10.5	6.4
COMMODITIES	**1,391.6**	**2.4**	**2.8**	**-0.6**	**-1.3**	**2.1**	**-5.8**	**-4.6**
Bloomberg Comm Index TR				-2.0	-2.0	-0.1	-7.2	-6.2
HEDGE FUNDS [3]	**1,625.0**	**2.8**	**4.2**	**2.6**	**0.0**	**3.2**	**3.9**	
HEDGE FUND CUSTOM INDEX [3]				5.0	1.7	5.8	5.5	
CASH	**1,212.9**	**2.1**	**2.0**	**1.4**	**0.6**	**1.2**	**0.8**	**1.2**
FTSE 6 M Treasury Bill Index				1.3	0.5	0.9	0.6	0.4
TOTAL FUND [1]	**57,132.5**	**100.0**	**100.0**	**4.1**	**2.6**	**9.9**	**8.0**	**7.6**
TOTAL FUND POLICY BENCHMARK				3.6	2.5	9.4	7.6	7.5

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

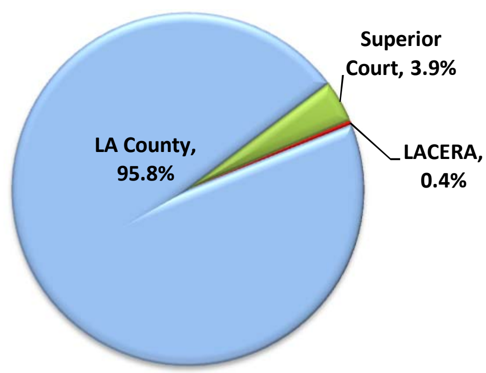
OPEB MASTER TRUST

September 30, 2018

LACERA

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	$964.0	95.8%	-0.03	2.15	2.15	7.85	11.37	6.81	6.02
	Net				-0.04	2.12	2.12	7.79	11.32	6.77	5.98
	Net All				-0.04	2.11	2.11	7.75	11.27	6.72	5.93
LACERA:	Gross	Feb-2013	$3.7	0.4%	-0.03	2.15	2.15	7.88	11.43	6.85	6.05
	Net				-0.04	2.12	2.12	7.82	11.38	6.80	6.01
	Net All				-0.07	2.03	2.03	7.29	10.66	6.37	5.62
Superior Court:	Gross	Jul-2016	$39.0	3.9%	-0.04	2.10	2.10	7.83	---	---	10.38
	Net				-0.04	2.07	2.07	7.77	---	---	10.34
	Net All				-0.06	2.03	2.03	7.61	---	---	9.57
TRUST OWNERSHIP TOTAL:			**$1,006.7**	**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	$502.1	49.9%	0.18	3.95	3.95	9.95	---	---	15.50
	Net				0.18	3.94	3.94	9.92	---	---	15.46
OPEB Credit	Gross	Jul-2018	$201.4	20.0%	0.96	1.23	1.23	---	---	---	1.23
	Net				0.93	1.14	1.14	---	---	---	1.14
OPEB Risk Reduction & Mitigation	Gross	Jul-2016	$104.3	10.4%	-0.33	0.28	0.28	1.66	---	---	1.35
	Net				-0.32	0.28	0.28	1.63	---	---	1.31
OPEB Inflation Hedges	Gross	Jul-2018	$198.7	19.7%	-1.33	-0.25	-0.25	---	---	---	-0.25
	Net				-1.34	-0.26	-0.26	---	---	---	-0.26
Uninvested Cash			$0.1	0.0%	---	---	---	---	---	---	---
TRUST OWNERSHIP TOTAL:			**$1,006.7**	**100.0%**							

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	$502.1	49.9%	0.19	3.95	3.95	9.95	13.85	---	8.00
	Net				0.18	3.95	3.95	9.92	13.82	---	7.96
Benchmark: MSCI ACWI IMI Net					0.16	3.88	3.88	9.63	13.47	---	7.63
Excess Return (Net - Benchmark)					*0.03*	*0.07*	*0.07*	*0.29*	*0.34*	*---*	*0.33*
OPEB BTC High Yield Bonds:	Gross	Jul-2018	$60.9	6.1%	0.54	2.42	2.42	---	---	---	2.42
	Net				0.53	2.39	2.39	---	---	---	2.39
Benchmark: BC High Yield Index					0.56	2.40	2.40	---	---	---	2.40
Excess Return (Net - Benchmark)					*-0.02*	*-0.02*	*-0.02*	*---*	*---*	*---*	*-0.02*
OPEB BTC EM Debt LC:	Gross	Jul-2018	$39.4	3.9%	2.64	-1.93	-1.93	---	---	---	-1.93
	Net				2.63	-1.96	-1.96	---	---	---	-1.96
Benchmark: JPM GBI-EM Global Diversified Index					2.59	-1.83	-1.83	---	---	---	-1.83
Excess Return (Net - Benchmark)					*0.04*	*-0.13*	*-0.13*	*---*	*---*	*---*	*-0.13*
OPEB BTC Inv. Grade Bonds:	Gross	Jul-2018	$80.8	8.0%	-0.61	0.07	0.07	---	---	---	0.07
	Net				-0.61	0.07	0.07	---	---	---	0.07
Benchmark: BBG BARC US Aggregate Index					-0.64	0.02	0.02	---	---	---	0.02
Excess Return (Net - Benchmark)					*0.04*	*0.05*	*0.05*	*---*	*---*	*---*	*0.05*
OPEB BTC TIPS:	Gross	Jul-2018	$60.0	6.0%	-1.03	-0.77	-0.77	---	---	---	-0.77
	Net				-1.03	-0.77	-0.77	---	---	---	-0.77
Benchmark: BBG US TIPS Index					-1.05	-0.82	-0.82	---	---	---	-0.82
Excess Return (Net - Benchmark)					*0.02*	*0.05*	*0.05*	*---*	*---*	*---*	*0.05*
OPEB BTC REITs:	Gross	Jul-2018	$99.3	9.9%	-2.71	0.75	0.75	---	---	---	0.75
	Net				-2.71	0.73	0.73	---	---	---	0.73
Benchmark: DJ US Select Real Estate Sec Index					-2.73	0.72	0.72	---	---	---	0.72
Excess Return (Net - Benchmark)					*0.01*	*0.01*	*0.01*	*---*	*---*	*---*	*0.01*
OPEB BTC Commodities:	Gross	Jul-2018	$39.4	3.9%	1.92	-2.01	-2.01	---	---	---	-2.01
	Net				1.91	-2.05	-2.05	---	---	---	-2.05
Benchmark: Bloomberg Commodity Index (Total Return)					1.92	-2.02	-2.02	---	---	---	-2.02
Excess Return (Net - Benchmark)					*-0.01*	*-0.02*	*-0.02*	*---*	*---*	*---*	*-0.02*
OPEB BlackRock Bank Loans:	Gross	Jul-2018	$101.1	10.0%	0.58	1.78	1.78	---	---	---	1.78
	Net				0.53	1.62	1.62	---	---	---	1.62
Benchmark: S&P/LSTA Leveraged Loan Index					0.69	1.84	1.84	---	---	---	1.84
Excess Return (Net - Benchmark)					*-0.16*	*-0.22*	*-0.22*	*---*	*---*	*---*	*-0.22*
OPEB Enhanced Cash:	Gross	Feb-2013	$23.6	2.3%	0.17	0.98	0.98	2.13	1.38	0.99	0.91
	Net				0.19	0.99	0.99	2.10	1.34	0.93	0.85
Benchmark: FTSE 6 M T-Bill Index					0.18	0.52	0.52	1.62	0.88	0.55	0.50
Excess Return (Net - Benchmark)					*0.01*	*0.47*	*0.47*	*0.48*	*0.46*	*0.38*	*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

The following firms have responded to a request for proposal regarding a liquid real assets completion portfolio manager:

AQR Capital Management
Blackrock
Brookfield Asset Management
Cohen & Steers
DWS
Invesco
Pimco
Principal Global Investors
RARE Infrastructure
State Street Global Advisors
Wellington Management

JG: cq

Compliance Monitor* - September 2018

This report highlights operational and compliance metrics monitored by the Investment Division

	Quarterly Review Status	# Advisory	Notes
PUBLIC MARKETS			
U.S. Equity			
Asset Allocation Policy Compliance	✓	1	Passive exposure is above the 75% allocation range by 0.3%
Investment Guideline Compliance	✓		
Emerging Manager Program	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
Non - U.S. Equity			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓	4	4 issuers held representing $19.1 mm in market value
Fixed Income			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
Emerging Manager Program	✓		
# of Sudan/Iran Holdings Held by Managers	✓	3	3 issuers held representing $12.9 mm in market value
Commodities			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
Securities Lending			
Investment Guideline Compliance	✓		
$ Value on Loan	✓	1	GSAL $638.7 mm; State Street $720.3 mm
$ Value of Cash Collateral	✓	1	GSAL $653.2 mm; State Street $447.9 mm
Total Income - Calendar YTD	✓	1	GSAL $2.8 mm; State Street $1.9 mm
Proxy Voting			
Number of Meetings Voted	✓	1	235 meetings voted
Tax Reclaims			
Total Paid Reclaims - Calendar YTD	✓	1	$121,478
Total Pending Reclaims	✓	1	$2.3 mm

Compliance Monitor* - September 2018

This report highlights operational and compliance metrics monitored by the Investment Division

	Quarterly Review Status	# Advisory	Notes
PRIVATE MARKETS			
Real Estate (As of 6/30/2018)			
Asset Allocation Policy Compliance	✓		
Guideline Compliance by Strategy (Core/Non-Core)	✓		
Guideline Compliance by Manager	✓		
Guideline Compliance by Property Type	✓		
Guideline Compliance by Geographic Location	✓	1	Western Region is above target by 1.2%
Guideline Compliance by Leverage	✓		
Private Equity (As of 6/30/2018)			
Asset Allocation Policy Compliance	✓		
Guideline Compliance by Strategy (Buyout/Venture/Special Sits)	✓		
Guideline Compliance by Geographic Location	✓		
Investment Exposure Limit	✓		
Hedge Funds			
Asset Allocation Policy Compliance	✓		
Portfolio Level Compliance	✓		
HFOF Manager Guideline Compliance	✓		
Direct Portfolio Manager Guideline Compliance	✓		
OPEB MASTER TRUST			
Equity			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
Fixed Income/Enhanced Cash			
Asset Allocation Policy Compliance	✓		
Investment Guideline Compliance	✓		
# of Sudan/Iran Holdings Held by Managers	✓		
FEE VALIDATION			
Fee Reconciliation Project	✓		
AB 2833	✓	1	Annual report delivered at the December 2017 BOI meeting

* Notes: This list is not exhaustive as various compliance processes are completed throughout the year.
Each quarter, different items may appear on the compliance monitor.

LACERA

October 16, 2018

TO: Each Member
Board of Investments

FROM: Corporate Governance Committee
Shawn Kehoe, Chair
David Muir, Vice Chair
Joseph Kelly
Herman Santos
Gina Sanchez, Alternate

Jonathan Grabel, Chief Investment Officer

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **LACERA NOMINATION FOR COUNCIL OF INSTITUTIONAL INVESTORS BOARD OF DIRECTORS ELECTIONS**

RECOMMENDATION

Approve LACERA formally nominating Board member Gina Sanchez for the Council of Institutional Investors' 2019 board elections.

BACKGROUND

LACERA is a member of the Council of Institutional Investors ("CII"). As detailed in the attached memo to the Corporate Governance Committee ("Committee"), dated September 19, 2018, public fund members such as LACERA elect nine of CII's 15 board seats. CII board members serve up to five consecutive one-year terms. No current CII board members are terming off the CII board in the 2019 elections. Nominations from public fund members are anticipated to be solicited in January 2019 in advance of elections that will occur at CII's March 2019 Spring conference.

Per LACERA policy, the Committee recommends nominations to governing boards of corporate governance-related investors associations for full Board of Investment consideration and approval, time-permitting. The Committee approved a motion that the Board of Investments nominate Gina Sanchez as LACERA's nomination for CII's 2019 elections. The Committee is now presenting the recommended affiliation for consideration by the Board of Investments.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

The Committee discussed nominating a board member for the 2019 CII board elections. The Committee discussed LACERA's history of nominations to the CII board and the importance of nominating a candidate who is electable.

RISKS OF ACTION AND INACTION

If successfully elected, LACERA's representation on the boards of outside associations, such as CII, may create certain reputational risks. For example, Board service may associate LACERA with public actions of the organization that may or may not be aligned with LACERA policy.

The risk of inaction is namely that, absent a nomination from LACERA, LACERA will voluntarily vacate its current representation on CII's board. LACERA's participation in CII is one method by which LACERA collaborates with other institutional investors to advance investors' interests in financial market policy and promote sound governance practices at companies in which LACERA invests. Representation on the CII board provides LACERA with a mechanism to collaborate and shape CII's priorities and programming.

CONCLUSION

LACERA has a longstanding membership in CII. Service on CII's board is an opportunity to contribute to CII's oversight and initiatives, while representing LACERA to external audiences and furthering LACERA's corporate governance initiatives. It is therefore recommended that the Board of Investments approve that the Board nominate Ms. Gina Sanchez for CII's 2019 board elections.

Attachment

Noted and Reviewed:

____

Jonathan Grabel
Chief Investment Officer

LACERA ATTACHMENT

September 19, 2018

TO: Each Member
Corporate Governance Committee

FROM: Jonathan Grabel
Chief Investment Officer

FOR: October 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **COUNCIL OF INSTITUTIONAL INVESTORS BOARD NOMINATION**

RECOMMENDATION

That the Corporate Governance Committee recommend for Board of Investments approval a nomination for election or re-election to the Council of Institutional Investors board of directors.

BACKGROUND

LACERA is a member of several corporate governance associations, including the Council of Institutional Investors ("CII"). CII bylaws provide that public fund CII members elect nine members to its board each year. Scott Zdrazil, Senior Investment Officer, is currently serving a first term on the CII board. CII board members are permitted to serve five consecutive one-year terms. In accordance with CII's stated governance principles for public companies, CII holds annual elections for all board members who generally serve five terms to provide consistent vision and oversight. There are no sitting CII board members who are terming off the board this year. CII has respectfully requested six-month notice from any incumbent member of the board who will not be nominated for re-election.

LACERA Board of Investment members have on occasion expressed interest in putting forward a trustee nominee for CII board elections. I would therefore suggest that the Committee consider nominating LACERA board member Mr. David Muir for CII's 2019 board elections.

CII board nominations are anticipated to be due in January 2019 for consideration and a vote by all public fund CII members at the Spring CII Conference, scheduled to take place in Washington, D.C., March 4-6, 2019. LACERA's *Corporate Governance Policy* provides that the Board of Investments, "[a]pproves LACERA representatives for nomination to governing bodies of the corporate governance associations to which LACERA is affiliated, as recommended by the Corporate Governance Committee…" (pages 1-2). This item is being presented for Committee consideration in order to allow for timely consideration by the Board of Investments, should the Committee take action on the item.

October 19, 2018

TO: Each Member
Board of Investments

FROM: Corporate Governance Committee
Shawn Kehoe, Chair
David Muir, Vice Chair
Joseph Kelly
Herman Santos
Gina Sanchez, Alternate

Scott Zdrazil, Senior Investment Officer SZ

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE**

RECOMMENDATION

Approve LACERA signing the Global Investor Statement to Governments on Climate Change.

BACKGROUND

The Corporate Governance Committee ("Committee") considered an agenda item at its October 10, 2018, meeting providing background information regarding the 2018 Global Investor Statement to Governments on Climate Change (the "Statement"). The Statement has been signed by 345 global investors representing US$30 trillion in assets. Further details are in the memo to the Committee (**Appendix**). The Committee approved a motion recommending to the Board of Investments ("Board") that LACERA sign the Statement.

DELIBERATIONS AND OPINIONS EXPRESSED BY THE COMMITTEE

The Committee expressed support for the Statement. No dissenting views were expressed.

RISKS OF ACTION AND INACTION

As noted in the background information, the Statement will be publicly issued in advance of upcoming global economic and climate change summits. If approved by the Board, LACERA may assume reputational risks due to the public nature of the Statement.

Also noted in the background materials are prospective costs that may be incurred by LACERA portfolio companies if certain public policies endorsed by the Statement are adopted.

Risks of inaction namely pertain to the economic risks that climate change may present to LACERA and other broadly diversified investors absent companies and policymakers pursuing steps to transition to a low-carbon economy, as further detailed in the background material.

CONCLUSION

The Statement provides an opportunity for LACERA to join other institutional investors to endorse certain steps to address the economic risks of climate change. It is therefore recommended that the Board of Investments approve LACERA formally signing the Statement.

Attachment

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

September 18, 2018

TO: Each Member
Corporate Governance Committee

FROM: Scott Zdrazil
Senior Investment Officer

FOR: October 10, 2018 Corporate Governance Committee Meeting

SUBJECT: **GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE**

RECOMMENDATION

That the Committee discuss recommending for Board of Investments approval that LACERA formally sign the Global Investor Statement to Governments on Climate Change.

EXECUTIVE SUMMARY

Staff is presenting background information for the Committee to deliberate recommending for Board approval that LACERA sign the 2018 Global Investor Statement to Governments on Climate Change ("Statement") (**ATTACHMENT 1**), following reference to the Statement at the Corporate Governance Committee ("Committee") July meeting. The Statement is jointly sponsored by the Principles for Responsible Investment (PRI), to which LACERA is a signatory, as well as six global and regional investor associations. It calls on governments to:

- Achieve the Paris Agreement's goals;
- Accelerate private sector investment into the low carbon transition; and
- Commit to improve climate-related financial reporting.

If approved by the Board before November 15, 2018, LACERA will join 345 global investors representing US$30 trillion in assets in a public release of the statement in advance of the 2018 Group of Twenty Summit ("G20") in late November in Argentina and the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change ("COP24") in December in Poland (see http://cop24.gov.pl/). The Statement has been endorsed by certain public funds, asset managers, and socially responsible investment funds, as listed in Attachment 1.

BACKGROUND

PRI and other investor groups are inviting investors to sign the joint Statement. It requests three actions of global governments meeting at G20 meetings in November and COP24 this December:

- Achieve the Paris Agreement's goals[1];
- Accelerate private sector investment into the low carbon transition; and
- Commit to improve climate-related financial reporting.

The Statement (with current signatories) and a briefing memo are attached as **ATTACHMENT 1** and **ATTACHMENT 2**, respectively.

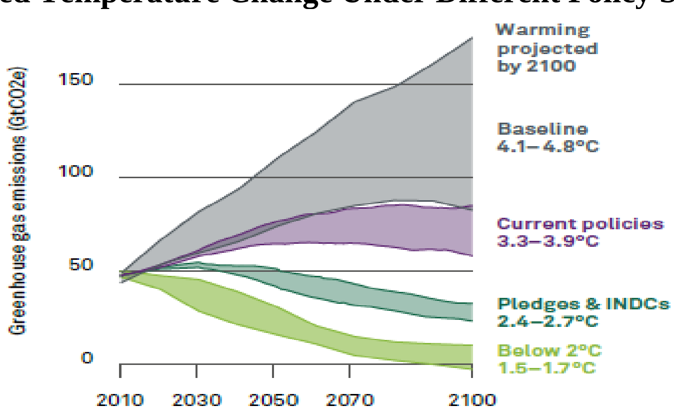
OBSERVATIONS

Alignment with LACERA Policies and Fiduciary Duty: In assessing prospective support for initiatives to engage public policymakers or investee companies, LACERA evaluates how Board-adopted policies and fiduciary duty align with the initiative's stated requests. LACERA's *Corporate Governance Principles* recognize the prospective economic risks associated with climate change and specifically support clear corporate reporting of the material risks and opportunities that climate risks present to firm value so that such information can inform investment decisions (§V[B]3, p. 20). LACERA policies also state the Board's duty with regard to management of investment risks. Any such efforts must be in line with the Board's fiduciary duty to act exclusively in the interests of LACERA members to provide benefits, minimize employer contributions, and defray reasonable costs of administration.

LACERA policy is consistent with the Statement's request for climate-related financial reporting. LACERA currently supports similar requests for climate risk analyses when casting proxy votes and as a supporter of the Climate Action 100+ Initiative.[2] Public policies requiring corporate disclosures, as requested by the Statement, might ensure comparability in corporate disclosures and prompt laggards to provide consistent information.

The Statement's two other requests ask global governments to align public policy with the Paris Agreement goals and to accelerate private investment in climate solutions. The Paris Agreement, signed in 2016, "aims to strengthen the global policy response to the threat of climate change" by "[h]olding the increase in the global average temperatures to well below 2ºC above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5ºC above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change…."[3] Research from various sources forecast different ranges of prospective temperature changes under current policies and pledges, but generally indicate global markets failing to meet the Paris Agreement goals absent concerted action.

Estimated Temperature Change Under Different Policy Scenarios



Source: BlackRock Investment Institute. *Adapting Portfolios to Climate Change: Implications and Strategies for All Investors.* BlackRock Investment Institute: September 2016; p. 8 (https://www.blackrock.com/investing/literature/whitepaper/bii-climate-change-2016-us.pdf).[4]

Current Portfolio Exposure: Implementation of the Paris Agreement may create costs and opportunities for individual companies in LACERA's portfolio. Costs may impact companies in numerous industries, including industrials, transportation, mining, energy, technology, and more. LACERA maintains holdings in energy and utility companies associated with power generated from thermal coal, which the Statement calls for phasing out worldwide by set deadlines. Supporters of the Statement believe that the broad economic risks of climate change and the financial opportunities associated with a transition to a low-carbon economy (e.g., jobs, resource efficiencies, and capital investments) justify the associated expenses posed to individual companies.

Resources: There is no cost to LACERA signing the Statement.

Planning: Staff welcomes board members' input regarding the Board's interest in LACERA more regularly participating in similar investor statements going forward. Investor groups, such as PRI, routinely issue statements in advance of global meetings of the G7 or G20, as well as the COP meetings.[5] LACERA policy provides that staff may agree to participate on such statements when LACERA has formally affiliated with a sponsoring association.

CONCLUSION

The Committee requested discussion of the Statement at its July 2018 Committee meeting. Staff has reviewed the Statement and has offered observations on the Statement's alignment with LACERA's stated policies. Staff is comfortable with LACERA formal signing the Statement, should the Committee and Board decide to take action on the item.

Attachments

Noted and Reviewed:

____

Jonathan Grabel
Chief Investment Officer

---

[1] See Paris Agreement at https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.

[2] LACERA signed on as a supporter of the Climate Action 100+ Initiative following Committee discussion in July 2018 and Board approval in August 2018. See https://climateaction100.wordpress.com/ and https://www.fsb-tcfd.org/.

[3] Paris Agreement, p.3, https://unfccc.int/files/essential_background/convention/application/ pdf/english_paris_agreement.pdf.

[4] The chart shows the forecast path of emissions in metric gigatons of equivalent carbon dioxide (GtCO2e) under different scenarios. The baseline area shows the path in the absence of climate policies; below 2ºC shows the path needed to keep warming below two degrees Celsius from pre-industrial levels by 2100. The temperature ranges shown are the median pathways required to meet the targets with 66% certainty. The pledges and the intended nationally determined contributions ("INDC's") area is based on pledges or promises that governments have made, including in submitted INDC's as of Dec. 7, 2015. The ranges shown are 10th and 90th percentiles. Additional research available in endnote. Additional research is available from the International Energy Agency (IEA). *Energy Transitions in G20 Countries.* IEA: 2015. https://webstore.iea.org/download/direct/2293?filename=g20_energy_transitions_towards_ cleaner_more_flexible_and_transparent_systems.pdf.; United Nations Environment Programme (UNEP). *The Emissions Gap Report 2017: A UN Environment Synthesis Report.* UNEP: November 2017. https://wedocs.unep.org/bitstream/handle/20.500.11822/22070/EGR_2017.pdf; UN Principles for Responsible Investment. "*The Inevitable Policy*

Response to Climate Change." PRI: September 2018; p. 3 (https://www.unpri.org/download?ac=5363); Climate Action Tracker. *Improvement in Warming Outlook as India and China Move Ahead, But Paris Agreement Gap Still Looms Large.* November 2017. https://climateactiontracker.org/publications/improvement-warming-outlook-india-and-china-move-ahead-paris-agreement-gap-still-looms-large/.

[5] The PRI and regional networks like Ceres (based in North America), Institutional Investor Group on Climate Change (Europe-focused), and others, have organized joint statements in advance of annual meetings of the Group of Seven ("G7") and G20 to urge governments to strive to meet the Paris Agreement framework. See for example the 2017 statement available here: https://www.ceres.org/sites/default/files/Global-Investor-Letter-to-G20-Governments.pdf.

2018 GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE

This statement is signed by 345 investors representing USD $30 trillion in assets.

As institutional investors with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement [link] and strongly urge all governments to implement the actions that are needed to achieve the goals of the Agreement, with the utmost urgency.

Investors are taking action on climate change. The global shift to clean energy is underway, but much more needs to be done by governments to accelerate the low carbon transition and to improve the resilience of our economy, society and the financial system to climate risks. Investors continue to make significant investments into the low carbon transition across a range of asset classes. Investors are also increasingly incorporating climate change scenarios and climate risk management strategies into their investment processes and engaging with high-emitting companies. To build on this momentum and maintain investor confidence to further shift investment portfolios, it is vital that policy makers are firmly committed to achieving the goals of the Paris Agreement.

We are concerned that the implementation of the Paris Agreement is currently falling short of the agreed goal of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels." There is an ambition gap: the full implementation of current Nationally Determined Contributions (NDCs) would lead to an unacceptably high temperature increase that would cause substantial negative economic impacts.

This ambition gap is of great concern to investors and needs to be addressed, with urgency. It is vital for our long-term planning and asset allocation decisions that governments work closely with investors to incorporate Paris-aligned climate scenarios into their policy frameworks and energy transition pathways.

In addition, investors need companies to report reliable and decision-useful climate-related financial information to price climate-related risks and opportunities effectively. That is why we welcome the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosure (TCFD) and are taking practical steps to assist their implementation around the world. In order for the TCFD to be effective, it is vital that governments commit to improve climate-related financial reporting standards by publicly supporting the adoption of the TCFD recommendations and the extension of its term beyond September 2018.

The countries and companies that lead in implementing the Paris Agreement and enacting strong climate and low carbon energy policies will see significant economic benefits and attract increased investment that will create jobs in industries of the future. To ensure a smooth and just transition to a low carbon economy and to adapt to the warming already locked in to the climate system, it will be important that the benefits of gaining access to cleaner energy sources are shared by all, and that those workers and communities affected by the transition are supported.

With these principles in mind, we call on global leaders to:

- **Achieve the Paris Agreement's goals** ■ Update and strengthen nationally-determined contributions to meet the emissions reduction goal of the Paris Agreement, starting the process now in 2018 and completing it no later than 2020, and focusing swiftly on implementation ■ Formulate and communicate long-term emission reduction strategies in 2018 ■ Align all climate-related policy frameworks holistically with the goals of the Paris Agreement ■ Support a just transition to a low carbon economy.

- **Accelerate private sector investment into the low carbon transition** ■ Incorporate Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways ■ Put a meaningful price on carbon ■ Phase out fossil fuel subsidies by set deadlines ■ Phase out thermal coal power worldwide by set deadlines.

- **Commit to improve climate-related financial reporting** ■ Publicly support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the extension of its term ■ Commit to implement the TCFD recommendations in their jurisdictions, no later than 2020 ■ Request the FSB incorporate the TCFD recommendations into its guidelines ■ Request international standard-setting bodies incorporate the TCFD recommendations into their standards.

We stand ready to work with government leaders in implementing these actions.

Signed,

Note: The following 345 investor signatories with $30 trillion in assets are listed in alphabetical order by organisation name:

27four
Aargauische Pensionskasse (APK)
Aberdeen Standard Investments
ABP
Achmea Investment Management
ACTIAM
Addenda Capital Inc.
Adrian Dominican Sisters, Portfolio Advisory Board
Aegon N.V.
AGF Investments Inc.
Aktia Bank Plc
Alberta Investment Management Corporation (AIMCo)
Alecta
Allianz Global Investors
Allianz SE
Alquity Investment Management Limited
Alternative Capital Partners Srl

Amundi
Andra AP-fonden (AP2)
AP3 Third Swedish National Pension Fund
AP4
AP7
APG
Aquila Capital
Archbishops' Council
Ardevora Asset Management LLP
Arjuna Capital
Armstrong Asset Management
ASN Bank
As You Sow
ATP
Ausbil Investment Management Ltd Contact
Australian Ethical Investment
Australian Super
Avaron Asset Management
Avesco Financial Services AG
Aviva Investors
Aviva plc
AXA Investment Managers
Baillie Gifford & Co
Baldwin Brothers
Bank J. Safra Sarasin
Barings LLC
Bâtirente
BBC Pension Trust
BBVA
Bedfordshire Pension Fund
Bernische Lehrerversicherungskasse
BMO Global Asset Management
BNP Paribas Asset Management
Boston Common Asset Management
Brawn Capital Limited
Bridges Fund Management Limited
Brunel Pension Partnership
BT Financial Group
Bullitt Foundation
Caisse de dépôt et placement du Québec (CDPQ)
Caisse de pensions de l'Etat de Vaud (CPEV)
Caisse de pensions ECA-RP
Caisse de Prévoyance des Interprètes de Conférence (CPIC)
Caisse intercommunale de pensions (CIP)
Caisse paritaire de prévoyance de l'industrie et de la construction (CPPIC)
Caja Ingenieros Gestión

California Public Employees' Retirement System
California State Controller
California State Teachers' Retirement System
Calvert Research and Management
Candriam Investors Group
CAP Prévoyance
Capricorn Investment Group
CareSuper
Cathay Financial Holdings
Catholic Super
Cbus
CCAP Caisse Cantonale d'Assurance Populaire
CCLA
CCOO, FP
Central Finance Board of the Methodist Church
Christian Super
Christopher Reynolds Foundation
Church Commissioners for England
Church Investors Group
Church of Sweden Asset Management
CIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle
City Developments Limited
CM-CIC Asset Management
Colonial First State Global Asset Management
Cometa Fondo Pensione
COMGEST
Committee on Mission Responsibility Through Investment of the Presbyterian Church U.S.A.
Common Interests
Congregation of St. Joseph
Connecticut State Treasurer
CPEG
CPR AM
CRF For Local Government
Dana Investment Advisors
Daughters of Charity, Province of St. Louise
Danske Bank Wealth Management
Davy Asset Management
Dignity Health
Domini Impact Investments LLC
Dragon Capital Group
DSM Capital Partners LLC
DWS
Earth Capital Partners
East Capital
Ecofi Investissements
Ecofin Limited

EdenTree Investment Management
Edmond de Rothschild Asset Management (France)
EGAMO
Elo Mutual Pension Insurance Company
Environment Agency Pension Fund
Epic Capital Wealth Management
Epworth Investment Management
eQ Asset Management Ltd
ERAFP
Etablissement Cantonal d'Assurance (ECA VAUD)
Ethos Foundation
Everence and the Praxis Mutual Funds
FIM Asset Management
Finance in Motion
First Affirmative Financial Network
First State Super
FMO - Dutch Development Bank
Fondation de la métallurgie vaudoise du bâtiment (FMVB)
Fondation Leenaards, Switzerland
FONDO DE PENSIONES EMPLEADOS DE TELEFONICA
Fonds de Réserve pour les Retraites - FRR
Första AP-fonden (AP1)
Friends Fiduciary Corporation
Frontier Advisors
GAM Investments
Generate Capital, Inc.
Generation Investment Management LLP
Glennmont Partners
Greater Manchester Pension Fund
Green Century Capital Management
Handelsbanken Asset Management
Hermes Investment Management
HESTA
Hexavest
HSBC Bank UK Pension Scheme
HSBC Global Asset Management
IFM Investors
Impact Investors
Impax Asset Management
Inherent Group
Insight Investment
INTERAMERICAN
Investec Asset Management
Investment Management Corporation of Ontario (IMCO)
IRCANTEC
Jantz Management LLC

Janus Henderson
JLens Investor Network
Joseph Rowntree Charitable Trust
Kames Capital
KBIGI
Kempen Capital Management
Kendall Sustainable Infrastructure, LLC
La Banque Postale
La Française Group
Labour Union Co-operative Retirement Fund (LUCRF Super)
Lægernes Pension - pensionskassen for læger
Legal & General Investment Management
Legato Capital Management, LLC
Local Authority Pension Fund Forum
Local Government Super
LocalTapiola Asset Management Ltd
London Pensions Fund Authority
M&G Investments
Macroclimate LLC
MAIF
Manulife
Maryknoll Sisters
Maryland Province of the Society of Jesus Contact
McKnight Foundation
Meeschaert Asset Management
Mennonite Education Agency
Merck Family Fund
Mercer Investments
Mercy Health
Mercy Investment Services, Inc.
Merseyside Pension Fund
MFS Investment Management
Miller/Howard Investments, Inc.
Minnesota State Board of Investment
Mirabaud
Mirova
Mitsubishi UFJ Kokusai Asset Management Co.,LTD.
Mitsubishi UFJ Trust & Banking Corporation
MN
Montanaro Asset Management Ltd
Morphic Asset Management
MP Pension
Munich Venture Partners
Nanuk Asset Management
Natural Investments
Nest Sammelstiftung, Switzerland

NEI Investments
Neuberger Berman
Neumeier Poma Investment Counsel, LLC
New Forests
New York City Comptroller
Newton Investment Management
Nikko Asset Management
NN Investment Partners
Nomura Asset Management
Nordea
Nordea Asset Management
North East Scotland Pension Fund
Northern Ireland Local Government Officers' Superannuation Committee
NorthStar Asset Management, Inc.
Office of the New York State Comptroller
OFI AM
Öhman
Old Mutual Global Investors
Ontario Teachers' Pension Plan
OPTrust
Oregon State Treasurer Tobias Read
Ownership Capital
P+(DIP/JOEP)
P1 Investment Management Limited
Pædagogernes Pension
Pathfinder Asset Management
Palisade Investment Partners
Pegasus Capital Advisors, L.P.
PenSam
PensionDanmark
Pensionskasse Caritas, Switzerland
Pensionskasse der Stadt Winterthur, Switzerland
Pensionskasse Stadt Luzern, Switzerland
Pensionskasse Unia, Switzerland
Pensions Caixa 30
Permian Global
PFA Pension
PGGM
PHITRUST
Pictet Group
PME
PMT (Pensioenfonds Metaal & Techniek)
Polaris Capital Group Co., Ltd.
Polden-Puckham Charitable Foundation
prévoyance.ne, Switzerland
Prévoyance Santé Valais (PRESV), Switzerland

Priests of the Sacred Heart, US Province
Princeville Global
Pro BTP Finance
Profelia Fondation de prévoyance, Switzerland
Progressive Investment Management
Prosperita Stiftung für die berufliche Vorsorge, Switzerland
PT. ASABRI (Persero)
RAM Active Investments
Rathbone Greenbank Investments
Region VI Coalition for Responsible Investment
Regroupement pour la Responsabilité Sociale des Entreprises (RRSE)
Retraites Populaires, Switzerland
Reynders, McVeigh Capital Management, LLC
Riverwater Partners LLC
Robeco
RobecoSAM
Rockefeller Capital Management
Royal London Asset Management
RPMI Railpen
RS Group
Ruffer LLP
San Francisco Employees' Retirement System (SFERS)
Santander Empleados Pensiones, F.P.
Sarasin & Partners LLP
Schroders plc
Seamans Capital Management, LLC
Seattle City Employees' Retirement System
SEB Investment Management
Seventh Generation Interfaith Inc.
Shareholder Association for Research & Education (SHARE
Sisters of St. Francis of Philadelphia
SLM Partners Australia
Solaris Investment Management
Solothurnische Gebäudeversicherung, Switzerland
Sophia School Corporation
South Yorkshire Pensions Authority
St. Galler Pensionskasse, Switzerland
Stafford Capital Partners
Stiftung Abendrot, Switzerland
Statewide Super
Steyler Ethik Bank
Stichting Bedrijfstakpensioenfonds voor de Bouwnijverheid
Stichting Pensioenfonds Openbaar Vervoer
Stichting Pensioenfonds voor de Woningcorporaties
Stichting Personeelspensioenfonds APG
Stichting Spoorwegpensioenfonds

Storebrand Asset Management AS
Strathclyde Pension Fund
Sumitomo Mitsui Trust Bank
Superannuation Arrangements of the University of London (SAUL)
Sustainable Technology Investors Ltd
Sustainasia Limited
SWEN Capital Partners
Swift Foundation
Terra Alpha Investments
Terre des hommes, Switzerland
The Atmospheric Fund
The Barrow Cadbury Trust
The George Gund Foundation
The Osiris Group
The Presbyterian Church in Canada
The Sustainability Group of Loring, Wolcott & Coolidge
The Swedish Foundation for Strategic Environmental Research, Mistra
The Tellus Mater Foundation
TOBAM
TPT Retirement Solutions
Transport for London Pension Fund
Tri-State Coalition for Responsible Investment
Trillium Asset Management
Trilogy Global Advisors, LP
Trinity Health
Triodos Investment Management
TT International
Union Bancaire Privée, UBP SA
Union Investment
Union Mutualiste Retraite
Unipol Gruppo
UNISON Staff Pension Scheme
Unitarian Universalist Association
Universities Superannuation Scheme - USS
University of Toronto Asset Management
Univest Company (Unilever Pension Funds)
USA Northeast Province of the Society of Jesus Contact
Vancity Investment Management Ltd.
Varma Mutual Pension Insurance Company
VBV - Vorsorgekasse AG
Vert Asset Management
VicSuper
Vision Super Pty Ltd
Vontobel
Walden Asset Management/Boston Trust
Wermuth Asset Management GmbH

Wespath
West Yorkshire Pension Fund
Wetherby Asset Management
WHEB Asset Management
Zevin Asset Management
Zurich Insurance Group

This statement is signed by investors and has been developed by the Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, Principles for Responsible Investment, and the UN Environment Finance Initiative.

All seven partner organizations developed The Investor Agenda**: Accelerating Action for a Low-Carbon World.**

Attachment 2

Briefing Paper on the 2018 Global Investor Statement to Governments on Climate Change

This Briefing Paper accompanies the 2018 Global Investor Statement to Governments on Climate Change. It has been prepared by seven investor organizations including the Asia Investor Group on Climate Change (AIGCC, Asia), CDP, Ceres (North America), the Investor Group on Climate Change (IGCC, Australia/New Zealand), the Institutional Investor Group on Climate Change (IIGCC, Europe), Principles for Responsible Investment (PRI) and the UN Environment Finance Initiative (UNEP FI). These groups collectively represent hundreds of investors worldwide with trillions of dollars in assets under management.

Executive Summary

Institutional investors have a responsibility to manage and protect the assets of millions of savers and individuals worldwide, including from the effects of climate change. Investors also manage large pools of long-term capital and play a crucial role in financing the transition to a low carbon, more climate resilient, economy. To this end, investors urge governments to update and strengthen their climate-related policies to accelerate and expand further investment flows.

Investors are concerned that the implementation of the Paris Agreement is currently falling well short of the agreed goal of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels." This gap not only increases the physical risks from climate change for current and future generations, but also heightens economic and policy uncertainty and hampers investors' ability and willingness to continue to properly allocate the trillions of dollars that are needed to support the low carbon transition process.

This briefing paper provides recommendations to governments on the specific steps that investors believe are needed to support a smooth and just transition to a low carbon, more climate resilient, economy. It focuses on three major areas for government action: 1) Achieve the Paris Agreement's goals, 2) Accelerate private sector investment into the low carbon transition and 3) Commit to improve climate-related financial reporting.

Key Recommendations

Investors call on global leaders to:

1. **Achieve the Paris Agreement's goals** ■ Update and strengthen nationally-determined contributions to meet the goals of the Paris Agreement, starting the process now in 2018 and completing it no later than 2020, and focusing swiftly on implementation ■ Formulate and communicate long-term emission reduction strategies in 2018 ■ Align all climate-related policy frameworks holistically with the goals of the Paris Agreement ■ Support a just transition to a low carbon economy.

2. **Accelerate private sector investment into the low carbon transition** ■ Incorporate Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways ■ Put a meaningful price on carbon ■ Phase out fossil fuel subsidies by set deadlines ■ Phase out thermal coal power worldwide by set deadlines.

3. **Commit to improve climate-related financial reporting** ■ Publicly support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the extension of its term ■ Commit to implement the TCFD recommendations in their jurisdictions, no later than 2020 ■ Request the FSB incorporate the TCFD recommendations into its guidelines ■ Request international standard-setting bodies incorporate the TCFD recommendations into their standards.

Investors remain firmly committed and ready to work with government leaders to implement these actions.

1. Achieve the Paris Agreement's goals

The implementation of the Paris Agreement that came into force in November 2016 is currently falling well short of the agreed goal of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels." Indeed, the full implementation of current Nationally Determined Contributions (NDCs) would lead to an unacceptably high temperature increase, potentially in the range of 2.9 to 3.4°C relative to pre-industrial levels[1].

This is of great concern for investors, as global warming at that scale would have large and detrimental impacts on global economies, society and investment portfolios, now and into the future[2]. Policy makers need to close this gap urgently.

Policies that support the attainment of the Paris Agreement's goals will provide the private sector with greater certainty as to governments' commitment to tackling climate change. This will, in turn, affect investors' ability to assess climate-related risks and opportunities, to measure and disclose portfolio exposure to the low carbon transition and physical climate impacts, and to further invest in opportunities to support a low carbon, more climate resilient, world.

With that in mind, investors recommend that global leaders:

i. **Update and strengthen nationally-determined contributions to meet the goals of the Paris Agreement, starting the process now in 2018 and completing it no later than 2020, and focusing swiftly on implementation** – There is an ambition gap to the goal of the Paris Agreement that needs to be closed with urgency.

   - Expert analysis shows that the full implementation of current NDCs that form the foundation of the Paris Agreement cover only one-third of the emissions reductions needed if the goals of the Agreement are to remain achievable. Without a strengthening in the NDCs, the total remaining carbon budget of approximately 1,000 Gt CO_2 for limiting global warming to below 2°C will be 80% depleted by 2030[3].
   - This outcome would result in significant additional risks for the global economy, financial system and society more broadly, increasing the physical impacts of climate change as well as delaying the crucial investment flows that are required to support the low carbon transition.
   - If the emissions gap is closed as a matter of urgency through updating and strengthening existing NDCs, starting now and completing no later than 2020, then it is still possible to stay within the carbon budget and for the Paris Agreement's goals to be met.
   - Investors urge all nations to not only strengthen, but to also swiftly implement their more ambitious NDCs. This includes participation in the implementation framework via the UNFCCC process to monitor and report progress over time[4].

ii. **Formulate and communicate long-term emission reduction strategies in 2018** – Investors welcome the announcement by some nations to publish or commit to developing mid-century, long-term, emission reduction strategies as part of their commitment to the Paris Agreement. However, many governments are yet to submit their long-term strategies, with only a small number revealing their plans out to 2050[5]. Investors urge all nations that have not already done so to submit mid-century, long-term emission reduction strategies this year.

- Institutional investors have very long-term obligations to meet future retirement needs and pay-out liabilities that may run many decades into the future. Furthermore, investors will be better placed to effectively price and invest in long-term assets such as green bonds, private equity, infrastructure, timberland and agriculture that will all provide crucial support for the low carbon transition.

- The long-term strategies need to outline a nation's vision for achieving, at least, a net zero emissions future. This would, at a minimum, identify what year emissions are expected to peak, when the economy is expected to reach net zero emissions, how the pathway for the energy mix is expected to evolve, the projected pathway of emissions at the sector level (including the impact on the energy, buildings, industry, transport, agriculture, water and waste sectors) and the planned phasing out of high-carbon assets and technologies.

iii. **Align all climate-related policy frameworks holistically with the goals of the Paris Agreement** – Investors urge and reaffirm the need for nations to strive for greater consistency across policy mechanisms to support the attainment of the Paris Agreement goals.

- Investors encourage governments to explore ways to better align the climate-related policy goals and mechanisms with other priorities including the implementation of the Sustainable Development Goals (SDGs), infrastructure development plans and financial regulatory reform to promote greater financial stability and resilience.

- While some countries are implementing cross-cutting climate-related policy and sustainable finance frameworks[6], there is a need for greater alignment and more joined up planning across government mandates including the energy, infrastructure, industry, climate, transport, buildings and financial policy bodies and agencies[7]. Greater alignment between the financial system and real economy decarbonisation measures will provide more consistent signals and incentives for institutional investors to embark on parallel transition planning efforts that would ultimately improve financial resilience and bolster capital flows to low carbon opportunities.

iv. **Support a just transition to a low carbon economy** – Investors encourage governments to transition to a low carbon economy in a sustainable and economically inclusive way. As stated in the Paris Agreement, this must include "the creation of decent work and quality jobs in accordance with nationally defined development priorities", by providing appropriate support for workers and communities in industries undergoing transition[8]. Additionally, governments should work with investors to ensure that the benefits and opportunities created by acting on climate change and the increased adoption of clean energy technologies are accessible to all[9].

2. Accelerate private sector investment into the low carbon transition

Investors are taking action on climate change by making significant investments into the low carbon economy across a range of asset classes[10]. Investors are also increasingly incorporating climate change scenarios and climate risk management strategies into their investment processes[11] and engaging with high-emitting companies[12].

Despite these efforts, it is widely acknowledged that there is a clear and pressing need to scale up financial flows to support the low carbon transition process[13]. A recent survey of institutional investors identified policy uncertainty as one of the key obstacles to accelerating investments into low carbon and climate resilient opportunities[14].

To strengthen investor confidence to further invest in the low carbon economy, it is vital that global policy makers deliver strong and continued support for climate action, including through incorporating Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways, putting a meaningful price on carbon, phasing out fossil fuel subsidies by set deadlines and phasing out thermal coal power worldwide by set deadlines.

Against that backdrop, investors encourage global leaders to take the following actions:

i. **Incorporate Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways** – Investors encourage governments to work closely together in consultation with businesses and investors to incorporate Paris-aligned climate scenarios into their policy frameworks and energy transition pathways.

   - In response to the need to mitigate and adapt to the effects of climate change, investors are increasingly applying climate-related scenarios to evaluate the investment impact of different outcomes as a tool to help transition portfolios to be aligned with the goals of the Paris Agreement[15].
   - Different sources for climate-related scenario analysis exist, with some governments, businesses and investors developing their own methodologies and scenarios, while others utilize those constructed by international organizations, in particular the International Energy Agency (IEA)[16].
   - There have been some concerns expressed about the alignment of the IEA climate change scenarios with the Paris Agreement goals and the assumptions around the future contribution of renewable energy as part of the energy mix[17]. Uncertainty over the energy transition pathways that are Paris-aligned could slow down the rate at which governments, businesses and investors are willing to further evolve their long-term planning and transition to a low carbon economy.
   - For this reason, it is important that governments scrutinize and seek alignment between the scenarios that are utilized by different actors with the Paris Agreement goals. Governments can set standards to encourage greater transparency across the public and private sector in terms of the assumptions and outcomes from scenario analysis assessments. Greater alignment with the Paris Agreement goals will ultimately improve the

measurement, mitigation and disclosure of climate-related risks and opportunities across governments, businesses and investors in a more coordinated, consistent and transparent way.

ii. **Put a meaningful price on carbon** – Investors reiterate the need for governments to provide stable, reliable and economically meaningful carbon pricing to help redirect investment commensurate with the scale of the climate change challenge. Carbon pricing will level the playing field for low carbon technologies and more adequately reflect the costs of climate-related externalities. Market-based mechanisms are most effective when supported by complementary mechanisms such as public procurement measures, regulations, energy targets, carbon performance and energy efficiency standards[18].

- Investors encourage those countries that have not yet implemented some form of carbon pricing to do so promptly as part of their climate-energy action plans.

- Investors welcome news that many nations are moving forward with carbon pricing programs. In 2018, 45 national and 25 regional governments already have implemented, or are scheduled to implement, a carbon pricing initiative through emissions trading systems (ETS) and taxation, covering 20% of global GHG emissions[19]. An additional 20 governments, at varying levels, are considering the implementation of a carbon pricing system as part of their climate policy strategy[20].

- Investors also welcome and encourage further efforts to increase the ambition and improve the effectiveness of existing carbon pricing policies to stimulate emissions reduction in line with the Paris Agreement. Nearly three quarters of emissions covered by carbon pricing are priced at less than US$10/tCO2e. This is substantially lower than the price levels that are consistent with achieving the temperature goal of the Paris Agreement, with the Carbon Pricing Corridors initiative projecting price levels in the range of US$38-US$100/tCO2e by 2035[21].

- Actions by some countries to move towards linking ETS are also welcome – international cooperation can significantly reduce the cost of climate mitigation efforts[22].

iii. **Phase out fossil fuel subsidies by set deadlines** – Investors are concerned about the continued existence of subsidies and public finance that support the production and consumption of fossil fuels.

- Fossil fuel subsidies increase the risk of stranded fossil fuel assets, decrease the competitiveness of key industries, including low carbon businesses, and negate carbon price signals. They also potentially perpetuate income inequality while failing to meet the energy needs of those lacking energy access, and damage public health by increasing air pollution[23].

- All of these outcomes undermine innovation and efforts to achieve the goals of the Paris Agreement. They also generate potentially harmful economic, social and environmental costs that are impacting on investors' portfolios and their ability to deploy capital to support the low carbon transition at the speed and scale required.

- Investors reiterate our previous request that governments set a clear timeline by 2020 for the phase-out of all fossil fuel subsidies[24], including a firm commitment by the end of 2018 to undertake an international fossil fuel subsidy peer review.

iv. **Phase out thermal coal power worldwide by set deadlines** – Investors are concerned about the continued expansion of traditional thermal coal power stations in some jurisdictions that puts the attainment of the Paris Agreement goals at risk.

- Expert analysis shows that to meet the Paris Agreement goals of limiting the increase in global temperatures by 2°C, while striving to limit the increase to 1.5°C, a coal phase-out is needed by 2030, in the Organisation for Economic Co-operation and Development (OECD) countries and in the European Union; by 2040, in China; and by 2050, in the rest of the world[25].

- Many of the world's leading institutional investors are responding to the climate and investment risks associated with thermal coal-based assets by taking action in a number of ways – one of which is to phase out investments in thermal coal assets[26].

- Investors welcome efforts by some governments and companies to phase out thermal coal, with the Powering Past Coal Alliance Declaration supported by (at the time of publication) 28 countries, 8 subnational governments, and 28 businesses and other organizations. The Alliance members agree to "phasing out of existing traditional coal power and placing a moratorium on any new traditional coal power stations without operational carbon capture and storage, within our jurisdictions"[27].

- Investors encourage those countries that have not yet supported the Powering Past Coal Alliance Declaration to consider doing so, where technically feasible, as part of their international commitment to the Paris Agreement temperature goal or to set comparable and achievable deadlines.

3. Commit to improve climate-related financial reporting

One of the essential ingredients for investors to manage the transition to a low carbon economy effectively is having access to reliable, consistent and comparable information about climate-related risks and opportunities. If short-, medium- and long-term climate risks are not fully evaluated and disclosed, ill-informed investment and corporate decisions will drive up the cost of the transition for policy-makers, investors, businesses and – ultimately – for consumers and communities[28].

To this end, investors welcome the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) and are taking practical steps to assist their implementation around the world[29]. The TCFD provides global recommendations on climate-related financial disclosures, including four widely adoptable principles that are applicable to organizations across sectors and jurisdictions[30]. The TCFD has been endorsed by over 238 companies, including 150 financial institutions representing a combined market capitalization of over US$6 trillion and US$81.7 trillion assets under management[31].

In order for the TCFD to be effective, it is vital that governments commit to improve climate-related financial reporting standards by publicly supporting the adoption of the TCFD recommendations and the extension of its term beyond September 2018.

Investors encourage global leaders to support continued improvement in the quality and uptake of climate-related financial reporting through the following actions:

i. **Publicly support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the extension of its term** – Investors believe this would reaffirm the importance of the TCFD recommendations across the regulatory, business and investment communities.

   - It is important for investors that the momentum behind the TCFD recommendations continue and that the FSB remain involved[32]. This will help to underpin credibility of the recommendations and stimulate further action to promote implementation across the regulatory, business and investment communities.
   - For this reason, investors request that governments publicly state their support for the TCFD recommendations and the extension of its term, under the authority of the FSB, beyond September 2018.

ii. **Commit to implement the TCFD recommendations in their jurisdictions, no later than 2020** – Investors believe this would enhance the availability of consistent, comparable and reliable disclosure of climate-related financial information for investors.

   - To achieve a level playing field and prevent competitive disadvantage, it is essential that national regulations and climate-related reporting frameworks are harmonized through their alignment with the TCFD recommendations.
   - In many countries, existing financial reporting frameworks already require disclosure of material risks[33]. Investors request that all nations review their reporting frameworks, industry guidance and regulations against the TCFD recommendations to identify opportunities for creating, evolving and strengthening these to achieve greater consistency at the international level[34].
   - More specifically, investors encourage governments to request that the financial regulators in their jurisdiction respond to the recommendations of the TCFD and set out how they intend to incorporate the recommendations into their guidelines, as a matter of priority.

iii. **Request the FSB incorporate the TCFD recommendations into its guidelines** – Investors believe that this would help to mobilize and legitimize greater transparency around climate-related financial information across the regulatory, business and investment communities.

   - The G20 and FSB established the "industry led" TCFD, but the FSB has not formally incorporated the TCFD recommendations into its guidelines or coordinating activities with financial authorities and standard setting bodies (SSBs). It would be of great benefit for solidifying new global industry norms to improve climate-related financial disclosure if the FSB were to formally incorporate the TCFD recommendations into its activities.

- For this reason, investors urge governments to request that the FSB seek to incorporate the TCFD recommendations into its guidelines and coordinating activities with national financial authorities and international SSBs, as part of its efforts to promote international financial stability.

iv. **Request international standard-setting bodies incorporate the TCFD recommendations into their standards** – Investors believe this would help to solidify and normalise the disclosure of climate-related financial information across the financial sector, as well as provide direction for national regulators as they interpret and respond to the recommendations.

- The TCFD recommendations need to be explicitly referenced in updated guidance on implementation of the G20/OECD Principles of Corporate Governance as well the other international financial standards[35], with high priority in particular given to reviewing the International Financial Reporting Standards in response to the TCFD recommendations.
- Investors encourage governments to request that the international financial SSBs respond to the recommendations of the TCFD and set out how they intend to incorporate the recommendations into their standards and guidelines, as a matter of priority.

Conclusion

The need for governments to close the national commitments gap to achieve the goals of the Paris Agreement is pressing – as is the need to swiftly implement the right enhanced policy mechanisms and frameworks to support the low carbon transition process in closing this gap. Investors encourage governments to take action across the three areas as set out in this briefing paper, including updating and strengthening NDCs, accelerating private sector investment into the low carbon transition and committing to improve climate-related financial reporting in their jurisdictions.

Investors are committed to working with governments to ensure that the appropriate policy mechanisms are successfully developed and implemented to help mitigate the adverse effects of climate change and accelerate the transition to a low carbon economy.

About the organisations that co-authored this briefing paper

This Briefing Paper accompanies the 2018 Global Investor Statement to Governments on Climate Change. However, unlike the Statement, the Briefing Paper is not signed by investors and reflects only the views of its co-authors

The Asia Investor Group on Climate Change (**AIGCC**) is an initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. AIGCC represents the Asian voice in the evolving global discussions on climate change and the transition to a greener economy. Visit www.aigcc.net and @AIGCC_Update

CDP is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US$87 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 6,300 companies with some 55% of global market capitalization disclosed environmental data through CDP in 2017. This is in addition to the over 500 cities and 100 states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition. Visit www.cdp.net or @CDP

Ceres is a sustainability non-profit organization working with the most influential North American investors and companies to build leadership and drive solutions throughout the economy. The Ceres Investor Network on Climate Risk and Sustainability comprises more than 150 institutional investors, collectively managing more than $24 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. Visit www.ceres.org and @CeresNews

The Investor Group on Climate Change (**IGCC**) is a collaboration of Australian and New Zealand investors, with total funds under management of over $2 trillion, focusing on the impact that climate change has on the financial value of investments. The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change. Visit www.igcc.org.au and @IGCC_Update

The Institutional Investors Group on Climate Change (**IIGCC**), is the pre-eminent European forum for investor collaboration on climate action and the voice of investors taking action for a prosperous, low carbon, future. It has 153 mainly mainstream investors across 12 countries with over €21 trillion assets under management (including nine of the top ten largest European pension funds or asset managers). IIGCC's mission is to mobilise capital for the low carbon transition by working with business, policy makers and investors to encourage public policies, investment practices and corporate behaviours that will address the long term risks and opportunities associated with climate change. Members consider it a fiduciary duty to ensure stranded asset risk or other losses from climate change are minimised and that opportunities presented by the transition to a low carbon economy – such as renewable energy, new technologies and energy efficiency – are maximised. Visit www.iigcc.org and @iigccnews

The United Nations-supported Principles for Responsible Investment (**PRI**) is the world's leading initiative on responsible investment. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles for incorporating environmental, social and governance issues into investment practices. In implementing the principles, signatories contribute to developing a more sustainable global financial system. The principles have 2,000 signatories including asset owners, investment managers and service providers from over 50 countries including the G20, representing US$70 trillion. Visit www.unpri.org and @PRI_News

The United Nations Environment Finance Initiative (**UNEP FI**) is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them. Visit www.unepfi.org and @UNEP_FI

All seven organizations are partners of **The Investor Agenda**: Accelerating Action for a Low-Carbon World.

[1] The Emissions Gap Report 2017, A UN Environment Synthesis report, page 18
[2] https://www.nature.com/articles/nature15725
[3] The Emissions Gap Report 2017, A UN Environment Synthesis report, page 17
[4] UNFCCC, "Taking the Paris Agreement forward" http://unfccc.int/paris_agreement/items/9485.php
[5] https://unfccc.int/process/the-paris-agreement/long-term-strategies
[6] Examples of sustainable finance initiatives include China's Guidelines for Greening the Financial System and the EU Action Plan on Sustainable Finance. http://unepinquiry.org/wp-content/uploads/2016/09/The_Financial_System_We_Need_From_Momentum_to_Transformation.pdf
[7] See for example the OECD 2016, Progress Report on Approaches to Mobilising Institutional Investment for Green Infrastructure
[8] https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf
[9] https://www.mrfcj.org/principles-of-climate-justice/
[10] http://globalinvestorcoalition.org/wp-content/uploads/2014/09/InvestorsGotTheSignal_FINAL.pdf
[11] https://www.mercer.com.au/content/dam/mercer/attachments/asia-pacific/australia/investment/sustainable-growth/mercer-climate-change-study-2015.pdf
[12] http://www.climateaction100.org
[13] Ceres 2018, In Sight of the Clean Trillion: Update on an expanding landscape of investor opportunities; and http://www.g20.utoronto.ca/2016/160724-finance.html
[14] https://igcc.org.au/wp-content/uploads/2017/09/IGCC-road-to-return-final-final.pdf
[15] See for example: Mercer 2015, Mercer climate change study, 2Dii/ET Risk project http://www.transitionmonitor.com/en/home/, and the Transition Pathway Initiative
[16] https://www.fsb-tcfd.org/wp-content/uploads/2017/09/TCFD-BoE-Scenario-Conference-IEA-31-Oct.pdf
[17] See for example: http://www.dw.com/en/is-the-iea-underestimating-renewables/a-43137071; http://priceofoil.org/2018/04/04/off-track-the-iea-and-climate-change/; https://ftalphaville.ft.com/2017/05/24/2189189/guest-post-why-iea-scenarios-should-be-treated-with-extreme-caution/; http://ieefa.org/ieefa-update-iea-report-still-behind-curve-nonetheless-indicates-rising-stranded-asset-risk-fossil-fuel-holdings/
[18] OECD and World Bank Group 2015, "The FASTER Principles for Successful Carbon Pricing: An Approach Based on Initial Experience," see: https://www.oecd.org/environment/tools-evaluation/FASTER-carbon-pricing.pdf
[19] World Bank Group 2018, "State and Trends of Carbon Pricing," http://documents.worldbank.org/curated/en/598811476464765822/pdf/109157-REVISED-PUBLIC-wb-report-2016-complete-161214-cc2015-screen.pdf
[20] ibid
[21] CDP 2018, "Carbon Pricing Corridors: the market view 2018," see: http://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.r81.cf3.rackcdn.com/cms/reports/documents/000/003/326/original/Carbon-Pricing-Corridors-2018.pdf?1526464647
[22] World Bank Group 2016, "State and Trends of Carbon Pricing," as cited
[23] https://www.odi.org/publications/10939-phase-out-2020-monitoring-europes-fossil-fuel-subsidies
[24] See the G7 lse-Shima Leaders' Declaration, 26-27th May 2016: http://www.mofa.go.jp/files/000160266.pdf
[25] http://climateanalytics.org/files/climateanalytics-coalreport_nov2016_1.pdf; and https://unfccc.int/news/g20-must-phase-out-fossil-fuel-subsidies-by-2020
[26] See for example the Investor Agenda which includes a commitment to "phase out our investments in thermal coal" as part of the Investment actions taken by institutional investors. https://theinvestoragenda.org/areas-of-impact/investment/
[27] https://www.canada.ca/en/services/environment/weather/climatechange/canada-international-action/coal-phase-out/alliance-declaration.html
[28] See for example "Breaking the Tragedy of the Horizon – climate change and financial stability," Speech delivered by Mark Carney, 2015. http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx
[29] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf
[30] See Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures June 2017, at iii.
[31] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/TCFD-Supporting-Companies-28-June-2017-FINAL.pdf
[32] https://www.fsb-tcfd.org/news/

[33] TCFD, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures June 2017, page 33, stating, "The Task Force also reviewed financial filing requirements applicable to public companies across G20 countries and found that in most G20 countries, issuers have a legal obligation to disclose material risks in their financial reports—which includes material, climate- related risks."

[34] http://www.cdsb.net/sites/cdsbnet/files/the-case-for-consistency-in-climate-change-related-reporting.pdf

[35] This includes considering the implications for the guidance of the Financial Stability Board itself, as well as the other international financial standards including (but not limited to) considering the implications for the: 1) Banking regulation and standards (Basel III – International Regulatory Framework for Banks; BCBS – Corporate Governance Principles for Banks and BCBS – Core Principles for Effective Banking Supervision); 2) Corporate governance standards (G20/OECD Principles of Corporate Governance); 3) Securities regulation and standards (IOSCO Objectives and Principles of Securities Regulation; and IOSCO Code of Conduct Fundamentals for Credit Rating Agencies); 4) Insurance regulation and standards (IAIS – Insurance Core Principles, Standards, Guidance and Assessment Methodology); 5) Institutional investment regulation and standards (International Law – Fiduciary Duty and Prudent Person Rule; IOPS – Principles for Private Pension Supervision; and OECD – Core Principles of Private Pension Regulation); and 6) Accounting and financial reporting standards (IASB International Financial Reporting Standards, IAASB International Standards on Auditing). Further details on how the financial standards might evolve to reflect environment and social issues can be found in the UNEP Financial Inquiry report 2017, "A Review of International Financial Standards as They Relate to Sustainable Development," http://unepinquiry.org/wp-content/uploads/2017/02/A_Review_of_International_Financial_Standards_as_They_Relate_to_Sustainable_Development.pdf

October 16, 2018

TO: Each Member
Board of Investments

FROM: Scott Zdrazil, Senior Investment Officer SZ

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **PRINCIPLES FOR RESPONSIBLE INVESTMENT ELECTIONS BALLOT**

RECOMMENDATION

Approve LACERA's ballot for Principles for Responsible Investment (PRI) 2019 board elections.

BACKGROUND

LACERA is a signatory to the PRI. PRI asset owner signatories elect seven of the 11 PRI board members (others are elected by asset managers and service provider signatories; the chair is elected by the full signatory base). In 2018, three of the asset owner seats are up for election. Staff provided opportunities to nominate a candidate to the June 2018 Corporate Governance Committee and the July 2018 Board of Investments meeting. The voting deadline is November 23, 2018.

Four nominees are on the ballot for election to three available asset owner board seats:

- Angela Emslie, independent chair, HESTA Super Fund (Australia) – *incumbent*
- Renato Proença Lopes, equity director, PREVI (Brazil)
- Laetitia Tankwe, advisor to the President of the Board of Trustees, Ircantec (France)
- Xander den Uyl, trustee, ABP (the Netherlands) – *incumbent*

Candidate statements and videos are available at https://www.unpri.org/pri/pri-governance/board-elections. (Note that in her candidate statement, Ms. Emslie states that she will step down as HESTA chair at the end of the year and serve as an advisor to the HESTA board on responsible investment.) Staff recommends votes in favor of Ms. Emslie, Mr. Prença Lopes, and Mr. den Uyl in consideration of their funds' credible responsible investment programs and in application of LACERA's *Corporate Governance Principles* to encourage boards to reflect a mix of skills, qualifications, tenure, and diversity, including geographic representation among PRI signatories.

Ballots are voted online. Per LACERA policy, this time-sensitive item is presented to the Board of Investments. Routine business items (approval of PRI's 2018 annual report and 2018 signatory general meeting minutes) are voted consistent with LACERA's *Corporate Governance Principles*.

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

L//.CERA

October 26, 2018

TO: Each Member
Board of Investments

FROM: Jude Perez
Principal Investment Officer

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **INVESTMENT POLICY STATEMENT**

RECOMMENDATION

Approve adoption of the revised Investment Policy Statement.

BACKGROUND

At the May 2018 Board of Investments ("Board") meeting, the Board approved a new asset allocation for the LACERA Pension Trust. The revised asset allocation introduced exposures to natural resources, infrastructure, and Treasury Inflation Protected Securities, as well as the adoption of four functional asset categories: Growth, Credit, Inflation Hedges, and Risk Reduction and Mitigation.

At the July 2018 Board offsite, staff discussed a series of steps necessary to implement the new asset allocation including a presentation on the planned approach to revise the Investment Policy Statement ("IPS"). At the time, staff provided three objectives for the comprehensive IPS review:

- To Enhance the clarity of fund objectives and policy by elevating the IPS as the Board's primary guiding document;
- Facilitate the implementation of the new strategic asset allocation and its new asset categories; and
- Extract procedural language across various investment policies into a separate manual.

A working group comprised of LACERA investment staff has been drafting changes to the IPS with input from the LACERA's legal division and Meketa. Importantly, staff has also sought Board feedback on draft revisions at the September and October Board meetings, culminating in the final draft that is presented today. The proposed final draft IPS includes changes consistent with those Board requests as well as new comments from LACERA's legal division and fiduciary counsel. It has also been updated to reflect the majority of Board Policies, best practices in the industry, and that it generally complies with the IPS standards published by the CFA Institute.

This memo recommends that LACERA adopt the revised IPS, effective immediately. Other existing policies and procedures under the prior IPS will remain in effect until new versions consistent with the revised IPS are approved. To the extent there is a conflict or ambiguity between the revised IPS and existing policy and procedure, existing policy and procedure will be interpreted so as to comply with the meaning and intent of the revised IPS, as determined by the Chief Investment Officer.

The working group has started its comprehensive review of all investment office procedures for the development of a procedural manual which will be brought to the Board in early 2019. In the event that the procedural review prompts revisions to the IPS, staff will present those changes at that time.

The table below lists each of the Board's requested edits from the October meeting, along with resultant modifications. The table also includes modifications from LACERA's legal and fiduciary counsel:

Section	Feedback/Comments		Modification	Change Requested By
Legal Authority, Process	Add in a reference that the Board is a governing body of a public agency	✓	Added to the process section (pg. 6)	BOI
Investment Philosophy and Strategy, Investment Beliefs: Education	Add language that education should go beyond "new concepts and strategies"	✓	Changed language to reflect that education should occur for the entirety of the investment universe (pg. 10)	BOI
Investment Philosophy and Strategy, Investment Beliefs: Diversity and Inclusion	Remove section on Diversity and Inclusion from Investment Beliefs and move to a stand-alone section	✓	Diversity and Inclusion made into a stand-alone section (pg. 13)	BOI
Roles and Responsibilities	Make all references to the BOI and BOR consistent	✓	All references to the Boards have been reviewed and updated where necessary (throughout document)	BOI
Roles and Responsibilities, Third Party Providers: Investment Managers	Add that investment fees are specified in investment manager contracts	✓	Added to the Investment Manager section (pg. 19)	BOI
Legal Authority, Process	Add language recognizing that the Board may use closed session to discuss certain investments	✓	Added to the process section (pg. 6)	Fiduciary & Legal Counsel
Investment Philosophy and Strategy, Investment Beliefs: Private Markets and Liquidity	Specify that private markets can enhance return in excess of public markets	✓	Added to the Private Markets and Liquidity section (pg. 9)	Fiduciary Counsel
Investment Process, Liquidity Management and Other Investment Functions: Prohibited Transactions	Add a bullet for any acts or omissions that violate state and local laws regarding conflict of interest disclosures	✓	Added to the prohibited transactions process section (pg. 15)	Fiduciary Counsel
Investment Philosophy and Strategy, Diversity and Inclusion	Add language on the dissemination and monitoring of LACERA's Diversity and Inclusion values	✓	Added to the Diversity and Inclusion section (pg. 13)	Legal Counsel
Investment Process	Add a new section that covers the negotiation and execution of investment management agreements	✓	Added "Investment Agreements" section to Investment Process (pg. 14)	Legal Counsel
Roles and Responsibilities, Third Party Service Providers	Add language that third party service providers must refrain from activity whose intent may influence the Board or staff	✓	Added to the introductory paragraph of the Third Party Service Providers section (pg. 19)	Legal Counsel
Roles and Responsibilities, Third Party Service Providers: Investment Consultants and Investment Managers	Add that consultants and investment managers should accept a fiduciary duty to LACERA, and must report on economic interests and conflicts, including Form 700s	✓	Added to the Investment Consultant and Investment Manager sections (pgs. 19 & 20)	Legal Counsel
Appendix B: Chief Investment Officer Delegated Authorities	Add the authority to negotiate and execute agreements	✓	Added to Appendix B (pg. 25)	Legal Counsel
Roles and Responsibilities, Staff: Chief Executive Officer	Add that the Board provides input to the CEO in the CEO's oversight of the CIO	✓	Added to the Chief Executive Officer section, (pg.18)	Legal Counsel

Attached are:

1. Meketa memo – Revised LACERA Investment Policy Statement (**Attachment 1**);
2. A clean version of the draft revised IPS (**Attachment 2)**
3. A redlined version that incorporates line edits reflecting discussion at the October 10, 2018 Board meeting (**Attachment 3**); and
4. A color-coded version that highlights all changes made to the original IPS (**Attachment 4**).

Attachments

Noted and Reviewed:

____
Jonathan Grabel
Chief Investment Officer

JP:EDB

ATTACHMENT 1

MEMORANDUM

To: LACERA Board of Investments

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

Date: October 25, 2018

Re: Revised LACERA Investment Policy Statement

BACKGROUND

The Board of Investments approved a new strategic asset allocation at the May 9, 2018 meeting. It is customary to also update a fund's Investment Policy Statement ("IPS") whenever the asset allocation changes. At the July 9, 2018 Board of Investments off-site meeting, staff gave a presentation on a project to harmonize policy governing LACERA's investments. The first step in that process is to refresh the IPS and move more procedural sections to separate investment procedure manuals. During the past few months, staff and Meketa worked to both update and streamline the IPS and the Board of Investments provided guidance at both the September and October meetings. The revised Investment Policy Statement incorporates the new strategic asset allocation, including the addition of the functional framework, into a high-level policy document that has been greatly simplified and updated to reflect best practices.

PROCESS

Staff took the lead on drafting the updated Investment Policy Statement with support from Meketa and guidance from the Board of Investments. The main goals were to streamline the IPS by removing procedural matters, ensure that document contains policies reflecting all aspects investment program, and to incorporate the newly approved strategic asset allocation. Overall, the document we received from staff was well drafted, updated, and represented a significant improvement over the current one. We reviewed the full document and reported back to staff our findings and observations. Staff largely incorporated our recommendations.

SUMMARY AND RECOMMENDATION

Meketa has reviewed the new draft of LACERA's IPS, made edits and suggestions where appropriate, and collaborated with staff throughout the process. We concur with staff's recommendation for the Board to approve this new IPS. We look forward to discussing this matter with you at the November 8th meeting.

SM/TF/LF/srt

Investment Policy Statement

Draft version revised subsequent to October 10, 2018 Board of Investments meeting

8 November 2018

LACERA

Appendix

List of Attachments

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

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.

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

INVESTMENT POLICY

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 are adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for returns that exceed those expected from public markets.

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 investment concepts and investment strategies within that universe is essential for long-term success.

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 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*.

H. 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—leads to improved outcomes. LACERA expects external asset managers and other third party providers to respect and reflect LACERA's value of diversity and inclusion. LACERA's ongoing monitoring of third party service providers incorporates an assessment of vendors' commitment to, adherence with, and track record of accessing and retaining diverse and inclusive workforces.

II. Investment Process

The following sections articulate the general parameters and processes by which LACERA executes its invetment 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 no less frequently than the comprehensive asset allocation study conducted for the total Fund, or at the Board's request.

B. Investment Management

i. Investment Agreements

Board-approved investment recommendations are subject to negotiation and execution of an agreement that, in the judgment of LACERA's Chief Investment Officer and Chief Counsel, includes all terms necessary to provide adequate protection for LACERA's interests under the circumstances of the transaction, including but not limited to an appropriate standard of care on the part of the investment manager.

ii. 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.

iii. 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.
- Any acts or omissions that violate state and local laws regarding conflicts of interest and disclosures.

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.

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 ensure that risks assumed by the Fund are intentional and 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.

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 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 and LACERA'S Board of Retirement 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 and the Board of Retirement. The CEO exercises administrative oversight of the CIO, excluding investment decisions delegated to the CIO. The Board provides input to the CEO in the CEO's oversight of 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 advise the Board, CEO, 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, negotiate and prepare contracts on investment related matters and 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. Third party service providers must refrain from gift-giving or other efforts that may jeopardize the impartiality, or appearance thereof, of LACERA's Board and staff.

i. Investment Consultants

An investment consultant works for the Board in the oversight and implementation of investment objectives. In meeting the Board's objectives, investment consultants may work with staff and investment managers. 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 serve as an independent resource accountable to the Board. Investment consultants have a fiduciary duty to LACERA and must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s.

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, investment fees, 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. Investment managers should accept a fiduciary duty to LACERA, must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s, and enforce their own diversity, ethics, and sexual harassment policies.

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**	

Table 2: Benchmark Table

Asset Class	Benchmark
Growth	**Custom Blend**
Global Equity	80% MSCI ACWI IMI + 20% MSCI World IMI ex U.S. Currency Hedged
Private Equity	MSCI ACWI IMI + 200 bps (3-month lag)
Opportunistic Real Estate	NFI ODCE + 300 bps (3-month lag)
Credit-Oriented Fixed income	**Custom Blend**
High Yield Bonds	Bloomberg Barclays U.S. High Yield
Bank Loans	Credit Suisse Leveraged Loans
Emerging Market Debt	50% JP Morgan EMBI GD/25% JP Morgan GBI-EM GD/25% JP Morgan CEMBI BD
Illiquid Credit	Bloomberg Barclays U.S. Aggregate + 250 bps
Real Assets & Inflation Hedges	**Custom Blend**
Core & Value-Added Real Estate	NFI ODCE + 50 bps (3-month lag)
Natural Resources/Commodities	50% Bloomberg Commodity/50% S&P Global LargeMidCap Commodity and Resources Dow Jones Brookfield Global Infrastructure Bloomberg Barclays U.S. TIPS
Infrastructure	
TIPS	
Risk Reducing & Mitigating	**Custom Blend**
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate TR
Diversified Hedge Fund Portfolio	Citigroup 3-Month U.S. Treasury Bill + 250bps
Cash	Citigroup 3-Month U.S. Treasury Bill
TOTAL FUND	**Custom Blended Policy Benchmark**

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 Bonds	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

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	.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 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. Such actions shall be reported as an informational item as reasonably practicable to the Board, 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, when deemed necessary in the best interest of the Fund and when there is not enough time to take the action to the full Board. 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.
- 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.
- Authority to negotiate and execute investment agreements that, in the judgment of the CIO and Chief Counsel, provide adequate protection for LACERA's interests, including an appropriate standard of care on the part of each manager.

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 composed of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is composed 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
Placement Agent Policy

ATTACHMENT 3

INVESTMENT POLICY STATEMENT

Draft version revised subsequent to October 10, 2018 Board of Investments meeting

~~20~~26 October~~September~~ 2018

Table of Contents

Appendix

A. **Investment Tables**

Table 1: Approved Asset Allocation
Table 2: Benchmark Table
Table 3: Ten-Year Annualized Return and Volatility Expectations
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
Placement Agent Policy

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

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.

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 of a public agency, the Board and its members must conduct business according to the State of California Ralph M. Brown Act, which provides that Board meetings, deliberations, and actions must be public unless subject to a specific closed session exception. The Board may go into closed session to discuss the purchase and sale of particular, specific ~~certain~~ investments under the Brown Act[EDB1].

Investment Policy

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 ~~v~~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 are adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for returns that exceed those expected from public markets ~~excess returns~~[EDB2].

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 ~~the investment universe,~~ investment concepts and investment strategies within that universe ~~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 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.*

H. 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~~leads to improved outcomes. LACERA expects external asset managers and other third party providers to respect and reflect LACERA's value of diversity and inclusion. LACERA's ongoing monitoring of third party service providers incorporates an assessment of vendors' commitment to, adherence with, and track record of accessing and retaining diverse and inclusive workforces.

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. Investment Agreements

Board--approved investment recommendations are subject to negotiation and execution of an agreement that, in the judgment of LACERA's Chief Investment Officer and Chief Counsel, includes all terms necessary to provide adequate protection for LACERA's interests under the circumstances of the transaction, including, but not limited to, an appropriate standard of care on the part of the investment manager.

~~i.~~ii. 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.~~iii. 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~~.~~
- Any acts or omissions that violate state and local laws regarding conflicts of interest and disclosures[EDB3]~~.~~

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.

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 ensure 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.

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 LACERA’S Board of Retirement~~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. The Board provides input to the CEO in the CEO’s oversight of 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 advise~~s~~ 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 and~~,~~ 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. Third party service providers must refrain from gift-giving or other efforts that may jeopardize the impartiality, or appearance thereof, of LACERA's Board and staff.

i. Investment Consultants

An investment consultant works for ~~with~~ the Board ~~and staff~~ in the oversight and implementation of investment objectives~~.~~ In meeting the Boards objectives, investment consultants may work with staff and investment managers. 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 serve as an independent resource ~~are~~ accountable to the Board. Investment consultants have a fiduciary duty to LACERA and must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s.

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, investment fees, 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. Investment managers should accept a fiduciary duty to LACERA, must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s, and enforce their own diversity, ethics, and sexual harassment policies.

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**	

Table 2: Benchmark Table

Asset Class	Benchmark
Growth	Custom Blend
Global Equity	80% MSCI ACWI IMI + 20% MSCI World IMI ex U.S. Currency Hedged~~TBD~~
Private Equity	MSCI ACWI IMI + 200 bps (3-month lag)~~TBD~~
Opportunistic Real Estate	NFI ODCE + 300 bps (3-month lag)~~TBD~~
Credit-Oriented Fixed Income	Custom Blend
High Yield Bonds	Bloomberg Barclays U.S. High Yield~~TBD~~
Bank Loans	Credit Suisse Leveraged Loans~~TBD~~
Emerging Market Debt	50% JP Morgan EMBI GD/25% JP Morgan GBI-EM GD/25% JP Morgan CEMBI BD~~TBD~~
Illiquid Credit	Bloomberg Barclays U.S. Aggregate + 250 bps~~TBD~~
Real Assets & Inflation Hedges	Custom Blend
Core & Value-Added Real Estate	NFI ODCE + 50 bps (3-month lag)~~TBD~~
Natural Resources/Commodities	50% Bloomberg Commodity/50% S&P Global LargeMidCap Commodity and Resources ~~TBD~~
Infrastructure	Dow Jones Brookfield Global Infrastructure~~TBD~~
TIPS	Bloomberg Barclays U.S. TIPS~~TBD~~
Risk Reducing & Mitigating	Custom Blend
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate TR~~TBD~~[EDB4]
Diversified Hedge Fund Portfolio	Citigroup 3-Month U.S. Treasury Bill + 250 bps~~TBD~~
Cash	Citigroup 3-Month U.S Treasury Bill~~TBD~~
TOTAL FUND	**Custom Blended Policy Benchmark**

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

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 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 when there is not enough 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.
- Authority to negotiate and execute investment agreements that, in the judgment of the CIO and Chief Counsel, provide adequate protection for LACERA's interests, including an appropriate standard of care on the part of each manager.

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~~ composed of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is ~~comprised~~ composed 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
Placement Agent Policy

ATTACHMENT 4

INVESTMENT POLICY STATEMENT

Draft version revised subsequent to October 10, 2018 Board of Investments meeting – Color Coded

26 October 2018

Color Key: Black – Original LACERA IPS
Blue – New LACERA language
Red – Changes to existing language
Green – New language from external sources
Purple – New language to IPS from other LACERA sources

Table of Contents

List of Attachments

~~TABLE OF CONTENTS~~

Color Key: Black – Original LACERA IPS | Blue – New LACERA language
Red – Changes to existing language | Green – New language from external sources
Purple – New language to IPS from other LACERA sources

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

~~INTRODUCTION~~

~~This document provides the framework for the management of LACERA's assets (the Plan). The purpose of the Investment Policy is to assist the Board of Investments and Staff in effectively supervising and monitoring the LACERA assets. Specifically, it addresses the following issues:~~

- ~~The general goals of the investment program.~~
- ~~Specific asset class allocations, targets, and ranges.~~
- ~~Performance objectives.~~
- ~~The investment policies and structures for the management of the assets.~~
- ~~Responsible parties and their duties.~~

~~The Board establishes this investment policy in accordance with applicable Local, State, and Federal laws. The Board members exercise authority and control over the management of the Plan, by setting policy which the Investment Staff executes either internally or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:~~

- ~~Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. The Board's duty to participants and their beneficiaries shall take precedence over any other duty.~~
- ~~With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in~~

~~the conduct of an enterprise of a like character with like objectives.~~

- ~~Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances, it is clearly prudent not to do so.~~

~~LACERA has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-term perspective of capital markets. It is generally recognized that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance. This policy statement is designed to allow for sufficient flexibility in the management oversight process to take advantage of investment opportunities as they arise while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program. A Statement of Investment Beliefs is included as Attachment A to this Policy.~~

~~All transactions undertaken will be for the sole economic benefit of LACERA's members and beneficiaries and for the exclusive purpose of providing retirement benefits.~~

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.

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

Investment Policy

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.

~~**INVESTMENT GOALS**~~

~~The Plan's investment goals are broad in nature. The objective is to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above described purpose, are adopted:~~

- ~~The overall goal of LACERA's investment program is to provide the Plan participants with retirement benefits as promised. This will be accomplished through a carefully planned and executed long term investment program.~~
- ~~LACERA's assets will be managed on a total return basis. While LACERA recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long term.~~
- ~~The total portfolio return over the long term is directed toward achieving and maintaining a fully funded status for the Plan.~~

~~LACERA's Investment Policy has been designed to allow the Plan to achieve a long term total return. Consequently, prudent risk taking is warranted within the context of overall portfolio diversification to meet this goal. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the Plan.~~

~~Investment recommendations and subsequent actions are expected to comply with "prudent expert" standards.~~

Color Key: Black – Original LACERA IPS | Blue – New LACERA language
Red – Changes to existing language | Green – New language from external sources
Purple – New language to IPS from other LACERA sources

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 are adjusted for risk.

iv. Private Markets and Liquidity

Private market assets can add value to a portfolio, providing opportunities for returns that exceed those expected from public markets.

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 investment concepts and investment strategies within that universe is essential for long-term success.

C. Strategic Asset Allocation ~~Policy~~

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 ~~behavior~~ and expected long-term capital market risk, return and correlation forecasts
- An assessment of future economic conditions, including inflation and interest rate levels
- ~~The current and projected funded status of the Plan~~
- 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.

~~The asset allocation policy provides for diversification of assets in an effort to maximize the total return of the Plan consistent with market conditions and risk control. An asset liability study should be conducted every three to five years, or after a significant change in the liability structure or significant change in capital market assumptions. The asset allocation modeling process identifies asset classes the Plan will utilize and the percentage that each class represents of the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. LACERA's investments in private equity and real estate are implemented gradually, recognizing their long term nature. LACERA's Investment Staff will monitor and assess the actual asset allocation versus policy ranges and will evaluate any variation deemed significant.~~

~~The Board will implement the asset allocation policy through the use of active and passive investment managers, as well as internal Staff, who will invest the assets of the portfolios. All investments are subject to investment guidelines incorporated into the executed investment management agreements or the policies established by the Board1. The strategic asset allocation targets and ranges for the investments of the Plan's assets are shown below:~~

~~**Asset Class**~~	~~**Index**~~	~~**2018Q4 Target Allocation**~~	~~**2016Q2[1] Target Range**~~
~~Global Equity~~		~~41.4~~	~~31.4-51.4~~
~~U.S. Equity~~	~~Russell 3000~~		
~~Non U.S. Equity~~	~~MSCI ACWI ex U.S.~~		
~~Private Equity~~	~~Russell 3000 +(3-5% rolling 10 year)~~	~~10.0~~	~~7-14~~
~~**Total Equity**~~		~~**51.4**~~	
~~Fixed Income~~	~~Barclay's Capital U.S. Universal Bond Index~~	~~27.8~~	~~24.8-30.8~~
~~**Total Fixed Income**~~		~~**27.8**~~	
~~Real Estate~~	~~NCREIF ODCE +40 basis points~~	~~11.0~~	~~8-16~~
~~Hedge Funds~~	~~3 Month T-Bill plus 5%~~	~~5.0~~	~~2-7~~
~~Commodities~~	~~Bloomberg Commodity Index~~	~~2.8~~	~~0-4.8~~
~~**Other Opportunities**~~	~~**LACERA blended benchmark**~~	~~**0.0**~~	~~**0-5**~~
~~**Total Alternatives**~~		~~**18.8**~~	
~~**Cash**~~	~~Citi 6-month T-Bills Index~~	~~**2.0**~~	~~**0-4**~~

~~The target allocation yields an expected 7.5% average annualized (geometric, or compounded) 20-year return projection, with a standard deviation of 12.8%. These projections are based on the General Investment Consultant's 20-year return, volatility, and correlation estimates for each asset class, which are included in Tables 1 and 2 at the end of the document. The estimates for each asset class are arrived at by incorporating both quantitative and qualitative factors, and are reviewed and updated no less frequently than annually. The portfolio return and volatility estimates are based on the aggregation of these projections and LACERA's target allocation. The probability of achieving a return of 7.5% over a twenty year period is 50%, and is the result of a mathematical calculation, of which the volatility of the portfolio is a key determinant.~~

[1] See Appendix __ for target range bounds for individual asset classes.

~~*The U.S. and Non-U.S. target allocations within Global Public Equity are determined quarterly based on MSCI ACWI index weights.~~

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 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.

~~The long term performance objective of LACERA's total fund is to exceed its Policy benchmark by 10 to 15 basis points net of fees with a tracking error (volatility of the excess return) of less than two percent. Public market asset class returns will be reviewed over rolling five to seven year periods by an amount appropriate to the amount of risk assumed. Private market asset class performance evaluation requires a longer time horizon (e.g. five to ten years) due to the nature of the asset class.~~

F. ~~Asset Allocation~~ Rebalancing ~~Policy~~

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.

~~The purpose of rebalancing back to asset class targets is to ensure that the Plan's actual asset allocation does not drift from the strategic asset allocation policy. The strategic asset allocation policy has been developed after a rigorous analysis of the Board's objectives and risk tolerance. Rebalancing ensures that the Plan's desired asset allocation policy is maintained consistently over time. It, therefore, ensures that a major policy decision of the Board is implemented effectively.~~

~~In the absence of any other considerations, the optimal strategy would be to rebalance continually back to the Board approved target asset allocation. However, rebalancing involves costs such as brokerage and other trading costs.~~

~~It shall be the policy of the Board that:~~

- ~~Cash flows, into and out of the fund, will be used to rebalance back to asset class targets whenever possible.~~
- ~~The Fund's actual asset allocation should be reviewed at the end of each month when asset valuations become available. More frequent reviews may be undertaken, if appropriate. Rebalancing may take place if the weight to any asset class deviates materially from its Board approved target weight. Rebalancing must take place when Board approved ranges are breached. Rebalancing should be implemented by the most cost effective means available and without market disruption.~~
- ~~When rebalancing occurs, the portfolio will be rebalanced toward the Board approved asset allocation policy targets.~~

~~At least monthly, the Board shall be notified of any rebalancing that has taken place. Additionally, LACERA's quarterly investment performance report will include a direct comparison of the portfolio's actual asset allocation to the target allocation. The implementation of the rebalancing program will be undertaken by the Chief Investment Officer.~~

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.*

H. 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—leads to improved outcomes. LACERA expects external asset managers and other third party providers to respect and reflect LACERA's value of diversity and inclusion. LACERA's ongoing monitoring of third party service providers incorporates an assessment of vendors' commitment to, adherence with, and track record of accessing and retaining diverse and inclusive workforces.

II. Investment Process ~~Management Policies~~

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 no less frequently than the comprehensive asset allocation study conducted for the total Fund, or at the Board's request.

B. Investment Management

i. Investment Agreements

Board-approved investment recommendations are subject to negotiation and execution of an agreement that, in the judgment of LACERA's Chief Investment Officer and Chief Counsel, includes all terms necessary to provide adequate protection for LACERA's interests under the circumstances of the transaction, including, but not limited to, an appropriate standard of care on the part of the investment manager.

ii. 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.

~~LACERA may utilize both internally and externally managed portfolios based on specific mandates and methodologies. The external managers will be expected to acknowledge in writing that they are Plan fiduciaries, and they will have discretion and authority to determine investment strategy, security selection and timing, subject to the Policy guidelines and investment guidelines specific to their portfolio.~~

~~Investment managers, as prudent experts, will be expected to know LACERA's specific investment guidelines for their portfolios, and to comply with these guidelines. It is each manager's~~

Color Key: Black – Original LACERA IPS | Blue – New LACERA language
Red – Changes to existing language | Green – New language from external sources
Purple – New language to IPS from other LACERA sources

~~responsibility to identify guidelines that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said guidelines.~~

~~As outlined in LACERA's Manager Monitoring and Annual Review Policy (**Attachment N**), Staff, under Board supervision, is responsible for monitoring investment managers' adherence to their investment mandate, and any material changes in the managers' organization. The investment managers retained by LACERA will be responsible for informing Staff of all such material changes on a timely basis. Further, Staff is responsible for monitoring and evaluating manager performance on a regular basis relative to each portfolio's benchmark return and relative to a peer group of managers with similar investment mandates.~~

~~Investment managers under contract to LACERA shall have discretion to establish and execute transactions with any securities broker/dealers as needed. However, LACERA reserves the right to preclude investment managers from directing trades through brokerage subsidiaries of LACERA contractors. The investment managers must obtain the most favorable executions with respect to all of the portfolio transactions as market conditions permit.~~

~~Selection Criteria for Investment Managers~~

~~Criteria will be established for each manager search undertaken by LACERA and will be tailored to LACERA's needs in such a search. In general, eligible managers will possess attributes including, but not limited to, the following:~~

- ~~The firm must be experienced in managing investments for institutional clients in the asset class/product category/investment style specified by LACERA.~~
- ~~The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.~~
- ~~The firm must have an asset base sufficient to accommodate LACERA's portfolio. In general, LACERA's portfolio should make up no more than 25% of the firm's total asset base at funding. Exceptions may be made on a case by case basis.~~
- ~~The firm must demonstrate adherence to the investment mandate sought by LACERA, and adherence to the firm's stated investment discipline.~~
- ~~The firm's fees should be competitive with industry standards for the product category.~~
- ~~The firm must comply with the "Duties of the Investment Managers" outlined herein.~~
- ~~For the Equity and Fixed Income Asset Classes, the firm must conform to Global Investment Performance Standards (GIPS) for performance reporting.~~

~~In addition, LACERA's assessment of investment managers will take into account the degree to which the manager's qualified investment professionals exhibit diversity, including such considerations as background, age, experience, race, sexual orientation, gender, ethnicity, and culture.~~

~~The following minimum qualifications will be used for public market investment manager searches and will not require Board approval:~~

- ~~LACERA's expected allocation to the mandate must be limited to 25% of the manager's assets in the proposed product at funding.~~
- ~~Manager's proposed product must have at least a seven year track record.[2]~~

  ~~At least 60% of the quarterly rolling one year excess returns for the last seven years[3] (15 of 25 observations) must exceed the appropriate benchmark by at least the net of fees excess return expectations for LACERA's managers in the same mandate.~~

~~In the event that these minimum qualifications need to be modified to meet the particular needs of a manager search, Staff will submit the appropriate search criteria to the Board of Investments for approval.~~

~~Termination Criteria for Investment Managers~~

~~LACERA reserves the right to terminate an investment manager for any reason. Grounds for investment manager termination may include, but are not limited to, the following:~~

- ~~Failure to comply with the guidelines agreed upon for management of LACERA's portfolio, including holding restricted issues.~~
- ~~Failure to achieve performance objectives specified in the manager's guidelines.~~
- ~~Significant deviation from the manager's stated investment philosophy and/or process.~~
- ~~Loss of key personnel.~~
- ~~Evidence of illegal or unethical behavior by the investment management firm or key employees.~~
- ~~Lack of willingness to cooperate with reasonable requests by LACERA for information, meetings or other material related to its portfolios.~~
- ~~Loss of confidence by Staff and the Board in the investment manager.~~
- ~~A change in the Fund's asset allocation program which necessitates a shift of assets to another sector.~~

[2] With the exception of high yield, opportunistic fixed income, emerging markets, and U.S. and international small cap managers: at least a three year track record.

[3] With the exception of high yield, opportunistic fixed income, emerging markets, and U.S. and international small cap managers: quarterly rolling one-year excess returns for the last three years.

Color Key: Black – Original LACERA IPS | Blue – New LACERA language
Red – Changes to existing language | Green – New language from external sources
Purple – New language to IPS from other LACERA sources

~~The presence of any one of these factors will be carefully reviewed by LACERA Staff, but will not necessarily result in an automatic termination.~~

iii. 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:

- ~~Short sales.~~
- ~~Selling or buying on margin.~~
- "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
- Any acts or omissions that violate state and local laws regarding conflicts of interest and disclosures

- ~~With the exception of hedge funds, real estate and private equity, no investment manager or trustee may leverage the LACERA portfolio by investing more than 100% of the total market value. This measure must reflect the effective exposure associated with derivative securities. The exposure for options, when permitted by contract, must be based on an appropriate options pricing model.~~

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.

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 multifaceted 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 ensure that risks assumed by the Fund are intentional and 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.

IV. Roles and Responsibilities ~~Duties of Responsible Parties~~

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 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 and LACERA'S Board of Retirement 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 and the Board of Retirement. The CEO exercises administrative oversight of the CIO, excluding investment decisions delegated to the CIO. The Board provides input to the CEO in the CEO's oversight of 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 advise the Board, CEO, 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, negotiate and prepare contracts on investment-related matters and 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. Third party service providers must refrain from gift-giving or other efforts that may jeopardize the impartiality, or appearance thereof, of LACERA's Board and staff.

i. Investment Consultants

An investment consultant works for the Board in the oversight and implementation of investment objectives. In meeting the Board's objectives, investment consultants may work with staff and investment managers. 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 serve as an independent resource accountable to the Board. Investment consultants have a fiduciary duty to LACERA and must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s.

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, investment fees, 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. Investment managers should accept a fiduciary duty to LACERA, must report economic interests and conflicts in accordance with California law and LACERA policy, including the Code of Ethical Conduct and filing of Form 700s, and enforce their own diversity, ethics, and sexual harassment policies.

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.

~~**Duties of LACERA's Board of Investments**~~

~~The Board or its designee(s) will adhere to the following in the management of LACERA's assets:~~

- ~~Shall approve Policies for the execution of LACERA's investment program. Only the Board in its sole discretion can delegate its decision making authority regarding the investment program. Staff will be responsible for the timely implementation and administration of these decisions.~~
- ~~Shall review LACERA's investment structure, asset allocation and financial performance annually or more frequently as the need arises. The review will include recommended adjustments to the long-term asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or LACERA's financial condition.~~
- ~~Shall review LACERA's investment performance quarterly[4] or as needed. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The source of information for these reviews shall come from Staff, consultants, the custodian and LACERA's investment managers.~~
- ~~May retain investment consultants to provide such services as conducting performance~~

[4] Private Equity and Real Estate assets are reviewed semi-annually.

~~reviews, asset allocation, manager reviews and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions.~~

- ~~Shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers are defined in LACERA's Manager Monitoring and Annual Review Policy (**Attachment N**).~~

- ~~Shall direct Staff to administer LACERA's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to LACERA.~~

- ~~Shall be responsible for selecting a qualified custodian with advice from Staff.~~

- ~~Shall strive to avoid conflicts of interests.~~

~~Duties of the Investment Staff~~

~~The Investment Staff plays a significant role in the management and oversight of the Fund. Investment Staff shall be responsible for the following:~~

- ~~Manage the strategic asset allocation of the fund in accordance with agreed upon target ranges and rebalancing policies.~~

- ~~Establish investment guidelines for manager portfolios that are consistent with existing policies and with Board approved investment structure.~~

- ~~Monitor external managers for adherence to appropriate policies and guidelines. Ensure that investment managers conform to the terms of their contracts.~~

- ~~Ensure that due diligence and oversight of the Investment portfolios is conducted.~~

- ~~Assist the Board in the evaluation of consultants to ensure that they are providing all necessary assistance to LACERA, as set forth in their service contracts.~~

- ~~Conduct the manager search process, as set forth in this document, with assistance from consultants as directed by the Board.~~

- ~~Manage portfolio restructurings resulting from external manager terminations with the assistance of consultants and managers, as needed.~~

- ~~As directed by the Board, conduct special research required to manage the Fund more effectively.~~

- ~~Assist the Board in the development of the private market (e.g., Real Estate, Private~~

~~Equity and Hedge Funds) Investment Plans; implement and monitor the Plans.~~

- ~~Report on investment activity and matters of significance at least monthly.~~
- ~~Rebalance the portfolio to maintain asset allocation and/or to provide liquidity for cash needs or benefit payments. This requires delegating authority to the Chief Investment Officer to shift up to 3% of Fund's assets without Board approval. Any such action by the CIO will require notification to the Board of Investments via the monthly CIO Report.~~
- ~~Maintain control over all wire transfers or movement of monies to or from all investment accounts.~~
- ~~Strive to avoid conflicts of interest.~~
- ~~Authorize consent to assignments of Investment Manager Agreements that are technical assignments under the Investment Advisors Act of 1940 with subsequent notification to the Board.~~
- ~~Report to the entire Board if either the Chief Executive Officer (CEO) or a member of the Board of Investments has contacted the Investment Staff on three separate occasions over a rolling one year period regarding a potential investment manager.~~

~~In addition to these core responsibilities, LACERA's Board of Investments has delegated to the Chief Investment Officer 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 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.~~
- ~~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.~~

~~All investment related contracts and agreements and all amendments and modifications to them are subject to review and approval by LACERA's Legal Office.~~

~~Duties of the Investment Managers~~

~~The investment managers shall have designated discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; applicable Local, State and Federal statutes and regulations; and individual management investment plans and executed contracts. The investment managers shall be responsible for the following:~~

- ~~Execution of a contractual agreement to invest within the guidelines established by the Board.~~
- ~~Provide LACERA with proof of liability and fiduciary insurance coverage.~~
- ~~Be a SEC Registered Investment Advisor under the 1940 Act, unless LACERA has previously approved an exemption from registration, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.~~
- ~~Adhere to the investment management style and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.~~
- ~~Execute all transactions for the benefit of LACERA with brokers and dealers qualified to~~

~~execute institutional orders on an ongoing basis at the best net cost to LACERA.~~

- ~~Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian (excludes real estate and private equity), or hedge funds, the reconciliation function with the hedge fund managers will be performed by the fund of funds manager or an alternative asset third party administrator.~~
- ~~Maintain frequent and open communication with Staff on all significant matters that affect the Fund, including, but not limited to, the following:~~
    1. ~~Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure.~~
    2. ~~Significant changes in ownership, organizational structure, financial condition or senior personnel.~~
    3. ~~Any changes in the Portfolio Manager or other key personnel assigned to the Plan.~~
    4. ~~Each significant client which terminates its relationship with the Investment Manager, within 30 days of such termination.~~
    5. ~~All pertinent issues which the Investment Manager deems to be of significant interest or material importance.~~
    6. ~~Meet with the Board or its designee(s) on an as-needed basis.~~

~~Duties of the Master Custodian~~
~~The Master Custodian shall be responsible for the following:~~

- ~~Provide complete global custody and depository services for the designated accounts.~~
- ~~Manage, if directed by the Board, a Short Term Investment Fund (STIF) for investment of any cash not invested by managers, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.~~
- ~~Provide Staff with portfolio performance in a timely manner, and reconcile differences with managers.~~
- ~~Provide, in a timely and effective manner, a monthly report of the investment activities implemented by the investment managers.~~
- ~~Calculate all income and principal realized and properly report the results in periodic statements.~~
- ~~Provide monthly and fiscal year end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and~~

~~market. These reports should be provided within acceptable time frames.~~

- ~~Report to LACERA situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.~~
- ~~Provide assistance to LACERA to complete such activities as the annual audit, transaction verification, corporate actions, securities litigation, or unique issues as required by the Board.~~
- ~~Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.~~
- ~~Deliver all U.S. and non U.S. proxy voting materials to LACERA, including meeting notices, voting instruction forms, proxy statements, quarterly and annual shareholder reports and miscellaneous proxy voting materials.~~

~~**Duties of Consultants**~~
~~The Board and Staff will consider the comments and recommendations of consultants in conjunction with other available information to make informed, prudent decisions.~~

~~**General Investment Consultant**~~
~~The General Investment Consultant shall be responsible for the following:~~

- ~~**Conduct an asset-liability study**–work closely with LACERA's actuaries and senior investment Staff to prepare a comprehensive asset liability study, no less frequently than every three to five years.~~
- ~~**Assist LACERA with its strategic investment decisions**–focus on "big picture" total fund investment policy and structure issues.~~
- ~~**Provide independent reviews**–when requested, provide independent reviews via reports to the Board on Staff projects and recommendations in areas including, the investment policy and guidelines, asset class structures, and investment manager searches.~~
- ~~Calculate performance measurement–independently from LACERA's custodian and provide quarterly Fund performance reports. Once a year the Consultant will make a performance presentation to the Board of Investments.~~
- ~~**Research investment ideas**–provide independent, thorough research on current industry issues.~~
- ~~**Educate LACERA's Investment Board**–provide educational presentations to the Board~~

~~on specific issues. Education will range from informational items to critical investment policy issues.~~

~~Real Estate Consultant~~
~~The Real Estate consultant shall be responsible for the following:~~

- ~~Independently review and make recommendations to the Investment Board regarding: 1) the Real Estate Objectives, Policies, and Procedures, 2) strategic asset allocation, and 3) asset class strategy.~~
- ~~Provide independent evaluation and assist LACERA in the selection of qualified real estate investment managers.~~
- ~~Prepare a quarterly performance report including performance attribution for LACERA's real estate managers and the total real estate Composite.~~
- ~~Provide topical research and education on investment subjects that are relevant to LACERA.~~

~~Private Equity Consultant~~
~~The Private Equity Investment Consultant shall be responsible for the following:~~

- ~~Independently review and make recommendations in the preparation of the Private Equity Objectives, Policies and Procedures and Annual Investment Plans.~~
- ~~Independently review and make recommendations in the implementation of the Private Equity Investment Plan.~~
- ~~Assist Staff in the preparation of a semi-annual performance report including portfolio investments.~~
- ~~Provide topical research and education on Private Equity subjects relevant to LACERA.~~

~~Proxy Voting Consultant~~
~~The Proxy Voting Consultant(s) shall be responsible for the following:~~

- ~~Provide Staff with on-going proxy voting research and analyses consistent with LACERA's investment goals and in accordance with the Corporate Governance Policy (Attachment F of the Investment Policy Statement.~~
- ~~Assist Staff with the preparation and/or revisions of LACERA's proxy voting guidelines.~~
- ~~Provide Staff with company specific corporate governance profiles, pertinent statistical reporting and yearly review of the results of corporate annual meetings.~~

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**	

Table 2: Benchmark Table

Asset Class	Benchmark
Growth	Custom Blend
Global Equity	80% MSCI ACWI IMI + 20% MSCI World IMI ex U.S. Currency Hedged
Private Equity	MSCI ACWI IMI + 200 bps (3-month lag)
Opportunistic Real Estate	NFI ODCE + 300 bps (3-month lag)
Credit-Oriented Fixed Income	Custom Blend
High Yield Bonds	Bloomberg Barclays U.S. High Yield
Bank Loans	Credit Suisse Leveraged Loans
Emerging Market Debt	50% JP Morgan EMBI GD/25% JP Morgan GBI-EM GD/25% JP Morgan CEMBI BD
Illiquid Credit	Bloomberg Barclays U.S. Aggregate + 250 bps
Real Assets & Inflation Hedges	Custom Blend
Core & Value-Added Real Estate	NFI ODCE + 50 bps (3-month lag)
Natural Resources/Commodities	50% Bloomberg Commodity/50% S&P Global LargeMidCap Commodity and Resources
Infrastructure	Dow Jones Brookfield Global Infrastructure
TIPS	Bloomberg Barclays U.S. TIPS
Risk Reducing & Mitigating	Custom Blend
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate TR
Diversified Hedge Fund Portfolio	Citigroup 3-Month U.S. Treasury Bill + 250 bps
Cash	Citigroup 3-Month U.S Treasury Bill
TOTAL FUND	**Custom Blended Policy Benchmark**

Color Key: Black – Original LACERA IPS Blue – New LACERA language
Red – Changes to existing language Green – New language from external sources
Purple – New language to IPS from other LACERA sources

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

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 addition to these cored responsibilities, LACERA's Board of Investments has delegated to the Chief Investment Officer 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 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. Such actions shall be reported as an informational item as reasonably practicable to the Board, 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, when deemed necessary in the best interest of the Fund and when there is not enough time to take the action to the full Board. 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.

- 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

- Authority to negotiate and execute investment agreements that, in the judgment of the CIO and Chief Counsel, provide adequate protection for LACERA's interests, including an appropriate standard of care on the part of each manager

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 composed of all available Principal and Senior Investment Officers and Assistant Executive Officers shall have these powers, provided that the committee is composed 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
Placement Agent Policy

L//.CERA

October 29, 2018

TO: Each Member
Board of Investments

FROM: Jonathan Grabel
Chief Investment Officer

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **STANDING COMMITTEES**

RECOMMENDATION

1. Dissolve the Risk Committee
2. Grant Board of Investments Standing Committees flexibility to meet whenever deemed necessary by its committee members, but at a minimum of once per year
3. The Board of Investments (BOI) will evaluate BOISCs once every two years, beginning at the BOI offsite meeting in 2019

BACKGROUND

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.

At the October 10, 2018 BOI meeting, in response to the Board's request, staff prepared a memo outlining several options for the BOI to consider for making the BOISCs more efficient and productive.

Attached is the memorandum that staff presented to the BOI.

OPTIONS AVAILABLE TO THE BOARD

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

DELIBERATIONS AND OPINIONS EXPRESSED BY THE BOI

Committee members discussed the following topics on October 10:

- Risk Committee
  - One of LACERA's investment beliefs is that risk is a broad term that needs to be evaluated holistically. As such, Risk Committee topics should be elevated to the full BOI given its importance and potential effects on the Total Fund.
- BOISC meeting frequency
  - A Board member suggested that each of the BOISCs should have the flexibility to schedule a meeting whenever deemed necessary by its committee members, but at a minimum, each BOISC should meet once per year. This scheduling flexibility should help BOISCs address important topics on a more timely basis.
- Periodic Standing Committee Evaluations
  - A regular assessment can help determine whether the BOISCs are operating as planned, and whether any modifications are necessary.
- Request for Proposal (RFP) topics
  - There were differing views expressed by Board members and no consensus was reached
    - One view was to elevate Request for Proposal ("RFP") topics that currently fall within the purview of the BOISCs to the full BOI in an effort to eliminate redundancy and help expedite the search process.
    - Another view was to maintain the status quo and continue to address RFP topics within each respective BOISC since a purpose of the standing committees is to address certain matters more comprehensively at the committee level in order to save discussion time at the BOI.

RISKS OF ACTION AND INACTION

If the Board approves Recommendation #1, regarding the dissolution of the Risk Committee, any future risk topics will be discussed either within the relevant BOISC, or with the full BOI beginning with the December 2018 BOI meeting. If the Board does not approve this recommendation, or any modified version of this recommendation, this will result in no changes to the Risk Committee.

If the Board approves Recommendation #2, each of the BOISCs will have the flexibility to schedule a meeting whenever deemed necessary by its committee members, but at a minimum, each BOISC will meet once per year. This change will take effect beginning with any December 2018 BOISC meetings. If the Board does not approve this recommendation, or any modified version of this recommendation, this will result in no changes to the meeting frequency of BOISCs.

If the Board approves Recommendation #3, regarding the periodic evaluation of BOISCs, BOISCs will be evaluated every two years beginning at the BOI offsite meeting in 2019. If the Board does not approve this recommendation, or any modified version of this recommendation, BOISCs will not be periodically evaluated until decided otherwise by the BOI.

Regarding addressing RFP topics at BOI or BOISC meetings, since a consensus was not reached at the October BOI, the Board can decide whether to take any action on this issue.

CONCLUSION

In response to the Board’s direction, staff has summarized several recommendations for the Board to consider to improve the efficiency of BOI Standing Committees.

Attachment

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

LACERA

October 30, 2018

TO: Each Member
Board of Investments

FROM: Jonathan Grabel
Chief Investment Officer

FOR: November 8, 2018 Board of Investments

SUBJECT: **INVESTMENT MANAGER SCORECARD**

Attached is a staff presentation on an initiative for scoring existing investment managers. Staff believes that an investment manager scorecard can be a useful tool for enhancing staff's process for monitoring investment managers. This scorecard may also be incorporated into staff's due diligence process when evaluating potential managers to recommend to the Board.

The purpose of this presentation is for staff to provide the Board with a preview of the scoring initiative. A working group within the investment division collaborated in the development of the multidimensional methodology. At the November 8th meeting, a subset of that group will provide further details and address any questions that the Board may have.

Attachment

JP:cq

ATTACHMENT

Investment Manager Scorecard

Board of Investments

November 8, 2018

Jonathan Grabel – Chief Investment Officer
Jude Pèrez – Principal Investment Officer
Scott Zdrazil – Senior Investment Officer
Quoc Nguyen – Senior Investment Analyst
Mel Tsao – Investment Analyst

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Outline of Discussion

I. Purpose of Manager Scorecards

II. Overview of Scoring Categories
   I. Performance
   II. Operational Strength
   III. ESG Integration
   IV. Relationship Quality

III. Conclusion

Purpose of Manager Scorecards

- Actively assess and monitor multidimensional aspects of LACERA’s investment manager relationships

- Highlight nuances
  - Elevate the discussion of manager roles within the Fund
  - Promote cross category initiatives

- Enhance LACERA’s manager monitoring process

- Creates a uniform process across asset categories

- Could be used as a tool within the manager selection process

Manager Scorecard Summary

Public Equities*				
Manager/Strategy	**Performance**	**Operations/ Organization**	**ESG**	**Quality of Relationship**
ABC Capital/ U.S. Large Cap	**3**	**B**	**4**	**B**
XYZ Global/ Emerging Markets	**4**	**B**	**1**	**A**

- Each investment team will assign a score for each manager within their respective asset category
- Provide a multidimensional perspective on each manager
- Regularly update (Annually and as needed)

*Hypothetical

Category 1: Performance Score

Public Equities*				
Manager/Strategy	**Performance**	**Operations/ Organization**	**ESG**	**Quality of Relationship**
ABC Capital/ U.S. Large Cap	**3**	B	4	B
XYZ Global/ Emerging Markets	**4**	B	1	A

- Quantitative score from 1-5 (with 5 being the highest)
- Assess manager's **Sharpe Ratio** and **Information Ratio**, which provides insight into the manager's risk adjusted performance and performance relative to its benchmark, respectively
- Span either 7-years or since inception if manager's performance history is less than 7-years

*Hypothetical

Category 2: Operations/Organization Score

Public Equities*				
Manager/Strategy	Performance	**Operations/ Organization**	ESG	Quality of Relationship
ABC Capital/ U.S. Large Cap	3	**B**	4	B
XYZ Global/ Emerging Markets	4	**B**	1	A

- Assign a score of A, B, or C (with A being the highest)
- Assess factors including, but not limited to, **organization, professional staff, investment philosophy, risk management, key-person risk, legal & compliance framework**
- The method for scoring this category will be more qualitative in nature

*Hypothetical

Category 3: ESG Score

Public Equities*				
Manager/Strategy	Performance	Operations/ Organization	**ESG**	Quality of Relationship
ABC Capital/ U.S. Large Cap	3	B	**4**	B
XYZ Global/ Emerging Markets	4	B	**1**	A

- Assign a score from 1-5 (with 5 being the highest)
- Evaluate the extent to which material ESG factors are identified, assessed, and incorporated into risk/return analysis and portfolio construction
- Reflect the continuum of emerging and evolving ESG best practices

Category 4: Quality of Relationship Score

Public Equities*				
Manager/Strategy	Performance	Operations/ Organization	ESG	**Quality of Relationship**
ABC Capital/ U.S. Large Cap	3	B	4	**B**
XYZ Global/ Emerging Markets	4	B	1	**A**

- Quality of Relationship will be assessed both quantitatively and qualitatively and assigned a score of either A, B, or C (with A being the highest)

- Assess the manager's:
  - **Fees –** compared to a benchmark of median fees
  - **Value added services –** e.g., providing education, providing research, and performing analytics on portfolio
  - **Size of LACERA's investment –** relative to the firm's assets under management

*Hypothetical

Status of Scoring – Completed Global Equities

Global Equities				
Manager/Strategy	**Performance**	**Operations/ Organization**	**ESG**	**Quality of Relationship**
Manager 1	4	B	3	B
Manager 2	5	B	4	A
Manager 3	2	B	4	A
Manager 4	4	B	4	B
Manager 5	3	B	4	B
Manager 6	5	B	2	A
Manager 7	3	B	2	B
Manager 8	3	B	4	B
Manager 9	4	B	4	B
Manager 10	5	B	4	B

Conclusion

I. The scorecard aims to highlight the multidimensional aspects of each investment manager

II. Recognize and monitor the nuances that exist between manager relationships

III. Enhances LACERA's manager monitoring process

IV. Elevate key BOI initiatives
   I. Fees
   II. ESG
   III. Emerging managers

FOR INFORMATION ONLY

October 30, 2018

TO: Each Member
Board of Investments

FROM: Jonathan Grabel
Chief Investment Officer

FOR: November 8, 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	November 2018 – Recommendation
• Procedures manual	1st Quarter of 2019
Align Management and Oversight	
• Align Committees to new SAA	Completed
• Staffing	
• Real Assets – PIO	Completed
• Real Assets – FA-III	4th Quarter of 2018
• Real Assets – FA-II	4th Quarter of 2018
• Portfolio Analytics – SIO	Completed
• Portfolio Analytics – FA-II	In Process
• Portfolio Analytics – FA-I	In Process
• Consultant searches	1st Quarter of 2019 - Completion
• Recommendation to conduct search	Completed

Growth
• Public Equities
    • Structure review
        • Reduce public equity exposure
        • Possible manager consolidation
        • Rebalance passive exposure to Board approved benchmark
• Private Equity
    • Investment plan
    • Potential secondary sale
• Opportunistic Real Estate
    • Implement structure review and investment plan
	
	1st Quarter of 2019
	
	4th Quarter of 2018
	4th Quarter of 2018
	
	Ongoing

Credit
• Conduct consultant search – Credit
• Structure review
    • Realign weights with targets
    • Resize current liquid managers
• Conduct new mandate searches
	
	In Process
	4th Quarter of 2018
	
	Ongoing

Risk Reducing & Mitigation • Conduct consultant search – Hedge Funds • Implementation of Fixed Income structure review • Potential manager rebalancing and consolidation • Conduct RFP for cash overlay program	 In Process 4th Quarter of 2018 In Process
Real Assets & Inflation Hedges • Conduct consultant search – Real Assets • Issue RFI for a completion portfolio • Add TIPS through invitation to bid process • Conduct new mandate searches	 In Process In Process In Process Ongoing
Adapt Portfolio Analytics • Analytics Reporting • Performance Reporting	 Second Quarter 2019* 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.

LACERA

FOR INFORMATION ONLY

October 19, 2018

TO: Each Member
Board of Investments

FROM: Scott Zdrazil
Senior Investment Officer

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **COUNCIL OF INSTITUTIONAL INVESTORS GENERAL MEMBERS BUSINESS MEETING BALLOT**

Please find attached LACERA's ballot for the Council of Institutional Investors' ("CII") general members' business meeting (**Attachment 1**).

BACKGROUND

LACERA is a member of CII. CII is holding a general members' business meeting on October 24, 2018. LACERA has submitted its ballot in advance of voting. Consistent with LACERA policy, routine business items have been voted in adherence to LACERA's *Corporate Governance Principles* and other items were reviewed and voted in consultation with the Corporate Governance Committee Chair in advance of the voting deadline (background materials for non-routine items are described in **Attachment 2**).

Attachments

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

Council of Institutional Investors®
The voice of corporate governance

ATTACHMENT 1

CII General Members' Business Meeting Advance Ballot

ADVANCE BALLOTS DUE ON OR BEFORE: 5:00 PM ET ON FRIDAY, OCTOBER 19

Ballots may be emailed or faxed to:
Attention: Michael Miller
Email: Michael@cii.org
Fax: 202-822-0801

Action Items:

1. Approve 2019 Budget

 ____X____FOR _________AGAINST _________ABSTAIN

2. Approve Bylaw Amendment on Associate Member Dues

 ____X____FOR _________AGAINST _________ABSTAIN

3. Amend Corporate Governance Policy to Add Preamble

 ____X____FOR _________AGAINST _________ABSTAIN

4. Amend Corporate Governance Policy on Shareholder Meeting Access

 ____X____FOR _________AGAINST _________ABSTAIN

5. Amend CII Statement on Effective and Efficient Proxy Voting

 ____X____FOR _________AGAINST _________ABSTAIN

Signature: ____________________ Print Name: ______Scott Zdrazil__________________

Organization: _LACERA - Los Angeles County Employees Retirement Association__________

PLEASE NOTE: One vote per fund; all ballots must be signed by a Membership representative. General Members may change their votes at GM business meetings when they have previously submitted a proxy in advance of the meetings. A majority of the General Members must be represented in person or by ballot at Council meetings for the transaction of business. Ballot items require the affirmative vote of a majority of those voting.

--ALL BALLOTS ARE CONFIDENTIAL--

APPENDIX 2
AMEND CII BYLAWS TO DELEGATE AUTHORITY TO SET ASSOCIATE MEMBER DUES TO THE BOARD OF DIRECTORS

The board recommends General Member approval of a bylaw amendment to grant the board more authority to set Associate Member dues (voted on by the board on July 30, 2018). The proposed changes to Article 3, Section B are indicated below in *red italics*:

B. Nonvoting Members

(i) **Associate Members.** Any individual, incorporated entity, educational institution, association or other group interested in the work of the Council may become a non-voting Associate Member upon payment of an annual fee established by the General Membership. *The General Membership delegates to the Board of Directors responsibility for setting Associate Member annual fees.* Associate Members participate on a calendar year basis. The Board of Directors may renew or decline an Associate's membership application if it would be in the Council's interest to do so. Associate Members may attend Council conferences and other educational forums by invitation of the General Membership. Associate Members also receive Council newsletters.

Background & Intent
Historically, General Members have specifically approved both General Member and Associate Member dues. The board and staff believe the current dues structure for Associate Members is not optimal to recruit and retain asset managers, lawyers and other service providers.

Currently, Associate Member dues are based on the following schedule:

Employee Base	Dues	Attendance Limit Per Conference
5 or fewer	$5,000	1
5 to 25	$8,000	3
26 to 2,500	$12,000	4
More than 2,500	$15,000	5

The board believes that staff needs greater flexibility to develop, and as necessary adjust, new approaches tailored for different kinds of Associate Members. A requirement for board approval only would make it easier for CII to make needed changes in a timely fashion. To date, General Members have not expressed strong views about Associate Member dues.

This proposal does not affect General Member dues, which would remain subject to General Member approval.

APPENDIX 3
ADOPT PREAMBLE TO CII CORPORATE GOVERNANCE POLICIES

The CII board recommends that General Members approve adoption of the following Preamble to precede CII's policies on corporate governance (voted on by the board on July 30, 2018):

> *CII believes effective corporate governance and disclosure serve the best long-term interests of companies, shareowners and other stakeholders. Effective corporate governance helps companies achieve strategic goals and manage risks by ensuring that shareowners can hold directors to account as their representatives, and in turn, directors can hold management to account, with each of these constituents contributing to balancing the interests of the company's varied stakeholders. We consider effective disclosure to be accurate, prompt and useful information on company policies, practices and results. CII advocates for investor protection and robust capital markets, accomplished through a combination of private ordering and market-wide rules and regulations.*
>
> *CII supports shareowners' discretion to employ a variety of stewardship tools to improve corporate governance and disclosure at the companies they own. These tools include casting well-informed proxy votes; engaging in dialogue with portfolio companies (including with board members, as appropriate), external managers and policymakers; filing shareholder resolutions; nominating board candidates; litigating meritorious claims; and retaining or dismissing third parties charged with assisting in carrying out these activities.*

Background & Intent

> A broad view about the importance of corporate governance, transparency and investor stewardship to overall market function underlies the specific positions taken in CII policies. Currently that over-arching perspective is not prominently articulated in the policies themselves, which for some market participants and policymakers is their sole exposure to CII. The proposed Preamble would address that deficiency, while conveying the interdependent and complementary nature of three pillars of healthy capital markets: strong corporate governance, high-quality disclosure and robust investor monitoring. The language of the proposed Preamble builds from, and would supplant, a legacy statement entitled "Value of Corporate Governance," which dates from the late 1990s, receives little attention and reflects a less holistic view.

APPENDIX 4
AMEND CII CORPORATE GOVERNANCE POLICY WITH REGARD TO SHAREHOLDER MEETING ACCESS

The CII board recommends that General Members approve adding a third paragraph, in underlined red italics below, to Section 4.7 of CII's Corporate Governance Policies (voted on by the Board on July 30, 2018):

> Electronic Meetings: Companies should hold shareowner meetings by remote communication (so-called "virtual" meetings) only as a supplement to traditional in-person shareowner meetings, not as a substitute.
>
> Companies incorporating virtual technology into their shareowner meeting should use it as a tool for broadening, not limiting, shareowner meeting participation. With this objective in mind, a virtual option, if used, should facilitate the opportunity for remote attendees to participate in the meeting to the same degree as in-person attendees.
>
> *Virtual-only shareholder meetings do not exist in a virtual vacuum. Any bona fide shareholder who desires to be in the physical room from which the chair conducts a virtual-only meeting should have the choice to do so, provided the shareholder complies with reasonable admission requirements.*

Background & Intent

The shareholder meeting is a time-honored forum for shareholders of any size to engage with corporate leaders at the highest level, including chief executives and board members, on issues affecting past and future performance. Both companies and shareholders have roles in ensuring that these meetings are worthwhile, substantive events.

Technology opens the possibility of broadening the meeting's participation to those who lack the time or resources to attend in person. Adopting this technology does not require denying shareholders the option of in-person attendance. However, a small but growing number of companies are making that choice.

CII adopted the first two paragraphs of Section 4.7 eight years ago, and in so doing endorsed a hybrid approach in lieu of a virtual-only format. Concerns with the virtual-only concept were theoretical then and ranged from excess control over the question queue to the specter of "dark meetings" (i.e., virtual-only meetings with no video). Early concerns like these are today's reality.

From January through May of 2018, 127 U.S. companies held virtual-only shareholder meetings, according to ISS. Many virtual-only adopters are not cash-strapped, small-cap firms with low historical attendance, but large-cap multinationals with meaningful in-person attendance in the past and obvious financial capacity to maintain an in-person option in some form.

Though some adopters of the virtual-only format reversed course in response to investor feedback, many observers envision the virtual-only trend continuing. In this context the proposed third paragraph encourages companies to keep an open door for their owners.

APPENDIX 5
AMEND CII STATEMENT ON EFFECTIVE AND EFFICIENT PROXY VOTING TO SUPPORT ENHANCED PROXY VOTING INFRASTRUCTURE

The CII board recommends General Members approve amendments to the CII Statement on Effective and Efficient Proxy Voting (voted on by the board on July 30, 2018). Proposed changes are indicated below in red, with addition in underlined italics, and deletion noted with strike-through:

The Council of Institutional Investors believes the public equity market and its stakeholders are best served by a proxy voting system characterized by:

- **Timeliness**—Voting related communications should reach eligible voters in sufficient time to allow for careful review of the materials and to facilitate voter participation.
- **Accessibility**—~~Technology should be used to improve the proxy voting process. However, m~~Mechanisms should be in place to ensure that shareowners receive proxy materials and can vote even if they do not use electronic voting and communications methods.
- **Accuracy**—All votes properly cast should be correctly tallied.
- **Certainty**—The proxy voting system should provide for end-to-end confirmation enabling both companies and shareowners to confirm that votes properly cast were included in the final tally as directed.
- **Cost-effectiveness**—The costs of transmitting proxy materials and votes should be reasonable.
- ***Best use of technology***—*Technology should be used to improve the proxy voting process, including through the adoption of private blockchains operated by trusted third parties that promote each of the above five objectives while safeguarding the identities, holdings and voting decisions of individual shareholders.*

Background and Intent

Inefficiency plagues the proxy voting system. With close tabulations taking weeks, some vote tallies exceeding the number of votes outstanding, and anecdotal stories of votes lost in the ether, both the investor community and public companies share in frustration. Investor concern is especially acute given that the entire process—from disseminating materials to executing and counting votes—is a cost that shareholders ultimately bear. The proposed revision to the CII statement would add to existing momentum for this breakthrough technology, while providing a broad vision for how this technology could work effectively.

The proposed language importantly maintains that blockchains used to improve the proxy voting system need not be government-operated, but rather may operate by private, "permissioned" third parties that hold the trust of companies and investors. Second, the language makes clear that existing privacy protections surrounding holders' identities, record date holdings and voting decisions must not deteriorate as a result of the advancement of blockchain technology. Third, although blockchain technology inherently requires electronic participation at some stage, the language preserves an expectation for incorporating steps into the process as necessary to ensure that the minority of investors who receive proxy materials or submit voting instructions by traditional means are not marginalized.

LACERA

FOR INFORMATION ONLY

October 30, 2018

TO: Each Member
Board of Investments

FROM: Scott Zdrazil, Senior Investment Officer SZ

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **COMMENT LETTER TO SECURITIES AND EXCHANGE COMMISSION ROUNDTABLE ON THE PROXY PROCESS**

Please find attached LACERA's comment letter (**Attachment**) submitted to the Securities and Exchange Commission ("SEC") in advance of the SEC Roundtable on the Proxy Process.

BACKGROUND

The Board of Investments Corporate Governance Committee reviewed LACERA's Fiscal Year 2018 proxy voting results and trends at its October 10, 2018 meeting. Highlighted among the trends was a review of regulatory and legislative developments that may impact proxy voting by institutional investors, such as LACERA. The report noted that the SEC would hold a roundtable on November 15, 2018 to review and solicit market input on various topics related to the U.S. proxy voting system and that staff was actively assessing submitting a comment letter to the SEC.[i]

The comment letter addresses four topics, each of which is addressed in LACERA's *Corporate Governance Principles*: Proxy vote tabulation and confirmation, universal proxy cards, shareholder proposals, and proxy research firms. LACERA's *Corporate Governance Policy* provides that staff may represent LACERA's *Corporate Governance Principles* to regulatory and legislative bodies.

Attachment

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

---

[i] Securities and Exchange Commission, Statement Announcing SEC Staff Roundtable on the Proxy Process, July 30, 2018, available at https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process; Securities and Exchange Commission, SEC Staff to Host Nov. 15 Roundtable on the Proxy Process, September 21, 2018, available at: https://www.sec.gov/news/press-release/2018-206.

October 30, 2018

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
via email at rule-comments@sec.gov

RE: File Number 4-725 (Roundtable on the Proxy Process);
File Number S7-24-16 (Universal Proxy)

Dear Mr. Fields:

The Los Angeles County Employees Retirement Association ("LACERA") welcomes the opportunity to submit comments in advance of the Securities and Exchange Commission's (the "Commission") November 15, 2018 Roundtable on the Proxy Process.[1] LACERA is the largest county pension system in the United States, with $57 billion in plan assets as of September 30, 2018, including equity holdings in over 3,000 U.S. companies. LACERA's mission is "to produce, provide, and protect the promised benefits" for nearly 170,000 beneficiaries.

LACERA believes that sound corporate governance practices and policies at the firms in which it invests help generate long-term economic performance and safeguard the fund's economic interests. Proxy voting is a fundamental component of how LACERA encourages prudent governance practices. LACERA has developed a *Corporate Governance Principles* policy to articulate our views on sound governance practices and guide the fund's proxy votes. Ensuring effective, fair, and orderly rules in the U.S. proxy voting system protects the sanctity of proxy voting in capital markets and may facilitate constructive, efficient market dialogue. In our view, productive communication between companies and investors helps to engender trust in our financial markets, which in turn facilitates economic stability and capital formation.

We applaud the Commission's solicitation of investors' views as it reviews whether the U.S. proxy voting system "operates with the accuracy, reliability, transparency, accountability, and integrity" that the marketplace expects.[2] In the comments below, LACERA offers its perspectives on several topics outlined in the Roundtable announcement that are pertinent to the fund's proxy operations. In short, we believe that the Commission can enhance the U.S. proxy system by promoting reforms to facilitate end-to-end vote confirmation across the market and taking action on the Commission's 2016 proposed universal proxy rule. These steps would fortify the investor franchise and increase integrity, accuracy, and reliability of proxy voting. Conversely, we are concerned by recent proposals and debates to revise rules governing shareholder proposals and impose additional regulatory requirements on proxy research firms, which we address in turn further below.

[1] Securities and Exchange Commission, SEC Staff to Host Nov. 15 Roundtable on the Proxy Process, September 21, 2018, available at: https://www.sec.gov/news/press-release/2018-206.
[2] Securities and Exchange Commission, Statement Announcing SEC Staff Roundtable on the Proxy Process, July 30, 2018, available at https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process.

Vote Confirmation

LACERA considers proxy votes to be plan assets and seeks to manage votes consistent with our fiduciary duty and interest in economic value on behalf of plan members. The U.S., however, currently lacks market-wide assurance that proxy votes are received and tabulated. Vote confirmation is voluntarily offered by one proxy tabulator, but not available from all tabulators.

LACERA recommends that the Commission assess options to efficiently facilitate end-to-end vote confirmation. Ensuring that votes cast are properly received and counted underpins the integrity of the U.S. proxy system. New technologies may present opportunities for cost-effective methods to better facilitate stakeholder collaboration and vote confirmation.

Universal Proxy Ballot

LACERA recommends that the Commission take action on proposed amendments to federal proxy rules to require the use of universal proxy ballots in contested director elections.[3] LACERA concurs with the views expressed by the Council of Institutional Investors[4] and articulated in LACERA's *Corporate Governance Principles* that in the event of a proxy contest, investors should be able to select and vote for individual director nominees on a consolidated, or "universal," proxy ballot, regardless of whether the director nominee is put forward by management or a dissident investor.[5]

LACERA relies on corporate directors to effectively oversee the companies in which we invest and to represent investors' interests. Investors' ability to vote on directors is a core component of promoting sound governance at portfolio companies. Approximately sixty-five percent (65%) of LACERA's proxy votes pertain to director nominees and board matters. Diligently voting proxy contests is particularly important, since the competing director slates typically offer divergent visions for the company's future. Absent attending a meeting in person – which may be cost-prohibitive – investors who wish to vote among nominees listed on both the management and dissident ballots risk "wasting" votes by only being able to vote one ballot. The current system limits investor franchise. The Commission's proposed rules provide a framework to modernize the proxy system by enabling investors to prudently select among all nominees whom we consider best suited to serve us, regardless of whether they are sponsored by management or dissidents.

Shareholder Proposals

LACERA considers that investors with a reasonable ownership interest in a firm should have the right to put forward a resolution for investors' consideration and vote at the firm's annual meeting under reasonable terms and conditions.[6] LACERA has rarely sponsored shareholder resolutions.

[3] Securities and Exchange Commission, Release No. 34-79164 (File No. S7-24-16) Regarding Universal Proxy Proposed Rule, October 26, 2016, available at: https://www.sec.gov/rules/proposed/2016/34-79164.pdf.

[4] Council of Institutional Investors, Comments on SEC Release No. 34-79164 – Universal Proxy (File No. S7-24-16), available at: https://www.sec.gov/comments/s7-24-16/s72416-1450259-130101.pdf.

[5] LACERA *Corporate Governance Principles*, §I(C)3, p. 5. http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf.

[6] LACERA *Corporate Governance Principles*, §II(A)3.3, p. 10. http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf.

However, LACERA values the opportunity to consider issues raised by shareholder resolutions and to cast a vote in line with LACERA's proxy voting policies and economic interests. Shareholder resolutions account for a small percentage of the proxy voting items that LACERA votes. Shareholder proposals represented about 2% of LACERA's total proxy votes in fiscal year 2018, and about 3% in both FY2017 and 2016.

Shareholder resolutions have provided an efficient and viable means for investors to raise concerns, and for investors and companies alike to gauge investor support for the measures. Shareholder resolutions in the United States, under the current terms and conditions of Rule 14a-8 of the Securities Exchange Act of 1934 (Shareholder Proposal Rule) and further interpreted by the Commission's Division of Corporation Finance Staff Legal Bulletin No. 14, published July 13, 2001,[7] have enabled investors to present for consideration typically nonbinding suggestions for board consideration, through which numerous best practices in corporate governance have emerged. For example, board independence, stock option expensing, and robust recoupment policies in the event of financial restatements, all arose via nonbinding shareholder resolutions and market debate prior to listing rules and other regulation addressing the issues. Moreover, many governance practices now considered standard practice have emerged from shareholder resolutions and spread across the market, absent market regulation or legislation. Majority vote standards for director elections, annual elections, and viable bylaws enabling proxy access have been adopted by the majority of S&P 500 companies in the U.S. despite none of these provisions being mandated by laws, regulations, or listings standards.[8]

Absent a viable mechanism for introducing shareholder resolutions, investors may express concern or dissent through more assertive, less focused means, such as opposing director nominees.[9]

LACERA urges the Commission to maintain efficient and viable rules to enable investors to present proposals for consideration and a vote at annual meetings.

Proxy Research Firms

LACERA believes that investors should have access to competitive, timely, and independent market, investment, and proxy research services of their choosing. Market regulation should support, and not impede, a competitive market of service providers.[10] LACERA is concerned that recent legislative proposals regarding proxy research firms may add undue costs, jeopardize independence, and introduce unnecessary delays for paying clients to access research from contracted vendors.

LACERA votes proxies according to its *Corporate Governance Principles.* LACERA contracts with two external proxy research firms to provide data and analysis that LACERA uses to inform how to vote in a manner consistent with the fund's custom proxy voting policy. Competitive, timely, and independent proxy research provides data, comparisons, and analysis used to inform,

---

[7] Securities and Exchange Commission, Division of Corporation Finance, Staff Legal Bulletin No. 14, Shareholder Proposals, July 13, 2001, available at https://www.sec.gov/interps/legal/cfslb14.htm.
[8] ISS Voting Analytics Database.
[9] Dechert LLP. "OnPoint: A Legal Update from Dechert's Corporate Governance Practice." May 2017. Available at: https://info.dechert.com/10/8636/may-2017/shareholder-proposal-reform-under-the-financial-choice-act-of-2017--a-welcome-development-for-companies-or-a-trojan-horse-(1).asp?sid=45fff908-ffb8-4889-9feb-0a5fb8b5eda5.
[10] LACERA *Corporate Governance Principles,* §II(A)6, p. 10. http://www.lacera.com/BoardResourcesWebSite/BoardOrientationPdf/policies/CorpGovPrinciples.pdf.

interpret, and apply LACERA's proxy policy. Expediently accessing proxy research is particularly crucial during the April to June "proxy season" when seventy-four percent (74%) of shareholder meetings voted by LACERA occur.

Recent legislative proposals, such as the U.S. House of Representatives H.R. 4015, suggest new regulatory requirements that may result in undue corporate influence over proxy research, lengthy delays in research delivery to paying clients, higher costs to investors for proxy research, and decreased competition among proxy firms. Investors typically have two weeks to review proxy research reports prior to finalizing a vote determination. Proposed legislation includes provisions enabling companies to review proxy research and dispute disagreements via a newly-formed regulatory ombudsman. We are concerned that such provisions may create opportunities for companies that receive unfavorable research to pursue regulatory recourse in order to delay the issuance of the research or otherwise create improper pressure for the research to be revised. As a result, paying clients may suffer delayed access to research addressing a range of core governance matters about which companies may be sensitive, such as executive compensation analysis, attendance records of board nominees, unscrupulous accounting practices, or other governance risks and failures. LACERA concurs with the views of the Council of Institutional Investors that such proposals are detrimental to institutional investors' interests and, "would appear to result in higher costs for pension plans and other institutional investors – potentially much higher costs if investors seek to maintain current levels of scrutiny and due diligence around proxy voting." Moreover, such proposals risk reducing competition among an already limited number of proxy research firms in the U.S. market and impose new barriers for entry for any additional proxy research firms, to the detriment of paying clients.[11]

As the end users of proxy research, we believe that clients of proxy research firms are well positioned to assess the quality of the firms' services. LACERA is not aware of any investor clients of proxy research firms that have endorsed the regulatory measures proposed by recent legislation. Similar to other investment research in the marketplace, investors should be able to access proxy research that is free from undue influence from the companies that are the subject of the research.

LACERA commends the Commission for convening a timely discussion and welcoming public comments on the integrity, effectiveness, and accuracy of the proxy process in the United States. If you would like to further discuss any of the above remarks, please contact the undersigned.

Sincerely,

Jonathan Grabel
Chief Investment Officer

---

[11] Council of Institutional Investors, April 29, 2017, Letter to United States House of Representatives Committee on Financial Services re: Mark-up of H.R. 10, the Financial CHOICE Act of 2017, available at http://www.cii.org/files/issues_and_advocacy/correspondence/2017/04_29_17_letter_cmte_fin_serv.pdf; Council of Institutional Investors, September 6, 2016, Letter to United States Senate Committee on Banking, Housing, and Urban Affairs re: Proposed Legislation Relating to Proxy Advisory Firms, available at http://www.cii.org/files/issues_and_advocacy/correspondence/2016/September%206%20Letter%20to%20Senate%20Banking%20on%20Proxy%20Advisory%20Firms.pdf.

LACERA

FOR INFORMATION ONLY

October 30, 2018

TO: Each Member
Board of Investments

FROM: Jude Pèrez
Principal Investment Officer

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: **LACERA AND MEKETA PERFORMANCE BOOK DELIVERY**

Due to the Board of Investment meeting moving from November 14 to November 8, the September 30, 2018 LACERA, OPEB Master Trust, and Meketa performance books will not be ready for the November Board packet mailing. The three reports will be sent to the Board on Monday, November 12 and will be included in the December Board of Investment package.

Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

JP:edb

L//CERA

FOR INFORMATION ONLY

October 30, 2018

TO: Each Member
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: November 8, 2018 Board of Investments Meeting

SUBJECT: Update on FPPC Advice Letter re Trustee Sanchez

On August 31, 2018, LACERA submitted a request for formal advice to the Fair Political Practices Commission (FPPC) seeking confirmation of the rules that will apply if Trustee Sanchez, or her business Chantico Global, enter into a business relationship with LACERA non-U.S. emerging markets public equity asset manager Lazard Asset Management. On October 17, 2018, the FPPC issued its response. A copy is attached. The letter is consistent with the advice previously given by staff to Trustee Sanchez and the Board.

Specifically, the FPPC letter states that, if Trustee Sanchez enters into a contract with Lazard (which she has not yet done):

1. Under Government Code Section 1090, the Board could not enter into a new contract with Lazard, including modification of the existing contract, while Trustee Sanchez is on the Board. As a supplier to Lazard, Trustee Sanchez would have a financial interest in Lazard that could influence her decision-making for LACERA.

2. Under the Political Reform Act, Trustee Sanchez could not participate in Board decisions concerning the monitoring and oversight of Lazard. Such decisions would have a reasonably foreseeable material financial effect on Lazard, and therefore they would also be presumed to have an effect on Trustee Sanchez's own financial interest in her personal Lazard relationship.

In addition, the FPPC states in a footnote that Trustee Sanchez's ability to participate in the Board's oversight and decisions regarding other managers, even in the same asset category, would not be impaired. However, the letter states the FPPC did not further analyze potential actions regarding other managers. Such actions could take a variety of forms and are hypothetical at this time. Such actions would need to evaluated by

LACERA on a case-by-case basis to determine if there is a foreseeable material financial impact on Lazard.

The Board and Trustee Sanchez, as the requesting parties of the FPPC's advice, can rely upon the letter. The letter can be offered as evidence of good faith conduct in an enforcement proceeding, to the extent the facts provided to the FPPC in obtaining the advice were complete and accurate.

It is important to repeat that Trustee Sanchez has not yet formed a contract with Lazard, although negotiations continue. During the negotiation phase, she must continue to recuse herself from any matters relating to Lazard. Trustee Sanchez already publicly announced that she will recuse herself, as recorded in the Minutes of the August 8, 2018 Board meeting.

Trustee Sanchez has been proactive in informing the Boards and staff of the status of her discussions with Lazard. Staff will continue to monitor the issue and will bring it forward for additional Board discussion when appropriate.

Attachment

c: Robert Hill
James Brekk
John Popowich
Bernie Buenaflor
Jon Grabel

STATE OF CALIFORNIA
FAIR POLITICAL PRACTICES COMMISSION
1102 Q Street • Suite 3000 • Sacramento, CA 95811
(916) 322-5660 • Fax (916) 322-0886

October 17, 2018

Steven P. Rice
Chief Counsel
Los Angeles County
Employees Retirement Association
300 N. Lake Avenue
Pasadena, CA 91101

Re: Your Request for Advice
Our File No. A-18-203

Dear Mr. Rice:

This letter responds to your request for advice regarding the conflict of interest provisions of the Political Reform Act (the "Act")[1] and Government Code section 1090. Please note that we are not a finder of fact when rendering advice (*In re Oglesby* (1975) 1 FPPC Ops. 71), and any advice we provide assumes your facts are complete and accurate. If this is not the case or if the facts underlying these decisions should change, you should contact us for additional advice.

Regarding our advice on Section 1090, we are required to forward your request and all pertinent facts relating to the request to the Attorney General's Office and the Los Angeles County District Attorney's Office, which we have done. (Section 1097.1(c)(3).) We did not receive a written response from either entity. (Section 1097.1(c)(4).) We are also required to advise you that, for purposes of Section 1090, the following advice "is not admissible in a criminal proceeding against any individual other than the requestor." (See Section 1097.1(c)(5).)

QUESTIONS

1. Does Section 1090 prohibit the Los Angeles County Employees Retirement Association ("LACERA") Board, with participation by Trustee Sanchez, from entering a new contract with an existing asset manager if Trustee Sanchez's company enters into a consulting agreement with that asset manager?

2. Does the Act prohibit Trustee Sanchez from participating in governmental decisions involved with monitoring and oversight of an existing agreement between an asset manager and LACERA if her company enters into a consulting agreement with the asset manager?

[1] The Political Reform Act is contained in Government Code Sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in Sections 18110 through 18997 of Title 2 of the California Code of Regulations. All regulatory references are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

CONCLUSIONS

1. Yes. As explained below, Section 1090 would prohibit both Trustee Sanchez and the LACERA board from entering any new contracts with the asset manager if her company enters into a consulting agreement with that asset manager. In addition, the prohibition under Section 1090 would apply to any decision to modify, extend, or renegotiate the existing contract between LACERA and the asset manager.

2. Yes. As explained below, the Act would prohibit Trustee Sanchez from participating in governmental decisions involved with the monitoring and oversight of the existing contract between LACERA and the asset manager because the decisions would have a reasonably foreseeable material financial effect on the asset manager.

FACTS AS PROVIDED BY THE REQUESTOR

You are Chief Counsel of LACERA seeking advice on behalf of the LACERA Board of Investments ("Board"), and Gina Sanchez, a trustee who sits on the Board.

LACERA is the independent public agency responsible for administering retirement benefits for the active and retired employees of the County of Los Angeles and certain other participating employers. It is governed by two boards, a Board of Retirement generally responsible for administration of the fund and a Board of Investments generally responsible for investment of the fund's assets, which currently are approximately $56 billion. This request concerns only the Board of Investments and Trustee Sanchez.

Board of Investments

The Board consists of nine trustees, four appointed by the Los Angeles County Board of Supervisors, four elected by the members, and the Los Angeles County Treasurer and Tax Collector, who sits ex officio. The appointed members are required to "have had significant experience in institutional investing, either as an investment officer of a bank, or trust company; or as an investment officer of an insurance company, or in active, or advisory, capacity as to investments of institutional or endowment funds." (Gov. Code, § 31520.2(a).)

Trustee Sanchez

Trustee Sanchez is an appointed trustee on the Board. Her service as a trustee began on January 1, 2018 and terminates on December 31, 2020. She will be eligible for reappointment thereafter. As a trustee, Ms. Sanchez serves on the Board's Equity Growth Committee ("Growth Committee"), which makes recommendations to the full Board with respect to various matters, including investment manager selection, oversight, management, and reporting relating to the public and private equities portion of LACERA's portfolio.

Trustee Sanchez is the founder, Chief Executive Officer, and 75% shareholder of Chantico Global, LLC. Chantico, which was established in 2013, performs asset allocation modeling and serves as an asset allocation consultant to institutions and other clients. As a consultant, Chantico provides its clients with strategic and tactical research, review, and counseling to assist in asset allocation and performs process research and review of investment policy-setting and decision-making. Trustee Sanchez's work for Chantico has continued throughout her period of service on LACERA's Board.

Asset Manager

One of LACERA's asset managers performs as a non-U.S. emerging markets public equity manager that manages approximately $348 million for LACERA. LACERA has numerous managers across all of its other asset classes, which include private equity, hedge funds, real estate, commodities, and fixed income. The total portfolio is approximately $56 billion across all asset classes. In overseeing the portfolio, Board decisions regarding emerging markets managers are evaluated and considered separately from managers responsible for other categories. As for oversight and monitoring, emerging markets managers are evaluated in three ways: 1) as a sub-category; 2) as part of the global equity portfolio; and 3) as part of the total LACERA fund.

The asset manager performs its services for LACERA pursuant to an Investment Management Agreement ("IMA"), which became effective as of January 14, 2013, several years before Trustee Sanchez became a LACERA trustee. The IMA with this asset manager, which had an initial 12-month term and renews automatically for successive 12-month terms unless terminated pursuant to the agreement, is still in effect. The asset manager's performance is included in periodic reports to the Board and the Growth Committee, and may be discussed from time to time as part of the Board and Growth Committee's responsibility to oversee LACERA's global public equity investments.

In addition to its current services, the asset manager, and other divisions within the same corporation, have expressed interest in doing other work for LACERA and may, from time to time, participate in responding to Requests for Proposals and other opportunities for new assignments in various asset categories. For example, this asset manager unsuccessfully bid on fixed income and private equity RFPs. Currently, the asset manager performs no services for LACERA other than under the IMA for non-U.S. emerging market public equities.

Trustee Sanchez and the Asset Manager

Beginning in or around May 2018, Trustee Sanchez began discussions with the asset manager and other divisions within the same corporation, concerning various forms of potential business transactions between them. Trustee Sanchez advised LACERA's Legal Office in or around early June 2018 because she was aware of the asset manager's relationship with LACERA. Since that time, Trustee Sanchez has continued to keep LACERA's Legal Office informed of the status of her discussions with the asset manager as they continued and evolved.

By mid-August 2018, the discussions between Trustee Sanchez and the asset manager had focused to the point where it now appears that the form of transaction could be, should it go forward, a consulting agreement between Chantico and the asset manager, with a scope of work including bespoke statistical modeling and market research in connection with a mutual fund unrelated to LACERA and managed by the asset manager. Although the fee arrangement is not yet finalized, it appears likely at this time that, if a contract is signed, Chantico will be paid hourly for its consulting services.

Following the formation of Chantico in 2013, Trustee Sanchez and the asset manager had periodic discussions about potential business. However, the contract under discussion between Chantico and the asset manager, if it is finalized, will be the first actual business between those entities. Chantico and the asset manager did not have a client or contractual relationship at any time during the five years preceding Trustee Sanchez's appointment to the LACERA Board.

Trustee Sanchez's Recusal

Upon being informed by Trustee Sanchez of the discussions with the asset manager, LACERA's Legal Office evaluated the matter and advised Trustee Sanchez that, out of an abundance of caution, she should recuse herself and leave the boardroom during consideration of any item that relates to or could have an effect upon the asset manager or its corporate family so long as the discussions with the asset manager continued. The Legal Office further advised Trustee Sanchez and other LACERA officials that the Board should not, pending additional information as to the potential conflicts issue, amend the existing contract or enter into any new contracts, with the asset manager or its corporate family.

ANALYSIS

Section 1090

Section 1090 generally prohibits public officers, while acting in their official capacities, from making contracts in which they are financially interested. Section 1090 is concerned with financial interests, other than remote or minimal interests, that prevent public officials from exercising absolute loyalty and undivided allegiance in furthering the best interests of their agencies. (*Stigall v. Taft* (1962) 58 Cal.2d 565, 569.) Section 1090 is intended "not only to strike at actual impropriety, but also to strike at the appearance of impropriety." (*City of Imperial Beach v. Bailey* (1980) 103 Cal.App.3d 191, 197.)

A contract that violates Section 1090 is void. (*Thomson v. Call* (1985) 38 Cal.3d 633, 646.) The prohibition applies regardless of whether the terms of the contract are fair and equitable to all parties. (*Id.* at pp. 646-649.) When an officer with a proscribed financial interest is a member of the governing body of a public entity, the prohibition of Section 1090 extends to the entire body. (89 Ops.Cal.Atty.Gen. 49, 50 (2006); *Fraser-Yamor Agency, Inc. v. County of Del Norte* (1977) 68 Cal.App.3d 201, 211-212.)

New Contract Between LACERO and the Asset Manager

You have asked whether Section 1090 would prohibit the Board, with participation by Trustee Sanchez, from entering a new contract with the asset manager to perform different services than it provides now if Trustee Sanchez's company enters into a consulting agreement with the asset manager for services unrelated to LACERO. The determinative issue is whether Trustee Sanchez would have a financial interest in the new contract. We conclude that she would.

Under section 1090, "the prohibited act is the making of a contract in which the official has a financial interest" (*People v. Honig* (1996) 48 Cal.App.4th 289, 333), and officials are deemed to have a financial interest in a contract if they might profit from it in any way. (*Ibid.*) Although Section 1090 nowhere specifically defines the term "financial interest," case law and Attorney General Opinions state that prohibited financial interests may be indirect as well as direct, and may involve financial losses, or the possibility of losses, as well as the prospect of pecuniary gain. (See e.g., *Thomson v. Call*, *supra*, 38 Cal.3d at pp. 645, 651-652; 85 Ops.Cal.Atty.Gen. 34, 36-38 (2002).)

In addition, case law and statutory exceptions to Section 1090 make clear that the term "financially interested" must be liberally interpreted. (See, e.g., *People v. Deysher* (1934) 2 Cal.2d 141, 146 ["(h)owever devious and winding the chain may be which connects the officer with the forbidden contract, if it can be followed and the connection made, the contract is void"].) Further, "the certainty of financial gain is not necessary to create a conflict of interest ... (t)he government's right to the absolute, undivided allegiance of a public officer is diminished as effectively where the officer acts with a hope of personal financial gain as where he acts with certainty." (*People v. Gnass* (2002) 101 Cal.App.4th 1271, 1298 (citations omitted).)

Instructive here is a 2003 California Attorney General opinion where the board of a redevelopment agency anticipated entering into contracts with business firms intending to locate or expand their offices in a certain redevelopment project area. (86 Ops.Cal.Atty.Gen. 187 (2003).) Several of those businesses were clients of one of the board member's promotional products company. (*Ibid.*) In determining that the board member would have a financial interest in any contracts between the redevelopment agency and those businesses, the opinion stated:

> The board member would have a "financial interest" in the contracts due to his business relationship with the contracting parties as a supplier of goods or services. (See 85 Ops.Cal.Atty.Gen. 176, 177-179 (2002); 85 Ops.Cal.Atty.Gen. 34, 35-37 (2002).) In this regard, the board member could be influenced by the prospect of future business opportunities directly related to the contracts or by a desire to maintain favorable ongoing relationships with the contracting parties. The Legislature has made clear that ongoing business relationships may represent financial interests for purposes of section 1090. (See, e.g., § 1091, subd. (b)(5), (b)(6), (b)(8).) The purpose of section 1090 "is to remove or limit the possibility of any personal influence, either directly or indirectly, which might bear upon an official's decision ...." (Citations omitted.)

(86 Ops.Cal.Atty.Gen. at p. 188.)

The present matter is similar. If Trustee Sanchez entered a consulting services contract with the asset manager, she would have a financial interest in any new contract between LACERO and the asset manager based on her business relationship with the asset manager as a supplier of services. She could be influenced in her decisionmaking by the possibility of future business opportunities and/or the desire to maintain a favorable relationship with the asset manager.

The conclusion that Trustee Sanchez would have a financial interest in any new contract between LACERO and the asset manager is underscored by looking to the statutory exceptions to Section 1090. As noted above, the Legislature has made clear that ongoing business relationships, including those for the provision of goods and services, represent financial interests for purposes of Section 1090. Under Section 1091(b)(8), however, an official has only a remote interest in a contract entered into by the body or board of which they are a member if they are a "supplier of goods or services when those goods or services have been supplied to the contracting party by the officer for at least five years prior to his or her election or appointment to office."

Thus, Trustee Sanchez would have a prohibitory financial interest under Section 1090 in any new contract between LACERA and the asset manager if she provides services to the asset manager, but only a remote interest if those services were provided for at least five years prior to her appointment to the LACERA Board in 2018. According to the facts, although Trustee Sanchez has engaged in periodic discussions with the asset manager about providing consulting services, she has never actually provided such services to the asset manager. In fact, you state that if the proposed contract between Chantico and the asset manager is finalized, it will be the first actual business between those entities. Therefore, no exceptions to Section 1090 apply to allow a contract between Trustee Sanchez's business and the asset manager.

You suggest Trustee Sanchez may not be financially interested in any new contracts between LACERA and the asset manager pursuant to *Eden Township Healthcare Dist. v. Sutter Health* (2011) 202 Cal.App.4th 208. There, a district official participated in negotiating public contracts with a nonprofit corporation that employed the official as its president and chief executive officer. (*Id.* at pp. 212-214.) The official had no ownership interest in the nonprofit corporation. (*Ibid.*) The *Eden* court found that the official was not financially interested in those contracts because there was no evidence to suggest that the official's compensation would in any way be impacted by those contracts. (*Id.* at p. 227.)

Eden is factually different than the present matter, and we do not view its holding so broad as to cover the facts of this situation. Trustee Sanchez is the founder, Chief Executive Officer, and 75% shareholder of Chantico, a for-profit consulting firm; she is not a salaried employee of a nonprofit organization. Nonetheless, you assert the hourly compensation her company will receive from the asset manager will not be affected by, and she will receive no other personal benefit under, the new contract between LACERA and the asset manager. Even if true, this point is not persuasive, especially when considering her company could be looking for future business opportunities with the asset manager.

As mentioned above, the underlying purpose of Section 1090 is to "remove or limit the possibility of any personal influence, either directly or indirectly, which might bear upon an official's decision . . .." (See, e.g., *Stigall*, supra, at p. 659.) In addition, "[t]he defining characteristic of a prohibited financial interest is whether it has the potential to divide an official's loyalties and compromise the undivided representation of the public interests the official is charged with protecting." (*Lexin v. Superior Court* (2010) 47 Cal.4th 1050, 1075.)

If Trustee Sanchez's business were to enter a contract with the asset manager, it is difficult to imagine, for reasons mentioned above, how she would ever be able to provide her absolute, undivided allegiance to LACERA when participating in the contracting process involving a client of her firm. This real potential to divide her loyalties is precisely the type of situation Section 1090 seeks to prevent.

Accordingly, if Trustee Sanchez's consulting business were to enter a contract with the asset manager, Section 1090 would prohibit her from participating in any new contracts between LACERA and the asset manager.[2] And when Section 1090 is applicable to one member of a governing body of a public entity, the prohibition cannot be avoided by having the interested board member abstain; the entire governing body is precluded from entering into the contract. Also, please note that a decision to modify, extend, or renegotiate a contract constitutes involvement in the making of a contract under section 1090. (See *City of Imperial Beach v. Bailey* (1980)103 Cal.App.3d 191.)

Conflicts Under the Act

Section 87100 prohibits any public official from making, participating in making, or otherwise using his or her official position to influence a governmental decision in which the official has a financial interest. A public official has a "financial interest" in a governmental decision, within the meaning of the Act, if it is reasonably foreseeable that the decision will have a material financial effect on one or more of the public official's interests. (Section 87103; Regulation 18700(a).) Relevant to the facts provided, Section 87103 identifies interests from which a conflict of interest may arise, including:

- An interest in a business entity in which the official has a direct or indirect investment of $2,000 or more (Section 87103(a)); or in which the official is a director, officer, partner, trustee, employee, or holds any position of management (Section 87103(d)).

- An interest in a source of income to the official, including promised income, which aggregates to $500 or more within 12 months prior to the decision. (Section 87103(c).)

- An interest in his or her personal finances and those of immediate family members. (See Section 87103.) An official always has an interest in his or her personal finances.

Here, Trustee Sanchez has an interest in her consulting business as a business entity and source of income, an interest in any clients of the business from whom she has received income aggregating $500 or more in the previous 12 months as sources of income, and an interest in her personal finances.[3]

---

[2] In response to the inquiry in your request, this prohibition would apply to decisions on contracts related to other divisions or entities from within the same corporation as the asset manager. However, it would not apply to contracts with other LACERA managers in the same asset category but not part of the asset manager's larger corporate family. Also note that we do not further analyze this issue under the Act.

[3] An effect on an official's interest in his or her personal finances or those of immediate family members is not considered separately if the decision also affects the official's interest in a business entity or real property

Foreseeability and Materiality

Regulation 18701(a) provides that a financial effect on an official's financial interest is presumed to be reasonably foreseeable if the interest is a named party in or the subject of a governmental decision before the official's agency.

You have asked whether Trustee Sanchez could continue to provide monitoring and oversight of the current contract between LACERA and the asset manager if her consulting business were to enter a contract with the asset manager. To the extent monitoring and oversight involves governmental decisions, the asset manager would presumably be the named party in and/or the subject of such decisions, and the financial effect on her interest in the asset manager will be presumed to be reasonably foreseeable.

Regulation 18702.1(a)(7)[4] provides that a decision's reasonably foreseeable financial effect on a business entity in which an official has an interest is material whenever the business entity is "subject to an action taken by the official's agency, the effect of which is directed solely at the business entity in which the official has an interest."

Thus, the Act prohibits Trustee Sanchez from taking part in any governmental decisions involving monitoring or oversight of the contract between LACERA and the asset manager because the decisions would be directed solely at the asset manager and would have a reasonably foreseeable material financial effect on the asset manager.[5]

If you have other questions on this matter, please contact me at (916) 322-5660.

Sincerely,

Dave Bainbridge
General Counsel

By: Jack Woodside
Senior Counsel, Legal Division

JW:jgl

(Regulation 18702.5(c)). Because the decisions at issue also affect the Trustee's business interest, we do not further analyze her personal financial interests.

[4] Regulation 18702.1 sets forth the materiality standards applicable to an interest in a business entity explicitly involved in a decision, including a source of income. (Regulation 18702.3(a)(4).)

[5] Because we have already determined that the Act prohibits the Trustee Sanchez from taking part in the decisions at issue, we do not further analyze her other financial interests implicated by those decisions.

L//CERA

FOR INFORMATION ONLY

November 1, 2018

TO: Each Member
Board of Investments

FROM: Steven P. Rice SPR
Chief Counsel

FOR: November 8, 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 November 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 November 1, 2018

	Project/ Investment	Description	Amount	Board Approval Date	Completion Status	% Complete	Notes
EQUITIES	Global Alpha Capital Management	Investment Management Agreement	$160,000,000.00	August 8, 2018	Complete	100%	Completed.
HEDGE FUNDS	PIMCO Tactical Opportunities Onshore Fund, L.P.	Subscription	$250,000,000.00	September 12, 2018	Complete	100%	Completed.
	Capula Global Relative Value Fund, L.P.	Subscription	$250,000,000.00	October 10, 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	Complete	100%	Completed.
	Storm Ventures Fund VI, L.P.	Subscription	$50,000,000.00	June 13, 2018	In Progress	85%	Side letter negotiations in process and close to final execution.
	Triton Fund V, L.P.	Subscription	€ 100,000,000.00 (approx. $117,635,500.00)	September 12, 2018	Complete	100%	Completed.
	Siris Partners IV, L.P.	Subscription	$100,000,000.00	October 10, 2018	Complete	100%	Completed.
REAL ESTATE	TPG Real Estate Partners III	Subscription	$100,000,000.00	September 12, 2018	Complete	100%	Completed.

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

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

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

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